ASTER DM HEALTHCARE

Q1 FY19 Results Conference Call August 16, 2018

Moderator: Ladies and gentlemen, Good day and welcome to the Aster DM Healthcare Limited Q1 FY19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikram Rajput from CDR India. Thank you and over to you sir.

Vikram Rajput: Good afternoon, ladies and gentlemen. Welcome to Aster DM Healthcare Limited earnings conference call for investors and analysts. The call has been hosted to discuss the Q1 FY19 financial performance and share operating highlights of the company with you.

I have with me on the call Dr. Azad Moopen -- Chairman and MD of the company; Sreenath Reddy -- Group CFO; Kartik Thakrar -- Financial Controller, GCC and Dr. Harish Pillai -- CEO, Aster Hospitals and Clinics, India.

We will commence the call with comments from management team, post which we shall open the call for Q&A session where the management will be very glad to respond to any queries that you may have.

At this point I would like highlight that some of the statements made or discussed on the call today may be forward-looking in nature. The actual results may vary significantly from the forward-looking statements made. A detail statement in this regard is available on the company's earnings presentation which has been circulated earlier.

I would like to invite Dr. Azad Moopen to commence by sharing his thoughts. Over to you, sir.

Dr. Azad Moopen: Good afternoon, everyone and thank you for joining us. I am Dr. Azad Moopen, CMD of the Aster DM Healthcare. We are not having very pleasant weather here in Kerala, so the line may be little erratic, but I hope that you will bear with us.

The healthcare sector is on a cusp of technological transformation and we remain at the forefront of driving clinical excellence and patient experience. We continue to deliver strong financial and operational performance for the first quarter, which reflects the increase in demand for healthcare in the various geographies we operate. The results are in line with expectations, with revenues up 14%, EBITDA up 188%, PAT showing an improvement of 125% compared to Q1 of the same period last year.

I am very happy to share that this increase has been due to reasons which we will discuss, where there has been a significant jump in the EBITDA and PAT even though the revenue growth has been only 14%.

I am happy to share that our new Medcare Hospital in Sharjah and Aster Hospital in Doha, broke even during the quarter, just within 12 months since commissioning. These two hospitals were turning out losses in the first quarter of last financial year and that is one of the main reasons why we have this significant growth in EBITDA as well as in PAT.

We have been able to produce faster breakeven of our hospitals due to our years of experience in GCC. Medcare Women and Child facility, Aster Mankhool facility and Aster CMI Bangalore broke even operationally within a year's time while most hospitals take much more time than that.

Another important reason for the early breakeven is also that, clinics acts as a referral point for GCC hospitals. Clinics in addition also are crucial for the business of the pharmacies, as most pharmacies are integrated with clinics which ensure higher footfall and faster breakeven.

The most important thing is the asset light nature of the clinics along with higher return ratios which has helped Aster expand its network of clinics and pharmacies rapidly. We are one of the largest and most widespread network of clinics across Middle East. The clinics which were started during last two to three years have now started contributing to our P&L.

As mentioned in our previous investors call, there is a seasonality of business in GCC. People who have not been in the earlier call, they should realize that there is a seasonality in the business in GCC. I will spend some time on the impact of seasonality on our business across GCC regions where during the peak summer months of April to September the business tends to be low. Seasonality is unique to the GCC business and skews the picture significantly for the first and second half of the financial year results. There is a decline in volume across hospitals, pharmacies and clinics during the summer months in the GCC, which contributes to about 80% of the Aster DM Healthcare's annual revenue. Expats form a major portion of the population of the GCC countries and during this extreme summer season and school holidays, a large number of people leave the GCC region, some doctors also travel back to their home countries during this period on holidays, this impact is visible across industries. H1 and H2 revenues in GCC for Aster are usually split 45% to 55%, but the EBITDA split can vary as much as 30% to 70% for H1 and H2. Increase in revenue in H2 results is proportionately larger increase in profitability due to operating leverage. Seasonality variation due to expat leaving during summer months for their annual holidays has been a consistent feature for several years or even for decade. We are confident of delivering a stronger H2 result with higher revenues and proportionately larger increase in profitability due to the operating leverage.

We have a large pharmacy chain in the GCC with 213 retail stores. We have maintained a very healthy profitability ratio by improvement in the product mix, dynamic product selection and with exclusive tie-ups.

At this point, I would like to draw your attention to our India strategy, since we have come across some views in our discussions with analysts and investor community that hospital space in India is not a very profitable opportunity. We believe that there is a significant potential in the Indian market to serve the needs of the patients, maintaining clinical excellence and operating profitability. The GDP spend on healthcare in India is very low and there is significant demand/supply gap. Low affordability and insurance penetration are major reasons why healthcare has not taken off and the national health protection scheme is a step in the right direction which will address these and will enable newer operating models to capture emerging opportunities. Further, India is geographically well positioned for medical tourism from the GCC states, MENA region and Southeast Asia.

The India foray is also in line with our focus on derisking business and we have target of about 25% of overall revenues coming from India in the near future. We are focused on large format hospitals in Tier-1 cities as hospitals in Tier-1 cities deliver superior EBITDA margin vis-à-vis Tier-2 cities. We work with a hospital-driven operating model versus the superstar doctor-driven operating models where all eyes are set on the health of the hospital as against individual vagaries. We are following a long-term lease or an O&M model which enables better ROCEs. We also have been leveraging our GCC network to promote medical value tourism to India operations. Aster DM Hospitals is gaining appreciation in India for quality healthcare, clinical excellence and patient service where we are consistently among the top in Google ranking and patient endorsement.

The underlying profitability, returns profile and scalability of our GCC business, fast-growing India operations, focused on large format hospitals in Tier-1 cities pivoted around an asset-light model and growing brand equity among doctors and patients, all give us a unique sustainable platform of profitable growth. Our eyes are set on maintaining an optimal mix of growth and leverage. Margins will witness expansion, led by improving maturity mix in the GCC hospitals and clinics with a turnaround in Saudi and ramp up in India hospitals. As a company, the focus remains on value creation and making a positive difference in the life of the patients that we serve every day.

Thank you. I would pass on to the CFO, Sreenath Reddy, who will walk you through the financials.

Sreenath P. Reddy: Thank you Doctor, and good afternoon everyone. I will start by recapping the financial highlights for the quarter and then focus on providing you some flavor around the numbers and our journey forward.

Aster DM Healthcare has started the year on a strong note showing year-on-year improvement in the top line as well as bottom line. In Q1 FY19, revenues excluding finance and investment income grew 14% year-on-year to Rs.1789 crore, up from Rs.1565 crore in Q1 FY18. In constant dollar currency, the growth will be at 10%. This was backed by healthy growth in all segments. In Q1 FY19, EBITDA increased to Rs.139 crore, up 188% from Rs.48 crore compared to Q1 FY18. PAT was at Rs.20 crore, up from Rs.80 crore loss in Q1 FY18. EBITDA also includes Rs.2 crore loss from two new hospitals in GCC that is Medcare Hospital in Sharjah and Aster Hospital in Doha. The losses of these two hospitals in the same

quarter last year was Rs.46 crore. The improvement in GCC margins were driven by better facility utilization, increased footfall and efficiencies in cost management. India margins were impacted by the minimum wage hike for nurses and other staff in Kerala hospitals. Also, one of the flagship hospitals MIMS at Calicut got impacted by Nipah Virus outbreak; however, we are confident of margins in India hospital improving significantly in the coming quarters.

Coming to the Segmental Performance, the revenues in GCC hospitals increased by 21% to Rs.590 crore in Q1 FY19 from Rs.487 crore in Q1 FY18. EBITDA increased 374% from Rs.18 crore in Q1 FY18 to Rs.84 crore in Q1 FY19. The EBITDA margin was at 14.3% in Q1 FY19 compared to 3.6% in Q1 FY18. Revenues in GCC clinics increased by 11% to Rs.453 crore in Q1 FY19 from Rs.410 crore in Q1 FY18. EBITDA increased 57% from Rs.34 crore in Q1 FY18 to Rs.54 crore in Q1 FY19. The EBITDA margin was at 11.8% in Q1 FY19 compared to 8.3% in Q1 FY18. This performance was driven by ramp up in new clinic set up in GCC states in the recent past and increase in footfalls from existing clinics. Revenues in GCC pharmacies increased by 20% to Rs.472 crore in Q1 FY19 from Rs.394 crore in Q1 FY18. EBITDA increased by 16% during the same period. EBITDA margins at 6.1% in pharmacies remain constant. Revenues in India hospitals were Rs.307 crore Q1 FY19 versus Rs.275 crore in Q1 FY18, up by 12%. EBITDA was Rs.24 crore at 7.9% margin versus Rs.20 crore at 7.2% margin during the same period last year.

Coming to the Balance Sheet: Net debt has increased from Rs.1,916 crore as at March 31, 2018 to Rs.2,152 crore as on June 2018. Our target debt to EBITDA ratio on a full year basis will be below three. We have a CAPEX outlay of Rs.650 crore, out of which Rs.300 crore is in India and Rs.350 crore in GCC for FY19 and we have another Rs.300 crore of CAPEX for FY20. The FY19 numbers includes Rs.70 crore of maintenance CAPEX.

I will underline the strategic direction we are pursuing which will support sustainable strong cash flow from business. The focus on cost efficiencies and focused CAPEX in asset light model remains. Aster DM Healthcare continues to gain increasing prominence in the Indian healthcare ecosystem with a clear focus of serving patients with care that goes beyond traditional practices. The India numbers will continue to improve as we establish the asset-light model increasingly in Tier-1 cities and as utilizations improve. This will allow us to scale up faster and improve our return profile without leveraging our balance sheet. The gain from improving maturity mix in the UAE for hospitals and clinics, Saudi turnaround and continuing margin expansion in India are going to translate into much improved margin profile from here onwards.

On that note, I conclude my opening remarks. We would be happy to give you our perspective on any questions that you may have. I would request the operator on this call to open the question-and-answer session. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Krishna Sundaram, an individual investor. Please go ahead.

Krishna Sundaram: Now, the first point would be that as you are aware that yesterday in the Independence Day Speech the Prime Minister has highlighted that certain schemes for the poor people in India. My question is as a doctor, or as a medical fraternity, what is your opinion as to the cost, how affordable will it be considering the per capita income in India, how affordable will it be to service the Indian community as such and whether it will be a profitable venture, point number 1 and Point number 2, what are the plans of the company in this regard?

Dr. Azad Moopen: That is a very pertinent and a timely question. We have been hearing about this for some time and we have some strategy. From the point of view of the patient, who is the main beneficiary of this, there is no doubt that this is a very visionary and most forward-looking scheme. India has been suffering with the population not having access to good healthcare so far after our independence, and in the 72nd Independence Day, this announcement has been very-very positive for the poorer section of the society, 50 crore people which is half of India's population. So, they would not have to pay anything for that matter, for most people it will be free of cost because the government is going to foot the bill and they will get it through insurance. So, from the point of view of the patient, it is such a great windfall for them in that way because it is a free insurance coverage for up to Rs.5 lakhs for all families and that is a significant amount to cover any illness. From the point of view of the providers like us, there are some challenges because our costing for procedures which have been mentioned and the tariff which has been announced by NITI Aayog, doesn't actually match but there will be a lot of providers in the Tier-2 and 3 cities who will be able to do this. Apart from that, even we are actually looking at ways in which we can also participate in that by supporting the providers in the Tier-2 and 3 cities by bringing in tertiary care like for example, an angiogram to be done in hospital which does not have the facility, we can arrange the equipment as well as send the doctors and get it done there. We also are looking at utilizing our extra capacity in our hospitals where the patients can be looked after at a budget model with the lower rate. So, I think it is a win-win-win for everybody including the patient, the provider and of course for the government because they are taking care of the health of the people.

Moderator: Thank you. We will take the next question from the line of Shyam Srinivasan, please go ahead with your question from Goldman Sachs.

Shyam Srinivasan: My first question is on the Saudi hospital. You talked about the turnaround. So, how are we on this journey, is there revenue run rate or EBITDA margin so that we are doing now, I remember in the last quarter call we said we enter a high single-digit margin on a monthly basis in March, so if you can give an update on the Saudi?

Sreenath P. Reddy: Saudi operations because of the seasonality, Q1 cannot be compared to Q4. More-over in Q4 we turned into profit but Q1 is something where we are at very minimal loss. Saudi hospital even during Q2 may not contribute much; but however, from Q3 onwards Saudi hospital should contribute significantly more than what it was contributing last year. But at this point of time, it is into a small EBITDA loss.

Shyam Srinivasan: Can you tell us how much was the government business at this point of time in Saudi – is it less than 20%?

Sreenath P. Reddy: Shyam, at this point of time, the government business is around 30%, what was around 80% 1.5-years back, it is now only at 30%, rest all is insurance and cash, majorly insurance business; however, the government has been paying consistently so there is absolutely no delay on any payment from the government. As you are all aware, we have got exposure to government only in Saudi and not in other geographies. In India we have got very minimal exposure to any kind of government schemes.

Shyam Srinivasan: Just from an outlook perspective, this hospital will be profitable in full year FY'19?

Sreenath P. Reddy: Yes, on a full year basis, this hospital will be EBITDA positive and could be in high single digit EBITDA margin.

Shyam Srinivasan: My second question is on the Indian operations. I remember in annual report it was said at about 13% for margins for the Indian hospitals with more than three years maturity but if I look at the Q1 now that number seems to have come to about 9.6. So, is it like seasonally slowed down but it still seems like quite a lot of margin compression QoQ, I am talking about India business only, so can you just help us understand what has happened there?

Sreenath P. Reddy: If you look at in Q1, we had a bit of an impact in India hospitals mainly for two reasons – one, many of our hospitals are in Kerala, there was a minimum wage impact, because of which there was a dip in the margin; however, we are likely to pass this on to the patients because we were waiting for competition to increase the pricing as well, during the last quarter of last year we have taken a price increase and we did not want to immediately take another price increase, but now we expect to take a price increase in the coming quarters. Second thing is that one of our flagship hospitals at Calicut, MIMS had an impact because of Nipah virus outbreak. So, Q1 cannot be a representation for the full year and definitely going forward beginning from Q2 you will see a significant improvement in India hospital margins. The margins few years back what we were seeing at around 13%, that is something which we will cross very soon. So, when I say very soon, as earlier as next year we should be crossing that margin.

Shyam Srinivasan: Anything if you can quantify in terms of whether basis points of margins or what was the impact of the hike in the wages for the nurses?

Sreenath P. Reddy: Right now, I do not have that number, I can send it to you separately.

Shyam Srinivasan: My last question is on the GCC. On the margin expansion it has been quite good with the exception of pharmacies which have been flat, we still see margin expand in all the other segments that you are operating in. So, what is kind of explaining this? I think Dr. Moopen talked about the turnaround at the new hospitals itself, but overall what has happened to existing hospitals as well?

Kartik Thakrar: Existing hospitals had usual efficiency improvement which happened year-over-year and apart from the two hospitals which Dr. Moopen mentioned, there are another two hospitals which have started in the last three years and at those two hospitals also there has been a ramp

up, which has contributed towards this additional ramp up. In clinics, it was the number of clinics which we added between FY2015-16. Those clinics were almost at breakeven level last year, it has started contributing to the EBITDA. So, clinics will further see expansion in margin on quarter-over-quarter to reach the stable state in the next one or two years. Towards the end of the year, even the two hospitals which broke even would also show a positive exit in this year.

Shyam Srinivasan: Pharmacies stable margins was because of additions, is it or was there start-up losses there?

Kartik Thakrar: Last quarter the margins really picked up because of the rebate as well as volume rebate which comes in the end of the year. Now, volume rebate is depending on the volume of phase it will end, they are usually calculated between 9th and 12th month. That is the reason the last quarter margin pharmacy will be more than double digit- 12% plus, while the first two quarters the pharmacy margins will be a single digit. That is the reason you do not see that expansion in the pharmacy margin as compared to the last quarter.

Shyam Srinivasan: Any impact of the floods and the heavy rains in Kerala with respect to Medcity?

Dr. Harish Pillai: We are just waiting and closely monitoring the situation with the help of the state government. The weather forecast for the next three days appears to be the same as it is now. We expect situation to improve sometime onwards. Till now things are quite stable.

Moderator: Thank you. We will take the next question from the line of Anil Sarin from Edelweiss Asset Management. Please go ahead.

Anil Sarin: We are quite new to the company. As such I am asking a basic question. There is a very big difference between the first quarter and fourth quarter. These are the only two quarters for which results are available. Now considering YoY that is recently declared first quarter versus the previous year first quarter there has been a smart increase in the profitability even though you have highlighted that in India there have been some setbacks but by and large there has been a smart increase. What does that say for the overall profitability for this financial year – will it be of a similar nature YoY as it has been on first quarter basis compared to the previous year same quarter?

Sreenath P. Reddy: Definitely, yes, Q4 cannot be compared to Q1 and as you rightly pointed out, our Q1 compared to the previous year Q1, the margins are much better. We do not see any reason as to why these margins should not have such an impact. These margins will continue to improve. The only thing is that because we have got some projects coming up in the current year, one hospital in Sonapur, Dubai is likely to come up in the end of this quarter. So, when that hospital comes up, there is likely to be a loss from that particular hospital which could drag down the hospital vertical margins to a certain extent. However existing hospitals will continue to improve their margins. Similarly, in India in Q4 we have got two hospitals coming up -- one at Kannur and another one at Bangalore. These two hospitals will incur losses in that particular period and it could drag down the consolidated hospital profitability in that

particular quarter. Having said that, as I told, the existing hospitals will continue improving on their margins because these hospitals are on the ramp up phase and we will see the margins improving much better from here on.

Anil Sarin: So, can I assume that the full year margins would be much, much better than the first quarter margin despite three hospitals coming up, one in GCC and two in India and with their startup losses impacting the overall operating profit, despite that the EBITDA margin this year would be a much higher than the EBITDA margin of last year?

Sreenath P. Reddy: It will definitely be higher compared to the last year.

Anil Sarin: In terms of taxation in India, at a consolidated level, what is the tax rate? Secondly, this minority interest, what percentage of total profit should one assume to be attributable to minorities on a consolidated level for the full year, so taxation and minority interest percentage?

Sreenath P. Reddy: On the taxation front, what is taxed in India is only the India operations which is at 35% rate, but however, outside India in the GCC states, most of the states do not have tax, however some of the states like Saudi and others have got certain tax, for example, Saudi has got around 20% tax. But on a consolidated basis the taxation for the company as a whole will be less than 10% combining the GCC operations as well as India operations. Coming to the second part of your question on the minority interest, on a full year basis, again that will be less than 10%, somewhere in the range of 8% on a full year basis however, in this quarter the minority appears to be higher mainly because of the lower base. The full year numbers if you look at it will be less than 10%.

Moderator: Thank you. We will take the next question from the line of Rohan Dalal from B&K Securities. Please go ahead.

Rohan Dalal: Firstly, I wanted to ask about the operating profitability going forward. I realize you said that the margins will improve. So, I just wanted to understand how exactly will the fourth quarter look like because we have two facilities and one expansion coming up in the fourth quarter especially. So, what is the breakeven timeline going to look like and what are the losses going to look like from those facilities and how exactly will those be absorbed? My second question was on the point of debt. So, what is the guidance in terms of leverage going forth and how exactly should that pan out?

Sreenath P. Reddy: We have got a seasonality impact and first half of the year as Dr. Moopen rightly put it, our revenues will be in the range of 45% of the full year revenues and second half will be around 55% and in terms of EBITDA margins first half will be roughly around 30% and the second half will be around 70% and this has been the trend for the last many years. So, even this year it is going to be something similar, however, we have new hospitals, in the second quarter one hospital coming up and in Q4 two hospitals coming up. Definitely these hospitals will have an impact on the profitability. But having said that we can guide that in spite of the losses from these hospitals, our profitability will at least increase by 20% on a full year basis compared to last year.

Rohan Dalal: The margins would not increase by that much, so absolute profitability will increase by 20%?

Sreenath P. Reddy: The absolute profitability will increase by 20%. The reason is that, many of these hospitals which we have started are on the ramp up phase, they have started contributing and the losses incurred by the new hospitals what we are starting will get offset by profit that the existing hospitals make. So, on a total, we will be in a much better position compared to last year both in terms of revenue, profitability, PAT as well as the EPS.

Rohan Dalal: In terms of revenue growth from India, I saw that your ARPOB has gone up by 18%, so I was just wondering if that is the function of price mix or case mix?

Dr. Harish Pillai: It is a mix of both, because bulk of our hospitals especially the flagship hospitals are tertiary and quaternary care where the ARPOBs are really high. So, in market where we are nicely located such as in Bangalore, the price also comes into play, so, it is absolutely right, it is a mix of both.

Rohan Dalal: So, is there any way that you would be able to quantify that for me, how much is the price mix, how much is the case mix for this quarter?

Sreenath P. Reddy: It will be roughly in the range of 50:50; price mix will be around 50% and product mix will be the remaining 50%.

Rohan Dalal: Last question is about the debt, if you can give some guidance on that sir?

Sreenath P. Reddy: We had major CAPEX during the last few years and now in the current year, few new hospitals are coming up and even next year we have got some hospitals coming up. The estimated CAPEX is Rs.650 crore in the current year and Rs.300 crore in the next year. But however out of this total Rs.950 CAPEX, the incremental debt what we are going to see in the current year is going to be around Rs.150 crore. So, rest all is going to be through internal accruals.

Rohan Dalal: Is that portion of debt as a portion of CAPEX going to continue into the next year, so Rs.150 crore, for Rs.650 crore CAPEX you can probably take about Rs.50 crore for Rs.300 crore?

Sreenath P. Reddy: No, Rs.150 crore additional debt what we are looking at is going to be in the current year. So, next year there will not be any borrowing towards CAPEX. This will be the last leg of our CAPEX cycle and beyond this we do not have much of CAPEX that will go in. If we find any good opportunities in terms of acquisition, definitely we will look at it, provided if it is EPS-accretive. Every year we may have one or two projects but that will be mainly funded through internal accruals. So, we are expecting free cash flows by the end of next year.

Moderator: Thank you. We will take the next question from the line of Harith Ahmed from Spark Capital. Please go ahead.

Harith Ahmed: Looking at the breakeven timelines at your hospitals in Sharjah and Doha commissioned last year, that has been around 12-months, so for

the couple of upcoming hospitals in Dubai schedule for commissioning this year, is this 12-months timeline something that we can assume for the new ones as well?

Dr. Azad Moopen: Yes, we expect so because the efficiencies in operationalization of hospitals have been going up steadily over the last five years, earlier we used to take 2, 2.5-years for breakeven which has come down to 1-1.5-years and our aim is to bring it even below 1-year. So, a few things that we do is that earlier we used to have project overruns and there were delays and then the staff who were recruited where they are, and pre-operative expenditure was piling up, and of course, now we also have the advantage of this large number of clinics which feed into this hospital and that actually produces almost a breakeven situation in six months to one year because the cases directly come in, unlike somebody else starting a hospital for us, there is a ready reference coming from the clinics which is one of the major reasons for our early breakeven. The ecosystem of the clinics and the hospitals are going very well.

Harith Ahmed: My next question is on the clinics and the pharmacy network in GCC. Can you talk a little bit about your expansion plan, what is the kind of addition to the network that you are planning this year and next?

Dr. Azad Moopen: In Clinics we have had a significant expansion in UAE because of the mandatory insurance being rolled out and we do not now expect to do a major numbers, only as and when required. Some of the structures like the 'Access' which is catering to the lower income group where there is a requirement because of the insurance situation, we may start some clinics but that will be less when compared to our earlier two years where we had started large number of clinics. But one opportunity that we see which opens up, in fact, which has just been announced is Saudi Arabia where the clinic earlier was not allowed for expat investors, only hospitals were allowed, now we are looking at the same model like in UAE where we can start clinics around our hospital in Riyadh, which will help in having an independent income as well as referral for our hospital. So, that is something which we are exploring now.

Harith Ahmed: There would not be much of an expansion from the current 200-odd clinics that you have at least in the next year or two?

Dr. Azad Moopen: Yes, every year we add 10-15 clinics and 10-15 pharmacies and if there are some suitable inorganic growth opportunities in the pharmacy sector especially we also do that. So, I would not be able to give a correct number but it should not be more than 10% of what we will be doing, it is not like an expansion of fifty clinics like what we did two years back.

Harith Ahmed: My last question is on this new acquisition in Ongole. So, what is the nature of this hospital, can you give a bit more color on this and what is the kind of losses that we should be seeing from this hospital in the first year and is this one of the reasons for the margin pressure in the hospital segment this quarter?

Dr. Harish Pillai: The Ongole hospital is the secondary care unit in Prakasam district. As one can imagine, it is equal distant to Chennai as well as to Hyderabad.

One of our strategy post acquisition is to provide services where patients often have to travel to these two cities, for example, trans-land services. We see significant synergy between our existing three hospitals in Andhra Pradesh in terms of pooling off human resources, primary doctors. So, our expectation is that both top line as well as margin will significantly improve in the next quarter.

Sreenath P. Reddy: Adding to what Dr. Harish said, this particular hospital was acquired by one of our subsidiary, Dr. Ramesh Hospitals, where we own 51% stake. So they have acquired 51% stake in the Ongole facility, so effectively our stake will be 26% and this is a profit-making company, it is already an existing company, having around 15% EBITDA margins but the revenues are small, so they have got revenues of around Rs.3 crore a month. This was not the reason for the dent in the India margin, the dent in the India margin was mainly because of the wage increase what happened in the Kerala hospital and because of the hospital in Calicut which is one of the large hospitals where the Nipah virus outbreak occurred. So, these are the two reasons why there is a dent. This is a temporary event only for this quarter because you will see much improved performance of the hospitals in India beginning from Q2 onwards.

Harith Ahmed: On the Sanad hospital, you mentioned that there is a marginal loss this quarter and the occupancy is still ramping up there. I am just trying to understand the rationale for more bed additions here. You talked about adding roughly 70-beds at Sanad. So, can you help us understand what is the strategy behind this?

Sreenath P. Reddy: The strategy is that at this point of time if we look at Sanad we have got lot of C class patients from the insurance companies. Strategy is to move away from the government to the insurance companies. And the insurance companies have classified into C, B and A, A is very-very negligible but B classification is something where you get high end patients who can pay more. So, the new facility what we are adding is something where we are coming up with the improved facility. With this facility getting added, we will increase our profitability over there

Moderator: Thank you. We will take the next question from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand: First question was around strategy on India hospitals and you mentioned medical tourism an important aspect from GCC. Just wanted to understand, one, what percentage of our higher end patients would be coming in from GCC in the Indian hospitals and how important are things like insurance tie-ups with Middle East insurers who are the primary cash paying patients?

Dr. Harish Pillai: If I can answer that question, currently, the volumes of MVT patients to consolidated India operations is about 4-5% in terms of volume, but they constitute about 10% of value. We see huge upside on these numbers because of the synergies of India and Middle East operations. We have picked up a strategy of high end specialties in tertiary and quaternary care where Indian consultants are getting license in GCC countries and we are able to provide the continuum of cash from India to GCC market which none of our peer group in the region are able to offer. So, that gives us very unique selling proposition for expanding the MVT pie.

The second part of your question is yes, predominantly they are cash patient, but we also have government hospital contracts where Ministry of Health and a couple of GCC countries refer patients to us and we also have small growing pie of international insurance companies.

Ashi Anand: Sir, second question is on the GCC market. I was just trying to understand the most effective market I would assume is Dubai and we have a fairly large presence in that particular market in terms of our market share across pharmacies as well as the clinics and hospitals kind of presence that we have. In terms of growth potential, is this market kind of largely done in terms of the kind of grow the presence you can add out here and therefore incremental GCC we have to look at other markets, so how exactly should we look at growth from a slightly longer-term perspective for this GCC?

Dr. Azad Moopen: If you look at the GCC market, the major countries are UAE where we already have significant presence and Saudi Arabia. In GCC, we find that there is significant opportunity for a major player like us, the #1 player, and wherever we are starting hospitals, we have found that the breakeven happens quite fast because in spite of there being competition definitely we have got a brand advantage as well as the clinic model which helps our hospitals to be filled up is helping us a lot. So, for us it is not a saturated market but for other people maybe, it is getting saturated. But more importantly, when you look at Saudi market, which is having significant potential for hospitals as well as for clinics, the total population of Saudi Arabia is 30 million when compared to all other GCC countries together which is 20 million. So, the private healthcare facilities are very minimal, there are nearly 250 government hospitals and just 40 private hospitals. So, the government is now trying to push the healthcare to the private sector to reduce their expenditure, like other GCC countries. So, there are two opportunities: One is an asset light model where the government hospitals may become available for O&M basis as well as clinic opportunities or else you have to build something which will be capital intensive which we do not want to do even though it maybe CAPEX light model, it is going to take time also. So, I see a significant potential in Saudi as well as even UAE plus of course other small markets where we can go because we have the advantage of having a significant brand there which is having the trust of people.

Ashi Anand: A small follow up on that. Saudi given the fact that we face some issues in the past, do we believe that we largely been able to shift the model away from the government towards insurers to be confident to actually deploy significant capital into that market ?

Dr. Azad Moopen: One thing which I just want to tell you is that the hospitals in Saudi are doing extremely well. Ours was an exception which happened three years back because we bought this hospital from Saudi doctor who was having large amount of government business and it was a profitable business we are running that. Unfortunately, when the oil price went down, the government wanted to have a large haircut and that is what happened to us. It is not that hospitals in Saudi are not doing well. That is the market and that is the potential. Regarding pushing capital into Saudi, as I told you earlier, we are not looking at that model, what we are looking at is a model where government hospitals are now becoming available for operations management. If that opportunity

comes up without much capital, we will be able to get the benefit out of it.

Ashi Anand: On the Rs.950 crore CAPEX could you just split that between GCC and India?

Sreenath P. Reddy: Out of the Rs.950 crore CAPEX, the current year is Rs.650 crore and out of the Rs.650 crore, almost Rs.350 crore will be in the GCC region and Rs.300 crore will be in the India region.

Moderator: Thank you. We will take the next question from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: Firstly, on the numbers part of it, if you can please provide some guidance for the current fiscal in terms of top line and margin growth? Secondly, while your absolute debt has gone up, the finance cost has declined. Can you please explain that? Thirdly for people based out of India, it is difficult to fathom the risk involved with the GCC countries, if you could please highlight that?

Sreenath P. Reddy: Generally, we do not give guidance in terms of revenue and EBITDA but I can say that it will be much better compared to last year. On the second part of it, on the debt, as I was telling you the incremental debt is going to be only Rs.150 crore. But because of the seasonality at this point of time the debt is slightly more than that which will get offset as soon as our cash accruals start coming in, in the subsequent quarters. So, on a full year basis if you see the debt will increase, it is likely to be in that range, additional increase of around Rs.150 crore.

Dr. Azad Moopen: If you look at the risk in GCC, we have been there for 30-years and we have not faced any risk except this risk in Saudi that happened because of the inability of the government to pay. We do not anticipate any risk as such, in fact, we are much more comfortable doing business in an environment where everything is transparent.. One additional thing which I wanted to tell you is that there was a perceived risk by some of the investors who asked us this question when we went for IPO that we have actually in some of the geographies like UAE where we have major assets, we had at that point through arrangement in the Dubai international financial center, we were holding the beneficial interest of 100%, actually the legal was 49%. But the government of UAE has announced about four months back that they are giving 100% ownership to foreign companies and that was announced by the prime minister after a cabinet decision. So, we as such do not find any risk. The risk is like any country having a risk we find it very comfortable and 30-years of our experience has been like that.

C Srihari: My second part was, your interest cost has declined YoY in Q1 despite an increase in the absolute debt. So, how do you explain that?

Sreenath P. Reddy: If you look at last year we had significant debt of Rs.564 crore, which we repaid from the IPO proceeds.

C Srihari: Your net debt has gone up, actually your cash position has declined?

Kartik Thakrar: That is because in the last year first quarter there was processing fee of the debt which has kicked in. So, we had taken $300 million debt in the last year in Q1 and the processing fee of that full $300 million debt was charged off in the first quarter. That is the reason you will see despite of almost similar debt or slightly increased debt the cost of that would have come down. Second thing is in the financials there is a cost of LIBOR which we normally hedge, that also comes in which also is one small factor but it is not that material but the first factor of processing fees is more.

C Srihari: So, the base was higher last year?

Kartik Thakrar: Yes, it was higher last year.

Sreenath P. Reddy: what we can understand from your question is that because we are looking from QoQ like what Mr. Kartik said, that is the reason, but on a full year basis, this cost will be much-much lower compared to the full year of the previous year.

C Srihari: Gross Debt figure?

Sreenath P. Reddy: Gross debt as of 31st March 2018 stood at Rs.2,241crore and as at 30th June 2018 it was Rs.2,426 crore.

Moderator: Thank you. We will take the next question from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: The kind of ARPOB growth which we are seeing in our India hospitals, how much leverage do we have in terms of increasing the prices going forward from here and for how long can we see this high 16-17% kind of ARPOB growth be sustained in India hospitals?

Sreenath P. Reddy: ARPOB in India we are looking at year-on-year of around 14-15% increase, around 50% of that will come through price and remaining 50% will come through a combination of volume and case mix, so roughly around in the range of 15% you can expect year-on-year.

Pragya Vishwakarma: This is sustainable for next two, three years easily?

Sreenath P. Reddy: Yes, we should be able to achieve around 14-15% in terms of ARPOB growth every year for the at least next two, three years.

Pragya Vishwakarma: One question I had was on the GCC business. In terms of our competitive strength over there, how are we placed and how is the industry structured, I am not aware of how the GCC hospital industry works, so if you can give your comments on that?

Kartik Thakrar: In GCC, one of the USP we have is providing a complete ecosystem to the patients starting from the outpatient clinic set up attached with the pharmacy and then the reference from the clinic going to the hospital. Now, this particular USP is not seen in any other players over there, none of the players have got presence in all the three verticals in the size and manner which we have. Second USP is the brand segmentation. We have completely segmented the population in three categories – Premium, Mid and Low End. We have different brands, different tariffs,

different models to offer to the patients in all these three brands. Premium is Medcare, mid is Aster and low is Access. All these three brands are proven, tested and made profitable. So, these are the two major USP which we are seeing in the GCC. Third one is that we have presence across all the six GCC countries which also have some synergies between them but depending on the population, the large presence is definitely there in UAE and less in other GCC countries. Saudi is the one which has got potential to have equal or maybe larger presence over the next three to five years.

Dr. Azad Moopen: Just adding on to that, one of the things that his happening in GCC and which has happened in some of the countries is insurance becoming mandatory, so insurance company is actually the payer. What is happening is that for insurance companies it becomes much more easier to deal with somebody like us where we can provide the clinics, pharmacies and hospitals as well as the company has 1,000 employees, of which maybe only very few are top executives, we can provide the Medcare level of care and below that say 20% are the office level white collar job, we can provide them the Access Care and below that it is 70-80% are blue collar workers, we can provide them the access care. This is not present for others and so we have the confidence of the insurance company which is a major competitive advantage for us. The market share we would not be able to give you a clear picture because there is no correct data available but from many sources like our suppliers as well as some others, we understand that in most of the sectors, we have 20-25% of the market share.

Pragya Vishwakarma: Sir, my last question is on your clinics and pharmacies business. So, before this oil crisis happened, in clinics, we were making I think around 16-17% EBITDA margins and now as we complete these two to three years of maturity in our clinics expansion which we have done, how soon do you think can we attain these kinds of margins again? On the pharmacy side, how are you increasing your profitability? As you said there is maybe change in product mix, so if you can give more detail comment on that side?

Kartik Thakrar: First to delink the oil price with the clinic margins and business initiative, there is no direct relationship between the two. I think the clinic margin which we are comparing at a stable state before three years was the period when mandatory insurance was not rolled out. Because of the mandatory insurance, there has been small impact on the pricing or per patient realization but which has been compensated heavily by the volumes. That is the reason we are seeing some depression in the margins in the current year. We have been giving guidance for a stable state clinic margin of around 18% and presently we are doing around 13% margin in the clinics which over a period of next two years we should be crossing the 16%-17% margin. There will always be a small depression in the clinic margin because of the new units which keep on coming every year. But still at a blended level we will be doing around 16-18% margin in the clinic vertical. With regard to pharmacy, we have been able to increase the revenue mix of high margin items as compared to the branded items. So, over the last two years, one is our own product, white label also has increased from a very negligible percentage to close to double digit percentage now as percentage of the total revenue. Second thing is because of the mandatory insurance the insurance companies are pushing more of generic brand rather

than the European or Western brands which also has a higher margin than the branded medicines. Because of these two factors, margin is seen going upward in the last two years and we have been steadily maintaining at around 10% margin at a year at annual level.

Moderator: Thank you. We will take the next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the receivables. How much are the receivables and from which region do they pertain to?

Kartik Thakrar: Receivables are mostly pertaining to the GCC region with close to 85-90% of the revenue coming from insurance in the UAE region.The receivables will tend to be high, we have approximately receivable days of close to four months, so that is what constitute the receivable to the extent which we are seeing in the balance sheet.

Charulata Gaidhani: So, four months is quite high compared to the other Indian company?

Sreenath P. Reddy: That is because if you look at GCC, almost 90% of the business in the hospitals and clinics and around 50% in the pharmacies is through insurance, so it is all credit business. That being the case, receivables tend to be anywhere between 90-days to 120-days cycle.

Kartik Thakrar: That is industry cycle also. If you see compared to any other players who are publishing the results, the receivable days are very much in line with the industry standard, in fact, there are small players who might be having receivable days of probably close to six months also, but we being a large player, at the same time we have processes and recovery mechanisms already set , which is keeping us in the range of around 120-days.

Sreenath P. Reddy: In India it is something different because India is mainly a cash market and less of insurance. So, therefore in our business because GCC forms a significant percentage of the total business these receivables will always remain high compared to other Indian players.

Charulata Gaidhani: My second question pertains to what is the CAPEX per bed for a hospital and how much CAPEX would you incur per clinic?

Sreenath P. Reddy: CAPEX per bed per hospital, if you look at in India, roughly including the land and building will be around Rs.80 lakhs per bed, but however, we have decided to go on an asset-light model, then it will be around 50% of that Rs.80 lakhs, which will be around Rs.40 lakhs per bed. When I say asset-light, we will not own the land and building, but we will only equip the hospital. So, on a like-to-like basis if you look in the GCC, the cost per bed will be 2x more, what is Rs.40 lakhs in India on an asset-light model will be around Rs.80 lakhs over there on asset-light model.

Kartik Thakrar: For the clinic, average clinic size will be around 5000 to 7000 sq.ft. with around five to six consultations room and the cost which we incur, we do not own real estate at all, so only the equipments as well interior fit out cost will be there and that would be in the range of around Rs.6 to 8 crore for setting up this unit, and for the first year losses another Rs.1

crore or Rs.1.5 crore, so overall between Rs.8 to 10 crore, the cost per clinic.

Charulata Gaidhani: If I may ask by when do you see the profitability going up over to what it was around two years back?

Sreenath P. Reddy: I think you are talking about in terms of margin. In the next one-and-a-half years, we should be back to where we were two years back on the EBITDA margin, but definitely with higher profit mainly being contributed by all these new units. PAT margin also will have similar trends.

Kartik Thakrar: I think in the year FY21, FY22 is when we should be able to go back in this EBITDA as well as PAT margin.

Moderator: Thank you. The next question is from the line of Jigar Jatakia, an individual investor. Please go ahead.

Jigar Jatakia: I have three questions: One is due to the recent regulations in the Gulf countries allowing 100% foreign investment, do we see any change in the corporate structure?

Dr. Azad Moopen: They have announced this about three months back and now they are coming out with the rules and regulations.. So, one thing which was not clear was whether this is having retrospective effect or this is prospective. We are hoping to get this with retrospective effect and if we get it, it will be the best, even otherwise it is going to be for our future,we can have the ownership straightaway without any complicated structuring.

Jigar Jatakia: Second question is with regards to the Kannur hospital in Kerala. Due to the current situations, do we see the timeline for the completion getting extended or something like that?

Dr. Harish Pillai: If you are referring to the current weather phenomena, we are in the fag end of southwest monsoon, the current state is supposed to disappear by next week by Monday or Tuesday, but when you look at the project per se, absolutely, no delay because we had already finished the civil structure, right now the interior fit out is taking place, which is not dependent on any kind of weather element. So, we are quite confident that the project would be commissioned as expected.

Sreenath Reddy: We are expecting the same in Q4.

Dr. Harish Pillai: Yes. Regarding this Kannur hospital, we are already in the phase of identifying top talent and the recruitment is also going on, the leadership team has already been identified, so that is why we are very confident of meeting the commissioning timelines.

Jigar Jatakia: My third question is with regards to the minimum wages in Kerala. So, I guess there was one previous question also being asked, but just would like to confirm on that, in Kerala how much was the total wage bill in Q4 and Q1 now in Kerala hospitals, if you can give just a broad number. Just want to know how much is the increase due to the wage impact, not due to the increase in the number of employees?

Sreenath P. Reddy: Kerala hospitals we do not have the impact of the wage bill, we can provide to you offline, but broad term the wage increase for at least 50% of the staff has gone up by around 50%. That is non-doctor staff. This has got nothing to do with doctors.

Dr. Azad Moopen: If you look at our total HR cost, out of 100, 45 is our total HR cost, 25 goes towards doctors and 20 goes towards the other staff, of that 20, 10% of people might have got 50% increase, that is nurses and some other staff who were included in the minimum waging. So, there is an impact that is not as bad as what we thought. Earlier the amounts being mentioned was very high and there was a situation and finally what came in the ultimate act which is again stayed by the high court, but we are paying thinking that nurses and other staff require an increase even without any case or any agitation, so we have increased it to that level, but it is already stayed. What I was telling is that this is producing some impact, actually we have already incorporated and we are looking at some slight changes in the tariff which should take care of that.

Jigar Jatakia: Just one more follow up on that. There was a Supreme Court verdict a year or two years back which said around Rs. 20,000 some number like that for the nurses to be minimum wage. Does that have any additional impact over and above what current status is on Kerala minimum wages?

Dr. Harish Pillai: What you are referring to is notification which is based on bed categorization, the Rs. 20,000 what you are referring to is for a 50-bed hospital. We have two flagship hospitals in Kochi and in Calicut, which comes under the category of less than 500-beds, so the slab is different, and then we have a second-tier hospital in Kottakkal which slab is different. Because of our proactive strategy we could mitigate the increased cost by tweaking our tariff structure. The advantage which we have right now the whole market is adjusted to this new minimum wages and we have not found any kind of operational difficulties or change in the business model on account of that.

Sreenath P. Reddy: So, to answer your question, it is not Rs.20,000, it will be around Rs. 24,000.

Moderator: Thank you. We take the last question from the line of Rupen Masalia from RN Associate. Please go ahead.

Rupen Masalia: Just one housekeeping query like depreciation sequentially it has gone up from around Rs.55-odd crore in Q4 FY18 to around Rs.73-odd crore in Q1. If you can elaborate on it?

Kartik Tharar: That would be mainly because in Q4 many of the equipments which are purchased for the two hospitals last year that would not have full year of depreciation. Secondly, the rate applied will be for half year because many of them will be coming after six years. So, Q4 may not be comparable with the Q1 because of the past year of depreciation coming on in some of this equipment, while in the current year it will be applied at full rate.

Moderator: Thank you. With this I now hand the conference over to the management for their closing comments. Over to you, sir.

Dr. Azad Moopen: Thanks a lot. It has been pleasure interacting with you over the call. We thank you for taking time out and engaging with us today. We value your continued interest and support. If you have any further questions or would like to know more about the company, kindly reach our 'Investors Relations' desk. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Aster DM Healthcare, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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