

# MANAGEMENT DISCUSSION AND ANALYSIS **REPORT**

## SECTION I

### (A) INDIAN HEALTHCARE SECTOR – AN OVERVIEW

The Indian Healthcare industry is one of the largest sectors of the country both in terms of revenue and employment. The sector continues to witness a healthy growth momentum as a result of the country's robust economic performance, rising population and income levels, and the increased prevalence of chronic diseases all ensuring significant growth in the industry over the recent years. Coupled with this, the growth is further facilitated by rapid privatisation of healthcare services, particularly in secondary and tertiary healthcare services in rural and urban areas.

India's competitive advantage lies in its large pool of well-trained medical professionals. India is also cost competitive compared to its peers in Asia and Western countries reflected in the fact that the cost of surgery in India is about one-tenth of that in the US or Western Europe. This cost competitiveness and high-quality talent pool are gradually strengthening India's position as a reputed healthcare delivery destination, further strengthening the growth prospects of the healthcare industry in the country.

The country's healthcare expenditure as a per cent of GDP has been relatively quite low. For example, in 2015 it was at 3.8% compared to the global average of 8.6%. Additionally, as per the WHO report-2013, the gap for healthcare infrastructure, remains substantial. India has 1.0 bed per 1000 people, significantly lower than various developing and developed countries and the global average of 3 beds/1000 people. This indicates that there is a significant opportunity to establish and expand hospital facilities in India.

The Indian government has also taken concrete steps on providing better facilities and services in the healthcare sector by implementing the 'Ayushman Bharat National Health Protection Mission' in August 2018 and also launching other schemes like 'Mission Indradhanush' with an aim to improve the coverage of immunization in the country.

Given the strong market potential, investment in India's healthcare infrastructure is expected to rise, benefiting hospitals, healthcare R&D, and healthcare education in the country. According to a data released

by the Indian Department of Industrial Policy and Promotion (DIPP), the healthcare industry in India attracted Foreign Direct Investment (FDI) worth over USD 6 billion between April 2000 and December 2018.

From an industry perspective, 2018 witnessed significant developments in the Indian healthcare sector. With a vast array of opportunities available and supportive FDI policies, global healthcare majors from other nations have also started investing in Indian healthcare. A number of established multispecialty hospitals and healthcare groups were taken over by large and reputed international healthcare organizations, with the industry also witnessing substantial control interest and investments from globally reputed private equity organizations. On the other side, the sector witnessed price capping on certain consumables viz Cardiac Stents and Ortho implants by the National Pharmaceutical Pricing Authority which has impacted the profitability of the private sector. The challenge for the industry and for the Government would be to ally together to balance the increasing demand in terms of providing quality and affordable healthcare delivery to the population along with ensuring that private healthcare organizations also flourish to further invest and grow in order to provide increased accessibility to healthcare and keep pace with medical advancements, technology and treatments to offer successful clinical outcomes and world class patient care.

#### (i) MARKET SIZE

Indian healthcare sector is expected to record a three-fold rise, at a CAGR of 22 per cent during 2016-2022 to reach USD 372 billion in 2022 from USD 110 billion in 2016. Rising income levels, aging population, growing health awareness, and a changing attitude towards preventive healthcare is expected to boost healthcare services demand in future.

India ranks 145<sup>th</sup> among 195 countries in terms of quality and accessibility of healthcare. There is immense scope for enhancing healthcare services penetration in India, thus presenting ample opportunity for development of the healthcare industry. Healthcare spending as a

percentage of Gross Domestic Product (GDP) is rising with the government's expenditure on the health sector having grown to 1.4% in FY18E from 1.2% in FY14. The Government of India has committed to undertake considerable investments with a plan to increase public health spending to 2.5% of the country's GDP by 2025.

#### (ii) GOVERNMENT INITIATIVES

To promote the Indian healthcare industry the Government of India has taken some major initiatives as follows:

- On September 23, 2018, the Government launched The Pradhan Mantri Jan Arogya Yojana (PMJAY), to provide health insurance worth ₹ 500,000 (USD 7,124) to over 100 million families every year.
- Under the Union Budget 2018-19, the allocation to the Ministry of Health and Family Welfare, Government of India was increased by 11.5% to ₹ 52,800 crore (approximately, USD 8 billion) on a year-on-year basis
- With a view to develop India as a global healthcare hub, the Government of India launched a centrally sponsored programme, i.e. Ayushman Bharat. The Ayushman Bharat programme comprises of two major health initiatives: (a) transformation of nearly 150,000 Sub-Centres and Primary Health Centres as Health & Wellness Centres by 2022 to provide comprehensive and quality primary care; and (b) coverage of up to ₹ 0.5 million per family per year for secondary and tertiary hospitalization to over 100 million poor and vulnerable families (approximately 500 million beneficiaries);
- The Government of India has also launched Mission Indradhanush with the aim of improving coverage of immunisation in the country. It aimed to achieve at least 90 per cent immunisation coverage by December 2018 which will cover unvaccinated and partially vaccinated children in rural and urban areas of India.

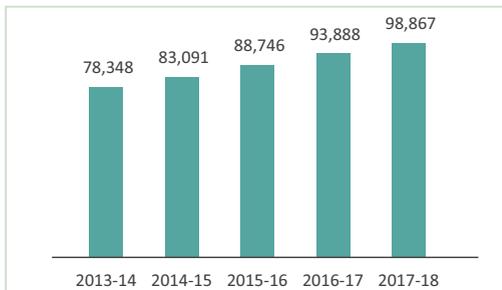
**(iii) KEY GROWTH DRIVERS**

India’s demand for healthcare services is expected to remain strong backed by various factors that have provided adequate opportunities to the industry for potential to further grow and expand. Some of the key factors that are expected to continue to drive demand for healthcare services are stated below:

**Increase in per capita income**

The per capita income of India is on the rise paving the way for more demand of healthcare services which in turn will help facilitate and support the need of quality medical care that comes at a relatively higher price. The y-o-y growth in India’s per capita income remained in the range of 5%-7% during the last five years as depicted in Chart below. However, an increase in per capita income does not necessarily imply that the growth and increase in healthcare expenditure will be influenced by population from a weaker economic background and is likely to be primarily led by households that have a spending capacity.

**Trend in India’s per capita gross domestic product (GDP) at constant market prices (in ₹)**



Source: CMIE, Base year 2011-12

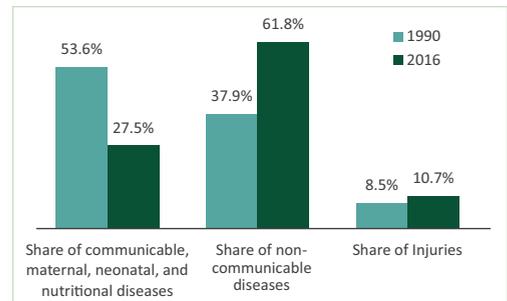
**Significant transition in disease profile of the population**

Over the years, there has been a substantial change in the disease profile of Indians. As depicted in the table below, the share of communicable, maternal, neonatal, and nutritional diseases for death decreased to 27.5% in 2016 from 53.6% in 1990 and that of non-communicable diseases increased to 61.8% in 2016 from 37.9% in 1990. This represents

the transition or shift in the disease profile of population which provides ample scope of opportunity as non-communicable diseases tend to be of long duration which, in turn, increases the need for healthcare services.

The rising incidence of non-communicable diseases such as hypertension, diabetes, cardiovascular diseases, behavioural problems, high cholesterol and obesity is due to an increasing job requirement, sedentary lifestyle and competitive living contributing to rising healthcare spending by individuals. Additionally, growing health awareness, precautionary treatments and improved diagnostics are likely to result in higher hospitalisations as well.

**Contribution of major disease group to total deaths in India**



Source: Health of the Nation’s States 2017: India Council of Medical Research

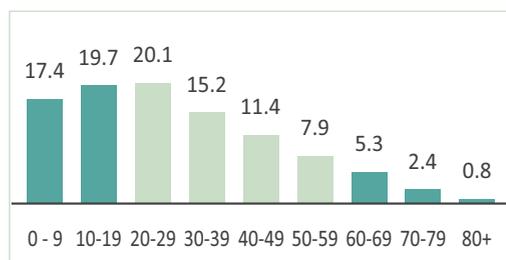
**India’s rising population with favorable demographics**

India is the second most populated country in the world with nearly a fifth of the world’s population. According to the World Population Prospects, the population of India stood at approximately 1.33 billion in 2017 and is projected to be the world’s most populous country by 2024, surpassing the population of China. It is expected to become the first nation in history to be home to more than 1.5 billion people by 2030, and its population is set to reach 1.7 billion by 2050.

Analyzing the country’s demographics, the share of India’s working age group (20-59 years) is 54.6%, which is more than half of the total population in the country. The productive

demographic group would want to resort to modern and efficient healthcare services for treatments instead of relying on under-equipped facilities which, in turn, would augment the need of healthcare services. Moreover, increasing income from this age group will also serve as a major source of demand for high end healthcare facilities.

#### Percentage distribution of estimated population by age-group, 2016



Source: National Health Profile 2018

#### India's Under-Represented and Under-Served Healthcare Delivery Services provides significant Opportunity

India has massive scope to enhance healthcare delivery services considering that healthcare spending as a percentage of GDP in India is a mere 4.2% as compared to the global average of over 8.5%. In terms of healthcare infrastructure, India has just 1.0 bed per 1000 people compared to world average of ~3 beds. To achieve the target of 3 beds per 1,000 people by 2025 India would need additional 3 million beds.

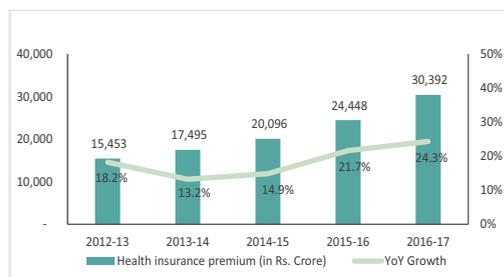
Furthermore, comparing the number of physicians and nurses, India has 0.7 doctors and 1.5 nurses per 1000 people compared to the global average of 2.5 doctors and 2.5 nurses per 1000 people. To meet the growing demand of healthcare services, India would need an additional 1.54 million doctors and 2.4 million nurses. It is also estimated that an investment of over USD 86 billion is required to achieve these targets.

#### Increase in health insurance market

Health insurance supports the demand for healthcare services in case the insured has to undergo treatment due to illness, sickness or

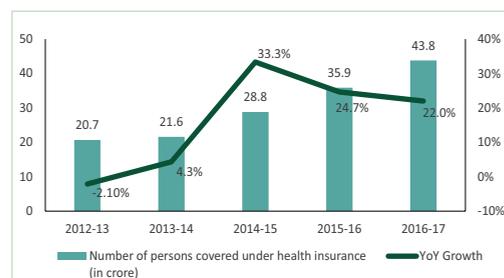
disease. This to an extent, covers the health expenses of an individual which eventually reduces his/her burden of healthcare costs. Therefore, an expected increase in health insurance market will drive the demand for healthcare services.

#### Trend in health insurance premium



Source: IRDAI

#### Trend in number of people covered under health insurance



Source: IRDAI

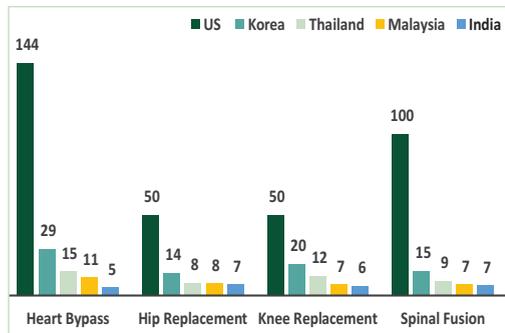
#### Medical Tourism to witness significant traction

Medical tourism is one of the fastest growing segments of healthcare sector in India. Indian medical tourism market is growing at the rate of 22-25 per cent and is expected to reach USD 6.0 billion by 2018 from USD 3.0 billion in 2017. The number of Foreign Tourist Arrivals (FTAs) in India on medical visa grew 15.9 per cent year-on-year to an estimated 495,056 in 2017 from 427,014 in 2016.

Presence of world-class hospitals and skilled medical professionals has strengthened India's position as a preferred destination for medical tourism. Superior quality healthcare, coupled with low treatment costs in comparison to

other countries, is benefiting Indian medical tourism further enhancing the prospects of the Indian healthcare market. India currently largely attracts medical tourism patients from developing and emerging economies but is gradually beginning to witness medical tourism patients from developed countries as well. This, with adequate support from the Government, could further potentially be an important factor that could contribute meaningfully for additional growth in the medical tourism industry in the country.

**Cost of various surgeries in different countries (in USD '000)**



Source: Ministry of Health, RNCOS, KPMG, Deloitte, Medical Tourism Association, LSI Financial Services, TechSci Research

**(B) INDIAN DIAGNOSTIC INDUSTRY**

The Healthcare industry landscape is witnessing signs of a gradual but consistently increasing shift in mindsets from curative to preventive. This is mainly driven by the increasing awareness of rising prevalence of non-communicable diseases (NCD) like Cardiovascular disease, diabetes, chronic respiratory diseases and cancer that account for as many as three of every five deaths. The cardiovascular diseases— ischaemic heart disease and stroke—made the largest contribution to the total burden of mortality in India in 2016, at 28.1% and diabetes contributed 3.1% of the total mortality burden. Compounding this problem is the fact that infectious diseases still pose substantial challenge to the health system, resulting in a double burden of having to deal with both NCDs and communicable diseases (CD).

A recent survey on diagnostic test results done for diabetes by a leading diagnostics chain found that amongst the working population under 40, the rising trend of diabetes diagnosis had been muted in the last year, while the number of people getting regularly tested had risen significantly at around 32% annually. This shows that a large segment of urban population being armed with the knowledge of diabetes as a disease is actively working on ensuring that their blood sugar levels stay in control.

This shift places a larger responsibility on the diagnostics sector both in terms of providing services to consumers as well as running lab operations efficiently and timely. During the last year, diagnostics companies ramped up their home collection capabilities significantly in a bid to improve the reach of diagnostic services as well as customer convenience. Diagnostic companies in the country are introducing customised tests and a gamut of various technological innovations to improve reports and advice given to the customers.

With the increased importance given to preventive healthcare, while it can be considered that the expected pressure on the existing healthcare systems can be slightly reduced, however it also implies early diagnosis and as required the need for treatment resulting in further build up in demand for healthcare services. The advantage of moving towards a preventive healthcare mind-set is that non-communicable diseases (NCDs)—such as heart disease, hypertension, obesity, type 2 diabetes, and diseases caused due to smoking or alcoholism—are invariably tackled first and NCDs tend to have a better chance of reversal if detected and managed early.

For the diagnostic industry the main drivers will continue to be the increasing awareness of preventive healthcare, shorter turnaround time through automation, next gen logistics network, value added services like application of Artificial Intelligence (AI) for personalising test packages, home collection of samples and establishing digital connect with customers.

An important aspect related to the diagnostics industry that needs to be addressed in the coming years is the regulation and standardisation of the sector. Mid-sized and small individual labs with a presence in metros, towns and rural hinterlands dominate the industry in India, as they hold an estimated 85% of the market share of the Indian market. On the other hand, in most markets across the globe, the industry is dominated by large organised laboratory chains. As the sector evolves, quality and customer service will become even more important and a wave of consolidation of businesses in the diagnostic industry will follow. Towards this it is imperative that the government intervene and bring in a regulatory regime and stipulate standardisation principles of various diagnostic tests. This will not only ensure a healthier and consequently more productive population but also remove low standard, low quality and unreliable diagnostic labs from the market.

### (C) OUTLOOK

An increase in demand for quality healthcare services backed by an expected rise in per capita income and health insurance market coupled with a favourable demographic situation would augur well for the growth of healthcare services in India. Moreover, a shift in disease profile of the country is likely to increase the requirement of treatments for non-communicable diseases which would also support the demand for healthcare services.

Further, the Indian healthcare sector is expected to witness increasing investment in healthcare infrastructure by both private and public sectors.

The Sector is witnessing some significant yet encouraging changes across all major segments of the industry, including hospitals, pharmaceutical, diagnostics, medical equipment, medical insurance, and telemedicine. In addition, the government has been very active with its approach towards the development of healthcare sector. According to a report of NITI Aayog, the Indian government will increase public expenditure on healthcare

from 1.2% to 2.5% GDP in the next four years and to 5% in the following 5 years.

Over the last 18 months, the healthcare sector has witnessed consolidation. One of factors for consolidation is tightening of regulatory environment creating a relatively more competitive market for healthcare players. The year witnessed a) ₹ 4000 Cr investment by IHH Healthcare Berhad in Fortis Healthcare through preferential allotment thus taking 31.1% stake in Fortis with a pending open offer for another 26% stake; b) KKR-backed hospital management firm Radiant Life Care acquired majority stake in Max Healthcare through a merger and c) in April 2019, TPG and Temasek-backed Manipal Hospitals submitted a binding offer of ₹ 5,800 crore to acquire Medanta. The industry experts expect the industry will witness increasing partnerships between the public and private sector to ensure that the near-universal healthcare rolled out in the country becomes a ground reality. The sector may see further consolidation for the next couple of years given the rising competition and the higher investment requirements which may create pressure on sustainability of small players in the industry.

## SECTION II

### (A) THE COMPANY

Fortis Healthcare is one of the leading healthcare delivery providers in Asia. Fortis started its journey with its first hospital in 2001 in North India and, during the course of 18 years, has grown to become a leading healthcare service provider with a presence in day-care specialty, diagnostics and tertiary and quaternary care.

The Company is committed to deliver quality healthcare services to patients in modern facilities using advanced technology and has a team of skilled doctors, nurses and healthcare professionals. Most of our healthcare facilities provide secondary, tertiary and quaternary healthcare services to patients in Cardiac Care, Orthopedics, Neurosciences, Oncology, Renal Care, Metabolic diseases care and mother and child care.

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<sup>1</sup> Includes beds at owned, leased and managed facilities

As of March 31, 2019, the Company had a network of 43 healthcare facilities (including projects under development) in India and abroad with approximately 4,000 operational beds<sup>1</sup> and the potential to reach over 9,000 beds. In India, the Company is one of the largest private healthcare chains comprising a network of 39 healthcare facilities, including 31 operating facilities, 3 satellite and command centers located in public and private hospitals and 5 healthcare facility projects which are under development or are greenfield land sites.

The Company's diagnostics business i.e. SRL Limited, has a presence in over 600 cities and towns, with an established strength of 400 laboratories including 56 self-operated laboratories (excluding labs in JV companies)<sup>2</sup>, 124 laboratories inside Hospitals including 27 labs located in Fortis Healthcare facilities, 42 Franchisee labs, 7 wellness centers and 3 international laboratories. It also has over 7,197 Direct clients, 1026 Collection Centers which includes 97 collection centers that are owned and 76 collection centers at International locations.

**(i) KEY CORPORATE DEVELOPMENTS: FY 2018-19**

Post the resignation of Executive Chairman and Non-Executive Vice Chairman of the company in February 2018, in April-May 2018, the Board of the Company was reconstituted wherein three new Independent Directors were appointed pursuant to an Extra Ordinary General Meeting (EGM) and the appointment of these directors was approved by the shareholders.

On 29th May 2018, the newly reconstituted Board initiated a fresh bidding process to meet the Company's long term and short-term objectives. Three bidders (IHH Healthcare Berhad, TPG-Manipal consortium, Hero-Burman consortium) were invited to participate in the process, and FHL received an expression of interest from Radiant-KKR consortium. The diligence access and management interaction were offered to all the four bidders.

On July 3, 2018, the Company received 2 binding proposals from IHH Healthcare Berhad

and TPG-Manipal consortium respectively. The Board considered the merits of both the bids, recommendation of the Financial Advisors (Standard Chartered Bank and Arpwood Capital) and the legal advice from the Legal Advisors (Luthra & Luthra Law Offices and Cyril Amarchand Mangaldas). Pursuant to this, on July 13, 2018, the Board of Directors of Fortis Healthcare unanimously decided and recommended to its shareholders the binding investment proposal from IHH Healthcare Berhad to invest ₹ 4,000 Crore by way of preferential allotment at a price of ₹ 170 per share.

Post receiving the requisite approvals viz. Competition Commission of India and Shareholder's approval, on November 13, 2018, the Board of Directors of Fortis Healthcare Ltd approved the allotment of 23,52,94,117 number of equity shares through preferential issue to Northern TK Venture Pte Ltd (wholly owned indirect subsidiary of IHH Healthcare Berhad) (IHH-NTK) at ₹ 170 per share of ₹ 10 face value. With the preferential issue, IHH, through NTK infused approximately ₹ 4,000 Cr of primary capital into the Company and NTK became the controlling shareholder in the Company with ~31.1% stake on the expanded capital. Pursuant to this fund infusion, IHH was categorised as the promoter of Fortis Healthcare Limited and simultaneously the company initiated the process of de-promoterization of promoters (Singh Brothers) who holds less than 0.2% in the company.

Pursuant to the above, IHH made an open offer (for acquiring up to 26% of expanded capital of Fortis at ₹ 170 per share and up to 26% of the share capital of Fortis Malar at ₹ 60.10 per share) for a total consideration of c. ₹ 3300 Crore. The entire funds have been placed by IHH in an escrow account.

However, the Honourable Supreme Court's order dated December 14, 2018 stating "*Status quo with regard to sale of the controlling stake in Fortis Healthcare to Malaysian IHH Healthcare Berhad be maintained*" has put the open offer

<sup>2</sup> Includes 23 wellness centres within these laboratories.

in abeyance. Post the application having been filed by the Company with the Supreme Court, hearings in the matter have concluded in April 2019 and the order is awaited.

Further, on November 13, 2018, the Board of Directors of Fortis also approved the appointment of IHH-NTK's nominees on the Board with immediate effect. The Board appointed:

- Dr. Tan See Leng as an Additional Director of Fortis. Dr Tan See Leng is the Managing Director and Chief Executive Officer of IHH Healthcare Berhad. He is also the Group CEO and Managing Director of Parkway Pantai Limited and serves on the boards of various IHH subsidiaries. Dr Tan has over 27 years of healthcare experience.
- Mr. Low Soon Teck as an Additional Director of Fortis. Mr Low Soon Teck is the Group Chief Financial Officer of IHH Healthcare Berhad. He brings with him over 20 years of experience in finance, legal and general management in leadership roles.
- Dr. Chan Boon Kheng as an Additional Director of Fortis. Dr Chan Boon Kheng is the Group Head, Strategic Planning & Business Development (Merger & Acquisition) of IHH Healthcare Berhad and is the CEO for its South East Operations. Dr Chan has more than 20 years of experience as a healthcare executive working in several geographies including South East Asian countries and the Middle East.
- Mr. Bhagat Chintamani Aniruddha as an Additional Director of Fortis. Mr Chintamani Aniruddha Bhagat is on the Board of IHH and is the Executive Director for the Healthcare sector of the Investments Division of Khazanah Nasional Berhad and concurrently leads Khazanah's India operations. He also serves on certain boards and board committees of IHH subsidiaries.
- Additionally, effective 31 Dec 2018, Mr Shirish Moreshwar Apte was appointed as Vice Chairman of the company by the board. Mr. Apte was appointed to the board of IHH Healthcare Berhad in September 2014. He is currently also the

Independent Non-Executive Chairman of Pierfront Mezzanine Fund Pte Ltd. He concurrently serves on several boards of directors including Commonwealth Bank of Australia, the Supervisory Board of Bank Handlowy, Poland and Fullerton India Credit Company Limited.

## (ii) KEY STRATEGIC UPDATES

### **Acquisition of portfolio of assets held by RHT Health Trust**

Pursuant to the announcements made by the Company on November 14, 2017 and February 13, 2018, in respect of entering into definitive agreements in relation to the acquisition of all the securities of subsidiary companies indirectly held by RHT Health Trust (RHT) in India and the subsequent announcement dated August 24, 2018 in respect of amendments to the Definitive Agreements, the company consummated the said transaction on January 15, 2019.

The transaction was funded by a combination of equity and debt. The overall consideration paid by the Company for the transaction was approximately ₹ 4,666 Crores.

With the completion of the acquisition, the RHT Indian companies, i.e. International Hospital Limited (IHL), Fortis Health Management Limited (FHML), Escorts Heart and Super Speciality Hospital Limited (EHSSHL), Hospitalia Eastern Private Limited (HEPL) and Fortis Hospotel Limited (FHTL) have become wholly-owned subsidiaries (direct/indirect) of the Company ("Subsidiary Companies"). The Subsidiary Companies combined, own the entire portfolio of India assets held by RHT - comprising 12 clinical establishments, 2 operating hospitals, 1 clinical establishment under construction as well as 4 greenfield clinical establishments.

The transaction is expected to result in significant improvement in the Company's operating profitability i.e. EBITDA and cash flows as it would save on significant clinical establishment fees being paid to RHT.

The Seller, RHT is a business trust listed on Singapore Stock Exchange, comprising a diverse pool of retail and institutional shareholders

including the Company (Fortis Healthcare owns approx. 27.8% in RHT). Post the transaction, RHT distributed a substantial part of the net proceeds received by it as consideration for the Transaction to its unit-holders. Fortis also received its share of dividend from RHT which was utilised to pare down debt.

**Divestment of shareholding in The Medical and Surgical Center Limited (MSCL), Mauritius, an indirect associate company of Fortis Healthcare Limited**

In May 2019, Fortis Healthcare International Limited (“FHIL”), a wholly owned subsidiary of Fortis Healthcare limited, incorporated in Mauritius, entered into definitive agreements to sell its entire investment (i.e. 164,670,801 Equity Shares, aggregating to 28.89% of paid up capital) held in The Medical and Surgical Centre Ltd (“MSCL”), Mauritius, to CIEL Healthcare Limited (“CHL”), an existing majority shareholder of MSCL and CIEL Limited, the holding company of CHL (both being non-related to the Company) at a per share price of MUR 2.39 translating into a cash consideration of MUR 393.6 Million. The transaction is subject to the approval of shareholders of Fortis Healthcare Limited and other regulatory approvals, if required.

**(iii) NEW INITIATIVES, MEDICAL PROGRAMMES AND SPECIALITIES COMMISSIONED ACROSS HOSPITALS**

- Fortis Hospital, Shalimar Bagh, launched the Cancer Care Institute. Equipped with the latest technology in cancer care along with experienced specialists, the facility offers a trans- disciplinary and multi – modality approach in oncology. The facility also offers bone marrow transplant treatment, nuclear medicine and Interventional radiology services
- Fortis Hospital, Anandpur, Kolkata commissioned its heart transplant program and joined the select group of hospitals in the country capable of conducting this complex surgery
- Fortis Hospital, Bannerghatta Road, Bengaluru, acquired the Da Vinci Xi

system, the most advanced Robotic Surgery technology in the world

- With Fortis Malar, Chennai achieving its quality accreditation, all hospitals in the South-West region are now National Accreditation Board for Hospitals and Healthcare Providers (NABH) accredited / certified
- Fortis La Femme, Bengaluru launched a multi-disciplinary comprehensive specialty clinic for women. The speciality clinic includes an Adolescence Obesity Clinic, Adolescence PCOS Clinic, Breast Clinic and Menopause Clinic with a focus to nurture and care for women at every stage of their life.
- The state-of-the-art Da Vinci robotic surgery technology was introduced at Fortis Flt Lt Rajan Dhall Hospital, New Delhi. The world-class system, which enables anatomical access, 3D HD vision and other advanced features, puts the hospital on a map of leading surgical centres in India.
- Fortis Escorts Heart Institute (FEHI) launched a Chronic Total Occlusion Percutaneous Coronary Intervention (CTO PCI) becoming the only facility in the Fortis network to offer the specialised programme.
- Fortis Hospital, Vasant Kunj became the first hospital in India to join hands with the National Association for Blind (NAB) to introduce a unique initiative at its centre where visually impaired women, trained as Medical Tactile Examiners (MTEs), carry out breast screening for early detection of cancer. The unique initiative is a brainchild of Discovering Hands, Germany, which trains visually impaired women to use their highly developed tactile sense to identify the minutest abnormalities in the breasts.
- A specialised shoulder clinic was launched at Fortis Hospital, CG Road, Bengaluru. Offering expertise in diagnosis, treatment, and research of all kinds of injuries and conditions affecting the shoulder and elbow, the clinic is poised to become an advanced treatment centre for sports injuries.

- A Neonatal Intensive Care Unit (NICU) was operationalised at Fortis Nagarbhavi, Bengaluru during the year. The NICU team comprises of renowned neonatologists, specialised nurses and a multidisciplinary team of support specialists.
- On the occasion of the World Heart Day 2018, Hiranandani Hospital, Vashi- A Fortis Network Hospital, launched a Heart Failure Clinic for providing specialist care to heart failure patients.

#### (iv) MEDICAL STRATEGY & OPERATIONS

The Company continues to strive towards providing the best in class clinical services and patient care. Its stringent medical processes and protocols are designed to deliver superior clinical outcomes and enhance patient satisfaction. Highly talented and respected clinicians are ably supported with reliable and sophisticated medical technology and globally accredited hospitals for delivering superior results.

Through sustained monitoring and measuring of its practices, the Company has been able to promote transparency and enhanced patient care. Such measures include clinical outcomes, quality and infection prevention and control practices. In addition to these, robust medical processes and structured medical audits aide in maintaining organizational standards across the Company's network of hospitals.

**Clinical Outcomes:** As a pioneering initiative, the Company started measuring and reporting Clinical outcomes well before anybody else in India. As globally acknowledged, clinical outcomes provide evidence based measurable indicators for changes in health or quality of life resulting from patient care with respect to a specific disease or procedure, and hence offer transparency and facilitate informed decision making by patients.

As part of the steering committee at International Consortium for Health Outcomes Monitoring (ICHOM) for designing the Coronary Artery Disease (CAD) Standard Set, Fortis has been instrumental in promoting the evidence-based medicine. The Company is the first healthcare

chain in India to publish its ICHOM CAD outcomes data on its website.

Since 2016, Fortis has partnered with Vital Health (an ICHOM Certified Software Provider) for the use of Quest Manager™ software to ensure complete compliance with respect to ICHOM norms. All Fortis hospitals continue to record clinical outcomes data for major specialties. This data is periodically reviewed and deliberated upon by senior clinicians as well as management.

At present 11 clinical outcomes are being tracked at Fortis network which spans the specialties/procedures of CAD [Coronary Artery Bypass Graft (CABG), Percutaneous Coronary Interventions (PCI)], Transplant outcomes (Kidney, Heart and Liver), Total Knee Replacement (TKR), ERCP, Radiation oncology, Obstetrics and Gynecology (Hysterectomy, Cesarean section), Mental health (Depression and Anxiety).

A Heart Failure registry has also been designed and rolled out at the Company's Delhi NCR hospitals. Improved recording of Patient Reported Outcomes Measure (PROM) for Coronary Artery Disease patients marks a major milestone that measures patient experience along with clinical outcomes.

Fortis has been selected as one of the global sites for prestigious project (CAD Value Community) initiated by ICHOM that aims at 'measuring' CAD outcomes and the 'cost' of care by using standard methodology. It will help set up a foundation for learning and quality improvement opportunities around both outcomes and costs and enable the community to understand variations in value delivery.

Fortis clinical outcomes can be viewed through below mentioned link,

<http://www.fortishealthcare.com/clinical-outcomes>

**Quality and Patient Safety Report:** Patient safety is the cornerstone of high-quality health care. Fortis firmly believes in "Primum non nocere", meaning "first, do no harm", and thus lays special emphasis on patient safety measures.

Patient safety and infection prevention and control are key performance indicator in the Fortis network of hospitals to bring about desired patient outcomes. Sustained and continuous monitoring at Fortis hospitals has led to improvements in patient safety standards and quality, such as reductions in hospital-acquired infections.

**Clinical Excellence Scorecard (CESC):** Key quality parameters are monitored across the Fortis network through monthly Clinical Excellence scorecard (CESC). Currently, 18 parameters are tracked as part of the CESC, including infection rates, medication errors and patient safety parameters. Data for key quality indicators is collected every month, analyzed and shared with relevant stakeholders.

Fortis hospitals continue to perform well against the indicators, confirming the high level of quality care being provided to our patients. As an important step, Fortis has initiated Internal Benchmarking process for key CESC parameters.

**Antimicrobial Stewardship (AMS):** Antimicrobial resistance has been identified as a global emergency. Although antimicrobial resistance is a natural feature of bacterial evolution, inappropriate use of antimicrobials increases the potential for resistance. Inappropriate prescribing of antimicrobials continues to be an issue in India and the Government of India has also released the National Antimicrobial Resistance Strategy to guide the response to the threat of antibiotic misuse and resistance.

Fortis runs a coordinated AMS programme to address the growing menace of microbial resistance. Antibiograms are prepared hospital wise and clinicians and hospitals are continuously encouraged towards appropriate use of antimicrobials (including antibiotics), reducing microbial resistance and infection rates especially for multidrug-resistant organisms thereby improving patient outcomes.

Morbidity and mortality increase in patients infected with antimicrobial-resistant organisms and such patients are more likely to have longer,

more expensive hospital stays and may be more likely to die because of such infection.

**Drug Resistance Index (DRI):** The DRI is a single, composite measure or index, reflecting the relationship between drug resistance trend and antimicrobial usage practice. As a monitoring tool, the Drug Resistance Index (DRI) can assess the effectiveness of the Antimicrobial Stewardship (AMS) programme.

For the past five years, Fortis has been calculating its own Drug Resistance Index using it as a monitoring and analysis tool for antimicrobial usage in Fortis hospitals.

**Fortis Healthcare Accreditation and Certifications**

Accreditation/ Certification	No. of Hospitals
Joint Commission International (JCI)	4
National Accreditation Board for Hospitals & Healthcare Providers (NABH)	20
NABH Entry Level	7
NABH Blood Bank	10
NABH Emergency	4
Nursing Excellence	23
NABH Safe I	4
National Accreditation Board for Testing & Calibration Laboratories (NABL)	18
Green OT Certification by ABBOT	9
Pharmacy Certification by ABBOT	9
<b>Total</b>	<b>108</b>

**Medical Processes:** To develop a structured system-based approach, and ensure standard processes across the organization, Fortis has implemented Medical SOPs in Clinical, Para-Clinical and Regulatory Areas. There are 35 centrally controlled Procedure Specific Consent Forms. The SOPs are reviewed periodically and updated based on stakeholder’s inputs and regulatory changes ensuring that adequate checks are maintained in each process.

The compliance of the various hospitals on the processes is monitored through the Management Control Framework at Unit, Regional & Central Level.

**Medical Process Assurance (MPA):** A robust and structured audit program, conceptualized to enhance the organization's governance mechanism through continuous improvement pertaining to clinical and para-clinical fields. MPA supports the Medical and HR functions in assessing risks and compliance towards laid down protocols.

Importantly, as an independent assurance mechanism, MPA reviews the design and operating effectiveness of the organization's management control framework.

The program comprises of a pre-defined audit calendar for unit level field work. Subsequently, management interactions lead to the identification of improvement opportunities and development of specific Management Action Plans. Finally, remediation testing and review is undertaken to ascertain the level of understanding and implementation of action plans at units.

#### **Academics and Training:**

- **International Clinical Observership Program:** Fortis, in collaboration with Ministry of External Affairs initiated specialized training programs for medical doctors from Africa. Under this initiative, 75 African doctors were trained successfully in FY18-19. A similar program is also planned in the current fiscal. The candidates would represent a number of African countries and will be stationed across our network hospitals in various specialties to enhance their skills.
- **Fortis Certified Clinical Observership & Fellowship Programs:** Fortis received 66 candidates for the observership program in specialties like Gastroenterology, Cardiology, Psychiatry and others. Candidates represented countries such as Cambodia, Afghanistan, Bangladesh, Uzbekistan and Iraq amongst others.

**Clinical Research:** Fortis has majorly expanded its research related activities over the last one year. Currently, DCGI approved Ethics Committees are active in 17 Fortis hospitals, to oversee the research activities. To ensure quality of research and processes, all these 17 sites are being accredited with NABH for Research. Five have already achieved NABH accredited Status. Improved systems and processes have been put in place to position Fortis as the preferred destination for clinical research. Consequently, Fortis has been awarded 49 new research projects this year. Currently 143 Clinical Research studies are ongoing at Fortis and 60 were completed this year.

#### **(B) SRL LIMITED**

The diagnostic industry landscape in India continues to be dynamic, driven by entry of new regional players, healthy competition in mass markets, launch of new tests & technologies, advent of automation and digitization of laboratory operations. This is supported by highly skilled doctors and the increasing awareness of consumers towards health and wellness. While the investment in healthcare by private players has increased, the Government has also insisted on the need to strategically invest in primitive and preventive healthcare measures in National Health Policy 2017. The advent of Ayushman Bharat also opens up immense opportunities in making the quality diagnostics services more affordable and accessible in the country, provided that the program contours are commercially viable for major players.

While only a minor portion (estimated at around 15%) of diagnostic business is being managed by the organized sector – regional and national diagnostic chains, the diagnostic service market is expected to become much more organized and consolidated. SRL Limited enjoys the leadership position in the diagnostics industry in terms of revenue as well as its reach to the customers. SRL boasts of the largest network of 400+ labs and wellness centers with a pan-India footprint augmented with a 7000+ network of active revenue-churner collection points including collection centers as well as sample pick up points. The collection points serve to pick samples across India and feed satellite and reference labs through a robust logistics channel. SRL reached out to over

60,000 doctors and diagnosed approx. 16 million samples in FY 2018-19. SRL, being the largest mass market player, is present across diagnostic services segments of pathology and radiology with services ranging across all pathology segments viz. screening, diagnostic, predictive, preventive and monitoring tests.

**Public Private Partnership:** SRL continues to do pioneering work in providing diagnostic services in remote, rural and tribal dominated areas of Jharkhand, Himachal and holy pilgrimage site-Tirupati. SRL has relentlessly strived to mitigate the challenges posed by economical, infrastructural and social problems of healthcare by tackling the problems in multi-dimensional manner e.g. SRL has set up diagnostic centers in PHCs (Public Healthcare Centers) in Jharkhand to augment primary healthcare.

In the Jharkhand PPP, SRL has helped the state government to improve its health indicators by providing diagnostic services to more than 3.2 lakh individuals and carrying out approx. one million tests of infectious and non-communicable diseases in FY 18-19. Since inception, SRL has provided diagnostic services to around 8 lakh patients and performed 2.2 million tests. SRL has walked an extra mile to serve the BPL tribal population by setting up diagnostic centers in remote PHCs (viz. Barhait, Barharwa, Boarhijor, Borio, Chouparan, Ramgarh, Keredari, Pathargama, Petarwar, Baliyapur) of districts like Godda, Sahibganj, Hazaribagh and Dumka. In FY 18-19, SRL conducted 88 bone health awareness camps in which 3,196 patients were screened for bone & joint disorders including Vitamin D. SRL has tied up with TB departments of 4 districts to provide rapid diagnostic access to TB patients.

In March 2019, SRL was awarded with an opportunity to screen for general health for approximately 8,000 female students of 20 Kasturba Gandhi Balika Vidyalaya at Hazaribagh and Dumka locations by Jharkhand Education Department. Based on the outcome of this pilot screening, Jharkhand Education Department intends to screen all 80,000 students from 280 Kasturba Gandhi Balika Vidyalaya in all districts of Jharkhand.

SRL has done laudable work in difficult topology and hostile weather in the state of Himachal Pradesh

by providing uninterrupted diagnostic services in 24 health institutions of state government. In its endeavor to provide secondary and tertiary level care, it has served approx. 9 lakh patients and carried out 35.7 routine and specialized tests.

By setting up a PPP lab in Tirupati, SRL intends to offer its services at subsidized rates to around 3 crore pilgrims that visit one of the holiest pilgrimage sites in the country as well as to the residents of city and nearby areas.

**International Business:** To address the ever-growing diagnostic needs of the global medical fraternity, the Company's International Division became operational in 2003. The International Operations of the Company comprise state-of-the-art labs in Dubai, Kathmandu and Biratnagar (Nepal). In FY 18-19, the Company initiated the work of setting up a lab in Kabul as a technical advisor to a local partner. The lab will be first of its kind in Afghanistan and will benefit from SRL's unmatched expertise in the diagnostic domain.

SRL's international network also consists of more than 75 collection centers spread across SAARC region, Gulf and the Middle East, Sub-Saharan Africa and South East Asia. They send these samples to SRL Reference labs in India which process the samples and make the reports available on a real-time basis using SRL's efficient and highly acclaimed and awarded IT system and robust logistics network. Along with laboratory services (both radiology and pathology), the Company also assists its international clients and partners in the planning and implementation of laboratory management services, along with complete IT support through indigenously developed lab management software - 'CLIMS'.

**Research and Development:** During financial year 2018-2019, the major focus of the R&D division was towards two fast growing disease segments - Oncology and Prenatal. Particularly in Prenatal segment considering the market need and related competition, Fetal Medicine Foundation (FMF) certified technology Cobas e6000 was introduced for Prenatal screening markers i.e. Double marker and Preclampsia screening. Apart from operational benefits, both these assays are almost 15% cost-effective as compared to other available technologies. Inclusion of these FMF certified prenatal markers

will be very much helpful to support the need of SRL's strategic partners such as Indira IVE. In the Oncology segment, the Next Generation Sequencing (NGS) based multi-gene test for DNA and RNA variation for Lung Cancer Profiling was developed and introduced for first time in India. This test provides advantage of detecting all clinically relevant and treatment related variations in one step with improved TAT as compared to currently followed protocols. Another innovative, non-invasive US FDA approved Liquid biopsy test: EGFR True was released for first time in India. This is the only robustly validated and approved test by US FDA for Lung Cancer cases. Introduction of this test is highly beneficial for patients wherein repeat biopsy is not possible. Focus on Transplant related menu was further expanded by introduction of Kinship test. Further to leverage the high growth liquid biopsy market, a strategic collaborative tie-up was established with CellMax, a Taiwan based company to offer their innovative PanCA (Liquid Biopsy test) and PDL-1 blood-based test.

#### SRL FINANCIALS

For the financial year 2018-19, SRL Ltd. reported net revenues of ₹ 877 Crore (net of inter-company sales) compared to ₹ 854 Crore reported during the Financial Year 2017-18, a growth of 2.7%. The Company operating EBITDA for the year stood at ₹ 180 Crore, representing a margin of 20.6% compared to margin of 18.9% reported during the previous financial year. On a standalone basis, SRL's gross revenue grew at 2.1% to ₹ 1,010 Crore compared to ₹ 990 Crore reported in FY18.

While top line remained muted, SRL's initiatives on the cost side resulted in (1) a reduction in direct costs as a result of improving lab efficiency and vendor costs negotiations and (2) savings in manpower costs as a result of lab rationalization and staffing optimization.

The lab medicine business (pathology business) contributed 94.1% to total revenues and grew 4.7% over the previous year. The contribution of the imaging business to total revenues declined to 5.9% from 6.3% in the previous year, mainly due to network rationalisation.

The business undertook a total of over 15.9 million accessions for Pathology and Radiology during the year, compared to 16.1 million accessions performed

during FY18. Through these accessions it undertook 37.7 million tests during the year compared to 38 million tests performed in FY18.

The business continued to have a well-diversified geographical mix with no over dependence on any region, allowing it to optimally capitalize on the pan India network. Regional FY2018 revenue contributions were 32% from the North, 26% from the West, 18% from the South, 21% from East and Central India and 2% from International.

As of March 31, 2019, SRL had a network of 401 labs, 1026 collection points and over 7,100 pick-up points.

**Brand Initiatives:** In FY 18-19, the Company partnered with United Nations Children's Fund's (UNICEF) for Comprehensive National Nutrition Survey (CNNS). The Purpose of CNNS, supported by the MoHFW, Government of India, in partnership with UNICEF, was to conduct a nationally representative and comprehensive nutritional profiling of preschoolers, school-age children, and adolescents. Despite a challenging environment, your company not just collected samples of these children but also dispatched their reports back to these villages. The task started in 2015 was completed successfully this year.

Besides this, the Company's marketing team has been playing an active role in organising conclaves that bring together the top Oncologists, Nephrologists, Gynecologist, TB specialists and other doctors, on a common platform, where new developments in each of these fields can be discussed. More than 350 Round Tables Meets and Continuing Medical Education (CMEs) were conducted in the last fiscal year, engaging with about 3,000 doctors across India. The company is committed to bringing world-class diagnostic facilities to ensure early detection, therefore, it launched the Liquid Biopsy test, one of the super-specialised test to help Oncologists monitor on-point Cancer genetics through blood samples.

SRL's business delivery stands on four strong pillars of (1) providing accurate and quality results, (2) empathy towards our patients and partners, (3) innovation in every process and (4) transparency in our daily operations. To further strengthen the pillars of Empathy, the Company took steps towards 'moving from sick care to health care' by putting more

resources into preventing care or wellness business. It carefully crafted ‘Preventive Packages’, under the SRL Care umbrella. These packages are ‘tailor made’ plans intended for healthy adults interested in health promotion and disease prevention. SRL Care is not just a health-check plan, it is a habit - a mindset. Borne out of the simple principle – prevention is better than cure!

Advances in technology and communication, combined with the explosive growth in data and information, have given rise to a more empowered global consumer. One of the best ways to tap these digitally empowered customers is via mobile app and website. Last year SRL recorded 1 Million downloads of its mobile app. This year also saw the launch of the Company’s consumer loyalty program – Club SRL. It is a unique membership program that rewards SRL Diagnostics customers with special privileges, reward points and members’ only discounts. This loyalty program not just offers reward points, but it also offers preferential benefits to health-conscious members, who can take certain health and fitness related challenges to earn extra points. Through this program we aim to simply promote health; what we are trying to tell our customers is ‘improve your health stats and you’ll be rewarded further’.

**Information Technology:** At SRL, the Information Technology Department has been constantly enhancing various business applications by leveraging new technologies; to support various new initiatives of business functions, enhance customer experience and engage customers. The company continued with its investments for automating various business processes to be more productive and also strengthen the internal workflow process.

During the year, Information Technology focussed on process automation through digital transformation, enhancing SRL’s market reach by enhancing customer experience with a focus on B2C business (Mobile App UI Change, Loyalty Program, Promotional Campaign Console), and providing digitalized approval workflows to improve Governance and Transparency (Travel Portal, Capex Automation, CC Digital Payments). SRL also started working on Artificial Intelligence (AI) for Pathology, in partnership with Microsoft as a Lead Consortium member.

SRL Proprietary CLIMS was integrated with Fortis Cloud OneHIS application at 5 Fortis Hospital lab locations and order process integrated from different Aggregator’s app i.e. Jio, Health-I, Call Health.

**Training and Development:** Training continues to remain one of the Company’s key focus areas. In last few years, SRL has progressed to bring many tailor-made competency enhancement programs. SRL’s training curriculum includes robust Technical Trainings as well as specialized Behavioural trainings from best of the faculties from the internal talent pool and also liaisoning with best of the external faculties.

The Company’s prestigious 15 days training program “Nneev” has been further strengthened with a better mix of ‘Theory’ and ‘Exercise’ with inclusion of different learning enhancement activities, now encompassing courses such as ‘Consultative Selling Skills’ and ‘Biomedical Waste Management’. In FY18-19, the Company clocked as high as 3,257 Man days covering over 1,130 employees including 7 Nneev trainings each for Sales and Operations team. Looking into the strong need of customer centricity, the company also launched F.A.C.E. (Foremost Attention to Customer Engagement) workshops for the customer facing employees and trained 162 employees in FY 18-19. Additionally, workshops on softer aspects like Effective Interviewing Skills and Performance Review and Feedback were also scheduled. The company conducted the workshop for the Prevention of Sexual Harassment (POSH) covering nearly 150 employees.

**Awards and Accolades:** SRL has grown from strength to strength; always keeping its customers’ interests at the core of everything it does and believes in. The dedication and hard work of the company has resulted into winning several prestigious awards and accolades this year. While the recognition reinforces its strong credentials and helps establish the company as a leader in the Indian diagnostics sector, it is a conclusion of the trust it enjoys from the customers.

In the last fiscal, the Company won the Best brand in diagnostic services in Pathology and Radiology award during, ‘The Economic Times Best Brands Awards-2019’. It also bagged the “Best Diagnostics Centre” award at the CNBC-TV18’s prestigious India Healthcare & Wellness Awards 2017-18 held

in Mumbai. In addition to these, some of the Key recognitions that came this year also include:

1. SRL Diagnostics being felicitated at the 8th Global Economic Summit in Mumbai on March 7, 2019 for its outstanding work in the field of medical diagnostics
2. SRL winning the 'Best Use of Technology for Training' award at the Times Ascent National Award for Excellence in Training and Development on 5th July 2018

### (C) FINANCIAL & OPERATIONAL HIGHLIGHTS

*(The Company adopted Indian Accounting Standards (Ind AS) with effect from April 1, 2016 and accordingly the financial results along with the comparatives have been prepared in accordance with the recognition and measurement principles stated therein, prescribed under Section 133 of the Companies Act, 2013 read with the relevant rules issued thereunder and other accounting principles generally accepted in India. Hence, the below summary is as per Indian Accounting Standards (Ind AS).*

For the financial year 2018-2019, the Company reported a consolidated revenue from operations of ₹ 4,469 Crore compared to ₹ 4,561 Crore reported for the financial year 2017-18. Revenue from India operations stood at ₹ 4,404 Crore and revenue from the International Operations stood at ₹ 65.3 Crores. The company reported total income of ₹ 4,562 Cr for the financial year 2018-19 compared to ₹ 4,701 Cr in the previous financial year.

Consolidated Operating EBITDAC (EBITDA before the net business trust fees) stood at ₹ 541 Crore compared to ₹ 655 Crore in Financial Year 2018. This represents a margin of 12.1% in FY19 compared to 14.4% in FY18. EBITDA (excluding other income and before exceptional item) for the year was at ₹ 326 Crore compared to ₹ 389 Crore in FY18. However, the reported EBITDA of the company for the financial year 2018-19 stood at ₹ 318 Cr compared to ₹ 413 Cr reported in the previous financial year. Reported Net Profit/ (Loss) after Minority Interest and Share in Associates for the Company was at ₹ (299) Crore compared to ₹ (1009) Crore in FY18.

Revenue from International operations of ₹ 65.3 Crore was primarily due to revenues earned by RHT Health Trust Manager Pte. Ltd (RHTTM), a 100% step down subsidiary of Fortis Healthcare. During

Q4FY19, RHTTM earned a one-time exceptional income of ₹ 45 Crore mainly due to fees received from RHT Health trust for concluding the divestment of Indian entities/assets to Fortis in January 2019. Correspondingly, the company's EBITDA of ₹ 541 Crore includes a one-time exceptional EBITDA of approximately ₹ 26 Crore from RHTTM.

The year was impacted primarily as a result of the first half of the fiscal that saw external challenges and resultant business disruptions due to liquidity constraints. H1FY2019 revenues de-grew 7.3% while H2FY2019 revenues grew 3.6% over the respective corresponding periods of FY2018.

Despite the disruption faced by the company during the year, the Company continued to focus on providing highest standards of healthcare delivery and patient care. Furthermore, continued efforts were made to ensure that employees across the organisation were kept motivated in order to minimise attrition amongst both the medical and non-medical employee base.

Reported Net Profit (PATMI) after accounting for exceptional items stood at a loss of ₹ 299 Crore for the year versus a loss of ₹ 1,009 Crore in the previous year. FY19 and FY18 had exceptional losses due to impairment of investments / goodwill/ assets and one-off expenses; for FY18, exceptional losses also includes one offs for certain provisions taken. FY19 PATMI also includes significant share in associate mainly due to RHT's profit related to divestment of assets to Fortis in January 2019.

The India business comprising the Hospital and the Diagnostic business recorded revenues of ₹ 4,404 Crore, compared to ₹ 4,537 Crore in the corresponding year. For the year FY 2018-19, the hospital business contributing 80% to the overall India business i.e. ₹ 3,527 Crore, compared to ₹ 3,683 Crore in FY18. The India Diagnostic business reported net revenue (net of inter-company elimination) of ₹ 877 Crore compared to ₹ 854 Crore in the corresponding previous period.

For the India business, the operating EBITDAC (EBITDA before net business trust costs) stood at ₹ 517 Crore, representing a margin of 11.7%. The India Hospital business reported operating EBITDAC (EBITDA before net business trust costs) at ₹ 336 Crore, a margin of 9.5% compared to ₹ 500 Crore (13.6% margin) reported in FY2018.

The Diagnostic business in India reported EBITDA at ₹ 180 Crore, margin of 20.6% compared to 18.9% margin reported in FY18.

International patient revenues for the hospital business for the year stood at ₹ 397 Crore representing 11.3% of overall hospital business revenue, compared to ₹ 402 Crore reported in the previous financial year.

Key operational parameters in the Company's hospital business continued to see a steady growth. ARPOB (Average Revenue per Occupied Bed) grew to ₹ 1.51 crore compared to ₹ 1.49 Crore in FY18. ALOS (Average length of stay) was at 3.39 days compared to 3.48 days in previous year, while Occupancy declined to 67% versus 70% in FY18 respectively.

Gross debt of the company stood at ₹ 2,009 Cr as of 31 March 2019 translating to gross debt to equity ratio of 0.28 times compared to a gross debt of ₹ 1,962 Cr as of 31 March 2018 (gross debt to equity ratio of 0.37 times).

The net debt of the company was ₹ 1,023 Crore and a net debt to equity ratio of 0.14 times as on 31 March 2019. This compares to a net debt of ₹ 1,404 Crore in the previous financial year and a net debt to equity ratio of 0.26 times as on 31 March 2018.

The company's gross debt to EBITDA ratio was 6.32 times as on 31 March 2019 compared to 4.47 times as on 31 March 2018. Net debt to EBITDA ratio was at 3.19 times as on 31 March 2019 compared to 3.21 times as on 31 March 2018.

The debtor turnover ratio for the company was at 8.83 times for the financial year 2018-19 compared to 9.67 times for the previous financial year. The inventory turnover ratio for the company stood at 15.07 times for FY2018-19 compared to 15.59 times for the previous financial year. Interest coverage ratio of the company decreased significantly to 0.33 times in FY18-19 compared to 0.75 times in the previous financial year due to subdued business performance during the year. As of 31 March 2019, the current ratio of the company was at 0.46 times compared to 0.60 times as of 31 March 2018.

#### D) HUMAN RESOURCE

2018-19 was a defining year for Fortis Healthcare. All Fortisians irrespective of the employee segments, role, geographies not only displayed exemplary

courage & resilience in face of difficult & turbulent times but also demonstrated faith & lived our core values. As the Company embarks on a new era of excellence, it continues to put its focus on its most valued resource, its employees. Through a distinctive set of integrated policies, initiatives, programmes and practices, people's capabilities were consistently leveraged & developed. The Company's committed & engaged talent continued driving excellence & delivering value to its patients, stakeholders & the community.

**Year of Building Synergies:** IHH coming in as the Company's largest shareholder heralded a new future and potential synergistic channels to deliver healthcare excellence in India. Understanding the significance of an engaged workforce during this critical transition phase of the organization's journey- '*Inspiration and Connection*' were at the heart of the people strategy. Leveraging varied formats to connect including townhalls, socials, mailers, newsletter, leadership engagement sessions, employees across Fortis were communicated the right information at the right time. Special townhalls with presence of senior leadership teams of IHH & Fortis were conducted in all cities. Acknowledging & addressing employee concerns, understanding & sharing of perspectives, outlining the vision & the way forward, helped instil confidence & propelled alignment amongst all employees. The subsequent buy back of RHT entailed concerted efforts to ensure ground level integration across the network.

A comprehensive integration & engagement plan helped incorporate the strength & diversity of RHT talent into the organization. The Company's people integration strategy continues to be aligned with the enterprise-wide integration strategy to ensure realization of integration objectives and amplifying the opportunities & benefits of the partnership for our workforce, patients & community.

**Putting People First:** In line with the Company's employee-centered approach, the Company continued to strengthen its communication & collaboration platforms to foster a positive employee experience. Varied platforms such as Hum Tum Milenge (HTML), Townhall, Coffee with HR Head, Fortis Swachh Abhiyaan, Sparkle, Long Service Awards were optimized in support of the Company's core belief that communication is the cornerstone of an engaged workforce. Fortis's best in class digital

platform 'Workplace by Facebook' provided a highly interactive employee communication platform which facilitated inter-departmental and cross-geographical information flows and collaboration.

Promoting dialogue through townhalls and open houses, our business leaders played a key role in engaging with teams and keeping them abreast with the developments. The open communication channels, consistent two-way communication across all levels of the enterprise ensured that despite prevailing uncertainties, the Fortisian spirit collectively weathered the storms & collaborated to ensure business continuity.

**Looking within for transformation:** Reviewing & reflecting on our fundamental ways of working, reviewing SOPs, Policies, systems controls for compliant working outputs, process improvements, implementation of lean & agile systems and related oracle automation paved the way for future readiness of System integration & HR Analytics. Considerable groundwork on leveraging people analytics played a key role in aligning talent with value creation including informed and predictive business decisions. 'Looking within' to build efficiencies poises the Company now for the next level of transformational strategic business partnering

**Talent Management:** With Fortis's comprehensive Talent Management strategy geared to create a higher performing workforce, steps towards optimising the organisation design was undertaken. This is work in progress with many changes made at support office level. Talent retention did turn challenging however the strong brand value supported the Company to engage with key potential hires. Fortis's position as regarded by the market to be an organisation which is spearheading breakthrough/rare surgical inventions, clinical excellence and most importantly sustained teamwork at all levels of the organisation became evident. Relentless focus on enhancing our *Employee Value Proposition* throughout the employee life cycle augmented attracting and engaging the best of the Company's talent. Attritions levels took a slight dip from previous year. The Company's resolve in developing capabilities of its employees to reach their potential amidst uncertainties remained undeterred with Learning & Development initiatives percolating to all segments of the workforce across the organization. Senior

industry experts were engaged to provide coaching to the key management functions during the challenging times.

**Nursing:** Fortis recognizes & salutes the commendable contribution of its nurses in providing 'high quality nursing services' which continue to be a differentiator & an enabler in positioning Fortis as a leading integrated healthcare delivery service provider. Nursing will play an even greater role in delivering a compassionate & efficient health care service in times to come & in this direction the Company continues to focus on the developing its nursing talent.

'Communicating Care is Delivering Care' the Company's flagship learning & development program for new nurses focusses on imparting, skilling & reinforcing Patient Centric Service Behaviours. The program with comprehensive post training support mechanism is designed & developed on globally recognized healthcare models & proven practices such as AIDET (Acknowledge, Introduce, Duration, Explanation, and Thank You.), ISBAR (Identify, Situation, Background, Assessment and Recommendation), Hand Hygiene, Grooming standards & their application in real life-based scenarios to equip nurses to come across as able, confident healthcare professionals providing best in class, effective & compassionate patient care. The program launched as part of Nursing Induction Training is conducted jointly by nurse educators, senior nursing team, clinicians, unit leadership & Learning & Development team. Rigour of multiple practice sessions, feedback, reskilling, knowledge & skill-based assessments results in equipping participants to form a deeper connect with patients & patient attendants. Role play practice based on thirty-four real life-based nursing scenarios, 5 p's of patient care & live on floor visits further strengthens the skills of young nurses to deal with diverse & difficult situations. Over 2000 new nurses were covered as part of the initiative, garnering positive feedback from their managers & creating a significant impact on Patient Appreciation.

Nursing leadership programs to better equip our nursing leaders with the holistic development of skills of Operational Excellence, People Management, Business Orientation and Personal Development to enable them to perform their

leadership deliverables with enriched expertise were conducted for 39 senior nursing personnel

**Fortifying Patient Experience Program:** In our endeavour to continuously enhance capabilities of providing superior patient care experience, an intensive skill building program was conducted for the Patient experience team. Covering 46 Patient relationship Officers (PROs) the program focussed on building lasting relationships with patients / attendant by connecting with patients, enhancing abilities to provide faster & empathetic resolutions thereby influencing patient perceptions positively across the continuum of care.

**Peer Exchange Program:** The exchange program conducted by pairing functional leaders enables participants from across Fortis to shadow, observe and mutually learn by drawing on each other's expertise and experiences. Over the year the program was conducted for functional heads from diverse functions such as Medical Services group, Patient Experience, Human Resources, Administration functions, Supply Chain Management and Quality. The program provided a structured platform to learn problem-solving, generate new ways or ideas for addressing process gaps, resource mobilisation, and sharing of high-performance workplace practices for providing patient experience and seamless operational excellence.

**Climate of Learning:** To further enhance the climate of learning within the organization, 680 Learning Forums were conducted with 4010 employees participating in the sessions post attending the training program. Learning Forums across Fortis provide 'Non-formal' space for employees to share experiences, practices, successes, failures, challenges, explore solutions post attending a learning intervention. These forums aim to catalyse application, stabilization & sustaining of new behaviour on the job by providing the support/ enabling environment often needed to reinforce individual attempts at change. Focus on transfer of learning continued with 11000 on floor observations conducted on service excellence behaviours for front facing employees. Training Effectiveness Index score were measured to which the program objectives have been accomplished by the participants and is measured by accomplishment of Learning Goals as set by the participants and on floor changes observed by the manager.

As on March 31, 2019, the Company had a total employee base in the hospitals & the diagnostics business of 22,445 employees.

## (E) INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

At Fortis, management has the overall responsibility to design, implement and monitor an effective control environment that is aligned to the inherent risks of the organization.

Management is responsible for the identification, assessment, development of risk mitigation plans and monitoring of action plans. A framework for risk identification and assessment has been developed to create oversight mechanism for mitigation of identified risks.

An entity level control framework sets the control philosophy and principles which guide the organization policy and operating processes. An internal control framework has been designed to manage and mitigate the risks faced by the Company.

The organizational hierarchy, role, responsibility, authority and accountability structures have been defined to provide an enabling environment for business functions and units to operate as per the designed control environment. Review and oversight procedures are designed to monitor effective adherence to design.

The internal control system has been designed commensurate with the nature of business, size and complexity of operations and is monitored by the management to provide reasonable assurance on the achievement of objectives, effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

As part of the Corporate Governance Report, Internal Financial Control certification provides assurance on the existence of effective internal control systems and procedures.

The internal control framework is supplemented with an internal audit program that provides an independent view of the efficacy and effectiveness of the process and control environment and through its observations provides an input to the management to support continuous improvement program. The

internal audit program is managed by an Internal Audit function directly reporting to the Audit & Risk Management Committee of the Board.

The scope and authority of the Internal Audit Function is derived from the Audit Charter approved by the Board. The Internal Audit function develops an internal audit plan to assess control design and operating effectiveness, as per the risk assessment methodology.

The Internal Audit function provides assurance to the Board and management that a system of internal control is designed and deployed to manage key business risks and is operating effectively. For the identified observations, management provides an action plan to address the process and control deficiencies noted in the internal audit reviews and action plans are monitored for compliance by the Internal Audit Function under the supervision and guidance of the Audit and Risk Management Committee.

#### **FORWARD LOOKING STATEMENT**

*Except for the historical information contained herein, statements in this discussion which contain words or phrases such as 'will', 'would', 'indicating', 'expected to' etc., and similar expressions or variations of such expressions may constitute 'forward-looking statements'. These forward-looking statements involve a number of risks, uncertainties and other factors*

*that could cause actual results to differ materially from those suggested by the forward-looking statements. These risks and uncertainties include, but are not limited to, our ability to successfully implement our strategy, future business plans, our growth and expansion in business, the impact of any acquisitions, our financial capabilities, technological implementation and changes, the actual growth in demand for our products and services, cash flow projections, our exposure to market risks as well as other general risks applicable to the business or industry. The Company undertakes no obligation to update forward looking statements to reflect events or circumstances after the date thereof. These discussions and analysis should be read in conjunction with the Company's financial statements included herein and the notes thereto.*

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