Fortis Healthcare Limited
Tower-A, Unitech Business Park, Block-F,
South City 1, Sector – 41, Gurgaon,
Haryana – 122 001 (India)
Tel : 0124 492 1033
Fax : 0124 492 1041
Emergency : 105010
Email : secretarial@fortishealthcare.com
Website : www.fortishealthcare.com

FHL/SEC/2023-24 **February 10, 2024**

The National Stock Exchange of India Ltd. **Scrip Symbol: FORTIS**	**BSE Limited** **Scrip Code:532843**

Sub: Transcript and Audio Recording of Investors / Analysts' meet under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Madam / Sir,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript and the link of audio recording of Investors / Analysts' meet held on February 8, 2024 to discuss the Company's un-audited financial results for the quarter and period ended December 31, 2023 and the same is available on the website of the Company i.e. Audio recording Link and recording Link

This is for your kind information and records.

Thanking you,

Yours sincerely
For **Fortis Healthcare Limited**
MURLEE MANOHAR JAIN
Digitally signed by MURLEE MANOHAR JAIN
Date: 2024.02.10 22:54:09 +05'30'
Murlee Manohar Jain
Company Secretary & Compliance Officer
M. No. F9598

Encl.: a/a

"Fortis Healthcare Limited"

Q3 & 9M Ended December 31, 2023 Post Results Conference Call"

February 08, 2024

MANAGEMENT: **DR ASHUTOSH RAGHUVANSHI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – FORTIS HEALTHCARE LIMITED**

MR. VIVEK GOYAL – CHIEF FINANCIAL OFFICER – FORTIS HEALTHCARE LIMITED

MR. ANURAG KALRA – SENIOR VICE PRESIDENT, INVESTOR RELATIONS – FORTIS HEALTHCARE LIMITED

MR. AMIT MAHENDRU - INVESTOR RELATIONS – FORTIS HEALTHCARE LIMITED

MR. AVINASH TRIPATHI - INVESTOR RELATIONS – FORTIS HEALTHCARE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY'24 and 9 months ended December 31, 2023, Post Results Conference Call of Fortis Healthcare Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero 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, Mr. Kalra.

Anurag Kalra: Thank you very much. A very good morning and good afternoon, ladies and gentlemen, and thank you for joining us on our Q3 FY'24 earnings call. The call is being chaired by Dr. Ashutosh Raghuvanshi, our Managing Director and CEO. With him, we have Mr. Vivek Goyal, our Chief Financial Officer. And I also have my colleagues from Investor Relations and M&A, Amit Mahendru and Avinash Tripathi.

Before we start the call, I would just like to state that, as you're all aware, we are a listed company and our material subsidiary, Agilus Diagnostics has filed a DRHP for the proposed IPO in September 2023.

In light of the publicity restrictions imposed on Agilus and the company, which due to the proposed IPO, we would not be in a position to share any further information other than what is already provided in our investor presentation and press release. Due to these restrictions, we would also not be in a position to clarify or answer any questions on the Diagnostics business performance or on the proposed IPO at this point in time. We do appreciate your understanding on this.

We will begin the call with some opening comments by Dr. Raghuvanshi on both the consolidated and the hospital business performance. And then we can open the floor for question and answers. Over to Dr. Raghuvanshi.

Ashutosh Raghuvanshi: Thank you, Anurag. Good morning and good afternoon, everyone. Thank you for taking time to join us on our Q3 FY'24 earnings call today. I wish you all happy New Year and hope all of you are doing well. I shall come straight to the results of the quarter and my thoughts on the business performance and way forward.

Our business performance in Q3 has been satisfactory considering the seasonal impact of festivals in some of our key geographies. The hospital business has shown a relatively improved performance compared to the corresponding quarter last year and predictably slightly lower than the trailing quarter.

Our consolidated revenues were at INR 1,680 crores, a growth of 8% versus the corresponding previous quarter. This compares to INR 1,560 crores in Q3 of financial year '23. Our consolidated operating EBITDA margin was 16.9% versus 17.7% in the corresponding previous quarter and versus 18.6% in the trailing quarter.

To highlight the contribution of hospital operating EBITDA increased to 88% in Q3 of financial year '24 versus 76% in Q3 of financial year '23. This indicates a positive momentum in our hospital business earnings, allowing us to sustain our overall profit margin. The strength in our hospital business has also largely offset our performance in Diagnostic business.

At the PAT level, we reported a profit after tax prior to exceptional items of INR 127 crores, compared to INR131 crores in Q3 of financial year '23. Reported PAT stood at INR 134 crores versus INR 142 crores in the corresponding previous year. Our balance sheet remains healthy with a net debt to EBITDA of 0.45x compared to 0.41x in Q3 of financial year '23. Our net debt at the end of Q3 financial '24 stands at INR 518 crores against INR 471 crores at the end of Q3 of financial year.

Let me also briefly touch on the consolidated 9-month financial year '24 result numbers of the company. For the 9 months of financial year, our consolidated revenue stood at INR 5,107 crores, a growth of 9.7% over the corresponding previous period. Operating EBITDA for the period was INR 887 crores versus INR 830 crores for the 9 months of financial year '23, translating into a margin of 17.4% versus 17.8% in the corresponding previous period.

PAT, excluding exceptional items for the period stood at INR 429 crores versus INR 432 crores for 9 months of a marginal decline year-on-year, reported PAT stood at INR 442 crores versus INR 495 crores in the corresponding previous year.

I'm pleased to share that our hospital business continues to witness a healthy performance. And despite the quarter having a seasonality impact, we have shown a better performance on a year-on-year basis. The consolidated profitability numbers that I shared with you just now clearly reflect this.

We have witnessed an occupancy of 64% in Q3 versus 66% in the corresponding quarter, owing to an increase in the operational beds by approx. 100, while the occupied beds remained flat year-on-year. Occupancy levels on a like-to-like basis were at similar levels ARPOB witnessed a strong growth, growing by 10.6% year-on-year to reach INR 2.23 crores.

The growth was driven by a consistent shift towards higher complexity procedures. This year, on an annualized basis, we will be performing more than 60,000 cardiac procedures, more than 3,500 robotic surgeries and more than 1,100 transplants, which demonstrates the shift we have been talking about. All these factors enable the hospital business revenues to reach revenue of INR 1,389 crores in the quarter, a growth of 10% versus Q3 of financial year '23.

The hospital business operating EBITDA grew 19% to touch INR 251 crores reflecting a margin of 18% versus 15.7% margin in Q3 of financial year '23. The improvement was driven by our consistent focus on improving operational efficiency and optimizing costs against all heads, including general administration services, repair and maintenance, etcetera.

Revenue from international business stood flat at INR 113 crores versus INR 114 crores in the corresponding previous quarter. International patient revenue was flat year-on-year, primarily due to geopolitical reasons in the Middle East and flow of patients from countries such as Iraq and Bangladesh.

You would recall that we have been speaking about our portfolio rationalization strategy. To that effect, we have divested two of our loss-making facilities in Chennai, first the Arcot, Vadapalani facility in July 23, followed by the Malar facility, which we concluded last week, leading to an improvement in overall profitability for the company in the future.

We are progressing on our brownfield bed expansion, which are expected to incrementally add almost 50% to our existing bed capacity. And when operationalized, will eventually see some of our key certainties such as Shalimar Bagh, FMRI, Mohali, PG Road, Noida become more than 450 beds each. This is expected to provide a higher degree of operating leverage in such facilities translating into healthy margin expansion.

Our expansion strategy continues to focus on deepening our cluster presence with the launch of new 70-bed unit in Ludhiana. This is the second facility in Ludhiana and the fourth in Punjab. This will take our total bed strength to ~800 in Punjab region. You will also notice that given our focus on bed expansion, we have also, for the first time, provided further granularity on our bed expansion planned in our investor presentation, close to 2,200 beds in the next 4 years will come through.

Our focus on strengthening our clinical programs continued through the quarter across all our facilities in terms of investing in high-end medical infrastructure and on-boarding new medical talent. The quarter witness addition of several M&A clinicians across various specialties like neurosurgery, oncology, cardiology, gastroenterology and GI surgery.

During the quarter, we commissioned several medical programs and further strengthen medical infrastructure, various facilities which includes the UP's first most advanced artificial intelligence power state-of-art Cath Lab Fortis Hospital, Noida. Neuro ICU and advanced neuro lab at Fortis Hospital, Faridabad and launch of cutting edge surgical robot at Fortis Hospital Anandpur, Kolkata.

Another important aspect to highlight is the on-going success of our digitization initiatives, our strides in digital transformation, particularly with the implementation of EMR advancing positively. Revenue from digital channels such as websites, MyFortisApp and online campaigns grew by 32% year-on-year and their contribution to overall hospital revenues increased to 25.7% versus 21.5% in Q3 of financial year '23.

In this, we have also launched our new patient feedback management system, MyFeedback. This platform will enable more engaging experience for our patients, as feedback will be collected through WhatsApp and QR codes. The application will also enable collection of feedback and addresses immediate patient concerns through its service request feature.

The revenue contribution from the company's focused medical specialities; oncology, orthopaedics, renal sciences, cardiac sciences, neurosciences, and gastroenterology to overall hospital revenue increased to 61.4% in Q3 from 60.9% in Q3 of financial year '23. Specifically, revenue from gastrosciences, neurosciences, and oncology grew by 20%, 13%, and 12% respectively versus the corresponding previous quarter.

In summary, our earning momentum remains healthy, specifically with respect to the hospital business and this I would expect to continue going forward. I say this with a sense of conviction as our future levers of growth are well-defined in our business plans, whether they be towards our brownfield expansion strategy or towards rendering our medical programs and technologies or towards effort to ensure that our patients are delivered a superb patient experience and excellent clinical outcomes.

Thank you and with this I would like to hand over to Mr. Anurag Kalra to take this forward.

Anurag Kalra: Thank you sir. Ladies and gentlemen we will now open the floor for question 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: Thanks for taking my question, sir. Sir, on the hospital performance, the fact that we managed to keep margins flat, despite the bed addition that we saw and the seasonally weak quarter, does indicate the point that you've mentioned that we've been able to do a lot of cost optimization and improvement in efficiency. One, if you could highlight how much of this is already captured in this 18% margin. I mean, is there more scope for this to contribute to margins?

And second, as we see occupancy improve from the nine-month number of 66%, 67% on the existing beds, what is the trajectory? I mean, should we see margins crossing the 20% in the very near term or could that be a little more longer journey? Just trying to understand the, you know, gradient for the margin expansion that we should see in the hospital business?

Vivek Goyal: Yes. Neha, I can take this question. As you rightly mentioned about margins, we are moving towards our target and the guidance given earlier of 20% margin by the year-end. So that we are expecting. And the main lever for our margin expansion is on the occupancy side. As you rightly pointed out, occupancy is slightly lower as against our expectation. And we are below 65% now.

And as we're able to move from the occupancy side, I think this margin improvement will be there. And plus, this divestment as Dr. Raghuvanshi mentioned about Malar, which is effective from first of February 2024, that will also help in improving the margin.

Neha Manpuria: Maybe if I can be a little more specific here. If I have to say the 18% margin improvement, how much of it would come from Malar divestment. And how much of it would then come from, let's say, the other efforts that we are sort of implementing?

Vivek Goyal: Yes. So, I will say around 0.5% - 0.6% of EBITDA margin improvement because of the divestment. The Arcot Road would already factored in this quarter. So I'm not counting that. So that will be on the Malar divestment side. Rest will be majorly from the occupancy improvement and some improvement in the cost side. And as some of the hospital like Ludhiana have operationalize only in the December. So this quarter, the result of that hospital will be also improved.

Neha Manpuria: Okay. So the Ludhiana impact will flow through in the March quarter, the new facility effect?

Vivek Goyal: Yes.

Neha Manpuria: Okay. Understood. And my second question on the international patients, that was flat. I know you did mention in your opening comments that this is because of certain geopolitical issue. How do we now plan to grow this business, given what's going on in the Middle East, and we don't know when that situation improves. Can this number move up from what we are seeing?

Vivek Goyal: Yes. So international business this quarter is slightly less as compared to previous quarter. However, if you see year-to-date, we are doing quite okay. And in the month of January and February, we have seen that the business has come back to its September quarter number. So we expect this will continue to provide a good lever for increasing the occupancy and profitability.

Neha Manpuria: Understood. And last, I don't know if you want to answer this question. But if I were to do a simple consol minus hospital, the residual diagnostic business seems to have seen significant pressure on margins. Is there any one-off cost there? Any color that we can provide there? Again, I don't know if you would give any color, but just trying my luck.

Vivek Goyal: Yes, as Anurag has mentioned, we are not supposed to discuss about the financials of the diagnostic, but I can, this much I can say it's some one-off in this. And the performance is impacted because of the one-off.

Moderator: The next question is from the line of Saurabh Kapadia from Sundaram Mutual Funds. Please go ahead.

Saurabh Kapadia: So first question is on ARPOB so another 19% kind of growth can we sustain? And also, do we have levers further to improve on it given that a few beds additions are coming in.

Vivek Goyal: Yes. So we could see a very good ARPOB increase during this quarter and for the year, also the number is similar. I think it is mainly driven by the high-end cases, the more complex cases companies doing, and as explained by Dr. Raghuvanshi in the initial speech. So we feel that will continue, but the ARPOB increase may not be 10%, 11% going forward, because the base is already very high. So we expect ARPOB increase should be somewhere around 5%.

Saurabh Kapadia: Okay. And this bed addition will lead to some dilution in the payer mix for next year? That would be the assumption?

Vivek Goyal: Not really because the payor mix we are maintaining at below 20% for the scheme business. And we don't want to pick up back too much because we are having heavy bed addition program. And these payors come handy for filling up this bed. So we are not trying to play too much in this, but wherever the opportunity we are trying to optimize.

Saurabh Kapadia: Okay. And my second question is on the medical talent…

Moderator: Sorry to interrupt you, Mr. Kapadia. May I request you to use your handset, sir, your audio is slightly muffled, sir.

Saurabh Kapadia: Is it better?

Moderator: So it's a little lower, sir?

Saurabh Kapadia: So my second question is on the costs related to medical talent. So as the entire cost is there in this quarter? Or how much cost increase should be building for the new talent, what we are adding in?

Ashutosh Raghuvanshi: So the cost of medical talent relatively speaking for us has been a little high. And our hypothesis is as scale up the hospitals as we are planning and the occupancy numbers increase in relative terms, it should come down from the current level. I am pretty sure that it will certainly not go above the current level.

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

Hardik Doshi: So looking at your bed expansion plan, next year, you're looking to add quite a lab on called the 2,200 beds, almost 1/3 of them 710 beds. So are you looking to exit this year at 20% kind of EBITDA margin. I mean how are you looking next year this quarter be addition or drop in occupancy next year, we'll see a lot of bed additions. So does that mean that the drop in margin next year?

Vivek Goyal: Yes. So next year, you rightly picked there is a big bed facility will be coming in. But having said that, this bed capacity, one it will coming at a different point of time. Number two, we may not operationalize the full 710 beds, and the bed operationalization will happen as per the occupancy ramp up thing because that will be the most cost-effective way to achieve the bed ramp-up.

Because we are not opening up entire bed and we will be realizing the bed operationalization based on the occupancy, I'm not seeing much impact on the profitability. And most of these bed except the Manesar one, is coming in our existing hospitals where as per our initial estimate, they should start contributing from the day one. Because in the hospital, we have the bed that is coming they are already operating at a very decent occupancy level. So we don't see that type of challenge there on the margin side.

Hardik Doshi: Okay. So then how should we look at margins for FY '25 and what is the target?

Vivek Goyal: We are maintaining our margin guidance but slowly, as you know, this ramp-up will happen with this bad expansion by next 3 - 4 years, we should be aiming towards 25%.

Hardik Doshi: The other thing was on the expansion divestment strategy. So one of the things -- most of our bed additions are brownfield expansions in our existing facilities. And we were trying to get away from, let's say, a smaller size hospitals to enable larger proportion of them to come to tertiary care.

If you see Ludhiana is a 70-bed facility. So is that really going to act nearly as the feeder to our larger hospitals in Punjab, that's one? And second thing is we've got these two divestments that we've announced in Chennai. What is the pipeline looking from a divestment perspective?

Vivek Goyal: Yes, so if I can answer the Ludhiana one first, you know Ludhiana 2 make a sort of extension to our existing facility. As you know we have a very strong presence in the Punjab side and our other hospital Ludhiana One hospital is doing quite okay. And this hospital from the location perspective, Ludhiana two hospital from the location perspective is idealy suited from the clinician as well as from the patient perspective.

So I think it will be extension of Ludhiana one which would see the performance in a combination of these two hospital and with the type of facility we have built here we are quite hopeful that it will give results going forward at a combined level.

As regard, your other questions on the divestment thing so this is a sort of a continuous type of exercise. So we keep evaluating our portfolio and depending upon our analysis and the result we may look for other hospital also, but right now there is no concrete plan for any of the hospital is not falling in that category for the divestment.

Moderator: Does that answer your question, sir?

Hardik Doshi: Just sorry, to follow up, in the next 12 months, I mean, do you think there will be at least a couple of divestments from you?

Vivek Goyal: Not really. So as I said, there is no active thing we are pursuing right now on the divestment side. And one hospital which is very small, we may look the alternative for that and it is not worth talking also. It is very small hospital.

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

Shyam Srinivasan: Just the first one is on January. I don't know whether you talked about the occupancies, how it's trending. How should we look at quarter 4. And just a related question on this first part is around occupied bed days that they have basically been flat, maybe slightly down. So how should we look at ramping up occupancy for next year? Or is it because of the bed additions, do you think occupancy increase will likely be a challenge?

Vivek Goyal: So Shyam, I can answer this question. Like last quarter, the occupancy is on the lower side because of the two reasons. Our presence in the NCR and Punjab side because of that, this pollution thing and the winter season has affected the occupancy levels. And to some extent, we have extended our bed capacity like Ludhiana two has been added similarly in Mulund we have added the bed capacities.

We are the sizable bed capacity has happened. So that has resulted into the occupancy side. But we are seeing a very healthy trend in January, February. And we are quite hopeful that this occupancy trend will be revived. And we expect this to be towards 70%, maybe in the coming quarter and even for next year.

Shyam Srinivasan: So what is like January number, just a factual question. Is it -- Q4 is better than Q3?

Vivek Goyal: Yes, it is definitely better than the Q3. I'm not having number in front of me January, but it is better than Q3.

Shyam Srinivasan: Helpful. Just the second question is on your slides 20 and 21. I'm just trying to analyse what has happened both in the margin metric. And when I look at FMRI, the Q-o-Q decline was the highest in the top 10 hospitals, right? It's declined Q-o-Q by about 12% when the company did only a 4% decline. And also it looks like it may have been the biggest one that has moved across the buckets from, I don't know if it was in the top one and it has moved to bucket three. I'm just trying to analyze Q2 versus Q3. So anything that is happening at some of our flagship hospitals, if you could highlight?

Vivek Goyal: Yes. So FMRI rightly picked Shyam and FMRI is, as you know, is having very good international business. And last quarter, international business was affected because of the reasons explained earlier. So that was the reason for FMRI drop, and there was couple of changes, not a couple, one change at the clinician level also. That has impacted the FMRI performance. But the performance has revived in the month of January As I said, the international business has come back to its normal level. And we have stabilized that FMRI hospital to the September quarter number.

Shyam Srinivasan: What was the second point, Vivek you mean institutional business. So you were a little fast. What is the second reason?

Vivek Goyal: So I was saying one is the international business. And second is there was some change in our cardiac specialty. One of our premium clinician has moved out. And new will be joining in this quarter. So that's why that quarter is got affected in that particular business in this quarter.

Shyam Srinivasan: Understood. And if you could also comment on the margin metrics. Anything to keep in mind because we have seen actually -- and is it maybe seasonal, I get it, but the 15 to 20 bucket has seen things slipping into 10% to 15%. So I'm just looking at that. And I'm sure the nine also in has actually changed, right? Maybe something like FMRI has fallen out. I don't know which are these hospitals.

But if you could comment on, is there something that we need to be worried about looking at Q3 margin metrics or some of it can be explained by seasonality international patients, etcetera?

Vivek Goyal: Yes. So I think one is the FMRI, that is a better impact given this impact. And as I mean, it has bounced at in the current quarter, and we expect that this hospital will be doing much better during the current quarter and a part of that no other hospital which is having that type of impact on these margin metrics.

Shyam Srinivasan: Got it. Thank you. And my last question is just any update on the High Court legal, anything that is there. Are we still incurring cost, retainer fees for some of the lawyers. So if you could just give us an update on what the legal scenario and the implications on cost.

Vivek Goyal: Yes. So there is not much movement in the legal case. There was a hearing on the potential forensic at the Delhi High Court level. And the hearing was mainly concentrated on the banker side. The bankers, as you know, banker has extended loan facility to ex-promoter entities. Our lawyer was present of course. And we are paying for their fees.

So that for continuing I think the next quarter we should have some hearing and we are quite hopeful that we will be getting some things. That is on the Delhi High Court hearing. Another thing you might have noticed is the list the RHT entity, which is the listed trust. That has been delisted now in Singapore as per the direction of the Singapore Court.

So to that extent, there will be some savings in the cost in the next year because the entity still remain until it is liquidated.

Shyam Srinivasan: Any quantum you want to share Vivek what those cost savings are?

Vivek Goyal: Yes, it will be in the tune of I think, INR 5 crores annual.

Moderator: The next question is from the line of Bansi Desai from JPMorgan.

Bansi Desai: My question is on some of our low-margin hospitals. We have almost 150 beds, which one-fourth of our capacity which are right now yielding less than 10% margin. I know the hospitals here. Each of them have a unique set of challenges. But how is the management thinking about the turnaround here? And should we expect this cohort to have a gradual improvement or this should also contribute meaningfully to our margin improvement goal going forward?

Vivek Goyal: Yes. So we have done some structural changes in this hospital and that have started showing the results but it is still below 10%. So from the negative EBITDA margins in the initial years when 2019-2020, that have started showing around 10% EBITDA margin. But still there is a lot of work still needs to be done on the structure side.

And it will need some time. I don't think so there will be a dramatic improvement in the profitability metrics for this hospital. But I think we are moving in the right direction. And over a period of time, maybe in a couple of years' time, we will see some results of our efforts.

Bansi Desai: And my second question is on the general pricing levels in the industry today. We've seen very strong ARPOP in the industry over the last four, five years. Is insurance regulator worried about these pricing levels? Are you having any kind of dialogue with them? Are they seeing these prices to be high? Or do you think these price increases are largely taken to meet the medical cost inflation and therefore, are justified from that perspective.

So any colour on the pricing dialog that you could be having with the insurance regulator on how they are viewing the pricing today in the industry?

Vivek Goyal: Yes. So I will answer and then Mr. Raghuvanshi may add to that. If you see the price increase is mainly attributable towards the speciality mix change. And the type of procedures we are doing, which is the high-end procedures. So it is not because of increase in the price increase.

If you see our price increase at overall level from the previous year, it is coming around 1%, 1.5% only.

So at a consolidated level. So of course, it will be coming around 4% - 4.5%, which is linked to the to the inflation side. So I don't see that type of challenge here, the ARPOP increase is mainly attributed to the mix change in the center specialty mix and type of procedures we are in.

Ashutosh Raghuvanshi: Yes. Other than that I would say that the industry body level, these dialogues are continuously on. And I think this debate will be an ongoing issue. And there is no endpoint for this because as insurance has an upper hand, they would obviously like to control the prices. But there is no specific stress at the moment.

Moderator: Our next question is from the line of Bino Patiparaveer from Elara Capital.

Bino Patiparaveer: Before I get into my question, just a recap on an earlier question on Agilus. I think your voice was a little muffled. Is that there was some one-off or there was no one-off?

Vivek Goyal: Agilus, as I have mentioned, we can't disclose much. So there is a one-off impact in that financial.

Bino Patiparaveer: Coming to my main question. I was just trying to understand a little bit between comparing the two slides that you have given that like expansion plan. So first, I'm looking at FY24, you are adding about 237 beds of which I assume the Ludhiana facility, 70 beds is included in that?

Vivek Goyal: Ludhiana is around 55 beds. Then there is a Mulund facility where we have added 70, 80 beds there. then we have operationalized in Kolkata facility around 30-40 beds. And rest is I think BG Road in Bangalore, a couple of facilities we have added there.

Bino Patiparaveer: Okay. So Ludhiana is the only new facility per se, right?

Vivek Goyal: And there is Mohali also we have added 35 beds in the industry.

Bino Patiparaveer: But in terms of new facility Ludhiana is the only one, right?

Vivek Goyal: Yes. It is only the Ludhiana. And then we mentioned not new in the true sense because it is having good synergy with existing hospital.

Bino Patiparaveer: Understood. And when I look at FY25, out of the 710, I assume roughly 350 will be the acquired Medeor hospital, right?

Vivek Goyal: Yes.

Bino Patiparaveer: Okay. So may I have a rough understanding of where the rest 350 will be spread out like?

Vivek Goyal: Yes. So I will say out of 700 almost 300-plus beds is of the Manesar facility. So we have this 350 bed acquisition in Manesar. So our plan is not to open the entire the bed at one go.

Because of the cost optimizing point of view. So there will be maybe, we will start with 100 bed and then we'll see how the ramp-up goes up.

And if we see increasing we may open another beds during that period. And depending upon the ramp-up, we will try to do that and as we mentioned, it will be in the different time zone. So like Manesar, we will be opening maybe better mid of the year. So that type of impact will also be there. And the other major capacity expansion is coming in the Anandpur facility and the BG road facility.

And one, of course, the Faridabad expansion thing which will be operationalized in the next financial year. So those things, I think we will be operationalizing over a period of time. It will be around 350 beds will be operationalized by the year.

Bino Patiparaveer: Understood. And the last question, the biggest bed increase seems to be happening in the NCR around 1,000 beds over the next two years, 1,000-plus. Shalimar Bagh and from what I understand would be ground fields. Noida and Manesar, Manesar, are you referring there the same maybe or sorry, Noida and Manesar, are they completely brownfield or new facilities at…

Vivek Goyal: Existing hospital. And there, we are expanding the facility. So it is brownfield. Noida is brownfield. Manesar is the existing hospital, but it was not fully operational, and we are making it operational after doing some reengineering of it.

Moderator: Our next question is from the line of Nikhil Mathur from HDFC Mutual Fund.

Nikhil Mathur: Yes. So my question is linked to the bed expansion plan. What we see from your margin metrics over the years is that almost 35%- 40% of beds, they tend to be in the less than 15% EBITDA margin range. Now can you give some colour on the bed expansion plan? How much of beds are getting added in this less than 15% EBITDA margin range. I suppose that there are -- I mean, more of these certainties are operating our occupancy of more than 50%. So absorption of fixed costs via a number of -- more number of it is perhaps the only way you can improve your margins structurally in these facilities?

Vivek Goyal: Yes. So let me clarify, the bed expansion is not happening in any of these hospitals, which are less the 15% EBITDA margin. So the bed expansion is happening in the hospital, which are operating at almost 70% to 75% occupancy level. and they are operating at a decent EBITDA margin of 20% plus.

Nikhil Mathur: Sir, but if your occupancy of 10% to 15% EBITDA margin range, facilities is 67%, less than 10% is also not too bad at 54%, so what are the chances of EBITDA margins in these facilities improving structurally? I mean, I fail to understand how that will kind of happen.

Vivek Goyal: Yes. That's why it will not be happening immediately. And it will be a gradual thing. And we have to give two - three years' time for things to materialize. So it will not be immediate. I will not said it will immediately improve EBITDA margin on these hospitals..

Nikhil Mathur: So sir, on a two, three year horizon as well -- I mean, there is inflation that will catch up on various costs. There's been expansion happening across the country. There will be poaching pressure as well on your talent and all unless now you are saying that your ARPOB increases in the less than 10% facilities by substantially maybe 12%, 13% then perhaps your EBITDA margins can improve in these facilities. But even on two to three horizon, how will that kind of happen.

Vivek Goyal: Yes. So as I have mentioned, there are two reasons for increasing the EBITDA margin. Our ability to react prices is limited, as you know. We are operating in a slightly different environment. So we are not expecting we will able to increase the price at 5% - 6% at a consol level, okay? So that is given assumption. But having said that, the EBITDA margin improvement will happen on two fronts.

One is on the occupancy side. As our occupancy level goes up, we're able to utilize our existing infrastructure and the cost base will be higher. And with that, our EBITDA margin will improve. That is on one side. And and similar to that if we are going for brownfield expansion that also lead to the margin improvement because we are adding the bed in the existing infrastructure itself.

So the cost will be shared with the larger base, and that will help in improving the margins.

Nikhil Mathur: Okay. And you mentioned that in the overall above increase, there is very less increase in pricing, it's more of mix. So can you give two other examples of these mix changes, which has kind of contributed to this ARPOB increase. I mean not all there could be many examples of this, but if two-three examples can be given on how this ARPOB is increasing?

Vivek Goyal: Yes. One is immediately in my mind, is the oncology business, you know oncology business it's generally high ARPOB business. And the margin is slightly less. But when we see the gross revenue divided by the number of beds for this onco business, the ARPOB will be higher. Onco business is growing at a decent pace for us and we expect this will continue because of our focus on this specialty. And similarly, the neuro where we are quite strong and we are strengthening our presence in neuro, that is also lead to ARPOB increase. Then we have invested in a lot of robotic surgeries and things like that. And that should lead to the high ARPOB business going forward.

Nikhil Mathur: Any capex number you can share in, let's say, last 12 months, 18 months, which has boosted your capabilities on these onco and neuro cases, any capex number you can think?

Vivek Kumar Goyal: Yes. So I can give you the current year number itself. For the 9 months, we have spent already INR 450 crores in the capex. And I think the similar trend will be for the current quarter. So I think we are investing a lot in our technology. We have invested in the state-of-the-art Gamma Knife in our Flagship hospital.

We have invested in MR-Linac. Two of the Linac we have replaced, the CATH lab and we have a Da Vinci Robot we have invested. And the robotic surgeries also, Ortho Robot, also we have invested INR 5 crores, INR 6 crores. So we are not hesitating in investment in the technology, and that is yielding the results.

Moderator: Our next question is from Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Just one clarification. The notice that we have got from the Anti-Corruption Bureau for the Mohalla Clinic, is that -- is there some amount of that impact also in the December quarter or that will flow through from this quarter onwards?

Vivek Kumar Goyal: No. That is the major impact actually in that quarter.

Neha Manpuria: In the December quarter, right?

Vivek Kumar Goyal: Yes.

Neha Manpuria: Okay. Understood. And my second question is just a follow-up from the previous participants. If I were to look at less than 10% margin bracket, if you could pick two or three of the largest hospitals that probably dragged the margin profile for the company. And what are the structural measures that you're talking about in each of these. That would probably help us understand it better as to why it will take three, four years to improve performance in these hospitals.

Vivek Kumar Goyal: Yes, I will pick two. One is FEHI and second is Jaipur one. And both are 300-plus bedded hospital. And both have a good potential, as you all know. So in Jaipur, we have a location advantage. It is located in a premium location. We have good clinician teams, and it is having a good brand equity in that region. And the thing it is lagging is it is not having the full basket of facilities which we can offer for the hospital of this size.

So we are trying to add radio, onco there, and that will take itself for one, one and a half years to plan that thing because bunker and other thing will be required to be built, and then there will be some construction activity will have to happen. And we hope that with that you know this hospital should be moving above 15% EBITDA margin for sure. So that is on the Jaipur side.

And secondly, on the FEHI side, we are trying to add other specialties. It is mainly a cardiac center. We are trying to add other specialties so that you know the cost base can be paired with the increase in the revenue. And this hospital again is having a very good brand equity and it will be a decent size hospital. So I think with this attracting clinician talent for a cardiac business and then stabilizing them take some time and that's why I'm saying it will take a minimum two years' time from now to start showing the result for these two hospitals.

Plus we are doing lot of work on the cost side in both these hospitals, whatever we can do on the cost side on the manpower, productivity side, on the other cost initiatives which we are taking. So I think all those will start showing results maybe in a two years' time. Actually already started seeing results if you see the performance is improving for both these hospitals.

Moderator: Our next question is from the line of Harsh from Bandhan AMC. Please go ahead.

Harsh: I just wanted to understand to pick up from the previous question in terms of FEHI and Jaipur, you adding radio, oncology, cardiac division and all the other areas. If you look at the overall margin metrics, let's say, nine facilities below 15% margin, could you help us understand that the ability to provide more and more high-end surgeries and clinical work, can this be expanded to, let's say, these other 9, 10 facilities, which are making less than 15% margin?

Or this is more of a selective play across, let's say, only two or three facilities, which are making more margin. Because the reason that I'm asking is that the feedback is that, because of insurance penetration, there's a lot more affordability in Tier 1, Tier 2, Tier 3 cities as such. So in that context, if you could help us understand.

Vivek Kumar Goyal: Yes. So if I can answer this way. Out of the 9 hospitals, 2 hospitals are where we are doing the expansion. One is the Faridabad one where the operation is slightly affected because of the ongoing extension it is disturbing the existing operation. And as I mentioned earlier, the extension program will be completed during this next financial year, early part of the next financial year.

And we expect when there will be higher bed capacity and the cost base will be paired with the higher bed. And secondly, the disturbance will not be there. So I'm 100% sure that Faridabad hospital will definitely move up in the ladder. Second is Ludhiana, that is more affected because of this seasonal impact and that is not a worry for us.

So out of seven, two we can take out very easily. Then remaining five; out of five, one we have already divested. Another is a small hospital in Bangalore which is actually a very small hospital and we are looking for various alternatives, maybe including shutting it down also. So the two hospitals we have already discussed.

Another two hospitals are hospitals where we have rental premises. So there is a rent sitting on it and a 6%, 7% rent if we add. Because of that, the EBITDA margin is slightly on the lower side. But we are doing some work and we are hopeful that at least 15% margin, these two hospitals, we will be able to do.

Harsh: So from a clinical -- yes, so from a clinical aspect, Ludhiana, Faridabad, Jaipur and FEHI are the areas where you can possibly provide more in terms of the on-ground clinical options.

Vivek Kumar Goyal: Yes, you're right. These are the four hospitals where that improvement will be slightly on the faster side.

Moderator: Our next question is from the line of Bansi Desai from JPMorgan. Please go ahead.

Bansi Desai: I just needed one clarification. I don't know how much you can provide color on this. But for the private equity investors in Agilus, the timelines of providing exit to them are about February of 2024. Am I correct? And does that stand true or does that hold with the IPO now?

Vivek Kumar Goyal: Yes. So as per existing agreement, the timeline is April '24. And as you all know, we have filed the DRHP we are still waiting for SEBI clearance. So we are actually we are standing at that point now.

Bansi Desai: Okay. Got it.

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

Anurag Kalra: Yes. Thank you very much, ladies and gentlemen, for your time. If there are any follow-up questions, please reach out to me or my colleagues. We'll be happy to address them as best possible. Thank you very much again and have a good day.

Moderator: Thank you. On behalf of Fortis Healthcare, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines.