



“Fortis Healthcare Limited Q4 & Full-Year FY19  
Earnings Conference Call”

**May 27, 2019**



**MANAGEMENT: DR. ASHUTOSH RAGHUVANSHI – MANAGING  
DIRECTOR AND CHIEF EXECUTIVE OFFICER  
MR. ARINDAM HALDAR – CHIEF EXECUTIVE OFFICER,  
SRL DIAGNOSTICS  
MR. VIVEK GOYAL – CHIEF FINANCIAL OFFICER  
MR. ANURAG KALRA – SENIOR VICE PRESIDENT,  
INVESTOR RELATIONS  
MR. SAURABH CHADDHA – CHIEF FINANCIAL  
OFFICER, SRL DIAGNOSTICS**

**Moderator:** Good morning, ladies and gentlemen. Welcome to the Q4 FY19 Post-Results Conference Call of Fortis Healthcare Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anurag Kalra – Senior Vice President, Investor Relations at Fortis Healthcare Limited. Thank you and over to you, sir.

**Anurag Kalra:** Thank you, Lizzan. A very good morning and good afternoon, ladies and gentlemen. And welcome to Fortis Healthcare’s Q4 FY19 and the Whole Year FY19 Earnings Call. I have the pleasure of introducing you to Dr. Ashutosh Raghuvanshi – Chief Executive Officer, who will chair today’s call. Along with him we have Mr. Vivek Goyal – Chief Financial Officer; on the SRL side Mr. Arindam Halder – CEO, who joins me for the call on the diagnostics business, and with him we have Mr. Saurabh Chaddha – CFO of SRL.

We will begin this call with some opening comments by Mr. Ashutosh Raghuvanshi, who will also take you through a brief performance summary of the quarter gone by. And then Arindam will make some of his remarks of what he sees in the diagnostics business for the year. We will then open the floor for question-and-answers. Over to Dr. Raghuvanshi.

**Ashutosh Raghuvanshi:** Thank you, Anurag. Good evening, everyone. On behalf of Fortis Healthcare, I welcome you to the Q4 Financial Year 2019 and Financial Year 2019 Earnings Call.

As you must be aware, I joined Fortis Healthcare around mid-March this year as a Managing Director and CEO, and have been entrusted the responsibility by the Board of taking this company forward. By way of background, while some of you may know me, I have more than three decades of experience in the field of healthcare delivery, and have also had the opportunity over the last 10-odd years to manage and run a successful healthcare company Narayana Health.

At the outset, let me make a few comments before I take you to the performance of the company:

I have spent a little over two months at Fortis, and while all of you are aware of the challenges that the company has faced over the past two years, my belief has been validated that operationally, the company was and continues to be on a firm footing. Issues that impeded operations were largely as a result of external and internal challenges which impacted liquidity and investment into the business.

Today, the company is at an inflection point where post-investment by IHH, who is now the company’s largest shareholder, we are gradually on the path of recovery and normalization. Our focus would be to strongly reinforce and rebuild the company’s positioning as a premier tertiary healthcare delivery organization in India. My constant and core deliverable would be a renewed focus of the company on providing world-class healthcare delivery, and exceptional patients care as we consolidate and strengthen our existing operations.

While I continue to understand the company and its various facets, my experience as a clinician along with having run a healthcare organization previously will expediently help me to steer the organization on the right path.

The healthcare industry in India continues to show healthy growth, and the need for tertiary quaternary care will only see demand in this segment grow stronger. Fortis, I believe, is well positioned for this. I have no doubt that we can achieve the previous performance and profitability metrics that the company had witnessed a couple of years back. And further strengthen from there to meet the best-in-class industry standards.

As an example, in Q2 of financial year 2017 we were at an EBITDA level of 15.8%, revenue of Rs. 972 crores and were growing at the rate of 11%. Our immediate priority has been to bring about stability in the business and strengthen our liquidity position, so to enable us to invest as planned for future growth. With IHH's investment into the company, it has significantly strengthened our balance sheet, and our liquidity position has improved with a lower cost of borrowing as compared to the previous period. We had borrowed previously at a rate of interest higher than 15%, versus 10 to 11% currently.

I am also pleased to share that our credit rating has improved the investment grade -BBB by two reputed rating agencies, that is ICRA and CARE, further signifying the improvement the company is witnessing. To optimize our portfolio and further strengthen our balance sheet, we are also exploring divestment of certain non-core assets in the portfolio related to our international presence, that is Mauritius, Sri Lanka, RHT Stellant and some other non-core assets. And value realization from them will also be deployed in the business or utilized to pay debt.

As you would know, we have already signed a share purchase agreement on May 17 to diverse are 28.9% stake in Medical and Surgical Center Limited, that owns a couple of hospitals in Mauritius, for which Fortis was previously having an O&M contract. This is, of course, subject to our shareholders' approval, that we will go for immediately.

We have used primarily equity to be brought in by IHH for the acquisition of RHT portfolio of hospital assets. With the Indian entities of RHT now in our fold, we have full ownership of the RHT portfolio of assets. This has resulted in significant savings in the BTC that was previously being paid. Annually, we stand to benefit by approximately Rs. 270 crores due to this. And operationally you can see the impact in this quarters result as well.

This bodes well for the company, both in terms of profitability and cash flow. As the next step, we have also begun the process of simplifying and streamlining the operating company and RHT entity structure. More importantly, over the longer term, and statistically for the next couple of years, the focus will be to optimize and look at filling up gaps in our services and product mix, medical offerings, instead of merely looking at bed expansion. This implies judicious allocation

of resources and medical CAPEX deployment to expand further into high margin specialty, such as transplant and oncology, and also look at new clinical programs and medical technology.

With IHH as the largest stakeholder in the company, as I speak, there is an ongoing collaboration with them to look at avenues of working together, to exchange ideas and achieves synergies that derive revenues and optimize costs. These, for example, are in the areas of value-added IT service, IT infrastructure, supply chain and procurement, and elements of operation as well. We are also evaluating means to enhance manpower productivity in line with the most of its efficient units across our existing hospitals. The aim would be to have an enabling organizational structure to ensure optimal output and efficiency across the network.

Simultaneously, work has also begun to make the working capital cycle more efficient in order to strengthen cash flows. Having said that, you would appreciate that all these work streams and action plans will take some time to reflect in the performance of the company and is a gradual process. I am confident that this will expediently help further build up the current momentum we are seeing in the business. Though these various measures to extract cost synergies and increase productivity, we expect to achieve savings of approximately Rs. 80 crores over the next 18 to 24 months.

Some of my initial thoughts on the diagnostic side of the business, while Arindam will elaborate further, I do think that this business is a volume business where throughput and utilization plays an important role. SRL, with its infrastructure network and logistics capability has created a mark for itself.

As a formidable player in the organized diagnostic segment, the business today is generating approximately 20% EBITDA margin. It is PAT positive and a free cash flow generating business. It's done well in terms of reducing direct costs via improving lab efficiencies and vendor-cost negotiations, along with reduction in manpower and staffing expenses.

These initiatives have been margin expand in the last fiscal year. There is a clear identified path for driving revenues by focusing on increasing contribution to revenue from the collection center network and targeting the lifestyle disease portfolio. Over a period of time, we will speak further potential in the business to scale up and strengthen its performance in line with the peers

Needless to say, I do consider the people factor as critical in all this, and will look to harness both clinical and non-clinical resources enable with the right medical infrastructure to ensure higher productivity. We have a workforce of close to 15,000 employees in the hospital business, and another 7000-odd in SRL, with almost 4000-plus doctors amongst them, who I consider as colleagues of eminent repute and rich experience. My roll and responsibility would include to guide them as appropriate and support them to deliver exceptional patient care and successful clinical outcomes.

Before I go into the performance summary, I do feel confident that we would be able to make this company a much stronger force to reckon with a backbone of healthcare delivery and patient care. And ably support by robots' processes, high governance standards and fair transparent method of conducting the business. These should percolate to a higher profitability, which not only means a robust EBITDA, translating to a higher profit after tax and stronger cash flows going forward. This, I believe, should add value for the company and all its stakeholders over a long-term.

Coming to the performance summary:

I am pleased to state that the company has operationally turned in a significantly better performance for the quarter, with the company turning PBT positive purely on the basis of operations. While the numbers may be a single-digit number, it does signify a turnaround in the business for us, it is a major milestone. This, of course, is in large part due to the buyback of the RHT's portfolio and the resultant staving in the clinical establishments fee that we were used to pay to RHT. This was strategically very important for the company to achieve, and gives us complete ownership of all hospital assets in the RHT portfolio

As far as the quarter four of financial year 2019 is concerned, our consolidated revenues hospital, SRL plus RHTTM goes 9% year-on-year at Rs. 1,184 crores. We recorded consolidated EBITDAC of 15.4%, better than 12.7% in the Q4 of financial year 2018. This represents a healthy EBITDAC growth of 32% year-on-year. Our EBITDA margin improved significantly to 14.1% versus 6.9% in Q4 of financial year 2018, largely on the RHT asset buyback and the significant improvements witnessed in SRL margin in the quarter.

Going forward, with the complete elimination of the clinical establishment fee, that is BT fee, we will purely have an EBITDA number and margins as a measure of performance rather than EBITDAC. The hospital business continues its upward momentum for the third consecutive quarter and recorded revenues of Rs. 919 crores, a growth of 5.8% quarter-on-quarter, and marginally better than the trailing quarter 3.3%. While occupancy saw an increase from 65.2% to 67.8%, ARPOB was similar to Q4 of financial year 2019 at approximately Rs. 1.53 crores.

EBITDA margin in Q4 financial year 2019 witnessed a significant increase in the quarter from 4.8% to 10% margin, again, as a result of the RHT transaction. Despite current challenges, Q4 financial year 2019 has seen some of our key facilities record an encouraging operational performance, both in terms of growth in revenue and operating profitability. Facilities such as Noida, Anandapur, Mohali, Ludhiana and CH Road have shown a growth in top-line and EBITDA, both on a trailing quarter and year-on-year basis. We believe this growth momentum would steadily accelerate as we go forward, and also expand to other key facilities given by better occupancy and ARPOB metrics.

The diagnostic business recorded net revenue of Rs. 217 crores, versus Rs. 212 crores in quarter four last year, but witnessed a significant improvement in EBITDA margins from 15.6% in the

previous quarter to 22.6% in Q4 of financial year 2019. This was a result of a mix of relatively better top-line growth and cost savings achieved on a year-on-year basis, as I had explained earlier. Arindam will further elaborate on this as he talks about the business.

As far as the full financial year 2019 was concerned, our consolidated revenues were marginally lower by 2% at Rs. 4,469 crores, largely as a result of the muted performance in the first half of the fiscal due to the challenging environment we were witnessing. This percolated to an EBITDA margin of 7.3% versus a margin of 8.5% in the previous year, and resulted in a negative PBT and PAT for the year as a whole. On the balance sheet side, the company has also consistently maintained a comfortable net debt to equity ratio at 0.14x and has a debt of Rs. 1,023 crores for the quarter and year ending March 31, 2019.

The hospital business recorded revenue of Rs. 3,527 crores, lower by 4.2% and similarly EBITDAC margins were also subdued at 9.5% versus 13.6% in the previous year. On a consolidated hospital business basis for the full year, occupancy was at 67% versus 70%, while ARPOB saw marginal increase from Rs. 1.49 crores to Rs. 1.51 crores. Revenue growth in a number of facilities, including Shalimar Bagh, Anandapur, BG Road, Sacred Heart, La Femme, CH Road showed growth over the previous year, lead by a recovery in performance largely in the second half of the financial year 2019.

The focus for the current fiscal would be to further improve the overall current momentum and focus on select key facilities such as Shalimar Bagh, Noida, Fortis Escorts Heart Institute, Fortis Medical Research Institute and BG Road, that would potentially contribute meaningfully to our financial year 2020 performance.

The diagnostic business recorded net revenues of Rs. 877 crores, up 2.7% and witnessed a healthy improvement in EBITDA margins from 18.9% in the previous year to 20.6% in financial year 2019. On our Clinical Excellence performance for the year as a whole, we continue to do a number of complex procedures across our key medical specialties across our network for the 12 months of financial 2019. We have successfully undertaken more than 400 renal transplants, approximately 210 liver transplants, in excess of 100 bone-marrow transplants. We continue to be the leading organization for heart transplant in the country, having done 90 such procedures during the year.

The heart transplant program is now well-spread across a number of our facilities, including FEHI, Anandapur, Mulund, BG Road and Malad. Our orthopedic program has witnessed in excess of 7000 total knee replacement, and approximately 600 total hip replacements.

With that, I would like to hand over the proceedings to Arindam to take you through his views on the diagnostic business for the quarter and the year gone by.

**Arindam Haldar:**

Thank you, Ashutosh. And a very good morning to everyone who has joined us on the call.

I would like to start by saying that this quarter was significant for reasons more than one. First of all, we saw an end to uncertainty at the parent level, with IHH and new management coming in. Further, the business build back plan that we had embarked upon two quarters back, have started showing it early results. And I believe this will play a pivotal role in the current fiscal 2019-2020.

We have done better, both in terms of higher margin as well as improved revenue performance in this quarter, after a few quarters of softness. While our reported growth versus quarter four last year is around 2.3%, the real like-to-like growth is closer to 6%, directed foreclosure of some large projects such as UP PPP. And this momentum is carrying us through in the month of April as well. We have also grown by 3% over the trailing quarter.

Further, we have made significant improvements in our operating efficiency and process control across the length and breadth of our network. This is visible in the last quarter through better realization per test which has grown by 2%, greater consumption efficiency, our direct cost has improved by nearly 100 basis points as a percentage of revenue and optimized G&A expenses versus the same period last year. All of this has resulted in significant EBITDA improvement, our EBITDA stands at 22.6% for the quarter.

In terms of our presence, we have been focused towards expanding our customer touch points by our franchisee collection centers in all our key markets, where we already have lab operating presence. One of our stellar additions to our lab network was in Tirupati last quarter, where we have partnered with TTTD, and will be able to serve millions of pilgrims that visit this holiest of places every year.

Going forward, I believe our business growth will be driven by five levels.

1. Increased retail penetration in all our key markets, primarily via more patient service points.
2. Enhance disease portfolio focus to bring in the right test to our doctors and patients.
3. Increase in specialized test menu driven by ourselves R&D efforts.
4. Enhancement of our portfolio of preventive packages under SRL care, which are based on demographics and lifestyle and common symptoms.
5. Last but not the least, through higher throughput through our digital channels and through our CRM efforts.

I would like to end by stating that ERL app has become the first in the diagnostic industry to have more than a million downloads on Android Play Store. Thank you. Over to Anurag.

**Anurag Kalra:**

Thank you, Dr. Raghuvanshi, thank you Arindam. Ladies & gentlemen, we will now like to invite question-and-answers please.

**Moderator:** Thank you. Ladies & gentlemen, 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:** Dr. Raghuvanshi, in your opening comment you mentioned about a recovery and normalization that Fortis has embarked upon. Is it fair to assume that the 16% margin that Fortis was previously is what you consider as normalized and hypothetically, could we get there in let's say, 12 months, 24 months? What is the timeline which Fortis would take to essentially get to a normalized performance?

**Ashutosh Raghuvanshi:** Yes. Thank you, Neha. See, definitely that is a baseline, that was something which the company had already achieved. So, I will not put a strict timeframe, but as I said earlier that I expect 18 to 24 months to better our performance from the baseline. And we are setting that as a baseline of what this company has already achieved in the past. So, I expect in the next 18 to 24 months to go back beyond that number.

**Neha Manpuria:** Okay, understood. So, essentially by the end of this, you would ideally be better than the 16% margin that Fortis was at?

**Ashutosh Raghuvanshi:** That is the attempt.

**Neha Manpuria:** Understood. And sir, if you look at the hospital business, while I understand a lot of the measures that we are talking about to improve costs, our growth has been sort of sluggish. This quarter we did see an improvement in occupancy, etc. But can we see Fortis going back to high single-digit, low double-digit growth over the next few years? And essentially what will take in there? Because the liquidity issue is solved, so when will we see Fortis going back to that growth level?

**Ashutosh Raghuvanshi:** So, the effort currently is on improving efficiency as well as improving occupancy. So, both these things will drive both the top-line as well as the bottom-line. So, I expect that the revenue growth is going to be there, but as you know that the rest of the industry also has been facing a slightly muted growth in last 1.5 - 2 years. But with that in mind, I would say that we would be in line with other players, we had an occupancy of more than 25% earlier on, we should easily be able to achieve that over a period of time, say, next 9 to 12 months. And then we will be parallely focusing a lot on the cost side as well so that we work both on the top-line as well as the bottom-line. So, I won't put a fixed timeframe in which we will be able to achieve this, but as we have said, because of the liquidity constraint going away and the replacement CAPEX cycle sticking up, over the period of next 12 to 18 months we should be very good momentum upwards.

**Neha Manpuria:** Understood. And my last question, in the last four, five months since IHH has taken away, have we seen any churn in terms of big doctors, etc, any concerns, or gaps in terms of speciality in our key facilities?



**Ashutosh Raghuvanshi:** We have had a few exits at senior consultant level over the last one year or so, and also in the last four months. However, we are not really concerned about that because there have been replacements done at the same time. And the cost structures which were associated with some of the physicians who have moved out were also not very favorable for the company. So, I think net, net we are in a pretty comfortable position, and we are seeing very minimal attrition as far as the high band of doctors is concerned, which is the admitting concern.

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

**Adi Desai:** I guess a few questions from me, first on the hospital side. As you said, the focus is on efficiency and on getting utilization levels back to its previous levels. Just want to understand some of the, I mean, it can be more qualitative, A) on the efficiency and margin side where do we think there is a cost that we can take out of the system? Generally, the perception has been that for this cost base has been a bit higher than a hospital system of its size requires. So, just wanted to get a sense on where we are focusing on that?

And B, on the utilization level side, what are we kind of doing to get patients back into the Fortis system and regain some market share? As Neha pointed out, the growth on some of our competitors was higher than Fortis. So, just wanted to get a sense of what the focus is.

**Ashutosh Raghuvanshi:** Yes. So, I think you have pointed out right that the some of the cost structures on the support functions were pretty high for Fortis, and there is a constant attempt to work on that. Now, the major way of correcting that is to realign the organizational structure in a manner to make it more nimble and efficient, is the main thrust. So, that itself is going to, that rationalization is going to give us a cost benefit of almost close to about Rs. 25 crores within this financial year. So, that is one example I have given, but then there are several other initiatives in terms of rationalizing of the organizational structure, which in turn leads to more better efficiency, both in terms of how the resources move, etc.

As far as occupancy is concerned now, that that is a function of trust. And that trust needs to be rebuilt. This organization, though, did very good clinical work, but because of all the external and internal events which happened in past 1.5 - 2 years, they put a little bit of question mark on what is being done. But our hospitals still continue to have very good quality physicians with very good quality outcomes. And as you would be aware, Fortis is one of the only organization which publishes its clinical outcomes. So, with our focus on that, I think we just need to rebuild that trust and sort of rededicate ourselves. And I think it's a process, it will take some time, we can't just simply ask people to trust us, we have to demonstrate that. And I think we will do that by several measures in the way that our billing processes have to be more transparent, our interactions with our patients and their families have to be more transparent. So, we are building on those institutional mechanisms to build that trust further. So, people still appreciate the quality of medical outcomes, but they deeply appreciate that the Fortis being nice to them as well. And I think that process is an ongoing process and it is not something as a one-time effort, it will have

to be something which will go on in future as well. So, I am fairly confident that we will be able to regain the lost share and grow on that.

**Adi Desai:**

Got it. And I guess one other question I had was on the SRL business. The performance this quarter was really good, with EBITDA being much higher than most of our expectations. I just wanted to get a sense on what is going to...there are some quarters where it does super well and some quarters where it kind of goes down. Again, I know, obviously it's a seasonal business, but how do I think about what the margins that we should be targeting, or what the growth that we are targeting here and what is kind of really driving that? I am a bit lost as to what the ups and downs are being caused by.

**Arindam Haldar:**

Sure. So, what we have been engaged in over the past year, is ensuring that our operating efficiency is improved, as well as there are better process controls. So, as you know, diagnostic business with a high variable margin, there is a big flow through of the quarters which has higher margins, into the month into EBITDA. So, there are a bit of seasonality in this business, typically around quarter two there are vector borne diseases and that typically seems the industry having far higher sales in quarter two. So, there the up and down that you talk about a little bit is also a function of the revenue that comes through. However, saying that, we have done some fundamental corrections in how we operate and some of our operating efficiency, at least those are the ones which are going to be longer term, whether it's around consumption efficiency, as well as the optimized G&A expense. So, those will remain with us. And as you know, we already have a pretty extensive lab network, going forward what we are going to do is improve the utilization of this through much bigger depth. So, while we have width in our market, going forward, we are improving the depth through higher collection centers. And that will also help in our operating margins.

**Adi Desai:**

Sir, just a follow-up question on that. I mean, so will it be fair to say that a lot of the operating realignment that you mentioned, a lot of that is now done and the focus would be to grow the to-line and utilization levels, as you mentioned?

**Arindam Haldar:**

That's true. However, as you know the holistic margin management is an ongoing process for any company, so we will always be engaged in that. But yes, going forward, of course, increased revenue will be given in margin.

**Moderator:**

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

**Shyam Srinivasan:**

My first question is on the legal situation update on the open offer, the block of open offer. Can you just refresh when is the next likely hearing? By when do you think this open offer will come back on the table?

**Ashutosh Raghuvanshi:**

Yes. So, as you know, the MTO offer has been stayed by the Supreme Court and the hearings are complete, the arguments are complete, the final order has been reserved and the court went into the recess. So, as we know, the Supreme Court recess ends in the end of this month, and July the Court reopens. So, we expect the orders to be passed post that. That is what is the current status.

**Shyam Srinivasan:** Dr. Ashutosh, do you assume or what is the legal team kind of suggesting you in terms of do we think, since we are not direct parties to it this will be removed or can you give us some clarity around how this will likely come through?

**Ashutosh Raghuvanshi:** See, our stand has been very clear that we are not a direct party, as you said, and that is that is our stand. And what we are doing is that we are following a process which we are obliged to do, or our shareholder IHH is obliged to do, they are following that process. It is very unfortunate that the court has given this judgment, and we have to comply with that as well. So, our stand has always being very clear that we are neither party to this nor is it that any way should impede the process. So, we expect to do sort of interest on the merits of that, and use every possible forum to resolve this as quickly and early as possible. So, we expect the things in the legal system will be looked at favorably, because our legal stand and our stand is very, very clear. And there is absolutely no ambiguity about that.

**Shyam Srinivasan:** Got it. My second question is on the hospitals that you called out, which require the most focus, Shalimar Bagh, Noida, Escorts, FMRI and BG Road. So, historically, we have seen these hospitals do well, when ARPOB is actually increasing, whatever 4% to 5%. But that is something that we have not noticed in the last two years. I know you talked about occupancy, which I think is one part of the puzzle, but is there an effort to kind of improve ARPOB as well, because that seems to be the other thing that has stagnated these last two years.

**Ashutosh Raghuvanshi:** Yes. See, as you know the ARPOB is the function of case mix and they payor mix as well. So, one of the things which has happened in last one year, particularly, is that the business on the low margin payers has increased marginally. And as a result of that the ARPOBs have not grown that significantly. So, now the focus going forward would be to change the patient mix in a manner that both in terms of case mix as well as payer mix it is in a favorable zone where we will focus more on cash patients, TPA patients, international patients, etc. And similarly, in terms of case mix in specialties, which are procedure based and which are higher realizations.

**Shyam Srinivasan:** Got it. And my last question is on the diagnostics part. So, we have seen some kind of realization improvement this quarter, but still growth like-for-like, like you said, is only 6%. So, we seem to be again kind of slower than where the industry is, if you see this industry growth has also slowed down. So, Arindam, if you can just walk us through the initiatives that you have started in Q3, I think Dr. Connect, how has some of that actually come through? I also see that there is a focus for improving franchisee and own connection network. So, do you think in fiscal 2020 there is a path to reach a double-digit growth at some point of time?

**Arindam Haldar:** Okay. Yes, we have been pretty much focused in trying to see what are the levers of our growth. And in my opening comments I talked about the five levers that we are focused on to get our business back to growth. We have been seeing quarter-on-quarter improvement, and that improvement is going to continue. It's difficult to give a exact time period to double-digit, but yes, that is the attempt and that we have. If you see our like-to-like growth has been 6% in Q4, our attempt is to push that up by every quarter higher towards the target growth.

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

**Saion Mukherjee:** Sir, you talked about cost saving, I think you mentioned, and just correct me if I am wrong, Rs. 25 crores through organizational restructuring in this fiscal, and over 18 to 24 months, its Rs. 18 crores. I am just wondering; how much is that like a low hanging fruit? Because the numbers have given like roughly 2% of the hospital business, I mean, is that what you think that's what you could achieve? And just how much of it is low hanging, which can be addressed quickly? And how much would require a lot of effort? And is there an upside to this, because 2% even if I were to add to the hospital EBITDA it would be somewhere lower than 15%. I am just wondering; how do you see the elements of cost? And if you can give some granular details as to what exactly would be done to achieve this?

**Ashutosh Raghuvanshi:** Yes, a very good question. See the low hanging ones or rather the quick turnarounds will happen on the organizational structure side. So, those savings I would quantify at the moment as approximately Rs. 20 crores to Rs. 25 crores. So, those will come about within say next six months or so, and then they should go on a tracking basis, as we go further it will keep the cost lower at that level. The other basket which I said about Rs. 80 crores to Rs. 90 crores, which is on the processes side, with IT and things such as that, and supply chain procurement, etc. Now, those are little more intense efforts as required, but again, those are important things because the way the whole business has been sort of shifting and the pressures on the margins are not only unique to us, but it is a industry wide phenomena. So, I think those are things which need to be fixed in a very systematic manner, so that they have a long-term sustainable impact. So, those efforts will take about 12 months when we will start seeing the impact. And we will see the maximum impact in 18 to 24 months.

**Saion Mukherjee:** And sir I am wondering, like when you look at the spread of EBITDA margin across hospitals, how would you put it? Like the top-10 let's say accounts for three-fourth of your revenue, how is that EBITDA margin compared to the other hospital? Anything which you can call out where we can kind of focus on, hospital ABC where do you see things are quite suppressed and should improve material?

**Anurag Kalra:** Saion, I think your question is referring to the maturity of the hospitals and the related EBITDA margins. Saion, in our case there are certain hospitals, like Dr. Raghuvanshi also called out where obviously there are a lot of actions and initiatives that are being implemented to make them come up to their potential. These are hospitals in the mature segment, but because of because of a host of factors they are not performing up to their potential. So, for us to kind of give you that indication will not be correct right now, maybe three, four quarters down the line as you see those hospitals ramping up and reaching to their full potential, we will probably be in a position to disclose that to you.

**Saion Mukherjee:** Okay. And my next question will be on SRL, just wondering, like you already talked about it's a volume business and volume growth will pick up. And I do see some improvement in cost which you have put out. I mean, what is the scope of that going forward? So, when I look forward to a

FY20, FY21, because some of your peers grew 24%, 25%, 26%, can we get there in the next two years?

**Arindam Haldar:** Yes. So, for the year we turned around 20% EBITDA. And, again, our attempt over the next 18 to 24 months is go closer to the industry standards. So, that's where we are focused on. It will of course not happen overnight, most of our cost initiatives, as we said, have happened. And our future margin improvement will come through revenue growth and we are pretty focused on the same.

**Moderator:** Thank you. The next question is for the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

**Tushar Manudhane:** Sir, just would like to understand in terms of EBITDA margin which is given on the presentation, that the group consolidated P&L for the quarterly, and if I compare that with the financials as per the financial results on the stock exchange, the EBITDA is not matching. So, if you can just help me reconcile that.

**Anurag Kalra:** Yes. So, Tushar, if you take a look at the presentation, there we have taken out FOREX and we have taken out exceptional items, the exceptional item as mentioned was about Rs. 43 crores and FOREX is about Rs. 7 crores number. If you have to do your SEBI calculations and you take out the EBITDA as per SEBI, it will be a number of Rs. 117 crores. Add back the FOREX of Rs. 7 crores and add back the exception of Rs. 43 crores, you will get a number of Rs. 167 crores that has been mentioned in the presentation.

**Tushar Manudhane:** Exceptionally it is related to?

**Anurag Kalra:** Exceptionally is largely related to the one-off cost that we had to pay for the RHT transaction, which is also mentioned as a footnote in the presentation, Tushar.

**Moderator:** Thank you. The next question is from the line of Nicole Yasmin from Morgan Stanley. Please go ahead.

**Nicole Yasmin:** Just a couple of questions. First, I would like to clarify you mentioned earlier that for SRL you are targeting of industry standard margin of about 25% in the next 18 to 20 months. Did I get that correctly?

**Arindam Haldar:** I will restate again, what I mentioned, our margin stand for the year stands at 20%, our combined attempt of the team is to make sure in the next 18 to 24 months we go closer to the industry standard.

**Nicole Yasmin:** Okay. Any number you can share maybe in mind?

- Arindam Haldar:** No, it will be premature for me to share exact numbers, but of course, we would like to sequentially improve our performance.
- Nicole Yasmin:** Okay, understand. My next question is on revenue. You mentioned that your consolidated revenue grew by 9% year-on-year in the fourth quarter. But your hospital business grew 6% year-on-year and diagnostic grew about 2%. So, it implies there is some other revenue in there, is that one-off or what is it in there?
- Ashutosh Raghuvanshi:** Yes, so there is a one-off revenue there which is basically the RHTTM. RHTTM is the Trustee Manager that Fortis completely owns. The Trustee Manager has received one-off revenues as a result of completion of the RHT transaction. So, that's the difference that you see. So, the consolidated revenues currently comprise of hospitals, SRL and the revenues from the Trustee Manager.
- Nicole Yasmin:** Okay, then the next one is on the tax expense, it jumped quite a bit in this quarter and this should be primarily related to your average transaction gain.
- Anurag Kalra:** Yes, it is related to the RHT transaction because the RHT transactions resulted in dividends coming to Fortis Healthcare, because Fortis as you know holds almost 27% in the RHT. So, these are taxes, again, kind of one-off related to that.
- Nicole Yasmin:** So, this didn't show up anywhere at the consolidated level?
- Anurag Kalra:** The Consolidated level taxation is about Rs. 182 crores. A large of this is due to the RHT transaction.
- Gaurav Chugh:** Just to clarify, the dividend goes into the balance sheet, it doesn't come through the P&L.
- Nicole Yasmin:** Okay, I understand. Okay, then may be the last question for me. When I see your operating EBITDA and your EBITDAC, there is always some difference between other income and it can swing quite a bit from quarter-to-quarter. Can you just give me a bit color what goes into that number?
- Anurag Kalra:** No, so the large difference in the average income when you compare it to the trailing quarter was primarily the proceeds of the IHH investments that were there with us till about 15th of January. Hence, if you look at quarter three, in the quarter three the other income is quite substantial. We have used all the proceeds to actually buyback the portfolio of assets from RHT and hence the other income accordingly has now come to about Rs. 11-odd crores. So, the difference or the velocity is just because of the funds that were lying with us.
- Nicole Yasmin:** Yes, okay. But I mean even in the previous quarters this other income line can sometimes swing between losses and some gains. So, just a bit color maybe what goes exactly in this or it's just a combination of everything? Is it like your non-operating incomes or...?

- Vivek Goyal:** Previous quarter there is a fixed deposit made from this equity which has come, which was not fully deployed. So, there is an interest income of around Rs. 30 crores previous year from that. And that is coming as other income in that, which has been utilized, the amount has been utilized in the current quarter for RHT entity at the beginning of the quarter.
- Moderator:** Thank you. The next question is from the line of Rudhir Barma from Alpha Line Wealth Advisors. Please go ahead.
- Rudhir Barma:** I wanted to know if you could give us a brief outline for what are the CAPEX plans are for the next 24 months? And how you intend to finance the CAPEX plans?
- Ashutosh Raghuvanshi:** So, we are not expecting any huge CAPEX except for the maintenance and replacement and upgradation CAPEX, which would come primarily as part of our credit line which we already have.
- Vivek Goyal:** As Mr. Raghuvanshi is saying, we have a normal CAPEX which is maintenance CAPEX which is a grant for each year and we also will be completing whatever facilities under completion, like Arcot Road like that.
- Rudhir Barma:** Sir, what is the CAPEX requirement for completion of those facilities?
- Vivek Goyal:** The total CAPEX requirement will be around Rs. 100-odd crores.
- Rudhir Barma:** Which we will be tying into our own internal accruals?
- Vivek Goyal:** Yes, internal accruals.
- Rudhir Barma:** And regarding the brand Fortis as such, now we believe there is again a court case going on that front. So, you tell us about any plans of rebranding or how exactly you are planning to approach that?
- Ashutosh Raghuvanshi:** That information as you are aware of, so that is definitely a consideration. And we will take the appropriate decision after evaluating all the legal and other criteria.
- Moderator:** Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.
- Saion Mukherjee:** Sir, just a clarification of the previous question on CAPEX. So, you are saying Rs. 100 crores is the new CAPEX or this is like including maintenance CAPEX overall that you expect for next year?
- Ashutosh Raghuvanshi:** It includes the maintenance; it also includes the commissioning of the Arcot Road facility. So, with all that puts together, it will be Rs. 200 crores. So, Rs. 100 crores for maintenance, etc. and Rs. 100 crores for new.

- Saion Mukherjee:** Okay. And going forward, let's say in fiscal 2021 this number should be more closer to Rs. 100 crores, right?
- Ashutosh Raghuvanshi:** That is right.
- Saion Mukherjee:** Okay. And just for FY19, if you have the numbers on CAPEX, both at Fortis and RHT put together, if you have that number for FY19?
- Ashutosh Raghuvanshi:** I think Anurag will take that offline with you.
- Anurag Kalra:** Sir, I will get back to you on that.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now have the conference over the management for their closing comments.
- Anurag Kalra:** Lizzan, thank you. Ladies & gentlemen, thank you very much for taking the time to be on the call. This has been a very good quarter for us. And hopefully progressively we will continue to show improvement as we move forward. Gaurav, my colleague and I are available to answer any queries, clarifications over email or phone, so please feel free to reach out to us. Thank you very much once again. And have a good day. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Fortis Healthcare, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.