



## “Aster DM Healthcare Q1 Results Conference Call”

**August 13, 2020**



**MANAGEMENT: DR. AZAD MOOPEN – CHAIRMAN AND MANAGING DIRECTOR**

**MS. ALISHA MOOPEN – DEPUTY MANAGING DIRECTOR**

**MR. SREENATH REDDY – GROUP CFO**

**DR. HARISH PILLAI – CEO, ASTER INDIA**

**MR. SUMANTA BAJPAYEE – HEAD OF INVESTOR RELATIONS AND M&A**

**MODERATOR: MR. SRIRAAM RATHI – ANALYST, ICICI SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Aster DM Healthcare Q1 Results Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sriraam Rathi from ICICI Securities Limited. Thank you and over to you sir.

**Sriraam Rathi:** Thank you. Good morning everyone. On behalf of ICICI Securities, I welcome you all to quarter 1 FY21 results conference call of Aster DM Healthcare. We have the team with us today, represented by Dr. Moopen - Chairman and Managing Director; Ms. Alisha Moopen - Deputy Managing Director; Mr. Sreenath Reddy - Group CFO; Dr. Harish Pillai - CEO, Aster India; and Mr. Sumanta Bajpayee - Head of Investor Relations and M&A. So I will hand over the call to the management. Over to you, Dr. Azad Moopen.

**Azad Moopen:** Good morning, everyone and thank you for joining today on our quarter 1 earnings call. As you are aware, we are in the midst of the greatest pandemic mankind has ever witnessed in lifetime. The peaking of the pandemic is over in GCC countries where we have significant operations, and we sincerely hope that there won't be another wave. Most of the GCC countries have lifted the lockdown restriction, and life is coming back to normal. Our businesses also are limbering back to normal after significant impacts in the month of April, continuing to extend to May also; however, the situation is still alarming in India, if so it is continuing in the whole country and the large number of cases being reported every day.

Overall, the business was significantly affected because of the reluctance of the patients to come to healthcare facilities. There has been a change in GCC countries with more people approaching the hospitals for elective procedures. In the beginning of quarter 2, it has further picked up and we see a positive momentum and hope that the worst is behind us.

In India, however, due to the record number of cases being reported, the patient footfalls in hospitals have come down, and many of our facilities are accepting COVID patients, both from general population as well as referred by the government. Due to obvious reasons, medical tourism business has come to a standstill, affecting the overall revenue. We hope and pray that this surge shall soon be over and there will be a normalcy in the country with reduction in the mortality and morbidity with business returning to normalcy.

There has been a gradual recovery in the business towards the end of quarter 1, which we are seeing continuing into quarter 2 in the GCC. We know that this is unpredictable but hope that we are over the hill. During the quarter 1 for year 2021, we posted a revenue of Rs. 1,761 crores with a decrease of 13% compared with the same quarter of last financial year. The revenue from GCC was Rs. 1,462 crores and for India 299 crores. We have made an EBITDA of 143 crores with decrease of 36% compared to the quarter 1 of previous year.

Our group CFO, Sreenath Reddy, will take you through the details of the financial performance for the quarter and the financial year. We have continued to give highest focus on controlling the operating expenditure which is one of the most important levers under our control. There have been several steps adopted to reduce the number of employees as well as HR costs, which has resulted in a positive trend regarding the manpower optimization. During quarter 1, we have significantly reduced the HR cost by around 15% compared to last financial year. Even though we are focusing on material cost also, due to increase in requirements of PPEs and various disposables, it was not possible to bring it down in the quarter, but we hope that we shall be able to control the overall material consumption during the financial year.

Aster Labs in India has been established serving the population, especially in the area of PCR testing for COVID, conducting more than 14,000 tests during the period. Two of our labs in Bangalore and Calicut have been accredited by ICMR for doing the RT-PCR test. Aster Labs team is concentrating in B2B business by entering into MOUs with hospitals and corporate. We hope to roll out B2C business in a full-fledged fashion once the COVID pandemic subsides. We also have been focusing on telehealth platform with 587 of our consultants enrolling on the portal for departments like general medicine, gastroenterology, endocrinology, dermatology, neurology, cardiology, etc.

Another important area where we are focusing to provide service and the additional revenue streams is Aster@Home, which is the home care division, which is already very active in Kerala. Despite the uncertainties, we are continually monitoring the situation and taking initiatives to address the clinical and business aspects created by COVID-19. We have been able to tide over the impact of COVID-19 in quarter 1 without adding any cash flow issue because of the proactive approach along with prudent financial management.

Let me take this opportunity to appreciate the doctors, nurses, paramedics and support staff who are the frontline soldiers in the battle against COVID. I also recognize the business leaders and other staff who have made it possible to have a sustainable business through their hard work and commitment.

I now request the group CFO, to walk you through the financial numbers. Thank you.

**Sreenath Reddy:**

Thank you, doctor. Good morning, everyone. During the first quarter of the current financial year, we had observed significant impact across our different business segments in all the geographies we have presented. The initial 2 months was impacted heavily by COVID, but there was a recovery from June onwards. In terms of liquidity position, we are adequately funded and are repaying a long-term loan in the GCC as per the existing schedule. In India, we have taken the benefit of deferring the principal and interest as per RBI guideline. Also, we have sufficient cash and working capital limits to support our existing operations. In July, we have witnessed positive momentum in our business, primarily driven by hospital segment in GCC region. Also, we have taken some additional hotels on short-term basis to accommodate and cater to the needs of COVID patients which generated additional revenue for us during this quarter.

Now let me share the financial numbers for Q1 of the FY21. In Q1 FY21, we have registered revenue from operations of Rs. 1,761 crores, which is a 13% drop on year-on-year basis and corresponding constant currency drop is 19%. This reduction of business is due to the negative impact of COVID and the lockdown import during this period. As Chairman briefed in his opening comments, we have managed to reduce our manpower cost, rent, traveling expenses, and advertisement and promotional expenses, which helped us minimize the impact. However, material costs have gone up due to short supply of material and purchase of PPE. We have reported EBITDA of Rs. 143 crores, which is a 36% reduction on year-on-year basis and corresponding constant currency reduction is 41%. EBITDA margin in Q1 FY21 was 8.1% as against 11% in Q1 FY20. We recorded a loss after tax of Rs. 83 crores for Q1 FY21 mainly due to lower revenues during the quarter.

On the basis of geographical performance, the revenue in GCC has dropped by 12% on year-on-year basis to 1,462 crores in Q1 FY21. The revenue in India has reduced by 19% on year-on-year basis to 299 crores in Q1 FY21. The EBITDA in GCC has reduced from 191 crores in Q1 FY20 to 130 crores in Q1 FY21, a drop of 32%. The EBITDA in India has reduced from 33 crores in Q1 FY20 to 13 crores, a reduction of 61%.

Coming to the segmental performance, the revenue in GCC Hospitals remained constant in this quarter when compared to the same quarter of previous year. EBITDA decreased by 5% on year-on-year to Rs. 102 crores in Q1 FY21. The EBITDA margin decreased from 15.6% in Q1 FY20 to 14.9% in Q1 FY21. The revenue in GCC clinic was at Rs. 356 crores in Q1 FY21, a reduction of 26%. The EBITDA margin dropped to 4.3% compared to 16.1% in the same period in the previous financial year.

For pharmacies in GCC, revenue has dropped by 11% to Rs. 482 crores and the EBITDA margin at 9.8% in Q1 FY21 compared to 7.5% in Q1 FY20. The revenue in India hospitals and clinics have dropped by 19% to Rs. 299 crores in Q1 FY21 and the EBITDA margin has also dropped from 10.3% in Q1 FY20 to 5.9% in Q1 FY21. One point that I would like to point out is that the EBITDA, whatever we are discussing over here is post Ind-AS 116 impact.

Coming to the balance sheet, the group's net debt stands at Rs. 2,505 crores as at 30th June 2020, which is a reduction of 268 crores when compared to March 2020. The breakup of debt stands in India at Rs. 338 crores compared to Rs. 358 crores as at 31st March 2020, and the GCC net debt stands at US \$290 million compared to US \$324 million as at 31st March 2020.

On that note, I conclude my opening remarks. We would be happy to give you our perspective on any question 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. Our first question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** My first question is on the GCC specifically, like Sreenath was saying, hospitals revenue have remained flat, but clinics and pharmacy seems to have bore the brunt of, there is any outpatient link, whatever slowdown, so how are things now improving in July-August for the clinics and the pharmacies, specifically, especially the clinics, I think we have been going through this restructuring for the last couple of quarters based on the customer segmentation, so if you can give us an update on that as well?

**Azad Moopen:** Sure. Dr. Moopen here. So this is one area which naturally got affected because of the people's reluctance to come for anything into the clinic. So even pharmacy, for that matter, was slightly affected, but not to that level. So we have been going through, like what you said, the significant restructuring in the area, where we have now reduced the HR costs significantly. We are putting a new HIA system for making the insurance and related matters much more quicker as well as there has been a leadership change also, which is happening now. So now, the clinics and the pharmacies were managed together by one of our business head. Now we have changed that and the clinics are now directly aligned with the hospitals and the hospital CEO in the UAE is taking care of the clinics also. So there will be a significant alignment happening due to that and we thought that this will help out patient movement as well as the movement of the staff, which we have realized of late. So answering your question, we hope that the clinic in the third and fourth quarter should be looking much brighter when compared to the first, second quarter or even the last year.

**Shyam Srinivasan:** So Dr. Moopen, just following up on this, so last year, we had about 16% margins in clinics, you think those kind of margins can be arrived at overtime, obviously, but we think the bulk of, how much of the restructuring is still pending? And I remember there was this issue where, because of insurance-led, that Aster patients were actually coming into the higher-end clinics, right? So there was that issue of branding as well. So if you can, has that been sorted out as well?

**Azad Moopen:** There is a struggle in the market regarding the clinics, especially in the mid and lower segment. If you look at the population movement also, during this period, what has happened is that there has been a movement of people in the mid and lower segment of the economic segment going back to their countries because of the COVID. So we don't think that we will be able to go through that level, but we definitely hope that it will be much better than what was in the first quarter and second quarter and we hope to have a double-digit EBITDA margin in the financial year.

**Sreenath Reddy:** Yes, Sreenath here. So also adding to what doctor said, during the COVID period, the impact on clinic was much higher, so due to the lockdowns and other things, people didn't go to the clinic, but however, when it came to the hospital because they got admitted into the hospital, some of the COVID patients and even the elective cases, which were not done in the past couple of months, that pent-up demand came back into the hospitals. So having said that, the structuring, like what we were talking last year, in terms of moving out the low-paying insurance, so that has already been completed, but however, the next couple of quarters should show the results. This

quarter and next quarter may not be appropriate to measure, mainly because of the COVID-related....

**Shyam Srinivasan:** Thank you, Sreenath. So my second question is on the India hospitals business and you have this unique thing of Kerala versus non-Kerala, where I think the lockdowns have impacted the occupancy differently, so if you can update us on post the unlock or whatever unlock we have had, how the occupancy has trended in the July/August kind of a timeframe and how is the Indian Hospital, that segment actually starting to behave now?

**Azad Moopen:** Dr. Harish, if you can take that question, please?

**Harish Pillai:** Yes. So if you look at the India pie, we are across 5 states, so clearly, the Kerala cluster contributes about roughly 57% of the revenue for quarter 1. 21% would be Bangalore cluster and everything else will be about 22%. It is quite interesting. When you look at the pandemic surge in India, like we have seen all the metros and Tier 1 cities were badly impacted. So it includes places like Hyderabad, Bangalore, of course, similar to Bombay or Delhi or Chennai, whereas Kerala, because of its advanced public health system, I would say was the last state to have been impacted. Clearly, April, right from March 21st, when the Prime Minister announced a lockdown for the entire country, that significantly impacted everything, all numbers, whether it is OP throughput as well as IP throughput and it continued in April, but with the phased withdrawal of the lockdown, we did find that the Kerala cluster's performance was far better compared to rest of India, mainly because the case numbers were not much. But now, when we look at beginning of quarter 2, we find that the trends in Kerala are also changing because neighboring states such as Karnataka and Tamil Nadu, the COVID numbers are quite significant and the movement of people from GCC countries, from other parts of the world and from other states after the lockdown was lifted, has also contributed to the rise in COVID numbers in Kerala, but overall, when you look at quarter 1 performance in the Kerala cluster because of lesser number of COVID cases which contributed towards India's performance compared to other geographies.

**Shyam Srinivasan:** Dr. Harish, just following up, do you think this will sustain Q2, Q3, that Kerala will still be the biggest driver, 57% you said, but is there a risk that the lockdown have kind of would break there, sorry?

**Harish Pillai:** Yes, so I wouldn't like to speculate. I am just praying that Kerala numbers will not get as worse as what we are seeing in other parts of the country, but clearly, there is a trend of increased number of COVID cases even in Kerala. So we have to be very careful in what we say. We have to wait and see.

**Moderator:** Thank you. We will take our next question from the line of Sriraam Rathi from ICICI Securities. Please go ahead.

**Sriraam Rathi:** Firstly, I mean, what is the breakup of long-term and short-term debt, if you can provide? And what is the outlook going forward, because in Q1, we have definitely reduced it, so how should we look at in the current year going forward?

**Azad Moopen:** Sreenath, if you can take that question, please?

**Sreenath Reddy:** Yes. So just give me a minute. So I will just come back to you on that because right now, the way we are looking at it is with that including both long-term and short term. So let me just give a breakup of between the long-term and short term. Maybe the next question can follow and, in the meantime, I will pick that up and give you the answer.

**Sriraam Rathi:** Okay, sir. Secondly, the costs that we have seen, particularly on the SG&A expenses this quarter and their staff cost. So I mean, how should we look at here going forward? Is a part of it sustainable that we can expect that it can be saved in the long-term a part of it? Of course, I mean, it will increase in the coming quarter, but what are the measures that we have taken? I mean, how much of that can be sustainable?

**Azad Moopen:** Yes, so we think that a part of whatever is achieved is sustainable, but not to this level because there has been a reduction in the number of people and all, but we hope that when compared to last year, we will have a better situation. We are on an initiative to reduce the HR cost by various means, manpower optimization, various initiatives are there, so I request the Deputy Managing Director, Alisha, to give a brief on the initiatives that will help us to have better manpower cost control this year.

**Alisha Moopen:** So like Chairman mentioned, we have done a lot of initiatives, some which were short term, specifically during the COVID period whilst there was a shortfall in terms of the revenue. We had to make some short-term adjustments on the basis of what the revenue shortfall was, but in terms of a longer-term perspective and what you were asking about the sustainability, there has been various measures which have been put in place. We have revisited one of our manpower numbers. We have revisited sort of the salary ranges and doctor structures and incentive contracts and things like that, so there has been a lot of reworking on the models of the operating cost of manpower itself that has been done. So we do assume this combined with, I think one of the biggest learnings of COVID also has been how much work can be done remotely. So we know in the last couple of calls, we had mentioned about how we had an opportunity about shifting a large part of our back-office work to a shared service center in India. So that is something which is getting fast-tracked now, so we do see a reasonably significant opportunity from moving a fair amount of our admin staff out to the shared service center which should happen towards the end of the year or early next year. So while there were some immediate measures taken to control and we believe we were very fortunate, we have a very sort of connected workforce, so as an organization, we all took a hit because organization has taken a hit, it sort of cascaded down to pretty much everyone within the organization, but from a sustainable and long-term perspective, there are all these measures which have been taken, where

we expect a good improvement in terms of our manpower cost to come through by the year-end. Does that answer your question?

**Sreenath Reddy:** Yes, answering your question, Sriraam, the first question is that as of July, end of July, our long-term loan is US \$276 million in GCC and short term, that includes even working capital, that is US \$68 million and in India, long term, it is 292 crores; and short term, which also includes working capital is 132 crores.

**Sriraam Rathi:** 132 crores, that is helpful, sir and just lastly, one thing. Sir, drop in ARPOB in GCC would have been primarily because of the COVID treatments?

**Sreenath Reddy:** That is true.

**Sriraam Rathi:** And in India, it has marginally increased, so I assume probably the proportion of COVID patients would not have been significant in India?

**Sreenath Reddy:** Yes, so COVID patients, such as in India in quarter 1, the number of cases there are low. In fact, because of the lockdowns and other things, COVID patients, the flow to the hospital was very minimal and in fact, the number of COVID patients was minimal. Actually, the cases started increasing in quarter 2 from India, but however, in GCC, the impact of COVID was maximum in quarter 1, in the first 2 months.

**Moderator:** Thank you. Our next question is from the line of Harith Ahmed from Spark Capital. Please go ahead.

**Harith Ahmed:** So I think last quarter, you talked about deferring certain CAPEX projects, could you provide some more color on that? Any updates on that front? And if you could also provide your revised CAPEX guidance based on these references? And from a slightly more long-term perspective, is there a change in our investment and better addition plans with respect to what has happened in recent quarters?

**Azad Moopen:** So Sreenath, can you take that question, the pipeline and then the CAPEX?

**Sreenath Reddy:** Yes. So answering your question, see, some of the projects, we have put on either temporary hold or we have terminated those projects. For example, what we have put on temporary hold is the upcoming projects at Oman, the hospital which is upcoming. Then the Riyadh, Saudi Hospital where the expansion is there, that is put on temporary hold and what we have put in India, on hold is the Chennai Hospital and also another upcoming in the sense that the another hospital which we had entered into an agreement, that is KLE Hospital in Bangalore. That has also been put on hold, but one hospital, what we have terminated the contract is in International City, Dubai. So that is something we terminated. The reason why we have put some of the hospitals on hold or why we have terminated, terminated mainly because we wanted to reduce the CAPEX, so because we have got sufficient capacities and therefore, we thought that we



should not add more facilities in the region, but however, projects where we are already almost 70%, 80% complete, those projects we are going ahead. In fact, those 2 projects which we are continuing to go ahead even in the current quarter with one hospital at Aster Hospital, Sharjah and another hospital, which we completed in quarter 1, that is the Sonapur hospital in Dubai because these projects, even though there was COVID, the completion of these projects was close to 80%, so we thought it is appropriate that we complete with the remaining 20%.

Now coming to the remaining projects which have been put on hold, these are in various stages of completion, anywhere from 40% to 50% and therefore, projects which are not started, we can always take a decision whether to go ahead or not but projects, for example, Aster Oman, where already we are midway through, that is something we would like to complete, but we are just conserving cash at this point of time and we will take a call at the end of quarter 2 and then decide on these projects.

So broadly answering your question, so our whole focus is now to reduce CAPEX and also reduce the debt because the focus is more on reducing the debt. So we don't want to go ahead with new projects in the GCC region. India is something which we would like to go ahead and complete. So in terms of CAPEX, in the current year, so we will take a call after quarter 2, but at this point of time, for the first half of the year, we don't see a CAPEX more than 160 crores and even in quarter 2, the whole CAPEX should not cross 150. So quarter one, 160 and quarter two, 150. And second half of the year, 150, we are going to only spend provided work stability. So in all, in the current year, if everything goes fine, then we are not looking at the CAPEX of more than 300 crores.

**Azad Moopen:**

Harith, to add to what Sreenath said, what we have decided on all these areas, including our bed utilization as well as manpower optimization is more with less. So we want to have less number of people, less number of debt and utilize it maximum and set it out and that is the whole principle that we are following. So that whatever beds are there, which have not being utilized in our existing hospital, occupancy can go up and so the whole slogan now is more with less.

**Harith Ahmed:**

And on the debt reduction front, we reduced net debt by around 270 crores this quarter, is this driven by reduction of receivables? And is the current level of receivable date sustainable? Any comments on that?

**Sreenath Reddy:**

Yes. So it is a combination. One is that the collection on the receivables. Second thing is that we continue to repay the debt, in GCC like what I said, we are not taking any deferment and we continue to repay because our whole idea to reduce the debt. So therefore, we are not taking any benefit of any deferment. We would like to repay the debt. The third thing is that there are certain payable, which have also been put on hold, mainly to conserve the cash, so because of this reduction, whatever money has come in, we have utilized it for the reduction of the debt, but in quarter 2, we will have to pay out some of these payables, but having said that, the focus will continue to remain on reducing the debt.

**Harith Ahmed:** And last one from my side is related to this unfortunate fire incident at Vijayawada, that one of the COVID care facilities managed by Ramesh Hospital, any thoughts around the impact or the potential liability that could rise due to this unfortunate incident?

**Azad Moopen:** Yes, so it is most unfortunate, and we really feel so sad and sorry for the people who lost their lives, their family as well as those who are having injuries. So this was a facility where we had a financial interest, but there was no management control or involvement. So this was a clear situation where the management of the local hospital there. We have more than 1 hospital. They were taking care of this. So, now I think the inquiry is going on and they are trying to find out what was the actual cause. As we understand, this has been associated by the requirement for COVID patients to be admitted, but whether there were any gaps in the local administration and management to do that, we are also trying to find out. So regarding as soon as this happened, we informed the stock exchange about the matter and the materiality to Aster from this natural aspect is very negligible because there is only 2% of our profit revenues and all if we look at. So I think materially, it doesn't impact us, but definitely, it is most unfortunate thing to happen and we are looking at ways in which such things can be prevented wherever we are involved, either directly managing or involved in areas where others are managing. In fact, we have very strict protocols regarding all the safeties and all, but this is something which happened, and we really regret about that.

**Moderator:** Thank you. Our next question is from the line of Agraj Shah from Tata AIA Life Insurance. Please go ahead.

**Agraj Shah:** My first question is on the COVID patient mix at GCC and India, could you give some breakup on that?

**Sreenath Reddy:** Yes. So like I mean, there was a question, I think from Sriraam earlier, the ARPOB in India had gone up in quarter 1, but however, the ARPOB in GCC has gone down in quarter 1. So like what I was telling is that in GCC, it was mainly because the first 2 months got impacted by COVID and there are COVID patients. So therefore, the revenue what we got some COVID was low. In India, in quarter 1, the dip in revenues was mainly because of the lockdown. The occupancy went down significantly because of the lockdown and within the hospital, the number of COVID patients were very less. So therefore, the ARPOB in India was higher, even though the occupancy in India was lower, the revenues were lower in India, but ARPOB was higher, mainly because of the COVID patients being low in number during quarter 1, but however, that has changed in India. Right now, in India, if you look at, there are significant number of COVID patients which Dr. Harish can answer. In GCC, during the first 2 months, the ratio of the COVID patients to the non-COVID patients would have been somewhere around 60:40, 60% would have been COVID patients and 40% would have been non-COVID patients during the first 2 months and once we came back to the third month, that is the June month, almost 90% was of the total occupancy, was the regular patients. So there are hardly any COVID patients, maybe 10% and while we are speaking now, there are no COVID patients in the UAE region and outside the UAE, because significant part of our business is in the UAE, so there are no COVID patients at

this point of time in our facility. So more or less, it has completely reduced. Dr. Harish, you can answer for India.

**Harish Pillai:**

Yes. Thank you, Sreenath. So like Sreenath has mentioned in quarter 1, we didn't have any patient at all because India, overall, where at least where we were located, it was the public health facilities which were managing the centers and even in quarter 2, we can see differences between the 2, like in some of our facilities, there are government-referred patients, but overall, when we look at Q2 till now, it is just 11% of COVID patients. The protocols, which various state governments follow is that in some states, you can do self-quarantine at home. In some other states, you have these COVID care centers whether you are asymptomatic or mild cases, you could be there and it is really the sick patients who are referred by the government who come to private hospitals. So it is mostly coordinated by district administration in various parts of India where we are located. So at this point of time, in quarter 2, it is 11%, in quarter 1, we didn't have any COVID cases.

**Agraj Shah:**

And when you are considering these health care centers or hotels where these patients are better managed by Aster, how are these accounted in your number?

**Sreenath Reddy:**

So that is medical-related. It goes into leading the hospital segment because the hospital need to continuously provide support to them.

**Agraj Shah:**

Okay, but the occupancy, the...

**Harish Pillai:**

So just typically, the way we are only responsible for the medical care of it. Again, the various state governments have issued their own specific guidelines for COVID care centers where it is basically a nursing care monitoring and the doctor consult. So that has already booked into the revenue part. That is how you account for the revenue from the COVID care centers.

**Agraj Shah:**

So first of all less patients in GCC, not really what was expected in GCC hospitals?

**Sreenath Reddy:**

That is right.

**Agraj Shah:**

And my second question is on slide 22, the ARPOBs that you mentioned, for the GCC ARPOB is mainly down 22% whereas the India ARPOB is up 7%, but the overall consolidated ARPOB is going up by 5%, so I was not able to reconcile this. So, the GCC piece is a bigger component, so this overall ARPOB going?

**Sreenath Reddy:**

So let me answer that. See, that is because of the number of beds. In India, the number of beds what we have got is significantly high. In GCC, the number of beds what we have got is lower.

**Moderator:**

Thank you. We will take our next question from the line of Shankar K. P. from HSBC. Please go ahead.

**Shankar K. P.:** I have 2 questions. One is, we have come across some articles in newspapers in Dubai saying that there is some pressure from insurers on hospitals to reduce the tariffs, have you come across anything like that? Are you seeing some pressure from insurers? Second question is regarding Aster Labs in India, what is the level of revenue that you are seeing from that entity? And what are the kind of margins that you are looking at?

**Azad Moopen:** Yes, I will answer the first question. Dr. Moopen here. So there is no pressure from the insurance companies to reduce the tariff, it is not there, but there are challenges in the insurance sector. There are small players who are disappearing due to many reasons, including the COVID. So that challenge is there, but as such we haven't found any request for reduction in tariffs or change because we have long-term contracts with them. So that is actually not an issue here. Regarding the second part, Dr. Harish, if you could answer regarding the revenues from India.

**Harish Pillai:** Yes. So the Aster Lab, it is actually early days. Operationally, we have just started in April, so this quarter 1, we have just started, and the team is settling down in the reference lab. In the fourth month of operations, the unit is actually broken even. Other than that, it is very early to comment upon the margins and as Chairman mentioned before, currently, we are looking at B2B and of course the number of COVID tests, like Chairman mentioned, has been around 14,000 at this point in time and we will have to wait for the pandemic to be over to focus on B2C. So it is very early days for the lab.

**Moderator:** Thank you. We will take our next question from Rahul Soni from Smith Limited. Please go ahead.

**Rahul Soni:** Two questions from my side. One is, again, regarding your 2 KPIs, average length of stay and average revenue per occupied bed. So your ALOS has increased from last year from 1.9 to 2.5, however, your average revenue per bed has declined and also, your in-patient number, they have also decreased, so I want to understand, is the decline in the revenue per bed, how this is connected with the average length of stay which has increased?

**Sreenath Reddy:** Yes, so average length of stay generally, normally when COVID patients are there, especially in the GCC region, because the COVID patients tend to stay longer and that is where you have seen that increase in average length of stay, but the increase in days, in terms of the revenue that we get per bed is low compared to the normal cases and that is the reason you see reduction in the average revenues per occupied bed per day. Does that answer your question?

**Rahul Soni:** Yes and second question, sir, due to COVID impact, how do you see the UAE healthcare sector shaping up in next 2 to 3 years in terms of the competition from smaller players and also due to the slowdown in the GCC economy, the expat population is also going down and there are job losses also, so what kind of impact that would be in the GCC healthcare sector going forward?

**Azad Moopen:** So GCC healthcare sector where we are mostly in UAE and of course, in Oman, Qatar and Saudi Arabia to a lesser extent. So one good thing which we have seen is that in quarter 2, once the

pandemic started subsiding, we found that the business is coming back to almost normal and if you look at, when compared to last financial year, during this month of August and all, we have almost reached there when compared to in revenues as well as in other parameters. So we, as a large organization, has got the sustainability, which is one of the important things why we are there, but when compared to that, the smaller players who are catering especially only to the lower income segment, I think they will have challenge. So answering your question, overall, like any business, there will be an impact even on healthcare, but for us, we see that being a large player and as we have seen in the second quarter, there is actually a coming back to normal or even going up from that.

**Rahul Soni:** So will there be any further cost reduction exercise going forward in terms of your direct cost and indirect cost, means the manpower cost from the medical, manpower and the...?

**Azad Moopen:** Definitely, that is an ongoing thing and we hope that on an annual basis, there will be a reduction in our manpower cost when compared to last year towards the end, we are hoping that there will be a reduction and this cost, both at the material side as well as at the HR side, it is an ongoing activity, like what Alisha mentioned. We are taking various measures, like the shared services and all, which should definitely bring down the overall HR cost because we have a good arbitrage when you look at the cost in GCC and India. When we do shared services, there should be some benefits coming to us, definitely in the HR cost.

**Moderator:** Thank you. We will take our next question from the line of Shashank Krishnakumar from JM Financial Institutional Securities. Please go ahead.

**Shashank Krishnakumar:** So occupancies in ramp-up facilities in India stood at around 60%, so can you just comment on whether it is sustainable in 2Q and also some commentary on the mature facility occupancy in India in 2Q?

**Sreenath Reddy:** Yes, so that is, actually, the occupancy should have been more or less the same like that of a mature facilities with lower occupancy, but here what has happened in 0 to 3 years. So there is one hospital of us, if you remember, in Kerala, we started 1 hospital at Kannur, right? So that particular hospital, which is just 1 year, 4 months old. It is fully occupied. It is at peak level. So there are only 2 hospitals in this budget. One is Aster RV Hospital and the other thing is that in the Kannur hospital over there. So Kannur hospital is doing extremely well and the occupancy there is to the highest possible. So because of which, there you see higher occupancy rate in that bucket.

**Shashank Krishnakumar:** Have those trends been sustainable in 2Q?

**Sreenath Reddy:** Q2, like what Dr. Harish was saying, as such in India, we need to wait and see because we don't know, because the COVID is still continuing, so really, it becomes difficult to comment on Q2 in India, how it is going to happen because majority of our hospitals are in Kerala and we need to see that kind of an impact for us in Kerala, but however, due to whatever reasons, if the

situation of COVID worsens in that particular state, then that would be a negative impact on us. That is in India. In GCC, anyway, I have already told you that UAE is where significant part of our business in the GCC region and we are out of COVID. Our facilities are out of COVID and because it is out of COVID, I can say that we are back to normalcy, but however, with the caveat that there is no second wave of COVID.

**Moderator:** Thank you. Our next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** So I would say, in difficult times, good numbers. I would want you to give some color on the clinics business, so I joined the call a little late, apologies for that, but have you started seeing the out patients already and what is the outlook on the clinics business? As I understand, these are the stepping stone for the in-patients, so what is the outlook there and what are you actually seeing in July and August?

**Azad Moopen:** Dr. Moopen here. I have already mentioned this, so I just wanted to repeat that. So clinics, there has been a restructuring as well as realignment with the clinics and the hospital. So we hope that like what you said, these are the funnels through which the patients come into the hospitals also. So that should do much better with that alignment and there has been a lot of restructuring happening there in various areas and we have reduced the manpower cost significantly and we also have put in a new HIA system, which should improve the overall functionality. And we hope that by the third quarter, we will be able to see these results coming in and now during the first and second quarter, all the clinics in the UAE, if you look at, they have done badly because of the COVID impact and we were no exception, but as we go forward and once the COVID leaves and we hope that it will go to much better situation than what it was in the first quarter definitely.

**Prakash Agarwal:** But just some more color, I mean, the restructuring would help us in cost side, but what about patients coming in clinics and on the top line side, are we already started to see some kind of improvement or it is at similar levels?

**Azad Moopen:** So there are few things happening like the teleconsultation, home care services and all, which should bring in additional revenue, but if you ask me whether there is a crowd which can cater through like what we had last year, there is a reduction in the number of people, but we have been lucky to have a good market share and people have the confidence in the brand. So while smaller players will have definitely issues due to that, we hope that we will be able to do this because of the connectivity with the hospitals as well as the overall size of the operation. So we don't think that there will be a huge increase in the revenue, but we hope that there will be a decent increase, however.

**Prakash Agarwal:** And would it be fair that by 3Q, we would come back to double-digit margins in the clinics business?



**Azad Moopen:** Q2 or Q3?

**Prakash Agarwal:** Q3, sir.

**Azad Moopen:** Yes. We hope that we will be into double digits by Q3.

**Prakash Agarwal:** And lastly, any broad color we are giving on the overall EBITDA, given the fact that you talked about the staff costs, other expenses would be under control and Q1, Q2 are normally a little softer quarters versus Q3-Q4, so assuming everything constant, how would you look EBITDA to be for the year, very broadly?

**Azad Moopen:** Sreenath?

**Sreenath Reddy:** Yes, so we generally don't give guidance, but however, to answer your question, you are aware GCC is where we have significant part of our businesses and we had that impact in quarter 1 in GCC. Now coming to quarter 2, we are more or less into the normal stage. So based on that, you can assume where we would end up, but this is again subject to there being no second wave of COVID. So our thing is that broadly, we would like to maintain, but for the quarter one, we would like to have the profitability of what we had last year in quarter 2, quarter 3 and quarter 4. That is what we are aiming for, but only we need to see as to how it pans out.

**Moderator:** Thank you. Our next question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.

**Sriraam Rathi:** Just one question, particularly, I think for last quarter, we acquired Wahat Homecare, so has there been fully integrated in this quarter? And what would have been the revenue contribution of the same? And also, if you can provide the Y-o-Y comparison of that revenue for that particular entity?

**Azad Moopen:** So Alisha, you would like to take that question?

**Alisha Moopen:** Sure. So Wahat actually has been doing relatively well. I think with the COVID situation, especially people being reluctant to go into the hospital, there has been a lot more momentum that has happened in the home care section. So that is something which is integrated now into our system. We have sort of closely monitor and watch it. In terms of the revenue contribution, Sreenath you would have to help me. You want to understand how big is it relative to our group, is it?

**Sriraam Rathi:** Yes, right.

**Sreenath Reddy:** Yes, so it is 34 crores per quarter business. So this is something which has not been impacted by COVID and we are doing well over there.



**Sriraam Rathi:** And that particular entity would have been like more or less stable on Y-o-Y basis in terms of revenue?

**Sreenath Reddy:** No, Y-o-Y, it is not there because this we acquired only on 31st December 2019, so this is the second quarter for us.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

**Azad Moopen:** Thank you very much. Thanks a lot for being with us in this call and we hope that all of us will be out of this threat of COVID and we wish you all safety and security and let us hope that things will improve by this quarter as well as in next quarter. Thank you very much for joining the call.

**Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.