



# “Fortis Healthcare Limited Q4 FY24 Earnings Conference Call”

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## **MANAGEMENT**

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q4 FY '24 and Full Year FY '24 Financial Results 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 “\*” and then “0” on your touch-tone 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, Mr. Kalra.

**Anurag Kalra:** Thank you, Mitchell. A very good morning and good afternoon, ladies and gentlemen.

Welcome to Fortis Healthcare's Quarter 4 FY '24 and FY '24 Earnings Call. The call is being chaired by Dr. Ashutosh Raghuvanshi – our Managing Director and CEO. With him, we have Mr. Vivek Goyal – our Chief Financial Officer. From Agilus Diagnostics side, we have Mr. Anand K. – the Chief Executive Officer; and Mr. Mangesh Shirodkar, who is the CFO of Agilus Diagnostics.

We will begin the session with some comments by Dr. Raghuvanshi on the performance for the quarter and the year, followed by which we will request Mr. Anand to give his comments on the Agilus business, and then we can open the floor for question and answers.

I hand over to Dr. Ashutosh Raghuvanshi now.

**Ashutosh Raghuvanshi:** Thank you, Anurag. Good morning and good afternoon, everyone.

Thank you for taking time to join us on our Q4 Financial Year '24 Earnings Call today. I hope all of you are doing well. Before discussing our Q4 and full Financial Year Results, I am delighted to announce that our Board has recommended a dividend of Rs. 1 per share, which is equivalent to 10% of the face value for the second consecutive year, subject to shareholders' approval. This signifies the transformative path the Company has embarked on over recent years, leading to the healthy operational and financial performance. This also underscores the strengthening fundamentals of the Company and its ongoing potential for growth.

Coming to the performance of Company, I shall comment on the year as a whole and then move on to Q4. Our performance in Financial Year '24 has been commendable, demonstrating a marked improvement compared to the preceding years. And noticeably, this performance has been led by a strong performance from our hospital business. For the financial year 2024, consolidated revenues for the Company stood at Rs. 6,893 crores, a growth of 9.5% over Financial Year '23. Within this, our hospital business revenues have grown 11.3% to Rs. 5,686 crores while the diagnostic business revenues have shown a marginal growth of 2% to Rs. 1,372 crores. Our consolidated operating EBITDA increased 15.1% to Rs. 1,268 crores, which

translates into a margin of 18.4% in Financial Year '24 versus 17.5% in Financial Year '23. Within this, the hospital business operating EBITDA margins have improved from 16.9% to 18.6% in Financial Year '24, with an EBITDA of Rs. 1,058 crores. The hospital business EBITDA contributed to the total consolidated EBITDA has increased to 83% as against 79% in Financial Year '23, signifying the profitable growth witnessed in the business.

Operating EBITDA margins in the diagnostic business basis gross revenues were at 15.3% versus 17.7% in Financial Year '23. However, after adjusting one-offs related primarily to the rebranding exercise undertaken by Agilus for the brand change and the provisioning related to the business with Directorate General of Health Services New Delhi, the operating margins improved from 17.7% in Financial Year '23 to 19.5% in Financial Year '24.

At the consolidated reported PAT level for the year, we reported a profit after tax of Rs. 645 crores for the year as compared to Rs. 633 crores in Financial Year '23.

On the quarterly performance, we recorded a consolidated top line of Rs. 1,786 crores in Q4 of Financial Year '24, a growth of 8.7%. The hospital business revenues grew by 10.3% to Rs. 1,490 crores, while the diagnostic business gross revenues witnessed a marginal growth of 2% to Rs. 338 crores.

Our consolidated operating EBITDA for the quarter was Rs. 380 crores, reflecting a margin of 21.3% versus 16.5% in Q4 of Financial Year '23. The operating EBITDA of the hospital business grew 51% to reach at Rs. 333 million with the margin of 22.4% in Q4 of Financial Year '24 versus 16.4% in Q4 of Financial Year '23. The quarter number also includes certain year-end adjustments related to write-backs of excessive provisions, unclaimed balances, expected credit loss and other adjustments, which are accounted for in the quarter, but pertain to the full year.

Operating margins in the diagnostic business were at 14.0% versus 14.9% in Q4 of Financial Year '23. However, after adjusting the one-offs I had mentioned before, the operating margins improved to 15.9% in Q4 from 14.9% in Q4 of Financial Year '23. Our consolidated reported profit after tax for the quarter increased 46.9% to Rs. 203 crores. On the balance sheet side, we have further reduced our debt by Rs. 76 crores to Rs. 264 crores, representing a healthy net debt-to-EBITDA of 0.17x as compared to 0.30x as on 31st March 2023.

Before I start the operational highlights of the business, I would like to touch upon and share with you the good work that we do in our day-to-day lives. We have in Financial Year '24 undertaken more than 60,000 cardiac procedures, approximately 1,100 transplant, close to 28,000 joint replacements and ortho procedures, 7,800 neuro and spine procedures, 11,000 radiation therapy for our patients. This speaks volume of our expertise and the confidence that patients have in us.

Fortis facilities across the network continue to perform life-saving procedures and successfully undertake complex surgeries in various medical specialties all backed by our dedicated clinicians and state-of-art medical infrastructure. With this continuing care for good motto that is resulting in the performance that you are seeing.

Now some metrics of our hospital business for Financial Year '24, our hospital business had an occupancy of 65% compared to 67% in Financial Year '23. We added 246 beds during the year in our various facilities and hence, our occupied beds have remained largely similar to last year. ARPOB for the hospital business witnessed a growth of 10.8% to Rs. 2.22 crores in the Financial Year '24. This was primarily driven by a substantial uptick in revenue from our key focus specialties, including oncology, cardiac sciences, neurosciences, renal sciences, et cetera. These specialties collectively experienced a 13% year-on-year growth in Financial Year '24 accounting for 62% of the total hospital business revenue, up from 61% in the corresponding previous period. Higher complex surgical volumes in select medical specialties have contributed to the increase in ARPOB. For instance, volume in key procedures such as transplant grew 11%, while in robotic surgeries and radiation therapy, volume growth was in excess of 50%.

In addition to the above, our revenue from medical travel grew 12% in Financial Year '24 to reach Rs. 479 crores. Revenue contribution of international business stood at 8% in Financial Year '24, similar to Financial Year '23. Throughout the year, our commitment to enhancing clinical programs persisted across all facilities marked by investment in advanced medical infrastructure, emphasizing growth in specialties like oncology, neurosciences and cardiac sciences.

We expanded our clinical offerings bolstered by high-quality talent. Noticeably, the year saw the addition of reputed clinicians in various specialties, including nephrology, neurology, cardiac sciences, oncology, gastroenterology, general surgery and urology. Our pursuit of superior clinical outcomes and patient experience is augmented by digital initiatives like the implementation of electronic medical record system across our network, ensuring excellence in care delivery. I am pleased to share that Company has made significant progress in advancing its strategic growth levers including Brownfield bed expansion, portfolio rationalization and investing in the state-of-art medical equipment.

In order to provide advanced treatment options to our patients, we have and continue to upgrade our medical infrastructure, having commissioned LINACs in Mohali and Noida, Cath Labs and MRI at Anandpur, Ortho Robots at FMRI, Shalimar Bagh, Noida and Digital PET CT at FMRI. Further launches of similar such medical equipment across Fortis facilities is expected in the current fiscal year as well.

We are progressing well on our Brownfield bed expansion plans. We have added beds in Financial Year '24 in facilities, such as Mohali, Anandpur, Mulund and BG Road. I am pleased to share that we have also launched a 70 bedded new facility in Ludhiana, making this our second facility in the city and fourth in the state of Punjab, giving a boost to our presence in the Punjab

cluster. Our extension strategy continues to focus on deepening our cluster presence. Our plans to ramp up the Brownfield beds capacity remains on track and would enable us to potentially close to 6,000 beds over the next few years. When completed, we can also expect to see some of our key facilities such as Shalimar Bagh, FMRI, Mohali and BG Road becoming more than 450 beds each.

As we have mentioned earlier, our growth would comprise not only of our Brownfield expansion effort, but also our effort towards expansion of our size and scale through inorganic forays. We have spoken with you previously on some of our underperforming assets and the need to rationalize our portfolio. Continuing with this, we have successfully divested 2 of our underperforming facilities in Chennai and have exited that market. In parallel, we also acquired a potential 450 bedded facility in Manesar, Gurugram that we expect to commission shortly, which would further strengthen our presence in the NCR cluster.

Another critical aspect worth noting is the continuous success of our digitization efforts. Our progress in digital transformation, notably through the implementation of EMR program is moving forward positively. We have successfully implemented EMR for OP modules across 4 units in the first phase of EMR rollout. Revenue generated from digital channels continue to exhibit healthy growth in Financial Year '24. Revenues from website, mobile apps and digital campaigns increased 27% over the last year and contributed 25.2% to the overall hospital revenue as compared to 22% in Financial Year '23. In order to further improve our patient service experience, we have launched our new patient feedback management system, my feedback, this year. The platform will enable a more engaging experience as the feedback through WhatsApp and QR codes would be collected. The application will enable selection of feedback and address immediate patient concerns through its service request feature.

On the cost side, emphasis in the year gone by has been on further improving our supply chain and procurement efficiencies and also optimizing costs in aspects related substitution and formularies. We have also been focused on optimizing manpower costs and looking at means to increase productivity. While these are ongoing exercise, cost saving and optimization across select expense lines have also had a positive impact on our P&L in the year.

Some thoughts on our diagnostic business. Our overall diagnostic business showed marginal growth, but our non-COVID business revenue grew 5% for the quarter, and 6% for the Financial Year '24 over corresponding previous period. The diagnostic business performance has been soft, primarily due to the change in the brand to Agilus resulting in comprehensive rebranding exercise and related expenses on such rebranding and marketing. In addition, there were certain provisions related to government business that have also impacted the performance.

Having said that, and while Anand will take you through further details on diagnostic business, I firmly believe that this business has significant potential to scale up both in terms of its revenue and margins. It has a sizable network presence, balance B2B B2C mix and is increasing its focus on the wellness portfolio and specialized testing. The industry has also begun to show signs of

improvement and lessening competitive pressures. We are undertaking all efforts to ensure that Agilus' performance is progressively better going forward, but I'll leave it to Anand to talk further on this.

Before I end my comments, I will take a moment to thank all our stakeholders, employees, patients and clinicians for their support in the years gone by. We strive for excellence in health care delivery, we strive for good clinical outcomes and diagnosis for all our patients and we work hard to ensure that all our stakeholders recognize and respect the organization for its patient-centric approach. This is and would remain cornerstone of our organization and organization that each of us feel proud to be part of.

I am hopeful that the coming years would see Company going from stem to stern and add value to all our stakeholders. Thank you. And with this, I will hand over to Anand for his comments on the Agilus.

**Anand K.:**

Thank you, Dr. Raghuvanshi. A very good morning to everyone on the call. Thank you for joining us today. On behalf of Agilus Diagnostics, I warmly welcome you all to our Q4 FY '24 results conference call.

Agilus Diagnostics reported a revenue of Rs. 1,372 crores in FY '24 versus Rs. 1,347 crores in FY '23, representing a 2% increase. Non-COVID revenues increased by about 6% in FY '24 against FY '23. COVID testing contributed to 0.3% of the revenue for this year, down from 4.4% in FY '23. We performed 40 million tests and served 16.4 million patients in the year.

Operating EBITDA for the year is Rs. 209 crores compared to Rs. 239 crores in FY '23. EBITDA margins are 15.3% and 17.7%, respectively. During the year, we incurred onetime expenses of Rs. 58 crores, primarily in relation to Agilus rebranding and the provisioning pertaining to agreements with Directorate General of Health Services, New Delhi. One of the important highlights of the financial year is that we have successfully undertaken a brand transformation exercise and move to a new brand, Agilus. We incurred onetime expenses for rebranding post brand change in May '23. Also, we have made onetime provision in relation to receivables of DGHS Delhi Government. Considering lack of clear timelines on payment of bills, the Company has provided for the entire outstanding.

Our operational EBITDA before onetime expenses of Rs. 58 crores is Rs. 268 crores, representing a margin of 19.5%. Our average realization per test for Q4 '24 is Rs. 352 and realization per patient is Rs. 869. Our average realization for FY '24 is Rs. 342 per test and Rs. 836 per patient. The business continued to have a well-diversified geographical mix with no overdependence on any particular region, allowing you to capitalize on the pan-India network nationally.

Regional FY 2023 to '24 revenue contributions were 33% from North, 21% from West, 29% from South and 14% from East while we had a 3% contribution from international business. Our

wellness portfolio also went up by 14% in FY '24 compared to previous fiscal and by 18% in Q4 FY '24 compared to Q4 of FY '23.

From a product standpoint, the revenue contributions are 36% from specialized testing, 54% from routine testing and 10% from our wellness portfolio for FY '24. Quarterly contribution from specialized testing is 34%, from routine is 54% and from wellness is 12%. Genomics portfolio also grew by about 27% in FY '24, compared to FY '23. Our B2C:B2B ratio for FY '24 is 53:47 compared to 54:46 in FY '23.

We are focused on building the new brand and delivering high-quality diagnostic care to patients and doctors. We have reinforced our test menu of 3,600 plus tests with 70 new additional tests and test panels this year. Some of the advanced next-generation diagnostic tests that we have added include pharmacogenomics testing, newborn screening by next-generation sequencing, fetal autopsy testing, cancer hotspot gene panel, comprehensive advanced HLA panel, allergy testing by component resolved diagnostics and a few more. We will continue to deepen our network, drive further utilization of existing infrastructure, reinforce our test menu and focus on technology to enhance customer experience.

Thank you all, and I now hand over the call to Anurag for further.

**Anurag Kalra:** Thank you, Anand. Ladies and gentlemen, we shall now begin the question-and-answer session. Can I request the moderator to begin with, please.

**Moderator:** Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Neha Manpuria from Bank of America. Please go ahead.

**Neha Manpuria:** My first question is on the hospital business. We have gotten to 22% margin in this quarter. I understand there's some one-off. First, if you could quantify what the one-off was? And second, given our exit margins in the quarter, is it fair to assume that we build on this margin in FY '25 because initially we guided to getting to 22% margins probably in '26. So, I just want to understand the trajectory from here.

**Vivek Goyal:** So, first of all, there is no one-off in the quarter. Only some of the accounting adjustment has happened in the last quarter pertaining to the full year. So, there is no one-off type of expenditure. The normal thing like expected trade losses, provision write-back and things like that. So, those types of things, which is generally done at the year-end. So, the EBITDA margin, excluding those entities also for the quarter is around 21%.

And as regard to your other question on build-on the margins, during this financial year, we could demonstrate around 2% EBITDA margin improvement over the last year. I am expecting similar type or slightly better than this in the next financial year. So, we are maintaining our guidance which we have given earlier.

**Neha Manpuria:** No, what I mean to say is, since we are already at 21% margin for fourth quarter, I understand there is seasonality in the business. So, should I assume we build on that 200 basis points on the 21% or should I assume because we have divested 2 assets through the year. So, hence the question.

**Vivek Goyal:** Yes, I understand your point. So, as you know, there is a seasonality build in the fourth quarter, generally is a good quarter for everyone. And 2 of the new unit has also been added while we have divested certain nonperforming units. So, looking at all those things, our initial guidance, what we have given, improvement of EBITDA margin by 2% will remain year-to-year.

**Neha Manpuria:** And how many beds are we adding in FY '25? Will it be 300? And where exactly will these beds be added?

**Vivek Goyal:** So, one is the Faridabad unit, which we are adding the beds, the expansion is almost completed, 50 beds we will be adding. Shalimar Bagh also, there 50 beds we will be adding, and this takes us to 100 beds for the current financial year. For Manesar facility, we are expecting to open by second quarter of this financial year, and we will be opening initially 100 beds, and we will see how the ramp-up goes on. Another facility in Kolkata, where we are adding 100 beds, 2 floors, we are operationalizing and all the approvals are in place. And in the first quarter itself, we should be starting those 100 beds. Then rest of the beds are at BG Road, which is in Bangalore where we are expecting some OC to come and that we are expecting by the second quarter end for the current financial year.

**Moderator:** We will move on to the next question, which is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** Just the first one, given the Supreme Court order or whatever the NGO petition around standardized pricing. I just want to know what your take is in terms of how this could likely pan out. And a related question is on the ARPOB. So, we have again seen another 10% kind of ARPOB growth for the quarter, maybe for the full year is also similar. So, how should we look at ARPOB growth looking ahead? Is there any impact? Or are you trying to see whether the standardization will likely have an impact on how you price your services into fiscal '25? And also the split of ARPOB between price and mix, if you could highlight? That's my first question.

**Ashutosh Raghuvanshi:** Yes. So, the first part related to the PILs and Supreme Court, et cetera, I think the tenor of the affidavit filed by the government is very positive according to us. So, we do not expect too much of an impact of it. On the other hand, what we are hearing is that the CGHS and other rates are going slightly to be revised upwards. So, that would overall, not have too much of an impact on that.

Regarding the question on ARPOB, we definitely had a good growth in the ARPOB and that was primarily led by the increase in the surgical volume by about 8% year-on-year, and that also



is the case mix, which led to that change. Now going forward, I would request Vivek to add to this.

**Vivek Goyal:** So, the ARPOB increase split, to answer your last part of your first question. Around 3% is towards price increase and balance is for the case mix and speciality mix, better case mix basically. And going forward, because ARPOB has already set at a higher level, we are not expecting this double-digit growth rate will continue like this. I am expecting more like 5% to 6% ARPOB growth, mainly driven by the specialty and the payor mix improvement.

**Shyam Srinivasan:** We are not planning any price increase this year, is it? Or we are almost done or so any benchmark with some of our competitors, our pricing is similar?

**Vivek Goyal:** No, we will be increasing prices, some price increase already factored in the first quarter itself. So, we generally increase our price by 2% to 2.5% depending upon other competition prices and the market research. So, that will continue. So, you can safely assume the price increase of 2.5% and balance is towards case mix and other things. So, total ARPOB increase will be 5.5% to 6%.

**Shyam Srinivasan:** Understood. Very helpful. Just the second question is on the Agilus. I know we had a DRHP out there. We had to withdraw it for whatever market conditions/whatever the performance of the Company. So, what's the medium-term outlook for either a listing or when should we look at it? Also, the related question is on the put option liability for the private equity. How are we going to navigate it? October 2024 is the date I remember, but I may be wrong. But in a case where some of them want to kind of exercise their put option, how will Fortis/IHH respond to that?

**Vivek Goyal:** Yes. I will take that question again. You have already mentioned, we have withdrawn, as you know, the DRHP and there is a put option lies with the private equity investors. So, we are working with the private equity investors to come out with a solution for this particular thing. One option is for the revival of the IPO, where we are working with bankers along with the private equity investors for revival of the IPO. And parallelly, we are working on the various other options, which may be possible in case the revival of IPO is not possible. So, from that angle, I think we have maybe a couple of months more to finalize these things. So, we are working on all the options that are still open, and we are working very closely with the private equity investors.

**Shyam Srinivasan:** What's the worst case here that we have to take whatever the private equity offers is it? I am just trying to assess what could the worst case be.

**Vivek Goyal:** Yes. So, Shyam, if suppose IPO does not happen and we have to honor our obligation of this put option liability. And we are disclosing the value anyway, recognizing that as a liability in our books already. So, we will honor that liability and the means of funding we will be decided depending upon your market situation. Looking at the balance sheet side, and the other options we may do entirely through that. We may do a 50% debt, 50% equity or entirely through equity, those things we will be deciding maybe over a period of time. But the funding will not be an

issue looking at the financial position of the Company right now. If at all what the scenario we have to honor the put option. The funding is the only option for us. And for that, I am saying there is various options available depending upon our fund position, our capital requirements, we will decide on the means of funding.

**Shyam Srinivasan:** Sorry, sir, the time line is correct, October 2024?

**Vivek Goyal:** Yes. So, by August, we will be knowing which direction we are going, means the next call for the first quarter. We will be having clear idea, which way we are going and maybe another one month. You are right, absolutely September, October may be the time by when this will be finalized.

**Shyam Srinivasan:** I am sorry, sir, last question. Equity means capital raise at the holdco at Fortis?

**Vivek Goyal:** Yes. Because Fortis is having the put option. So, Fortis may look for raising equity.

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

**Neha Manpuria:** Apologies for the last time. On Diagnostics, just wanted to understand how we are looking at revival of the business. We saw a negative volume growth, a number of test growth this quarter. Given the rebranding, should we expect a more slower recovery in that business?

**Anand K.:** This is Anand here. In fact, for the overall year, we have grown the volumes. Non-COVID volumes have actually grown by 6.4%. And the volumes for the quarter have grown by just 0.6%. We are seeing a recovery on the growth on the volume as well. And also, if you see we have taken a price increase around the end of February. And so we expect that also to kick in. So, we have taken a price increase of about 5% to 7% for the B2C business. So, that also will be kicking in for this financial year. So, we are seeing recovery on the volumes.

**Neha Manpuria:** How much volume growth should we expect over the, let's say, next 2 years? Should over the next 2 years Agilus be closer to the industry growth? Would that be a fair assumption? Or do you think that takes longer?

**Anand K.:** So, we will be in line with the industry growth. So, the industry is expected to grow at about 8% to 10%. So, it should be a combination of volume as well as value. So, I think it will be primarily volume and to some extent from the value as well.

**Neha Manpuria:** This is for FY '25?

**Anand K.:** For the next 2 to 3 years.

**Neha Manpuria:** And just one other question on the entire Fortis business. What is an update on the high court? What is the next time line that we should look out for or possible hearing on the high court case?

**Ashutosh Raghuvanshi:** Yes. So, the hearings have been happening in the case. We expect the next hearing to happen on the 15th of next month. And that would probably be one of the final hearings, after which maybe some arguments will be made, and then we should see some resolution to the case, but we cannot really guess as to how much time that it will take. But it appears now that things are coming towards conclusion.

**Moderator:** The next question is from the line of Hardik Doshi from White Whale Partners. Please go ahead.

**Hardik Doshi:** I just wanted to kind of clarify a couple of things regarding margin. So, I think you mentioned that the reported margins were 22.8%, but through the year adjustment at about 21%. So, I guess this happens every fourth quarter. So, what would be the like-to-like comparison for fourth quarter '23? I think you reported 17%, but if we sort of make the adjustments, what would be the margins then?

**Vivek Goyal:** Yes, similar around 1% adjustment, you can earmark for the last quarter also. So, last quarter reported margin should be brought down by 1%.

**Hardik Doshi:** Got it. So, 16% went to 21%.

**Vivek Goyal:** Yes.

**Hardik Doshi:** So, is this largely driven by the ARPOB improvement? Or are there any other factors that drove this 500-basis point year-on-year improvement?

**Vivek Goyal:** Yes. So, there are a couple of things here. One is, of course, the ARPOB improvement, you rightly stated. Second is the volume growth. The occupancy level has gone up for the quarter. And thirdly, there is an impact of divestment of Malar as well. As we know, Malar was incurring losses and with the divestment which happened on 1st of February. So, 2 months, there were no losses. So, that impact was also not there. So, all this put together, and plus the speciality mix improvement also, which is already factored in the ARPOB. So, these are the 2 - 3 main reasons for the margin improvement.

**Hardik Doshi:** Got it. Now for FY '24, our margins were around 19.2%. Did I understand the guidance correct that you're expecting a 200-basis point improvement year-on-year in margins. So, FY '25 would be about 21%.

**Vivek Goyal:** Yes, we will be around that level only because the reported margin should be around 22%. And operating margin is 18.5% for the current financial year. So, that should also go up by 2%.

**Hardik Doshi:** But you're trying to open 700 beds in this financial year. And usually, when you open or do Brownfield expansion also, there is a near-term dip in occupancy, which obviously weighs on margins. So, how do you expect, like, let's say, 18.5% which is operating EBITDA going to 20.5% for the full year in spite of such a large bed addition.

**Vivek Goyal:** Yes. So, most of the bed additions are coming in as a Brownfield, which I've mentioned like Anandpur, this Faridabad, Shalimar Bagh, these are all Brownfield expansion and in the units which are already operating at around 75% plus occupancy level. So, we are not seeing any challenge in filling those beds. Of course, the Manesar one is a new facility because this hospital was not operational. So, that is something which we have estimated initial negative contribution from this unit in the current financial year. Apart from this, I don't see any other unit where we will be having any margin impact. So, that we have already taken care of while giving the guidance.

**Hardik Doshi:** And then in the medium term, I mean, what are your aspirations from a margin perspective? Where do you think you can go to, let's say, 3 to 5 years around?

**Vivek Goyal:** Yes. So, we are moving, I will say, on the right track. We have given the guidance the last quarter, we should be touching 20% margin. We have exceeded that expectation actually. And we expect that we will be around 25% margin in the next 2 to 3 years' time.

**Hardik Doshi:** Just one last question for me is in terms of divestments, we have exited Chennai now completely. Are there any other divestments where we can look at maybe over the next 12 months?

**Vivek Goyal:** So, we have done two actually, and there is no immediate plan of any divestment, which is having a meaningful impact on the financials. There is one small unit, which we are looking at, but it is not having any meaningful impact on the financials.

**Moderator:** The next question is from the line of Sanjay Shah from KSA Securities Private Limited. Please go ahead.

**Sanjay Shah:** Doctor my question was regarding our CAPEX plan, which we have planned for next few years on the Brownfield side. I need to understand, do we have any scope of growing Brownfield in Faridabad and Anandpur and Shalimar? So, is there limitations or after that, how we plan to go ahead from there? And this CAPEX is going for treasury treatment or secondary treatment facility.

**Ashutosh Raghuvanshi:** Yes. So, all these hospitals, you mentioned both Faridabad as well as Anandpur are currently working at a high occupancy rate. So, this capacity will easily get absorbed over there. So, Brownfield expansion is being done selectively in the units where the occupancy levels are already significantly higher. And this is probably the most efficient way to have a significant growth. Vivek, would you like to add?

**Vivek Goyal:** So, these 2 units, there is further capacity for expansion, like in Faridabad, there is space available, and we have planned to further expand and add certain more facilities there. But we will see how the 50 beds ramp-up will happen. As regard to Anandpur, we have acquired a Company with a different land parcel. So, we want to operationalize that also. So, post-expansion of these 100 beds, we will be adding maybe another 50 beds in the next financial year

in that unit. So, both are having those types of growth perspective available. And Shalimar Bagh, we are building another tower in the adjacent plot and that should give us another 200-plus beds in Shalimar Bagh. So, this is already included in our overall plan of expansion of 2,200 beds which we have shared earlier.

**Sanjay Shah:** 2,200 beds totally. So, what CAPEX will be required for the Brownfield total 2,000 beds addition?

**Vivek Goyal:** Yes. So, some of the CAPEX has already been incurred in that. So, additional CAPEX will be somewhere around Rs. 1,200 crores to Rs. 1,300 crores, which include equipment also, everything put together.

**Sanjay Shah:** There focus will be more of a tertiary one or it will be a mix of secondary, primary and tertiary.

**Vivek Goyal:** It is tertiary only. So, all our hospitals are multi-facility hospital and especially this where the Brownfield expansion is coming. So, we will strengthen our position there, and we may add certain more facilities.

**Sanjay Shah:** And sir, how we did last year on international patient demand. And what was the occupancy on that side? And how do you see that future going ahead?

**Vivek Goyal:** So, international business is contributing more than 8% to our total revenue. We expect this percentage to slightly go up going forward. And this is a good profitable segment for us and a focus area for us for further growing this segment.

**Sanjay Shah:** So, my last question was regarding any update on rebranding our Fortis to Parkway. Any highlight on that? Any progress on that side?

**Ashutosh Raghuvanshi:** So, Sanjay, we are not immediately considering anything. Our preference is to retain the brand. And since it's kind of a court-related matter and legal issue. So, we are waiting for that to get resolved. Once that is resolved, and we have clarity on the brand, then only we will take a decision on actually making a change if necessary.

**Moderator:** We'll take the next question from the line of Bino P from Elara. Please go ahead.

**Bino Pathiparampil:** Doctor Raghuvanshi in response to an earlier question, you had mentioned about CGHS rates being revised up. Could you please put that in context for us, please? Because I think a few months back or a year back, we had a revision and as I understand, once in 5 years that it typically happens. So, are you recurring some out of term increase that is likely.

**Ashutosh Raghuvanshi:** Yes. So, in 2014 was when the last rate revision happened. Last year, some of the diagnostic rates were revised upwards. However, the rest of the packages, which forms the bulk of the CGHS work was not revised at that time. But what we believe we have been made to understand

by the Health Secretary is that the work is in progress, and that is likely to be revised sometime in near future.

**Bino Pathiparampil:** And does it happen in tandem for the entire industry? Or is it group by group or hospital by hospital?

**Ashutosh Raghuvanshi:** No, no, it happens for the entire industry.

**Bino Pathiparampil:** And since it is after 10 years, are you expecting a very big jump and maybe 20%, 30%, 40%?

**Ashutosh Raghuvanshi:** It's difficult to predict with the government. I think I would leave, and wait and watch the space.

**Bino Pathiparampil:** Sir, earlier, you had a target of 6,000 beds by FY '28. Is that the valid target as of date?

**Vivek Goyal:** Yes. So, we are moving at pace to achieve that target. We are on target.

**Bino Pathiparampil:** And sir last question regarding the Agilus private equity exit. Even if you have to pay that money to the PE and buy out their portion, still it would be only a cash flow in, right? There won't be any P&L provision that's required, right? Is my understanding correct?

**Vivek Goyal:** Yes. So, there will not be any P&L impact and cash flow, I have already explained that we have enough resources right now to honor that liability if at all, it will come up.

**Moderator:** The next question is from the line of Amit Ashok Thawani from Clear Blue Capital Advisors LLP. Please go ahead.

**Amit Ashok Thawani:** Congratulations on a good set of numbers. My first question is on the last call, we had mentioned that we are running at about 70% capacity occupancy. And I think we had the call somewhere mid-February, if I am not mistaken. And we had mentioned that we'll exit the quarter at that rate, but our occupancy has come lower than that. I just wanted to understand what happened out there?

**Vivek Goyal:** Yes. So, you're absolutely right. So, our target level was 70% only, but at 3 of our hospitals, the occupancy level was not at the desired level. Two of them in Bombay, Mulund is the big one. And another BG Road also is operating at around 60% only. And Jaipur also there is capacity shortfall. So, we are working on these units. And because of these 3 units only, our overall occupancy level, we could not achieve 70%. So, we are working on the plan. Good news is for the first quarter of the current financial year, Mulund and BG Road, they have started seeing very good results.

**Amit Ashok Thawani:** So, we are actually now almost end of May. So, what kind of occupancy have we seen in April and May?

- Vivek Goyal:** So, right now, we are at around 70%.
- Amit Ashok Thawani:** For the overall Company?
- Vivek Goyal:** Yes, overall Company.
- Amit Ashok Thawani:** So, this quarter, we should report 70%.
- Vivek Goyal:** Let us wait for another 1.5 months.
- Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Sir, on the hospital metrics margin that we provide, we have got still about 8 hospitals, which are below 15% margins. When you look through the next 2 - 3 years, how many hospitals do you see actually moving out from this margin range with the initiatives that you have in mind?
- Vivek Goyal:** Yes. So, luckily, the hospitals which are not on good margin metrics are improving, okay? And so we feel that out of 8, Faridabad, definitely will soon move out because of this expansion because the economy of scale this year hospital will be getting. And Jaipur is also moving in the right direction. So, I will say 2 to 3 hospitals we can easily target that they will be moving up. Other hospitals are either very small or there are some issues like Sacred Heart is very small hospital. So, CH Road, it is a rental model. So, that's why the margin is below 15%. So, Ludhiana is the new unit. So, we have to give some time for this unit to improve.
- Nitin Agarwal:** Fair to say that these hospitals right now that you mentioned about 20% of our revenues a good chunk of this 20% of the revenues, will see meaningful margin expansion over the next 2, 3 years or rather a couple of years with some of these initiatives playing out? About 20% of our revenue will have a meaningful margin delta.
- Vivek Goyal:** Yes. That will also continue to achieving the overall EBITDA margin, which as we guided earlier.
- Nitin Agarwal:** Right, sir. And sir, lastly, on the top end of the EBITDA, where we have got 8 hospitals in 20%, 25%. So, is 25% the upper range for our sort of best-performing hospitals? Or are there hospitals which have gone much beyond that also?
- Vivek Goyal:** Yes. So, I think it is not the range. I think there is the possibilities there that we can achieve even higher margin on these hospitals and these hospitals are also expanding. So, we will be getting economy of scales and the manpower productivity, which Dr. Raghuvanshi had mentioned earlier. So, all those things would play. And in my view, there is a scope to improve in at least some of the hospital EBITDA margin higher than 25%.

- Nitin Agarwal:** And the last one, sir, what is our share of CGHS revenue? I probably missed that number for the year?
- Vivek Goyal:** Sir, overall government revenue is around 20%. It has slightly gone up in the financial year if we compare with the previous year, and that is 1 lever which we will be excluding in the current financial year to improve.
- Nitin Agarwal:** And sir, how much of that would be CGHS.
- Vivek Goyal:** CGHS is 4%.
- Nitin Agarwal:** Of the overall revenues?
- Vivek Goyal:** Yes.
- Nitin Agarwal:** And sir, when the CGHS rate changes happen, does it have impact on the other part of your government revenue also?
- Ashutosh Raghuvanshi:** Yes, yes. A lot of rates like ECHS, et cetera, are linked to the CGHS rates. CGHS, they are sort of like the mother scheme and most of the rates are equal to that.
- Nitin Agarwal:** So, then it's fair to assume that a fair chunk of our regional proportion of the 20% will probably get better rates as and when the CGHS rates gets revised?
- Ashutosh Raghuvanshi:** Yes. But overall, then still, we would aim to bring this percentage from 20%, we'll aim to bring this slightly lower though we expect that the realizations here might improve in the future. But at the same time, our objective is to keep this around 15%, which we may not be able to achieve immediately. But over the next 1.5 years or so, we should try to bring this down to below 15%.
- Moderator:** The next question is from the line of Nancy Yadav from Allegro Capital. Please go ahead.
- Nancy Yadav:** I wanted to understand the IndAS impact on our financials for both the Quarter and the financial year. And it would be great if you could provide the numbers for the hospital and diagnostic business separately.
- Vivek Goyal:** Which IndAS, you mean lease rent or leasing?
- Nancy Yadav:** Yes. 116.
- Vivek Goyal:** Maybe Anurag may give you separately, send the number separately. Right now, it is not readily available to us.
- Anurag Kalra:** Nancy, we'll connect and we can provide those numbers to you.



**Participant:** Sir, second question is regarding the margin improvement again in the hospital. I was looking at the operating EBITDA numbers. On Y-o-Y, we have gone up 16.4% to 22.3% for the quarter. If you could provide some color even accounting for divestment, how much of this is coming from the divestment of facilities and margin improvement? And how much is coming from, let's say, the surgical mix improvement?

**Vivek Goyal:** Yes. So, I think around 1%, you can assume from the divestments and the other initiatives which we have taken, and the rest is all from the improvement in the occupancy level as well as on the improvement in the speciality mix.

**Participant:** And sir, if I may know that from when the divestments have been excluded from the financials, is it for the whole quarter or from February?

**Vivek Goyal:** From February only, from the date when we have divested. I was telling on an annualized basis.

**Participant:** So, if I compare with, let's say, Q3 previous quarter, 82%, 22%. So, 1% is coming from the divestment and 3% is coming from the occupancy and surgical, is that the right understanding?

**Vivek Goyal:** Yes. annualized basis, it will be around 5% and 6% because Malar divestment only occurred in February. though Arcot Road has happened in July. So, it is around 5% and 6% in the year, the margin improvement may be attributed towards this divestment. And plus, some cost measures which we have taken on in the financial year. And plus, the facility mix lead to this margin improvement.

**Participant:** So, I could not understand. If you can please repeat.

**Vivek Goyal:** Yes, what I said when you're comparing last year with the current year, 5% and 6% may be attributable towards the portfolio rationalizing initiative. And balance is towards the cost optimization, mainly in the manpower cost and some of the procurement related improvement which we have done, formally and procurement related initiative, which the Company has done. And rest is all attributed towards a better case mix and better specialty mix.

**Moderator:** We'll take the next question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

**Saion Mukherjee:** Sir, 1 question on the way you think about ARPOB going forward, which is slowing down from 10% to 5%. Now if you have 2%, 3%, let's say, price growth, is it that the case mix is kind of the change or the favorable change in the case mix is slowing down? And because a lot of the growth and expansion is also likely to come in facilities which have relatively higher ARPOB. So, I am just wondering why the growth expectations on ARPOB is on a lower side.

**Vivek Goyal:** Yes, Saion. So, I think the reason for predicting 5% to 6% ARPOB increase compared to double-digit ARPOB increase we are seeing in the last 2 years, the base has already reached a particular

level. And plus, if you see our specialty mix also, there is a good growth we could have demonstrated in the onco business, which is our high ARPOB business. Having said that, we still feel there will be some further improvement in the ARPOB and 2% to 3% may be attributed towards the price increase. Balance is from the case mix and the specialty mix.

And you rightly mentioned in some of our facilities, we have added good equipment, especially in our Gurgaon facility, we have the Gamma Knife and the MR-Linac, the benefit of that which we'll be getting and that has been factored into this ARPOB increase.

**Saion Mukherjee:** And when you think slightly medium term, like next 2, 3 years, you think 5%, 6% is what should sustain?

**Vivek Goyal:** Yes. I will say around 4% to 5% in the medium term.

**Saion Mukherjee:** And just 1 question on pricing because this year also, you talked about 2%, 3% kind of a price increase. I think that's similar commentary we hear from most companies. I am just wondering because in the health care system, we have seen like pharma companies or even diagnostic companies take price hikes, which are even higher. Given the nature of the business, where you're sort of providing high-end services. I am just wondering why your price growth is even below the general inflation.

**Ashutosh Raghuvanshi:** Yes. And that's a million-dollar question actually. You see the problem is that the health care industry remains so much under the glare of media and public interest groups that the industry has to calibrate the price changes very, very carefully. It is true that the inflation rate doesn't cover the price hikes, which are taken generally. However, that is being covered by building in efficiencies and usual case mix change, et cetera. I wouldn't say that the pace of the tertiary quaternary care coming to the organized sector, I would say, not only us, but the other groups as well, that will continue to happen. As more and more business starts getting organized, the smaller nursing homes and smaller setups will find it difficult with the penetration of insurance to do that kind of administrative activity. But prices will remain under a little bit of pressure simply because of the sentiment around it.

**Saion Mukherjee:** And just 1 last question, the guidance of improvement in margin, 200 basis points that you have provided, does that factor in the rate revision for CGHS or if that happens, that's over and above any benefit we get there?

**Ashutosh Raghuvanshi:** No. See that rate revision of CGHS may happen. What of time it may happen, we don't know. So, we haven't really factored that in our calculation.

**Moderator:** We'll take the next question from the line of Dhawal Khut from Jefferies. Please go ahead.

**Dhawal Khut:** I just wanted to know what was the branding expense in the quarter? And do we expect some branding expenses to continue in next 2, 3 quarters?

- Anand K.:** So, I think you are asking about the branding expense for Agilus, right?
- Dhawal Khut:** Yes.
- Anand K.:** We have done about Rs. 31 crores of branding expense last year, and this will continue over this year as well. We will have additional spending on branding this year as well.
- Dhawal Khut:** What was the expense for the quarter 4.
- Anand K.:** Rs. 6 crores.
- Dhawal Khut:** And secondly, my understanding was that Supreme Court had ordered status quo in terms of the promoter shareholding in Fortis. So, for our put option liability, it was answered that you could look at a mix of debt plus equity. So, can that litigation become a hindrance to our ability to raise funds?
- Ashutosh Raghuvanshi:** Yes. So, Supreme Court stay, the thing that petition was finally dismissed in Supreme Court. So, that doesn't exist anymore. So, we have consulted our regional advisors as well as we have had an informal discussion with some bankers and SEBI as well. And we are pretty confident that there should not be any challenge in that direction.
- Moderator:** The next question is from the line of Madhav Marda from FIL. Please go ahead.
- Madhav Marda:** I have 2 questions. The first one was, given that we have a good, interesting Brownfield pipeline which will unfold for us over the next 3, 4 years, could you give us some sense in terms of how much could be the IP volume growth or the occupied beds growth that we could see if you could build in some reasonable occupancy assumptions over the next 3, 4 years. If you could give us some sense in terms of the overall top line guidance, given that, let's say, ARPOB grows at 5%, 6%, how much would the volume of the patient dips add to that?
- Vivek Goyal:** Yes, we expect around 7% to 8% from the volume side, and it will be mainly driven by better occupancy growth as well as this Brownfield expansion kicking in.
- Madhav Marda:** So, it could be like low to mid-teens kind of revenue growth, basically, right, with volume and ARPOB coming through together for us broadly.
- Vivek Goyal:** Yes.
- Madhav Marda:** And my second question was that fingers crossed that the legal case gets resolved in the next few months or quarters, whenever that happens, would that mean that I think we have been incurring a decent amount of legal cost towards this case for some time now. So, could you just help us understand that if this case gets resolved, how much legal cost savings could we have for the Company?

- Vivek Goyal:** Yes. So, as this case are finalized, we expect the legal cost should come down, but it will all depend how quickly this would be taken care of. Right now, we are incurring almost Rs. 30 crores to Rs. 50 crores in the legal cost, which is relating to these legacy type of issues. As we are able to resolve all these issues, this cost will definitely go down.
- Madhav Marda:** Sir, Rs. 30 crores, Rs. 50 crores, just this particular legal case. So, it goes away, that should almost completely go way. That's how we should think?
- Vivek Goyal:** No, I am saying total legal costs relating to all the legacies, so there is a brand litigation. There is this forensic audit related litigation. Then there is RSC also we are trying to wind up where we are incurring some costs. All this put together I have for this number.
- Moderator:** The next question is from the line of Atul Minoja from UnitedHealthcare. Please go ahead.
- Participant:** Hello, Dr. Raghuvanshi. First of all, congratulations for the wonderful quarter. My question is with respect to inorganic growth, are you looking to acquire some valuable assets in existing clusters? That's my question.
- Ashutosh Raghuvanshi:** Yes. Yes. Thank you so much. Definitely, we have been looking for assets within the given clusters, 5 defined clusters where we are present. And there are some possible opportunities, we would look for that.
- Participant:** And any immediate pipeline visibility on that front?
- Ashutosh Raghuvanshi:** No, nothing we can comment on at the moment.
- Moderator:** The next question is from the line of Prashant Nair from AMBIT Capital. Please go ahead.
- Prashant Nair:** Just a couple of questions. The first question is on your current network. I mean, would you still expect some more rationalization of the network or hospitals either being sold or discontinued? Or are you largely done with that?
- Ashutosh Raghuvanshi:** No, we will definitely consider an option which is value accretive to our Company. But some of the kind of ideas we have around that is that it should be within the given cluster or there should be some attractive reason why we would go to a new geography, then that asset should be of that nature. So, that is why we are not close to going out of our cluster. However, the focus would be to be in the existing clusters so that we can take the advantage of synergies, brand power, cost, et cetera. So, we will continue to do that.
- Prashant Nair:** And from the current hospitals that you have, are there still any which are not doing as well as you want them to do and where you could look at options similar to what you did with the Chennai hospitals? Or do you think that this set of hospitals you will continue with and work on to improve them.

**Ashutosh Raghuvanshi:** Yes. So, there are about 4, 5 hospitals which fall in that bucket. Two of them are strategic in nature, and we believe that we can turn them around. So, there the focus is to do that. But there are certain smaller setups, which we may consider, as Vivek said earlier, they are not very significant in size, but there are a couple of small ones, which we would certainly be looking to rationalize them in the future.

**Prashant Nair:** And last question, this is related to the put option on Agilus. So, I mean, you mentioned you have adequate capacity to pay if that put option gets exercised. Would that have any bearing on your bed addition plans, the 2,000-odd beds that you have mentioned? Or do you think you'll have enough funding to execute on that as well.

**Vivek Goyal:** No, our Brownfield expansion will not be affected at all if we have to acquire this even through debt and the answer is no, it will not be any impact on our Brownfield expansion if we acquire this.

**Moderator:** The next question is from the line of Amit Ashok Thawani from Clear Blue Capital Advisors LLP. Please go ahead.

**Amit Ashok Thawani:** Follow-up question. I am not sure if I missed the answer to this question. I wanted to know what our average realization per test and our average realization per patient has jumped this quarter. Can you explain what has happened exactly in the quarter?

**Anand K.:** So, see, our average revenue per patient has grown by about 2.7%, and our average realization per test has jumped by about 4.2% in this quarter. So, this is primarily due to 2 reasons. We had a price increase around middle of February, so which has a higher impact on our March numbers, as well as in the last 3 years, same quarter, we had high contribution from our Delhi government project, which has been reduced in this quarter.

**Amit Ashok Thawani:** But is it fair to say there is some kind of pricing power that is returning to this industry as a whole?

**Anand K.:** We have taken a price increase very recently. And as we know that most of the diagnostic companies have taken a price increase during this financial year, in the previous financial year. And the online players have all now settled, and they are also taking price increases. So, I think overall, there is no big pressure on prices.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now hand the conference over to Mr. Anurag Kalra for closing comments. Over to you, sir.

**Anurag Kalra:** Thank you, Michelle. Ladies and gentlemen, thank you very much for taking the time to be with us on the call today. I hope we have been able to answer your questions as much as possible. In case of any follow-up questions and data, please feel free to reach out to Amit, my colleague or myself, and we'll be happy to help you. Thank you once again, and have a good day.



*Fortis Healthcare Limited  
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**Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of Fortis Healthcare Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.