



“Fortis Healthcare Limited  
Q3 FY2023 Post Results Conference Call”

**February 13, 2023**



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**Moderator:** Ladies and gentlemen good day and welcome to Q3 FY2023 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 this conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anurag Kalra, Senior Vice President, Investor Relations at Fortis Healthcare. Thank you and over to you Mr. Kalra!

**Anurag Kalra:** Thank you Neerav. A very good morning and good afternoon ladies and gentlemen and thank you for taking the time to join us on our Q3 FY2023 earnings call. The call today is being chaired by Dr. Ashutosh Raghuvanshi, our Managing Director and CEO. With him we have Mr. Vivek Goyal, our Chief Financial Officer. Mr. Anand, the CEO of SRL joins us as here along with Mangesh, who is the Chief Financial Officer of SRL. I have my colleague Gaurav as well with me. I hope all of you got a chance to go through the presentation and the press release that we have sent out on Friday evening. Nonetheless both these documents are also uploaded on the Fortis website for those who have not got a chance to see it. We will start with some opening comments by Dr. Raghuvanshi on the performance for the quarter post which Anand will take you through some highlights of the diagnostics business and then we can open the floor for question and answer. Over to Dr. Raghuvanshi!

**Ashutosh Raghuvanshi:** Thank you Anurag. Very good morning and good afternoon everyone. Thank you for taking time to join us on our Q3 FY2023 earnings call today. I wish you all a happy new year and hope all of you are doing well. I shall come straight to the results of the quarter and my thoughts on the business performance and the way forward. Q3 for us has been reasonably well; however, this is a quarter which was impacted due to seasonal impact of festivals in some of our larger geographies. The business performance has been relatively better vis-à-vis the corresponding previous quarter and expectedly marginally lower than the trailing quarter. Our consolidated revenues were at Rs.1560 Crores a growth of 6% versus the corresponding previous quarter. This compares to Rs.1467 Crores in Q3 of FY2022. Our consolidated EBITDA margins are at 18.5% versus 20% in the corresponding previous quarter and versus 19.8% in the trailing quarter. This is largely due to the decline in the diagnostic business as a result of fall in COVID volumes. Our profit before tax stood at 175 Crores versus Rs.185 Crores in Q3 FY2022 and our profit after tax was Rs.142 Crores similar to the previous corresponding quarter. Our balance sheet remains healthy and given our cash flow generation we have further reduced our net debt by approximate Rs.100 Crores during the quarter. Our net debt as of end of Q3 FY2023 stands at Rs.471 Crores against Rs.565 Crores at the end of Q2 of FY2023. This reflects a net debt to EBITDA of 0.41x compared to 0.53x in Q3 of FY2022.

Our hospital business has witnessed a healthy performance in the quarter allowing us to offset to a large extent the decline in diagnostic business. The consolidated profitability numbers that I shared with you just now clearly reflect this. We have witnessed an occupancy of 66% in Q3 versus 65% in corresponding quarter and 70% in the trailing quarter. Higher complex surgical volumes in select medical specialties and strong traction in the international business has resulted in an 8.4% increase in ARPOB to Rs.2.02 Crores. All this have enabled the hospital business revenue to reach Rs.1267 Crores in the quarter a growth of 13% versus Q3 of FY2022. The hospital business EBITDA grew 14% to touch Rs.217 Crores reflecting a margin of 17.1% similar to the margin in Q3 of FY2022. If we exclude Vadapalani facility in Chennai which is still in red the overall hospital business margins are at approximately 18%. The international business witnessed a strong recovery in the quarter. Revenue from international business grew 73% versus Q3 of FY2022 and Rs.114 Crores it contributed 9% to the hospital revenue versus 6% in the previous corresponding quarter. On the diagnostic side the business is still witnessing muted performance due to the decline in volumes related to COVID and COVID allied tests; however, revenues excluding COVID and COVID allied tests stood at Rs.321 Crores versus Rs.300 Crores for the Q3 FY2022 a growth of 7% for the quarter.

Overall the diagnostic business gross revenues stood at Rs.331 Crores versus Rs.388 Crores in Q3 of FY2022. We do believe that the diagnostic business will continue to witness challenges in short term at the same time there are initial signs of stabilization through the base of recovery though the pace of recovery would be gradual as we see the environment currently. We continue our focus on channel expansion, our specialized test portfolio and customer touch points to lab ratio, all of which continue to be further strengthened.

Let me briefly touch on the nine month performance of the company. For the nine months ended on December 2022 the company's revenue grew 7.3% to Rs.4655 Crores versus Rs.4340 Crores. In the corresponding previous period EBITDA for the period stood at Rs.878 Crores a margin of 18.9% versus Rs.869 Crores a margin of 20% reported in the corresponding previous year. PBT before exceptional items stood at Rs.567 Crores compared to Rs.547 Crores and PAT was at Rs.495 Crores versus Rs.703 Crores in the corresponding previous period.

I will briefly highlight a few qualitative comments on both our businesses. On the hospital side investments are on track to increase our bed capacity by 250 to 300 beds per year for the next few years and further bolster our medical and clinical infrastructure. During the quarter the company onboarded eminent clinicians in medical specialties, surgical oncology, pediatric cardiology and orthopedics. In the terms of medical infrastructure the company inaugurated a new digital x-ray service suite at Fortis Vadapalani, introduced a state-of-art surgical navigation neuro navigation system at Fortis Amritsar and launched



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Mako robotic technology for joint replacements at Fortis Bannerghatta Bengaluru. In addition the company commenced its EMR electronic medical record implementation project which we believe will significantly enhance patient care, align quick access to healthcare records and faster diagnosis and treatment. This would be rolled out across the Fortis network in a phased manner as and when it is developed and ready. Another important aspect to highlight is that our digitization initiatives continue to yield encouraging results, revenues from digital channels such as our website app and digital campaigns have witnessed a year-on-year increase in digital revenues of almost 12% versus the corresponding previous quarter and their contribution to overall hospital revenues stood at 23%.

On the diagnostic business I will briefly touch upon few things. SRL's performance was impacted by the decline in COVID volumes; however, non-COVID revenues grew 7% for the quarter and 12% for the nine months of FY2023 versus the corresponding previous periods. As I mentioned previously the business is now showing initial signs of stabilization in the aftermath of the COVID surge and the challenging industry environment. SRL continues to focus on improving its channel mix and adding to its specialized test menu such as those in the area of genomics, in parallel it continues to optimize its network and customer touch points to lab metrics in order to improve utilization. Just to highlight during the quarter SRL added 362 customer touch points reaching over 3300 customer touch points. Anand will take you through further details on this in a bit.

To conclude the quarter gone by has seen the hospital business emerge stronger while the diagnostic business we expect would see better recovery in the next fiscal. We continue to invest in expanding our bed capacity through brownfield expansion across our network and introduction of new medical technologies. It is also important to highlight that while we are in a relatively stronger financial position purvey to focus on large inorganic opportunities to drive our next phase of growth we would need to adequately calibrate our capital requirements and the need for the same. This would help us to further expand our reach and accessibility and enable us to drive future performance and value enhancement for all our stakeholders. Thank you for your time today and with that I will hand over to Anand for the diagnostic business update. Thank you.

**Anand K:**

Thank you Dr. Raghuvanshi. A very good morning to everyone on the call. Thank you for joining us today. On behalf of SRL Diagnostics I warmly welcome you all to our Q3 FY2023 results conference call. During the quarter we reported a revenue of 332 Crores with 97% of our revenues coming from non-COVID testing. Our EBITDA stands at 71 Crores with a margin of 21.5% for Q3 FY2023. We conducted 9.4 million tests and serviced 4 million patients during this quarter. SRL's B2C to B2B revenue mix stands at 55:45 consistent with our Q1 and Q2 ratios. Our non-COVID business revenue registered a

growth of 7% as compared to Q3 of FY2022 and 12% for the nine months FY20223 period versus the same period last year. Our preventive health portfolio posted a growth of 20% in this quarter versus Q3 FY2022 and 30% in the nine months FY2023 compared to the same last year. Keeping in line with our network expansion strategy we added 362 new customer touch points in Q3 2023 taking our total number of CTPs to 3317. We also added seven new laboratories in strategic markets during Q3 of FY2023. These labs help deliver a quick turnaround time to customers in these markets thereby making us the preferred laboratory choice for their testing needs.

Our customer NPS is constant at 82 for the quarter. Apart from delivering accurate and timely test reports we have also built a convenient customer experience processes at our centre for home visits and across our mobile app and website. On the people front we have always prided ourselves on a strong internal learning and development programme. One of our endeavors is to be the preferred employer in the diagnostic industry and we are progressing well on the NPS parameters for the great place to work assessment. SRL has been a pioneer in setting up a robust research and development. Our R&D team undertakes clinical research studies, co-marketing projects, contract validation studies, and collaborative studies for comparing diagnostics. We are also in the process of registering our R&D department for contract evaluation of IVD kits under the CDSCO as well as acquiring membership of the INSACOG. Under clinical research and co-marketing studies we have assessed feasibility of 22 studies and eight studies have been awarded to SRL. We are progressing on contract validations and collaborations for publications. We participated in 13 scientific and academy conferences across the country and this has helped us strengthen brand recall and our relationship with doctors. As an organization we have always been driven by the science of diagnostics and therefore we have built a sustained focus on genomics and next generation diagnostics. Revenue from genomics shows 29% growth and number of tests increased by 22% versus Q2 of FY2023. During the nine months our genomics revenue went up by 43% and number of tests increased by 36% compared to the same period last year. We will continue our concerted efforts in the chronic diseases category, lifestyle diseases, preventive healthcare category and our specialized portfolio that comprises of autoimmune diseases, transplant immunology, infectious diseases and oncology. Thank you for your attention. I would like to handle over the call now to Mr. Anurag Kalra, Head of Investor Relations.

**Anurag Kalra:**

Thanks Anand. Ladies and gentlemen we will now open the floor for question and answers. May I request the moderator to please begin the session.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

**Amit Khetan:** Hi good morning and thanks for taking my question. So just wanted clarity on the number of operating beds so if I look at your Q2 presentation we had about 4000 operating beds this has gone down marginally this quarter despite opening 200 bed hospital in greater Noida so if you could just clarify what is going on?

**Vivek Goyal:** Greater Noida being the O&M so we are not including that in the total overall number.

**Amit Khetan:** Got it and the income there how is that reported if that is just like a fee income?

**Vivek Goyal:** It is just like whatever O&M fees we are getting it is getting into the operating income.

**Amit Khetan:** You do not include this as part of ARPOB and all that?

**Vivek Goyal:** Not really.

**Amit Khetan:** Got it. Thank you.

**Moderator:** Thank you. The next question is from the line of Kunal Randeria from Nuvama. Please go ahead.

**Kunal Randeria:** Good morning and thanks for giving the opportunity. Sir on the hospital side on the more profitable hospitals that SRL continue to better their performance so I guess now in future if you want to continue to increase your margin this will depend on how some of the laggards perform so just want to know couple of things initiatives that you have taken and if already you have started to see some impact in the operational performance?

**Ashutosh Raghuvanshi:** Answer we have mentioned in the earlier calls also so this is a ongoing exercise and we are now seeing very good results in improvement in the operating margins as well as not only in the percentage term but in the absolute term also so that has become possible one is bringing the operating efficiency, improving productivity and controlling costs to the extent possible by better negotiation, by improving the processes and things like that. As regard to your question on the bigger unit, so our bigger unit like Mohali, FMRI, Shalimar Bagh, BG Road and Mulund, these are the five key facilities which continue to improve and are operating at a decent occupancy level so we expect to grow there further. SMRI performance has perhaps further improved because of the higher international business flow into the unit. Having said that the other unit like Noida units, the Ludhiana units are also doing okay, the smaller unit are also doing quite okay so I hope I was able to answer your question.

**Kunal Randeria:** That was helpful but just to followup on this if I were to look at the hospital margin metrics now there are three hospitals between 10% and 15% now these are at 65% occupancy, the

ARPOB is also pretty much near the company average, so in revenue terms I do not clearly see a lot of upside here are there scope for cost cuts in these hospitals or you believe that these hospitals remain in this 10 and 15% kind of range?

**Vivek Goyal:**

So 10 to 15% hospitals are fine, nine months so these are three hospitals, two are very small hospital one is mother child hospital in GK and other is CH road in Bengaluru and third is FEHI. So FEHI one as we are saying it is reaching double digit margin and it is operating at that level and we are taking some more steps to bringing it closer to 15% EBITDA margins in the near future so that is where we are. I think there are steps which we are taking from example in CH Road there is some renovation we have done and that has really impacted the performance of this unit which has now been completed. It has not only given us some more operating there but the look and feel of the hospital has also improved so we are hoping that this hospital will very soon be moving towards 15% EBITDA margin category.

**Kunal Randeria:**

Got it. So I have a couple of questions on diagnostics too so in this quarter there is a healthy growth in realization per patient which you attribute to test mix can you continue at these levels or you see it increasing or just preventive test that you have mentioned that has driven some growth in the business is that contributing some colour on that would be helpful?

**Anand K:**

This preventive health portfolio has grown by about 30% on this nine months but also what you can see is that our ARPT has shown a higher growth because last year we had the HPPP business as part of our Q3 and this year we do not have and as you know that the PPP businesses the ARPT is much lower than the overall ARPT so that has also contributed to extent but otherwise it is the overall test mix that has changed so I think overall I would say about 2 to 3% contribution from ARPT will be there in the coming quarters as well.

**Kunal Randeria:**

Preventive contribution that could be how much of your diagnostic revenue and how does the realization differ from sickness?

**Anand K:**

So it is about 10% of the total revenue as far as preventive wellness is concerned as part of the total one.

**Kunal Randeria:**

The realization would be able 20 to 30% higher in this preventive segment?

**Anand K:**

ARPA will be higher but because it is being a more of a bundled offering so the realizations per patient will be higher.

**Kunal Randeria:**

I will have a few more questions. I will get back in the queue.

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

**Shyam Srinivasan:** Good morning and thank you for taking my question. I just want to understand how we should look at occupancy trends for say 4Q or what we are trying to project or acquire for FY2024 in terms of utilization improvements and if you could also understand if you could split it into either mix, local patient market share as well as international patient market share if you could help us understand where those utilization improvements could come from?

**Ashutosh Raghuvanshi:** Occupancy numbers are definitely trending little higher than the previous quarter but not in a very large quantum. Regarding the international business as we said that it has grown which in the previous quarter was about 6 to 7% has grown up to about 9% so that trend is continuing and is likely to continue this quarter as well. Some of the units especially in the northern belt in Punjab as well as little bit towards the NCR also I think I see winter effect so that also as winter goes away generally this quarter we should see upswing there as well.

**Shyam Srinivasan:** Dr. Ashutosh we earlier had an aspiration to reach 70% like on full year basis let us assume FY2024 do you think we are on track for that?

**Ashutosh Raghuvanshi:** Most of the larger hospitals are tracking 70 or about but there are many units in the system which are still at a lower occupancy level. One of the larger units which is still at slightly lower occupancy is Bengaluru where the occupancy levels are about 55-56% so there we expect some upside because some new clinical talent and new programme and technology has been added recently.

**Vivek Goyal:** Shyam if you look at the margin matrix also about 2800 beds in the top three EBITDA buckets are already trending as Dr. Raghuvanshi mentioned between 71 and 72% and another about 500 beds are 65 it is just the bottom category beds which are lower which bring down the overall company occupancy.

**Shyam Srinivasan:** That is helpful. Second point is on clinical talent Dr. Ashutosh you actually started off by saying in your opening remarks that you have managed to attract talent so if you could walk us through what is happening on clinical talent is there a bidding war if I can say how are you in terms of compensation either clinicians' fee or employee fee, are you seeing any kind of an inflation there which is probably something that we need to compete in from an HR or talent perspective?

**Ashutosh Raghuvanshi:** Right now the situation seems to be pretty stable not too many moments are happening nor is there any kind of a bidding war but of course in future that can happen. The slightly



higher payouts on the doctors' fee what you see is related to the surgical revenues being higher so at the moment we are not seeing any great pressure on this front.

**Shyam Srinivasan:** Dr. Ashutosh single digit attrition if we were to measure some of the numbers?

**Ashutosh Raghuvanshi:** Among the senior doctors we see attrition of about less than 6% which is even lower actually in some of the categories.

**Shyam Srinivasan:** Got it. Thank you and my last question is on the SRL bit non-COVID. I think we witnessed about 7% non-COVID revenue growth remind me there is no issue of DDRC or JV right is it a clean number is what I am trying to see at 7%, is it organic growth including say DDRC in the past and currently?

**Anand K:** It is like-to-like growth because we consolidated DDRC in April 2021 so the entire FY2022 has DDRC numbers so it is a 7% growth on quarter-to-quarter basis.

**Shyam Srinivasan:** If you could help us and disaggregate that 7 into volume and price because I do not think we can infer directly using whatever reported numbers so what you are seeing on volume trends and different listed players have given different numbers in the sense between 7 to 10% volume growth has come so what are we seeing for our SRL non-COVID business?

**Anand K:** On the non-COVID business if you see compared to last year's quarter as I was referring earlier as well so we had Himachal Pradesh PPP business which was a high volume low ARPT business so that businesses is not there with us now, so if you remove that our growth is about 11% so out of that if you see the volume is about 5% growth on volumes and accordingly you can see that ARPT growth is there to that extent.

**Shyam Srinivasan:** So 50% coming from volume, 50% from price looks like or mix change or whatever?

**Anand K:** There is no price increase it is a mix change.

**Shyam Srinivasan:** What is the outlook here from a volume development perspective so FY2024 do we think we go back to a high single digit or a low double digit volume environment for this SRL?

**Anand K:** So overall if you see we are growing the volume without HPPP non-COVID volumes are growing at about 12% so I think a similar trend will continue here in the range of 10 to 12%.

**Shyam Srinivasan:** Got it. Thank you so much and all the best.



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**Moderator:** Thank you. The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

**Neha Manpuria:** Thank you for taking my question. Dr. Raghuvanshi in terms of the expansion at Fortis I know we have brownfield expansion plan which are underway but as we look at let us say growth over the next two or three years are there any pockets where we see the need to probably add more capacity in terms of greenfield capacity or M&A based on your presence would you like to see more capacity in some markets and are we pursuing that more aggressively versus the past?

**Ashutosh Raghuvanshi:** Essentially our focus has been on the brownfield expansion because it is a low hanging fruit comes at a lesser capex and has relatively shorter period in which it gets into a profitable zone. Having said that you are right that now the time has come where we have to think of inorganic expansion as well and we certainly are looking for opportunities which will be complementary and synergistic to our existing operations as we have said earlier that in the given geographies clusters where we are present and/or fully formed cluster if it was to be in some other geographies which is attractive so those are the things which we are going to look at. Some of the cities like NCR, Bengaluru and Mumbai are our preferred geographies where we are looking for possible opportunity.

**Neha Manpuria:** Based on your assessments valuation for asset available has that come of over the last few years I know at one point of time it was fairly unreasonable or you do not think there has been any change in valuations for assets available?

**Ashutosh Raghuvanshi:** The expectations are still quite high in most cases but I think it is for us to evaluate whether it is a project where we can add further value if that is a possibility then of course even in some of the prime location even if the asset was to be of a high value but we think that we can add further value we would consider those but I do not think things have changed dramatically in terms of expectations in the hospital space for valuation.

**Neha Manpuria:** Understood and my second question is in relation to the brownfield expansion that we are doing does this brownfield bed addition allow us to let us say improve ARPOB and I am asking this from a point of view of are you adding this capacity to let us say increase or high ARPOB specialty mix and I should see these beds as being high realization versus the average realization in that particular hospital would that be a fair way to look at our brownfield bed expansion?

**Ashutosh Raghuvanshi:** Yes essentially most of these bed what they would lead to do is that the surgical work which is typically a higher ARPOB business is likely to grow so the net effect would be that; however, it is not necessarily that we are building it for that reason alone. The second

thing which these things are doing is that some of the hospitals which are older they are also simultaneously getting refurbished and the look and feel of the facility is improving, service standards will be improving and as a result of all those factors I believe that the ARPOB will certainly improve.

**Neha Manpuria:** Understood and my last question is on the payer mix I think if I look at the chart our sort of government business is roughly at about 20% if I go back in history this used to be sub 15% right so is there efforts to sort of increase our cash and TPA mix thereby reducing the payer mix in these institutional government business?

**Ashutosh Raghuvanshi:** Yes you are absolutely right. Some of these categories have gone higher and that is because of some newer schemes coming in Rajasthan for instance, etc., which we had to take and in West Bengal, but we are calibrating this and again our aim has always been to keep it around 15% and we want to go towards that but it may not happen in one or two quarters but definitely over the next two or three quarters we should get it back to about 15% or lower.

**Neha Manpuria:** Understood thank you so much for taking my questions Sir.

**Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from White Oak Capital. Please go ahead.

**Dheeresh Pathak:** Yes thank you for the opportunity. Just to the earlier question you just replied that we had to take the government business in Jaipur and West Bengal can you just please elaborate on that?

**Ashutosh Raghuvanshi:** There are those schemes in the respective states which cover a very large population and because of the kind of local pressures, etc., we had to sort of open that up. Then second factor was typically these two hospitals were working at slightly lower occupancy levels as well so we did have a kind of capacity available and on marginal cost basis it made sense to increase that so we had to increase that because of those things.

**Dheeresh Pathak:** Is the land there based on some concessions with the government can you just explain the asset ownership there?

**Ashutosh Raghuvanshi:** In fact both these places there are no such constraints.

**Dheeresh Pathak:** It is just matching by the government that you had to take it or you wanted to take it, so you are not clear right now?

**Ashutosh Raghuvanshi:** It was more than a nudge I would say.

**Dheeresh Pathak:** You want you can drop it right later on, there is no mandate from the government to take these schemes right?

**Ashutosh Raghuvanshi:** There is a mandate but mandate is being sort of petitioned initially and then we would see how we can work towards that. I think it is a industry wide issue in these two cities at the moment and initially probably there is going to be more demand also when such a scheme comes and that demand sort of goes down as well so we are pretty hopeful that we should be able to calibrate it down to our desired level of 10 to 15%.

**Dheeresh Pathak:** How much lower are the realizations on these schemes versus the cash and private insurance patients?

**Ashutosh Raghuvanshi:** Typically about 30 to 40% lower.

**Dheeresh Pathak:** Are these two hospitals also in that 10 to 15% EBITDA margin bucket in number of facilities, three facilities which bucket are they part of, these two hospitals?

**Ashutosh Raghuvanshi:** Kolkata for this quarter is in that category but because there was some couple of one off payments otherwise Kolkata is above 20 generally and Jaipur is in the other category which is about 10 to 12%.

**Dheeresh Pathak:** Out of three facilities between 10- to 15% margin bucket one is Jaipur which are the other two Sir?

**Company Speaker:** One is La Femme and the other is CH road and the third one in 10 to 15 is FEHI. The below 10 Jaipur as Dr. Raghuvanshi mentioned is at 10 or below 10.

**Dheeresh Pathak:** Last time it was 10 to 15, last time I thought it was a very high occupancy, high catchment area why is last time 10 to 15%?

**Company Speaker:** Just in the fringes. It is actually closer to the 15% mark but it is a smaller facility that way.

**Dheeresh Pathak:** Thank you for taking my question.

**Moderator:** Thank you. Next followup is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** Thank you for taking the followup. Team is there any update from a legal perspective when is the last hearing at the Delhi High Court and is there some kind of a guided timeline on what would happen in the next three or six months?

**Vivek Kumar Goyal:** Actually we are not part of any legal proceedings right now. We are just waiting High Court to convene a sort of hearing where the decision regarding whether they will be ordering forensic audit or not that decision needs to be taken in that so our lawyer will be present there. There were couple of hearings previously with no conclusion and I think next hearing is on 17<sup>th</sup> of this month.

**Shyam Srinivasan:** 17<sup>th</sup> of Feb?

**Vivek Goyal:** Yes 17<sup>th</sup> of this month.

**Shyam Srinivasan:** Got it that was helpful. Second question is just on balance sheet the net debt has been reduced so just want to understand the usage of cash that comes through what is our capex for the remainder fourth quarter or even if you want to guide for FY2024 if you could help us understand that please? Thank you.

**Vivek Goyal:** The fund from operation were useful and because of that we are able to reduce the debt to the current level. As regard the capex outflow is concerned we are spending at a run rate of 100 to 125 Crores per quarter on the capex and we expect this to go up in next financial year slightly because we are planning to invest in the technology like Dr. Raghuvanshi mentioned in the initial call we want to move in a gradual manner for robotic programme that will require some investment plus this brownfield expansion will also be kicking in so all these things may increase but capital outlay from current run rate of 125 Crores per quarter to maybe 150 Crores per quarter.

**Shyam Srinivasan:** Got it Sir and last question Dr. Ashutosh started in his opening remarks talking capital allocation and maybe a potentially an inorganic thought process so if you could just clarify that Sir?

**Ashutosh Raghuvanshi:** As I was saying earlier to Nehal's question is the possibility of inorganic acquisition is there and we are at this time in a position to consider those so though there is nothing conclusive at the moment but we continue to be open to evaluate those with much more rigor than what earlier we were doing. So in the geographies which are our clusters which are currently operational we are continuing to look if there are any opportunities and of course the question of valuation comes there so if it at an attractive price point then we would definitely consider them at the moment. Yes we are very open to that now.

**Shyam Srinivasan:** Last data point. Vadapalani what is the losses it used to be 8 Crores I remember historically?

**Vivek Goyal:** It is around same level.

**Shyam Srinivasan:** We had like a soft guidance of this breaking even in FY2023 I do not know whether that has moved around?

**Vivek Goyal:** It is taking slightly more time looking like so earlier we were expecting to break even in next six months but it may take slightly more time.

**Shyam Srinivasan:** What is the reason Vivek Sir, Why the delay?

**Vivek Goyal:** Reason is twofold one is there are some infrastructure work going on in front of the facility and that is affecting the patient flow and that is the main reason and apart from that I think the clinical talent we were thinking we were able to extract easily we are facing some challenge in getting good clinical talent in that locality.

**Shyam Srinivasan:** Got it Sir. Thank you.

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

**Tushar Manudhane:** Thanks for the opportunity. Sir just on the international patients now as a percentage of sales it is more or less at 9 to 10% versus pre-COVID level so first of all geography wise which geography is these international patients are coming from and how do you see the growth in the terms of volume for this category of patients?

**Ashutosh Raghuvanshi:** Patients are coming from a kind of widespread geography mainly we get lot of patients from Africa both from east as well as west side but mainly east Africa and some patients from middle east essentially from couple of countries like Yemen as well as from Qatar so those are the larger numbers, other than that there are few specialties like liver transplant, etc., we do get patients from central Asia as well as some times as far off places as Fiji and Philippines as well. As far as the growth and this is concerned I think we have seen a good growth as we said and it should grow further but it is difficult to guess how much more growth will be there on this segment as we continuously see our domestic patients also going up so as a percentage I believe that it is likely to remain in 10 to 11% for some time.

**Tushar Manudhane:** Got it Sir and just broadly the breakdown of gross block into hospitals and diagnostics business please?

**Company Speaker:** Diagnostic is not even 10% of the total.

**Tushar Manudhane:** Roughly we are at 1.2 times asset turn for the hospital business correct?

**Company Speaker:** Asset turnover we are lower than that.

**Tushar Manudhane:** Will be there a scope of improvement in the asset turn when there is improvement in profitability for the hospitals which are yet to reach good matured hospital level or this is what is the asset turn one should think about?

**Company Speaker:** No, there is improvement possible as Dr. Raghuvanshi mentioned earlier the BG road facility which is the biggest facility operating at around 60% occupancy level and same is the case for another big facility at Mulund in Mumbai so both these facilities are having some capacity sitting there and plus existing capacity also they are operating at 60% so there is opportunity to increase it, apart from these two the Chennai facility both the facilities are operating at suboptimal levels so there also there is a scope.

**Tushar Manudhane:** Okay Sir that is it. Thank you.

**Moderator:** Thank you. The next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.

**Amit Goela:** Good set of numbers. I was just wondering that any kind of M&A or inorganic growth is it preventive from the court proceedings which are on now or you are free to do that kind of stuff because now your balance sheet is strong Sir?

**Ashutosh Raghuvanshi:** No AmitJi there is no constraint on that. That is why I said earlier that we are looking at opportunities which come at an attractive valuation and also there is absolutely no constraint otherwise.

**Amit Goela:** Would you expect the significant improvement in the capacity utilization for this quarter?

**Ashutosh Raghuvanshi:** So the capacity utilization certainly should be better than the third quarter but it is slightly below our expectation of 75% but certainly it would be better than the previous quarter.

**Amit Goela:** Okay. Thank you so much. All the very best.

**Moderator:** Thank you. The next question is from the line of Damayanti Kerai form HSBC. Please go ahead.

**Damayanti Kerai:** Hi thank you for the opportunity. My question is for Dr. Raghuvanshi so international businesses is focus for most of your peers so for you how do you see this piece moving up in next few years where do you aspire to reach say in two to three years and how do you see competition in this space from the local peers?

**Ashutosh Raghuvanshi:** You are absolutely this is a competitive space and all the players are focusing on this especially in NCR region and other medical hubs like Chennai, etc., so our main flagship

facility in Gurgaon has a large percentage of international patients coming so as the more capacity we are creating in both Shalimar Bagh as well as in Noida we would have more capacity available to serve these patients, so I expect a steady growth in this segment but that growth should probably take the contribution at an overall basis to about 12 to 13% of the revenues.

**Damayanti Kerai:** This 12 to 13% you are like hoping to reach in the next two to three years or it can come much earlier?

**Ashutosh Raghuvanshi:** Yes it should come within two years.

**Damayanti Kerai:** Sir how do you see government initiative for pushing this business again I think easing the flow of international patient to India so what is your opinion or view on this Heal in India initiative by government of India?

**Ashutosh Raghuvanshi:** Yes so I am quite sort of hopeful that this will help it in a positive way because one of the reasons as you know that it is completely deregulated kind of business and there are multiple agents, etc., who function in this space so once the Heal in India programme is matured then there would be a visibility as to where the patient is coming from and through what channel, etc., so that would make a better playing field and it would to some level control the agents at the current time are sometimes a little unscrupulous to say the least.

**Damayanti Kerai:** Sir last question for international patient realization against a domestic patient how better it is if we can quantify some numbers say one-and-a-half times two times how do we see realizations here?

**Ashutosh Raghuvanshi:** Yes so typically we mark up for the international patients but at the same time the facilitator fee sort of brings it down to a level where it is comparable to the domestic cash patient only so in effect it is not very different from the domestic patient because the mark up essentially goes as facilitator fee.

**Damayanti Kerai:** Okay Sir that is very helpful. Thank you and wish you all the best.

**Moderator:** Thank you. Next followup question is from the line of Dheeresh Pathak from White Oak Capital. Please go ahead.

**Dheeresh Pathak:** Yes thank you just to confirm again in that bucket where the last bucket is less than 10% margin and number of facilities are high so one is Jaipur, Vashi, Arcot Malar, which is the fifth one.

**Vivek Goyal:** FEHI Bengaluru.



- Dheeresh Pathak:** Okay understood. For this SRL margins like if you were to do Ind AS adjustment if we take away another 1.5 to 2% of margin right is that a fair understanding?
- Mangesh Shirodkar:** The current reported EBITDA is after Ind AS adjustment.
- Dheeresh Pathak:** I am asking on pre Ind AS 116 basis where you have to take the impact of rental in other expense if we do that there will be a lower margin right instead of 20% it will be slightly lower?
- Vivek Goyal:** That is right so all our EBITDA are reported as per Ind AS so if we adjust for pre Ind AS the margin will be lower that is right.
- Dheeresh Pathak:** That impact is roughly 2% of revenue right is that fair understanding because I can work out on total company level I am not able to work out at SRL level?
- Mangesh Shirodkar:** I need to check that. It will be in the range of 1 to 2% but exact percentage I will have to check.
- Dheeresh Pathak:** Okay thank you Sir.
- Moderator:** Thank you very much. I now hand the conference over to the management for closing comments.
- Anurag Kalra:** Ladies and gentlemen thank you very much for joining us on the call today. I just want to mention that some of the statements and discussions by the management is also mentioned in the IR presentation and press release may be forward looking in nature and may involve for certain element of risk and uncertainty kindly keep in mind the disclaimer that we mentioned in the presentation and press release. Gaurav and I are here to answer any further questions or clarifications you may have. Please feel free to e-mail us or talk to us. Thank you very much and have a good day.
- Moderator:** Thank you very much. On behalf of Fortis Healthcare Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.