Aster DM Healthcare Limited
Q3 FY20 Earning Conference Call Transcript
February 12, 2020

Moderator: Good day, ladies and gentlemen and welcome to the Q3 and 9 months earnings 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

Rishab Barar: 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 Q3 and 9 months FY20 financial performance, to share operating highlights and outlook. On the call, we have Dr. Azad Moopen – Chairman & Managing Director of the company; Alisha Moopen – Deputy Managing Director; Sreenath Reddy – Group CFO; Dr. Harish Pillai – CEO – Aster India and Sumanta Bajpayee from the Finance and IR teams.

We will commence the call with comments from the management team, post which we shall open the call for introductory question and answer session. At this point, I would like to highlight that some statements made in today's discussion 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: Good morning everyone and thank you for joining us on this call today. We have crossed 9 months in the current financial year, and I am happy to inform you that we have achieved revenue growth of 12% as compared to last year 9 months. During the 9 month period of the current financial year, India revenue grew by 28% whereas the revenue growth in GCC region was just 8% as growth in GCC clinic has remained muted due to challenges of insurance pricing. We expect the transition of low yield patients from Aster to Access Clinics in next couple of quarters to free up the capacity at the Aster Clinics for high yield patients while it may take couple of quarters to have perceptible growth in revenue. We are actively working for optimizing various cost heads for improving the margin.

During the 9 months period, we have recorded EBITDA of Rs. 652 crore which is an increase of 27% compared to last financial year. We have also improved the EBITDA margin by 122 bps points which has translated to an EBITDA margin of 10.1% for the YTD December. Mr. Sreenath Reddy, our group CFO will take you through the granular details of our financial performance for the quarter and period till December.

Let me share some of the business updates for the quarter. One of the very important milestones that we have crossed is 100% legal ownership in our subsidiaries in Emirates of Dubai which contributes majority of our GCC business. As per UAE law requirements, nationals of the UAE have to hold directly or indirectly be the legal registered owners of at least 51% of the share capital of UAE company and foreign investors cannot acquire more than 49% of legal ownership. The government of UAE announced last year permitting 100% ownership to foreign company. Subsequently, the government department released the list of business activities that can be 100% foreign ownership in which healthcare was a part including the retail. I am very happy to share with you that we have received formal approval letters from government authorities to convert all our business in Dubai to 100% legal ownership. I reiterate that we don't have to pay any money for this legal transfer and hope to complete the process by the end of the current financial year. I am sure that you will consider this as a very positive development as legal ownership was a concern for investors, though we had beneficial ownership earlier. In other Emirates of UAE, we are in the process of getting this. As you know in Saudi, we already have 97% stake and we have 70% legal ownership in Oman also. So, this means that most of the areas where we have large operations, it is looking into a full ownership.

We are venturing into additional business lines both in GCC and India which are less capital intensive like Lab and Home Care Business. We shall be starting the Aster Labs in India in this quarter. As part of the strategy for the home care, we acquired 100% stake in Wahat Al Aman Home Healthcare Limited, Abu Dhabi. Wahat offers home care services wherein nurses are deputed at residence of the patients to provide healthcare services. Presently, in Abu Dhabi market, the home care business is dominated by 2-3 large players and some other smaller players and we hope to be among the first 3 of the players in the Home Care Business. The financial details of this shall be mentioned by the Group CFO.

There are some other small transactions completed during the quarter, all in line with our objective of consolidating our holdings. In India, Aster DM Healthcare has increased its stake in two of its subsidiaries, the first one in Prime Hospital, Hyderabad wherein our stake has increased by 4.89% to now aggregate shareholding of 77.30%, the second one is Aadhar Hospital located in Kolhapur, Maharashtra where our shareholding has increased by 2.06% to 86.99%.

In January 9, 2020, the board of directors of the company approved the proposal to buy back shares of the company at Rs. 210 per share on a proportionate basis through the tender offer process. This buyback program is part of our endeavour to maintain a balance between our growth aspirations and ensuring regular returns and value for our shareholders. We are cognizant of the need for reducing CAPEX and building positive free cash flows. We are evaluating the liquidation of some of the ideal land assets in India to fund the ongoing projects. One of the most important strategies to reduce the manpower cost as a percentage of revenue by 2% and the procurement of cost by 1% in the next financial year will also help in improving our margin.

In line with our strategy of discontinuing loss-making operation, we have closed our operations in Philippines, we are focused on sweating the present assets in India by putting into operation, 500 to 600 already built capacity beds in next financial year. This will help in better margin and better ROCE. We are equally focused on delivering best healthcare services and constantly looking at various avenues to ensure our medical and service excellence levels are improved. For detailed operational and clinical highlights of the last quarter, please refer to the investor presentation. Overall, we did better than previous corresponding quarter and I look

forward to a positive year ahead. Thank you. I would now like to pass it on to Sreenath Reddy who will walk you through the financials.

Sreenath Reddy: Thank you, doctor. Good day everyone. Aster DM Healthcare has shown a healthy financial performance in Q3 FY20. As you already know, we are transitioned to IndAS 116 during the year; however, for the purpose of comparability, we will present the numbers before IndAS 116 impact and later brief upon the financial impact due to the accounting standard transition. In Q3 FY20, we have registered revenue from operations of Rs. 232 crore which is 8% growth on year-on-year basis and corresponding constant currency growth is 9%. In Q3 FY20, we have reported EBITDA of Rs. 314 crore which is 19% growth on Y-o-Y basis and corresponding constant currency growth is the same that is 19%. EBITDA margin in Q3 FY20 was 13.5% as against 12.2% in Q3 FY19, an improvement of 126 basis points. Profit after tax grew by 54% to Rs. 155 crore as compared with Q3 FY19.

Coming to 9 months performance, revenue from operations for the year till date, December 2019 grew by 12% to Rs. 6437 crore from Rs. 5762 crore for the year till date, December 2018. EBITDA excluding other income grew by 27% to Rs. 652 crore from Rs. 513 crore for year till date, December 2018. PAT has grown by 61% to Rs. 200 crore from Rs. 124 crore in year to date, December 2018. Our revenue and EBITDA and the constant currency growth stood at 11% and 26% respectively.

Moving on to IndAS 116 impact, it is important to note that our GCC operations are predominantly based on asset light model with leased land and building. Due to this, IndAS 116 accounting standard has an impact on our financials. Because of IndAS 116 impact, EBITDA has increased by 72 crore in Q3 FY20 and PAT has decreased by Rs. 16 crore. Resulting EBITDA and PAT post IndAS 116 are 385 crore and Rs. 139 crore respectively. EBITDA margin has increased by 3% and PAT margin has reduced by 1% on account of IndAS 116 impact.

Coming to the segmental performance, the revenue in hospitals increased by 16% on year-on-year basis to Rs. 1218 crore in Q3 FY20. EBITDA increased by 24% on Y-o-Y to Rs. 186 crore in Q3 FY20. The EBITDA margin is 15% compared to 14% during the same period in the previous financial year. Revenue in GCC Clinic is stable at Rs. 543 crore in Q2 FY20. The EBITDA margin remained at 18% compared to the same period in the previous financial year. The muted performance in this segment was on account of higher volumes of lower economic segment patient. The strategy is to move the lower economic segment patients from Aster to Access. This transition is likely to occur over a period of next 2 to 3 quarters. For pharmacies in GCC, revenue has grown 4% to Rs. 623 crore and the EBITDA margin is 12% in Q3 FY20 compared to 11% in Q3 FY19.

Coming to the balance sheet, the group's net debt stands at Rs. 2791 crore as at 31st December 2019 compared to Rs. 2329 crore as at March 2019. The breakup of debt stands in India at Rs. 350 crore compared to Rs. 242 crore as at 31st March 2019 and the GCC net debt stands at US $342 million compared to USD 301 million as at 31st March 2019. CAPEX during the 9 month period was Rs. 540 crore and the purchase consideration for acquisition was Rs. 214 crore.

Considering our robust growth in Q3 FY20, we have a positive outlook for the current financial year. With a strong focus on growth and cost optimization initiative, we 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 Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just little more clarity on the statement you made on your opening remarks on the completion of 100% ownership which is I think a very great step, just wanted to ensure it is for all the entities in the UAE and there is no incremental cost involved, did I heard that correct?

Azad Moopen: Yes, so just to be clearer as I mentioned a large part of our business is in Dubai, so in Dubai this is approved which is majority of our business, about 80% of our business in UAE is from Dubai. So, that actually is a place where it has been approved because Dubai government usually goes fast forward, so this has been approved and we have got the approvals from the government. Earlier, there was a doubt whether the retail will be allowed but even that has been included and we have got the approval letters. Now that process is going on and one thing which we had doubt was whether there will be any charges for this but the authorities have made it clear that there are no additional charges required and we also don't have as already this is structured in such a way that there is no beneficial relationship to the local partners. We don't give anything to anybody, and it will be just a minimal charge which will be required. So, that is regarding all the hospitals, all the clinics, all the pharmacies that we have in Dubai. In the other Emirates where we have minimal business like in Sharjah, we have one hospital as well as few clinics and pharmacies; in Abu Dhabi as well as other places which is just 20%. That process is going which will take may be few months, but we are sure that will also happen but what we can confirm is about Dubai.

Prakash Agarwal: And is there a clarity on other countries, the other GCC countries also in terms of Qatar, Bahrain?

Azad Moopen: Regarding Saudi, as I had mentioned in the call it is already 100% ownership is allowed in Saudi and we have 97% stake there. In Oman, they allowed 70% of the legal ownership but up to 95% of the beneficiary ownership is allowed and we have legal document for that. In Qatar is one place where they allow only 49% legal ownership, but we have 99% financial or economic benefits which can be legally certified by the notary and that is also in place. And in Bahrain, it is 100% ownership. So, overall when you look at, there is only minimal that is remaining where there is a 100% ownership is required to be converted and we hope that all the other GCC countries also will go in that direction but as I told earlier, this was the big piece and that is being now sorted out.

Prakash Agarwal: And sir, second question on the pharmacy and clinics business where you yourself said that growth has been little softer, you mentioned couple of points because of the pricing and you are bringing more, the Access patients are coming, so you mentioned about high yield patient, so what are the other initiatives, one you mentioned optimising cost, if you could just elaborate little more and what is the timeframe that you are looking at in terms of seeing that optics improving?

Azad Moopen: Sure, so one of the most important things happening is that we had some challenges when we looked at after the insurance came in when we looked at our existing software, so we are shifting this in the Aster Clinics as well as Access Clinics, so we are in the process of implementing. It is about 25% over and by end of March we hope that all the complete Aster Primary Care Clinics that is the Access as well as Aster Clinics will be completely into the new software. So, this will definitely improve the speed at which doctors can see patients as well as the efficiency and also most importantly the insurance cases being sent, the RCM

cycle will improve and the rejections will reduce. So, that we are quite confident and apart from that there will be a reduction in the work force also which will reduce the HR cost. So, with all this, we hope that we will be able to have a significant improvement in whatever is happening now in the Aster Hospitals and Aster Clinics and that will reflect also in the pharmacy because as you know most of our clinics are attached with the pharmacies and when the Aster Clinics, it goes up, then pharmacies also will do well. As such, we don't find a challenge in the Access Clinic because that is one sector where the lower income patients are coming, and we have efficiencies there and so we are having that growth as well as the EBITDA margins. So, overall we hope that we will be in a good position in two quarters.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: The first question is on the India business. We have seen very good growth in topline, I think 28% for the quarter but margins don't seem to be kind of improving, I am looking at slide 25, this is pre IndAS, so I am assuming it is like for like from an operational perspective. So, 13% margins have remained flat, so what needs to be done more, I know there could be start-up losses, but I am just trying to understand from a margin and operating leverage perspective, when will we see margin expansion in India?

Sreenath Reddy: Shyam, we have also got Dr. Harish. Dr. Harish, you can briefly give about the India operations. On the margin side, if you require, I can pitch in.

Harish Pillai: Thank you for that question. When you compare last fiscal and this fiscal, we have taken lot of initiatives to stabilize operations and improve margins primarily by focusing on two critical aspects of work in India, one is obviously the manpower piece. We have brought in huge amount of efficiencies across the chain by clearly looking at the manning ratios across the board and that has really shown us significant results. The second aspect is on the material piece where we have gone about standardizing the work flows, for example, the drug formula across the network has now been standardized and we have a close grip on consumption patterns in our network, so that these two big initiatives have really brought in efficiency. Third aspect is, we are also in some of our specific geographies we are changing the payer mix. We are moving away from scheme patients to more of cash, otherwise TPAs and insurance and we can also see an uptick on margins on account of changing this overall the payer mix strategy. So, these three things are there but the fourth, I would say is that also our international patient flow has also helped us, the type of patients coming to our hospital has also changed, so these four initiatives have really helped us to grow the margins.

Sreenath Reddy: To add to what Dr. Harish said, Shyam if you look at quarter 3, the EBITDA margins in India remains the same but however if you look at the 9 month period what was the 10.4% EBITDA margin has moved up to 12.2%. So, we expect that in coming quarters India should do well, moreover there are start-up losses of some of the facilities but having said that in spite of that coming quarter should look better.

Shyam Srinivasan: So, digging here further, so 15% is the established unit margin I can see for 9 months, so is there scope for that to move higher?

Sreenath Reddy: Yes, one of the established hospitals which is on the lower time at this point of time which is in Calicut, so that is where the effort is being put in and once that hospital is able to give better results, definitely the margins will go up. That is the significance in large hospital and the other hospitals also in Bangalore which has

now moved into an established state, so even that will give higher margins. With that we feel that we should be looking at overall in the next one year, 15% margin from the India hospitals.

Shyam Srinivasan: And my second question is on, just going back to the question on clinics and pharmacies for the quarter, constant currency growth is like 4% and you said you will take two more quarters for us to get the things right here, but what is the normalized revenue growth, clinics might be lower than hospitals but I am just trying to understand the weakness now has persisted from last quarter, this quarter also, so do we have the visibility that in 2 to 3 quarters, this can be fixed?

Alisha Moopen: This is Alisha. So, I think as Chairman has mentioned, there has been slight sort of slow movement as far as the growth is concerned in the clinics and the pharmacies, so with the new system that has been implemented we expect to see recovery in terms of rejection as well as manpower optimization. When you are talking about the revenue growth, we do expect to see bigger traction and a higher movement, so upwards of 10% which would come in after the next couple of quarters. One of the more positive things we are seeing here is if you look at now what is coming into the hospital as well, the level of services that are being offered have changed, so for last year I think we had mentioned about how we have started two Cath Labs here which have been doing quite well. So, we are just starting cardiothoracic surgeries as well. So, the yield that we are seeing in the hospital is also increasing which is a very positive trend. So, what we are saying is the services that we are doing in Dubai and the GCC which typically used to be secondary care, there is a shift which is happening more to tertiary care, so you will see that in our ARPOB also which is evident which has seen a small shift which is going on. So, I think the clinic story is just taking a little bit more time because that whole payer mix, people when they are changing insurance it takes almost one year for them to change those insurances, so if we have agreed for certain network, it is not as easy for us to move it on a quarter by quarter basis, so that transition takes a little bit more time, so while that till get flushed out and we will see more of the higher yields, insurance that was getting covered in Aster and the low yield insurance that was going into the Access and seeing the volume pick up there. In parallel, what we are trying to do is see how we can improve the yield per se, which is easier now and a bigger opportunity which we see in the hospital because in terms of the clinical skills that what we have is higher than what the medium level hospitals here usually cater to. So, the benefit that we have with the India hospitals and the clinical skillset, we are trying to sort of utilize that to do services which are not really common in this part of the region.

Shyam Srinivasan: And my last question if I can squeeze in, refinancing via issue of a dollar bond, so just understanding the dynamics of it and how do we look at our debt over say, fiscal 2021?

Sreenath Reddy: So, Shyam, what we are looking at up to $400 million bond which we are exploring, so if the terms and other things are favourable, then we are looking at going ahead with this bond, otherwise we may not go ahead with the bond. Mainly, this bond is something because if we have to go for a bond, we need a certain size, so that is where the 400 million USD is there but however it could be anywhere in the range from 350 to 400. Now, this bond is mainly being raised to repay the existing debt and assuming that we are not going ahead with the bond, the way we are looking at it is that going forward we would like to reduce debt for which we are looking at monetizing some of our land which is idle in India, so that is something which we feel that next year we will be able to at least monetize a few of this idle land and two is that on the project also, we are very selective in taking up any further new projects. The idea is we know pretty well that everyone is looking for a free cash flow and the intent is to see how fast we can get into that free cash flow mode.

Shyam Srinivasan: Sreenath, any quantum that you want to share, either land value or debt absolute reduction that you might target?

Sreenath Reddy: So, Shyam, we are working on it, it is preliminary at this point of time but definitely with the Q4 results, we will be able to give an exact picture to what the CAPEX is likely to be in the next year and how much of debt we are going to reduce. These two things is something which we will be able to give an exact picture because we are working towards that monetization of the land, so that is still in the preliminary stage. I think in the next couple of months, we will have better clarity.

Moderator: Thank you. The next question is from the line of Sudarsan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: Sir, my question is, you have spoken a lot about free cash flow and cash generation, the intent to reducing the debt, so on this note, if you can tell us what is the kind of OCF post working capital that we have generated in this quarter on a consolidated basis and probably for the 9 months and also earlier when you spoke about the CAPEX that Rs. 540 crore in 9 months, Rs. 214 crore, is it including or is the number Rs. 750 crore CAPEX?

Sreenath Reddy: If you look at least on the call, in the past we had said that we are looking at Rs. 580 crore CAPEX in the current year, so for the 9 months the CAPEX what we have incurred is Rs. 540 crore and also on the call I had mentioned that this CAPEX is without any acquisition but however we have done certain acquisition. Mainly the acquisition what we have done is that Home Care Business is Abu Dhabi. We have also acquired few clinics and also increased our stake by 5% in one of the profitable vertical of us which is Medcare. Now, mainly for the acquisitions what we have done, we have spent Rs. 214 crore, so therefore total CAPEX spent for the 9 months period is Rs. 761 crore, but however if we ignore the acquisition, the CAPEX what we have spent for the 9 months is Rs. 540 crore and we should be close to what we had committed that Rs. 580 crore on the CAPEX for the full year excluding the acquisitions and going forward we don't want to do any large acquisition.

S. Padmanabhan: On the OCF and cash flow sir?

Sreenath Reddy: On the OCF, we generate almost close to around 70% as cash of the EBITDA.

S. Padmanabhan: And sir, when we spoke about this $400 million of bond if at all we are raising, I mean if I look at the interest cost and the debt, we are largely in and at around 7% on a blended basis, what would be the kind of savings that one would be looking at because when you are taking a dollar denominator debt, what could be the risks in terms of exposure towards US dollar as a currency?

Sreenath Reddy: On the bonds and if you see this is going to be a fixed rate for a 5-year period, so therefore we don't see any fluctuations on the rate but coming to the specific pricing, today the bond pricing whatever is there is almost similar to the pricing what we get on the debt side from the bank. So, therefore in terms of pricing the benefit, whether we will get significant benefit we don't know because only when we assess the market we will come to know about it but right now it looks more or less the same but what it will do is that it will enable us to have sufficient cash within the company because whatever we are generating that cash is something which we can push to India as dividends and maybe we can also think of in India reduced certain debt and at the same time also look to give some kind of dividends even for the shareholder.

S. Padmanabhan: One third question, final question from my side is, we spoke about this clinics and pharmacies, lot we had discussed about focusing on higher paying patients, I mean that seems to be a strategy that we have not taken in the last two quarter specifically, number one, what is the trigger here and number two, has there been any change in the insurance policy and what has really changed the management strategy over here because hitherto we have been seeing a raising trend in terms of growth in margin as well?

Azad Moopen: So, what has happened is that when 1.5 million people covered through insurance went to 4.5 million over the last 3 years and which has stabilized in the last year. There is lot of churn happening in the market and people, insurance companies they try to push for patients who are in the lower category into the higher level clinics if we have to have that higher level business also. So, we were forced at some point of time to accept patients with lower yield in the Aster Clinics and even in the Medcare Clinic, so now that we have the confidence that we will be able to have sufficient number of patients having high yield, we are gradually pushing out. So, when the contract happens, it is not for just 6 months or 1 year, many times it is for 2 or 3 years. So, we are now in the process of just getting the patients out who are low yield and getting in the high yield patients which is a process as I told you it will take 2 to 3 quarters and it is not something which can happen on a go, just say that okay, we are not taking any patients which can be done due to contractual obligations but our move is towards getting into that segregation of these 3 kinds of patients and getting whatever is into that category which will sort most of this issues of, see the footfall is good but at the same time the revenue is not good, so the per patient collection is lower which is having the challenge. Then of course, the efficiency improvement also is there, so I think that in 2 to 3 quarters, we should be there with a decent topline growth.

Alisha Moopen: Also, just to add to that when you look at the basic insurance which most of the companies went through because it is an employer backed insurance. Most people naturally took the lowest insurance scheme. Now, what we have seen in slightly more mature Emirates like Abu Dhabi which has been through this process over 5 years is that their premium is almost doubled that of Dubai, so once it might not reach that level there is a discussion which is happening as against funding level where we have to probably increase the basic insurance level because that is what will be needed to sustain the requirement of the population. So, again, that is the conversation which has been going on and we hope that there will be some sort of policy change that happens over the course of few months or year.

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

Harith Ahmed: There has been a lot of news around governance related issues that your largest competitor in UAE which is NMC Health, I was just wondering if this could be an opportunity for you given the potential fallout of these issues on the NMC brand and their ability to attract or retain doctors which could have an impact on their patient volumes, so do you see there is an opportunity for Aster here?

Azad Moopen: Thank you very much, thanks a lot, we are very sad that something like this has happened, very unfortunate and which also gives to us the message that the most important thing in public market is to look at very granular fashion on anything related with governance, so that is a good lesson. Looking at the opportunity, we definitely if there are people coming out of NMC and due to whatever reasons we have opportunities and we will be taking them as well as we will look at opportunities as we go forward because that picture is still not clear, what is going to happen, so we don't want to jump into tray and produce any issue but if it turns out to be that there are opportunities at higher level like for something that we can

take. We will also look at that but it is very preliminary stage. We won't be able to comment on that but answering your first question, if people are coming, doctors are coming and trying to join us because there is a very good work force there, we will be happy to consider that.

Harith Ahmed: Secondly, on the home care acquisition that you recently announced in Abu Dhabi, that is a fairly big one, can you comment a bit about the revenue potential of the EBITDA that is currently coming from there and what is the long-term game plan here?

Sreenath Reddy: Right now, Dr. Harith, this business, the revenue is around US $20 million with an EBITDA margin of around 23 to 24%. So, what is happening in Abu Dhabi is that there are many players. Now, what we acquire is a large player, now the thing is that the insurance over there wants to deal with large players, they don't want to deal with many small players. So, therefore we find an opportunity where we can consolidate many of the smaller players and this being a high margin business, so we would continue growing in the Home Care Business and it is a very asset light business because we have done this particular acquisition, we think that in other geographies also we can do it organically. So, therefore if you look in India, we have started in a very small way, the Home Care Business which we would like to increase that going forward and in the GCC region, we would like to extent whatever the learnings are in Abu Dhabi, we would like to extend it to other Emirates as well and also other countries also in the gulf region.

Harith Ahmed: Last one from my side, on the new hospitals in India, we see the EBITDA losses come down quite significantly on a Q-o-Q basis, which asset is driving this and would you be able to share some timelines around breakeven for Aster RV?

Harish Pillai: So, basically, we are looking at two hospitals, one is in Kannur and one in Bangalore, so in the case of the Kannur Hospital, it is a question of providing the right type of service for the market because there was no such facility before, so we have this unique situation of a very accelerated ramp up which you don't typically see in the new hospital where we almost had 100% occupancy. At this point of time that hospital is more or less stabilized, and we are looking at how do we increase the margin from that business. Answering your question on RV, we are very happy at the way it has also ramped up in comparison to similar hospitals in Bangalore. When you compare, we find that RV's ramp up has been also on an accelerated space. Answering the question of breakeven, we expect that within one quarter, we should be able to turn the corner.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: This is Anmol Ganjoo. Sir, my first question is to Dr. Azad. Dr. Azad, this beneficial ownership versus legal ownership, does this change anything operationally or psychologically?

Azad Moopen: Nothing because we were even earlier having the complete control of the business as well as we were having the economic benefit as it will be in future also. The only thing is that there is a perception that you have only a legal ownership of 49% or whatever it is and which was producing anxiety in people who are not here. People who are here know that this is the way in which business is run for many decades here but whatever said and done, there is a reality that it has to be a legal ownership, so it is only that part will change. There won't be any change in the way in which we are doing business or the way in which the economic benefits we are getting will change.

Anmol Ganjoo: In terms of trying to define your priority market areas you would get into, was this ever an influencing factor which now stands to change?

Azad Moopen: No, I don't think it is going to change at all because we have the same perception earlier as well as now but the market perception has changed which is advantageous because at least the market will see us in a better stead, but for us that doesn't make the difference in the way in which we are doing business here. It will be the same way and we have plans now like what we said, you will see in our financials that we have slightly increased our India business to around 20%. Our aim is to go to 25% and that journey will continue, and we don't have any change in that because this has happened to have more focus here or more focus elsewhere, it will be the same.

Anmol Ganjoo: My second question is around margins, obviously we have benefited from reduction and losses in our India operations. If you map out next 12 to 18 months, could you just highlight what the drivers of the margin expansion potentially could be and to what quantity, what is the extent of margin expansion we should work with given that a lot of reduction of losses is in the base, especially from an India standpoint. My question is that we benefited from reduction and loss in India hospitals from a margin standpoint, if you map out next 12 to 18 months what is the margin expansion extent that we are looking at and what are the drivers for that? What are we aspiring for in terms of margins for next 12 to 18 months and how that should that map out?

Harish Pillai: As mentioned in my previous statement the key drivers for improving margins in India are primarily to look at efficiencies in your manpower cost and material consumption cost which we were already working forward over the past 2 to 3 quarters and we can already see the benefits of it. There is still room for improvement in these two sectors and that is something which we are continuing to do. The second aspect is in specific geographies in India. We are deliberately changing the business strategy or moving away from scheme patients and driving in more of insurance and TPAs and also cash patient, so that is something which I am sure will help us. Third aspect is in terms of medical value travel patient, we are also looking at changing the case in the type of patients coming to our hospitals which we are also confident will improve the margins. In terms of like we mentioned before, the expected ramp up in the two new hospitals which are contributing to EBITDA losses have been much better than what we expected. So, that overall has actually reduced losses this is what we anticipated. So, over the next fiscal we are very confident that the EBITDA margins from India operations will be significantly more.

Azad Moopen: Just to add to that what Dr. Harish said, there are about 600-700 beds sitting there in the hospitals, existing hospitals which are already made up and we require very minimal capital for this to be operationalized, so from the capacity beds to the operational beds that will happen during this next financial year which will have significant impact on the margins and we hope that will be one of the drivers too.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

Dipan Mehta: My question is regarding the segment wise result which is presented to the stock exchange. In that if you see the clinics, although the turnover has remained static, almost the same, yet the PBT has gone from Rs. 73 crore to Rs. 122 crore, so what is the reason for such a sharp jump and also in retail pharmacies gone from Rs. 62 to Rs. 68 crore although it is flat in terms of revenue. So, what has led to such a huge increase in the PBT margin?

Sreenath Reddy: If you look at the Q3 number on the segmental performance, clinics, the EBITDA in the same period last year was Rs. 97 crore, now it is Rs. 98 crore, so clinics per say the margins more or less remains the same compared to the same period previous year but in terms of pharmacies, pharmacies there is an increase mainly because if you look at it, earlier what used to happen, we used to get on the bulk purchases all discounts, we used to get it at the fag end of the year. So, at this point of time what is happening is that it is getting spread out throughout the year, so therefore you will see higher margins in pharmacies with a lower revenue growth.

Dipan Mehta: Sir, you are explaining at the EBITDA level, I want the PBT level, how does this clinics go from Rs. 73 to 122 crore at PBT level and you just said that the EBITDA is flat?

Sreenath Reddy: At the PBT level?

Dipan Mehta: Yes, at the PBT level, I am referring to what you have submitted to the stock exchange, the table which goes to the stock exchange. That is the concern.

Sreenath Reddy: The investor presentation or you are talking on the financials?

Dipan Mehta: No, first of all sir, the investor presentation you give some information which we cannot directly connect to what has been filed with the stock exchange, so we don't get the draw down right up to the PBT level for each of the verticals. Having said that specifically if you go to the page where you have given the segment profit loss performance to the stock exchange, not the investor kit, over there the PBT in clinics has gone from Rs. 73.24 to 122.96 crore when the revenue has remained static from Rs. 542.3 to 542.82 crore, my question is that how are we showing such a huge spike in the PBT because that would take care of all IndAS and all other adjustment. At the PBT level in clinics, why there is such a huge spike?

Sreenath Reddy: So, this, I am not in the sense that the financials what was given to the stock exchange, it is a consolidated number, so I don't know where you are talking about the clinic part of it because this is the number which includes hospitals, clinics and pharmacies.

Dipan Mehta: Yes, the segment wise result.

Sreenath Reddy: Segment wise, okay on the financial, so I suggest that not to go by the financials segment wise. If required, we can give a reconciliation from the financials. We would suggest that to look at the investor presentation when it comes to the segmental.

Dipan Mehta: In the investor presentation sir, you do not give the breakup right up to the PBT level for each of the segment, so it is difficult for us to connect and even in slide number 25, we don't have comparable in slide number 25 where you are giving the breakup up to EBITDA?

Sreenath Reddy: Now, I got your question. See, what happens at the financial levels is that we have got various organizations, so when the auditors look at it they look at that particular unit because we have got multiple organizations, they go based on that particular subsidiary and consolidating those numbers, but however, the real number is shown at the EBITDA level in the investor presentation. So, financial the way the auditor show will be slightly different compared to what in reality the segmental performance is there which is the actuals what we show in the investor

presentation and we will stop it at the EBITDA level, so we don't go up to the PBT level but we can provide reconciliation because on the financials the way the auditors look at it is slightly different from the real facts of the business.

Dipan Mehta: I would just appreciate some more information right up to the PBT level and comparable 3 month, 9 months because that slide 25 is there, it gives 3 months but doesn't give the comparable, so it is difficult for us to understand how the shift has actually taken place, but anyway sir, congratulations and all the best.

Sreenath Reddy: Yes, we can provide that info on reco, if you want offline we can provide that, but like what I said would suggest you to go with the investor presentation but we can always provide you that between the financials and the investor presentation.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: Two questions, one, I joined the call a little late, so I am not sure whether this has been answered but the home healthcare company that we acquired in Abu Dhabi for about Rs. 204 crore, roughly about 200 plus crore, this is incorporated only in Feb 19, so what has changed between those 9 months to pay this Rs. 200 crore kind of a number and secondly, if you could throw some light on the original shareholding of this company from whom we have bought over?

Sreenath Reddy: So, answering your first question, the company got incorporated as you rightly pointed out it is 9 months, but they were running the business in a different entity for a very long time. They are in this business for almost 7 years, so what happened there is the way there were looking at it is that the business what they had was a consolidated business in different countries including Saudi Arabia, so therefore they decided to continue with Saudi Arabia and they wanted the Abu Dhabi business to be in a different entity and that is when they shifted this business into this new entity, but however business has been existing for a very long time and this particular business is owned by a reputed private equity investor, so I don't know whether I can name the investor because we have signed certain nondisclosure agreements but if that is permitted I can always get back to you offline the private equity investor and it must be available on the web also which you can have a look at.

Kashyap Jhaveri: Sir, this NDA includes any numbers which will be consulted for M9 also or can you disclose those numbers?

Sreenath Reddy: No, this was done on the last day, so these numbers will get only reflected in Q4.

Kashyap Jhaveri: Second question is on our bond issuance. The CAPEX that we have incurred of about Rs. 700 odd crore plus and plus there will be a CAPEX also in FY21 for some of the hospitals at least one or two which are in owned segment which are coming up and then we have a buyback of about Rs. 120 crore and you also mentioned that some part of this would be used to pay out dividend also, so my question is that we are raising money which is based on all inclusive cost could be roughly about anywhere between 9 to 10% and we would be using that money to buyback our stock where earnings yield of the company is roughly about 5%, so we are sort of selling securities which are at higher yield and buying back securities which are at lower yield, so why is such structure, I mean we could have as well use those Rs. 120 crore to fund the CAPEX itself rather than borrowing more money?

Sreenath Reddy: Let me answer that. See, the company's policy is that there should be certain returns for the shareholders to be given to them at a periodic basis, but however, if you look at India the standalone company has got an accumulated loss. Right now, the accumulated loss stands at around Rs. 200 crore, so if a company has got an accumulated loss, it cannot be declared dividend, so therefore there was lot of request from the shareholder asking for regular payouts and which the company also thought that it would be a good way out to reward, so when a dividend was not possible because of the constraint of the accumulated loss being in India, so therefore a buyback was thought. Now, coming to the second part of it, the cost of funds for us in the GCC region is around 6%, so it is not 9%, so therefore the surplus what we generate over here was used to pay out a dividend to India and India in turn has gone ahead with the buyback, but yes, there is also option not to declare dividend and just keep on reducing the debt, but it will be a balance. So, there will also be a debt reduction going forward. At the same time, the intention is to give some kind of returns even to the shareholder.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Just a few questions. We are reading a lot about potential slowdown in the GCC and specifically in Dubai especially after the Expo 2020 and that is going to couple with potential pricing pressure from the insurance companies, just to get your outlook on the overall macro and potential implications and potential headwinds for our GCC business?

Azad Moopen: We have our largest business in GCC, so this is something which is very important, so what we have found is that there has been a significant increase in the volume because of the large number of people getting covered under insurance in Dubai. Earlier it was, as I mentioned earlier 1.5 million, now 4.5 million people are there. So, there is no dearth of business and there is business there for everyone and the only thing is that how are you going to do it profitably, how are you going to keep your margins and how is that you can do this. So, two things are happening, one we are in the process like Alisha said having convincing the authorities and there is an advocacy group which is acting on that where we want to get better payout from the insurance companies because the government also or the regulator also has a control on them. So, that is the number one and the second one is to reduce our cost. So, we are actively looking at that various ways like what I mentioned than most importantly looking at things like shared services, doing many of the services back in India, the software improvement. So, my view is that there is no dearth of business. It is your efficiency which is most important, so we have to look at our efficiency, so what we say to our people is that you have to be doing the Aster Clinics and hospitals at the cost of Access, you have to be doing the Medcare at the cost of Aster and that is something which will give us definitely the advantage of having a good margin and also the topline we hope that we will be able to get more of segregated patients because of our presence in all the three segments, so the insurance companies also like that and we have definitely a better leverage with them and we hope that we will be getting sufficient business and sufficient margin.

Riddhesh Gandhi: And how about on the economic headwinds, the potential slowdown after the Expo and reduction in overall the labor class and the middle class as the economy slows down and?

Azad Moopen: So, what we have seen is that I have been here for 32 years and I have seen these ups and downs and this is happening again and again and there is nothing much different from what has been happening earlier. There has been even situations where the oil price has gone to 30 and there has been lot of things where

the people were predicting issues, local issues, geopolitical issues and not saying that this is place where nothing will happen but at least in the 32 years, Dubai especially and even other places have proved this and they have been able to do that. Few good things which have happened and which is very positive for UAE economy is that there has been a huge find of gas, some 80 trillion barrels or something like that which was reported recently from joint between Abu Dhabi and Dubai which should much more than the Expo and all in a long term, 25-30 years. It should produce lot of activity here due to that so I think that much more important than the Expo 2020 which of course will have some impact but more important is the gas and the revenue. Even Sharjah for that matter had a discovery after many years of gas and oil, so I think overall we are finding the economy here to be stable or even growing that is our prediction or our hope.

Riddhesh Gandhi: And just to understand on the India hospital angles, you have seen hospitals located in larger cities, getting attractive ROCs and smaller locations actually unable to be driving that across the industry, given the location where you guys are, did you see a potential to potentially increase ARPOB and in turn also ROCs of your hospital business and in a steady state, how much would you expect ROCs of your India hospital business should be?

Harish Pillai: It is true in terms of the current geographical spread across 5 states where we have 13 hospitals. Currently, when we are focusing on improving ARPOBs it is basically a structured approach of combination of building up the clinical capacity for each unit and focusing on the case mix. To give you a specific example of one of the units in it almost a Tier-4 place in Kottakkal, the clinical team has actually pioneered focusing on interventional procedures which has actually changed definitely the case mix, the payer mix and also brought down the ALOS. So, I am just giving you one example what clinics in India are focusing on to improve ARPOBs even in the markets where we are located. Going forward, yes, for example, in Bangalore we can see that the growth in ARPOBs in our existing two facilities are as per our expectations of this market but the focus and strategies clearly what we mentioned before, it is a mixture of focusing on niche, quaternary care specialities and critical care which actually improve our margins and also this bottomline approach of becoming more and more efficient, so a combination of both will really help us in the geographies where we are currently located.

Sreenath Reddy: To add on to what Dr. Harish said, your second question Riddhesh was on the ROC. See if you look at the ROC, last year we were at 1% in India, so this year we are expecting it to go up to 4% and in the next two years we are expecting it to go to close to 10%. This is on a consol basis, this is what we are looking at, but however there will be certain assets which are anywhere around 15 to 17%.

Riddhesh Gandhi: And at a steady state at the hospital level, you would expect to hit a mid to high teens ROCs at a steady state and how long would that ultimately take any of it?

Sreenath Reddy: So, when you talk about steady state hospitals, it is anywhere in the range of 6 to 7 years, so that is when the hospital in India goes into a steady state and at that point of time, we can expect around 15 to 17% ROC.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukherjee from Centrum Portfolio. Please go ahead.

S. Mukherjee: Just to understand the margin profile of GCC hospitals, it has gone up significantly Y-o-Y, can I have the revenue breakup of Medcare, Aster and Access and try to understand how was the mix changed over the years?

Sreenath Reddy: We don't provide either vertical level or hospital unit wise level details, so when it comes to a hospital, we club all together because this is mainly due to competition reason. We don't want competitor to get this.

S. Mukherjee: Sure but qualitatively can you just throw some light, has there been more?

Sreenath Reddy: Qualitatively I can tell you, the margins of Medcare will be similar to the margins of Aster but however like what doctor was telling, the way forward what we are looking at is whether we can reduce the cost at Medcare and get higher margins, the Medcare verticals being for the high end, the cost over there also are significantly high, so there is a play over there where we can reduce the cost thereby increasing the margins in that range.

S. Mukherjee: And Access would be lower margins?

Sreenath Reddy: Access at this point of time we have worked only clinics, we don't have a hospital, so the first hospital of Access which is in Sonapur will likely be operational in the next 2 to 3 months is what we are expecting. So, we expect the margins over there to be slightly better even compared to Medcare and Aster because there the volumes will be significantly high.

S. Mukherjee: So, if I want to understand that what has been major margin riser in GCC hospitals, is it only the operational efficiency that you are looking at or it is something else?

Alisha Moopen: So, it is a combination of occupancy increases well because we have two hospitals like Aster Hospital in **(Inaudible)** **1.7.56** as well as Medcare Hospital in Sharjah which were in the ramp up period and as well as Qatar hospitals, so these three hospitals has contributed to an increase in revenue, so if the both the increase in revenue as well as the cost optimization that happens, so procurement is an area where we have seen a benefit over the last sort of 9 months. I think the manpower optimization is still yet to yield the results. I think we are doing an exercise which is similar to India, so India has already gone through it with 2 units and has seen positive results, so now with both the technology implementation as well as the optimization, we hope that we have better margin expansion coming from the GCC hospital in the upcoming 2-3 quarters.

S. Mukherjee: On the rent front so, you have almost Rs. 72 crore of rent that came below EBITDA because of this IndAS 116, can you provide the breakup between GCC and India on the rent?

Sreenath Reddy: The rent is something, if you look at that in GCC, other than Saudi, all are leased out except for Saudi where we own the asset but however, in India some of the assets are owned by us and some of the assets are leased out. In terms of rent, if you look at the breakup, you wanted a breakup between India and GCC. So, as per IndAS 116, the rent is Rs. 11.7 crore in India before IndAS 116. With IndAS 116, the rent becomes Rs. 5.4 crore.

S. Mukherjee: Basically the differential amount I have to take, right?

Sreenath Reddy: Yes, it will be in GCC.

S. Mukherjee: And in GCC, 11.7 crore?

Sreenath Reddy: This is for the quarter, the number what I have given is for the quarter.

S. Mukherjee: So, Rs. 11.7 crore is for India operations and the total is Rs. 72 crore right?

Sreenath Reddy: Yes, right.

S. Mukherjee: So, balance almost Rs. 60 crore is GCC and how would be that spread?.

Sreenath Reddy: Let me answer that. I think you are slightly wrong. See as per IndAS 116, the total rent is 71.5 reversal. That is the reversal what will happen in terms of rent, but the total rent if you look at is Rs. 104 crore. The actual rent outflow is Rs. 104 crore but however, as per IndAS 116, the rent reversal will be Rs. 71.5 crore and what you will see is Rs. 32.6 crore at the rent and now if you break that up between India and GCC, the rent reversal in GCC will be Rs. 65.3 crore, so actual rent is Rs. 92.4 crore and because of IndAS 116 impact there is the reversal of Rs. 65.3 crore. So, the resultant number on the rent on the GCC side what you will see is Rs. 27.1 crore. The balance is India, so India if you look at this, the actual rent will be Rs. 11.7 crore and the reversal what will come because of the IndAS 116 impact is Rs. 6.2 crore and what you will see in the financials will be Rs. 5.4 crore.

S. Mukherjee: Lastly on this home care business acquisition, I was just looking at the UAE market, what would be the total market size and what would be the market share of this entity that you have bought?

Sreenath Reddy: So, this entity what we have bought will be around, in the range of 12 to 15%, so rest all is scattered with various other players.

Azad Moopen: This is in Abu Dhabi, not in UAE.

Alisha Moopen: It is a center which has around 260 nurses approximately and then we have care givers which are around 70 and a few doctors, so that is probably the size of the operation.

Sreenath Reddy: Yes, it is among the top 3 in Abu Dhabi but there are also other two large players but there are many small players. There are at least around another 15 smaller players.

S. Mukherjee: So, on a revenue of 20 million USD and the 12 to 15% market share, we are looking at the market size of roughly around 150 million USD, is that right?

Sreenath Reddy: Yes, it could be around that. Yes.

S. Mukherjee: And what would be the size of Amplicare and provider, I guess they are the large players there?

Sreenath Reddy: We don't have their details.

S. Mukherjee: But they are the largest players, right?

Azad Moopen: Answering your question, there are two other large players and one of them is what you mentioned, so their business could be in the range of slightly above us or more or less similar to us, so we can't tell the specific details because we don't have those details but in terms of patients is something at least what we are seeing more or less similar compared to the player whom you have been mentioning.

S. Mukherjee: One last question if I can squeeze in, just going through your annual reports, I was looking at this trade receivables number and corresponding doubtful trade receivables which hovers around almost 17 to 20% of the total receivables. What is this figure as on December and if you can provide some details on which are the customers that where these receivables are stuck, doubtful?

Sreenath Reddy: The business in GCC is mainly predominantly through the insurance, so you know that many of the geographies are 100% through the insurance. So, the insurance receivables always takes time to collect, so it is anywhere between 90 to 120 days. The way it happens is that these bills keep going up and down to the insurance company, the first time that is the high rejection, then subsequently the supporting are sent and the money comes in transfer for various bills, so it takes anywhere around. If you look at the outstanding what you have got in terms of number of days, it will be anywhere around 100 to 110 days with the receivable days that we will be having in terms of the total business what we do. So, that is where we are putting in efforts to reduce on the number of days. In terms of rejections if you see is that in the hospital what we see is that around 3.5% is the rejections what we see and close to around 5% is what we see in the clinics. Pharmacy is very minimal rejections we see**.**

S. Mukherjee: Is this rejection number a bit higher than the competition or is it normal in the GCC compared to other geographies?

Sreenath Reddy: So, at least what we hear, there is an opportunity for us to reduce this further and that is where we are strengthening the RCM and we are creating a separate vertical on that. Some of them have got low rejection and there are also players who have high rejections also, but we feel that there is an opportunity for us with all the software, new software being implemented and all that. We should be in a better position.

Moderator: Thank you. We will take one last question from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: Can you just guide me on the figure per percent average realization in GCC area and in India also?

Sreenath Reddy: Realizations in terms of ARPOB, the realizations in GCC are significantly higher, so just give me a second, I will pull out this number. So, in terms of per patient per day that is what we call as ARPOB, average revenue per occupied bed per day, so in GCC it will be around 1,54,500 per day. This is the number over a period of 9 months that we have got and in India over a period of 9 months, the average if you look at per day per bed we get 27,200 but however, on consolidated basis if you look at we will get 59,100 because the number of beds in India are significantly high. So, we have got almost 3600 beds vis-à-vis 1100 in the GCC region.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Dr. Azad Moopen for closing comments.

Azad Moopen: It has been a pleasure interacting with you over the call. Thank you for taking time and engaging with us today. We value your continued interest and support. If you have any further questions or would like to know more about the company, please reach to our IR head Sumanta or to our Group CFO – Sreenath Reddy. Thank you very much.

Sreenath Reddy: Thank you.

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.