



February 26, 2021

Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, Plot C-1, Block G,
BandraKurla Complex,
Bandra (E),
MUMBAI - 400 051
Symbol: MAXHEALTH

Listing Department,
BSE Limited
25th Floor,
Phiroze Jeejeebhoy Towers,
Dalal Street,
MUMBAI - 400 001
Scrip Code: 543220

Sub: Transcript for Earnings Conference Call made on February 08, 2021

Dear Sirs,

In furtherance to our letter dated January 29, 2021, regarding the presentation (dated February 06, 2021) made to the investors on February 08, 2021, please find enclosed herewith transcript for Earnings Conference Call made on February 08, 2021.

This is for your information and records.

Thanking you,

For Max Healthcare Institute Limited

Ruchi Mahajan
Company Secretary & Compliance Officer

Encl:- As above



Max Healthcare Institute Ltd Q3 & 9M FY21 Earnings Conference Call Transcript February 08, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Max Healthcare Institute Limited Earning Conference Call. Please note that this conference is being recorded. I now hand the conference over to Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone and thank you for joining us on Max Healthcare's Q3 & 9M FY2021 Earnings Conference Call. We have with us Mr. Abhay Soi -- Chairman and Managing Director of the Company; Mr. Yogesh Sareen – Senior Director & Chief Financial Officer; Mr. Dilip Bidani – Senior Director, Finance and Mr. Gautam Wadhwa – EVP, Business Development & Business Intelligence of the Company.

We will begin the call with opening remarks from the management, following which we will have the forum open for an interactive question-and-answer session.

Before we start, I would like to point out that some statements made in today's call maybe forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Abhay to make his opening remarks.

Abhay Soi: Good afternoon, all. It gives me great pleasure to welcome you to the third quarter earnings call for Max Healthcare for the financial year 2021.

Let me give you the key highlights of this quarter before opening it up for Q&A session.

Starting with the COVID update, we continue to take pole position in the fight against COVID-19 in the National Capital Region and through Nanavati in Mumbai. We have already treated over 21,000 COVID-19 patients at our hospitals, in addition 2,000 patients at their homes and conducted over 3.2 lakh RT-PCR tests already. Our teams continue to focus on clinical excellence, and I am proud of the achievements of our doctors and support staff. During the course of the pandemic and over the last quarter alone our doctors have published over 85 national and international publications with top-three being from oncology, nephrology and urology departments. We have conducted 30 studies and trials on COVID-19 indications and 45 non-COVID-19 clinical trials across the network. Most importantly, we continue to serve patients from the economically weaker sections of the society. In the past quarter alone, we have treated over 900 in-patients and 26,000 OPD patients free of charge.

Now coming to the financials, we are pleased with the results, which from our perspective are on expected lines. This has been a growth quarter as indicated by us in our previous call. As you would be aware, COVID is a challenging time as a

large number of beds which otherwise would be utilized for higher ARPOB business are blocked for COVID which is a relatively low ARPOB business. Elective surgeries are typically pushed out and medical tourism has been slow. As you would recall for the months of October and November, COVID-cases in Delhi were severe and peaked. In November, upon peaking of these cases, the Government actually reserved more beds for COVID. While COVID occupancy dipped in December, there was a lag in these beds being de-reserved. This is a period where we had higher occupancy but lower ARPOB. And as COVID cases began reducing in December, our occupancy reduced but our ARPOB increased. The occupancy reduction was primarily driven by unutilized beds reserved for COVID as well as disruption on the roads leading to Delhi due to farmers agitation. However, absolute EBITDA and margin for December were higher than October and November despite lower occupancies. This gives us the confidence that as things begin to normalize and elective surgeries and medical tourism starts coming back, we would expect to see higher occupancy along with ARPOBs. At present, our International business has grown two to three times over the previous quarter and now stands at almost 50% of pre-COVID levels. Moreover, our OPD footfalls continue to be 65% to 70% of pre-COVID-levels which we expect to normalize over the next few months. Further improvement towards higher surgical mix upon reduction of COVID should also provide impetus to ARPOB. Despite COVID challenges, gross revenue for the quarter stood at Rs.1,160 crore, a growth of 6% Y-o-Y and 24% Q-o-Q. We have hit EBITDA of Rs.252 crore for the quarter, a jump of 58% Y-o-Y and 75% Q-o-Q. Moreover, over the course of this quarter, we have restored all our transient and temporary cost and salary reductions.

During the quarter, in addition to payment of Rs.38 crore of stamp duty for merger, we have reduced net debt through internal accruals by additional Rs.121 crore, which now stands at Rs.1,867 crore including any and all put option as of 31st of December. Our record performance is reflective of the structural cost savings we have implemented; post-merger synergy is being executed as well as growth in our Tower specialties. While we have been battling COVID for all of this year, we have also parallelly been laying ground for immense growth in years to come. Whether by way of building clinical programs, we have added more than 30 senior clinicians and teams over this quarter itself, our digital platform and asset-light adjacencies; a closer analysis of our revenue will lead you to that inference as well.

Going forward, we plan to focus on improving utilization in our existing facilities, optimizing resources, increase ARPOB, Brownfield expansion on existing land banks, scaling up our capital light adjacencies like Max Lab and Max@Home as well, and opportunistically looking at M&A opportunities. We would also commence our Brownfield projects and construction in the beginning of Q1FY22 itself.

Overall, I am pleased with what the team has been able to achieve in a seasonally weak quarter under difficult times. We are cautiously optimistic on the growth path ahead.

On this note, I wish to now open it up to any and every question that you may have. Thank you.

Moderator: The first question is from the line of Anubhav Agrawal from Credit Suisse.

Anubhav Agrawal: Just couple of questions; firstly, let us say from next year onwards from Q1FY22, just an assumption, there is no COVID patients at all in the hospitals in your network, we are doing almost Rs.250 crore EBITDA right now. So then ideally, next year we should be doing like Rs.1,200 crore kind of EBITDA or is that not possible, just trying to understand this Rs.250 crore based on your commentary it sounds only a subdued number because you had the COVID patients in this quarter?

Abhay Soi: Like in the past, I am going to stay away from any forward-looking projections, but if you look at our numbers even in Q2FY21 while our revenue was lower by 18% and this quarter is actually grown by 6%, whilst our revenue in the last quarter itself was lower by 18%, we had still done about a 16.2% EBITDA margin. If you do the math you'll see that pretty much the landing point would have been here if we had grown as the way we have. But other than that what we've also seen is that occupancy level, like I mentioned, in the month of December had come down because a larger amount of beds were booked for COVID-whilest the COVID-occupancy had reduced but even in this month where the occupancy was lower than October and November, it had come down to about 70%-71% in December, we hit record EBITDA levels. If you are assuming any growth or degrowth I do not know next year but you can kind of extrapolate this.

Anubhav Agrawal: That's exactly what my question was, all the commentary seems to suggest that this quarter would have been much better if COVID patients were not there. Then we are doing Rs.250 crore, then ideally on an annualized basis we should be doing at least more than Rs.1,000 crore. I am not asking the projection, I am trying to ask is, is there any one-off in the quarter that you want to mention or this Rs.1,000 crore plus run rate is very much possible now?

Abhay Soi: We would add about a Rs.10-odd crore of transient cost cuts through the quarters like I said which we have restored entirely now, so it is not going to be carrying forward to the next quarter. COVID patients earn us less ARPOB and less contribution compared to non-COVID patients that also was statement of facts.

Anubhav Agrawal: And how much would have been the EBITDA from the COVID patients this quarter, if you were to just split up this Rs.250 crore, COVID and non-COVID?

Yogesh Sareen: We cannot really split up EBITDA at that level, but as Abhay mentioned that the COVID-patients give us less ARPOB. So, while we had 19%-20% of the revenues in the current quarter coming from COVID patients, and also as Abhay mentioned earlier that we will have the occupancy coming down because the occupancy was at 76% level in Q3. So, some occupancy level will come down with the COVID going out, but at the same time the patients which will come in, will be higher ARPOB patients, so we should be able to compensate for that lower occupancy with the higher ARPOB. So, on an overall basis we think this is in a way sustainable performance.

Moderator: The next question is from the line of Aalap Mahadevia from Briarwood.

Aalap Mahadevia: As you were just talking about this quarter having two parts; COVID was much more prevalent in Delhi and then in December and about the profitability being higher in December. Can you quantify a little bit maybe what the margin was in December or just kind of how much higher EBITDA was in December, then maybe early in the quarter, I know it is only a month, but it could give a better sense of the run rate going forward as COVID normalizes?

Abhay Soi: I'm going to stay away from giving you specific numbers but I can tell you within the quarter the lowest occupancy in the quarter was in December. Occupancy numbers was about a little short of 71% for the month of December which was lower than October and November by about five or six percentage points, but the highest revenue, highest ARPOB and the highest EBITDA that we had was in December compared to October and November. I hope that's helpful.

Moderator: The next question is from the line of Raghav Kapoor from ActiveAlpha.

- Raghav Kapoor:** My question stems around the cost saving incentive plan that was in place where a payout equal to Rs.140 crore or so was planned or is planned to be paid to yourself or some of the senior management members. Just wondering if that is something that has been implemented so far, why such a large payout for what appears to be kind of the management's job to reduce costs and improve profitability and if that is going to be repeated again in the future?
- Abhay Soi:** So, there is no payment which the Company has made to me or was intended to make to me. There was a pre-merger understanding between KKR and myself where KKR was to transfer 1.5% from their own shareholding to me. So this is an inter se shareholders arrangement, the Company although is a confirming party to arrangement but it is not anything on account of the Company at all.
- Moderator:** The next question is from the line of Damayanti Kerai from HSBC Securities & Capital Markets.
- Damayanti Kerai:** My question is regarding occupancy, so, December obviously you mentioned it was a low quarter, but on a normalized basis also we are much on the higher side compared to some of your peers. So how much occupancy you can achieve in your mature beds in normal state, say, there is no COVID case anymore?
- Abhay Soi:** If you actually see traditionally also, we've been 6% to 7% higher through the entire pandemic and even pre-pandemic compared to our competitors. Pre-pandemic our occupancy levels were 72% - 73%, which went up to late 70's, closer to 80 plus during the COVID. Even in the down quarters of COVID throughout while there has been at least a 10 percentage difference between our occupancy level and others. Some part of it I would like to believe is due to our efforts but the large part of it also may be due to the fact that 85% of our portfolio is in the metros of Delhi and Mumbai which has higher amount of affordability, more dense population and so on, which allowed that.
- Damayanti Kerai:** My follow-up question is on ARPOB. Again, you are best placed among many of your peers in terms of metro presence or the kind of specialties you offer among the high paying patients. The third quarter ARPOB was around Rs.51,000. Going forward what will be the level which you are targeting say for the next three to five years and what will be the key drivers for it?
- Abhay Soi:** So our higher ARPOB doesn't come by virtue of catering to a more affluent population, it comes by virtue of higher end clinical programs, we focus a lot more on let's say transplantation patients, solid organ transplants, on oncology, on cardiac sciences, on neuro and so on and so forth which are high end quaternary care procedures and less so of the lower end quaternary care procedures, etc. We are not a single specialty hospital, each one of our hospitals are multi-specialty and have the entire suite of services. Even during pre-COVID-levels for the past two or three years, we have been outperforming the market or have been significantly higher in terms of our ARPOB because of this. The prime reason for this is that we are able to host the high-end specialties because doctors who are imparting these clinical services, there is a huge shortfall of them across the country, but most of them do reside in cities of Delhi, Mumbai, Bengaluru and so on, and the fact that we have a larger concentration in the metro allows us to be able to perform these services.
- Damayanti Kerai:** My final question is on the talent side, so, you just mentioned you have better reach to the specialized doctors. So, how do you see competitive scenario in terms of retention of medical talent especially in metros like NCR?

- Abhay Soi:** Specifically in the metro of NCR, we are probably 2.5x the size of the second largest competitor; we have about four to five thousand senior clinicians on our rolls which on a full-time basis, there are about 11,000-odd GPs which refer business to us, just the size and scale of our sales teams, etc., the feet on the street are a lot more. So, we are the preferred place for most doctors to practice at least as far as the high end specialties are concerned and the best way to retain somebody is to be able to ensure that his earnings increase Y-o-Y and we are able to do that by increasing the overall size of the pie. So, the doctors themselves grow and they are less likely to move to anywhere else because we are growing at a faster clip like you pointed out both in terms of occupancy as well as our ARPOB.
- Damayanti Kerai:** How much of your operating cost towards doctor payout, say how much is fixed?
- Abhay Soi:** Our cost was 14-point something percent in Q3, but it is circa 15%.
- Damayanti Kerai:** That's the fixed part of payout to doctors?
- Yogesh Sareen:** There is some variable part into it. So, what happens is, beyond a level, the doctor's starts to get higher payout because the monthly notional payout is higher than the minimum guarantee, so there will be some portion which is variable in this.
- Abhay Soi:** So, 15% includes variable as well as the fixed part.
- Moderator:** The next question is on the line of Praveen Sahay from Edelweiss Financial Services.
- Praveen Sahay:** The first question is a follow up on the last participant's question regarding ARPOB. If I look at for the past quarter, the foreign patients' contribution is still at 4% level which used to be 10%, 11%? Even the COVID has had some contribution. Even though we had reached to ~Rs.51,000 I can see that is the highest for the several quarters. So, do you believe with these foreign patients with the COVID-going away from the system, these numbers to go up significantly from here?
- Abhay Soi:** That's right, so on three accounts, one which you pointed out International business which is right now at 50% of pre-COVID levels. Once it comes back, that obviously is a higher ARPOB business so that is one. Secondly, with the ratio of COVID also going down, you are going to have a higher surgical mix, because you have a higher surgical mix, it also has a higher ARPOB. And thirdly, even OPDs, we are only at 65% to 70% of our pre-COVID OPD levels and once this restores you are going to see a higher jump in ARPOB. This is bound to happen when your OPD is restored to 100% because OPD's by themselves get divided over the number of beds and increases the ARPOBs.
- Praveen Sahay:** One clarification over here, for the Q3 if I look at, is there any uptick or a pickup due to selective or elective surgeries has come from Q1 or Q2, now Q3, that is one of the reasons for our high numbers in this quarter or you see it as a normal number?
- Abhay Soi:** Not really because almost more than one-third of the total beds were reserved for COVID. So, if I look at overall COVID we are not back to the pre-COVID-levels, it is just the total capacity which is serving that has sort of being lowered. That is why you are seeing a higher occupancy on COVID. So, I do not frankly see any latent demand or something which has come into play right now.
- Yogesh Sareen:** As Abhay already mentioned, our occupancy was lower, but our EBITDA and revenues were higher for the month of December as compared to the other

months. So that obviously means that the ARPOBs in December went up, which means that once the COVID comes down, the ARPOB should improve from where we are.

Praveen Sahay: So, there is no element of elective surgery which has postponed in the first and the second quarter, which has moved to into the third quarter that is what I just wanted to clarify?

Abhay Soi: None. In fact, I would argue that certain departments like orthopedics, etc., have not come back entirely, still way below the normal levels. So, while some specialties have come back, some have not entirely, but some are below par even at present. Nevertheless, it is far below our non-COVID ARPOBs, it is still a drag for us.

Yogesh Sareen: One element in the ARPOB that we have seen is that even in the non-COVID side we are getting more serious work, ARR or the ticket size of the patients who are coming in for non-COVID has gone up.

Praveen Sahay: Sir, secondly on the COVID beds, restriction is easing out to reserve beds for the COVID from the Government?

Abhay Soi: So interestingly when it peaked in November the Government increased the restrictions. Whilst our non-COVID beds were totally full, we still had to kind of empty those non-COVID beds out and put it for COVID duty. On the 10th of January, restriction has come down to half of what the commitment was. So, it has been reduced and we believe it will be further reduced, so there's been a de-reservation of those beds since.

Praveen Sahay: So right now, it is at one-third or it is lower than that?

Abhay Soi: It is lower than that; it is about 15% to 18% of the beds.

Moderator: The next question is from the line of Abhishek Sharma from Jefferies.

Abhishek Sharma: If I understand correctly, you are pushing your Brownfield expansion forward, in the sense preponing it by a couple of quarters. So earlier we were to see beds coming on line in FY24, FY25. What would be the revised timeline on that?

Abhay Soi: Look, actually this expansion was supposed to begin in June of the current year. We had postponed it due to COVID and we had said once we get certainty, we are going to break ground on this because most of the approvals, everything is done. We are still going to do that in the beginning of FY22 and we still expect about 3.5-years of construction time on this. Having said that, I have also said in the past that we do a large amount of Institutional business; 35% of our beds were catering to Institutional business which is at a 40% discount. This is a contribution positive but EBITDA negative business. And I said we will be moving away from this, from 35% we brought it down to about 31% right now. So, what we are going to do is by the time this new capacity comes on-stream over the next three years, four years, we will be reducing our dependency, or we will reduce catering to the Institutional business and repurpose or provide normal cash business or normal business that we do on these beds.

Abhishek Sharma: If I understand correctly even on the same occupancy level, the margins will continue to go up as the Institutional business keeps coming down?

Abhay Soi: That's true. So, two things; one is our pre-COVID-level occupancy levels were 72% to 73%. During COVID, we demonstrated also on overall network occupancy of about 80% plus, we are back down to about 70%, 71% in December, so we have headroom to go up to 80% but more so within this present scenario we have an opportunity to stop doing Institutional, move more towards the cash business which is at 40% premium so to say to this business. So yes, within the same capacity also, we can have higher revenues while our cost structure remains the same, which is more important.

Abhishek Sharma: What will be the M&A opportunity and how will you fund it?

Abhay Soi: From our current run rate, our debt-to-EBITDA is less than two, so that's one. Secondly, to comply with MPS requirements, we had suggested previously also and have taken approval for a QIP. We are looking to be in compliance with that and by doing that we should be able to raise us another Rs.1,100 to Rs.1,200 crore which we are obligated to do it before August, so it will be in the near future. So, those funds will be all available. And on top of that we had mentioned we are generating cash month-on-month, Rs.40 to Rs.50 crore of excess free cash flows which right now we are using to pay down debt, we do not have any payments coming up over the next two and a half years, and so all of that is going to be helpful in creating a war chest for us to do M&As.

Abhishek Sharma: What kind of assets would you be looking at?

Abhay Soi: Well, we will be looking at either metro-centric or assets in proven locations. We are not looking at any Greenfield so to say and essentially there would be a critical mass, certain size, and scale, if it is a metro-based where we are not present, it would be something which would be at least 400 to 500 beds, but if it is in let us say Delhi NCR, we are happy to even look at 250 to 300 beds hospitals.

Moderator: The next question is from the line of Geetika Gupta from First Voyager Advisors.

Geetika Gupta: What are the long-term structural changes in the industry that you are seeing because of COVID?

Abhay Soi: I think plenty and all seem positive, let me start from a revenue standpoint. First and foremost if I look at global medical tourism, India will definitely get a much larger share of the pie going forward simply because the oil economy's, for example, which have been big purchaser of global medical tourism for their populous, their balance sheets are under stress, they have started incurring including taxes in their own country and they will be searching for value as well and which better place that provides you value for money as far as medical matters are concerned and tourism is concerned, than India, so that is one. As far as cash paying patients are concerned, there was a huge Insurance proliferation during the pandemic. Clearly that is something which is going to augur very well for the organized sector particularly because when people have to pay from their own pocket, they are conscious and price-sensitive, they may go to a smaller nursing home but when the insurance Company is paying, you go to the best that the Insurance Company is empaneled with. So, from that standpoint, it is going to be helpful and we have seen it in the past as Insurance proliferated; it's been to the benefit of the organized sector. So, that is the second thing. The third is if you see this budget as well, the Government although not much for the private sector but clearly, they have spoken about setting up capacities and infrastructure in primary and secondary and these are typically feeders for us, primary healthcare, secondary healthcare are feeders for quaternary healthcare, they are looking at setting up testing centers and so on. These again become early markers for diseases for us and they become funnels for us. If you look at digital health, again,

it is something which has been spreading like fire. What that basically means is that you can reach more people more efficiently and more cost effectively, essentially, it is like taking your OPD to more people and you have a particular conversion rate, further you cast your net, the more conversions you are going to have. Unfortunately, what you cannot do is do surgeries over video consults. So again, this is something which funnels business to us. I think these are important things. Other than that, if I look at from a cost structure standpoint, not only the healthcare sector, but most industries have become used to frugal living and do more with less. Let me tell you, from a healthcare standpoint, what we faced over navigating this ship during the whole pandemic with the level of uncertainties, very few industries get an opportunity to be exposed to this sort of stuff. So from a management standpoint, it seasoned everybody quite a bit.

Geetika Gupta: When you mention digital health and maybe the opportunity to reach higher number of people, do you think some of these trends would be sticky, do you see people still continuing to use these digital channels to access OPD? And the other question is on Government. The Government regulatory environment has been a little unfavorable over the last few years prior to pandemic with the kind of price cap that we saw in medical devices, do you see some of that reversing now given that the Government is likely to have a more favorable view of the healthcare segment?

Abhay Soi: From my standpoint, the Government push has always been towards transparency. Caps also were a measure of transparency. The fact is somewhere across the industry, let us say the independence people had was also being kind of misused in the country, doctors may have been induced to support certain medicines, etc., So by putting these price caps, the Government reduced the ability to market these sort of things. I think it has been a push towards transparency. So, I do not think the push towards transparency will reduce. As we go along, in fact, in the economic survey there was also a mention of an ombudsman of a regulator for this thing and all of that is a push towards transparency which will be at the cost of the disorganized sector I may add on to this. But having said that I think there is also a huge acceptance of the fact that there is a need for medical infrastructure and the private sector has done a great job during this because the Government infrastructure wasn't really able to keep up with the pandemic. Not only every state, but every country in the world will be sort of seeking the capital to be able to set up this infrastructure. Certainly, India is one of them. So, from that standpoint, there will be encouragement rather than discouragement and some of these kneejerk reactions at least will be more thought through.

Moderator: The next question is from the line of Shaleen Kumar from UBS.

Shaleen Kumar: I have a bunch of questions, the Rs.320 crore of cost efficiencies that we have identified, so is it all baked in or there is something more to come?

Abhay Soi: So Rs.220 crore is something we did in the previous year. All of it was implemented. In the current year we said we will be doing Rs.100 crore of further cost saving, we have done pretty much; Rs.80 crore to Rs.85 crore we already completed. Of that, balance Rs.10, Rs.15 crore will get completed through the course of the year. Most of it if or maybe all of it is already being banked in the current run rate that you are seeing.

Shaleen Kumar: If I look at your Payor profile for let us say this quarter, so obviously International has gone down, Self-pay has also gone down a bit, but your TPA and Corporates have improved significantly. Anything that you guys are doing, what is driving it?

Abhay Soi: I think clearly International has gone down; the other which has gone down is Institutional.

- Shaleen Kumar:** The TPA and Corporate has expanded, so in the market the shift is towards TPA and Corporate. Is there something which you are doing that we should know?
- Abhay Soi:** I think a lot of the COVID patients who are Insured patients and Corporate patients, etc., so because of the medical management and these patients really being from Delhi NCR and so on and so forth, and we were the preferred centers for COVID. If you're from Mumbai you recognize that Nanavati was the place to go but if there's somebody from Delhi on this call, then Max has been at the forefront of COVID and being the preferred place for people to go for COVID. So, we have attracted a lot more TPA and Corporates for that from this.
- Yogesh Sareen:** I think this is a phenomenon that you see all over because the penetration of insurance has gone up during the COVID times, there are special insurance policies which were sold. I was talking to MAX Bupa team and they said in the month of April they sold what they sell generally in four months in terms of number of policies. So, the penetration has gone up and that penetration obviously means that there will be more insurance patients which will be brought into the hospitals.
- Shaleen Kumar:** So once COVID subsides, what should we expect, so let us say International will come back in a year or so, so the shrink will be from TPA and corporates or it was largely COVID patients, the shrink will be from your Institutional?
- Abhay Soi:** Look, I think structurally we are moving a shift from Institutions, reduction of Institutions like I said because that is the business, which is at the maximum amount of discount, other patients pay us 100, Institution patient pay us 60. But having said that, we have to also play tactically, strategically, that is the direction we are going. But if you see there is a shortfall in demand in a particular period then we just kind of open the tap a little more. But the direction we are going in over the next few quarters you are going to see reduction in Institutional segment. There is no reason to believe that International will come and displace cash business, it doesn't work like that way.
- Shaleen Kumar:** My point was that this TPA and corporate how much is it sticky, so that is the only thing that I am trying to understand?
- Yogesh Sareen:** I would say some bit of it will come down because of the number of COVID patients have come down. So, we see that happening also in the month of January. So, some bit will come down and also once the overall pie increases, then the share of everybody else will also come down.
- Abhay Soi:** We have something called CTI which means Cash, TPA and International Patients, which is what we call a preferred group. So, look at this as one homogeneous group moving up or down because one, at the cost of the other does not really matter to us.
- Shaleen Kumar:** So basically, your Institution will not go up?
- Abhay Soi:** That's right, so Institution will structurally come down. Over a quarter or a month if you want to take it up because there is a shortfall of perhaps when we are going to make this transition when COVID goes away entirely and so on, we can take that call, but that is more of a tactical call, but directionally you are going to reduce the business.
- Shaleen Kumar:** Also, in the specialty profile we can see that your pulmonology and internal medicine has gone up significantly. So, it is largely COVID-driven or something else again here?

- Abhay Soi:** So, all COVID patients get booked under pulmonology as well as under internal medicine. But having said that, during this course what has grown up the fastest are our Tower specialties. Whilst in this quarter we have grown 6% year-on-year our oncology business, our neuro and our cardiac has grown by 12%. So, double our growth has been in our Tower specialty year-on-year.
- Shaleen Kumar:** You already made a remark that orthopedics has not come back, because it used to be 10% and it is still at 5.7%. So, there is a likely pent-up demand as well, is it fair to assume and orthopaedic can grow faster as the COVID subsides?
- Abhay Soi:** Yeah, that is right.
- Shaleen Kumar:** On the answer to the previous participant which you made on the digital healthcare and I kind of agree with you that in fact there is a possibility that hospitals are least likely get disrupted but these digital platforms can act as a funnel for them. But that is largely not your core, right? So, when you think of M&A's or partnership do you think of doing something with healthcare platforms, are you open to that or you are considering that?
- Abhay Soi:** It is not core to what we do but it is definitely core to our marketing and how we fill our beds. So, one of the key things that we look at is OPD footfalls, because there is a direct correlation between OPD footfalls and IPD conversions. As much as we work on conversion from OPD to IPD, we also work on increasing footfalls of OPDs. So, lots of hospitals all the time you will see will have general OPD which are free OPDs or will run camps, diabetes camps so on and so forth. The rationale behind running these camps is that you are able to test more people and you are able to identify potential people for IPDs. So, the minute I can extend this without physical constraint of a space to many more people, I am only likely to get more and more people as far as conversion is concerned. So, this becomes an important part of our reach. But having said that there are some large players out there, whether it is Amazon, Jio, etc., who will be in this space, so it makes imminent sense for us to tie up with them as well. It will be intrinsic part of our service. But having said that, I do not intend to compete against the Jios and Amazons of the world.
- Shaleen Kumar:** That's the whole thing I am asking. I am not debating on that, but one thing which is your strength and there is something which probably strength of Amazon or something like PharmEasy or Practo and probably a partnership would be a win-win. So, do you think that make sense?
- Abhay Soi:** No, we ourselves do not have an appetite for that sort of game. They are playing all or nothing game. We cannot put \$300 million or \$500 million is something not knowing whether we will breakeven. So, it is a different ballgame and we would rather be partnering, rather than competing in that space.
- Moderator:** The next question is from the line of Ashwin Agarwal from Akash Ganga Investments Private Limited.
- Ashwin Agarwal:** Sir, the inference I got from your opening comments was that October, November was high on COVID-and December was much better although the revenues were lower, but December month helped you get an idea of the EBITDA margins going forward. So, can we expect next quarter that is Q4 to be higher on revenue as well as a higher EBITDA margin? And what can be the color for next year in terms of EBITDA margins if you can please add some color?
- Abhay Soi:** I am just going to correct you on your inference from my statements. Occupancy was lower in December compared to October and November. But ARPOBs were

higher, revenues were higher and the EBITDA was the highest. So, going forward I am not going to make any forward-looking statements in terms of numbers, but I can tell you our International business is only back to 50% as yet, our OPD is only back to 65% to 70%, our surgical business will improve and therefore we have other things to look forward to. So no reason, for my ARPOB to go down. Both my ARPOB and occupancy theoretically should go up because even with the farmers agitation as you can imagine roads leading up to Delhi, there has been disruption, from upcountry business, etc., it is difficult to reach Delhi, so there has been disruptions, right. Once some of these things happen, we should automatically improve but to what extent and so on I am again going to stay away from. Again, this is all directional, right.

- Ashwin Agarwal:** But it should directionally be northwards both for this quarter as well as next year?
- Yogesh Sareen:** We did mention there were some transient costs saving also which is there in this quarter. So as those get corrected by end of December, there will be some incremental cost coming on that side. But yes, directionally we will be able to sustain these kinds of margins plus/minus 100 basis points.
- Abhay Soi:** This is sort of marginal, but yes.
- Ashwin Agarwal:** Earlier, you all have said that ROCE of 20% plus was achievable in medium term and medium to long term your aspiration is for 25% plus. So, these targets are now well within achievable limits which you think?
- Abhay Soi:** I think we may have already exceeded, if you annualize this quarter's performance.
- Moderator:** The next question is from the line of Bharat Sheth from Quest Investments.
- Bharat Sheth:** When we are talking of this merger and acquisition, do we foresee any change in geographic mix, I mean, when you say metro, so currently we have largely in NCR region, so if at all we move to any other metro cities, how will we tie up with the doctors which is a major driver for our business?
- Abhay Soi:** We have a brand. Delhi NCR and Mumbai are clear cities where we have large presence. Other than that, Uttar Pradesh, Dehradun, Punjab both in Mohali and Bhatinda we have presence. Other than this, we will be seeking other metros, but it has to be sizable enough assets. We have the benefit now of being outperforming the rest of the players on most metrics including growth and ARPOB and earnings for doctors. So, that is something that would help us in being able to attract the best-in-class doctor as we have throughout our hospital portfolio.
- Bharat Sheth:** After completing this Brownfield expansion, do we have further room for Brownfield expansion?
- Abhay Soi:** Yes, we have 7.5-acres of land in Delhi. So, in the first phase we are bringing about 350 new beds, but we can expand it by additional 650 beds in Delhi. So, we are making a basement and superstructure for 650 beds. We can take the capacity up to 900 beds. What we are launching upfront are 350 beds, this is in Delhi. In Mumbai we can create 500 beds. What we are launching first is a 152 beds capacity and the balance will happen in the second phase. We have a bit of elbow room.
- Bharat Sheth:** What is our strategy for this medical center and diagnostic business?

Abhay Soi: So, we have a pathology business which has been growing at a very-very good clip during COVID time and we intend to build retail on this, we are a dominant brand in Delhi NCR. So, entry barriers for us are not very large because we are aspirational business brand as far as doctors and patients both are concerned. Pathology is clearly something that we want to dig deeper into, and we want to build this out. So that is what we are intending to do going forward. We would be building retail

Bharat Sheth: Mainly, focusing on Delhi and NCR?

Abhay Soi: To start with, yes.

Bharat Sheth: Apart from four medical centers we have in Delhi, aren't we really adding any other medical center?

Abhay Soi: We're not going to be rolling out any medical centers. We have actually shut two, one this year and one last year.

Moderator: The next question is from the line of Ankur Chaddha, an individual investor.

Ankur Chaddha: My question is with regards to the difference in the reported financial statements and the press release and investor presentation. Can you please explain why there is a difference in total income and PAT?

Yogesh Sareen: So if you refer our presentation, you will find that there are some partner healthcare facilities that we have which we cannot consolidate under IND AS 103 because of technical reasons.

Ankur Chaddha: Next year, you will be consolidating it, right?

Yogesh Sareen: They are there in the presentation but not in the financial results table.

Ankur Chaddha: My next question is about the growth prospects of the Max Healthcare. You stated clearly that you want to repay back your debt and then you have 1,400-odd beds in Mumbai and Delhi that you want to bring on as Brownfield expansion. Going ahead three, four years from now, you will be generating substantial amount of cash flow and let's say you'll be generating about Rs.800 crore to Rs.1,000 crore of cash flow, that means you need to add about 800 to 1,000 beds at 1 crore per bed So, what is your strategy to do that? You mentioned M&A, but do you have enough pipeline of M&A do we add in this huge amount of bed capacity to keep the growth momentum, three, five years from now?

Abhay Soi: So, I think first and foremost we are already generating on a current run rate on annualized basis about Rs.500-odd crore of free cash flows. What we are using this money for even in the last two quarters if you see, is for paying down internal debt consistently. Our total debt beginning of the year was Rs.2,160 crore, come down to about Rs.1,860 crore. And this is entirely through internal accruals. At present run rate, our debt-to-EBITDA is lower than two. It is quite comfortable from that standpoint in fact; we prepaid amortization of debt over the next two, two and a half years, prepaid that debt.

Ankur Chaddha: I think I probably have not explained my question very well. I am fully happy with your capital structure and your debt position and your cash flows now. My real question is once you pay back your existing debt, if you want to let us say be net debt free, if you paid back your debt, you have added the 1,400 beds Brownfield capacity, what do you do after that? how do you grow you've mentioned M&A, but

how many M&As can you have, because what I see is you'd need like at least 500 to 1000 beds addition every year to sustain the growth momentum?

Abhay Soi: Not really. So, the point I was trying to make is I am not going to wait to become net debt-free. Nobody is becoming a net debt-free. I am quite comfortable, so I am already ready to do. What you are saying it is not three to four years down the line, it is where we are today as a starting point, that is one. Secondly, once my expansion starts, I am going to be incurring let us say Rs.1,300 to Rs.1,400 crore over the next four years, let us say about Rs.300-odd crore even at present if I am generating cash, I am generating about Rs.200, Rs.250 plus crore extra per year. Now in the Indian healthcare sector, if I am looking at assets which are even circa let us say 500 beds, a single asset will not cost me less than Rs.700 to Rs.1,000 crore. It is not as if I am buying Rs.100 crore assets or Rs.200 crore assets. So, one asset or two assets is something that we will be able to support. Having said all of this, you also have to understand my own perhaps trajectory over the last 10 years the track record has been grown through M&A, from one we went to two, from two we went to 17 and we have done that over the last 10 years, it is something we are very-very comfortable with doing M&A.

Ankur Chaddha: But let us say 300, 400, 500 bed hospitals in let us say Delhi NCR, in Mumbai, are there enough of those assets that you can potentially acquire, because what I see is, you will need at least one or two deals every year, is there enough out there to be acquired?

Abhay Soi: There's always enough and there is never enough. From a standpoint has to be available also. Of course, there are enough but as and when there is a dislocation in the market it becomes available. We have a pipeline, we are talking to people, these are typically preliminary stage conversations, if this was any more, then we would have been declaring it to the exchange but I believe there will be certainly transactions over the next year or two and we don't need to do one or two transactions a year, like I said Rs.1,000 crore per year, even 1:1 debt-EBITDA is all we can actually do with the cash flows that we're generating.

Ankur Chaddha: So as you mentioned in your last con-call, there was a passing remark about REIT you're getting involved with players who can fill out the asset as per your spec and then you can operate those, because that to me seems like a much better way of doing things because first of all you create assets which are good for the country and also you just do the O&M and all of that, so you still keep up with your rate of returns, right, and then there will be less competition out there because you just buy a piece of land and just construct a new asset, is there any like kind of development or anything you're talking to people about that or there's no progress on that?

Abhay Soi: So, we continue talking, it is a template which we have to develop there are obviously some direct and indirect tax particularly GST implications and so on which one has to take into account. Directionally, I cannot agree with you more. I think it is a very-very good way and we are able to defer both necessary capital allocation as well as the risk of construction which is a big risk which you kind of defray off your plate. So directionally it is something that we will continue to work on and like I said beyond a certain point if any conversation had gone, then we would be obligated to declare it to the exchange.

Ankur Chaddha: I presume that you are also like in active discussions with the policy makers, the regulators but there is no regulator for health as such, this is like talking to people like NITI Aayog and all of those in the country to develop a proper structure for this kind of market, right?

Abhay Soi: That's right, including PPPs.

Moderator: The next question is on the line of Abhishek Sharma from Jefferies.

Abhishek Sharma: Sir, the presentation says that revenue share of Institutional patients is 23%, what will be the bed share of Institutional patients in this quarter?

Abhay Soi: It has come down to 32%.

Abhishek Sharma: Is that COVID-specific change in mix or more structural that you are alluding to?

Abhay Soi: It is a little bit of both. Clearly also, like I said, directionally that is where we intend to go, for example, a certain number of beds were allocated to COVID, we had lesser capacity for non-COVID which was overflowing, we obviously kind of stayed away from the business and we have discontinued those empanelment in some specific hospitals of ours already. Hard to put down exactly what was COVID or not but clearly this has been due to our own internal policy action.

Moderator: The next question is from the line of Rishiraj Agarwal, an individual investor.

Rishiraj Agarwal: Any thoughts or any discussions about paying out dividends later on maybe next year or next to next year something like that?

Abhay Soi: We have book losses, so, I think we are unable to pay out any dividend immediately. We will come up with the policy as and when we are able to. Technically, we cannot pay out a dividend right now.

Moderator: The next question is from the line of Pawan Ahluwalia from Laburnum.

Pawan Ahluwalia: Two questions; first, when you look at the M&A pipeline based on what you have said you will be looking at the major metros and I presume looking to replicate the model of just taking well located metro hospitals and moving them into your sort of super specialty network so you can bring more cutting-edge treatments and earn higher margins. Simply curious to get your take, as you look at the impact of COVID-on standalone hospitals and metro areas, are they feeling greater heat than the big chains, are they feeling less heat, is there any reason to think that the owners or controllers of these hospitals would be more likely to want to get into some sort of arrangement with a large chain in the next couple of years than they have been in the last couple of years or do you not really see any sort of step change in that relationship?

The second is in terms of your own bandwidth. So obviously you ran two hospitals very successfully and done a successful M&A. At this point you are running a much larger hospital network. There is a strong leg of organic growth that is coming up. There are a number of operational initiatives you have and at the same time, you have a robust deal pipeline that takes a lot of your attention. What is your time spent on and how much sort of managerial change if necessary has been brought about to make sure that some of this is effectively run with only high-level oversight and not hands-on involvement in your part?

Abhay Soi: Little difficult to answer your question, but look, it would have been more appropriate when I moved from one to two or two to seventeen. But going forward I do not see that as a challenge. We have been running it as you have seen from the numbers quite successfully over the last two years and more importantly navigating it through the pandemic, which was an extremely, extremely challenging time. And once you have done that you pretty much believe you can face up to anything. So

that is out there. That is the second thing. I would not know how it would work with purely oversight because I like what I do. So, I am in the middle of it and a little difficult to figure out how it would be otherwise to be honest. But I think other than that I think it is not only the metros, but even proven cities like I said we would be looking at, there are other proven cities, non-metros, for example, some of them where we are, Dehradun for example or Chandigarh, Mohali for example which is extremely remunerative and attractive and profitable assets that we operate over there. So, there can be other cities as well but have to be proven cities what I am going to stay away from Greenfields. Yeah, but we have more than adequate bandwidth. I have no issues in terms of trying to be able to do more, be it a single hospital or a chain in M&A.

Pawan Ahluwalia: The question around, is there a change in the bargaining power dynamics of say one established standalone hospital versus large well capitalized chain like yourself?

Abhay Soi: So, what happens is the standalone hospitals obviously things are going to get more and more competitive. They will and what they do suffer from is the ability to attract the top tier talent, synergies in purchase and purchasing power and just from a marketing standpoint. So, it is only a matter of time. I think they are up for consolidation. But other than that, then I go to another level of hospital which is really the small nursing home which are 100 beds or 150 beds, etc., I think there has been an uptick in occupancy because a lot of people right now are still shying away from going to large scale hospitals in spite of the numbers that you see. And even people in our families, they do not go to hospitals unless they really have to. Right now because although confidence is back, it is not back to a pre-COVID level, people are still quite apprehensive about going to hospitals. Whilst going to smaller nursing homes and daycare, etc., the bounce back over there is even lot more than larger hospitals but going forward the large single hospitals I think there are opportunities, I think the smaller nursing homes, etc., is not really our play. So, the interest level over there at least from our standpoint is not there even if it would be from theirs.

Pawan Ahluwalia: But I am really talking about more than 300-500 beds hospital in Delhi. That has been around for 20, 30 years, has a strong local reputation. Is the Trust that controls that hospital or the person that controls or owns that hospital, is that guy more interested in a conversation today than they were before?

Abhay Soi: Hundred percent, I think a lot of them have taken a lot of stress during the pandemic, their balance sheets have and so also their operations, etc., absolutely.

Moderator: The next question is from the line of Geetika Gupta from First Voyager Advisors.

Geetika Gupta: A question on Nanavati, wanted to check where we are in the transformation stage and what kind of margins would it be running at now?

Abhay Soi: Well, it is back to profitability but obviously the profitability levels of Nanavati, etc., were lower than others. Like I said in the previous call, this is largely to do with the personnel cost over there which is significantly higher and we are looking forward to a VRS over there and once we are able to successfully implement that, those numbers should be good, should come up to speed with the rest of our portfolio as well. That should give a further fillip to our overall EBITDA.

Geetika Gupta: If I look at your rest of the network hospitals, you are really operating at 20% plus kind of margin. So, would it be fair to say another two, three years it will take because it seems to be taking a longer time, so just want to understand is it like a two, three-year path or a longer one that you see out there?

- Abhay Soi:** I agree and disagree because it is operating at 7% to 8% margin. The personnel cost over there is about 34% rather than 22%, 23%. So, if I kind of fix it with the VRS and VRS is more a one time or two-time event, it is not something which drives over three, four years, it would have been or should have happened last year but obviously you cannot launch a VRS right in the middle of a pandemic. In any case, we have shortage of people and so on as you may appreciate right. So, we have to kind of put it off. I think we probably aim for the first quarter next year to be able to implement this and once we rectify it, I think immediately 18% to 19% EBITDA margin we should be able to get there. But now VRS can happen in two installments, I have rarely heard of VRS happening in three, but it should not be a two-year plan, I think it should be a year or so. But out of a portfolio of 15-odd hospitals, you are bound to have some delayed catching. My point being it is not a two, three-year play, it has nothing to do with revenues and operations, it is just that one line item which needs to be fixed.
- Geetika Gupta:** No, but you acquired Nanavati before Max, right. So, I was coming from that perspective, VRS, I understand it is a one or two event thing, but still it seems to have taken a much longer time.
- Abhay Soi:** So, if you actually see Nanavati we got in FY15 and Nanavati was at that time burning Rs.5 crore a month, Rs.12,000 ARPOB and Rs.9 crore of sales. So, in four years, we moved from there to Rs.25-Rs.27 crore positive EBITDA, Rs.12,000 ARPOB moved to Rs.48,000, Rs.9 crore of sales a month moved to about Rs.33 crore. It has been a journey, right. I mean you have to compare it not even to a Greenfield; you have to compare it with something which was below water at that point of time, right. So, if I run the Greenfield, then I would be pretty much here where I am right now with Nanavati. And the land at Nanavati is also five acres, so I think there are some attractive qualities.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now hand the conference over to the management for the closing comments.
- Abhay Soi:** Thank you all for taking out the time and being on this call. I look forward to further interactions over the next quarter as well. Thank you once again.

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