# “Fortis Healthcare Limited Q2 & H1 FY '27 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Fortis Healthcare Limited Q2 and H1 FY '27 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anurag Kalra – Head, Investor Relations, at Fortis Healthcare Limited. Thank you and over to you, sir.

**Anurag Kalra:** Thank you. Very Good morning, ladies and gentlemen, and thank you for joining us on our Quarter 2 FY '27 Earnings Call. The call is being chaired by our CEO and MD, Dr. Ashutosh Raghuvanshi. With him we have our Chief Financial Officer, Mr. Vivek Goyal. From Agilus Diagnostics, the CEO, Mr. Vijender Singh, joins us, and with him is Akshay Tiwari, the CFO of Agilus. I have my colleague Amit with me as well.

We will begin with some opening comments on the results by Dr. Raghuvanshi, and then Vijender will take you through the key highlights of the diagnostics business before we open the floor for questions and answers. Over to Dr. Raghuvanshi.

**Ashutosh Raghuvanshi:** Thank you, Anurag. Good morning, everyone, and thank you for taking the time to join us for our Q2 Financial Year '27 Earnings Call today. I would like to wish you all a very Happy Dhanteras and Happy Diwali as well.

Let me begin by taking you through our quarterly and half yearly performance along with the key developments across our businesses. Building on the momentum from the first quarter, we continued to deliver healthy growth in Q2 with both our hospitals and Diagnostics businesses performing well.

The first half of Financial Year '27 reflects sustained revenue growth and expanding operational footprint and continued advancement of our strategic initiatives. We reported consolidated revenues of INR 2,735 crores for the quarter, registering a growth of 17.3% over Quarter 2 of Financial Year '26.

The Hospital business recorded a revenue growth of 18.6%, with revenues reaching INR 2,340 crores, while the Diagnostics business reported gross revenues of INR 448 crores, reflecting an increase of 12.2% over INR 400 crores in the corresponding quarter last year.

Our consolidated operating EBITDA pre-ESOP expense grew by 19.2% over Q2 of Financial Year '26 to INR 663 crores, with operating EBITDA margins improving to 24.2% in Q2 of Financial Year '27 from 23.9% in the corresponding quarter last year.

The Hospital business reported operating EBITDA of INR 545 crores, with margins improving to 23.3% from 22.9% on Quarter 2 of Financial Year '26. The Diagnostic business also recorded a marginal improvement in operating EBITDA margin to 26.2% in Q2 of Financial Year '27 compared to 26.1% in Q2 of Financial Year '26.

Our consolidated profit after tax excluding gains from exceptional items increased by 4% to INR 317 crore in the current quarter compared to INR 305 crores in the corresponding previous period.

Let me now take you through the H1 Financial Year '27 performance of the company:

During the first half of the financial year, our consolidated revenue stood at INR 5,280 crores, representing a growth of 17.4% over H1 of Financial Year '26.

The Hospital business continued to be the primary growth driver with revenue increasing 18.8% to INR 4,527 crores, while the Diagnostics business recorded gross revenue of INR 855 crores, registering growth of about 11.2% over INR 768 crores in the corresponding previous period last year.

Our Consolidated profit after tax excluding gains from exceptional items grew by 3.8% to INR 581 crores in H1 of Financial Year '27 compared to INR 559 crores in H1 of Financial Year '26.

On the balance sheet front, the company's net debt stands at INR 2,188 crore, with a healthy net debt-to-EBITDA of 0.87x as on September 30, 2026, as against 0.96x on September 30, 2025.

Let me now turn to the key highlights of our Hospital business:

Occupancy improved to 72% in Q2 compared to 71% in the corresponding quarter last year. The number of occupied beds increased by 9% to 3,616 from 3,318 in Q2 of Financial Year '26. ARPP also grew by 6.8% to INR 2.1 lakh compared to INR 1.96 lakh in Q2 of Financial Year '26.

During the quarter, our key specialties, including renal sciences, neuro sciences, and orthopedics recorded a year-on-year revenue growth of 27%, 28%, and 30%, respectively. During the quarter, 15 of our hospital facilities reported operating EBITDA margin exceeding 20%, collectively accounting for about 84% of the Hospital business revenues. In comparison, in Financial Year '26, we had 13 of our facilities with operating EBITDA margin above 20%, contributing 76% to the hospital revenues.

Our revenue from international business grew 12.4% compared to Q2 of Financial Year '26 to reach INR 190 crores and contributed approximately 8% to the overall revenues in Q2 Financial Year '27, on similar lines as Q2 of Financial Year '26.

Revenue from digital channels such as our website, mobile application, and digital campaigns witnessed an 18.6% year-on-year growth. Digital revenues contributed 29.5% to the overall hospital revenue in Q2, which is similar to the corresponding previous period.

Our network expansion initiatives have also progressed through a combination of acquisition and strategic partnerships. Recently, we completed the acquisition of the 110-bedded Suguna Hospital in Bangalore, taking our hospital bed capacity in the region to approximately 1,000 beds. The facility has potential to expand to 150 beds.

In addition, we entered into a long-term healthcare services agreement for a 400-bedded greenfield super specialty hospital to be developed in Ashok Vihar, New Delhi, by Seth Sunder Lal Jain Charitable Eye Hospital Society. These developments will further consolidate our presence in Bengaluru and Delhi NCR clusters respectively.

In addition to the above, it would also be pertinent to highlight that we are also making very good progress in our other focus clusters such as Mumbai, Kolkata, and Hyderabad, evaluating strategic M&A opportunities including build-to-suit sale and build-to-suit lease models. All these growth initiatives are expected to drive network synergies and strengthen our competitive positioning in these select micro markets. Alongside such capacity expansion, we continue to strengthen our clinical capabilities and invest in advanced medical infrastructure across the network.

Turning to the Diagnostics business:

Our network expansion efforts continued during the quarter with the number of customer touch points reaching 4,551 as of September 30, 2026. Within the portfolio, revenue from wellness and specialized testing in Q2 Financial Year '27 grew by 28% and 14%, respectively, compared to the corresponding previous period last year.

The Wellness segment's contribution to overall revenue improved to 15% during the quarter compared to 13% in Q2 of Financial Year '26. The business also recorded a favorable shift in its customer mix, with the contribution from the B2C segment increasing to 54% from 52% in the corresponding previous quarter.

With that, I would like to conclude my remarks. Both our hospital and Diagnostics businesses continue to deliver healthy growth, supported by network expansion and strengthening clinical capabilities. Going forward, we will remain focused on deepening our presence across existing clusters and pursuing inorganic opportunities that are strategically aligned to our growth objectives and offer meaningful potential for operational synergies.

Thank you so much. I will now hand over the call to Mr. Vijender for his comments.

**Vijender Singh:** Thank you, Dr. Raghuvanshi. Good morning, everyone, and thank you for joining us today. On behalf of Agilus Diagnostics, I extend a warm welcome to all participants as we discuss our performance for the 2nd Quarter of FY '27.

The diagnostics industry continues to evolve driven by increasing healthcare awareness, technological advancements, and rising demand for specialized testing. Against this backdrop, we remain focused on strengthening our market position, expanding access to quality diagnostics, and building capabilities that support sustainable long-term growth.

During the quarter, we reported gross revenue of INR 448 crore compared to INR 400 crore in the corresponding quarter last year, reflecting a year-on-year growth of 12.2%. Operating EBITDA pre-ESOP expenses stood at INR 118 crore compared to INR 104 crore in Q2 FY '26, with operating EBITDA margins at 26.2% for the quarter.

For the first half of FY27, gross revenues grew 11.2% to INR 855 crore from INR 768 crore in H1 FY '26. Operating EBITDA pre-ESOP expenses stood at INR 215 crore compared to INR 189 crore in the corresponding period last year, while operating EBITDA margins improved to 25.1% from 24.6% in H1 FY '26.

Our performance reflects continuing focus on execution, productivity enhancements, and disciplined investments in growth opportunities. During the quarter, patient volume grew by 5.8% year-on-year and 9.9% quarter-on-quarter, demonstrating the strength of our network, brand, and customer engagement initiatives.

Operationally, we processed 11.39 million tests during the quarter compared to 10.62 million tests in the corresponding period last year, representing a growth of 7.2%. We also expanded our network with gross addition of approximately 300 customer touch points, further strengthening our presence across key markets and emerging micro markets.

The B2C versus B2B revenue mix stood at 54:46 in Q2 FY '27 compared to 52:48 in Q2 FY '26, reflecting the continued strength of our consumer business while maintaining a balanced channel presence. For the first half of FY '27, we conducted 21.85 million tests compared to 20.75 million tests in H1 FY '26, representing a growth of 5.3%. During the period, there has been a gross addition of over 500 customer touch points across our network, enhancing accessibility and strengthening our market presence. The B2C:B2B ratio revenue mix stood at 53:47 compared to 52:48 in H1 FY '26, reflecting sustained momentum in the consumer segment.

Innovation and specialized diagnostics remain important growth drivers for Agilus. As part of our focused approach to strengthening advanced diagnostics capability, we continue to invest in next-generation technologies and expand access to specialized testing across our network.

We are currently deploying Genexus systems to further enhance our capabilities in next-generation sequencing and molecular diagnostics. These investments will improve access to advanced testing, optimize turnaround times, and reinforce our position in precision diagnostics.

Alongside this, we continue to invest in digital capabilities, laboratory automation, and workflow optimization to enhance efficiency and deliver a seamless experience for patients and healthcare partners.

Looking ahead, we remain focused on expanding our network, strengthening our specialized diagnostics portfolio, and improving operational efficiency. With growing awareness of preventive healthcare and increasing role of advanced diagnostics in disease management, we believe we are well positioned to capture emerging opportunities while continuing to deliver sustainable growth.

That's it from my side. Thank you.

**Anurag Kalra:** Thank you, Vijender. Ladies and gentlemen, we will now open the floor for questions and answers. May I request the moderator to begin, please?

**Moderator:** Thank you very much. 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 bed expansion chart that you provided this time. I see that you have mentioned about 2,200 beds, which includes inorganic acquisitions and greenfields. Just wanted to understand, how much visibility you have on this, especially the greenfield part of the expansion. I mean, is there a number in terms of the greenfield expansion that you would like to highlight? And what would be the priority markets for this either the inorganic acquisition that we are looking at or at greenfield expansion?

**Ashutosh Raghuvanshi:** So, Neha, we have complete visibility on these and we have timelines in which we will be able to deliver these beds. And this scales down to about like next three to four years. The strategy we have always stood by is to create focused clusters. And we continue to remain in that. The only difference you would have noticed in my statement is that we have also added Hyderabad as a possible cluster, where we already have two facilities of Gleneagles which we are managing.

So, we would definitely look to strengthen that cluster. But at the same time, our focus on NCR as well as Bangalore, Mumbai, Kolkata and Punjab remain as it is. So, we would like to deepen our presence in all these clusters. So, as far as a split of these bed numbers is concerned, I would request Vivek to add to that.

**Vivek Goyal:** Hi, Neha. This year we are targeting to achieve, add around 500 plus beds, plus there is one acquisition which Dr. Raghuvanshi has just mentioned about Suguna in Bangalore. With that, we will be adding around 600 beds in the current financial year itself. Then, there are brownfield

expansions going on that should add around 200 beds every year for next two years. And then there will be a big jump which we are expecting.

That is the reason we are expecting that by Financial Year 2030, our two major brownfield expansion in Mohali and Shalimar Bagh should be completed. And thereafter, we expect the balance will be coming in the next financial year. So, this is how this 2,000 beds roughly will be operationalized.

**Neha Manpuria:** This 500 beds that you mentioned, this is an asset that you were looking at out of that?

**Vivek Goyal:** Yes. Actually, it is around 600 beds. 100 beds is we have acquired through this Bangalore acquisition, and balance is brownfield expansion, which is mainly coming from FMRI expansion, And Noida that we have added. We have also added Faridabad. At Manesar, we are ramping up the capacity. So, all those beds are counted in this.

**Neha Manpuria:** Just a clarification on the strategy with the Bangalore acquisition. It seems like a fairly small asset, 150 beds. I know we have two other small assets in that market. Historically, I think we have mentioned that, we are doing brownfield additions in our facilities, given to build scale to improve profitability. So, in that context, why buy an asset with just 150 beds in a market like Bangalore where we are also seeing peers add fairly large capacity?

**Ashutosh Raghuvanshi:** No, I think Bangalore as a city has been growing well, and we believe in our cluster strategy. So, all these hospitals are serving different micro markets within the larger Bangalore area. There are several players over there and there are a couple of dominant players as well. So, it is important for us to be relevant and attract good clinical talent. And for all that, we need to have scale and an ability to offer our physicians a larger platform. So, with all that, I think we are not looking at the moment for any further acquisitions, but there are certain brownfield expansions that are not part of what we have mentioned, but those we are planning at the moment. So, as and when those form up, we will inform all of you about that.

But definitely, these are the facilities where we have a lot of expansion program in Bangalore. Like the Yeshwanthpur facility, which is the People Tree Hospital, the next block is being constructed there. Similarly, we will be expanding Suguna with another 50 beds, and additional capacity is expected to come up in BG Road facility as well. And we have the Gleneagles Hospital also, which we are managing. So, with that, we have about eight facilities in Bangalore, and that gives us a good widespread in that geography.

But at the end of it, the strategy is to grow in different clusters. Bangalore is an important cluster, so we want to strengthen it. Similarly, we would like to strengthen other clusters as well, and we strongly believe that there is enough demand over there. That is why we are focused on that, but we are not focused only on that. We are focused on the other clusters as well.

**Neha Manpuria:** Sorry, one last question if I may. In the Delhi NCR market, if you could give us an update on FMRI, how Manesar is progressing, and are we seeing any doctor attrition, etc., despite the ESOP given competitor process capacity coming up in Gurgaon?

**Ashutosh Raghuvanshi:** Yes. As far as FMRI is concerned, the new block is ready for some time. It is waiting for some final approvals. We are likely to receive those approvals within this month. All the final inspections, etc., have happened, and hopefully we should be able to commission all those hospital beds pretty soon.

We have been able to attract some good clinical talent in last couple of months from the local market and from elsewhere. We have not had any major attritions at the moment in FMRI, and I think we have sufficiently ring-fenced our clinical workforce, because we provide them a very comprehensive platform with a mix of academic research and a good environment for them to practice. So, FMRI, I think, is doing all right on that front.

As far as Manesar is concerned, the facility has been ramping up continuously. It is now producing a positive EBITDA, low double-digits EBITDA. And we expect that it will continue to perform well. The radiation oncology facility over here is likely to be commissioned by February of the calendar year, so in the fourth quarter. So, from the first quarter of next year, we will certainly see a jump because of the addition of a comprehensive cancer center in Manesar as well. So, that is also quite on track.

The other thing is that we used to discuss about FEHI and its performance a few years ago. Now that is performing very well, and it is touching almost 20% in terms of EBITDA. So, we are very delighted with that.

**Neha Manpuria:** That is very helpful, sir. Thank you so much for taking my questions.

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

**Shyam Srinivasan:** I was just asking a question on the Slide 21, cluster-wise regions. So, while our headline numbers have grown like 19%, I was just looking at the intra-region divergence. I think we have seen Punjab grow much slower, Mumbai is also slower. So, any qualitative comments on that?

And also, if you could strip out what the ex-acquisition, if there are any in the base, if there are in the recent quarter, but not there in the base. My question comes from, have we kind of been growing slower than all our other listed peers, because most of them have reported higher growth? I am making an assertion. But I just want to understand, is there something idiosyncratic to the Fortis use case?

**Vivek Goyal:** Yes, Shyam, hi, good morning. If I can take this question, we have seen a decent growth in almost all the clusters. The cluster you have particularly pointed out about Punjab, there we are actually facing a capacity constraint. As I mentioned in the earlier question, there is a big

expansion going on in two of our big units, Amritsar, as well as in Mohali, which are underway. And both of these will add around 500 plus beds in the total bed capacity in that cluster.

Right now, all the units are achieving occupancy levels above 70%, and some units are above 75% also. So, there is some capacity constraint in Punjab. Apart from that, I think other regions are growing quite fast. We would not like to compare ourselves with the competition because each competitor has its own dynamics and is having its own growth plan and operating in different geographies also.

**Shyam Srinivasan:** That's helpful. Second question is on the margin metrics. I know you put an EBITDA star now, which is pre-ESOP expenses, but does this metrics change dramatically, and I don't know how you put pre-ESOP for all the hospitals. So, is that the reason why the disclosure is this way? And does it change the matrix very dramatically if we were to somehow apportion the ESOPs across the hospitals?

**Vivek Goyal:** Yes. So, the EBITDA we are showing prior to ESOP, the reason being because it is a non-cash item first of all, and the scheme was rolled out post-completion of our budget exercise at the beginning of the year. So, that is why we thought it is fair to show EBITDA without ESOP, as it is non-cash, as I said.

Secondly, as regards the impact of it in the reported EBITDA is around 1.5%. ESOP is taking out 1.5% of the revenue. So, that means if you want to see, there is reported EBITDA anyway in the financial, but it is having impact of 1.5%.

**Shyam Srinivasan:** And no change, Vivek, right, for the whatever INR 140 crore full year ESOP numbers that we were talking about this year?

**Vivek Goyal:** Yes, this year it will be around that number. Of course, it will depend upon if we can achieve higher revenue. This ESOP number is fixed, the revenue base keeps changing and we expect revenue base to go much higher. So, that will be the only change but will not be substantial.

**Shyam Srinivasan:** Just the last question on the diagnostics to Vijender. I think when we look at, again, sorry, I am going to compare with listed peers. We are half the volume growth, 5% volume growth there. I think if you called out, said, even test growth is 6% - 7%. Most of the peers are 10% to 13%, for example, on either patient or sample. So, is there a plan where we will bridge the gap relative to some of the peers?

**Vijender Singh:** Yes, right now if you look at our test mix, I think it is improving, and especially wellness piece where the contribution has gone up to 15% from 12% earlier. And secondly, on the specialized also, our contribution growth has been significant. So, by increasing our focus in key markets, by going deep, opening more and more centers, and when you look at our B2C, B2C contribution is now 54%. That itself is a good sort of showcase as far as future is concerned. So, I am sure that with these initiatives, our volume growth will definitely be sort of improving from now on.

**Shyam Srinivasan:** Vijender, lastly, what is our outlook for this year from a diagnostics business perspective, both on revenue and margin? If you could just refresh.

**Vijender Singh:** See, our FY '27 growth expectation remains in the 12% to 13% range as of now. We believe the impact of brand transition is largely behind us, and we expect growth to strengthen further as awareness is improving.

And secondly, certain initiatives which I mentioned will help keep us ahead in terms of our growth. So, in few quarters, definitely we look at mid-teens growth. And then from there, probably we will target to be back to industry growth.

**Moderator:** Next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

**Abdulkader Puranwala:** So, my first question is with regards to the acquisition, what you have done in Bangalore and the overall occupancy. So, if I see that slide, it talks about the occupancy being at close to 63%. So, question number one is, in Bangalore as compared to your other regions, why is the occupancy still ramping up, or we have kind of hit a turf there?

And second is, with the kind of acquisition you're doing, a 110-bed facility which has scope to add few more, but it still looks like a pretty smaller hospital. So, what is the rationale behind acquiring a smaller hospital as compared to, say, your peers operating in the same region which would have much higher, bigger facility? The question I am trying to ask is basically from an operating metrics perspective, so how would you think about the dynamics working in this region?

**Ashutosh Raghuvanshi:** I think before we go to the occupancy numbers, I would like to answer the strategic part of what you asked. You see there are different types of hospitals which serve different kinds of the micro markets and different kind of patient profiles. This hospital is located in a densely populated area, and there are few hospitals in Bangalore which we have, which are also of very small size.

Actually, our Rajajinagar facility, which is about 6-7 kilometers away from the hospital we have acquired, is only 60 beds. So, there are models where both types of hospitals are required and they serve different purposes. So, for example, this hospital will serve more to the immediate community, whereas some hospital like the People Tree, which we had acquired a little earlier, will become a larger hospital and will have about 350 beds along with all the facilities.

So, basically it is two different formats of hospitals which work together as an aggregated cluster in a given geography, which would probably have advantages in terms of synergies, the market positioning, visibility in a particular city or state, and all those advantages are there. So, that is precisely the reason why we have chosen this.

We do look at larger hospitals as flagship hospitals, but we are not averse to going for smaller hospitals which are community hospitals and more secondary in nature, secondary care, I mean.

And that forms a cluster which serves the community well, and people can go for their immediate needs to their neighborhood hospital, and for complex cases they can go to the larger hospital. So, that is how it works. Now, I would request Vivek to add to that on the current occupancy figures.

**Vivek Goyal:** Yes, so your observation is correct. The occupancy level in this region is slightly on the lower side, and this we are highlighting in our previous calls also. There is a big hospital at Bannerghatta Road which is operating at occupancy level around 58%, although occupancy level has gone up from the earlier one. And now, we are seeing much higher occupancy, and we hope that this hospital will start performing in line with our other hospital.

Having said that, profitability-wise, this hospital is doing quite well. But yes, there is scope to further improve occupancy, and the team is working on the ground. And that is the main reason why the cluster is just showing a lower occupancy.

Apart from this particular hospital, there are two new hospitals we have added. One is TMI in Yeshwanthpur, which we added last year, and that is still in a ramp-up phase. So, there also the occupancy level is quite low. So, that is the main reason for lower occupancy. But both these hospitals are very good hospitals in this cluster, in a very good micro market. And we are quite confident that the occupancy will come in line with our other hospital in the same cluster in the overall network.

**Abdulkader Puranwala:** And one more question from my end. So, if I look on a Q-on-Q basis, then I believe you have added close to 300 doctors in this particular quarter. So, the hiring happened across the board, or is any particular hospital where you would look to add more clinical talent?

**Ashutosh Raghuvanshi:** Yes. So, we continuously try to keep on engaging more and more clinicians for our network. Some of the hiring has happened in the new hospitals which we have acquired. So, that is a significant number. As well as the many hospitals where the capacity expansion is happening, also we have hired new teams over there.

Even in our flagship hospital FMRI, we have been able to hire new clinical talent as well. So, good clinicians in head and neck surgery, in rheumatology, in neurology, and several other specialties we have hired even in the existing hospital. So, it is a spread all across the network, not specific to a unit.

**Abdulkader Puranwala:** And last one from my end, sir, is there any update, any status quo on the forensic audit, which was ordered by the court. Any update you would have got from the auditors, if you can update us?

**Ashutosh Raghuvanshi:** Yes. So, as far as the forensic audit is concerned, the auditors have been appointed, as you are aware, and they have sent their requisition of our information to us. We have submitted the

necessary information to them. Court had originally indicated that this audit should be completed in six months' time. So, we are looking forward to getting this behind us.

**Moderator:** Next question is from the line of Dhvani Shah from DSP Mutual Fund. Please go ahead.

**Dhvani Shah:** So, I had one question. Firstly, now that a large part of the hospital beds are already operating at 72% basis your hospital margin metrics, how should we think about the margins from here? Also, I believe the guidance may have to be revisited. So, if you could help us understand FY '27 and then FY '28 margin guidance, that would be helpful on the hospitals business.

**Vivek Goyal:** So, occupancy level is 72%. We feel there is still scope for further improving the occupancy level. One hospital we have discussed in the previous question, which is in Bangalore, and many hospitals which are in the ramp up phase like Manesar, and some new hospital which we have built in the system, there is a scope for further ramp up the occupancy. And that will add to the profitability also.

So, our margin guidance more or less remains intact, though the challenges which we highlighted in the last call remain. We are still awaiting the OP from the FMRI unit, our flagship hospital, which should give some boost to the profitability margin. So, that is one area where if we can do that well, we will be able to improve the margin. Plus, the two units is still in the ramp up phase, which is Manesar and People Tree. And both are on the upward trajectory, but there is some stress in the profitability because of that.

So, we expect end of the current financial year, the EBITDA margin should be flattish, and future financial year, we would not like to comment on the margin in the present circumstances. There is a lot of noise around on drug price and other things. So, we will refrain from providing any guidance for the future margin, and we will see how things progress in the forthcoming quarters.

**Dhvani Shah:** And just on the drug price capping, at least for the 137 oncology drugs, is there any update on what kind of impact would be there? Or if you could directionally explain how is your oncology split across medical and surgical?

**Vivek Goyal:** So, it is very difficult to, this circular is very recent. We are still figuring out how it will be impacting the margins and all. So, we will not be able to give you any specific number about this. Of course, it will be a negative impact on the profitability. The drugs generally contribute around one-third of the oncology revenue, and not all drugs are part of this, and there are certain packages also. That is why it is very difficult to give a specific number.

As a hospital industry, we always price ourselves. We don't see product-wise profitability. We always see the specialty-wise profitability. And that is why to figure out how much it will be impacting, it will take some time. So, I will not be able to give any number in the present call.

**Moderator:** Next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

**Saion Mukherjee:** Sir, you talked about 2,000 beds greenfield and inorganic over the next three to five years. If you can talk about whether most, I mean, approximately how many of them would be, you think, in the tier 1 cities? How many of them would be like tertiary care versus some of the secondary care acquisitions that you have done? So, if you can give a color on the nature of this greenfield and inorganic that can happen over the next three to five years, and also like how much would be the commitment in terms of capital required for this particular expansion?

**Ashutosh Raghuvanshi:** So, the build-to-suit sale as well as build-to-suit lease model is we are looking at in a couple of places. And as far as the geographical locations are concerned, some of these hospitals are in Tier 2 cities. And then we are also looking at some in the Tier 1 cities, namely Kolkata, Hyderabad, and Mumbai. So, this is the general spread. We have clear visibility on these.

As far as the greenfield ones are concerned, they would be added over, I would say, for next three years. The beds would come in three years from now, but one or two projects which we are looking at are of different nature, and they may add up beds over the next one year or so. So, that is the general split of these. And one or two, as I said, we are looking at a couple of opportunities in Tier 2 cities, but large cities with large market. And as far as CAPEX is concerned, I will request Vivek to just add.

**Vivek Goyal:** So, Saion, first of all, the 2,000 beds we are talking about are the beds which we have already either contacted or are in the expansion pipeline. So, we expect this number will be much higher in next three to four years, because we are in continuous acquisition. And we are actively looking at some greenfield projects. Some of the projects which Dr. Raghuvanshi just mentioned were not being included in this number also.

**Saion Mukherjee:** So, I am just wondering if you can talk about like out of this 2,000, so Greenfield, so this is already visible to you. So, how much of this would be greenfield which you are already planning and it will come up in the next three to five years? Like out of this 2,000.

**Vivek Goyal:** None of these 2,000 beds are greenfield. Yes, one expansion is in the greenfield, where we have intended to some arrangement with some trust in Delhi, and that should be coming in the next four years' time, and that will be greenfield bed of 400-bedded capacity. Others are all brownfield expansion in the existing hospital only. The greenfield project which Dr. Raghuvanshi is saying are not included in this, and they will be over and above that. So, we expect similar number maybe in next two years' time to be added in this list going forward.

As regards your other question on committed CAPEX, it is roughly around INR 3,500 crore, and it is spread over next, say, 3-3.5 years' time.

**Saion Mukherjee:** No, sir. So, just to get a clarification, so what you are saying is this 2,000 does not include much of Greenfield. It basically is the acquisitions that you are currently pursuing, or partnerships or acquisitions that you are currently pursuing.

**Vivek Goyal:** Acquisition that have already been completed and brownfield expansions that are in the pipeline. So, that together will create 2,000 beds. And we have not included Gleneagles beds into it. We have not included the greenfield expansion which we are talking about in this. In fact, 2,000 beds does not include even that the other hospital I have told 400-bedded hospital. That is over and above that 2,000 beds, the greenfield project which I have told in NCR.

**Saion Mukherjee:** The other question is on the Bangalore acquisition which you have announced. As Dr. Raghuvanshi mentioned that it is a sort of a community hospital. So, such opportunities that you have, is it something where you are able to acquire this hospital on a negotiated basis with the current promoters, or these are like bidded out and all the participants or key competitors in that micro market really bid for this?

**Ashutosh Raghuvanshi:** Yes. So, I think it is a project-specific thing. This was direct negotiation with the owner. Depending on our relationships in the field, we get some opportunities from time to time. Not everything goes for bidding. Yes, this particular one was a bilateral negotiation.

**Saion Mukherjee:** Sir, you have talked about INR 270 crore, I think what was announced, and then you will also invest in expansion and upgradation of the site. So, what would be the total CAPEX for the total site when it goes to INR 150 crore? How much should be assumed? And in terms of average revenue per patient, given the nature of the hospital the average for Bangalore and EBITDA margin, like what long-term, how should we think about margin from this site?

**Vivek Goyal:** So, this is INR 270 crore which we have paid for acquiring this, including land and building, plus there will be stamp duty cost. Then we are planning to expand it by another 40 beds over time, plus the renovation of this facility to bring it at Fortis standard. All put together, it will be another INR 140-odd crore number.

And as regards profitability, future profitability of this unit, we expect this unit should be doing in line with our existing clusters in this region, like some of the units, although small, they are doing quite well in terms of operational metric like occupancy. In one of the hospitals, we are doing 80% plus. It is 92 beds hospital in Nagarbhavi. And so we expect a similar type of occupancy and similar type of profitability of around 25%, not immediately but over time.

**Saion Mukherjee:** But ARPP would be slightly lower, right, compared to your company average, or cluster average given the nature of the site?

**Vivek Goyal:** Yes, company average will be lower because it may not be having high cost, this facility like onco and things like that. But it will still be like the unit I am comparing, Nagarbhavi. It will be in line with that unit, ARPOB around INR 2 crore per bed.

**Saion Mukherjee:** And sir, just last one question. All these acquisitions that you do, what is the benchmark in terms of IRR or payback period that you follow? I mean, is there a benchmark that you look at? If you can share that.

**Vivek Goyal:** Yes, we have an internal benchmark which has been approved by our Board. So, generally, we don't touch any project, with an IRR below 15% and a payback of exceeding 8 to 10 years.

But having said that, these are all financial metrics. Sometimes we ignore these financial metrics to take care of the larger picture, larger strategic picture or objective of the organization. And these are just a benchmark to see whether the project is doing well in the financial metrics or not.

**Moderator:** Next question is from the line of Aman Goyal from IIFL Capital. Please go ahead.

**Aman Goyal:** Sir, I just want to understand what is the composition of ARPP growth, whether it is case mix-led or price mix-led? And can you call out the IP volume growth since we have made some changes in our presentation?

**Vivek Goyal:** So, the growth in this number is generally attributed to case mix. The price increase capability is very little in this industry. So, generally, it is a higher case mix, more robotic surgeries, doing more complex cases, and that is mainly driving this growth. To your specific question, if you are asking how much is contributing, price increase contributing into it, it will be around 1.5 percentage point.

**Aman Goyal:** And the IP volume growth, since we have given the ARPP number.

**Vivek Goyal:** So, volume growth in IP is around 13%, compared with the corresponding quarter previous year.

**Aman Goyal:** And, sir, since in Bangalore, we have grown 26% year- on- year basis, can you call out the ex-People Tree growth in Bangalore? And what is the cluster margin profile? Where does you fall in the cohort, margin cohort for Fortis, whether it is above 20% all the cluster except People Tree, I mean?

**Vivek Goyal:** Yes, People Tree is relatively a new unit, and there is some renovation work going on. It is not contributing much actually. The People Tree inclusion or exclusion will not impact much the growth. As regards margin profile of this cluster, excluding People Tree, we are in line with our other group. It is performing better than the overall company average EBITDA margin.

**Aman Goyal:** And, sir, last one on the CAPEX, you have given the INR 3,500 crore CAPEX for this brownfield, greenfield. I think that is not including your inorganic opportunity. So, for that, what is the target CAPEX we are for, I mean, what is the capital allocation we plan for this inorganic opportunities?

**Vivek Goyal:** So, the amount I have quoted is whatever we have committed till date. Okay. As Dr. Raghuvanshi made in his initial comment, the leverage position of the company is quite well. We are generating decent cash flow to support this type of CAPEX, plus there will be room for further acquisitions through internal accruals.

Having said that, our parent IHH has expressed very openly that it wants to increase its stake to above 50%. At the current market price, this could provide us with additional capital of INR 10,000 crore over time. So, I think capital is not a constraint here. I think the constraint is getting the right opportunity at the right price. Capital, at least, as I see our financial and the other things in mind, it is not a constraint for the growth.

**Aman Goyal:** And sir, what is our target to repay this INR 2,200 crore debt? I mean, how can we model it?

**Vivek Goyal:** This will depend upon our acquisition capability, actually. If we able to acquire more, then this debt number may go up and down little bit, but if we return to a steady state, this debt we will be able to repay in two years' time actually.

**Aman Goyal:** That's from my side.

**Vivek Goyal:** There is a lot of debt in the current financial year.

**Moderator:** Next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

**Damayanti Kerai:** Dr. Raghuvanshi, you mentioned a different format hospitals serve different purpose in markets like Bengaluru. So, just wanted to understand what kind of potential cost synergies could be possible between hospitals which are different in size, but are located in same city?

**Ashutosh Raghuvanshi:** So, there are multiple ways in which synergies work in a network of hospitals. Like one of the hospitals which Vivek mentioned, it is a 96-bedded hospital in Nagarbhavi in Bangalore, and that hospital is doing phenomenally well. Its occupancy levels are about 85%, profitability is about 25%, close to 30%, I would say. And it is a small hospital, but it is getting a lot of clinical help from our BG Road facility.

So, many of our clinicians go to different hospitals who are well-established clinicians and have large practices and large team. So, they cover multiple hospitals, and that gives their patients the ability to go to a hospital which is convenient to them. So, that is how it works overall. Then the administration of the entire cluster also gets sort of shared, and the same team can manage another 100-200 beds as well. So, that is how these synergies work.

And more than anything else, there is another factor, which is the presence in the local market, the brand visibility of a particular group of hospitals. That also becomes an added advantage. It also becomes a magnet for clinicians to join a group which has options available in various places, and this can see this as an opportunity to grow.

**Damayanti Kerai:** So, that is why the small format hospitals should not be constrained in terms of, say, the margins which they can deliver.

**Ashutosh Raghuvanshi:** Yes, yes, that has been our experience. We have a few hospitals in the network which are smaller hospitals. But they are part of a larger cluster where there is some large hospitals and a brand identity is there. So, most of them produce a margin profile which is in line with a large hospital, because the costs also in a smaller hospital typically remains controlled.

**Damayanti Kerai:** My second question is on your Gleneagles O&M footprint. So, since you took over the O&M contract, if you can update us on the improvement which you have seen for the portfolio in terms of, say, higher occupancy or better margin profile.

**Vivek Goyal:** Yes, if I can answer this question, we started the Gleneagles O&M arrangement just over a year ago, and it is a quite complicated type of operation in the sense two hospitals in Hyderabad, where Fortis is not present and one in Chennai and other Mumbai. And Mumbai in fact is not under O&M.

So, we expect, the team is taking some time to understand the operations and stabilize the ship actually. And I think the first year has gone mainly to stabilize the things, recruiting more doctors, the facility directors and things like that. The IT systems are also getting updated. So, first year is more or less understanding the market, understanding the business model, and making changes as per Fortis standard.

I think next year onward we should be seeing some improvement in the operation. Right now operations are almost flat. There has not been much improvement in the operations in the O&M.

**Moderator:** Next follow-up question is from the line of Neha Manpuria from Bank of America. Please go ahead.

**Neha Manpuria:** Just one question. Vivek, when you mentioned that the margin for FY '27 would be flattish, do you mean, I think, last year we did about 22% margin, so this is 22% post-ESOP margin that we should be building? And is the 25% margin for FY '29 still intact, or that changes as well in light of the regulatory norms?

**Vivek Goyal:** So, Neha, I was saying flat margin of around 22% in line with the last year margin, which is around 22%. So, we are expecting that type of margin. As you know, there are a lot of noise going around about this industry, about the drug caps and other things. And a circular has been issued which will be effective in November, and we are expecting some more turmoil may be coming. That is why it will be difficult for me to give any guidance for forthcoming year unless I see how much impact it will be there. If there is no impact, of course we will be meeting those FY'29 margin guidance which we have given.

Once this thing settles, we will be able to see how much we will be able to recover, how much we will not be able to do that. That is why I am restraining myself from giving any guidance for the future year. For current year, it will be flattest margin I am expecting, which is in line with the previous year.

**Ashutosh Raghuvanshi:** So, Neha, if I may add, the industry has seen a lot of price controls in the past as well. So, we are fairly confident that eventually the business model will evolve, change maybe. So, there may be temporary blips here and there, but eventually I think, as an industry, we are going to be all right. And, certainly, we are confident that we should be able to do that. But right now, since we are not able to assess the exact quantum, so that is why we are not able to give that. But we are fairly confident that we should be able to sort of mitigate this over a period of time and reach normal levels of profitability.

**Neha Manpuria:** And just last one last, the flattish margin is post-ESOP, right?

**Vivek Goyal:** Yes.

**Neha Manpuria:** That's all from me.

**Moderator:** Next question is from the line of Atul Minocha, Independent Investor. Please go ahead.

**Atul Minocha:** My question is on the IHH stake increase. Like, if IHH stake increase is dependent upon the forensic audit, are they correlated? Or if there is any update on the timeline, because that will give some capital to the balance sheet.

**Ashutosh Raghuvanshi:** So, there is no constraint in IHH increasing its stake because that has been clarified right at the Supreme Court when the earlier decision came in FY'23. So, that is not something which is in question.

What is in question is only what happened at the time of dissipation of shares by the ex-promoters. So, IHH has got absolutely no issue in increasing its stake in Fortis, and the court doesn't in any way suggest that. So, that is not a problem at all, and we have sought a lot of legal opinions from multiple sources, and there is no such constraint.

**Atul Minocha:** So, means it is up to the IHH to decide when and what time they have to increase it, right? That is all it boils down to.

**Ashutosh Raghuvanshi:** Yes. It also depends on Fortis, because as and when we have a requirement of fresh capital, then only we will be approaching them for it. So, of course, it is their decision to when they want to put and now what quantum they want to put. But yes, it is a decision which is pursuant to what Fortis' fund requirements are.

And as Vivek was mentioning earlier, the balance sheet being good, for our current expansion, we are well capitalized and we have the ability to do all those expansions from within the internal accruals and some bit of debt. So, we will do that at the right time whenever we require additional funds or may have a desire to increase their stake.

**Moderator:** Thank you. As there are no further questions, I will now hand the conference over to Mr. Anurag Kalra for closing comments.

**Anurag Kalra:** Thank you, ladies and gentlemen. Thank you for taking the time to join us on the call today. If there are any follow-up questions or queries, please feel free to reach out to us. We will try and help you as best possible. Thank you once again and wishing you all a Happy Diwali. Take care.

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