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November 13, 2024

FHL/SEC/2024-25

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 transcript of Investors / Analysts' meet held on November 8, 2024 to discuss the Company's Un-Audited Financial Results for the quarter and half-year ended on September 30, 2024 and same is available on the Website of the Company at below hyperlink:

Earnings Call Transcript

The date and time of occurrence of event is November 8, 2024 at 1830 hours.

This is for your kind information and records.

Thanking you,

Yours Faithfully
For **Fortis Healthcare Limited**

SATYENDRA CHAUHAN
Digitally signed by SATYENDRA CHAUHAN
Date: 2024.11.13 12:10:12 +05'30'

Satyendra Chauhan
Company Secretary & Compliance Officer
ICSI Membership: A14783

Encl.: a/a

"Fortis Healthcare Limited"

Q2 FY '25 Post Results Conference Call"

November 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. ANAND KUPPUSWAMY – CHIEF EXECUTIVE OFFICER – AGILUS DIAGNOSTICS
MR. AKSHAY TIWARI – CHIEF FINANCIAL OFFICER – AGILUS DIAGNOSTICS

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '25 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 this 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, sir.

Anurag Kalra: Thank you, Nirav. A very good evening, ladies and gentlemen, and thank you for taking the time to join us on our quarter Q2 FY '25 Earnings Call. We realize it's a bit late, so we do really appreciate you joining us for the call. The call is being chaired by Dr. Ashutosh Raghuvanshi, our CEO and Managing Director. With him, we have Mr. Vivek Goyal, our Chief Financial Officer. Mr. Anand, the CEO of Agilus Diagnostics, joins us remotely. And along with him, we have Mr. Akshay Tiwari, the CFO of Agilus.

We will begin with some opening comments by Dr. Raghuvanshi on the business performance of the quarter gone by, post which Anand will take you through his views on the business for the quarter, and then we can open the floor for question and answers. Over to Dr. Raghuvanshi.

Ashutosh Raghuvanshi: Thank you, Anurag. Good evening, everyone, and thank you for taking time to join us for our Q2 financial year '25 Earnings Call today. I extend my warm greetings for festival season, and I hope all of you are doing well.

Before diving right into the numbers and sharing my thoughts on the business performance, I would like to highlight that our performance in Q2 financial year '25 and H1 financial year '25 continues to witness a healthy improvement over the corresponding previous year, led largely by our hospital business.

Coming to the quarterly results, we reported a consolidated top line of INR1,988 crores, a growth of 12.3% over the Q2 of financial year '24. Our hospital business revenues have increased by 13.9% to INR1,655 crores, while the diagnostic business revenue stood at INR372 crores versus INR360 crores in Q2 of financial year '24.

Our consolidated operating EBITDA increased 31.9% to INR435 crores, delivering a margin of 21.9% versus 18.6% in Q2 of financial year '24. The hospital business reported an operating EBITDA of INR355 crores, driving a robust 300 basis point improvement in margins from 18.4% in Q2 of financial year '24 to 21.4% in Q2 of financial year '25.

The hospital business EBITDA now accounts for 82% of the total consolidated EBITDA. In 11 of our facilities, we have reported operating EBITDA about 20% during the second quarter. These 11 facilities together contributed 75% to the hospital revenue. In comparison, in financial year '24, we had only 8 units, which were having an operating EBITDA margin above 20%, and contributed at that time, 62% to the hospital revenues.

Operating EBITDA margin in the diagnostic business basis gross revenue have improved to 21.5% from 17.2% in Q2 of financial year '24. Excluding one-off items like rebranding exercises by Agilus first brand transition, reversal of provisions related to certain government businesses and the contingent consideration payment for an earlier lab acquisition, the operating margin stood at 24%.

On a like-for-like basis, adjusted operating margins were 22.7% in Q2 of financial year '24. Our consolidated profit after tax before exceptional items for the quarter increased 40.3% to INR253 crores. For H1 of financial year '25, our consolidated revenues stood at INR3,847.3 crores, up 12.3% versus H1 of financial year '24. The operating margin for H1 financial year '25 increased to 20.2% against 17.6% in the corresponding previous period.

H1 financial year '25 hospital business revenue increased by 14.2% to INR3,204 crores. Operating margin for the hospital business improved by 310 basis points to 20% for the period versus 16.9% in the corresponding previous period.

On the balance sheet side, we remain comfortable and healthy with a net debt-to-EBITDA of 0.16x as on September 30, 2024, as against 0.29x on September 30, 2023. Our net debt stands at INR281 crores as of September 30, 2024.

Continuing from Q1, our hospital occupancy further improved to 72% compared to 69% in Q2 of financial year '24. This translates into occupied bed increase by about 5.8% to 2,939 beds compared to 2,779 beds in the Q2 of financial year '24. Our hospital business saw a 7.6% increase in ARPOB, reaching INR2.37 crores per annum.

This growth was largely driven by revenue gains in our key specialty areas such as oncology, neurosciences, cardiac sciences, orthopedics, gastroenterology and renal sciences. Collectively, these specialties achieved a 13.6% year-on-year growth and accounted for 61% of total hospital revenue, consistent with the share in Q2 of financial year '24.

To highlight, the oncology specialty registered a growth of 19%. Neurosciences reported a growth of 17%. This is also reflected in the number of procedures performed in neurosciences with a growth of 21% compared to Q2. Encouragingly, the numbers of robotic surgery performed increased by a strong 57% compared to the corresponding previous period.

Our revenue from medical travel grew 6% compared to Q2 of financial year '24 to reach INR134 crores. The revenue contribution of international business stood at approximately 8% in Q2 of financial year '25 on similar lines with Q2 of '24.

Most of our key facilities delivered strong performance this quarter with revenue for Shalimar Bagh, Mohali and Mulund registering a growth close to or in excess of 20% compared to the corresponding previous year. During the quarter, we further strengthened our medical talent with the onboarding of specialists in the area of cardiac sciences, renal sciences, gastroenterology, internal medicine and obstetrics and gynecology. I'm pleased to share that our dedication to enhancing our medical programs has made significant progress in driving our strategic growth initiatives.

Marked by brownfield bed expansion and continued investment in advanced medical equipment, Fortis Manesar, a 350-bedded hospital facility commenced its operations in September, offering an entire spectrum of clinical services, including all the key specialties and latest state-of-the-art medical equipment.

I'm also pleased to announce that FMRI launched the first MR Linac of North India to treat tumors with unparalleled precision. We are making good progress on our brownfield expansion plans for the year with capacity additions across key facilities, including Faridabad, Noida, BG Road, FMRI, Shalimar Bagh and Anandpur coming during this financial year.

I would also like to highlight the ongoing success of our digitalization initiatives. We have successfully implemented electronic medical records for outpatient modules across 11 units now. At the same time, revenues from digital channels via website, mobile application and digital campaigns have witnessed a 30% year-on-year growth in Q2 of financial year '25. Digital revenue contributed 29.3% to overall hospital revenue versus 25.6% in Q2.

On the diagnostic business front, we are moving ahead to consolidate our stake in Agilus by acquiring 31.52% stake from the PE investors. Our operating EBITDA improved to 21.5% compared to 17.2% in Q2 of financial year '24. This was primarily driven by cost optimization initiatives, including, among others, improved network efficiency and optimizing manpower costs.

As part of our ongoing network expansion strategy, the total number of CTPs reached 4,085 as of September 30, 2024. The preventive portfolio revenues in Agilus overall revenue grew 20% in Q2 of financial year '25 and contributed 12% to the operating revenues versus 10% in Q2 of '24.

While expenses related to rebranding would continue to be incurred for the remaining part of the current fiscal year, Agilus' steady recovery and improvement in margin reassures my faith in its ability to scale its revenue and profitability.

Driven by its strong network presence, a well-balanced B2C and B2B mix and an increasing focus on preventive care and specialized testing, I believe the Agilus brand is gaining acceptance and recognition, which will position the company to further enhance its performance going forward.

With this, I'll conclude my comments. Just to reiterate, we are making considerable progress on investments in multiple business growth drivers, be those in bed expansion, state-of-the-art medical equipment, digitization and clinical talent. We also continue to assess various inorganic growth opportunities that align with our cluster strategy and offer promising synergy. I believe all those initiatives will further enhance our growth potential and strengthen our position in health care sector. Thank you.

And with this, I would like to hand over to Anand for his comments now.

Anand Kuppuswamy: Thank you very much Dr. Raghuvanshi. Good evening, everyone. Thank you for joining us today. On behalf of Agilus Diagnostics, I welcome you to our Q2 FY '25 Results Conference Call. Agilus Diagnostics reported a revenue of INR372.5 crores in Q2 FY '25, marking a 3.4% increase from INR360.3 crores in Q2 of FY '24.

This follows last quarter's revenue of INR343.5 crores, representing an 8.4% growth compared to the trailing quarter. Operating EBITDA reached INR80 crores in Q2 FY '25, up from INR62 crores in Q2 FY '24 with the margin improving to 21.5% from 17.2%. In comparison, Q1 FY '25 EBITDA stood at INR55.4 crores, yielding a margin of 16.1%, adjusted for one-off expenses, operating EBITDA in Q2 of FY '25 was INR89.3 crores with a 24% margin versus INR81.9 crores or 22.7% in Q2 of FY '24.

For the half year period, Agilus posted a revenue of INR716 crores, reflecting a 1.9% growth from INR702.9 crores in H1 of FY '24. Operating EBITDA for H1 of FY '25 was INR135.4 crores, with an 18.9% margin, up from 18.3% in the previous year. Adjusted EBITDA before one-off expenses was INR149.6 crores, with a margin of 21.0%.

Agilus Diagnostics conducted a total of 11.1 million tests in Q2 of FY '25, up from 10.6 million in Q2 of FY '24 and 9.9 million in Q1 of FY '25. In H1 FY '25, the company processed 21 million tests compared to 20.5 million in H1 of FY '24. Agilus expanded its network significantly, adding over 150 customer touch points in Q2 of FY '25 and 330-plus touch points in H1 of FY '25.

The B2C to B2B revenue mix stood at 54% to 46% in both Q2 FY '25 and H1 of FY '25, slightly higher than the 53% to 47% in the same period last year. From a product standpoint, revenue contributions are 33% from specialized testing, 55% from routine testing and about 12% from our wellness portfolio in Q2 of FY '25. Our wellness portfolio stood at 20% growth in Q2 of FY '25 versus Q2 of FY '24 and 17% in H1 of FY '25 versus H1 of FY '24. Regional revenue contributions are 31% from the North, 21% from the West, 32% from the South, 13% from the East and about 3% from the international markets.

On the brand side, we have introduced Anil Kapoor as our new brand ambassador through a campaign centered on the theme keep testing yourself. We expect this brand-building initiative to strengthen our brand presence, particularly supporting growth in our B2C and wellness segments. We continue to focus on improving our efficiencies through various cost management initiatives. Thank you so much.

Moderator: Thank you so much. We will now begin with the question-and-answer session. First question is from the line of Amey Chalke from JM Financial Services.

Amey Chalke: Congrats to the management for the good numbers. The first question I have on the margins, especially hospital margins, we have been -- like this is second quarter, we have clocked more than 20% margins. Margins are improving consistently sequentially. This is even before our brownfield expansion initiatives are yet to kick in. So what are the key levers here? If you can call out any specific hospitals which have helped deliver improvement in margins over the last 6 months?

Vivek Goyal: Yes. If I can take this question. As you rightly said, we are moving nicely on our margin expansion journey. And for the quarter, we achieved 21% plus margin. And for the half year also, the margin is above 20%, which is quite encouraging.

The main lever for margin expansion is the occupancy. If you see the occupancy level has gone to 72%, which is -- which has led to the higher margin. In terms of the hospitals, almost all our premium facilities have witnessed the good occupancy and plus there is a volume growth.

As a result, there is a volume growth. If you see this quarter, the main contribution for revenue growth is coming from the volume and the occupancy. So I will say that is the main contributor to the margin apart from some of the specialties like Pulmo and other high-margin spaces, they have also contributed a lot.

Amey Chalke: Sure. Is it possible to tell which two hospitals have moved to the 20% to 25% range during this quarter?

Vivek Goyal: Yes. So one is, of course, Mulund, which is -- has done well. Mulund, there is a decent increase in the occupancy level and so is the margin expansion. Another unit which has moved to this level is Nagarabhavi, which is in Bangalore. There last quarter, there was certain additional marketing and sales expenses because of which the margin was low. But this time, this unit is really doing well in terms of revenue, occupancy, EBITDA margin front. And Kalyan also moved up in the margin metric.

Amey Chalke: Mulund, we have come back to the original occupancy level what we used to deliver? And is it a seasonal impact you think? Or do you think it is a structural which would continue going ahead?

Vivek Goyal: Mulund, we were struggling actually, we have mentioned in the earlier call also, we are struggling around 60% type of occupancy level. So the unit has moved to about 65% occupancy level, and that has resulted into the EBITDA margin improvement. And because this improvement is gradual, it is not sudden. And we feel this is sustainable. And the unit will continue to improve its occupancy and EBITDA margins going forward.

Amey Chalke: Sure. And the second question I have is on the Diagnostics segment. That also has delivered a stellar margin this quarter around 24%. Is it possible to call out the reason for the same?

Vivek Goyal: Yes. Anand, will you like to take this question?

Anand Kuppuswamy: Yes. Thanks. So regarding our margins, as stated by Dr. Raghuvanshi as well, so we are focused on improving our network efficiencies in terms of -- both in terms of improving our direct costs as well as improving our network efficiency by combining certain lab operations and creating some efficiencies there as well as some amount of optimization in terms of other costs as well. So this has led to the margin improvement.

Amey Chalke: So should we assume these margins to sustain in coming quarters? Or we should expect some normalization?

Anand Kuppuswamy: This particular increase in this particular quarter is also driven by an increase in revenue. As you know, that the second quarter is usually the best quarter for diagnostics. So there has been an increase in revenue as well. So I would say that the optimization levels will continue, but the revenue levels will also determine the kind of profitability that we will deliver. And we are seeing steady increase in revenue levels as well.

Moderator: Next question is from the line of Neha Manpuria from Bank of America.

Neha Manpuria: You mentioned that you're adding quite a few brownfield capacity in the second half. Could we quantify the number of beds that will get added in the second half?

Vivek Goyal: Yes. So one is Manesar facility we have operationalized. So the benefit of that should be coming in this quarter. And in terms of revenue, although it will be contributing slightly on the EBITDA side -- negative on the EBITDA side. Plus we are expecting at the latter part of the quarter this Faridabad facility to be commissioned.

Neha Manpuria: Okay. Only Faridabad will come in the second half.

Vivek Goyal: And then we are also having some additional bed at our premium facility in FMRI, where we are rejigging certain operation. And through that, we will be adding another 20, 25 beds. So that should also be commissioned.

Noida, we are expecting -- I don't know whether it will happen in this quarter, third quarter or it will move to fourth quarter. But Noida is also progressing quite well. So in all our expansion, we are progressing quite well. But major benefit will be coming, I will say, in the fourth quarter, this expansion capacity.

Neha Manpuria: And for Manesar, sir, how many beds have we commissioned so far? And what's the plan in terms of breakeven in the Manesar facility?

Vivek Goyal: Yes. So we have initially started with 50 beds. And as we progress in occupancy metrics, we will open more beds. So we have assumed, we expect around 15 months' time for the breakeven of this facility in terms of EBITDA. But the initial response is quite good, and we are quite hopeful that we may achieve even better , even earlier this breakeven.

Neha Manpuria: And this 15-month breakeven is assuming bulk of that capacity is commissioned?

Vivek Goyal: Sorry, bulk of?

Neha Manpuria: 15 months is assuming bulk of the beds is operational by then?

Vivek Goyal: Yes. So as I said, we are seeing very encouraging signs in terms of occupancy and the response we are getting in that area. So we expect that occupancy ramp-up will be quite fast, and that will result in earlier achievement of the breakeven.

Neha Manpuria: Okay. And on the diagnostic business, what should we think about the margins, let's say, 12 to 18 months from now or probably in fiscal '27. In your view, once growth starts to normalize for this business, ideally, what is the sustainable margin that the diagnostic business can get to? And second, by when do we complete the stake purchase from the private equity?

Vivek Goyal: Yes. I will take that question on private equity, and then I will ask Anand to comment on the margin. The private equity side, we have progressed quite well. We have got the CCI approval, and we have also got in-principle approval from the stock exchange for the institutions. We are in the final stage of finalizing the agreement with the key investors. Hopefully, we should be concluding all this thing by this month end. And then we will conclude the deal by this month end and maybe early week of December. Anand, over to you on the margin side.

Anand Kuppuswamy: Yes. Thank you. So on the margin front, so what we feel is margins are basically dependent on 2 factors here. One is the operating leverage that we get from revenue and another is cost optimization and network efficiencies that come through over a period of time. So what we are seeing -- what we feel is that by in another 15 to 18 months, we should be able to be in the range of about 25%, 26% kind of margins. In the upcoming quarters, we'll be able to see steady progress on these numbers.

Neha Manpuria: You said 25% to 26%. Did I hear that correctly?

Anand Kuppuswamy: Yes. I'm talking about FY '27 or '28 those kind of times.

Moderator: Next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just the first one on the balance sheet post this stake sale -- stake increase rather in Agilus. I just want to understand how does this start looking? Today, it is at 0.16 EBITDA, net debt to EBITDA. But I just want to understand with the INR1,500 crores-odd NCD, any rough numbers we should be working with? And also, is the valuation for the 31.5% is the put option liability, is that the best benchmark to look at how the stake increase is going to happen? If you could highlight how the balance sheet could likely change?

Vivek Goyal: Yes. Sure, Shyam. So Shyam, balance sheet will remain to be very healthy even after post acquisition stake through debt of INR1,500 crores because we are seeing a very steady increase in the EBITDA. And with this run rate, by year-end, our debt to EBITDA will be below 1.5, which is quite healthy from that angle. And it may go, it may further come down because of, as I mentioned, the EBITDA, run rate of the EBITDA is quite high. And with this brownfield expansion, the EBITDA should even go further.

Shyam Srinivasan: Got it. Vivek, I just want to take a step back and look at this deployment of capital, right? Is that the best use of our capital to buy the stake in a subsidiary? I know there is a put option liability and there is a timing. But when we were to evaluate all the different ways to deploy capital, including brownfield or maybe Greenfield, I just want to understand, is there any ROCE kind of analysis that you did before we made that? Or is this a compulsion of the business and then you had to kind of acquire it?

Vivek Goyal: Yes, Shyam, I will say, I will try to answer this by two ways, okay? One is you rightly mentioned this is a liability on us and we have to honour this liability. So there is no two ways about it. So we have to honour it. Having said that, looking at the performance level of Agilus on which the valuation has been done and future potential of this unit, we feel it is the best use of the capital. And plus also, I would like to ensure everybody here that by this capital deployment, we are not compromising at all with our hospital business operation.

So we are moving forward on our brownfield expansion journey as we have committed earlier. And also, we are looking actively on some acquisition target also. So from that angle, we are not compromising or restricting ourselves in the hospital business at all because of this expansion. Company is having a decent balance sheet.

We have other options also if we want to raise capital. So there is no restriction as such on companies we are putting for our growth and expansion. And this acquisition, I think acquisition of stake in long term will create a lot of value for the shareholders.

Shyam Srinivasan: Just any implied EBIT to EBITDA multiple for the stake increase for the Agilus?

Vivek Goyal: Yes. So the implied valuation of this, based on the valuation report, which has finally been agreed by all the parties is around 17x to 18x EBITDA multiple 1 year forward. And we are seeing better than our expected EBITDA numbers in Agilus. And as Anand mentioned earlier, he is quite hopeful of improving it even further. So that's why I'm quite hopeful that this investment will be very fruitful for all -- for the investors.

Shyam Srinivasan: My last question is just on Agilus operations, right? Despite the margin improvement, I think growth still remains a challenge, 0% or flat growth in patients. Most of the growth has come from this test increase. And this is clearly trailing some of the peers, right? So what are the plans to kind of improve top line growth at Agilus? And is that the key lever for getting to 25%, 26% margins? Or it will be still -- we will still lag peers in terms of top line growth?

Anand Kuppuswamy: Thanks, Shyam. So in fact, if you actually see our volume growth has been quite consistent compared to last year. If you see that last year, we had a large component of PPP business, which was there, which was contributing very high on volume, but on value, it was very low.

So such business is now very low in volume at this point of time. So that's why you're seeing sort of a flattish volumes there. But when you look at sort of a core business growth kind of a thing, so you will see that the volumes are also growing as well as the price increase that we have done in February of last year. So that has an impact of about 1.5% on the growth. So the balance is the volume growth.

So -- and we see this combination of volume and value growth will be the primary drivers for the overall growth going forward as well because what we are seeing is that when we changed the brand in June of last year, June '23, so from there, the kind of impact which we saw on our B2C businesses, those impact is now much reduced, and we are seeing a good recovery on all fronts.

And with the upcoming campaigns that we are doing with our new brand ambassador, Anil Kapoor and all that. So we are also expecting that this to be further improved compared to the current levels.

Moderator: Next question is from the line of Bino from Elara Capital.

Bino: Just following up on the question on Agilus. Is the valuation -- absolute valuation number public? Can you share that?

Vivek Goyal: Yes, it is in public domain. We have gone for the shareholder approval also for that. I think the number is INR1,778 crores enterprise value.

Anand Kuppuswamy: Equity value.

Vivek Goyal: Yes, for 31% stake.

Bino: Okay. This is the price of the 31% stake that you are buying?

Vivek Goyal: Yes.

Bino: Okay. And when you execute this transaction, would it have any sort of P&L impact, any profit loss, anything passes through the P&L?

Vivek Goyal: Yes, the impact will not particularly be because of acquisition of this transaction, but because we are funding it through interest, so that interest charge will be coming in the number.

Bino: Okay. Interest charge will come, but there is no particular P&L in terms of any onetime profit or loss, right?

Vivek Goyal: No, nothing like that. Nothing on that side.

Bino: Okay. Understood. And finally, one question on hospitals. Earlier, you had given a guidance of 200 basis point margin expansion in the hospital business for the full year. That remains as it is because you are mentioning to Manesar contributing a little negatively to the EBITDA, etcetera. Even after all that, you will maintain that 200 basis point margin expansion for the year?

Vivek Goyal: Yes, yes. So we are maintaining our margin guidelines. And when we had given that guidelines, we have factored in these losses of Manesar, which is obvious because it is a sort of Greenfield project. So initially, some losses are expected to happen.

Moderator: Next question is from the line of Nitin Agarwal from DAM Capital Advisors.

Nitin Agarwal: So just going back to Agilus question again. I mean, when we look forward '26, '27 onwards, can we expect the business to or do you expect the business to go back to double-digit growth trajectory?

Anand Kuppuswamy: Yes, definitely, that will happen. So we are seeing that trend happening. So I think after this year, you will see that the basis will change because of whatever changes we have done compared to last year, the brand transition, all those things happening now. So those will have a better impact in the coming years.

Nitin Agarwal: So essentially, when you look at Agilus going forward, essentially, it's a 10% -- it's a double-digit growth business with a 25%, 26% EBITDA margin.

Anand Kuppuswamy: I think in line with the industry, we'll be able to move forward in terms of growth numbers. The margins, as you know, our structure is slightly different from other companies. So accordingly, our margins would be different. But at the same time, they will be definitely much more improved compared to where we are today.

Nitin Agarwal: And secondly, on the hospital part, and FMRI we're looking to, you mentioned about 180 beds that we're adding, 220 beds rather a new tower. How many beds will be commissioned in the first phase or it's going to get commissioned, the 220 beds all together?

Vivek Goyal: No, generally, for the expansion of this size, beds will be available from, say, April '25 onwards. But we will open the bed as per our occupancy to contain the cost factor. Initially our plan is to open 100 beds. And as we achieve a particular occupancy level, then we will open up the balance beds. Maybe in 6 months to 1 year time.

Ashutosh Raghuvanshi: 20 beds, Nitin, which we will open earlier, which will be somewhere around January of this coming year.

Nitin Agarwal: You said 20 beds.

Ashutosh Raghuvanshi: 20.

Nitin Agarwal: Okay. And sir, what is the current base of the FMRI? How many operational beds do we have in FMRI right now?

Vivek Goyal: 310 beds, currently, we have.

Nitin Agarwal: Okay. And sir, when you are evaluating these brownfield projects in your assessment, what is the kind of time you're seeing for these brownfield capacities to come back to the levels of the existing bed profitability? How much time do you think it's going to take for these brownfield expansions?

Vivek Goyal: Yes, it is generally from day 1, it start contributing because it is on the running hospital, and we plan the bed opening accordingly. So we are expecting almost immediate return type of things in the brownfield.

Nitin Agarwal: You don't see any drag on EBITDA on the brownfield expansion at all?

Vivek Goyal: Not really.

Nitin Agarwal: The last one, already in the presentation, you've highlighted the beds that you will add in FY '25 on the brownfield side. For FY '26, which are the major capacities which will come on board apart from FMRI?

Vivek Goyal: So Noida will be fully commissioned. FMRI will be fully commissioned. There will be some bed addition in Anandpur as well, Anandpur is in Kolkata and then BG Road in Bangalore.

Nitin Agarwal: All in all, another maybe 350, 400 beds will come through next year incrementally in FY '26?

Vivek Goyal: Around that number, we are expecting, yes.

Moderator: Next question is from the line of Bansi Desai from JP Morgan Chase.

Bansi Desai: So my question is on hospitals. So if I look at the top-performing hospitals for us, I think consistently, these hospitals have been doing occupancy of 70% plus, around 70%, 72% in that range. Do we have scope to kind of improve our occupancies here for these the best performing hospitals for us?

Vivek Goyal: Yes. So occupancy except 2 hospitals, BG Road and Mulund, I'm talking premium hospital, which are the high-performing hospital. The occupancy is about 70% in almost all the hospitals. And that's why we are going for this expansion thing.

However, once the new brownfield capacity kick in, as I mentioned from, say, March, April onwards, then we may see some drop in the occupancy level on the enhanced bed capacity. But overall, I think we will be able to maintain this type of occupancy level in this premium facility.

Bansi Desai: Okay. So the reason I ask is that I do see 2, 3 hospitals of ours, which are in the bracket of 15%, 20% EBITDA margins, even achieving 77% kind of occupancy levels in the first half of this year. So I was just trying to understand that probably what is stopping us from achieving those kind of numbers even for our top performing ones?

Vivek Goyal: Yes. So each hospital has a different dynamic. So, for example, Faridabad, for example, it is around 18%, EBITDA level. And occupancy level of this hospital is quite high. It is around 80% plus occupancy level, it is consistently operating. Because there are certain personnel costs relating to the labor union and those type of costs.

With this expansion program, which will start kicking in from this quarter onwards, we are expecting this hospital definitely should move into 20% plus EBITDA margin radar. And similarly, for Amritsar, for example, it is hovering near 20%. It is slightly low. That's why it is coming in the 15%, 20% bracket.

But this unit, again, is a good unit from the EBITDA margin perspective. Ludhiana is the only one unit, I will say, 15%, 20% bracket, which will in the immediate vicinity will remain in 15% to 20% region. We are not expecting in a year time to move to 20% EBITDA margin.

Bansi Desai: So with expanded capacity, do we expect our contribution from institutional patient revenue also go up? It's already at 20%. So how do you think about that?

Vivek Goyal: Yes. So the unit where we are expanding capacity like Noida, for example, where we will be adding 160, 170 beds. Our immediate priority will be to fill those beds. So for that, we may opt for some scheme business.

But unit like FMRI, where we are adding beds and it is having almost 0 guidance business, we will continue to do that. And our strength on international front patient and the strong TP and care business should able to absorb this type of bed expansion. But I think in our expansion thing, this Anandpur and Noida are the 2 units where I expect there will be a little bit increase in the scheme business.

Bansi Desai: Okay. And last one, I also see a couple of hospitals moving in the less than 10% EBITDA margin bracket. And we now have 7 hospitals out there. And obviously, this all excludes the loss-making ones which we divested. So any thoughts on how do we see improvement in these underperforming hospitals from here on?

Vivek Goyal: Yes. So there are very small dip in 2 of our hospitals, one is FEHI and one is in CH Road. That's why the 2 hospitals which were earlier in the range of 10% to 15% that has come below 10% thing. So we are not very much worried because it is just a mathematical calculation. It has just come down by 0.5 percentage point, and that's why it is categorized in this thing.

So FEHI specifically, we are quite happy with the performance in terms of the revenue growth, occupancy, ARPOB and other things. And we are moving very nicely in terms of making it multi-specialty type of hospital rather than cardiac-specific hospital. And that is yielding the results, and we are consistently now on double digits, so which is quite encouraging.

I think another hospital, big hospital in this category is Jaipur, which we already discussed about. And first quarter was really bad for Jaipur. I have explained the reason in the earlier call because of that organ transplant related issue. And now I think it is moving back to its normal level. And with this, we are quite hopeful that Jaipur will reach to double-digit plus EBITDA margin maybe in the next 6 to 8 months' time.

Other units are quite small. Ludhiana, just started 8 months back, so it is giving negative EBITDA. Another hospital in this category is a very small hospital Sacred Heart in Bangalore, which actually we are planning to divest and get rid of this hospital because it is very small hospital. It is not having very big impact.

The remaining hospitals are below 10% because they have a big charge on the rental side, like CH Road, La Femme. These are the hospitals which has 6% to 7% rental sitting into this EBITDA. And after absorbing that rental cost, the EBITDA margin.

Moderator: Next question is from the line of Atul, an individual investor.

Atul: So my question is on the legal side. Any updates on the High Court side on the case?

Ashutosh Raghuvanshi: Yes. So in the High Court in matter of forensic, the hearings are happening. We expect the next hearing to be there sometime end of this month. And that hopefully should be the last hearing, but then the vacation period will begin. So we are not expecting much movement for another 1 or 2 months.

Whereas in the matter of brand, the court has ordered for an auction of the Fortis brand. So for that on 21st, the court officials will decide on the mechanism and the terms, etcetera. Post that, we will see how we can participate and secure this for us.

Atul: Another question which I have is on the legal cost side, like since these hearings will be done maybe 1 month or 2 months, right, are we expecting legal costs to come down, which means improving our EBITDA?

Ashutosh Raghuvanshi: Yes. So this year, Atul, we don't expect the legal cost to be low. In fact, this year, the legal costs have been slightly higher than the last year because more number of hearings, etcetera has happened in the high court compared to last year. So the cost has been slightly higher this year, but we expect that to go down from next year.

Atul: And my last question is, I'm not sure whom to ask, but it is more on the side of -- I'm not looking for numbers, but on the occupancy side in the current quarter, how the things are shaping up, if we can get some indications because we are already like 1 month and 8 days over.

Vivek Goyal: Yes. So we are expecting -- and this always will be the case, this particular quarter, current quarter is affected because of the seasonal impact. As you know, there is a festival season. So there will be some dip in the occupancy. But overall, we are not expecting a very drastic change in the occupancy and the profitability matter.

Atul: My question is more on the side of the culmination of the point, which is going for now like a couple of years, maybe 3 years, 4 years, right? So from that front, like seasonality will always be there. But in terms of the overall numbers, you see like improvement finally reflecting on the margins and everything?

Ashutosh Raghuvanshi: Yes. I think the gains we have achieved so far, we will keep on going on that track and the trend is healthy.

Atul: Momentum is there in the right direction, right? Is that the right way of saying it?

Ashutosh Raghuvanshi: That's correct.

Moderator: Next question is from the line of Abdulkader Puranwala from ICICI Securities.

Abdulkader Puranwala: Sir, my first question is with reference to your Mulund hospital. So if I look at the quarterly revenue numbers what you have shared, there has barely been any movement in the quarterly sales, while the margins have gone up significantly. So if you could throw some color here as to what has happened in Mulund?

Vivek Goyal: Yes. So in Mulund, as I said, one is the occupancy level has gone up. One is occupancy level has gone up. Second is the facility in which the revenue has gone up, which is high-margin facility. As a result, there is an overall improvement in the EBITDA margin in the Mulund.

Abdulkader Puranwala: Got it. And sir, did I hear it correct that you would be divesting one more hospital at Bangalore?

Ashutosh Raghuvanshi: We are evaluating that, smaller facility, we are evaluating that.

Abdulkader Puranwala: So will that be the one at Rajajinagar?

Ashutosh Raghuvanshi: No. This is on Richmond Road, which is called the Sacred Heart.

Moderator: Next question is from the line of Mayank from Axis Asset Management.

Mayank: I have two questions on the diagnostics side. First is for the touch points added last year, is there any regional bias per se? And secondly, what is the plan for addition of more customer touch points for the remaining of FY '25 and FY '26?

Anand Kuppuswamy: So we are normally adding close to about 900 touch points every year before the brand change. After the brand change, our touch point addition has slowed down to about 600-odd. So this year also, we expect to add close to about 600 to 700 touch points. And we are seeing that improving every quarter. So this quarter, we have added close to about 150 touch points.

Mayank: So this run rate is likely to continue into FY '26 also?

Anand Kuppuswamy: Yes, yes. We continue to add touch points because we have a network across the country. So it's not -- as you are asking also that whether it is any specific to any particular region. So there is an increased focus on some of the focus regions like we have some of the territories, some of the regions like our Kolkata region, our Mumbai region, Bangalore region, Delhi, NCR and Chandigarh region. So these regions, we have a higher focus on improving our network, whereas across the country also, we continue to add new touch points.

Mayank: Okay. And on a blended basis, if I have to talk about pricing, pricing broadly -- I mean, different regions have different pricing, but broadly, the pricing is kind of maintained? Or do you see any change in the pricing as well in terms of price hikes or lowering prices to get in line with the competition in the specific regions?

Anand Kuppuswamy: You're talking about pricing region-wise.

Mayank: Yes. So on a blended basis, I mean, region-wise it will be difficult to give. I understand. But on a blended basis, do you see any price change happening on a blended basis in diagnostics?

Anand Kuppuswamy: No, it's fairly constant. So we have differential pricing across different segments, across different regions. And it's kind of very similar to how the rest of the industry players move.

Mayank: Second, on the diagnostics part only, so you alluded to the fact that the margin is coming back, it's a function of the efficiency improvement, productivity and the overall top line level. So fair enough to say in case whenever you hit INR360 crores plus kind of number, these level of margins are sustainable. There is nothing like which is a one-off if this level of revenue kind of is achieved. Is that right?

Anand Kuppuswamy: Correct.

Mayank: Just one last question on the hospital side. But given the fact that we have a fairly good pipeline of capacity coming in the next 2 to 3 years' time frame. And given the fact that we will get -- we'll have some debt because of the stake purchase in the diagnostic business, would the company still be evaluating any additional asset either through M&A or additional land building in the next 1 to 2 years' time frame, which can basically be an addition to the already existing capacity addition? Or will it be avoiding it because of the leverage or -- because of the leverage primarily?

Ashutosh Raghuvanshi: No, no, absolutely, we will be evaluating opportunities, inorganic opportunities at all time. We are very mindful as to what kind of value we are acquiring for the shareholders. So we are looking at individual assets to a large extent, but they have to fit into the geographical strategy of ours, our cluster strategy of ours. So based on that, we are continuously evaluating projects, and we will certainly be doing certain inorganic acquisitions.

Moderator: Next question is from the line of Nitin Agarwal from DAM Capital Advisors.

Nitin Agarwal: Just quick one. Sir, what kind of capex spend should we assume for this year and next year?

Vivek Goyal: Yes. So we are expecting around INR800 crores to INR900 crores approximate capex, which includes maintenance as well as growth capex for both the years, each year.

Moderator: Ladies and gentlemen, we'll take that as the last question. I'll now hand the conference over to the management for closing comments.

Anurag Kalra: Thank you, Nirav. Ladies and gentlemen, thank you very much for joining us on the call today. Really appreciate your time. If there are any follow-up queries, please feel free to e-mail us. Me and my colleague, Amit are there available to speak with you and try and resolve your queries as much as possible. Thank you, and have a good evening.

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