

## Aster DM Healthcare Limited Q1FY20 Earnings Conference Call Transcript August 8, 2019

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**Moderator:** Good day, ladies and gentlemen and welcome to the Q1 FY20 earning conference call of Aster DM Healthcare Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

**Gavin Desa:** Thank you. Good day ladies and gentlemen and welcome to the Aster DM Healthcare earnings conference call for investors and analysts. The call has been hosted to discuss the Q1 FY20 financial performance, share operating highlights and outlook. On the call with we have Dr. Azad Moopen – Chairman and Managing Director of the company; Alisha Moopen – Deputy Managing Director; Sreenath Reddy – Group CFO and Dr. Harish Pillai – CEO, Aster Hospitals and Clinics, India.

We will commence the call with comments from the management team, post which we shall open the call for introductory Q&A session. At this point, I would like highlight that some statements that may be made or discussed on the call may be forward-looking statements and the actual results may vary significantly from the statements made. The detailed statement in this regard is on the company's earnings presentation which has been circulated earlier. I would now like to invite Dr. Moopen to commence by sharing his thoughts. Over to you, sir.

**Azad Moopen:** Thank you very much Gavin. Good day everyone and thank you for joining us on this call. We have seen a steady performance in the last quarter. With current ramp up trend of our new hospitals and cost control initiatives across the firm, we expect our performance to strengthen in the coming quarters also. We operate across three segments; hospitals, clinics and pharmacies. Our hospital segment has been the key contributor for revenue growth last quarter both in India and GCC. With 7 of our 25 hospitals being less than 3 years old and in ramp up stage, we expect this trend to continue. Further over the next 2 to 3 years, we plan to add around 900 beds across GCC and India. The Aster RV Hospital, Bangalore, a 230 bedded state-of-the-art super-speciality hospital with 53 ICU beds commenced operation last quarter. This hospital is set to offer comprehensive primary to quaternary care services along with our existing Aster CMI Hospital in Bangalore. While more than 80% of our revenue is currently from GCC, growth in India has always been our long-term plan.

Over the next 5 years, we expect India to contribute around 30% of our business. We feel that this strategy of ours to diversify will bear fruits for us over a period of time. Our expanding presence in India also helps us in sourcing doctors and other medical professionals for our GCC operation as well as in the medical value travel.

Our strategy in India is to focus on tier-1 cities with asset-light operations. Aster RV Hospital is a perfect fit for this strategy.

Around 80% of our GCC business is from UAE where we are one of the largest healthcare providers. In the UAE, we operate under 3 branches, Medicare, catering to the high income population; Aster to the mid income population and Access to the low income population. Differentiation across the 3 brands is based on service level. This clear demarcation allows us to focus on a differential cost structure across brands resulting in profitable operation while providing affordable patient care to everyone. We have a large primary care network in GCC with 100 plus clinics and 230 plus pharmacies. Mandatory insurance regulation in some of the key markets of UAE has helped us in the past to grow to this extent. Along with our hospital, they operate as part of a healthcare eco system and are one of the key contributors to the growth and fast ramp up of our hospitals.

On the regulation front which I want to highlight, there is a very positive development which has happened in UAE. The government of UAE has released the list of business activities that can have 100% foreign ownership and healthcare is part of that list, though retail pharmacies are still excluded. Further clarity is expected over the next few months and we will keep the investors and analysts communities updated on the development. On the macro level, this is a positive development establishing UAE's reputation as a business friendly nation expected to contribute significantly to the economic growth.

I would like to highlight another important thing which is appointment of Alisha Moopen as Executive Director and CEO of the hospital and clinics in GCC who has been promoted to the role of Deputy Managing Director of Aster DM Healthcare. Initially, gaining experience for 7 years at Ernst and Young as Chartered Accountant in UK, she was given the opportunity to contribute to Aster DM Healthcare using her accounting and finance skills where she was assigned to just one hospital. In the second year, she gained exposure to HR and corporate affairs and in the third year was made in charge of all the clinics in Dubai. With mandatory insurance coming into effect just about then, she worked on doubling the number of clinics in Dubai which is yielding us very good benefits now. Post this, she successfully managed to commission the Mankhool Hospital which achieved breakeven very quickly. She was then made in charge of the hospitals in other regions in the GCC. Having worked in the company for the last 7 years and leading the success story in many of our markets, we are confident that Alisha would continue to build Aster's legacy and lead the organization to become one of the top recognized brands in the world.

I just want to highlight that this is not a decision because Alisha belongs to the family or is my daughter. This is a decision which has been taken by the senior management. We have been thinking about this for the last one to two years and there have been lot of discussion whether we should get somebody from outside or inside who can gradually be groomed for the succession planning which we are doing for all the senior posts, so finally the senior management unanimously decided that Alisha will fit into it and so we decided to give this responsibility to her and I should also mention that this is something over a 4 years period she has to prove because we have a plan to gradually shift the business as well as functions to her and once that happens and she performs well, we can consider at some point may be in 3 to 4 years for her to step into the company leadership role and the directors also discussed this at the NRC and they were very happy to have her because they have seen her performing in the last 5 years and they are confident and that is how Alisha is taken at this mantle of Deputy Managing Director.

We have been doing very well in clinical and service excellence and lot of new clinical achievements have been there as well as many firsts in the country as well as

internationally. I don't want to go into the details of that. We also were doing extremely well in the CSR front with large number of people being touched by our activities in India and outside. Overall, this has been a good quarter, supporting our growth story and considering that we have fared better than the previous corresponding quarter and also our facilities ramping up faster, we look forward to an exciting year. We have appointed McKinsey who have made several suggestions which we are implementing across the organization for the efficient improvement in material cost improvement and that is being carried out in other areas and CPO has joined recently, Chief Purchase Officer, again who is consolidating the overall purchases and all which we think that will provide us significant improvement in our bottom-line. Another thing that we are doing is that we are actively pursuing the shared services from GCC to India which again should give us significant benefit and we would like to bring down the HR cost which is one of our major cost components in the coming years.

The overall thrust is on driving down the overhead. Procurement and man power realization are two focus areas where we expect considerable savings. Thank you and now I would like to pass it on to our Group CFO, Sreenath Reddy who will walk you through the financials. Thank you.

**Sreenath Reddy:**

Thank you doctor. Good day everyone. Aster DM Healthcare has shown a healthy financial performance in Q1 FY20. As you may know, we have transitioned to Indian accounting standard 116 during this year. Ind-AS 116 relates to the accounting of leases; however, for the purpose of comparability, we will present the numbers before Ind-AS 116 impact and later brief upon the financial impact due to the accounting standard transition.

Now coming to the comparable growth, revenues from operations in Q1 FY20 grew 14.3% year-on-year to Rs. 2028.6 crore up from Rs. 1774.6 crore in Q1 FY19. Constant currency growth stood at 11%. All segments depicted healthy growth. In Q1 FY20, comparable EBITDA excluding other income stands at Rs. 164.2 crore from Rs. 123.9 crore in Q1 FY19, a growth rate of 32.5% and constant currency growth at 28%. Comparable EBITDA margin in Q1 FY20 was 8.1% as against 7% in Q1 FY19. Comparable profit after tax grew by 44% to Rs. 17.9 in Q1 FY20 from Rs. 12.4 crore in Q1 FY19, a 35% growth in terms of constant currency.

Mark-to-market loss, it is important to note that the significant PAT growth has come in spite of booking Rs. 14.1 crore mark-to-market loss in our interest rate hedge derivative in Q1 FY20. The comparable number in Q1 FY19 was a mark-to-market gain of around Rs. 0.9 crore or 90 lakhs. To give a background to this, the company has a policy to hedge 50% of long-term borrowings in GCC for Libor fluctuation. Accounting standard requires us to book the loss or profit due to changes in valuation of the derivative contract dues for the hedge, though this is notional and noncash in nature. In Q1 FY20, due to steep drop in Libor, we had to book a large mark-to-market loss. Adjusted for the mark-to-market loss or gains, comparable PAT has significantly grown to Rs. 31.9 crore in Q1 FY20 as against Rs. 11.6 crore in Q1 FY19, a 176% growth.

Now coming to the Ind-AS 116 impact, it is important to note that our GCC operations are predominantly based on asset-light model with lease land and building. Due to this, Ind-AS 116 accounting standard has had significant impact on our financials. EBITDA post Ind-AS 116 impact in Q1 FY20 was Rs. 223.7 crore against the aforementioned comparable EBITDA of Rs. 164.2 crore. The net positive difference of 59.5 crore is attributable to the rental reversal under the new accounting standard. EBITDA margin post Ind-AS 116 impact in Q1 FY20 was 11% as against the comparable EBITDA margin of 8.1% before the Ind-AS 116 impact. PAT post Ind-AS 116 impact in Q1 FY20 was Rs. 3.3 crore as against the aforementioned

comparable PAT of Rs. 17.9 crore while the rental reversal of 59.5 crore flows to PAT as a positive impact. There is a negative impact due to increase in depreciation and finance cost by Rs. 44.5 crore and Rs. 29.6 crore respectively. The net impact is a decrease of PAT by Rs. 14.6 crore. The accounting standard changes have further resulted in a lease liability of Rs. 2325 crore and a right to use of assets of Rs. 2053 crore in the balance sheet.

Net debt has increased to Rs. 2596 crore as at June 30th 2019 from Rs. 2329 crore as at March 31st 2019. The debt increase resulted mainly due to expansion in GCC and India business. Net debt in India increased from Rs. 242 crore as at March 31st 2019 to Rs. 331 crore as at June 30th 2019. Net debt in GCC increased from US \$301 million as at March 31st 2019 to US \$329 million as at June 30th 2019.

Coming to the segmental performance, revenues in hospitals increased by 19% to Rs. 689 crore in Q1 FY20 from Rs. 580 crore in Q1 FY19, EBITDA excluding other income increased by 13% from Rs. 73 crore in Q1 FY19 to Rs. 83 crore in Q1 FY20. The EBITDA margin is 12.1% in Q1 FY20 compared to 12.7% in Q1 FY19. A slight drop in margin is mainly because of addition of new facilities which will ramp up in the next few quarters. Also during the quarter, we had an external holiday period for festival which is likely to repeat in Q2 as well. Revenue in GCC clinic has grown by 7% to Rs. 483 crore in Q1 FY20. The EBITDA margin was 11.8% in Q1 FY19 and is 11.7% in Q1 FY20. For GCC pharmacies, revenue has grown 14% to Rs. 540 crore and the EBITDA margin is 6% in Q1 FY20 compared to 6.1% in Q1 FY19. Net of intercompany sales, pharmacy revenue growth is around 11%.

Seasonality, one point that we would like to reiterate is the seasonality of the business is GCC. Revenues in GCC are usually around 40% to 45% in H1 and 55% to 60% in H2, but the EBITDA split can vary as much as 30% and 70% for H1 and H2 respectively. Seasonality variation has consistently been visible over several years and can be expected to continue. Considering a robust growth in Q1 FY20, we are extremely positive for this financial year. With a strong focus on growth and cost optimization initiative, we strongly believe that our financial results will further improve going forward. On that note, I conclude my opening remarks. We would be happy to give you our perspective on any questions that you may have. I would request the operator on this call to open the question and answer session. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

**Kashyap Pujara:** My question is mainly regarding the clinic business. In the last year, if I see, you have actually added 15 clinics, but if I see the revenue actually from that business, the patient growth in that business in the current quarter that has been very anemic, we are may be trailing around the 5% growth mark, so could you run us through what exactly is happening there because as I understand clinics is the nucleus for the business. It canalizes patients towards hospitals and pharmacies and despite addition of new units, we are seeing low single digit growth here, so is this engine slowing down? How do we see this?

**Sreenath Reddy:** Kashyap, yes the clinic growth has been slower during this quarter which we are aware of. We are taking steps to see as to how we increase the footfall. See as you are aware, now 90% of the market is covered by insurance and insurance as such has not increased the pricing, so because of which there is a slight pressure on the pricing part of it, but however, we can take more volume, so that is the plan of action for the subsequent quarter where we would like to increase the volume flow to the clinic, so that is one of the main reason. The other reason is also that during the

period, we had an extended holiday period which also had an impact on the revenues of the clinic.

**Kashyap Pujara:** And even when I see the pharmacy side of it, the pharmacy also this year has been muted and even in the last year the pharmacy volume growth, the outpatient visits was again muted while we are seeing good revenue growth there but the number of patients visiting them was slowing down, so is it like, what is the mature steady state growth in this business, how do we read it, would it be in the range of 5 to 10% or would it be higher? How do we see that?

**Sreenath Reddy:** In the case of pharmacies also, because if you look at 50% of the pharmacies are attached to the clinic, so therefore what will happen is that whatever happens at the clinic, 50% of that will also have an impact for the pharmacy. Now if you look at answering your second question, if you look at the matured pharmacies, we look at a growth of around 5 to 6% and we expect another 5 to 6% coming from the new pharmacies, what we have added during the last 1 to 2 years and what we are planning to add in the current year as well.

**Kashyap Pujara:** And also could you just run us through what is really happening in that market, given that it is mandatory insurance definitely which gives you a visibility of revenue growth, but how is the situation getting there in terms of the difficulty to get money from the insurance companies or do you think that they are exerting more pressure on pricing, how do we read the situation on that front?

**Alisha Moopen:** This is Alisha, so I will just answer that question. So, yes, to some extent of course over the last few years, we have seen an increasing kind of pressure on the pricing which is coming from the insurance companies. Of course, with our size, we have been able to sort of ensure that we have regular conversations and look at how they yields and the relationship with the insurance are more win-win, so obviously from their point they want to ensure that there is no abuse in the system. I think we have a very established credible reputation as far as being a very ethical healthcare organization, which really helps a lot. So, we are looking at what is the best way to kind of manage this relationship, right. So, one of the things that we do is how do we make sure costs are managed better, for example, when you have something like insurance for almost 90% of the claims right now, there is a cost for us to manage these claims, there is a cost for the insurance company to manage the claim, so what we are saying is if we have an understanding of what our claims have looked like in the past, we agree on cost per asset source so that they don't have to hire 100 people to review all the claims, reject claims, reconcile claims and similarly that engine doesn't happen in our side as well, so which will reduce our operating cost as well because we don't have to put so many people as far as approvals are concerned, as far as submissions are concerned, so these sort of arrangements help not just in reducing our cost and their cost, but it also enhances patient experience, so they don't have to wait for a long time to get certain approvals and do procedures and do the checks. So, I think whilst there is, I mean, in any insurance regulated market, there will be a pressure on price, what we are trying to establish is more collaborative and sort of constructive relationship, long-term strategic relationship with the key insurance company.

**Kashyap Pujara:** And lastly on ROCE, most of the divisions that we have like the clinics, the pharmacies, they are all very healthy in terms of return on capital employed and even the matured facilities in GCC are good enough, but the blended ROCE still struggles to kind of inch up mainly because of the new facilities that have come in GCC and India hospitals which are still below the 5% mark, so what is the management's reading on these fronts? Where do we see GCC matured facilities coming at, going forward? And would it mean that given that you are expanding in that region as well you will still not be able to move up on return on capital progressively because you

will always have new expansions that come in which kind of dent the overall return on capital or would this be more calibrated where we will still see structurally the return on capital move up despite few expansions which come in away, so how do you read that situation?

**Sreenath Reddy:** So, Kashyap, answering your question, if you look at the ROCE, you will see significant improvement compared to the earlier year because if you look the year before that it was 7, now it has gone up to 10 and in the current year, we are expecting this number to go further up and the way we are looking at it is that we would like to calibrate, we don't want to make huge investments which we did in the past. The reason why we did it in the past was because of this mandatory insurance which was coming up, so going forward it will be more calibrated and we have got an internal mantra where we say that the ROCE on a consolidated basis including the new facilities should be around 20%, but that will take some more time, it could take few years, but we are moving in towards that direction.

**Azad Moopen:** Dr. Moopen here, we have been actually in a very huge growth space during the last 5 to 10 years. Now we want to consolidate. When you look at our overall capacity utilization in India or outside, we think that there is much more that can be sweated, the assets can sweat better. So, our whole aim is now to reduce investment of CAPEX and then how to sweat the assets better and have a much better EBITDA margin, PAT as well as ROCE. That is the whole idea and that is the reason why we are now looking at reducing the number of new hospitals being planned and all, even though we are planning because there has to be a pipeline, but when you look at our past history, you will find that we are reducing that. I am not saying that the CAPEX cycle is completely over, but we are reducing it, so that there will be more of ROCE as we go forward.

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

**Harith Ahmed:** My first question is on the India hospital segment, is there a seasonality in this business as well because when I look at the margins and compare it with fourth quarter margins, there is a decline and I am looking at even the matured India hospitals, there is roughly 300 basis points decline versus fourth quarter, so can you help us understand this and is there seasonality that is contributing to this sequential decline?

**Sreenath Reddy:** Harith, I will answer the initial part of it and subsequent to that I will hand it over to Dr. Harish regarding the margin drop compared to Q4. See, there is a seasonality in India but not to the extent of what it is in the GCC. Q1 in any particular year, it will be the lowest in terms of revenue and profitability and Q4 in India will be the higher and that has been the trend always, so therefore the matured hospitals in India, like you rightly pointed out, there is a drop in the margin but it has started picking up from quarter 2 where the volume growth is much higher beginning from Q2 onwards. Dr. Harish, you would like to add?

**Harish Pillai:** Yes, to add to what Sreenath has said that one fact of life in the subcontinent in the monsoons and now different parts of our country where our hospitals are located are also seeing the impact of monsoons in terms of change in case mix. We can see a surge in occupancy starting at the beginning of Q2 and that trend we expect to continue to the whole of Q2, so overall compared to GCC I would say seasonality is much lesser, but I agree with Sreenath that quarter 4 is basically the bumper quarter for us in India.

- Harith Ahmed:** And my next question is on the clinics as well as the pharmacies segments where there is an impact of seasonality and hence the number should be compared on a Y-o-Y basis, but when I look at the Y-o-Y margins for these two segments there is a decline versus first quarter last year, so I would have expected some improvement given we haven't added much to the network in these two segments, so can you explain the margin flattish or slightly declining margin profile of these two segments?
- Sreenath Reddy:** Harith, this was something which I had answered even to Kashyap, so in terms of clinics and pharmacies, the margin drop, it is very minimal. Mainly the reason is that on the clinic side because of the insurance, we didn't get that price increase. That is one of the reasons as to why there is a bit of margin reduction and two is that because of these extended holidays what we had which is also expected in quarter 2, so this will not change significantly in quarter 2, but the way we are looking at is to get more footfalls into our clinic and that will also result in higher footfalls to the pharmacists because 50% of the pharmacies are in the clinic, so when we go to Q3 and Q4, we will definitely see improved margins in both clinics as well as pharmacies.
- Harith Ahmed:** And last one from my side on the net debt number, you have seen an increase of around Rs. 270 crore on a quarter-on-quarter basis and you had attributed it to the CAPEX we had done during the quarter, is there a number that you can guide for where we will be on net debt by the end of this fiscal year and if you can confirm the CAPEX guidance for the year?
- Sreenath Reddy:** The CAPEX what we are looking for this entire year will be around Rs. 580 crore and if you look at the borrowing, the way we would like to look at it to keep the debt to EBITDA ratio below 3.
- Moderator:** Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.
- S. Padmanabham:** Sir, my question is again going back to the ROCE, I mean in your presentation slide 20, you had talked about established Indian hospitals and clinics reporting ROCE of 4% while the new ones probably would be at around 2%. I mean here what I am trying to understand is that while we see the GCC hospital, established hospitals running at even 25 to 30%, I mean at a mature level assuming 3 years, 4 years past, what is the kind of steady state ROCEs that one can actually expect from the India business? Is it going to be ROCE dilutive for you but probably contributing to growth?
- Sreenath Reddy:** So, coming to the India business, definitely the ROCE at this point of time is lower mainly because the capital required for facilities in India is significantly higher and the realizations when compared to GCC is lower because some of the projects what we had undertaken was not on asset-light in the past, but however going forward we are coming up with models with large format hospital on an asset-light model and also if you look at many of our facilities in India are fairly new and they have been a drag in terms of them not contributing to the profitability, but we feel that in the next 4 to 5 years, India hospitals based on the strategy what we are following, we should have at least 15% ROCE in the next 5 years coming only from the India hospitals.
- Harish Pillai:** I want to just add up to what Sreenath just mentioned that our recent experience with opening of new hospitals in Bangalore as well as our facility at Kannur have been hugely surprising, though we anticipated the market needs for this facility, what we are really pleased is the kind of clinical offerings and the package what we are able to offer to the community has really boosted the overall topline and bottom-line, so like Sreenath mentioned our expectation is that even for the new facilities, the ramp up will be on an accelerated mode compared to peers.

**Azad Moopen:** Just wanted to add on, Dr. Harish was mentioning about Kannur, so Kannur we started just 3 months back and even before inauguration, we have not inaugurated that facility but you will be surprised that we went into a EBITDA breakeven, so this is something which has not happened not only with us, we checked and I don't think it would have happened in the history of any hospital, 3 months EBITDA breakeven within a very short period has crossed Rs. 10 crore per month revenue and all, so we are seeing that we are able to attract more of patients as well as to get the confidence of people because of the brand and because of many things, so this is something which is giving us confidence that there won't be the drag on EBITDA as well as on PAT as well as the ROCE. As we go forward, we will be doing better.

**S. Padmanabhan:** Sir, my second question is on the debt side, I mean here you had talked about CAPEX and debt increasing by about Rs. 200 crore, but if I am actually looking at our EBITDA, I mean adjusting for this Ind-AS we are looking at an EBITDA of about Rs. 165 to 170 crore. I mean if one is looking at the full year kind of EBITDA as well, shouldn't this more or less take care of your kind of CAPEX, I mean you are looking at more than about, if you are doing about Rs. 1,000 crore of EBITDA this year, little more than that and you are looking at about Rs. 580 crore of CAPEX, why should even the debt go up unless your working capital intensity has jumped?

**Sreenath Reddy:** Answering your question, definitely the working capital intensity has jumped because 90% of the business being in GCC where we get the payments anywhere between 90 days to 120 days. Now coming to the quarter 1 because even the receivables what we get is slightly on the slower pace. Like the business, this is on the slower pace, even the receivables are slightly on the slower pace, so therefore there will be borrowings in quarter 1 and quarter 2, but it is significantly reduced when it comes down to quarter 3 and quarter 4 and therefore the debt levels will not increase significantly. Definitely, there could be a small increase the reason being because of the working capital requirement and even though you are saying that it is going to be a Rs. 1,000 crore plus or whatever the EBITDA number, but the thing is that certain amount of it will not be got in the form of cash, so therefore there may be a small increase on the debt, but we don't see a significant increase in the debt.

**S. Padmanabhan:** And on the year-on-year basis because of the fact that you are seeing a higher salience because of mandatory insurance, has your net working capital in terms of days gone up quite sharply and if so by how much do we expect the net working capital cycle to be probably by the end of FY20?

**Sreenath Reddy:** What we are seeing is that the net working capital definitely requirement, the debtors days has gone up what used to be around 90 days now has gone up to say, 100 to 105 days. So, like what Alisha was saying, we are devising certain plans wherein we are in discussion with insurance companies wherein we don't want for us to take the approvals, send the bills, get the claims done, get the approvals, so what we have been working is on something called the cost per visit or cost per episode, so there is a fixed amount of payment which can happen from the insurance company. That will forego the hassles both from the insurance company as well as from our side in processing the papers, getting the approvals and getting all the clearances which some of the insurance companies are very positive about it. We are likely to roll this out in quarter 3. When that happens our working capital levels will go down, but for the moment we have not taken that into consideration, but we are working towards it.

**S. Padmanabhan:** One final thing from my side is, you had talked about engaging McKinsey for cost reduction, purchase and overheads, can you elaborate a bit in terms of what is the timeframe that you are working out and what is the kind of reduction in terms of cost we can actually see probably over the next couple of years?



**Alisha Moopen:**

We did this exercise both in the GCC as well as in India. In the GCC, we had engaged McKinsey to do it and help consolidate the detail and in India, we had engaged EY to do it, so what we have seen is that on procurement, obviously the big part of it is on the medicines and the consumables, so how is it that we can actually consolidate requirements from all the different regions as well as limit the number of suppliers, so that we can get better prices from each of the suppliers, so what we have seen already is estimated assumption of almost 3 million dirham around Rs. 55 crore benefit from that exercise and it also helps sort of operations a lot as well. Apart from that we have hired now internally a Chief Procurement Officer, who is actively working on consolidating it from both regions, so not just having the separate view for GCC and India but look at it from an overall group perspective and our assumption is or our expectation is to have 1% reduction in our material consumption cost over the next 3 to 4 quarters, so that is the goal that we have set, now even though that is significant obviously in healthcare, our larger cost piece is on man power. So, there is a huge asset that is going as far as right sizing the teams are concerned. We had an extensive exercise in our flagship hospital here in Medcity where we looked at what is the right man power manning requirement and we were actually able to reduce sort of lot of the frontline tasks as far as nursing is concerned, some of the customer service up to 20 to 25%, so we have seen a huge impact as far as our EBITDA margin is concerned for this unit and this was done as a pilot and now we are extending the same to our other hospitals both in India as well as GCC, so again our goal as far as HR cost is to have a reduction of 2 to 3% in this upcoming year. This will be a combination of making sure that we have the right number of people, how is it that we can technology to make people work more efficient, so smart working with lesser number of people and the third interesting thing which we have now started the project on shared services. So, actually in the GCC, we have got a large number of back office work that is happening presently, we were talking about almost 1500 number of people who are sitting, doing lot of the insurance or finance, HR related work, so we are talking about having our share service centre for these activities to be based out of India. This will actually give us big improvement both in terms of efficiency as well as there will be a significant cost reduction because of obviously the labor arbitrage that we will be able to kind of capture, so between these three things we are expecting our margin improvements to be consistent and we have had the proof of concepts with these pilots that I had mentioned, so we are hopeful that we will be able to see a good improvement in our margins in the next 3 to 4 quarters.

**Moderator:**

Thank you. The next question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.

**Arshad Mukadam:**

My first question is based on the projects that are in the pipeline right now, so how do we look to fund these projects that equity in terms of rules could you give some light on all the projects in the next 3 years?

**Sreenath Reddy:**

We don't want to take significant debt, so we want to reduce in fact the debt from the present levels, but having said that like I mentioned few minutes back, there could be a small increase in debt in the current year, mainly because we are also looking at some very small acquisitions, but coming to the other projects which are there in the pipeline, so going forward, we should be able to fund that through our internal approval, so we will need a debt only in a scenario where we are doing any medium to large acquisition, but right now we don't have such plans of doing any large acquisitions, but there could be some small and medium acquisitions. What has been factored in this pipeline projects is either Greenfield projects or which are asset-light projects and this is over a period of next 2 to 3 years and therefore we don't see any need for us to take additional debt for these projects.

- Arshad Mukadam:** My next question is based on the new hospitals that come up in India, what is the average breakeven time and what could you say is the EBITDA margin potentially of these hospitals?
- Harish Pillai:** Where India is concerned, just few minutes back we gave an example of our new hospital, a 300-bed unit at Northern city of Kannur, so we had this very surprising experience of it being EBITDA positive in just 3 months' time, so therefore we are quite bullish in that. The earlier traditional model of breakeven based on your capital structure, all those types of rules have been rewritten, primarily because of our asset-light approach and the large format. The new unit which we have opened at JP Nagar Bangalore, Aster RV is also on the same line, it is doing extremely well and we are quite bullish about its future.
- Arshad Mukadam:** And the margin potential of the Indian hospitals?
- Sreenath Reddy:** What we are looking at uplift of the hospitals in the large cities, big format hospitals, we are pretty confident that these hospitals will cross 20% EBITDA margins once they go into a matured state, so the other hospitals which are there in tier 2, tier 3, so there we have got a bit of challenge because the affordability and there is a bit of concern on the affordability, so over there we will be having around 15% EBITDA margin, so these margins what I am talking about is in the next 1 or 2 years, so all these facilities should be in the range of 15% and 20% in the case of facilities in the large cities.
- Arshad Mukadam:** And just one clarification question, I think we had mentioned earlier that there would be a reduction in HR cost of 2 to 3%, so when you refer to HR, does it include doctor cost or only other employee cost?
- Azad Moopen:** This 2 to 3% in HR cost is our overall HR cost. See, our HR cost now sits around 51%- 52%. We want to bring it down to 49%, so that is the target which we have kept which means that everything is included.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** First one is on the ownership limits in UAE which the cabinet passed, so can you tell us what are the next steps? Are you having discussion already with the local partner? I know probably we don't have a final legislation yet, but can you just walk us to the next steps and when you likely have 100% in the UAE division?
- Azad Moopen:** We already have started this activity. Our legal department is in discussion. So, regarding the local partners and all, there is no issue because these are people who are very close with us and some of them are minority partners in some of our businesses, so that is not an issue at all. The only issue is that the timing, so what we have come to know from the authorities and what we are now processing is one by one as it is we have large number of clinics and hospitals which are now allowed, pharmacies are not allowed, so we hope that it is the operational phase. It is not that we require any more approvals. The government has operationalized it, we just have to do that which may take according to me 3 to 6 months. In the next 2 quarters, I think we will be able to get most of our assets in UAE hospitals and clinics into that 100% ownership structure.
- Shyam Srinivasan:** So, what you have to pay the local partner, is it a nominal amount or is it a percentage of the holding he has today, if you can clarify that?

**Azad Moopen:** We don't have to pay anything, in fact we don't have any arrangement, we don't pay anything now and we don't have to pay anything, so it is not there, it is unlike many other people who have their local sponsor and give a sponsorship. For us, it is luckily we have people who have been with us. They are partners in some of our businesses, actual partners, small minority partners and one of them actually is a partner in the business who is the director also, Shamsudheen Bin Mohideen, so we don't have that issue of paying anything for this people for this change.

**Shyam Srinivasan:** So, it will just be an agreement that will be signed which will now give you 100%?

**Azad Moopen:** That is right. We already have in fact the DIFC structure where all these documentations is done, so there may not be even much of documentation required from their side, but if at all if it is required, they will be given whatever is required.

**Shyam Srinivasan:** So, 6 months is what you are saying right, doctor?

**Azad Moopen:** Yes, by end of this year I think at least 80% of the total assets in UAE, we think we will be able to bring it into our 100% ownership.

**Shyam Srinivasan:** And the remaining will be the pharmacies essentially?

**Azad Moopen:** No, not that, among the allowable which is the clinics and hospitals, of that 80% should come, I am just giving a very conservative estimate. We want to make it 100% but at least 80% I hope that it should come in our ownership.

**Shyam Srinivasan:** And my second question is on the holiday calendar change, can you quantify in number of days where the holidays of kind of impeded volume growth, you know I am just looking at if some of the reason why clinics and pharmacy volume growth have been low because of this holiday and if you can quantify what are the number of days, what has moved, why is it going to be in the second quarter as well?

**Sreenath Reddy:** The government this year has given more holidays for people to celebrate, so compared to last year, if you look at for the festival, the holidays was just 4 days. I think this time, it has slightly extended, but however, what has happened is that what is peculiar in this year is that there are Friday, Saturday which is also coming along with the holidays, so therefore it has got an extended holiday compared to what it was last year and very soon, I think in another 3 to 4 days is again the holiday which is starting for quarter 2 and that is also going to be slightly extended compared to the same period last year, so in terms of number of days, if you want me to quantify that it will be 4 days more compared to last year in each quarter.

**Shyam Srinivasan:** So, you may have potentially lost business for 4 days?

**Sreenath Reddy:** Yes, we have lost business for 4 days.

**Shyam Srinivasan:** And what is that for Q2?

**Sreenath Reddy:** Q2 also, we will be losing 4 days.

**Shyam Srinivasan:** If I were to remove or try to look at it like for like, would you be able to work back what the volume growth would ideally have been because 5% includes the loss, right, so I am just trying to see are the same store or clinics, pharmacies, hospitals, is it better from a volume growth perspective, if I make adjustment for the 4 lost days?

- Sreenath Reddy:** Sir, we can make that calculation and send it to you offline. When I said these 4 days, this is the loss of days over and above what we had in the previous period. So, in all it will be all of close to 7 to 10 days of holiday. The net impact of extended holiday for us during this quarter is 4 days and in quarter 2 we will have another 4 days.
- Shyam Srinivasan:** And just from a timing perspective, this will normalize, so it is not like Ramadan right, doesn't change between quarters, this is now the new calendar?
- Alisha Moopen:** This is completely linked to the Eid holidays actually. It was our first Eid that we had after Ramadan which kind of fell in the middle of the week and people took both weekends on either sides of it and made it almost a 10-day holiday, so last year both the Eid were in the second quarter where usually you have most of the people exiting the country and our volumes are low any way. This time because of the movement and Ramadan being in May and then the first week of June getting affected, we actually had the impact in the first quarter, so it will keep moving slowly, so you will have the two weeks but for quite some time now, this will continue to be in the first quarter.
- Moderator:** Thank you. The next question is from the line of Jason Lee from Navis Capital Partners. Please go ahead.
- Jason Lee:** I just have a quick clarification question, so was there a particular reason why the WIMS Hospital was removed in terms of the hospital beds?
- Sreenath Reddy:** This WIMS is the hospital what we have got is the O&M where we don't capture the revenues for the medical college hospital, so therefore it was in the capacity bed and we thought that because we are not capturing the revenue of that particular hospital and we are getting just a management fee, there is no point having those bed in the Aster group, even though the MIMS medical college hospital belongs to the promoter group.
- Jason Lee:** And just a quick second question, can you provide us with an update on the Aster Labs and when you will see that positively impacting the company's financials?
- Harish Pillai:** Currently, the Aster Labs, we are in the process of setting up our Reference Lab at Bangalore and we expect numbers to look quite interesting in two quarters' time.
- Moderator:** Thank you. The next question is from the line of Agam Shah, an Individual Investor. Please go ahead.
- Agam Shah:** Just had two questions, so firstly when do you plan to consolidate on both in GCC and India, so when the expansion in terms of new hospital will step up and will be progressing more towards on existing, trying to get more profitability on the existing facilities, second question, if you can just throw some light briefly on the new business of the pathology which we are planning to introduce?
- Harish Pillai:** I will first answer your second question about the pathology business. We are quite interested to grow the pathology business because of natural synergies. As you know our existing network in GCC countries is predominantly primary care and secondary care where the samples are going to other entity, so we feel there is a great opportunity to in source the samples to the Aster Labs which we are establishing right now. The Reference Lab as we seek is in the process of getting commissioned and in phase 1, we are focusing on expanding in India in those states where we have significant presence and a good brand identity.

- Agam Shah:** If I can just go on follow-up with the second question, I was just saying we will be able to target revenues or this will be only for inhouse, we will be targeting this as a revenue kind of a business or it will be just for inhouse for our GCC clinics?
- Harish Pillai:** No, this is a standalone vertical, so what we are looking at is not just GCC, that is just low hanging fruit for us, but predominantly we are focusing on expanding in India and in phase 1 the business model is looking at B2C starting off with the Reference Lab, we have patient experience centers and collection centers, so the rollout is looking at Karnataka, Kerala, Telangana, Andhra in phase 1 and eventually we will go to Tamil Nadu and Maharashtra and we are also looking at other opportunities elsewhere.
- Agam Shah:** My first question was that in terms of expansion of getting the hospitals in GCC region and entire India, so when do we look to consolidate that and may be focus on the existing hospital with the entities and get more profitability on that. When do you see that happening and some outlook on that?
- Harish Pillai:** So, if I understand correctly, unlike the past we are now calibrating our expansion plan. We are looking at, may be one unit in GCC and one in India, but the main focus is to sweat our assets. We are looking at increasing the bed utilization of our existing hospitals in the network.
- Agam Shah:** My question more to say in other way, so can it be here where we are not expanding any hospital and may be just focusing on the existing ones or is there any time yet for that?
- Sreenath Reddy:** No, we have got pipeline projects and we would like to grow, but growth will not be where in we need to borrow significantly or we need to incur huge CAPEX because we have got an asset-light model, so the way we are looking at it is that every year we will have one facility coming up in the GCC and one facility coming up in India, so it will be a calibrated growth unlike the past where we had significant facilities being added, so growth is important for us, but however, it will be calibrated.
- Agam Shah:** And what are the debt payment schedules, so how much debt are we paying in next 2 years' time, the debt repayment schedule?
- Sreenath Reddy:** We are looking at, we have not decided on that as to whether we should reduce the debt, whether we should declare dividends, what we need to do with the free cash that we are going to come up, should we go ahead with some acquisitions with the free cash, so that is something which will be deciding in the due course and may be in the next few quarters, we should be in a position to give a better picture on that.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.
- Tushar Manudhane:** Just continuing on the previous participant for the WIMS deletion in terms of counting capacity and operational beds, so even the other like CMI and RV hospital, is there any rethink on that?
- Sreenath Reddy:** The model what we had with WIMS or the Wayanad Institute of Medical Science was where we get a management fee for managing the medical college hospital beds, but the CMI and other facilities where we say O&M, the entire revenues, the profits or the losses are to our account, but in WIMS, the loss or profit is not to our account, we get only a management fee for that. That is the difference between the Wayanad and the other facilities that we have got in O&M.

- Tushar Manudhane:** And with respect to the lab business, given the way we want to expand in the at least existing where we have established presence in terms of hospitals, but will be requiring some marketing cost, right, so any quantum of cost that will be incurred over next couple of years?
- Harish Pillai:** I am not in a position to quantify the marketing cost, but the advantage what we have is we have a very experienced leadership team which has been in the market for couple of decades, so we have full faith in the management team and the synergies what we have. We feel that it will be a robust model and we will see the first numbers in the coming two quarters.
- Azad Moopen:** So, I just wanted to add to that, see we are now as you rightly mentioned going into the geographies where the brand is already present, so that advantage is there, so when Aster starts something unless of the people who have just lapsed, we will have an advantage of having trusted brand behind that which I think people will aspect and of course we will be doing whatever marketing is required as we go forward, so the first two quarters will be a testing situation where we will stabilize that.
- Tushar Manudhane:** Because as a part of B2C, we will have to have near to the customer kind of physical infrastructure, so that would require some cost, right?
- Harish Pillai:** That is part of our infra cost like I mentioned before the setting up of the Reference Lab at Bangalore and this patient experience centers and also collection centers which will be many more in numbers, so it is a pyramid structure which will be spread out across the states where we already have a presence.
- Tushar Manudhane:** And just lastly, the breakdown of this Rs. 580 crore CAPEX for FY20?
- Sreenath Reddy:** This is for various projects, off hand we don't have the breakup as to which project, how much it is, but we have got the details, but for this call we don't have the breakup, but these are for various ongoing projects.
- Tushar Manudhane:** So, if at all into GCC India at least that breakup?
- Sreenath Reddy:** Yes, between GCC and India, so at least in the current year in India the CAPEX is going to be out of these Rs. 580 crores, so it will be close to around Rs. 150 to 180 crore, in that range, the rest will be in the GCC.
- Moderator:** Thank you. The next question is from the line of Rupen Masalia from RN Associates. Please go ahead.
- Rupen Masalia:** I have a couple of questions, one is regarding the Sanad Hospital in Saudi, so just wanted to know about the occupancy rate and EBITDA in Q1 and outlook for the whole year and secondly regarding the monetization of idle land parcels, so any update on that front?
- Alisha Moopen:** I will just answer a little bit on Saudi. So, what we are saying is, I don't know how much you know the history of Sanad but what we have been able to accomplish is the shift from this whole long-term model to a tertiary care hospital, so earlier where we were doing around 150 to 200 surgeries in a month, we are now doing upwards of 500 surgeries in a month, so that has been consistent and we are seeing a sort of a good shift as far as the patient numbers are concerned and obviously we turned into the black last year. Quarter 1 has been as usual lean in line with the rest of the GCC and in Riyadh and in Saudi, there has been a little bit of exit of the expat population. So, in Riyadh there was 2 million of the expat population who have left,

so we have seen a small dampening as far as some of the expat patient base that we used to see, but with the new strategy of focusing on the surgical specialties and with the new management team that we have put over there, we are fairly confident that by the third quarter we will be demonstrating and be able to show positive results.

**Rupen Masalia:** And regarding the monetization of idle real estate parcel?

**Alisha Moopen:** Yes, that is something which again we are exploring because that was the only one asset in the GCC where we are capital heavy and we have the land ownership, so we are discussing with the few banks on looking at a writ option, so we were happy to see that the rates are going down and hopefully we will be able to get a good proposal and also which will make sense for us to take the cash out from the property, so that is what is going on.

**Moderator:** Thank you. As there are no further questions in the participants, I now hand the conference over to the management for closing comments.

**Azad Moopen:** Thank you all for participating in the conference and we are available any time for any questions, our team will be happy to answer. Thank you very much.

**Moderator:** Thank you. On behalf of Aster DM Healthcare Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.