

**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

August 11, 2023

FHL/SEC/2023-24

**The National Stock Exchange of India Ltd.
Scrip Symbol: FORTIS**

**BSE Limited
Scrip Code:532843**

Sub: Transcript 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 herewith the Transcript of the investors / analysts meet held on August 7, 2023 to discuss the Company's un-audited financial results for the quarter ended June 30, 2023. Further, the said transcript is also available on the website of the Company i.e. [Transcript](#)

This is for your kind information and record.

Thanking you,

Yours Faithfully
For **Fortis Healthcare Limited**

**Murlee Manohar Jain
Company Secretary & Compliance Officer
M. No. F9598**

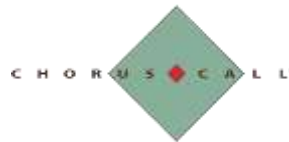
Encl: a/a



“Fortis Healthcare Limited”

Q1 FY’24 Post Results Conference Call”

August 07, 2023



**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. GAURAV CHUGH – GENERAL MANAGER,
INVESTOR RELATIONS, FORTIS HEALTHCARE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Fortis Healthcare Limited Q1 FY '24 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.

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

Anurag Kalra: Thank you, Selvin. A very good afternoon, good morning, ladies and gentlemen, and thank you for joining us on the quarter 1 FY '24, Fortis Healthcare call. With me on the call today are our Managing Director and CEO, Dr Ashutosh Raghuvanshi. We have our Chief Financial Officer, Mr. Vivek Goyal. And we have Gaurav, my colleague in Investor Relations.

Before we start off, I hope all of you have got a chance to look at the presentation and the press release. I would also want this opportunity to probably tell you that in addition to our standard disclaimers, we've also given a disclaimer regarding the Board resolution passed by both Fortis and Agilus Diagnostics Limited on initiating the process of the initial public offer. In that respect, I would want to read out the disclaimer for everybody's benefit.

Agilus Diagnostics Limited, a subsidiary of Fortis Healthcare Limited is proposing, subject to the receipt of requisite approvals, market conditions and other considerations, an initial public offer of its equity shares in the near future and is in the process of filing a draft red-herring prospectus with the Securities and Exchange Board of India. The Board of Directors of Fortis and Agilus Diagnostics Limited has approved the process of initiating proposed IPO in its Board meeting held on August 4th, 2023.

In light of the publicity restrictions imposed on Agilus Diagnostics Limited and Fortis, no further information other than that contained in this presentation can be disclosed. The equity shares have not been and will not be registered under the United States Securities Act of 1933, as amended or any other applicable law of the United States and unless so registered, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws.

The equity shares may only be offered and sold in the United States only to qualified institutional buyers, as defined in Rule 144A, in private transactions exempt from the registration requirements of the U.S. Securities Act, and outside of the United States in offshore transactions, as defined in and in compliance with Regulation S and the applicable laws of the jurisdiction, where any such offers and sales are made. There will be no public offering in the United States.

It is in light of this disclaimer that we also do not have today the management of Agilus Diagnostics Limited with us. We will start with some opening comments by Dr Ashutosh

Raghuvanshi post which we can open the floor for question-and-answers. Over to Dr Raghuvanshi.

Ashutosh Raghuvanshi: Thank you, Anurag. Very good morning and good afternoon to everyone, and thank you for your time to join us on our Q1 financial year 24 earnings. I hope all of you are well.

Before I talk about the performance of the company for the quarter, I would like to talk about a few key strategic actions with respect to both our hospitals and diagnostic business. This I must add clearly signifies our intent to move forward and ensure that the company is well placed to further enhance its growth momentum.

Let me quickly take you through some of these developments. I'll start with the diagnostics business. During the quarter, we have changed the name of our diagnostics business, which is now known as Agilus Diagnostics Limited. I'm particularly pleased to share that the Board of Fortis and Agilus have granted approval for Agilus Diagnostics to initiate an initial public offering process by way of an offer for sale for its equity share subject to receipt of requisite approvals, market conditions and other considerations.

On the hospital business, before I move on to the financials, we are well aware of our portfolio rationalization strategy for quite some time, which would enable us to allocate our resources more efficiently. To this effect in July 2023, we have divested our Arcot Road hospital operation for INR152 crores. For financial year 23, the Arcot facility had a revenue of INR 51 crores and an EBITDA loss of INR36 crores.

We have in the quarter also signed definitive agreements to acquire a 350-bedded hospital in Manesar for INR 225 crores, enabling us to increase our footprint in Delhi NCR and accelerate our focus on key geographical clusters. This acquisition complements well with our flagship facility at FMRI in Gurugram, and we hope to close this acquisition shortly. These were some of the key corporate actions.

Let me now take you through the performance of -- for the company -- of the company for the quarter. A year has begun on a steady note, as we witnessed a growth in our consolidated revenue compared to Q1 of financial 23. Our revenues have increased by 11.4%, reaching INR 1,657 crores in Q1 of financial year 24.

Our consolidated operating EBITDA margins were at 16.5% versus 16.9%, And our reported profit after tax was INR 124 crores versus INR 134 crores.

On the balance sheet side, we remain quite healthy with the net debt-to-EBITDA of 0.35x, as on June 30th, 2023, compared to 0.54x, as on June 30, 2022. Our net debt stands at INR 393 crores as on June 30, 2023.

Coming specifically to the hospital business, we have witnessed a revenue growth of 13.6% to INR 1,354 crores compared to INR 1,192 crores in Q1 of financial year 23. Operating EBITDA stood at INR 206 crores, reflecting a margin of 15.2% and EBITDA growth of 6.8% compared to Q1 of financial year '23.

Generally, Q1 is a relatively softer quarter. The business performance was also impacted due to a slightly lower occupancy and a comparatively less favourable payor mix, which was a bit skewed towards the government related business. While occupancy was at 64% versus 65% in the previous period, our ARPOB rose by 12% to INR 60,076 per day, about INR 2.19 crores on an annualized basis. I do expect that we will see an improved set of key performance metrics in the quarters to come.

Our investments in bed expansion and medical equipment are on track with the latter seeing the commissioning of a Da Vinci Robotic system at Fortis Noida in the quarter. We remain on course for a planned addition of close to 1,400 beds in coming 2 years to 3 years. These include expansions in some of our key facilities like Mulund, FMRI, Noida, Shalimar Bagh and a few more.

Some of these facilities that I just mentioned would gain significant scale and size reaching to almost 450 beds to 500 beds. We are also actively enhancing our presence in some key medical specialties like oncology. This specialty has grown 34% on year-on-year basis and now contributes almost 14% to our revenue. Our top 6 specialties contribute over 60% to our hospital revenues.

During the quarter, we have onboarded eminent clinical specialists in the medical field of urology, pulmonology and neurology to further augment our plans to grow these specialties. International patient revenue continues to see good traction. International patient revenue grew a healthy 29% contributing 8.5% to the overall hospital business revenue, up from 7.5% in Q1 of financial year 23.

On our diagnostics business, please do appreciate that I would have to be very limited in my comments since we have to adhere to the publicity guidelines in place, having initiated the Agilus Diagnostics IPO process. The business reported gross revenue of INR 343 crores, a growth of 3% versus quarter 1 of financial year 23. However, the non-COVID revenues have grown 9% versus the corresponding previous quarter. Our operating EBITDA margin reached 19.4% compared to 17.4% in Q1 of financial year 23 and 14.9% in Q4 of financial year 23.

With this, I'll conclude my comments. I think it has been a steady start to the fiscal 2024. We have started to progress on some of our growth and portfolio rationalization priority that we have been talking to you about in the past. We will also continue to pursue and evaluate various growth opportunities that fits well with our cluster strategy and provide attractive synergies. These, I believe, would further augment our growth levers and place us well in the healthcare landscape here. Thank you. And with that, I would like to hand over the call to Anurag.

Anurag Kalra:

Thank you, sir. Ladies and gentlemen, we will now open the floor for question-and-answers. Selvin, if I could ask you to moderate, please. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Nikhil Mathur from HDFC Mutual Funds.

Nikhil Mathur:

Sir, my first question is on the revenue by asset that you disclosed in your presentation, there seems to be a kind of a stark difference here in the sense that if I look at on a quarter-on-quarter

basis, some of the flagship or the larger hospitals have done fairly well, whether it is FMRI, Mohali, BG Road, even Noida and Shalimar Bagh aren't that bad either despite Q1 being seasonally weak, but the smaller hospital seems to have done worse off than the larger ones. So, is there any key reason here, I mean, some competitive pressures or general slowdown, what are the key reasons for the underperformance of the smaller assets?

Vivek Kumar Goyal: Generally, if you have seen the trend in terms of the surgical revenue has gone up, and which is the case for the larger hospitals. So, smaller hospital generally the gyne and other business, which is having a softer quarter over the period. So, that is the main reason plus some of the specific units are having some specific problems like Kalyan in Mumbai, there is a -- because of this rainy season and other things, the accessibility to the hospital was affected. So, those type of region are specific to some of the units.

Nikhil Mathur: Okay. And in the last quarter concall, there was a margin guidance share on the hospital side. I think it was somewhere to trend around 19%, 20% in the coming quarters or so. So, where are you on that particular guidance? Does it still hold or you're revising it onwards?

Vivek Kumar Goyal: Yes. So, we are maintaining that guidance, Nikhil and as Dr. Raghuvanshi said it is a good start in terms of revenue. Profitability is slightly on the lower side, but we expect to pick up the pace in the forthcoming quarters.

Nikhil Mathur: Right. And also, sir, I mean, Dr. Raghuvanshi, now that we are almost 6 quarters, 7 quarters past the peak COVID had happened. What are your thoughts on the footfalls on the hospital side. I mean, there is still a divided opinion whether there was a pent-up angle in the last 3 quarters, 4 quarters or not post-COVID. So, any broad thoughts that you can share whether we are slightly heading into some sort of a slowdown or things are kind of looking, as would have -- you would have thought a couple of quarters back?

Ashutosh Raghuvanshi: No, I don't think there is any slowdown. There is certainly no pent-up demand as well that is whatever was there, was limited to some elective procedures, as in the previous quarters also, we mentioned that there was a surge in like, for example, in joint replacements, etcetera. But overall, most specialties remained in the same ratios, as they are now, or they were before the pandemic.

So, I don't think that is the case nor is the footfall getting affected. The reason why this quarter also has had a little bit of this thing is because of a little bit of unseasonal rains, etcetera. And in our case, specifically, other than the occupancy, we also had an unfavourable mix in terms of the government scheme ratio being slightly higher and that resulted in a slightly lower profitability, though the growth on the revenue side was very healthy.

We expect the trend on the revenue to grow. At the same time, we are very focused on the cost side and make sure that the profitable profile remains same, as what we had guided earlier. And we are very much on that trajectory and some of the corporate actions, which we are taking will also help us to achieve that rather quickly over the next 2 quarters or 3 quarters.

Nikhil Mathur: Sure sir. Thanks a lot. I will get back in the queue.

Moderator: Thank you. The next question comes from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: My first question is on occupancy, which appears to be significantly lower than what one might have expected, given how normalized the environment now is. Just wanted to understand beyond the seasonal rains, are there any other one-offs that explain this and how should we think about the long-term steady state occupancies at the group level?

Ashutosh Raghuvanshi: Yes. The occupancy trends, what we see currently in the current month is back towards a healthy number. The reasons why this occupancy was low in the previous quarter, I think one of the major reasons was the seasonal variation, summer vacations had a huge impact sometimes. And I think those were the reasons why the occupancy levels have been low. And as I mentioned in the previous answer that there were also a lot of unseasonal rains in this period, which also disrupted some of the routine work.

Vivek Kumar Goyal: And plus, there is some addition of bed which has happened during the quarter, the ramp up of which will be showing up in the forthcoming quarters.

Amit Khetan: Got it. And you still stick to this guidance of occupancy trending towards 70% over, say, 2 years or 3 years?

Ashutosh Raghuvanshi: Yes, yes, absolutely.

Amit Khetan: Got it. Secondly, on the diagnostics business, have we considered a demerger instead of an IPO because it will continue to be a subsidiary of Fortis and will attract some kind of a holdco discount?

Anurag Kalra: Amit, this is unfortunately, given the publicity guidelines in force we been advised by legal counsel handling this not to make any comment. So, the apologies, we will not be able to say anything on this one.

Amit Khetan: Fair enough. Thank you.

Moderator: Thank you. The next question comes from the line of Anish Deora from Nomura.

Anish Deora: So, my question is related to ARPOB. So, this quarter has seen actually a good increase of around 5% quarter-on-quarter in ARPOB, and on a year-on-year basis, almost a 12% increase. I think this is supported by increasing like a good surgical mix at 61%, and also improving Onco contribution. So, could you please confirm if the increase in ARPOB is being explained by these reasons and how should we like look at the ARPOB growth number for FY'24, if you could just guide on that?

Vivek Kumar Goyal: Yes. So, there are as you rightly mentioned, there are a couple of reasons. One is this improvement in the mix towards surgical business, which is mainly in Ortho and Onco. And secondly, there is some price revision that has happened in the government channel also, and we have also taken some price increase, that has also resulted into ARPOB increase. Going forward, we are expecting around 4% to 5% ARPOB increase on a year-to-year basis.

- Anish Deora:** Okay. Thanks.
- Moderator:** Thank you. The next question comes from the line of Saurabh Kapadia from Sundaram Mutual Funds. Please go ahead.
- Saurabh Kapadia:** Yes. Thanks for the opportunity. Sir, if you can talk about the margin for the individual hospital, the margin metrics you have on your slide, so Q1FY4 compared to Q4 and some of the hospital has come in terms of lower margin or what has happened there?
- Anurag Kalra:** So, Saurabh, first of all, we just want to provide a clarification. The chart that you've seen in quarter 1 FY '24 is after corporate cost allocation. This is so that we can align with our reported margins also. And versus that, the other chart for FY'23 is before corporate cost allocation. So, allow me to just run you through on a like-for-like basis how that change has happened.
- So, when you look at the number of hospitals that are below 10% in quarter -- in FY'23, there was 7 hospitals. Now, there is an addition, there is one more additional hospital there. In the margin range of between 10% to 15%, in FY'23, the whole of FY'23, we had 2 hospitals, that's actually gone up to about 4 hospitals now. In the range of 15% to 20%, we remain static. There were 7 hospitals in FY'23. In quarter 1, FY '24, there remains 7 hospitals.
- However, I think the gap is about -- between the 20% to 25% margin range, where the whole of FY'23, we had 6 hospitals and now we have about 3 hospitals and the hospitals that have been missing, the 3 hospitals that has actually come down a tad bit, so that they go into the next category are actually BG Road, Mulund, and Kalyan. So, I think, the crux over here is that we are not very different in quarter 1, FY'24, as we were in FY'23, and we hope to flow those back to show progressively better chart, as we move forward.
- Saurabh Kapadia:** Okay. Sir, in the below 10%, are there any loss-making unit in this quarter?
- Anurag Kalra:** So, one of the loss-making unit that is no longer there is what the Arcot Road facility, as Dr. Raghuvanshi in his opening comments mentioned that, that is a facility that was running at about INR36 crores losses on an annualized basis. So, I think, that benefit we will see because we closed this transaction on July 12th, so that benefit we will see in this quarter.
- Other than that, yes, there are couple of more facilities, like our facility in Chennai, which is Fortis Malar, and we have a smaller facility Sacred Heart in Bengaluru, that are loss-making. Other than that, there are other facilities in that bracket, but they are not loss-making, they are less than 10%.
- Saurabh Kapadia:** Okay. And sir, second question on the staff cost, if we compare to Q4 that has seen almost INR 25 odd crores jump in the staff cost, so any one-off there or also in other expenses, is there any one-off in this quarter?
- Vivek Kumar Goyal:** Yes. You are talking about the employee cost?
- Saurabh Kapadia:** Employee cost, yes.

- Vivek Kumar Goyal:** Yes. So, employee cost in this quarter is slightly on higher side if you compare with the previous quarter because of the annual increment impact is build in this quarter, so which is 7% to 8% build up is there.
- Ashutosh Raghuvanshi:** And there is some additional clinical talent we acquired, as I mentioned in my opening remarks, that is also something, which has increased this.
- Saurabh Kapadia:** Okay. And there are no one-offs in other expense as well, sir?
- Vivek Kumar Goyal:** Yes. That is not in the employee cost, but there are a couple of one-offs in the current quarter. One is the building regulations cost, which is coming under general administrative expenses. For Anandapur, we have now got all the approvals, and we will be very soon operationalizing that 80-bed, which were long pending, Anandapur in Kolkata, I mean. And then there is slightly higher legal costs in the current quarter, as compared to the previous quarter because all the -- because of all the legal issues company is grappling it.
- Saurabh Kapadia:** So, can you quantify the number?
- Vivek Kumar Goyal:** Yes. Anandapur one is around INR 3.5 crores and the legal cost is -- incremental is around INR 3 crores.
- Saurabh Kapadia:** Okay. Thank you. That's all from my side. Thank you. All the best.
- Moderator:** Thank you. The next question comes from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** Thank you for taking my question. Just trying to deconstruct the 13.5% growth in the hospitals, looks like most of it has come from just ARPOB increase 12%, right? So, little is there a concern on utilization just going back to one of the earlier participants' question, 64% -- you said July has started better occupancy, so what gives us the comfort, Dr. Ashutosh to say, can we go to 65%, 66%, 70% onwards whatever, right. So, what are some of the things in the pipeline?
- I also want to know an additional question; I think your slide shows 4,500 operational beds now. I thought that number was, like, closer to 4,000, which is what you've always historically say. So, what is the addition in terms of beds as well during the quarter I think, Vivek sir, also mentioned something, so?
- Anurag Kalra:** So, Shyam, just to clarify that, that includes our O&M beds, so we're still around the 4,000, 4,100 number. But if you were to look at our O&M facilities, those being in S. L. Raheja, Vasant Kunj, etc, we are about 4,500 beds. So, that just to give a holistic picture. That chart is just to give a holistic picture on the total number of beds, including O&M.
- Ashutosh Raghuvanshi:** Yes. And as far as occupancy is concerned, Shyam, we are seeing the trend going towards normalization and we are pretty confident that it will remain at the levels at which we had predicted at about 70% and then go higher on that. So, that is the aim. So, we are pretty confident that this will remain in the right direction. It's going in the right direction. The trend in the current month is indicating that.

So, I'm not too concerned about this. That definitely this was -- the growth in the revenue was driven by ARPOB, you are absolutely right on that. But I think as Vivek mentioned earlier, one of the growth lines was Oncology, where the contribution margins are little lower. So, in spite of the fact that the revenue grew higher, the margins were not in the same proportion. So, these have been few factors because of which we had a little suppressed ask.

Shyam Srinivasan:

Helpful, Dr. Sir. Second question is on the professional charges or the fees to the doctors, the line item there, right, and you're also opening comments around hiring new doctors, so how was the dynamics right now around new hires? When I look at that line item has grown faster than revenue growth, like 14%, so how should we look at new hires?

Is there some kind of inflation that you're seeing? Is there something that -- some of these line items had remained a little suppressed during COVID, we are now starting to see that come back. What are the kind of wage hikes that one is kind of planning? And how do we kind of mitigate this by, if I were to marry the guidance of margins to be 18% plus for the hospital business, how can we achieve higher margins given this wage inflation?

Ashutosh Raghuvanshi:

Yes. So, whatever increases had to be done in the fixed part of remuneration or declaration, that has already been done, and you are right that post COVID in last 6 months, 7 months, we have made quite a few modifications there. However, specific to this quarter, one of the reasons why this element is higher is also because the surgical volume was high, where typically the payouts are larger. So, all these things have led to the current picture. The clinicians, which have come on board new, they obviously will start attracting more work, as we go into the next few quarters and that will sort of even out.

Having said that, we have been mindful always that our overall ratio of the costs on the employee side sometimes have been slightly higher and some bit of rationalization over there is required. So, we will definitely be working in that direction over the next 2 quarters or 3 quarters and by the end of the year, we expect that to come to a better level.

As far as the 18% level is concerned, I think we are well within that direction. This quarter, of course, because of the lower occupancy and the higher ratio of the scheme business, we could not achieve that number. But we are pretty confident that going forward, we will be on this good trajectory to achieve what we had mentioned earlier.

Shyam Srinivasan:

Thank you. And, last question, I know you are constrained from giving anything. But on the Agilus, is there any timeline, sir, just from past information that we need to keep in mind? Is it the private equity exit, which is Feb 2024, which should be used as a benchmark around when timelines could materialize? Also, your thoughts on how much will the stake that Fortis will have? Eventually, will it fully divest, or will it still have some ownership, anything, any colour here will be helpful, Dr. Ashutosh?

Ashutosh Raghuvanshi:

I cannot give you anything specific in this, Shyam, unfortunately. However, I can tell you that one of the things, which we said, that market conditions is what is going to determine. Of course, the process has its own timelines, and it will flow according to that. So, as we have mentioned and made it known to the public at large is that we are initiating the process. So, there are various

steps, and we would not like to hazard a guess. But as soon as the steps are achieved and satisfactorily and we get the necessary approvals, etcetera, we will keep moving on it. So, a reasonable timeframe, you can deduct from what is the general rule of the industry.

Shyam Srinivasan: Okay, sir. Thank you and all the best.

Moderator: Thank you. The next question comes from the line of Banshi Desai from JPMorgan. Please go ahead.

Banshi Desai: Yes. Hi, thank you for taking my question. So firstly, on the margin metrics, we see eight hospitals doing less than 10% margins. Sir, if you can quantify how many of these would be potential divestment candidates for us?

Anurag Kalra: Banshi, that is something that we keep on constantly evaluating. Each hospital has to be given an adequate time to have a runway to profitability. If we don't see any progress in that, then those decisions will be taken at that point in time. For example, we saw Arcot Road for quite some time, and I think the performance of the hospital continued to be less than our expectations, and finally we've divested it. So, it will be on a case-to-case basis. It will be difficult to hazard a guess right now.

Banshi Desai: Okay. And when you had quantified in the past that you could see almost 100 basis points to 200 basis points of improvement on account of divestment, you would have assumed a certain number of hospitals to be divested, right? So, I was just trying to understand, would you have any number in mind, as to what can lead to that 100 basis points to 200 basis points addition to our margins?

Anurag Kalra: Banshi, Arcot EBITDA loss was approx. INR 36 Cr. So, if you take out the top line of INR 50 odd crores and its loss, and you look at the EBITDA, I think that's about an 80-basis points improvement is there.

Banshi Desai: And, secondly, on the expansion, I know you guys have mentioned 1,400 beds over the next 2 years, 3 years, if you can just call out how many beds do we expect in each of these years over the next 2 years, 3 years, and where all would these come?

Vivek Kumar Goyal: Yes. So Banshi, I'll take the question. So, these 1,400 beds are mainly coming in NCR region. So, all of our NCR region, we are expanding, whether it is FMRI, Noida, Shalimar Bagh, Faridabad, all the units we are expanding. Plus, there is adjacent land parcel in Mohali, that also we'd be expanding. Mulund, we have just completed the expansion program last quarter. And then, BG Road, the building is ready. We are just waiting for the occupancy certificate. Plus the Kolkata, I have just mentioned in the beginning comments. We have got all the approvals. Now we're operationalizing 80 beds in Kolkata.

So, with all these things we will be completing these 1,400 beds. So, it will be -- because most of this is coming in the form of new building and which will take 2 years to 3 years' time to build and then operationalize the bed. So, I am expecting 300 beds to 400 beds every year from now onwards. And then, in the latter part of the year, say third year and fourth year, this number will go up to 500 beds.

- Bansi Desai:** Okay. And despite this addition of 300 beds, 400 beds every year, do we still believe that we can touch an occupancy of 70% or on a blended basis that should be lower?
- Vivek Kumar Goyal:** No, that is our plan. See, we achieved the occupancy of 70% on the extended bed capacity because most of these beds are coming, as we said on the existing operations, where the occupancy level itself is very high, and we are facing the scarcity of beds. So, we are not expecting much challenge in ramping up this capacity. I will now caveat myself from Mulund in Mumbai and BG Road, where occupancy level is slightly on the lower side. So, there we might take slightly longer time to ramp up. But other units, we are quite confident that we'll be able to ramp up faster.
- Bansi Desai:** Noted. And any thoughts on optimizing our payor mix further from here on?
- Vivek Kumar Goyal:** So, there is definitely opportunity here. And as we mentioned in the earlier part of the call, this quarter the profitability is impacted because of higher scheme business we have done. So, there definitely we are manoeuvring ourselves. However, we can increase the sales of good payors like TPA, Cash and International business. And we move our dependence on the scheme business. So, basically, we have various scope, and we are working on that. Definitely, there will be some improvement we should see.
- Bansi Desai:** And considering all of that, we should assume an ARPOB growth of 4% to 5% is what you are mentioning?
- Vivek Kumar Goyal:** Yes.
- Moderator:** The next question comes from the line of Neha Manpuria from Bank of America.
- Neha Manpuria:** Dr. Raghuvanshi, for the Agilus IPO, would we need any approval from the Delhi High Court or any regulatory -- other than the usual regulatory approval, would there any other approvals be required?
- Ashutosh Raghuvanshi:** No. Our understanding and the legal advice to us is very clear that we don't require any such approvals.
- Neha Manpuria:** Okay. So, there shouldn't be any delay because of other than usual regulatory approvals?
- Ashutosh Raghuvanshi:** Yes. The usual regulatory process is what we are going to follow.
- Neha Manpuria:** And, sir, on the Manesar acquisition, how should we look at? I think you said the transaction will close in this quarter? And when we made the acquisition, we said this would ramp up in a phased manner, so you could just give us some sense in terms of how we should look at ramp-up of this and when can we assume normalized contribution from this project?
- Ashutosh Raghuvanshi:** Yes. So, this hospital, Neha, is not functional at the moment, so, we have to make it functional. For that, we are expecting to take about 9 months post closure. So, I would say, 1 year from now, the hospital would be commissioned. We would start with about 30% of the capacity to total 350 beds. We'll start about 125 beds in the beginning and then we would ramp it up a little faster. Our belief is that this being in our core market, the ramp-up should be slightly faster. So,

over the next 2 years following that we should commission the entire facility, and the ramp-up should be at a good pace.

Neha Manpuria: And when should we assume breakeven from this facility, sir, given it's in our core market, indicating a much faster ramp-up?

Vivek Kumar Goyal: Yes. So, Neha, as you know, as Dr. Raghuvanshi mentioned, this is absolutely for the new facility...

Neha Manpuria: Correct.

Vivek Kumar Goyal: The hospital is not functional. So, it will take slightly more, longer time in my view, at least 18 months we are waiting for breakeven.

Neha Manpuria: And this is part of the 1,400-bed addition, or this is over and above that?

Vivek Kumar Goyal: No, this is not part of 1,400 bed.

Ashutosh Raghuvanshi: This is over and above.

Neha Manpuria: This is over and above that, right?

Moderator: The next question comes from the line of Sumangal Pugalia from Rare Enterprises.

Sumangal Pugalia: Sir, I had couple of questions. First is on the hospital margin metrics that you shared. So, in financial year FY '23, we had 2 hospitals that were above the 25% threshold and that first quarter, we've gone below 25% for all. So, is there a classification change and specifically when we talk about what happened in these 2 facilities?

Vivek Kumar Goyal: So, as I mentioned earlier, in the current quarter, we have slightly changed the way we were reporting the unit wise EBITDA. Earlier, we were not deducting the corporate expenses from the EBITDA, and that's why the EBITDA margin was showing at higher side. This quarter onwards, we will be showing after deducting the allocated corporate expenses to these units and that's why this difference is there.

Sumangal Pugalia: Okay. So, the operational performance in these 2 facilities we would say, strong versus the other states?

Vivek Kumar Goyal: Yes. So, there is some impact of the operational performance also. I will not say that it is apple-to-apple like last quarter. This quarter we have discussed it's slightly soft for us and it is reflecting in almost all the units because of seasonal impact and on this sector. And I think major reasons for margin drop is the allocation of corporate expenses, of course.

Sumangal Pugalia: Okay. And specifically, the FEHI facility, sequentially, there also -- there is a drop from INR112 crores to INR106 crores, is that just seasonal or there is more -- how has the performance there been?

- Vivek Kumar Goyal:** So, FEHI, on the revenue side, they are doing quite okay. This quarter, in profitability side, they are slightly low because of the inflationary impact is there in terms of employee increment and all those stuffs. Capex hit this further from day one. So, they are taking various measures, as Dr. Raghuvanshi mentioned on the manpower rationalization and things like that, which should help in improving the profitability and not just inflationary cost.
- Moderator:** The next question comes from the line of Abhay Marda from Yashwi Securities.
- Abhay Marda:** Hello. Am I audible?
- Ashutosh Raghuvanshi:** Yes.
- Abhay Marda:** Hello. Yes. So, I just wanted to ask about the current operational bed situation. Like, what is the number of beds that you're utilizing right now, according to which you are calculating your average bed per operational revenue?
- Vivek Kumar Goyal:** So current operational beds on a P&L perspective are -- for about 4,100.
- Abhay Mar:** But at this time, it contrary size, as per the annual reports, like these are showing up, as the number of beds are more than 4,700. So, I'm not able to get the exact figures.
- Vivek Kumar Goyal:** So, like I'd explained also from a P&L perspective, from a modelling perspective, you guys should purely take the P&L beds. When we add O&M, O&M doesn't contribute significantly. So, from a network perspective, we would have more than 4,500 beds. From a P&L perspective, it's about 4,100.
- Abhay Marda:** Okay. So, ARPOB it's been calculated as per 4,100 beds, right?
- Ashutosh Raghuvanshi:** Absolutely.
- Vivek Kumar Goyal:** Yes, yes. Absolutely, right.
- Moderator:** The next question comes from the line of Nikhil Mathur from HDFC Mutual Funds.
- Nikhil Mathur:** Yes, sir. Thanks a lot for the follow-up. I'm not sure if this has been discussed, but the international growth seems pretty strong in this particular quarter. If I am calculating the numbers right, it's up 30% in this quarter. So, any thoughts you can share on the outlook for the international business? What has happened in this quarter? Was there some base effect at play here or new countries are opening up?
- Vivek Kumar Goyal:** Yes. So, international business is going up, and this is the trend we are seeing, and we expect a further growth. It is contributing around 9% of our total revenue. We expect it should reach double-digit very soon on an annualized basis. So that is what we are expecting. And, as you know, the borders are opening up, we are seeing more and more international business.
- Nikhil Mathur:** But, sir, was this always anticipated by the leadership that international will grow at such a such a pace or something post-COVID is emerging as new and that's why a better traction is being seen on the international side?

Vivek Kumar Goyal: Not really. We were already operating pre-COVID at around 10% to 11% on the international business. And we were confident during COVID period also that post-COVID restrictions go away, we should go back to that 10%, 11% and that is what I'm saying that we should very soon should be seeing that 10%, 11% on annualized basis. In absolute term, we have already surpassed that number. In absolute -- international revenue, we have surpassed that number.

Nikhil Mathur: Sir, I'm not trying to look at on a personal sales basis because the domestic has also gone up, so, there might be some variation in the percentage contribution. But if I purely look in the absolute number for the international business, they are growing pretty heftily, right? I mean, at more than 20% for the last 2 years or so. I mean, pre-COVID also, was there an anticipation that in the coming 4 years, 5 years, India will emerge as a big medical tourism hub and hence the growth will be super normally high, was that also an expectation pre-COVID as well?

Ashutosh Raghuvanshi: Yes. I think, there has been lot of systemic effort from the government side also to project India, as a destination for COVID. They have come up with the medical tourism portal and there are many other areas of medical value travel on which the government is facilitating now. So, it was anticipated that this will happen. But I think some of these efforts are also leading to increase in the number of patients coming to India for seeking treatment.

Nikhil Mathur: And, sir, one more question. There was an article in the media recently that the top hospitals in the country are facing challenges on retaining the nursing staff. Many nursing staff they get trained for 2 years, 3 years and many of them make their way to the Gulf, where the salaries and payments are much higher. So, any challenges are you seeing on this front, or do you think that there are enough initiatives being done to have a good pool of nursing staffs?

Ashutosh Raghuvanshi: The nursing is a challenge for the entire industry and this challenge remains. Initially, the challenge was on the clinicians as well, but that part is being addressed quite a bit by the number of seats, which has been increased in last 10 years. But on the nursing side, lot of effort is still required. I think, we will see this kind of stress for next 3 years to 4 years going forward as well.

So, we also face the same challenge, as other hospitals because nurses, who intend to go abroad, they tend to come to the branded hospitals such as ours and others in order to seek experience, because on basis of this experience, they can get positions, which are very remunerative for them. So, this is a challenge of the industry. Together the industry bodies are taking lot of actions in this direction and trying to see how we can bridge the gap. But it is definitely a challenge, Nikhil.

Nikhil Mathur: Could it have I mean, things might get sorted out from a 3 year to 5-year horizon, but in the next 12 months, 15 months, 18 months, could it have an inflationary impact on your margins? I mean, is that budgeted in when you are giving some guidance on the hospital margins?

Ashutosh Raghuvanshi: Yes. This is well factored in.

Moderator: The next question comes from the line of Harsh Bhatia from Bandhan AMC.

Harsh Bhatia: Hope I'm audible?

- Ashutosh Raghuvanshi:** Yes.
- Harsh Bhatia:** Yes. So just 2, 3 quick clarifications. One in terms of the price hike, if you would be able to quantify the price hike for the first quarter because I think for the full year the guidance was 4% to 5% if I'm not wrong? So, the first quarter price hike, including the CGHS effect would be to what extent?
- Ashutosh Raghuvanshi:** It would be approximately on a blended level about just towards 3%, less than 3%, I think.
- Harsh Bhatia:** And very quickly in terms of the ARPOB growth trajectory, I think, sir, March quarter, we had guided for the ARPOB to grow at around 6% to 7%, but the first quarter is somewhere around 12%. So, going forward, just from a FY '24 perspective, one should assume a moderation to low-single digit growth rate for the ARPOBs? That would be the right way to think about it?
- Vivek Kumar Goyal:** Yes. So, because the base has become now high, this quarter, we have seen a significant increase in the ARPOB. That's why I'm giving you a guidance that 4% to 5% is the growth we are expecting for the full year.
- Harsh Bhatia:** And just in terms of the broader thought process for this 1,400-bed addition, I think from the previous comment, I could make out that a large part of this has to be in the NCR region. So, in case, if you are thinking about these brownfield plants, how is the bandwidth availability across the spectrum in terms of nursing or surgical staff and the doctors? What is the broader thought process in terms of that bandwidth availability, purely from the NCR perspective?
- Ashutosh Raghuvanshi:** Yes. So, NCR is a region, where the availability of human resources is not a challenge in general. And, specifically, for us being a brand, we are an attractive place for clinicians, as well as other staffs to come. So, that definitely is not too much of a challenge in NCRs.
- Harsh Bhatia:** Good. Just to clarify, there has to be some -- a certain level of addition that has to be in sync with the brownfield addition, as well in the existing assets, that's the way to -- right way to think about it?
- Ashutosh Raghuvanshi:** Yes, certainly. But it would not be in the same ratios, as it would be for a greenfield hospital. So, suppose there is already a running hospital, where we are increasing the capacity by, say, 100%, the number of staff additions will not be 100%, it will be only up to the tune of about 60% to 70% or even less.
- The reason for that is because the scale starts giving the advantage and you won't have to people doing the same function, so because of that, the costs get rationalized. And that was the point, which we were making earlier that post this expansion, most -- many of the hospitals in NCR area and outside as well would be to the tune of about 450 beds to 500 beds each and that would give advantage on the scale, which would definitely get translated into a better utilization and better of resources and better margins as well.
- Moderator:** The next question comes from the line of Nitin Agarwal from DAM Capital.

- Nitin Agarwal:** Sir, on the Gurgaon, the NCR assets, given all the unrest, which has been happening in the state in recent times, does it have any implications for our business for the quarter?
- Ashutosh Raghuvanshi:** No, Nitin, not at all. I think, this is an unfortunate event, but it did not really have too much impact on the normal life, day to day life. So, I don't think this has any direct implication for healthcare per se. I think, healthcare is agnostic to the politics and religion.
- Nitin Agarwal:** And Dr. Raghuvanshi, I think, earlier in the call, there was a comment made around the fact that our staff costs and all little on the higher side and that's an opportunity for us to work on. So, if you can maybe just spend some time on where do we see opportunities for cost reduction? And what could be the extent of cost optimization, rationalization that we can probably see over a period over the next, say, maybe a couple of years?
- Vivek Kumar Goyal:** So, this is an ongoing exercise, and we do this exercise every 2 years, 3 years to understand, which unit is operating over and above the standard operating metric. And based on that, we'll take some corrective decisions. So, we will be not able to quantify at present, which unit, how much amount and things like that, but definitely we see there is opportunity to reduce or rationalize the structure.
- Nitin Agarwal:** Sir, I mean, not going in a sort of unit wise detailing of the possible opportunities, but on an overall sense, I mean, just to get a broad sense from whatever that you see, is there a possibility from these cost rationalization measures to take out 1%, 2%, what kind of savings and what the network can accrue over the next, say, year or so?
- Vivek Kumar Goyal:** Yes. We can easily target 1% at least on the staff cost over a period of 2 years.
- Moderator:** The next question comes from the line of Kunal Randeria from Nuvama.
- Kunal Randeria:** Just one question on ARPOB and apologies if it's been discussed. So, your 4% to 5% growth implies somewhere around INR57,000, INR58,000 for the full year. Since you've already done INR60,000, it shows that next few quarters, you will see a very sharp reduction. So, could you share some reasons? Is there a change in case mix that we expect, or some new beds have been commissioned that could come at lower ARPOBs. Any more colour would be helpful?
- Anurag Kalra:** Sorry, Kunal, can you just repeat? Your voice is not very clear. Couldn't understand the question.
- Kunal Randeria:** Sure. So, you have said that ARPOB growth could be around 4% to 5%, which implies that it should be around INR57,000, INR58,000 for the full year. Now, since you've already done INR60,000 in Q1, it implies that in the next few quarters could see a sharp reduction. Any colour why that would happen?
- Vivek Kumar Goyal:** Yes. So, we have to see the ARPOB growth in all aspects. As we mentioned, the current quarter, there was a high increase of the surgical volume. We cannot expect the surgical volume to grow at the same pace, and there is some seasonal impact was also there. So, looking at all those things, we are maintaining our ARPOB increase guidance, as we have given you at the beginning of the year, 4% to 5% annually. So, it is to take into consideration the surgical volume will not be growing at the same pace at which it is growing in the current quarter.

- Kunal Randeria:** And just one more, slightly high-level question. So, while you have done very well in onco in the last four years, I believe, the contribution would have gone up from 7% to 14-odd percent now. It has come at the cost of, let's say, a cardiac therapy, which has gone down from 22% to 18% or something like that. So, just trying to understand how the change in your therapy mix has impacted your margins either positively -- I'm assuming, it's positively in the last 3 years to 4 years?
- Vivek Kumar Goyal:** Yes. Why it's actually is -- something, I could not get the complete...
- Kunal Randeria:** So, in the last 4 years, your oncology has done very well, but it has come at the cost of cardiac therapies, so I'm just trying to understand the change in the therapy mix to your overall revenue. How would that have impacted the margins, purely from a therapy perspective?
- Vivek Kumar Goyal:** Yes. So, oncology definitely has a lower margin, and we have to share a substantial portion of the revenue with the surgeon also many times, so that has impacted overall margin if we see after removing the doctor's shares. And oncology business is growing in line with the market. So, we expect that trend will continue.
- And what we are also targeting -- the other high-margin facility should also contribute more, so that is the game plan. We don't want to reduce the oncology business. We want to grow oncology business to the extent possible. But at the same time, the high-margin business should also grow. So that will keep a good balance between the margin expectations.
- Kunal Randeria:** But could you sort of just give a bit more colour on the kind of therapies that you classify, as higher margin?
- Vivek Kumar Goyal:** For example, renal business, their contribution in this quarter has come down, to some extent, which is a high margin unit for us. Similarly, the renal and pulmonary, sir, where the contribution has come down slightly. So, all this facility, we are having some plan on how to improve the specialty mix on these 2 overall.
- Kunal Randeria:** I have a few more actually. Maybe, I'll take this offline.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the Fortis management for closing comments.
- Anurag Kalra:** Thank you, Selvin. Ladies and gentlemen, thanks for taking the time to be with us on the call today. If there are follow-up questions, me and my colleague, Gaurav, are available to address those either over a phone or email, whatever you guys prefer. Thank you very much, again, for your time today, and have a good day. Thank you.
- Moderator:** On behalf of Fortis Healthcare, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.