



“Fortis Healthcare Limited
Q1FY18 Results Conference Call”

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**MANAGEMENT: MR. BHAVDEEP SINGH – CHIEF EXECUTIVE OFFICER,
FORTIS HEALTHCARE LIMITED
MR. GAGANDEEP BEDI –CHIEF FINANCIAL OFFICER,
FORTIS HEALTHCARE LIMITED
MR. ARINDAM HALDAR – CHIEF EXECUTIVE OFFICER,
SRL DIAGNOSTICS
MR. K. SRIVATSAN -- PRESIDENT, COMMERCIAL, SRL
DIAGNOSTICS
MR. ANURAG KALRA – SENIOR VICE PRESIDENT,
INVESTOR RELATIONS, FORTIS HEALTHCARE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'18 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. In case, you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anurag Kalra – Senior Vice President, Investor Relations at Fortis Healthcare Limited. Thank you and over to you, sir.

Anurag Kalra: Thank you, Aman. A very good evening ladies and gentlemen and welcome to Fortis Healthcare's Q1 FY'18 Earnings call.

The call today is being led by Mr. Bhavdeep Singh -- our CEO. Along with him, we have Mr. Gagandeep Bedi – our CFO.

From SRL side, we have Mr. Arindam Haldar – CEO of SRL who joins us from an onsite location, and along here with us is, Mr. Srivatsan -- President, Commercial of SRL.

We will begin the proceedings with a “Brief Outline of the Quarter gone by Mr. Bhavdeep Singh” followed by “Srivatsan giving you a Snapshot of the SRL business in Q1 FY'18”, I shall then take you through the “Financials” and then we will open the floor for “Question and Answers.” Over to Mr. Bhavdeep Singh.

Bhavdeep Singh: Thank you very much, Anurag and thank you to all of you for sparing a few minutes of your day today.

Before I get into the specific numbers, I just want to give a little bit of a backdrop in terms of how we are looking at from where we stand today. Typically, as you know, we would be comparing our quarter to prior year which is exactly what we will do now as well.

But I think it is relevant to mention that while I believe that demonetization is for the most part gone, the first quarter did have some components of demonetization still embedded in it. So I think at a high level, I think what you see is that our revenue growth is slightly muted versus last year but we are very encouraged about where we are against the prior quarter.

Now when you look at the numbers, again I think what is relevant is that a), when we look at our plan and how we thought about this year, we are actually ahead of plan, which I think is very encouraging, so we feel extremely bullish about that.

I think secondly is that when we look at where we are today and when you look at the month of July that just gone by as well is that the business continues to grow and do well. So when I talk about overall numbers, some high level numbers are consolidating India revenue and Anurag

will go through this in detail was that Rs.1150 crores within EBITDAC margin of 14.4%. I think when you look at the Hospital business, our revenue grew about 3% again post demonetization versus pre-demonetization and from EBITDAC perspective and we were down slightly in the range of approximately 10%.

Having said that, some of the indicators that we look at, our occupancy which again from the demonetization time period, we have gone down to the mid-60s, we are back over 70%...we are sitting at 71%, 72%, I think as we look at where we are against competition we have some of the best occupancy rate in the country today we are extremely, extremely pleased about our revenue per occupied bed which is at Rs.1.51 Cr which is the highest number we have ever recorded which is something we are very pleased with and again, one of the highest numbers in the industry.

On a length of stay, we are 3.5 days, one of the lower numbers as well. That again is quite good considering the complexity of procedures that we performed.

We continued to have a significant focus on cost. We know that any organization in India today, everybody is looking at cost effectiveness. We have set some lofty targets for us from a cost perspective for the full year last year and for Q1 this year, we continue to exceed the target with respect to where we are.

I may just talk a little bit about what I think with respect to where we are today and what I think for the rest of the year as well. While it is not specific guidance, what I can tell you are that there is the demonetization component that were as I said exiting at this stage I believe. There is a stent component; you are all familiar with what has happened in the industry with respect to stent pricing. But as I look forward, you heard Q1 numbers, I think. Q2 is going to be fairly solid quarter as well, some growth of where we are right now. I expect Q3 and Q4 to be very strong and I certainly expect that as we get towards the end of the year, you will start to see double-digit growth and a very-very solid bottom line that goes with that as well.

So net-net demonetization for the most part behind us, stent pricing absorbed, meaning, that it is in our run rate now, we are mitigating some elements of it, and the good news is that our procedures are up, so the volumes are up or the margin is impacted on a percentage basis, the procedures are up, and looking forward, we think that certainly, the business continues to grow, we continue to add beds, we would certainly answer any questions about that as well.

We have two new hospitals coming at the end of the year. One at Ludhiana the La Femme Hospital and the second one in Arcot Road in Chennai. We are going to be adding beds everywhere, spending lots in medical equipment technology. So net-net at a high level, feel very bullish about where we are, and I think we had a good quarter, but I think it is going to be fantastic for the rest of the year. On that note, I am going to ask Mr. Srivatsan to give us an "Overview of the SRL Business."

K. Srivatsan:

Thanks, Bhavdeep. As far as the SRL business, the Diagnostics is concerned, we reported top line growth of about 11%, almost completely driven by volumes, actually the price showed a small degrowth because of the product mix. As far as the operating numbers are concerned, we did about 9.5 million tests during the first quarter, which is about 10% growth over the comparable period in the previous year.

The number of labs that were added during the quarter under review was about 12-numbers. With of all that, as with the top line volume growth which we were not able to secure over the last couple of quarters, we have completely addressed back and we are showing a top line growth consistently now for two quarters.

As far as the price and the mix was concerned, this quarter showed a kind of mix that came more from the low value kind of tests and therefore on a value basis, we saw a small little degrowth of about 3%. Our operating EBITDA for the quarter was at about 18.5%, down from about 22.4% in the previous quarter, and we will explain the reason as we get into the presentation largely driven by the mix of revenues and also increase in the cost that happened during the quarter under review.

I guess with that, I will hand over the line to Anurag to take you through the specific numbers.

Anurag Kalra:

Thank you, Srivatsan. Ladies and gentlemen, I shall take you through the financials of both the India business and the group business on a consolidated basis. Starting with the India consolidated business comprising the Hospitals and the Diagnostics Business, our India Hospital business in Q1 FY'18 recorded revenues of Rs.939 crores. This compares to a number of Rs.910 crores in the corresponding previous quarter. The net revenues of the Diagnostic Business were at Rs.212 crores. This compares to a number of Rs.192 crores in the corresponding previous quarter and hence a growth of about 11%. Our consolidated India revenues combining both Hospital and Diagnostics was at Rs.1,151 crores in the quarter, this is a growth of 5% comparable to a number of Rs.1,102 crores in the corresponding previous quarter. On an operating profitability EBITDAC which is EBITDA before the net BT cost, the Hospital business in Q1 FY'18 recorded an EBITDAC of Rs.127 crores, this represents a margin of about 13.5%, and this is comparable to a margin of 15.3% in the corresponding previous quarter and is better than the 12% margin that we recorded in the trailing quarter.

Our Diagnostics business recorded an EBITDA of about Rs.39 crores, representing an 18.5% margin as compared to 22.4% margin in the corresponding quarter. The consolidated operating EBITDAC of both Hospitals and Diagnostics was at Rs.166 crores, 14.4% margin in Q1 FY'18. This compares to 16.5% margin in the corresponding previous quarter, and is better than the 13.4% margin in the trailing quarter.

Our net BT cost post below the operating EBITDAC line were at Rs.67 crores, this is a decline of 43% versus the corresponding previous quarter and this decline is as you would know is largely due to the FHTL transaction. Our operating EBITDA is about Rs.98 crores, this is a

growth of about 52% versus number of Rs.64 crores in Q1 of FY'17 and this number is also better than the trailing quarter, which was about Rs.86 crores. After accounting for other income, our EBITDA in Q1 FY'18 was Rs.149 crores, a growth of 67% versus a number of Rs.89 crores in the corresponding previous quarter. Our finance costs have gone up; in the current quarter was at Rs.64 crores comparable to a number of Rs.42 crores in the corresponding previous quarter, and this is again, as you would know, is largely due to the FHTL transaction. Our depreciation and amortization in Q1 FY'18 stood at Rs.58 crores versus a number of Rs.46 crores. Our PBT before foreign exchange gains/losses was Rs.(+26.4 crores) and this compares to a number of a mere Rs.1.7 crores in the corresponding previous quarter and a number of about Rs.9.2 crores in Q4 of FY'17, and it is a very strong growth at the PBT level both versus the trailing quarter and the corresponding previous quarter. Our PAT after accounting for some foreign exchange gains/losses and some minor exceptional items, our PAT before minority interest and share-in associates in Q1 FY'18 was at Rs.7.4 crores, this compares to a number of Rs.5.2 crores in Q1 of FY'17 and Rs.(-24.3) crores versus the trailing quarter. Our PAT after minority interest and share-in associates was about Rs.2 crores in Q1 FY'18 versus a number of Rs.15 crores in Q1 FY'17. That is the India consolidated full line P&L.

I shall now take you through the "Group Consolidated Numbers", not very much difference in the divested all our international businesses. At the group consolidated level, our operating revenue in Q1 FY'18 were at Rs.1,156 crores, this compares to a number of Rs.1,121 crores in the corresponding previous quarter. EBITDAC margin stood at 14.1% versus number of 16% in Q1 FY'17 and better than the 13.2% number on a trailing quarter basis. Operating EBITDA was at Rs.96 crores, a growth of 53%. After accounting for other income, finance cost and depreciation and amortization, not significantly different than what I shared with you on the India basis. Our PBT before FOREX was Rs.30 crores number versus a nil number in Q1 FY'17. PAT before minority interest and share-in associates stood at Rs.(+7.5) crores number versus number of Rs.3.1 crores in Q1 of FY'17, and our PAT after minority interest and share-in associates was Rs.(+5.5) crores number versus Rs.16.1 crores number in Q1 of FY'17.

From a balance sheet perspective, not significant change from a balance sheet which as of 31st March '17. Our shareholders' equity as of 30th June, 2017 stood at Rs.6,341 crores. All our FCCBs are converted and hence there is no FCCB outstanding as on date. Our debt stood at Rs.2,192 crores and hence the total capital employed in the business was Rs.8,533 crores. Invested in assets: Net fixed assets including CWIP of 285 stood at Rs.3,365 crores. Our goodwill stood at Rs.2,326 crores and investments were at Rs.1,465 crores. Cash and cash equivalents of Rs.976 crores. We had net current assets of Rs.401 crores, making us a total asset base of Rs.8,533 crores. The balance sheet obviously includes the impact of the FHTL transaction that we had completed in October last year. We still continue to have a healthy balance sheet. As of June 30, 2017, we have a net debt-equity ratio of 0.19x. This compares to a similar number of about 0.2x as of 31st March 2017.

With that, we come to the end of our “Financial Presentation” and welcome any “Question-and-Answer.”

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

Neha Manpuria: My first question is on the Hospital business. We saw another quarter of single-digit growth. I am sorry if I missed some of the opening remarks, but is there any one-off in this number and did I hear correct towards the end of your comment that you will grow double digits in the next quarter in the Hospital business.

Bhavdeep Singh: Good Afternoon, Neha. I think that there are two-three things that will play here. As I have mentioned earlier that there is still a component we are talking about the months of April, May, and June and there are still some element of demonetization here that we are coming out of now. Sitting in August today, I believe that for the most part demonetization is done with, still a little bit of lingering effect in two-three hospitals, but I believe we are mostly done at this stage, but Q1 certainly does have an impact there that needs to be considered. The second thing that has happened is you are aware of the stent pricing. Stent pricing hit the business as well and while there has certainly been a bit of a top line, impact within the pricing piece of it, we have seen volumes go up, and that is something that we are very encouraged by. What I would tell you is that going forward thinking about the rest of the year, I think the Q2 is going to be the growth trajectory will get better and I think Q3 and Q4, what I did mention earlier is that I believe that we will end the year on solid double-digit growth number. So that is something that I am very-very confident about. I think the good news here apart from the fact that our growth against last year’s sitting of 3%, our growth against prior quarter is good, I believe that for Q1, we are absolutely on plan and by virtue of that I believe that Q2 should be fairly good as well and Q3 and Q4 will be very strong as I mentioned entering solid-solid double-digit growth.

Neha Manpuria: FEHI, now we have seen that occupancy go up to 81%. How much more improvement is there in that business from a margin perspective... is it at a desired level of margin for us at the moment?

Bhavdeep Singh: No, no, I think there is a lot more to do there. Keep in mind that the Fortis Escort Heart Institute historically has been a Cardiac hospital as you are aware, we added Orthopedics, we added Nephrology, Urology, we added Robot there, so we are now conducting Robotic Surgery as well, Renal Transplant there. Apart from being a center of excellence from cardiac and further investing in cardiac program, we have two new Path Labs coming there this year, and we are now doing heart transplant there as well. So I think that a) Cardiac segment will continue to grow based on absolutely the best clinical talent in the country, #1; #2 is, we are the only hospital in the country that is publishing clinical outcomes in Cardiac and our outcomes are very-very good, and something which I feel very proud about; #3, by virtue of the fact that

the complexity of work in Cardiac between LVAC between Tavi we continue to be leading the country in that. So that is one element. The second element there is that, there are Urology and Nephrology programme have now been in place for about 14-months and we expect those to get stronger, in fact, we are working for a brand new dialysis unit that we are doing in partnership with Fresenius which is one of the two largest dialysis providers in the world, that is going to be getting launched in the next few weeks. As I mentioned, we have a robot there, that has been there for about 8-9-months. So we expect the Urology, Nephrology business, the Centre of Excellence to do exceptionally well. And then Orthopaedics under Dr. Ashok Rajgopal, the leading orthopedic surgeon in the country is just getting started. We have also supported that with absolutely the best rehab facility in the country which is being run by the Bindra family from Indian sports legend. I think that Neha, that is a long-winded answer but the short answer is that there is a lot more to do, we are doing something from a cost management perspective, I think the clinical programs are going to continue to grow, I think the payee story has just started, I think we have started to see generally good performance there in the last year, I think we have significant more that we will do and can do going forward.

Neha Manpuria:

On the Hospital margins, as growth improves obviously, that margin will improve? But how are we looking at margins on a medium-term perspective over the two years... how much improvement can we see in margin? I understand with growth improving, you will see improvements from the 13.5% that we have reported in the quarter for hospital.

Bhavdeep Singh:

I think the numbers we have reported right now by virtue of revenue, by virtue of the initial stent impact is slightly lower than where we would like to be. Neha, you are very familiar with Fortis is that we were sitting in the high-14, mid-15 range. We expect that number less than I think as we approach the end of the year we expect that number to be in 16% range and beyond that I think 100-150 points base improvement what we expect for the foreseeable next two, three years beyond that. We believe this is a 20% business and that is the direction of moving in, little bit of a blip here and there, that is to be expected from time-to-time, but no reason to think otherwise, we still think this is a solid 20% business, and again I think, come Q3 and Q4, you see it, and I think you will see the 100-150 points growth over the next 2-3-years.

Neha Manpuria:

My last question on SRL. What happened to margins there, you explain by the revenue mix of low value test and some cost increases, what are these cost increases if you could give some color on that?

Srivatsan:

Neha, the cost increases were a bunch of cost increases. Obviously, when you have a low margin product that contributes to your revenues, your consumption cost go up, a). Also, is the fact that there was an increase in the amount of advertisement and promotion expenses that we spent, so there was an increase in the marketing spend that happened during the quarter. There was also increase in terms of the staff cost. So cost pretty much increased on all these three accounts. The effect of the advertisement and promotion should be seen from Q2 onwards. As far as the consumption is concerned, that number should improve as the product mix improves, and therefore, going forward, numbers should improve. Q1 was a blip.

Moderator: Thank you. We have next question from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.

Kumar Saurabh: My first question is that on the Hospital business as we mentioned the second half should be much stronger than the first half. Do you think that we could close the year in double-digit range?

Bhavdeep Singh: I think from a revenue growth perspective, it was not a double-digit we will be approaching; I think it will be in a very, high single digit. I think Q2 as I mentioned will get stronger but I am expecting very strong Q3 and Q4. That is not just based on a random chatter. Hopefully, you all come to see that some of the things we have been talking about Fortis for the last two years, we are delivering on and the revenue numbers pre-demonetization was growing extremely well, the bottom line was growing exceptionally well also. So I would say that my expectation is that we will be hitting double digit, but if we are not, we will be close to double-digit if we are not actually there. So I feel good about it. Look, at the end of the day, what matters to me is the trajectory, what matters to me is the direction of going in and the fact that we had the recent headwinds that have come upon us, and I think we are coming out in good shape, and I think we are coming out with a very-very solid plan which should yield very good results.

Kumar Saurabh: Had it been that we would have grown in double digits with this whole stent price impact, just wanted to understand the operating leverage, so how our EBITDA margins in a Hospital business would have looked like?

Bhavdeep Singh: By the way this is a hypothetical question only today, I think in quarters will be a real question. So I think we have the double-digit growth, I think we would have seen margins in the high 15, low 16.

Kumar Saurabh: The FEHI business, given the fact that we have already reached to 81% occupancy. What is the kind of margins FEHI is making at this point in time? I understand that business mix would change and because of that margins would improve further, significant improvement we do expect, but what is the current level of margins?

Bhavdeep Singh: We are sitting at about 10% right now. But again as I mentioned earlier when Neha had asked the question, I think our Orthopedics and Nephro, Uro businesses are still developing, and we will be adding one or two more specialties there. So I think that it is sitting in the 10% range. But again, similar to what I am saying for the rest of the business, I think this business should also grow from a bottom line perspective, this 9%-10% should be approaching 12%-13% by the end of the year, and I expect FEHI to be solid 14%-15% next year. So, we are doing some things, again not based on just words or random commentary, we are doing some specific things around it which I think we will deliver that.

Kumar Saurabh: Your new Greenfield hospitals, you are planning to add, what kind of impact it would have in FY'18 numbers in your sense on EBITDA particularly?

Bhavdeep Singh: As is the case with any new hospital, I think year one, there is a normal growth time period that there are any new hospitals. So our experience has been that on a low side 6 – 8 months, on a high side 18-24-months. So I think in the first year, I will not expect very much, but I think the Arcot Road hospital is going to become state-of-the-art, the kind of hospitals in the entire continent, if not the world talks about because it is going to be one of the very-very few multi-organ transplant centers in the world under the stewardship of Dr. Balakrishnan. Again, the first 6-8-12 months I do not think it is going to have a material impact either way, but I think come year 2, 3 I think there will be big contributors. The second hospital is the La Femme Unit in Ludhiana which we are very excited about. Again, I do not anticipate with any new hospital, I do not anticipate material impact of the business in the first 12-months, 18-months, post that, I expect to see growth and 24-30-months I expect they will be contributing in a big way.

Kumar Saurabh: The Diagnostics business, if we divide it between Path Lab and Radiology business, how is the Radiology business doing -- are we still scaling back that business or that business has reached to a level where we want to keep it at those levels?

Srivatsan: In terms of the size of the business because of the growth that is coming in Pathology business as a percentage to the total numbers fell from 7%-6%, so it will be somewhere in the 5%, 6%, 7% range as far as the contribution to the overall numbers is concerned. That is not because Radiology business is not doing well, that is because the Pathology business is growing at a pace higher than the Radiology business. So in Pathology, the PPPs coming in, you have franchisee, you have a bunch of things happening on the Pathology side. The Radiology side as you know is capital-intensive. Therefore in terms of our expansion, we will be extremely careful in terms of where we want to expand and how do we expand it. That being the case, the Radiology business when you look at from overall perspective, you will see that the Radiology business is constant to degrowing as a percentage of total.

Kumar Saurabh: Earlier, we were expecting Diagnostics business margins to improve by at least 100 basis points every year. In the current context, how would you see that panning out?

Srivatsan: Even for the next quarter, you should not look at margins coming down at all. This quarter was somewhat special in terms of like I said there was a blip; the product mix tilted towards the low value, high volume products, and therefore, we had a blip in the numbers. Coupled with that was also the fact that we continue to invest in terms of our marketing efforts. So both of those saw the margins come down in the quarter, but the medium to longer term, you should not see a blip, you will see a growth.

Kumar Saurabh: My question was on growth side only. So do we see these margins improving by 100 basis points or so every year, that were earlier our target, so are we expecting something similar?

Srivatsan: Yes, yes, we continue to be bullish in terms of our margins for the medium to longer term, you will definitely see 100 bps improvement.

- Kumar Saurabh:** What gives us that confidence as in if I may just ask? What would make that happen?
- Srivatsan:** So what happens, as your facility start maturing is that the same units will give you larger volumes and values. Therefore, when you look at the first quarter and you see increase in the PPP business, that business would not go away but the trade business or the Walk-in business or the Collection Centre business is what will grow. The story will be pretty much like what I explain to you on the radiology, pathology side. Low volume businesses will continue at those levels whereas the high value businesses will start picking up and therefore your margins will pick up.
- Moderator:** Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.
- Sriram Rathi:** Two things basically; one, just wanted to understand the impact of stent pricing, how should we look at in terms of revenue and EBITDA impact that it would have had in this quarter or particularly for the full year that it can have?
- Bhavdeep Singh:** On the stent pricing, it is early to put a number to it, but yes, definitely in our metros where there is more high end stents that were used, so that is where we see an impact coming. There are some elements of mitigation that have happened in terms of pricing that has been selectively put in place. I think over time you will see the ramp up of mitigation offsetting the stent pricing impact. Too early a little bit to put numbers to it as we speak.
- Sriram Rathi:** On BT cost, particularly, this quarter it is around Rs.67-68 crores. Should we consider that this will be more of sustainable number going forward will there be some increase also going forward?
- Bhavdeep Singh:** Sriram, this was a sustainable number going forward. As you know, the BT is today helping us expand in certain facilities. If those facilities are handed over us to be operational, then there will be a marginal increase. But this is as of now the sustainable number going forward.
- Sriram Rathi:** So for the full year we can assume it to be around Rs.280-300 crores?
- Bhavdeep Singh:** Yes, no way more than that.
- Sriram Rathi:** Thirdly, you talked about like in the SRL particularly the margins are lower because one is of course growth is lower, revenue mix was different and third was basically more of the advertisement and marketing expenses that you spend. Is it possible to quantify how much amount we spend on marketing and advertisement on full year basis or for the quarter?
- Srivatsan:** What we would spend in a comparable quarter, we spent 20% more.

- Sriram Rathi:** I think in today's board meeting, you have proposal for increasing Rs.5,000 crores. Is it possible to give some more color basically what will be the purpose of this and what will be the structure of this raise...will it be equity or equity plus debt or how?
- Gagandeep Bedi:** Sriram, just to clarify, this was an enabling basically resolution that we always had for a pension fund raise. That was expiring, it is an extension of the same, and there is nothing new per se.
- Sriram Rathi:** So there is nothing specific in terms of whether it will be equity or debt?
- Gagandeep Bedi:** It is an enabling resolution that was got time barred which is an extension of the same.
- Moderator:** Thank you. The next question is from the line of Prashant Nair from Citigroup. Please go ahead.
- Prashant Nair:** Just two or three questions; firstly, on the Path Labs business, there has been a lot of talk about rising competition, pricing pressure especially on the B2B side. Can you just give some sense of what the dynamics are currently...have you seen that continuing or are there signs of it easing and how do you see it moving forward?
- Srivatsan:** As far as the Hospital business or the direct client business is concerned, it is kind of a business that we have been able to grow, in fact, as we talk; we continuously get enquiries on more facilities wanting to use SRL's capabilities in terms of managing the hospitals. So managing hospitals, as you are aware, will not be running an outpatient center and therefore the complexity involved is a little bit more than running an outpatient center and we continue to see a good amount of growth in terms of enquiries coming in and we are able to service those quite well. We would not enter into a price war. So unless we make a certain threshold margin, we would not enter the B2B segment because a) the level of complexity is more, my level of services is more. When you have diagnosed a disease properly is when you can treat it well. So 70% of the problems are getting solved at the pathology level or at the radiology level. Therefore, we would be extremely careful in terms of taking up those businesses which would not be margin-accretive, we will do that only if it is margin-accretive or margin maintained.
- Prashant Nair:** My second question again this is related to SRL and the demerger. I missed the initial part of the call. So not sure if this was covered there. But can you give an update on that or where we stand now vis-à-vis the demerger process?
- Bhavdeep Singh:** In terms of the demerger, we are still in the NCLT process, pretty much at the final stages, there are a couple of hearings that we would expect it to go through.
- Prashant Nair:** Would the next hearing be this month itself or?
- Bhavdeep Singh:** 7th of August.

Prashant Nair: One question on the hospital side. Again, similar to stent, do you think there is likelihood or have you heard of any similar price or margin gaps that maybe put on is other items that are used say like any plants or lenses, etc.?

Bhavdeep Singh: We have the same thing that you guys hear. Certainly, there is a lot of speculation. The stent discussion went on for quite an extended period of time and the entire industry stepped in and try to hear a perspective on what makes sense, what did not make sense. I think that we are doing the same thing now. We need to make sure that collectively we are working together to make sure that we are one unified voice whether we are talking to any state leaders being a state subject or we are talking to any national or central organization that we make sure we have a common talking point such as exactly what we are doing. So nothing imminent, nothing that we are aware of, again I hear the same things you folks do, I heard also that there is some discussion taking place on doing a rollback and a reversal on what is happening with stent as well because there is some concern you may have read various newspapers have carried in editorial recently that the whole piece of stent and limitation of the kind of stents that have been used ultimately may not be good for India and the cardiac challenges that we have. So again, we hear the same thing, I think this is a bit of moving target. If I told you that I knew what is going to happen, you should be very skeptical. I do not think any of us know, but we are following it closely and we are certainly getting aligned with an industry to make sure that an intelligent, educated view on healthcare is presented by those of us who are here especially our doctors..

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: On SRL, we had a pretty much strong Q2 last year on account of pretty high incidents of vector disease outbreak. How is the current quarter sort of shaping up versus on the high base or is it going to be a challenge to grow on this year?

Srivatsan: You will still see growth in the current quarter. Our trade business is picking up. Our July numbers were good. So we continue to be bullish.

Nitin Agarwal: It does not look like a problem for now?

Srivatsan: No.

Nitin Agarwal: Continuing on the talk around your price control in the hospital business, there has been the persistent talk about government also looking at probably instituting some sort of price controls even the Diagnostic part or Pathology test. What is your own take on that...do you see that as a possibility or there is something that you would just completely sort of dismiss outright?

Bhavdeep Singh: We continue to hear these kinds of things happening from time to time. As a country you are aware that we have very few laboratories that are at a particular level of accreditation. So over

a medium to longer term, if these kinds of controls continue to happen, then there would be a disincentive in terms of upping the technology in terms of investment. That said, if there is a kind of control or some kind of a regulatory mechanism that comes in, we will continue to work with the policymakers to find out what is best for the country and we are the largest laboratory in the country. So we do hope and we do feel that our concerns would be heard and addressed.

Nitin Agarwal: On the Hospital business, of our CAPEX spends currently is being sort of financed by the RHT... how actively they are involved in our current CAPEX program?

Gagandeep Bedi: Currently, if you look at the overall CAPEX spend on a year basis, we have around Rs.200-250 crores, out of that there are 12 hospitals that are under the RHT and then those are the ones that kind of will be funded by the RHT in terms of growth CAPEX.

Bhavdeep Singh: So significantly what RHT is doing for us is about 200 plus bed additions in our B.G. Road facility in Bengaluru and they are doing the Ludhiana hospital for us. So these are the two significant things that they are spending for us.

Nitin Agarwal: Ex of that, what is our CAPEX spend which is something which is going from our own cash flows... what is that annual spend like on CAPEX?

Gagandeep Bedi: That is on an annual basis around Rs.200-250 crores.

Nitin Agarwal: Since the time you rejoined back, what has been your sense in your own assessment the major qualitative change which have come through in the business and when do you see the impact of those things playing through going forward?

Bhavdeep Singh: It is very interesting. I was here in 2009 & 2010 and came back in 2015. I tell people often sometimes they feel like you watch a Hindi movie, you step out for 45-minutes, come back and you have not missed anything, I felt a bit like that because I am not sure of whole lot changed. Having said that, reality is that the industry is seeing tremendous change in a more recent 12-months or so, whether what happen with demonetization components that hit us, is the stent component, we are becoming far more regulated in a country and that certainly have an impact on healthcare. I think there are two or three things I feel very good about is our focus on the clinical aspect of the enterprise. We did a great deal of time, great deal of energy, great deal of investment ensuring that we have the very best doctors, we are the only one that have clinical scorecard... we actually track everything that happens inside our hospitals, we actually rank our hospitals in terms of performance from everything, whether it is patient waiting time, whether it is the communication to a family member when they are relatives in the OP, we track everything and we are maniacal about ensuring that we are doing the very-very best that we can. So I think the biggest changes I have seen is that far more regulated than we used to be, I think the patient is extremely-extremely knowledge of what is going on, I think there is so much transparency in India per se but the industry as well. I think the other thing that I see is a

huge opportunity for us. I think the virtue of what we are doing by a great process-driven, by very cost effective significant heavy doctor engagement model. I think we have a huge competitive advantage with respect to what is happening. I shared this with some of you in the past but we have 7,000 nurses and I can tell you the credential status of every single nurse to the last one. Similarly, we have 4,000 doctors exact same thing as were. So we are well poised. I think all the things that are happening in the industry while there are some challenges along the way, I think we are in a best position to take advantage of it. We are starting to see the results of these things, we are starting to see our clinical outcome better, and we are starting to see our patient feedback get better. Again, I think that this will in and of itself it may sound like cheap talk, but again I would hope that you will recognize and appreciate the fact that things we have been talking about we are actually delivering. I can also tell you that as we go forward for this year, you will see in Q3 and Q4 a very strong performance and I am expecting that we will have a very-very strong two-three years post that as well if not longer.

Nitin Agarwal: Anurag, if you can update us what is the promoter shareholding as of the last available data?

Anurag Kalra: It is a shade below 40%.

Moderator: Thank you. The next question is from the line of Rakesh Naidu from Haitong Securities. Please go ahead.

Rakesh Naidu: I just want to understand the actual operational cash flow impact from the BT restructuring and how do we see this panning out a) due to this BT structuring and overall at a consol level how do you see the OPEX panning out for FY'18 and '19? Also, we have around Rs.900 crores on the books. I want to understand how the management is planning to put this cash deals?

Bhavdeep Singh: Rakesh, let me take a crack at the first one; we have done FHTL. That has been incorporated both in our P&L and balance sheet. It was done because of certain regulatory restrictions that were disclosed at the time when the BT was incorporated. It has impacted our BT cost positively because we pay a lesser amount in terms of the fees to the BT. As we speak and this is again what I had also mentioned to you last time, we continue to evaluate ways and means to optimize the BT structure further. We have not come to any decision as yet, and as and when we do that, we will update you appropriately.

Rakesh Naidu: Regarding the cash that is on the books, is it impossible to outline how that could be put to use over '18-19?

Bhavdeep Singh: Normally to run the hospital, you need around Rs.300 to Rs.400 crores of cash from an operational perspective. Additionally, what is on the books pertains to a mutual fund that is locked in and that is a significant component plus there are the subsidiaries wherein cash cannot be upstream, so the cash is locked in plus there is some margin money that is sitting on various bank guarantees, etc., that you give. So overall that is basically what we have.

- Rakesh Naidu:** So ex of cash that is required for operational use, you are saying the MF and the piece components of margin should be Rs.500 crores?
- Bhavdeep Singh:** Yes.
- Rakesh Naidu:** This litigation that is currently underway between Daiichi and promoters, from a minority perspective, how do you think that restrains Fortis board's ability to take a strategic decision on the balance sheet especially in terms of the ability to take decisions on cash infusion into the books?
- Bhavdeep Singh:** No, to be honest, Daiichi is at a promoter level but it does not operationally as a listed entity, as an operating entity as Fortis, it does not impact us.
- Rakesh Naidu:** So a hypothetical question, suppose if you have to take a call on equity stake sale, how do you see the current litigation being a road block to that?
- Bhavdeep Singh:** Equity stake sale I think you a referring to, that is a question for the promoters who like any other investor have to evaluate and interest that. So really to be honest, as Fortis difficult for us to comment on that, as an operating entity, we are agnostic to this.
- Rakesh Naidu:** Finally, what is the promoter stake in SRL?
- Bhavdeep Singh:** It is about 27-28% currently.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.
- Bhavdeep Singh:** Once again, thank you all of your time. Good discussions. We appreciate your interest; appreciate the questions you have asked. I can tell you that there is a lot of optimism around always the Fortis Healthcare in terms of where we are the discussions we are headed into. Feel free to reach out for any further questions and further discussions you would like to have, whether it is Anurag, or from investor relations perspective or the management, we are always available and more than happy to meet any of you to further discuss the business that is something we are excited about. Whenever we get a chance, we will have to tell the story. So thank you very much. Look forward to catching up with all of you. Bye-bye.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Fortis Healthcare Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.