



Aster DM Healthcare Limited
Q2 FY'22 Results Earnings Conference Call

November 12, 2021

Management: **Dr. Azad Moopen – Chairman & Managing Director**
 Ms. Alisha Moopen – Deputy Managing Director
 Mr. Sreenath Reddy – Group Chief Financial Officer
 Mr. Amitabh Johri – Chief Financial Officer, GCC
 Mr. Sunil Kumar M R – Head of Finance, India

Moderator: **Mr. Saurabh Paliwal – Head, Investor Relations**

Saurabh Paliwal:

Good morning, ladies and gentlemen, my name is Saurabh Paliwal and I welcome you to Aster DM Healthcare's Q2 FY 22 Earnings Call. We declared the results last evening. Hope you've got a chance to review them along with the other materials which were released to the stock exchange and uploaded on the company website.

Today, to discuss the results and the business performance for this quarter as well as future outlook, we have today, the senior management participants in the call. It includes Dr. Azad Moopen – Chairman and Managing Director; Ms. Alisha Moopen – Deputy Managing Director; Mr. Sreenath Reddy – Group CFO; Mr. Amitabh Johri – CFO, GCC and Mr. Sunil Kumar M R – Head of Finance, Aster India.

Before we get started, I would like to lay out some ground rules for the call. All external attendees will be in the listen-only mode for the duration of call. We will start the call with the opening remarks by management, followed by a Q&A session. During the Q&A session, you will get a chance to ask a question by raising your hands; by clicking on the 'raise hand' icon in the Zoom application at the bottom of the window. We will call out your name, after which your line will be unmuted and you'll be able to ask your questions. We request you to please limit your questions to two per participant at a time and join the line again by raising your hand. Post the completion of your query being answered, we will lower your raised hand.

Finally, we would like to remind you regarding the Safe Harbor related to this earnings conference call. Certain statements in this meeting that are not historical facts might be forward looking statements. Such forward looking statements are subject to certain risks and uncertainties like government actions, local, political or economic developments, technological risks and many other factors that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. Aster DM Healthcare Limited will not be in any way responsible for any actions taken based on such statements and undertakes no obligation to publicly update these forward looking statements to reflect subsequent events or circumstances.

With this, I will ask Dr. Moopen to start with his opening remarks. Over to you, sir.

Dr. Azad Moopen:

Good morning everyone. Thank you very much, Saurabh. Thank you for joining our FY 22 Q2 earnings call today. The Q2 has been one of the better quarters as the global COVID cases were on the lower side. The recoveries have improved significantly while the death rates have declined. As vaccination rollout has picked up pace across India and other countries across the globe, we have seen economies on a recovery path with life slowly returning to normal. This is reflected in the better performance at Aster with improvement in both outpatient and in-patient numbers at our hospitals and higher footfalls across our pharmacies and clinics, both in GCC as well as in India.

In GCC, it is a positive story with COVID cases at a minimum and businesses coming back to their pre-COVID times. The Expo 2020 is expected to be a game changer in UAE and neighbouring countries as it brings the world together on a single platform and provides confidence to the world to move beyond the shackles of the pandemic. We are utilizing the opportunity through our presence at the Expo 2020 venue, as well as other parts of Dubai, providing medical care and products to the visitors and residents.

India has also seen improvement in the business climate, with reduction in COVID cases due to increase in vaccinations. More than 1 billion doses of COVID-19 vaccine have been administered, which is commendable for a country of our size and complexity. In this backdrop, the India business continues to deliver good performance in this quarter too.

During the second quarter, at consolidated level, we posted a revenue of Rs. 2,504 crore which is an increase of 12% when compared with the same period, last financial year. The EBITDA in Q2 was Rs. 343 crore, an increase of 26% when compared with Q2 FY 21. The profit after tax (Post-NCI) for Q2 was Rs. 107 crore, an increase of 225% when compared with the same period, last financial year.

In the GCC region, revenues grew 4% Y-o-Y and sequentially with growth in hospital revenues by 2% over FY 21 Q2 and 4% over FY 22 Q1. This is indicative of recovery and growth of the business environment in the GCC region. EBITDA margins stood at 12.7%, which is an improvement over the same period last year.

Aster India business continues to improve exceedingly well and has started to deliver very good performance. The revenue from India operations grew 47% to Rs. 609 crore and EBITDA increased by 111% to Rs. 102 crore year-on-year. EBITDA margins stood at 16.8%, an improvement over the same period last year. It is good to report that most of our hospitals are now reaching maturity with ramping up of occupancy— As a result of this, revenue, EBITDA and EBITDA Margin have seen a marked improvement.

As mentioned last quarter, the focus going forward as a strategy is to expand the India business further. We have put in place a new structure with 5 clusters namely the Kerala Cluster, Karnataka and Maharashtra Cluster, Andhra and Telangana Cluster, Pharmacy Cluster and the Aster Lab Cluster with independent business heads driving these businesses. This has produced significant traction for the business. The strategy is to build larger facilities in Metros and Tier 1 cities while developing affordable healthcare options in smaller towns and cities. India growth strategy would be through a combination of focused cluster approaches, new revenue streams and inorganic growth opportunities. I am now directly involved in the India business after the exit of our India CEO Dr. Harish Pillai recently and will be devoting much of my time overseeing the India business in coming years with the various India business heads directly reporting to

me. We are also planning to have more capital allocation to India in coming years and hope to take the India share of the business to around 40% in near future.

In line with the India focused growth strategy, I am happy to report that we have launched a dedicated 'Women and Children Wing' in Kottakkal, Kerala adding 77 beds which consists of 28 Neonatal Intensive Care Unit (NICU) beds and 6 Pediatric Intensive Care Unit (PICU) beds. This increases the existing 244 capacity beds at Kottakkal to 321. This launch is a part of our strategy to provide specialized care for women and children in boutique facilities attached to our main hospitals. As part of Aster Aadhar expansion at Kolhapur, Maharashtra we have operationalized 24 beds in October and the remaining beds will be operationalized in the next few months. In Kerala, we are exploring capacity expansion at our flagship hospitals - Aster Medcity, Aster MIMS Kozhikode and Aster MIMS Kannur. We have found that adding beds to existing hospitals will be much better economically when compared to building any new hospital.

Our diagnostics vertical, Aster Labs has established its footprint in the states of Karnataka and Kerala by setting up 1 reference lab, 6 satellite labs and 31 patient experience centers as on 30th September 2021. We plan to reach 21 labs and 200 experience centers by the end of the current financial year. We are also in the process of establishing a central processing lab for GCC business in Dubai.

We have ventured into the wholesale pharmacy business by acquiring a majority stake in the Hindustan Pharma Distributors Private Limited. Through this wholesale pharmacy vertical, we intend to optimize our supply chain function which will benefit our hospitals immensely. Aster has entered into an agreement with Alfaone Retail Pharmacies Private Limited (ARPL) to license the 'Aster Pharmacy' brand to run the retail stores and online pharmacy operations. ARPL has launched 55 pharmacies in Karnataka & Kerala and expects to reach around 130 pharmacies by the end of this financial year.

Now, as part of our ESG initiatives and efforts for lowering our carbon footprint, we have decided to install solar energy panels across four hospitals in the UAE. Once implemented, the total solar power generation will help reduce carbon dioxide generation by 1,774 metric tonnes annually. In India, many of our hospitals have already undertaken multiple initiatives to conserve water and electricity. At 11 of our hospitals, we reduced electricity consumption vis a vis last year and saved 5.7 GWh of electricity. Our water consumption was also reduced across 9 hospitals, and we saved 70,000 Kilo litres of water, and almost 1 million litres of wastewater was reused post-treatment. We initiated a 2,358 MWh renewable solar PV project in the UAE and contracted an ESCO to undertake energy efficiency projects at our hospitals. This is beginning of our journey to make our facilities energy efficient and provide a greener

environment to our patients and the planet and that is something we are looking at in a focused way.

Our commitment to the attainment of UN Sustainable Development Goals is reflected through the remarkable Environmental, Social and Governance performance achieved in these testing times. I feel humbled and proud of our Aster staff, Aster Volunteers (both internal and external), well-wishers and supporters who made a significant effort towards supporting our communities during the time of Covid crisis. Aster received multiple recognitions in CSR and Sustainability front, including the Excellence in CSR Awards (6 Stars) from IBPC (International Best Practice Certification) - New Zealand, Arabia CSR Awards and Dubai CSR label. We have been continuously recognized by the Government in India for our waste management practices and pollution control.

On the digital transformation front, Aster DM Healthcare has launched a personal healthcare assistance application called '1Aster' in UAE recently. The app offers a one-platform solution for patients to book an appointment, consult a doctor using the video feature as per their availability, access their reports and prescriptions, all from the comfort of their homes or work.

I now request the Deputy Managing Director, Alisha Moopen, to talk to you more on the GCC business and the Digital Transformation and other strategic initiatives undertaken by Aster. Thank you very much.

Alisha Moopen:

Thank you, Chairman. Good morning everybody. While the Quarter saw a positive trend of Covid recovery and business moving towards near normal, in parallel, we are also progressing towards making a lot of achievements on our journey of making Aster more future ready and bettering the experience of patient care.

In terms of the financial performance in the first half of FY 22, we saw the GCC revenue grow by 13% year over year. This is indicative of the recovery and growth of the business environment in the region this financial year. Hospitals led this with a revenue growth of 12%, EBITDA margin for the hospitals is approximately 16% during the half year which is indicative of better performance as well as occupancy. Revenue from clinics increased by 28% and EBITDA increasing by 144% over H1 FY 21. Mr. Sreenath, our Group CFO will be covering the financials in further detail later. Our focus for the next 2 quarters will be more on the pharmacies where the revenue growth has been more muted with growth of only 1% during the quarter over similar period, last year which was perhaps lower than our expectations. We do have a strategy that involves both in-store as well as digital growth starting from FY 23 Q1.

On our Digital Journey, like Chairman mentioned, we have launched the first version of our App in UAE. This will allow us to book appointments, conduct virtual consults and provide a much

more wholesome experience for our patient base. We launched this on both the Android as well as the iOS platforms and have been seeing good acceptance and consumption from our patient base as well as doctors. We are actively working towards greater patient engagement through a Digital Customer Relationship Management (DCRM) module launched across our Clinics, Hospitals and Pharmacies which allows a seamless experience for the patients across all modes of engagement, i.e., in person or through our app/portal.

We are also actively working towards launching our e-pharmacy in Q4 and bolster our offerings in patient care. We have seen the shift to home delivery sort of really takes steam and gather momentum over the last one year as well.

We are also building a core digital team, with the CEO being hired in the last quarter and our Engineering Team and Product Team being engaged this Quarter onwards. We are committed to invest in making Aster future ready. Soon after UAE, we expect all these offerings to also be mirrored in India in early part of next year. We have till date invested approximately Rs. 34 crore in Digital Investments. We also saw revenues of approximately Rs. 18 crore from our Digital Vertical in the last quarter.

Our digital journey is also oriented towards making our process a lot more efficient. Despite Covid related setbacks, we have been able to transition parts of our Revenue Cycle Management, Finance, HR and Procurement to India based Global Delivery Centers. We right now have more than 250 people working from India supporting our UAE business. Besides the process efficiencies, we have been able to leverage the Human Capital in India for better talent engagement as well as cost base. Supported by our consultants Bain, and with significant financial and Human Resources being deployed, we will soon be one among the most digitally transformed healthcare providers in GCC and India.

I now request our Group CFO, Sreenath Reddy to take you through the details of the financial and segmental performance of the quarter.

Sreenath Reddy:

Thank you, Alisha. Good day everyone. Q2 FY 22 has been a good quarter for Aster. We have also seen major improvements in India numbers which is a sign of our strategy going in the right direction.

In terms of performance for the quarter, our revenue from operations has increased by 12% to Rs. 2,504 crore compared to Rs. 2,243 crore Y-o-Y and sequentially by 6%. India revenues have increased by 47% Y-o-Y and 11% sequentially to Rs. 609 crore. GCC revenue has increased to Rs. 1,896 crore, an increase of 4% Y-o-Y as well as sequentially. The reason for a marginal growth in GCC revenue is due to higher revenue base in the previous year on account of the

pent up demand due to Covid in Q2 of last year. GCC revenue growth when compared to pre Covid period of FY 20 is 17%.

Consolidated EBITDA for the quarter is Rs. 343 crore, an increase of 26% Y-o-Y and 22% sequentially. India EBITDA has increased by 111% Y-o-Y and 44% sequentially to Rs. 102 crore. GCC EBITDA for the quarter was Rs. 241 crore, an 8% increase Y-o-Y and 15% increase sequentially. EBITDA margin is 13.7% as against 12.1% in the same quarter of the previous year, an increase of 160 basis points. PAT (Post-NCI) increased by 225% to Rs. 107 crore as compared to Rs. 33 crore during the same period, last year.

Coming to half year performance, revenue from operations increased from Rs. 3,990 crore to Rs. 4,876 crore, a 22% increase Y-o-Y. India revenue contribution has increased to 24% compared to 18% last year. EBITDA increased by 51% Y-o-Y from Rs. 414 crore to Rs. 624 crore. PAT (Post NCI) is Rs. 151 crore compared to a loss of Rs. 50 crore during the same period, last year.

In terms of segmental performance for the quarter, GCC Hospital revenue is Rs. 878 crore, an increase of 2% Y-o-Y and 4% sequentially. EBITDA increased by 16% Y-o-Y to Rs. 147 crore and the EBITDA margin increased from 14.8% to 16.7%.

GCC clinic revenue has increased by 10% Y-o-Y to Rs. 592 crore and sequential increase in revenue is 8%. EBITDA is Rs. 98 crore, an increase of 48% Y-o-Y and the EBITDA margin increased from 12.3% to 16.6%.

GCC pharmacies revenue for Q2 FY 22 is Rs. 520 crore, an increase of 1% Y-o-Y. EBITDA for the segment is Rs. 57 crore compared to Rs. 64 crore in Q2 FY21. The decline is mainly on account of change in revenue mix, additional hiring of human resources and increase in marketing spend.

The group's net debt as at 30th September 2021 is Rs. 1,861 crore compared to Rs. 2,004 crore as at 31st March 2021, a reduction of Rs. 142 crores. India net debt stands at Rs. 301 crore compared to Rs. 306 crore as at 31st March 2021 and the GCC net debt stands at USD 210 million compared to USD 231 million as at 31st March 2021.

The capex incurred during the first half of the year is Rs. 214 crore. In addition, another Rs. 10 crore is incurred towards partial payout of consideration for acquisition of wholesale pharmacy business in India.

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 now request Saurabh to open the Q&A session. Thank you.

Saurabh Paliwal: Thank you Sreenath. I would request everyone to please use the 'raise hand' icon at the bottom of your screen to ask questions. We will wait while the queue assembles. I also request the participants to rename themselves, along with their company name, so that we can accurately capture the information as part of our transcript which will roll out in the next week or so. I will wait for a few minutes for the queue to assemble. We will start with the first question which is from the line of Mehul Sheth from Axis Capital.

Mehul Sheth: **Thank you for the opportunity. First question on your digital initiatives. Can you talk more about like, what are your targets in near term, and you have mentioned some revenue number for the current quarter? Can you also quantify that and your long-term target for this digital initiative?**

Alisha Moopen: Yes, Mehul. So I think, I mentioned about the revenue that we have clocked in over the last three months, I think, around 18 crore. This is largely related to our Aster Online, our online website pharmacy. So, we have been seeing a lot of traction where people instead of coming to the pharmacy are ordering online and then we sort of have the delivery that happens within 24 to 48 hours. What we have added also is where you can upload the prescriptions and we are working with a lot of the aggregators in the region as well, so that we are placed in a large number of stores across, not just our own consumer and customer base but also of the aggregators; so we have been seen that traction. So when you look at the near term targets, what we are trying to look at is largely around the number of downloads for the app and kind of build that number. We do have some goals, which are set as far as revenue but it's a more of a longer term goal that in the next four years, we want almost 15% of our revenue to actually come from online. Because right now, if you look out of the 20 odd million patients that we serve, 18 million of these patients are either outpatient consultations which are happening in the clinics or they are pharmacy visits. So we want to be able to move up large chunk of these to online, so a bit of cannibalizing our own business but as well as kind of be able to open up to a large segment that we don't serve right now. So hopefully over the next quarter, as we finished building the digital as when and bringing on the e-pharmacy into the portal will be a key part of it, so that it's all in one place. Right now, people are going to the online website and that's where the digital revenues coming from largely.

Mehul Sheth: **So, can you give your current user number, and maybe some near term target user on your digital app that you are targeting?**

Alisha Moopen: So, just to go back over the last one year, we've on boarded almost 1000 doctors across the platform but now, since a new app has been launched, we launched it only in around five of our clinics. We will be finishing it across 50 of our clinics by February this year and then the e-pharmacy will go online. Amitabh, do you want to just come in terms of specifically the number of downloads that we are expecting?

Amitabh Johri: Sure Alisha. Thank you very much. I think, where we are today, since we have just launched our viable product, and it is going through testing. We are observing good downloads, at least the last I checked, we were seeing almost 600-700 downloads happening on a regular basis; so it is being tested right now. Since what Alisha called out was that, we are working on a smaller scale right now, only five clinics which are not representative of the scale of operations that will follow through. But our endeavor over here is to make it more scalable and accordingly once we launch it across all the clinics and hospitals, we expect this number to build up significantly.

Mehul Sheth: **One question on your business in GCC for this clinic as well as pharmacy side. Specifically in clinics, if you see there is a good volume growth, but your EBITDA margin is declined sequentially. Any specific reason for that?**

Dr. Azad Moopen: Alisha, you would like to answer that?

Alisha Moopen: Fair proportion of our revenue from the clinics is coming from PCR tests. The cost per test has come down, so there has been pressures, as far as how much you can charge for test, just market forces which has eaten into the margin a little bit when you look at it sequentially from the prior quarter. But it's still a quite healthy margin we're seeing in the clinics business but of course, because of the revenue drop in terms of the absolute number per test having gone down, you'll see a little bit of that hit on the margin.

Dr. Azad Moopen: I just wanted to add here what's happening due to Covid which is changing gradually is that people were not getting infections, which is a good thing and mostly the clinic visits, as well as the visit to the pharmacies, to the retail happens when they have minor problems. So, two things: one, some of this is being done now online on virtual consultation. Second, people especially children don't get sick, which is extremely good, infections are much lower and people don't come for ENT or pediatric problems or respiratory infections as it was earlier. So that is the reason why the clinic and pharmacies are not showing that growth in footfall as well as the EBITDA margins because the business they have now in the clinics is mostly the PCR testing and related revenues.

Sreenath Reddy: Mehul, adding to what Doctor said, because at this point of time in the clinics, we have got RT-PCR tests and the pricing on those tests are coming down so thereby, even the margin in terms of the Covid revenue keeps going down. What would happen is that over a period of time, the Covid revenue will keep reducing but however as Doctor and Alisha said, our regular business will keep going up.

Mehul Sheth: **And just want to check that you have undertaken that segregation of patients based on your three brands. So that is completed or that is still going on?**

Dr. Azad Moopen: So we have these three brands: the main brand which is the mid segment brand Aster, we have the upper segment brand Medicare and we also have the lower segment which is Access. This is very stabilized in UAE when you look at, but there has been a reduction in the blue collar workers, because during the Covid, people have gone back to their own countries, but this is stabilized. Answering your question, in UAE, especially in Dubai, this is a stabilized structure. Now we are looking at the opportunity to expand this brand or this segregation into other countries, including India. So apart from the Aster brand, we are looking at the opportunity, especially for the Access brand to be brought into India, as we go forward.

Mehul Sheth: Okay, thank you, I have few more but I will join back in the queue.

Saurabh Paliwal: Thank you Mehul. The next question is from Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: **Thank you for taking my question. The first one is on pharmacies. I think Alisha, in her opening remarks talked about pivoting the strategy, both in store and digital. I think digital, you briefly touched upon, but if I were to look at the performance, it's underperforming for several quarters now, even top line growth and on margins. I know some of it could be down to footfalls and Covid. But just want to understand, what is the strategy going forward for the GCC pharmacy piece and what could be an outlook we can look at from a fiscal 23 perspective?**

Alisha Moopen: Thank you Shyam. So you're right. We've been seeing a good momentum for the clinics and hospitals and like Chairman mentioned, it has been largely in the clinics, because of the RT-PCR and the volume of business. Earlier, if you look at the model we used to have a large part of our business for pharmacies, which are coming in from the clinics. Now, there is no knock on impact of that because the clinic visit is limited to the RT-PCR. So what we had earlier was almost 75% of pharma sales in our pharmacies and 25% of non-pharma sales. So, when I briefly touched upon the in-store strategy, it is to kind of flip these a bit or change this ratio because there is a huge opportunity for us where independent standalone pharmacies should be able to reach closer to at least scale up to 30-40% on the non-pharma because people are having frequent visits to our pharmacies. There are a lot of non-pharma products which maybe we didn't actively try to sort of include as part of the basket, even though we are stocking this. So, in the last six months, what we have been doing is really working with our talent in terms of training, in terms of health coaching on how we sort of make sure that Aster Pharmacy becomes sort of your one stop shop for a large number of products other than just your prescription medicine. So, really moving away from just being filling your prescription, to be able to give all the vitamins, all the supplements, all the things that you're buying outside of the prescription. So, that's taking a little bit longer because if people were used to just bringing in the prescription and filling that and if people picked up other things that constituted the 20-25% of the remaining bucket, we would be fulfilling. So that's really a major focus, where we

really want to be moving into a larger part of non-pharma which helps us do a lot more cash business, helps our working capital. We sort of improve our working capital, the ratio of insurance versus cash. We want to be able to shift that as well with it and you have a higher margin on the non-pharma business, so I think it helps us, overall. So the goal is, we try to go back to the Aster Pharmacy having around a 10-11% margin. Again, when you look at GCC, it is a very seasonal business. So, Q3 and Q4 is going to be a much better quarter anyways with everything that we worked on over the last six months plus the recovery in this market, plus the footfall and retail already doing well. We do expect by Q4 that all these work that we've done on the ground will also start showing the shift on these ratios. So that would be a key metric that we are following and watching and executing on the ground.

Shyam Srinivasan: **Very helpful. Second question is on the India business. Dr. Moopen, these numbers are very good, right, 18% margins. You know, we have moved into the high teen's kind of a margin trajectory. So how sustainable is it? Maybe there is an element of vaccine revenue in there. If we could strip that out and see what the core margins for us is? If you could help us understand and the outlook on the India businesses?**

Dr. Azad Moopen: So thank you. Answering your question broadly, India looks very bright for us. The occupancies have gone up and which we hope will sustain in spite of some small part of it coming from Covid in Kerala but in other states it's not there. But the overall occupancy and the margins; we hope that we'll be able to sustain that. So, the split between how much is Covid revenue and how it has affected the overall revenue; Sunil, who is our India head of finance will just give you an insight into that.

Sunil Kumar M R: Thank you Chairman. Hi Shyam. So here with respect to Covid revenue, specifically Covid vaccination revenue. Out of Rs. 609 crore, we have clocked in a revenue of Rs. 29.3 crore in Q2. Usually their margins are also somewhere between 20-22%. So that way, even if you remove the revenue and the costs, overall EBITDA margin will be similar around 17-18%. So there will be no major impact on that.

Sreenath Reddy: So Shyam, let me add to what Sunil has said. If you look at the total Covid business from India, for the quarter it is Rs. 73 crore which is 12% of the total revenue. So, this is something which is a combination of all - the RT-PCR test, then you have got the vaccination, then also the impatient admission which we had in Kerala. We saw that little bit of surge in Kerala, so that is something which includes that. But the thing is that, this is very minimal and we don't see the decline in this affecting us because our regular business is going on. And also, at this stage we don't have medical tourism. So naturally, once the Covid keeps going down, the capacity will get utilized by other specialties. So therefore, with Covid or without Covid, the current margins will be sustainable.

Shyam Srinivasan: **Sreenath, just one question on the occupancy at India. 70% is higher than what we have had, historically. Do you think going back to Dr. Moopen's comment, do you think this is a sustainable level? What were Covid occupancies in that 70% for 2Q?**

Sreenath Reddy: If you normalize, then the occupancy should be 65% and we expect it to be 65% in the current quarter i.e Q3. But however, you know very well that the Covid revenue in terms of the revenue per occupied bed is much lower. So thereby, even though the occupancy will be lower because this occupancy will be driven mostly by the non Covid patients. We expect the margins to be in the same range. Revenues could vary a little bit here and there, but at least the margins; we will be able to sustain the margins. Occupancy may not remain at 70%, it will be somewhere around 65-66%. Few more months to go, we'll have to wait and see.

Shyam Srinivasan: Got it. Thank you and all the best.

Saurabh Paliwal: The next question is from Kunal Sharma from SMC Private Wealth.

Kunal Sharma: **Good morning team. So, the first question; could please throw some light on the capital allocation policy? Are we planning to distribute dividend going forward on the same?**

Sreenath Reddy: In terms of capital allocation, the way we are looking at is that India is a growth market. So, it definitely needs certain capital to be invested. But at least at GCC, we want to minimize the capital because our focus now is more towards India. So on a whole, we are looking at for the next 2-3 years, every year we are looking at around Rs. 580 crore of capital to be invested. Out of which, Rs. 280-300 crore will be for India and the rest will be for GCC and any international markets but majorly this capital will be invested into India. At the same time, our operational profits are also increasing. So, even though we have got this capital allocation which is required for us to invest into India because our focus; we want more revenues and profitability coming out of India. But at the same time, because of the increase cash from operations that will come in and also we are looking at reducing some part of the debt, we will still have free cash flows. It is not that this capex will be something on a continuous basis, but at least for next couple of years because our focus is on India, we would like to invest into India.

Kunal Sharma: **Fair enough. And on the second question, could you please throw some light on the diagnostic lab business? The industry is quite fragmented, and the other large players are quite doing well into the same, so what kind of stickiness do we have over other large players?**

Dr. Azad Moopen: The lab business, as we look at this, even now, the large, consolidated players are occupying only a very small percentage of the overall Indian market with four or five large players. So we hope that we will be able to have this presence, first in South and gradually go into other areas also. So, we have an advantage of having one external business, which is coming from the B2C

from the customers, which most of the other labs are doing but we also have an internal business where the hospital labs of the 27 hospitals, including the ones which we have in GCC. There could be a consolidation of that which will give us an additional margin on that. So, this is already a captive business which can be done by our central lab and which gives us an additional margin. Apart from that, of course, we are now rolling out our program which is depending on having the franchisee model of patient experience centers and we are starting only some of the labs. We hope that we will be able to have a large coverage and we will be able to have good B2C, B2B internal as well as B2B external with other hospitals.

Kunal Sharma: **What could be the margin we are expecting on the diagnostic lab? If you could shed some light on the same.**

Dr. Azad Moopen: Sunil, you want to give some color on that. The expected margins, maybe two or three years down the line.

Sunil Kumar M R: Comparing with the industry standards, even though we're just start up right now, we're just breaking even currently. And going forward with the industry standards, we know the best of the margins are above 25%. So our business plan also suggests that within next two to three years, we should be able to hit that margin of around 25% plus.

Dr. Azad Moopen: The best part of this is that it has very low capex when compared to hospitals and all. The capex requirement is very low. So that's a major advantage.

Kunal Sharma: Thank you.

Saurabh Paliwal: Kunal, are you done with your questions?

Kunal Sharma: Yes, I am done. Thank you.

Saurabh Paliwal: Thank you. The next question is from Rajat Srivastava. Would you please identify your company?

Rajat Srivastava: **This is Rajat from Incred AMC. Thanks for taking my question. So, my first question is on the GCC business. So, when I see the first half performance in GCC hospitals, I see that the newer hospitals are operating at a better EBITDA margin than the older ones. So, may I know why is this happening because it's counterintuitive since your older hospitals should be the ones which should be operating at better margins? That's my first question.**

Sreenath Reddy: Let me answer that. See the older hospital, we have got one facility at Saudi which unfortunately, we are not able to get good margins which has been a challenge. It's a large facility hospital close to 218 beds and that drags down the entire bucket of more than three

years. Maybe for that reason, we are also looking at Saudi at this point of time on how exactly we increase the revenues and the profitability over there but also we are thinking whether we need to exit Saudi as well. So these are on the cards, because if it's not meaningful, then we may take a decision to exit Saudi. Alisha, you would like to add something.

Alisha Moopen: Just that Sreenath. I guess Rajat, when you look at the portfolio we've got around 1,100 beds in GCC and out of that over 200 beds come from Saudi. And if that unit is not doing well, it really drags down the whole vintage units. But typically, all our hospitals other than Saudi one have been doing well. But what's also promising is that all the new units, like the Aster hospitals that have opened up are also doing well. So, the newer ones are showing a positive performance but it's really just the Saudi that's dragging down the vintage performance. So we are looking at some actions because we've been in that market for a long time. So we are looking at some strategies to potentially leave, if possible, as well.

Rajat Srivastava: **Okay, so can you give some sense like adjusted for Saudi, what would be the EBITDA margins for the rest of GCC?**

Sreenath Reddy: The EBITDA margin at Saudi is 1% on a revenue of Rs. 160 crores. So, you can do the math. That's for half year. For the quarter, Rs. 77 crore is the revenue and the EBITDA margin there is -4%. That is the reason as to why for the quarter, we see in that particular bucket, the margins are lower.

Rajat Srivastava: **That's helpful, Sreenath sir. Thank you. And secondly sir on the Dubai Expo, are you seeing any significant uptick in footfalls because of the Dubai Expo?**

Dr. Azad Moopen: Definitely there is an increase in the visitors who are coming into Dubai. One part is the Expo. There are many things which are happening in Dubai like the 10 year visa, then multiple re-entry five year visa. Then people coming to settle down here because they get visa being here on land and retirement visa being recently announced. So one part is Expo. It's mostly the visitors who won't be staying here but the others are coming and staying here and that's producing a significant opportunity for us in areas where we were not that active earlier like older people, after retirement people, people coming from other countries to settle down here because of the business-friendly policies. So we see significant opportunity in Dubai as we go forward.

Rajat Srivastava: Thanks. That's it from my side. Thank you so much.

Saurabh Paliwal: Thank you. The next question is from Tarang Agrawal. If you could identify your company name, please?

Tarang Agrawal: Hello everyone. This is Tarang Agrawal from Oldbridge Capital. Just two questions from my side. One, what is the sustenance capex for GCC as well as India, as we go forward?

Sreenath Reddy: You're asking for the maintenance capex, right?

Tarang Agrawal: Yes

Sreenath Reddy: So, on the maintenance capex, we are looking at close to Rs. 200 crore that is both between India and GCC.

Tarang Agrawal: Okay, sure. The second question is on Saudi. I mean you guys been in it since 2011. If you could give us some color as to what the headwinds for that asset are and secondly, considering how Saudi is the biggest market in GCC. Just wanting to understand how is the competitive intensity in that market and is the Sanad hospital at par with the Aster brand or is it at par with the Medcare brand?

Dr. Azad Moopen: So Saudi, we have been there for pretty long time, and it has been something which was pulling us down and we should accept that we have not done well there. That's one market where we have not been able to do well. So we have tried various methods, but unfortunately, we have not been able to. Whereas we have been quite successful in UAE as well as in other GCC countries like Oman, Qatar and all as well as in India. So when we look at it, there are multiple things because this hospital has been a long term care patient hospital which was acquired by us. It is not something which was built by us. So that hospital has got certain issues which will be continuing. Even though we call it Aster, we may not be able to take it to that. It is definitely not a Medcare model. So what we thought is that, looking at last five to six years, even though Saudi is a big market, we all know that, and that there are very successful players there. We thought that just with this hospital and we have been there for a long period. We thought, maybe we can utilize those funds better in areas where we have a good opportunity like India or even UAE and all. So we may be considering as we go forward to even exit that market or to get somebody who is locally; who is capable of being a strategic partner and helping us out. So these are the two thoughts that we have. More in favor of an exit if it is possible to get a significant amount and utilize it elsewhere.

Tarang Agrawal: Yes, sir. Sir, just if I were to go a bit granular. Is the location of the hospital a challenge or is the competitive intensity in the location quite high? Just some color on that. I understand that you are planning to maybe exit this asset but was just wanting to drill a little further as to what is happening there?

Dr. Azad Moopen: The location, as such is very visible but it is a bit away from the main city. So location is as such not a major issue. It is the government relation and the long term care which was there earlier which is one of the reasons why it has not done well. So we'll have to have a complete

makeover of that and make it into a hospital, which is being accepted by the local population. As you know, in Saudi, it is more of the local population. The expat population is very limited when compared to UAE and all. So answering your question, the location as such is not an issue. There has to be a complete strategy to make it into a completely different model which is acceptable to the local market which we have not done, we have not been able to do that.

Alisha Moopen:

Just to add what Chairman has said, Tarang as well. If you compare it to all our other GCC markets, the nationalization percentage which is there in Saudi is much higher. You know, we require 40-45% upwards of Saudi nationals in any of the sectors. Now for us, when you look at all our other entities, we import a lot of talent from different parts of the world. We bring in the doctors, the nurses, as required, whether it's from India, whether it's from Philippines and then create the system. Now that has been a little bit harder for us to do in Saudi. Most of the players; you are asking about what is the competitive landscape look like. There are players who are doing very well but they are all Saudi born companies that are owned by Saudi founders and you know it's largely a Saudi led workforce as well. So I think that has been a harder pivot for us and we haven't really seen people who have been able to go from outside of the Kingdom yet been able to really establish, be able to navigate through the system with the government relations and stuff as well to get things done there.

Sreenath Reddy:

Adding to what Alisha said, Tarang. Another point, because you wanted much more detailed analysis of Saudi. One single asset, when we have right, because these geographies are more insurance driven. So the negotiation power also is a little bit lower. So, therefore, we have got the option like what doctor said. Get in a local partner and then scale up the business over there because Saudi is lucrative. But then you need to have a local partner and scale up the business, then you're in a better negotiation power or with one single asset, it is a bit of a challenge. It will take much longer time for us to get revenues and get better margins. So better option could be maybe, that instead of investing more funds into Saudi, we could invest those funds into some other geography, which is more meaningful and exit this particular asset so that even the proceeds of this asset could be invested in a more meaningful geography.

Tarang Agrawal:

Sure. Thank you. This is very helpful.

Saurabh Paliwal:

Thank you Tarang. The next question is from Mehul Sheth from Axis Capital.

Mehul Sheth:

Thank you for the opportunity again. So, one question, some thought on your de-merger of India business as well as on the fundraising plan if you have any in near term.

Dr. Azad Moopen:

Regarding the structure of the company, as you all know, we have a major challenge because the India investors are not giving the value for the GCC business and not giving us that full value in spite of the India market multiples going very high. We have not been provided that for our

GCC part of the business. So, we were looking at various options, one of which is to look at a de-merger or to get somebody for the GCC business who can showcase to the market that there is an asset here which is valued because the GCC business has got value. So we are looking at options and maybe in the next three months, I think, we may be able to come to a little more clarity on the way in which we are going ahead. So beyond that it will be difficult to tell now. So that's what I just wanted to tell about what we are planning to do as we go forward.

Mehul Sheth: **And sir, on your thought on near term any fundraising plan?**

Dr. Azad Moopen: No, no, there is nothing. We don't require additional funding for running our business. We have required cash flow for meeting our expenditure including the capital expenditure. There's no plan for any fundraising for the time being but there is a plan for realizing or unlocking the value or getting the value for both businesses in GCC and India.

Mehul Sheth: **And sir, one last question on your recent expansion plan. So recently you have added one hospital in your capex plan, you have added Doha with a 60 bed capacity but already you have around 61 bed and around 30 bed operational. Still you are adding 60 beds, so any rationale behind adding this hospital?**

Dr. Azad Moopen: You are talking about Doha?

Mehul Sheth: Yes, Doha, Qatar.

Dr. Azad Moopen: We find significant opportunity there for expansion of that hospital. The hospital is very small when it is a 60 bed hospital and it has got all the facilities like all the investigation facilities, operation theatres. So it is not the ideal number of beds that you have there. So what we are going to do is that we are just adding residential there. That's only rooms which will improve the overall performance including the top line and bottom line significantly. So even though we are saying that we are adding 60 beds, it is the rooms which are being added which will have very low cost but will have significant impact on the revenue and profits.

Sreenath Reddy: Mehul, adding to what Doctor said because the trends there are fairly good so we expect to have a shortage of beds very soon. So therefore it is better that we plan it now because it will take at least two years for us to add those beds. By the time this occupancy definitely will be a higher number.

Mehul Sheth: Sir, thank you for your answers. Thank you.

Saurabh Paliwal: Thanks, Mehul. The next question is from Charulata Gaidhani from Dalal & Broacha.

Charulata Gaidhani: Hi, congrats on the good set of numbers. I wanted to know in future, say five years from now, where do you see India business contributing? How much would be the contribution of India versus what it is today?

Dr. Azad Moopen: So that's an excellent question. There are multiple things in this. So if the business goes like this, as it is now, both joined together and if it is so, we hope that we will be in the 40-50% range. That's what we are looking at. But there are many things which can happen. One, de-merger or some change in the overall capital structure which can happen, then India will become much bigger. Even, there is an opportunity to us for partial liquidation of assets in GCC like the Saudi assets which we mentioned, which again will reduce the GCC and we will be able to bring this money to India and increase our India business. So answering your question, we want to grow as much as possible in India. There is no limit which we have put. Our focus is on India, and we would like to take it to the maximum possible level.

Charulata Gaidhani: And in terms of profitability, where do you see it from now, like the operating margins of around 14-15% are still lower than the peers?

Dr. Azad Moopen: Sreenath, you want to answer that?

Sreenath Reddy: See the thing is that, we have also got a pharmacy business which is 9%-10%. So GCC, the margins, because the clinics also on a steady state, we are expecting around 17-18%. Hospitals also will be in that range of 17-18%. Now the hospitals in India is where we will see that increase in margins. Give us few more quarters and you will definitely see that improving trends in terms of margins both in India as well as a group as a whole. India is something quarter-on-quarter, you will see growing trends. We expect India steady state hospitals to be somewhere around 25% EBITDA margins. But very soon on a consolidated basis, we expect India to reach almost anywhere around 20%.

Charulata Gaidhani: All the best. Thank you.

Saurabh Paliwal: Thanks Charu. The next question is from Amrish Kacker. Could you please identify your company?

Amrish Kacker: Thank you for the opportunity. I'm an individual investor. So two questions, one on disclosure and second one on Cayman Islands. So first one on disclosure, couple of comments. So first, thank you very much. This meeting has been incredibly open and this is one of the few discussions where we get so much insight from a call. This is in addition to your investor pack, which is in any case, I think at the top end from the industry. So thank you for that. Just a couple of comments on additional disclosure if possible. As we split the India business if it's possible to get more granularity on the India business. I understand the labs and clinics are small at the moment, but it would be helpful. The second on disclosure;

I'm not sure whether we missed it but Dr Pillai's resignation didn't seem to reach the exchanges. And second question on Cayman Islands, just any update that you could provide. It says under review. I'm not sure what that means.

Sreenath Reddy:

So on the first point, definitely Amrish. As suggested, because at this point of time, labs and pharmacies are too small but beginning from next financial year, we will definitely have a separate kind of a disclosure for that. Point well taken. In terms of Dr. Harish, because he was not a KMP, it was not mentioned. I'm not too sure about it but Chairman in this call has mentioned about it saying that Dr. Harish Pillai has resigned and he's directly getting involved into India. So maybe if there is something like that, we will definitely take that point as well. And lastly, on the Cayman under review. It is that, we are still not yet fully decided getting into Cayman. We are exploring various options. We have signed the agreement with the Cayman Government. We are keeping our options open and maybe a quarter from now, we will be certain as to are we going ahead with the project or due to some reasons, if we think that we should shift our focus to India. There is a possibility we may do that but at this point of time that is the reason we have kept under review.

Amrish Kacker:

Thank you very much. Congratulations to the team again. Fantastic performance and all the best for the future.

Saurabh Paliwal:

We have the next question from Aditya Khemka from InCred AMC.

Aditya Khemka:

Thank you for the opportunity, sir. Thanks Saurabh. Sreenath, one question for you. You just mentioned on the question that Cayman is still not decided, and the capital allocation can happen either towards Cayman or towards India. Just wanted to pick your brains on that. When you take these capital allocation decisions, what are the variables you look at and how do you decide where the capital is better utilized: is it India, Gulf or Cayman? How do you arrive at that decision was my question?

Sreenath Reddy:

Aditya, to answer your question. See the thing is we do have strategy meetings in which we decide, in consultation with the board as to which geography is the right place to be in. If you look at Cayman, the way we were looking at it is that to be part of the GCC. So in the given structure, if we add Cayman, then what is likely to happen is that the international operations will become much higher. So therefore, there is a possibility of some restructuring. There is a possibility of that restructuring, then what would happen is that Cayman will be a very good fit for GCC. Because like what Alisha said that if you're looking at growth within the GCC, good extension of GCC would be Cayman Island. So therefore, in terms of capital allocation, our preference would be into geographies which gives two things. One is that which gives us the growth for the future and also at the same time not wait for a very long time to get the returns. So, if you look at GCC and some of these geographies even for that matter, Cayman, the return

on capital employed and two is that the cash flows; the breakeven period will be much smaller. However, in India, the capex being invested will take a little bit more time for a breakeven and to get that return on capital employed. So we'd like to balance these two things. That is what we have been doing where we have been balancing between both these two geographies. One which gives us cash and the other, which gives us growth. But yes, at some point of time, we may have to take a call as to, are we going to focus more on the growth market or are we focusing on the cash market. At this point of time it's a combination but there are various options on the table. We may re-structure. There is a possibility. It's a little bit early. We know that we have taken some time but definitely we can assure all of you that we would definitely come up with something which will enhance the shareholder's value.

Aditya Khemka: **That's fair enough. So, Sreenath, fine tuning your comment. Is it fair to say that a capital allocation towards Cayman will happen only if you decide to restructure and if you decide not to restructure maybe the capital allocation can go towards India also? I mean is that a fair conclusion of what you just said?**

Sreenath Reddy: The thing is that it is more towards like what you said. Having said that, at the same time, because we are also looking at exiting some of the geographies. So if you're exiting some geography and if we have to slightly increase our overseas operation, then we need to have a replacement for what we are exiting. So thereby irrespective of whether there is a restructuring or not, at this point of time, we have kept the options open. Give us another quarter and we will have much more clarity on the Saudi asset, on the Cayman project and as well as on this restructuring.

Aditya Khemka: Sure, we look forward to that Sreenath. Thank you so much. Thank you Dr. Azad and all the best.

Saurabh Paliwal: Thanks Aditya. The next question is from Vishnu Gopalakrishnan. Please identify your company name.

Vishnu Gopalakrishnan: **This is Vishnu from Steinberg India. Thanks for taking my question and congrats Dr. Moopen and the team for a great set of numbers, especially the strong momentum that we're seeing in India. In the context of that and following up to the previous question, just want to understand with the strong momentum that you are seeing in India and with the pandemic hopefully getting behind this, any rethinking on both the Chennai and Bangalore facilities?**

Dr. Azad Moopen: We were in last three months looking at, now that we are going into starting something and we want to have that pipeline because there is a 70% occupancy which we hope that will sustain. So it can't go above 75-80%. So we will have to make something for India to grow further. So among the two which you asked, it is more towards Bangalore because we already

have a set up there, the hospitals there are doing well and we have three hospitals. Maybe it is more towards Bangalore. Chennai has many reasons including some issues with the land owner who was planning to construct this building; we have put it on hold. So one thing which I wanted to just highlight here is that, instead of constructing a 500 bed hospital in Chennai, we thought that it may be more prudent to add maybe 100-150 beds to our existing hospitals in Kerala which require more space, which becomes much easier as well as much more efficient in allocation of capital. The capital required is much lower. You need not bring in the equipment and other things. Some doctors can extend to that and what is required is more of residential. So we are seriously looking at adding facility or additional beds to some of our facilities which are very successful in Kerala. Answering your question, Bangalore, yes, likely to because it is in the same city where we are plus the additional capacity in Kerala.

Vishnu Gopalakrishnan: **Sure. Doctor, just a follow up on that because you mentioned that you are planning to add capacity in Medcity in Kochi. We already have about 670 bed capacity there, out of which only about 420-450 are operational. So, do you expect a rapid ramp-up of that to full capacity soon enough?**

Dr. Azad Moopen: See, while we say that there is a large capacity there, large part of that is being occupied by outpatient clinics. So what has happened is that, there has been a requirement for having more doctors coming in which has resulted in many of them utilizing the earlier IP rooms which we are meant for inpatient into outpatient. So it is not coming as rooms. So that's why we thought that we should add more beds in such places. De-congest that so that those can be used as rooms and then you can add this outpatient block and all. So that's what we are looking at.

Vishnu Gopalakrishnan: **Okay. In aggregate, we're looking at about 100 bed additions to all 3 hospitals?**

Dr. Azad Moopen: So roughly about 300-350 beds in the existing hospitals is what we were looking at, which will be as good as starting a large hospital and it will be immediately successful. That is what we thought.

Vishnu Gopalakrishnan: Thanks a lot. That's clarified.

Saurabh Paliwal: Thank you Vishnu. The next question is from Charulata Gaidhani from Dalal & Broacha.

Charulata Gaidhani: **What is the capex per bed that you would consider for an existing hospital expansion and for a new hospital?**

Dr. Azad Moopen: That's a fantastic question that adds on to my answer. As I told, as we are just constructing only residential and not a full hospital with all the paraphernalia, it will be just half of what we'll be doing with a full-fledged hospital. So if we say that in a place, like Kerala, if we have to spend Rs. 60-70 lakhs normally for a hospital bed, it will be just half of that.

- Charulata Gaidhani:** **What about a new hospital, what could be the capex per bed?**
- Dr. Azad Moopen:** In the new hospital, it depends on whether it is tertiary/quaternary care hospital. If it is a tertiary/quaternary care, we are talking about Rs. 1 crore and if it is something which is a little lower not going into that level, you are talking about Rs. 60-70 lakhs.
- Charulata Gaidhani:** Thank you.
- Saurabh Paliwal:** Thank you Charu. Ladies and gentlemen, that was the last question. I will hand over the call to Dr. Moopen for his closing remarks.
- Dr. Azad Moopen:** Thank you very much. Thanks a lot everyone for the active participation. We really appreciate the support that you are giving. We require this because, as you know, we are in a very peculiar situation, unlike many other Indian healthcare companies. There is a requirement for people, for investors to know us. The analysts as well as the investors should be aware that why we are struggling in spite of fairly good performance. So thank you very much, thanks a lot. I just wanted to mention about Saurabh. Saurabh has been on the call and he has been moderating this. He has been earlier with Biocon and now he has joined us and he will be leading the IR function of the company. He will be available to you if you require any clarification or any meetings or anything. Of course, Sreenath, Amitabh and Sunil also are available, along with Alisha and me. Thank you very much. Thanks a lot.
- Saurabh Paliwal:** Thank you Dr. Moopen. This concludes the webinar. Have a good day.

<End>

The contents of this transcript may contain modifications for accuracy and improved readability