



Max Healthcare Q4 FY21 Earnings Call May 31, 2021

Moderator: Ladies and gentlemen good day and welcome to the Max Healthcare Ltd.'s Q4 FY21 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari of CDR India.

Anoop Poojari: Thank you. Good morning everyone and thank you for joining us on Max Healthcare's Q4 and FY21 Earnings Conference Call. We have with us Mr. Abhay Soi – Chairman and Managing Director of the Company, Mr. Yogesh Sareen – Senior Director and Chief Financial Officer and Mr. Dilip Bidani - Senior Director Finance 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 morning all. I hope you and your family have kept safe in these challenging times. It gives me great pleasure to welcome you to the fourth 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.

Starting with the COVID update:

We continue to be at the forefront in the fight against COVID through our network of hospitals in six states. We have already treated over 32,000 COVID patients at our hospitals; in addition, 3,500 patients at their homes and extended COVID facilities. We also conducted around 5.5 lakh RTPCR tests and compared to the first wave, we see that the second wave saw an increased number of hospitalizations leading to impact on non-COVID admissions towards the end of March. COVID admissions peaked at 2,100 leading to extremely high overall occupancies which is expected to compensate for lower ARPOB. In addition, we commenced our vaccination drive for 18 years plus on the 1st of May. Currently we have ramped up our capacity to administer 50,000 vaccines per day. This includes onsite as well as offsite camps for leading corporates. We are running one of the largest vaccination centers in the country with a capacity to administer as many as 10,000 vaccines per day. So, far, we have already administered over 5 lakh doses



and were constrained by vaccine availability thus far, which we believe shall improve over the next few days itself. We 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 116 national and International publications. We have also conducted 11 studies and trials on COVID indications and 17 non-COVID clinical trials during Q4FY21. Most importantly we continue to serve patients from the economically weaker sections of the society. In the past quarter alone, we have treated around 990 in-patients and over 39,000 OPD patients free of charge.

Now coming to the financials:

We are pleased with the results despite COVID related constraints. This quarter was also marked by successful completion of our equity fund raise of Rs.1,200 crore through a QIP leading to addition of some marquee domestic and International investors to our list of shareholders. In the fourth quarter 20% of bed capacity were reserved for COVID patients while the occupancies on these beds dropped to 35%, those for non-COVID were almost 80%. This quarter occupancy was also marred by the farmer's strike, in and around Delhi NCR. Overall occupancy in Q4 FY21 decreased to 70% from average of 76% in preceding quarter, i.e. Q3FY21. However, drop in COVID occupancy enabled ramp up in higher ARPOB as a result our ARPOB increased to almost Rs.57,000 in Q4 compared to Rs.51,000 in Q3. Further medical tourism also showed signs of recovery during the initial part of the quarter and had returned to 60% of pre-COVID levels prior to the second wave. However, starting later part of March there was an uptick in COVID cases which once again led to increase in occupancy, while overall ARPOB was sustained at January-February average. Gross revenue for the quarter stood at Rs.1,159 crore, a growth of 5% Y-o-Y and same levels as that of Q3 FY21. We achieved an EBITDA of Rs. 263 crore during Q4, a growth of 68% Y-o-Y and 4% Q-o-Q. The network also reported a significant improvement in operating EBITDA margin which stood at 24.1% for the quarter, up from 15.5% in the corresponding quarter in FY20 and 23.2% in Q3 FY21. Significantly the operating EBITDA improved over the Q3 FY21 despite the reinstatement of COVID related transitory, cost cuts.

Further the Company has generated over Rs.140 crore in operating cash flows post CAPEX and interest costs which was used to repay down debt. During the quarter, consequent to the successful completion of equity fundraise of Rs.1,200 crore through the QIP, the Company's net debt including put option liabilities improved significantly. Net debt as at end of March 31, 2021 stood at Rs.544 crore as against Rs.1,867 crore on December 31, 2020. Net debt to EBITDA ratio is thus below 1.

For the full year, the gross revenue de-grew by 12% and stood at Rs.3,861 crore, mainly due to the first half drop of 29%; while in H2 we grew revenues by 8%. Lower revenues in the first half of the year were attributed to country-wide lockdown and the state of pandemic.

Most significantly we are happy to report that despite lower revenues, the network operating EBITDA grew by 8% and stood at Rs.636 crore. The operating margin for the year was 17.5% an increase of 287 basis points over FY20. We have implemented Rs. 108 crore worth of structural cost savings which are permanent in nature during FY21. Of this Rs.73 crore has reflected in EBITDA for the year while Q4 of the previous year results reflects the full impact of all of these initiatives.



While in the past fiscal year, we have dealt with a complex merger, listing, structural cost saving program and have been at the forefront of battling COVID, we have also paralelly been laying ground for immense growth in years to come. Whether by way of building clinical programs or growing a digital platform and asset-light adjacencies, raising funds to reduce our net debt and build capital reserves for pursuing future organic as well as inorganic growth opportunities.

Going forward we plan to continue focusing on optimizing capacity utilization in our existing facilities and resources increasing ARPOB, optimizing patient mix, Brownfield expansion on existing land banks, scaling up our capital light adjacencies like Max Lab and Max@Home and opportunistically looking at merger and acquisition opportunities. In line with our strategy to unlock value in retail pathology business the Company plans to incorporate a wholly owned subsidiary for our non-captive pathology business Max Lab. We would also commence our Brownfield projects and construction in the first half of the current year. We are cautiously optimistic on the growth path in this quarter and ahead.

On this note, now I wish to open it up for Q&A. Thank you.

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

Shaleen Kumar: Abhay if you can talk about economics of this vaccine. Like any sense about how should we model that in so obviously you talked about that you can do 10,000 vaccine per day but what's the opportunity size for according to you, what are you assessing?

Abhay Soi: Our current capacity is 50,000 vaccines a day. One of our centers is doing the largest, one can go up to 10,000 a day but presently we are doing close to 50,000 vaccines a day so that's one. Secondly these are positive opportunities both from a cashflow and a profitability standpoint simply because the private health care sector is permitted to charge what it wishes. On the back of this opportunity, you also have tremendous amounts of consults, antibody tests and so on and so forth, leading not only to newer customers but even other positive cash flow streams. The size of this opportunity I believe is immense. It is only constrained by the number of vaccines which have been available. In the month of May it was challenging; we had a reasonable allocation but it was challenging for the sector and the country as a whole. This situation is expected to improve like I said over the next few days. One indication of the opportunity size is that in spite of the number of Government centers which have opened for vaccination as well as centers opened by the private sector you will see appointments on CoWIN app when you open appointments on the CoWIN app they go away in a matter of seconds; 4 to 6 seconds literally for all your appointments to go away whether you open it up for a week or a month. I hope in some measure I have been able to answer your question.

Moderator: The next question is from the line of Damayanti Kerai from HSBC Securities & Capital Markets India Private Limited.

Damayanti Kerai: Abhay can you provide us like how has been progress on patient footfalls in your key NCR hospital? Whether the patient volume is primarily driven by the local patient or we are seeing good volume coming from out-station patient also? How do you see patient volume growth over next few quarters?



- Yogesh Sareen:** Basically, in Q4 we have already mentioned that we had some impact on the upcountry volume because of the farmer's strike and the COVID situation there was a drop in the volume but otherwise it depends on Specialty; we can't really talk hospital here, it's a specialty driven footfall so if Liver related then we will get footfalls from even 500 km away. So, if it is Obs and Gynae then you will get footfalls from 10 km away radius of the hospital. So, I would say more or less there was some impact on the volume footfalls because of the COVID situation but I think in March it improved and that's reflective in the occupancy levels, you have seen the occupancy in March was 75%. So yes, I would say we had some impact but we recovered in March and hopefully when the COVID wanes as we see today, the numbers will bounce back.
- Abhay Soi:** I think in addition even International had only come back to 60% of its pre-COVID level. Over the past 1 year we have not been able to as an organization stand tall and show our entire strength because we have been limited and constrained by COVID. But with this vaccination drive hopefully we will be able to get past any further waves etc. and we should see normalization hopefully over the next few quarters.
- Damayanti Kerai:** In normal situation, International patient are around 10% to 12% of our hospital revenues, right which is yet to come back?
- Yogesh Sareen:** That's right, yes.
- Abhay Soi:** So, both International and OPDs, OPDs have been operating at lower than pre-COVID levels because obviously footfalls are lesser, lesser people go to hospital during COVID times or places which are impacted. Those are two things, which are yet to entirely come back, International as well as OPDs.
- Damayanti Kerai:** My second question is on our ARPOB. In terms of ARPOB we have seen a very good, very strong pickup in fourth quarter and if we look at the year also, full year numbers it's much higher than some of your peers. So, my question is like what kind of headroom you see in ARPOB growth and what will be the key drivers for the growth?
- Abhay Soi:** I think clearly one is International which is extremely high ARPOB business, that is the key driver. Secondly OPDs, OPD revenue is essentially spread over the entire denominator of total number of beds that you have. These two aspects should immediately give you some sort of an increase and uptick in ARPOB. These are two aspects. Other than that, what we have seen is a huge proliferation of insurance during this period, that is again something which is going to be providing you an uptick in ARPOB going forward. The clinical mix improving again is something. Most importantly like we had mentioned in the past inordinate amount of our business 30%-35% of our total beds were occupied by the Government business which is CGHS-ECHS etc. which is extremely lower ARPOB and our intention was to bring this down to about less than 15% of our total revenue. That is a big opportunity for ARPOB increase. As you see the preferred business which is Cash, Insurance and International, grow organically within the system. And there are enough and more indications why it should, insurance because of proliferation of Insurance, as far as International is concerned it is yet to come back, OPDs as well are yet to come back. All of these things augur well for your ARPOB certainly.
- Damayanti Kerai:** So even good growth over this Rs.51,000 annual ARPOB which we are having right now?



Abhay Soi: I think pre-COVID levels our ARPOB was higher than that. We are talking Rs.56,000- Rs.57,000. This quarter was Rs.57,000 ARPOB not Rs.51,000. Same time last year I think was Rs.53,000 or Rs.54,000 if I am not mistaken. You should see it going higher but you always have to keep in mind that most of our hospitals are in the metros which linked to higher or better clinical talent as well as our ability to drive higher end quaternary care programs which lead to better ARPOBs.

Damayanti Kerai: My final question is how many beds across your network are currently allocated to COVID patients and what is the occupancy right now?

Yogesh Sareen: You are talking of March or you are talking now?

Damayanti Kerai: Current status?

Yogesh Sareen: Currently we have around 1,200 patients in the system for COVID and we have roughly 60% of the capacity being allocated to COVID beds.

Abhay Soi: But it's quite dynamic in the sense that as COVID goes down we will start moving capacity to non-COVID. It's not out of regulation or whatever. It is more because you have the cases.

Damayanti Kerai: Just to clarify, right now around 1,200 bed for a COVID patient, right?

Abhay Soi: Yes.

Moderator: The next question is from the line of Thomas Priju from Alchemy Capital.

Thomas Priju: The first is you all indicated that most of the cost saving initiatives have been implemented. From that perspective, should we consider Q4 margins as more or less optimal margins from an EBITDA perspective? And also, when you deploy the money, you have raised through the QIP is there a risk that in the new capacity which comes on stream it will take some time for the margins to scale up and hence a year or two down the line, we may not see the margins we saw in this quarter. That was the first question. The second is you mentioned the capacity you have on the vaccine side is 50,000. What is it that you are doing at this point in time? And assume if things worked out well for you that optimal capacity of 50,000 you can run at that rate for how long? For the entire FY22 or you see an opportunity in '23 also and lastly in this business because there will be vaccines you will be selling in a broad range of prices, is it fair to assume that final profit which can accrue to you post your cost can be on an average around Rs.200 per dose?

Abhay Soi: Let me answer your vaccine question first. We have ramped up our inoculation capacity since May 1 to about 50,000 as we speak. This number is only ramping up going forward, that's one. The constraint has been availability of vaccines and we are doing close to that number that we have come up to. So, we are doing 40,000plus sometimes 40,000 to 50,000 range of vaccinations a day at present. This is as far as the vaccination is concerned. As far as margins are concerned there are different vaccines which will come into the market. As we speak there is no cap on pricing of administering but eventually the market will decide once there is adequate vaccine, and different sorts of vaccines are available. Sufficient to say, that, it will be positive because there is no sword over anybody's head to administer vaccines, only if it is positive, would people vaccinate in the private sector. What's



that number going to be, will it get regulated tomorrow, will there be a capping etc. I can't really forecast that. But in the absence of a Government regulation, the availability of vaccine with players as well as the market dynamics will decide the end price. The purchase price for all players is the same. It's really your administering cost, your efficiency that you can bring in over there versus others and the price like I said it's going to be decided by the market, that's on the vaccines part. As far as margins are concerned cost savings is only one element of margins which leads to these margins. Like I said once your OPD numbers come back, your International business comes back, your other business comes back that should bode well for your margins going forward as well. More importantly the Government business which earns us 40%, almost 40% less for the same service that we provide in our beds compared to a CTI patient, when that number drops, when we reduce our Government business in lieu of the preferred channels which is CTI; you can imagine a 40% increase in pricing effectively for the same service and about 85% of that flows into your EBITDA line because 15% approximately goes to the doctors. That is something which should help you expand your margins going forward further. These are of course the things that I am saying considering all other things remaining static.

Thomas Priju: The vaccine opportunity you see a decent opportunity in '23 also or primarily it will be a '22 opportunity?

Abhay Soi: We have to be reactive to this to some extent. In '23 if there is no pandemic, if there are home tests and if the nasal vaccines come out, then inoculators, vaccinators in hospitals they are less of a play over there. And there is a lot of that science which is perhaps being developed. When it comes out one doesn't know. Right now, there is essentially a two-vaccine regime in India. Most people have not even been vaccinated the first-time around. They are going to be vaccinated the second time around. There is talk of maybe perhaps you would require boosters going forward. So, opportunity can be endless from that standpoint but at the same time look new technology, new solutions for the pandemic are coming and that is the other aspect which will curtail your...there are two wings which are at crossroads to each other on this.

Moderator: The next question is from the line of Sangeeta Purushottam from Cogito Advisors.

Sangeeta P: My question really was that in FY22 what kind of volume drivers you see, given that I think you are now operating close to peak capacity. So, as the new capacity is likely to ramp up in the subsequent years; how do you see the outlook for this particular year? And the second question is that while your net debt has come down, as your CAPEX picks up do you expect this to go up again or it will get funded from the incremental cash flows which you are going to generate this year and in subsequent years?

Abhay Soi: As far as net debt is concerned it's at a fairly low level. We are generating, last quarter itself we generated Rs140 crore plus free cash flows which we used to repay down this debt. Going forward, our interest cost has come down significantly that will add to the free cash flows available to pay down debts. So, you should have about Rs200 crore plus, almost Rs.200 crore per quarter affectively. Rs.175 to Rs.200 crore per quarter that you can use to repay, pay down debt and that would essentially take you to a zero-debt company but that's not necessarily where the thought process is. We will be using our cash flows for Brownfield projects, you know we have about Rs.1,300- Rs.1,400 crore over the next 4 to 5 years. In addition, it gives us an ability to leverage up because we won't have any leverage



and which we are going to be using for inorganic growth. This is as far as the balance sheet and debt is concerned. So, the volume drivers, firstly if you look at the Q4 results vis-à-vis Q3 our occupancy, these results are better but the occupancy from 76% has come down to 70% for the quarter. If you see some of the occupancy levels that we have been operating at 80% and +80% plus in the Q1 and of this year and that is perhaps what you will see in the presentations. More importantly it's not only volume, like I pointed out in the previous question that 35% of our beds are occupied by Government business which leaves us with less revenues and ability to generate from those beds and once we substitute that with the Government that's where the huge opportunity is. I mean you can actually look at the business as occupancy of 70 beds or you can look at it as occupancy of 50 beds with preferred business and 20% is sort of just marginal business which is sitting over there, which you want to displace. So, you have an opportunity move from 50% to 75%-80%, right?

Sangeeta P: Right and you think that's likely to happen over this year or it's going to take you a couple of years to do that to unwind the Government business?

Abhay Soi: We said over 3 years from 35% will bring it down to 15%, we are about 6 months into the conversation so another 2.5 years we should be bring it down to 15%. So, gradual process. It's not going to happen overnight because there is a particular rate at which your preferred business is going to grow.

Sangeeta P: How much are you going to be investing into the Diagnostics business?

Abhay Soi: Diagnostics is not a very capital-intensive business. It doesn't require too much capital or almost any capital to be honest given Rs.15- Rs.20 crore sort of thing but any investment in that business is going to be to fund acquisitions.

Moderator: The next question is from the line of Amit Khetan from Laburnum Capital.

Amit Khetan: I have two questions and would be great if you can share a medium to longer term perspective on both. The first is on medical tourism. What is your goal or aspiration here in terms of where you want this to be as share of your revenue? I understand that pre-COVID this was around 10% to 12%. What steps are you taking to drive this?

Abhay Soi: We see this as a massive opportunity. We believe Max is not necessarily, we at Max and high-end quaternary care hospitals in metros are not necessarily only the answer to India's healthcare problems but global health care problems as well. Just because, simply because of the high-end skill sets which reside in our facilities as well as the huge cost opportunity arbitrage which is there. We intended to set up a global direct to fly franchise very similar to what some of the successful players in Thailand have been able to do. Obviously with the ban on International flights etc. our progress was sort of curtailed in doing so. We already are setting up office, a beachhead in Dubai to support our Middle-East offices, we intend to do the same thing in Africa and other countries and so on which will lead to a direct to fly opportunities and increasing medical tourism.

Now when you ask me what is the opportunity set? I think it is limitless, effectively because you know the competitive advantage we have as a nation, as a Group, as a chain of hospitals there is nobody no other player in the world, I believe which can really stand up to that. We are essentially constrained only by our ability to get out there sort out the things. Eventually this is the highest ARPOB business it is



very high margins because people come to India to come to our facilities for only high-end quaternary care, not necessarily for a simpler clinical solution. Therefore, it's hard to say and have any sort of objective in terms of what the percentage of our revenues will come from medical tourism but we believe it to be exponential opportunity exponential from here. I'm not looking at incremental from 10%-12% moving to 13%-14%-15% but much larger numbers.

Amit Khetan: Second on inorganic opportunities, could you share some perspectives how are you thinking in terms of location size of assets and owned versus managed facility and given your own experience both at Radiant and now at Max would it be fair to assume that beyond Brownfield capacity additions in your current facilities growth would primarily come from M&A?

Abhay Soi: I think there is tremendous growth even within the present network; it is payor mix inefficient at present, addressing that itself is a huge opportunity, it's like setting up imagine one-third of my capacity is being used sub-optimally. So, when you have the opportunity in turning that up that's one, Brownfield we have arguably perhaps access to the two best land banks in Delhi and Mumbai right in the middle of South Delhi and in right in the heart of the city in Mumbai as well which is going to be leading to the Brownfield. Other to this we have the balance sheet, we have the ability and we have a track record and DNA of doing M&A. We will continue to look at those opportunities. We will acquire for us size of assets it doesn't matter whether it's a chain of hospitals or it's a single hospital. What does matter is the size of that asset. So, we don't typically do 100 bed hospitals, say higher secondary single specialties etc. We do large scale quaternary care and there are plenty of opportunities from that standpoint. Again, our movements have been limited and claims on our time have been immense on during the entire pandemic. We really haven't been able to go out there and / scout for opportunities but this will change very quickly and doesn't take us time to react to acquisition opportunities.

Amit Khetan: What are the risks you see from being concentrated in Delhi from a regulatory standpoint and are you looking to expand to other metros?

Abhay Soi: We are not necessarily only in Delhi; we are in six states. When we say Delhi-NCR, we are in UP with Noida and Gurgaon in Haryana, there are advantages to having a geographical concentration in cities and we would like to create more such clusters that we have in Delhi. Because just on a marketing standpoint from ability to get doctors, brand standpoint it makes a lot more sense to be concentrated geographically rather than spread out across the country. So, synergies are there if you have a higher density and Delhi-NCR is the most attractive market. I mean it draws people from all of North India, North-East, Central, 40% of all global medical tourists come to the cities. There's a huge upcountry business which is not there in most other cities and the best clinical talent perhaps lives in Metro. So, it is going to be our concerted focus that we look at creating more such clusters that we have in Delhi and continue to build on these clusters as well.

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

Abhishek Sharma: I'm just trying to see the impact of the second wave on your operations which I believe is not captured in the 4Q results. What are the dynamics of non-COVID occupancy and then when COVID cases rise as sharply as they did, does the non-COVID occupancy drop drastically? And now that COVID cases are coming off, so is your COVID occupancy taking time to come back? Just some color on that will be helpful.



- Abhay Soi:** I think like I mentioned in my opening remarks, of course there has been a very quick increase in COVID business which obviously directly has an impact on non-COVID. Therefore, you'll have an impact on your ARPOB because ARPOB's get diluted and you get lesser ARPOB from the COVID business, but it gets over compensated or compensated with the huge amount of occupancies that you're able to obtain during COVID. And then you also have like you said you have a switchover period which we also seen happen very-very quickly. We haven't seen occupancies come down dramatically because of COVID going down, non-COVID also bounces back very-very quickly or has been doing so as well.
- Abhishek Sharma:** So, like you said that right now 30% of your beds are dedicated and they have as of now 60% occupancy this is the COVID part the non-COVID 70% what kind of occupancy would be there right now?
- Abhay Soi:** 80% plus and you can see that in overall presentation as well. We have shown a occupancy sheet in the presentation, so 88% till 15th of May on the non-COVID side and 92% on the COVID side till 15th of May.
- Moderator:** The next question is from the line of Aditya Khemka from InCred Asset Management.
- Aditya Khemka:** Can you talk about your unit economics in terms, so last I remember Nanavati was doing single digit EBITDA and can you just talk about how that has been able to ramp up also in the similar lines can you talk about Max Saket is this now the most profitable unit that you have?
- Yogesh Sareen:** So, Nanavati for this quarter is around 10% EBITDA margin and after the extra cost, so there's already an improvement there. Yes, Saket happens to be one of the most profitable hospitals, I think more so in Q4 because we had shifted lot of COVID work to Max Smart and then we are doing the most of the non-COVID work in Saket Cluster in that hospital. That brings up the EBITDA to more than 27% in Saket in this quarter. But otherwise, I would say all the hospitals are giving positive margins and they are at high-20 EBITDA levels.
- Aditya Khemka:** On the Max Lab front, can we have some sense on how much revenue of Max Lab is captive present through Max Hospitals and how much has the network number of laboratories you have? Any color on that side if you could provide would be helpful.
- Abhay Soi:** So, in Max Lab we don't capture the Max in house business, it's all-in third-party business which is there in Max Lab.
- Yogesh Sareen:** So typically 11% to 12% of the hospital business comes from the pathology. And that revenue is captured in the hospital and these hospitals and these labs are in hospitals also. There's only one reference lab that we have in Saket and that's what caters to most of the Max Lab business and the Max Lab business in the Q4 was roughly on Rs.18 crore which is Rs.5 crore of COVID and Rs.13 crore of non-COVID. Now you know that COVID dropped in Quarter 4, so obviously the volume also dropped on the COVID side for Max Lab. But on the non-COVID side there is a growth of 14%-15% that you can see in Max Lab. As we track the figures in Q1, they have expanded a big way and we do expect to do much better than what they did in Quarter 4 going forward.



- Aditya Khemka:** Just to understand this little better, so when you classify the lab revenues of the hospitals under the hospital chain so does Max Lab as an entity get a fee from Max Hospitals for maintaining their labs or is it like is something you're doing now but eventually that you spin it out you will basically recognize that revenue under Max Lab?
- Yogesh Sareen:** This Max Lab revenue is basically non captive revenue that means it is not in the hospital, it's outside of the hospital. It is the franchisee set up. It is totally non-captive revenue. Now obviously the sample comes to hospital, it's part of the same entity as we spin it out obviously then there will be transfer pricing rules etc that will apply but as of now it's a part of the whole EBITDA captured in the hospital. So, it's a high-teen EBITDA's that we are getting in Max Lab as of now.
- Abhay Soi:** But it's a clean arm's length basis, there is no royalty or any support fees they get for the lab or maintaining the lab or anything like that.
- Aditya Khemka:** Lastly if you could spell out the absolute quantum of CAPEX you expect for the next 2-3 years and what was that number this year?
- Yogesh Sareen:** I think we mentioned that we generally spend roughly 2.5% of the top line towards the maintenance CAPEX. We are talking about the maintenance CAPEX, right?
- Aditya Khemka:** And the Brownfield CAPEX, both put together.
- Yogesh Sareen:** So, maintenance CAPEX is generally Rs.130-Rs.135 crore numbers that we see in the next 2 years on an average. I think this year number was a bit lower roughly around Rs.115 because of the fact that Quarter 1 and Quarter 2 we did not spend money you wanted to conserve cash and in Quarter 4 we actually spent roughly Rs. 70 crore on CAPEX. That means we have ramped up the routine CAPEX during the course of the year, its seen in Quarter 4. That is how we see the numbers even going forward.
- Aditya Khemka:** And on Brownfield side of what CAPEX, you expect over the next 1 or 2 years or 3 years if you could spell it out?
- Abhay Soi:** We were looking at overall 4-to-5-year period spending about Rs.1,300 crore, 40% of that let's say about Rs.500 crore odd will go out in the first 2 years because usually the CAPEX is back ended that's when we buy the equipment and do the finishing and initially it will be more too structural etc. So, we are looking at about Rs.150 to Rs.200 crore a year. I think in this current year we will probably do about Rs.100 to Rs.150 crore.
- Aditya Khemka:** So, overall put together CAPEX maintenance plus this would reach about Rs.300 crore in the region of that right?
- Abhay Soi:** That's right.
- Yogesh Sareen:** So, that wouldn't require you to take any external that you can finance that amount CAPEX from your current cash flows, correct?
- Abhay Soi:** Yes, absolutely. We will be generating excess cash over and above that.
- Moderator:** The next question is from the line of Hardick Bora from Union Mutual Fund.



- Hardick Bora:** My question also was on CAPEX, just to clarify you said Rs.135 crore over 2 years right, maintenance CAPEX?
- Abhay Soi:** Per annum.
- Hardick Bora:** And the operating EBITDA that you have reported for this quarter despite the change in occupancy just to clarify this should be the base right? From here onwards as the preferred business volume goes up the incremental growth in EBITDA will only be positive from here onwards right, if not withstanding whatever moment happens on the COVID business.
- Abhay Soi:** That's right.
- Hardick Bora:** Just one final question on one of the information given in the presentation on the ROCE. Just wanted to clarify my understanding here the 25.6% ROCE which is annualized for this quarter the denominator does not include the capital employed from the partner facilities, right?
- Yogesh Sareen:** It does, so what it does not include is this whole purchase price allocation that we did on 1st of June 2020 and as a result the goodwill has gone up. So, we will see the number from March '20 to March '21 there's a big increase in goodwill which is basically is the purchase price allocation that we did post the merger. So, we have basically taken the capital employed which is actually invested in the business, not the one which is, whether it is us or partner facilities or wherever, its total.
- Moderator:** The next question is from the line of Charulata Gaidhani from Dalal and Broacha.
- Charulata Gaidhani:** My question is in terms of contribution of Oncology in FY21 despite COVID how have you been able to maintain the contribution at around 20% plus and second with COVID, are you seeing an impact on the receivable cycle especially from the second wave?
- Abhay Soi:** So, first and foremost, I think Oncology contributions are maintained because that's really one business and particularly in our case because we are at the very high end end of quaternary care and on Oncology that is one business which gets less impacted and it bounces back much faster and because of the need to sort of seek clinical solutions for your problem. If you have cancer, you can't really delay it very long. This business is more resilient from that standpoint like I said bounces back faster. That is why you seen Oncology going the way it is and also the contributions as well as revenues been maintained from that.
- Yogesh Sareen:** So, our DSO stands up 70 days at the end of March, so I don't think that there is any impact of COVID, I think what has happened is with COVID the share of TPA business or the Insurance business has gone up and that tends to have 45-50 days at best as the DSO. So, there's no impact on DSO because of COVID. We are generating cash and we are reporting that amount to you every quarter, so you see there's a consistency in the cash generated from the operations.
- Charulata Gaidhani:** In terms of International patients after the second wave I mean by when do you see it coming back, first to around 10%-11% levels?
- Abhay Soi:** Soon as we know when the flights are going to open up, I think it's totally entirely dependent on that sector from our point of view.

- Charulata Gaidhani:** And International patients are from which countries?
- Abhay Soi:** We get people from over 65 to 70 countries, largely from the Middle-eastern cluster, African cluster, Southeast Asia, we get from East European cluster and many other countries but these are the large concentration or clusters that we have.
- Moderator:** The next question is from the line of Geetika Gupta from First Voyager Advisors.
- Geetika Gupta:** The first question I have is on the diagnostic business, I understand it's already been launched as a separate subsidiary so wanted to check what are the kind of ramp up plan that you have made from next 2 to 3 years perspective?
- Abhay Soi:** We have aggressive ramp up plans of course the whole idea of moving it into a separate vertical into a subsidiary was that we have greater management focus on this and it has its own objectives and it doesn't get obfuscated within the entire hospital network. That is the first step in doing that. We believe the opportunity is great particularly in Delhi-NCR where we have a very strong brand. We intend to start with that and this way we have and particularly in COVID times our brand has been probably with more on the back of RTPCR tests etc. You know like I explained we've done 5.5 lakh RTPCR tests. Those are the number of people who, we have served and going forward that will help us in approaching them for non-COVID related businesses as well which in any case has been growing through this phase as we speak. From here on we intend to spread ourselves in North India and then look at other parts of the country as well. So, the opportunity is large. I can't give you specific guidance on what is the numbers that we're looking at but we intend to be serious. We are already third largest business in diagnostics in Delhi-NCR. But we intend to ramp up serious numbers in this and that's why we looked at moving into a separate subsidiary; otherwise, it was within the folds we would have been satisfied. We intend to be a significant player and stand up and be counted amongst the largest players in the country going forward.
- Geetika Gupta:** I think earlier in the call you mentioned the revenue run rate of Rs.18 crore for the labs business that I wanted to just check that's for the Q4 or I'm not sure I didn't get the number correctly.
- Yogesh Sareen:** Yes, that's for Q4. So, in the Quarter 3 number is Rs.25 crore of revenue which had Rs.13 crore of COVID and Rs.12 crore of non-COVID. The non-COVID obviously had grown and COVID had come back, the Quarter 4 COVID numbers are down. So, the overall number is Rs.18 crore from Rs.25 crore of Quarter 3.
- Geetika Gupta:** So, it's already a Rs.100-crore kind of a revenue?
- Abhay Soi:** That's right and this is all third-party business.
- Geetika Gupta:** And are we also looking at inorganic growth in this like any opportunities that we see there for ramping up this piece up?
- Abhay Soi:** We will be looking at opportunities for bolt-on acquisitions in the laboratory business as well.
- Geetika Gupta:** The second part I wanted to understand for the hospital business there also alluded to the fact that we will be looking at inorganic opportunities, so just wanted



to check other than the discussions which are on or any pipelines that we should be aware of?

Abhay Soi: So, there's always a pipeline in various degrees of conversation but of course if there was anything concrete we would have to inform the exchange, the fact that we haven't done so, sort of alludes to the fact that we haven't crossed the Rubicon as far as this is concerned.

Moderator: The next question is from the line of Rajiv M from Win Equity Partners Asia.

Rajiv M: We have moved to small cap Morgan Stanley fund just a few days earlier and I hope in the next 3 years we'll be able to get into the large cap. The easiest and fastest way would be to explore on FSI. The Government has allowed extra FSI for all the existing hospitals, so we can expand just where we are in terms of location because that's going to be our initial advantage. We can also look at acquiring a lot of hospitals in Bangalore, Hyderabad and Bombay which are reasonably priced right now in terms of some kind of a strategic alliance and also do some extra efforts in data mining, CRO activities where we can get huge set of numbers over a period of time and valuation also. Then you can spin off the three separately; one as medical, the other can be data and the third can be a diagnostic. Please comment.

Abhay Soi: I'm happy to consider all that you are saying and move in those directions, thank you for advice.

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

Shaleen Kumar: So, Abhay just on Nanavati, you had some plans for VRS so that you can improve the margins? So, should we expect that to happen now many other things are behind us in terms of restructuring, capital raise and all?

Abhay Soi: Yes. So, we expect that to happen, we seem to keep getting perennially delayed over there because of the pandemic we are just now off the second wave, so you will see further traction in that and we hope to complete it within the year.

Shaleen Kumar: Any idea of what to be the size of that?

Abhay Soi: From our standpoint there isn't really a size, it really depends on how many people come up to volunteer. We may be doing it in batches. The total exercise should not be more than Rs.50-Rs.75 crore but what the actual uptake is going to be will be dependent on number of people who come in for the voluntary retirement.

Shaleen Kumar: On the Brownfield expansion you might've mentioned it and I might have missed because of my line. Is there any delay because of the COVID etc. and what are the timelines, when we can see the Brownfield expansion to start adding up in terms of the capacity?

Abhay Soi: So, there has been a slight delay. We were looking at commencing in the first quarter; we will be looking at doing so in the second quarter now. There has been maybe 2-3 months delay in whole thing because all of a sudden, all offices were closed Government offices as you aware on the second wave. So, the good part is the second wave came and is gone within a couple of months, so it's not delayed us by that much and no more.



- Shaleen Kumar:** In terms of COVID occupancy I can see that your given occupancy has increased, while there is a decline in the cases. Is there a material change in the COVID occupancy in past 15 days?
- Abhay Soi:** Yes, there has been a material change in COVID occupancy it is slowing up as COVID is coming down and this time we believe the bounce back perhaps will be faster than previously.
- Shaleen Kumar:** I have some bookkeeping question in terms of ESOPs, what kind of ESOP expense should we build in going forward?
- Yogesh Sareen:** This is equity settled of scheme so there is no cash outflow there and what we spent gets added back to other equities in the balance sheets so it's no impact that way. But in terms of charge to be P&L you will similarly charge till November and then the charges come down.
- Shaleen Kumar:** Just want to pick your mind on inorganic growth opportunities. So, are you looking for a full-fledged buying out opportunity or you prefer more of a.....
- Abhay Soi:** I like both, so it's not either or and so we are almost all the time in conversations with respect to both, it doesn't have to be either/or.
- Moderator:** Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.
- Abhay Soi:** Thank you all for making the time to be on this call. I hope we have been able to satisfy your queries and answer your questions. We've tried to do it to the best of our abilities keeping in mind forward-looking statements and so on which we have to be careful about, so I wish you safety and wish you all the best. Thank you very much.

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