

Aster DM Healthcare

Q2 and H1 FY19 Earning Conference Call

November 13, 2010

Moderator Ladies and gentlemen, good day and welcome to the Aster DM Healthcare's Q2 and H1 FY19 Earning Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

Rishab Barar Good day, everyone. Welcome to Aster DM Healthcare Limited's earnings conference call for Investors and Analysts. The call has been hosted to discuss the Q2 & H1 FY19 Financial Performance and Operating Highlights of the company.

I have with me on the call Dr. Azad Moopen -- Chairman and Managing Director of the company; Mr. Sreenath Reddy -- Group CFO; Kartik Thakrar -- Financial Controller, GCC; 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 a Q&A Session where the management will be very glad to respond to any queries that you may have.

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

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

Dr. Azad Moopen Thank you. Good day everyone and thank you for joining us on this call. I am Dr. Azad Moopen the Chairman and Managing Director of Aster DM Healthcare. The first half of the year has seen improved performance over the previous financial year and when you look at the segmental performance, the hospitals revenue increased by 18% to Rs. 1,825 crore in first half of the year from 1,547 crore in first half of the year 2018. The EBITDA increased 55% from 128 crore in 2018 to 198 crore in H12019. The EBITDA margin has also increased which was at 8.3% to 10.8% in H12019.

So, overall the half year performance has been quite good but there has been some challenges in the quarterly performance. I hope that you remember that I had mentioned last time that summer months tend to be muted and the quarter

performance can be impacted due to the seasonal nature of our business in the gulf countries where we have 80% of our revenue coming. The summer months see vast exodus of residents on vacation. The second half of the financial year consequently tends to be much stronger as compared to the first half. Apart from this, this year there was another setback which was the issue of the floods in Kerala which had affected the business. And we were forced to even temporarily shut down operations of one of our hospitals for repairs for about 10 days. After that regained, functioning and it is doing very well but there has been a temporary setback there.

So, these together have produced the seasonal variation and the quarter has produced some impact and the details regarding the quarter performance will be given to you by the CFO – Sreenath Reddy when he is presenting more details on the financial area.

I just wanted to touch upon a few things. One is the Ayushman Bharat scheme which was started by the Central Government which is a very futuristic initiative which will provide a much needed safety net to prevent slippages into acute poverty of the people in the lower income group. This is covering about half of the Indian population which is about 500 million and this is an opportunity which we would like to look at as we go forward even though our hospitals presently are in the major cities and may not be directly involved in this, we are looking at ways in which we can tap into this and get into that area by providing services of our Doctors in the peripheral areas where such expertise is required as well as even looking at involving in such businesses along with them as we go forward. This is in very early stages of discussion but our doctors have already started going to the peripheral hospitals from the main hospital and conducting OPDs so that these patients can be taken to our major hospitals which is definitely going to have a significant impact. So, this is one major area which will have impact on the health of the citizens of the country in India and the positive impact will also help the providers.

I also would like to point out about our involvement in the Kerala flood situation apart from the effect which was there for our hospital. We got involved in the initial phase when medical aid was required and we have significantly been involved in that. And we actually provided a lot of support during this period throughout the state. I would just like to highlight certain clinical areas where significant procedures or achievements have been made. One of these is liver transplant by our integrated liver care team, which is there at our Cochin hospital and Bangalore hospital using a pioneering technology called OrganOx Metra. I am not going into the details but would like to tell you that this is the first time this has been done in Asia and I would also like to mention another thing which is the third in the world actually. This is called Transjugular Intrahepatic Portosystemic Shunt creation which has been done in one of our patients who had a liver problem.

And another important thing which I would like to highlight is that about the Aster Medcity at Kochi which has completed 100 robotics gynecology surgeries during this quarter which is a very important landmark regarding clinical excellence.

Another important thing regarding the operational highlight is that we commissioned the hospital in Al Ghusais, this is a 154-bed hospital which is in Dubai, Al Ghusais area of Dubai. The soft launch of which was done on 26th of August and this will add significantly to our ability to provide service to the patients as well as to increase the income. And of course, there will be some temporary, I mean pull on the EBITDA during this quarter or maybe during this year but we definitely feel that this is in the long term going to provide significant growth opportunities in topline and bottom-line. Overall, I would again like to highlight that the performance has been very good during the half year. But when you look at the quarter there is a challenge due to the points which I mentioned. But we hope that looking forward for the next half of the

year we will be on targets regarding whatever budgeting has been done and which we hope we will be able to achieve. I would like to pass this on to our CFO, Sreenath Reddy who will walk you through the financials now.

Sreenath Reddy

Thank you Dr. Azad. Good day everyone. Aster DM Healthcare has depicted a healthy financial performance in H1 FY19. Coming to the quarter, overall revenue excluding other income in Q2 FY19 grew 17% year-on-year to Rs. 1,837 crore up from Rs. 1,566 crore in Q2 FY18 with EBITDA at Rs. 125 crore down from 138 crore. And PAT has Rs. 11 crore from the earlier 0.51 crore. Revenue growth in constant currency terms was 9%. In terms of constant currency growth for H1 FY19, revenue and EBITDA of GCC hospitals to 16% and 74% respectively. For GCC clinic, revenue and EBITDA growth has been 6% and 35% respectively and for the GCC pharmacies it is 16% and 7% respectively. All segments depicted healthy growth as Dr. Azad mentioned earlier due to the seasonal variations half yearly numbers are more comparable.

Coming to the segmental performance for half year, revenues in hospitals increased by 18% to Rs. 1,825 crore in H1 FY19 from Rs. 1,547 crore in H1 FY18. EBITDA increased 55% from Rs. 128 crore in H1 FY18 to Rs. 198 crore in H1 FY19. The EBITDA margin was at 10.8% in H1 FY19 compare to 8.3% in H1 FY18. Revenues in clinics increased by 13% to Rs. 915 crore in H1 FY19 from Rs. 811 crore in H1 FY18. EBITDA increased 44% from Rs. 68 crore to Rs. 98 crore. The EBITDA margin was at 10.7% in H1 FY19 compared to 8.4% in H1 FY18. This performance was driven by ramp up in new clinic, set up in GCC states in the recent past and increase in footfalls from existing clinics. We are the largest pharmacy chain in GCC with 216 stores spread across 6 geographies. Revenues from pharmacy segment increased by 23% to Rs. 952 crore in H1 FY19 from Rs. 774 crore in H1 FY18. EBITDA increased 14% from 54 crore to 62 crore in current quarter with margins of 6.5% in H1 FY19 compared to 7% in H1 FY18.

Coming to the balance sheet, net debt has increased to Rs. 2,348 crore as on September 30th, 2018 from Rs. 1,916 crore as on March 31st, 2018. Net debt in India increased by 58 crore and GCC by \$24 million US. Our target debt to EBITDA ratio will be below 3. We have a CAPEX outlay and committed projects of Rs. 650 crore for the current year and another Rs. 350 crore for FY20. I would like to mention that we are happy with our performance for H1 which is in line with the company's strategy. We are increased our topline and have efficiently focused on cost such that there is margin improvement enabling a stronger bottom-line. Balance sheet wise we are cognizant of our debt on books and this continue to remain in check. Although there is CAPEX, it remains in asset-light model. Aster DM Healthcare continues to focus on quality service towards patients.

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. Ladies and gentlemen, we will now begin the question-answer session. We would take the first question from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand

The first question I had was if I look at the GCC hospitals EBITDA margins for the quarter, getting this may during the half versus the Q1 numbers. We actually looking at an EBITDA margin decline of 12.1 over 9.5. Now, given the fact that Sanad would be ramping up, I would have expected margins to hold up in GCC. So, just wanted to understand the reason for the quarterly decline in margins?

- Kartik Thakrar** This is mainly because in Q2 we have a start of a new hospital, Gusais Hospital and when we start the hospital in a particular quarter the pre-op and the first quarter losses of that particular hospital gets accounted in that particular quarter. So, that is the reason of slight drop in the EBITDA margin in Q2 of the GCC hospital.
- Ashi Anand** The second question was on the previous call we have spoken about the opening up of the Saudi market towards the private players. So, just wanted to check any update on that as and how is that going and are we looking at being more aggressive in terms of our capital allocations into Saudi.
- Kartik Thakrar** Yes, so we have recently got the intimation, I mean it has been announced by the government of Saudi Arabia that they are allowing smaller hospital as well as clinics by expat investors. So, this is officially announced and we are waiting for the details of that. So, what we thought is that we won't be aggressive, we will do this clinics around our existing hospitals in Riyadh as a pilot and see how it is functioning and then go more aggressively as we go forward. So, the first step is to look at few clinics around our hospital in Riyadh.
- Ashi Anand** And just lastly, we have 4 lines of business actually, I think GCC hospitals, clinics GCC, pharmacies and the Indian hospitals. I was just trying to understand how do we look at capital allocation as I am looking at it over the next 4 to 5-year perspective. Any kind of ballpark sense, just trying to understand directionally where would be really be focus in terms of deploying incremental capital across these four lines?
- Sreenath Reddy** So, this is something capital allocation between geographies and capital allocation between verticals. Now capital allocation between geographies is something even though India the ROC is in the short term is lower but we believe that in a medium to long term India could give us decent ROCs. But at the moment GCC states is where we get decent ROCs therefore the capital allocation will be equally balanced between the GCC region and the India region. But however when it comes to the vertical the capital allocation towards the hospitals will be higher compare to the clinics and pharmacies.
- Ashi Anand** So, would it be fair to say, roughly about 50-50 India GCC and could give us similar kind of split between hospitals and clinics and pharmacies.
- Sreenath Reddy** Yes, in terms of capital allocation between the geographies we are looking at around 60 to 40, 40 towards India and 60 towards the GCC. And when it comes to the verticals we are looking at 60 towards the hospitals and 20 each for clinics and pharmacies.
- Moderator** Thank you. We will take the next question from the line of Kashyap Poojara from Axis Capital. Please go ahead.
- Kashyap Poojara** My question was mainly towards the operating profit driver the key swing factor and the return metrics. So, if I basically look at the business, your GCC business is clearly an asset-light business, high ROC 25%-30%, generates reasonable free cash flow which gives you lot of room to invest in new opportunities. Now, the key swing factor there is the Sanad hospital and the ramp up thereof. So, could you basically explain us what is been the progress in the first half as far as Sanad is concerned, on revenues and EBITDA from that particular entity.
- Sreenath Reddy** So, Sanad Hospital is at this point of time in the overall scheme of things very negligible. Having said that as you are aware we are still in the transition phase where the entire business model at Sanad had to undergo a change and this would take some more time for the Sanad hospital to come on to a steady state. If you look

at in the first half of the year Sanad hospital has still be in the low single digit EBITDA margin and we expect by the end of the year for it go into a high single digit EBITDA margin and we are expecting by next year to reach a steady state that is our expectations of Sanad hospitals. But at this point of time Sanad hospital that will contribute materially added to the topline or the bottom line.

Kashyap Poojara Yes, but it will still contribute meaningfully to the delta that one can get over 2 years. So, would you be able to financially quantify, what is the revenue in the first half, what is the operating profit in the first half? I think last year we were around Rs. 20 crore EBITDA if I remember right as far as Sanad is concerned. So, what is the first half number at Sanad and over 2 years when you say steady state margin that can we achieve from Sanad what would that steady state margin be?

Sreenath Reddy So, when we are talking about, answering your second question first the steady state margin what we are looking at Sanad by end of next year will be around 20%. But coming to specific asset, the revenue and profitability details we usually do not share unit wise.

Kashyap Poojara And would you be able to basically quantify what is the kind of revenue you would basically require for a 20% margin to come through. Either revenue or revenue growth rate to basically achieve this kind of margin.

Sreenath Reddy So, generally the revenue that what we are looking at is around Saudi Riyal 350 million which will take us up to a 20% margin.

Kashyap Poojara And just to basically understand on India, this is again one of the key drivers because the contribution from India hospitals the beds that you have operationalized and the margins are which used to be 6%-7% are now, we already being witnessed at close to 10% or thereabouts. The question is at over the next 2-3 years where do you see these margins moving to as the maturity profiles keeps getting better.

Harish Pillai So, the expectations we remain bullish on India operations. Currently, we are at a ramp up stage, we have a mix of our portfolio, when we look at our flagship hospital in Bangalore, Aster CMI which is really on a ramp up stage. We have also couple of other projects also in the pipeline that we are due to commission two projects asset-light, one is asset-light at Aster RV coming up in Bangalore and also in Kannur hospitals. So, we remain optimistic that in the near term you can expect a steady state of at least 20% is what we are hoping for India operations.

Kashyap Poojara And just as an industry level thought, I mean obviously India is understaffed as far as doctors, nurses is concerned in terms of density and beds any which way. So the point is that with doctors being contested for and the pricing of Doctors moving up and on the second hand if we look at Ayushman Bharat where the government related scheme is could entail lower price points. So, maybe participation there could basically imply that the margins could be lower. So, what are your thoughts on achieving margins in the light of these 2 reality's that if one participates in Ayushman Bharat maybe the margin profile would not be as lucrative and on the other hand doctor costs are any which way on the higher side and remaining sticky. So, what are your thoughts on this and would you basically be picky about the facilities that go in for Ayushman Bharat versus what is your strategic approach there?

Dr. Azad Moopen So, regarding the few of these areas, one, we have a unused capacity as well as we have capacity bed which are not operationalize. So, there is a significant opportunity for ramp up in any of our large hospitals. So, we hope that as we operationalize it more with very minimal increase in the cost there will be a significant improvement in our margins. That is our main hope and that is how which has come up actually in

the last few years. So, this will definitely help us to have a better margin. And second thing there are active projects happening for controlling the cost both in India as well as in GCC. In India, we are doing a project with EY where we have focused on the material as well as the HR cost, and after focusing on these areas, we have found that the efficiency improvement as well as the better purchase and bargaining power has helped us and this is just being rolled out now. So, with the increased operationalization of beds and that additional , income coming at a lower cost along various cost reduction methods, I think, we will be able to gradually reach 20% which is a steady state which will be little far away. But we will be gradually increasing it to 14% to 15% in the next couple of years. That is what we are expecting around 15% in 2 years' time.

Dr. Harish Pillai:

To answer the first part of your question on retain, attracting and retaining of clinical talent we have been quite fortunate that in all the locations where Aster's present we have managed to get really good team of clinicians. One of our unique models of engagement is what we adopted is the centers of excellence that is collaborative medicine. So, we basically engage teams of Doctors where we give a lot of premium to their clinical credentials. And that kind of eco system whether it is in Bangalore, Kochi, Kozhikode we have been very successful in retaining for a long period of time. And this is also the philosophy which has helped Aster Group across the past 30 years. Our attrition rate of clinicians is as per industry norms is extremely attractive. We have got long serving Doctors who have been with us for a large periods of time. So, going forward, one is that we are also giving lot of focus on post graduate training in several of our flagship hospitals. We have actively pursued DNB programs in our Calicut facility, Kochi facility and also Bangalore. So, we are also increasing the supply chain of talent, back to the sector. So, working on parallel levels, we are quite confident that we will not face the crunch where manpower talent is concerned. Thank you.

Moderator

Thank you. We will take the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan

First is going back to the startup losses at the Gusais Hospital, I remember in the first quarter it was, I think Sharjah and Doha where like at 2 crore for the quarter and this quarter we have combined 3 at minus 14 for the half. So, just like a large startup loss at Gusais. Can you just clarify that?

Kartik Thakrar

So, as we saw even last year, see this pre-op as well as the first quarter especially the first 2 quarters of the hospital start will be very taxing in terms of EBITDA minus, etc. So, even last year if you see, we had a yearly annual loss from the 2 hospitals was Rs. 93 crore. Of which the first quarter itself when the hospital started the losses where Rs. 46 crore. So, 50% of the total annual losses of these 2 hospitals were clocked in the quarter when they start. That is mainly because of the pre-op expenditure capitalization which is part of our CAPEX budget everywhere. So, we tracked it very closely but the accounting factors is we have to write it off in the quarter. So, that is the reason you are also seeing in Q2 a major startup cost as well as the small drop in the margin also as compared to last Q2 of hospitals in GCC.

Shyam Srinivasan

So Sharjah and Qatar they have broken even, right? So, they are not contributing the losses as well?

Kartik Thakrar

They broke even in quarter 4 of last financial year. And this year also at the end of the year as we saw, as we spoke in the last calls also we see it ending at a breakeven level. But in the quarterly sequence definitely Q1, Q2 both these hospitals will show small negative because only in the third and fourth quarter that will again pick up. And towards the end it will be not in red definitely.

- Sreenath Reddy** So, what happen Shyam is that even though it has broken even again because of the seasonality it goes down a bit negative. And now from quarter 3 and quarter 4 it will start ramping up.
- Shyam Srinivasan** So, how should we budget for this Gusais, is it like another Rs. 45 crore annual loss numbers, so maybe we will get, say I do not know I am just making up these numbers Rs. 10 crore-12 crore of losses in first quarter now. And you will have like another 2 quarters of this coming through in the next few quarters as well?
- Kartik Thakkar** Should not be right to actually go to unit level thing. I can probably give a typical hospitals trend separately. But I think, it could not be a guide to go for unit level and we would not be able to estimate also unit level thing in this call.
- Shyam Srinivasan** No, but would not be very different to your Doha and Qatar. Will it be worse or better?
- Kartik Thakkar** So, what will happen is it will be similar to a Sharjah hospital which was of the same, almost similar size. This is slightly bigger than Sharjah hospital. So, may not be as equal to the exactly half of Rs. 93 crore. But somewhere you can assume close to around Rs. 40 odd crore from this hospital as loss.
- Shyam Srinivasan** Second is on the GCC clinics, I think we have also seen step up in losses there. So, have we added new clinics and has that contributed to the losses?
- Kartik Thakkar** So, we have added some space to existing clinics. That usually keeps on happening every quarter but not any larger number of clinics added, we just have added one clinic as an addition. At the same time some space to the existing clinics which would have just dragged some of this quarterly numbers. And Q2 become very sensitive as even Dr. Moopen mentioned this is a quarter where seasonality plays the biggest role because of the school holidays as well as Ramadan month. Any small change becomes much more bigger in Q2.
- Shyam Srinivasan** And my last question is in the India performance, I think I just backed out the Q2 number for India. I think 5% topline growth I do not know whether I have done the math right and margins have improved sequentially. So, can you just walk us through what took us from double digit growth to single digit growth? I know you talked about Kerala and may be the Nipah virus as well. But you can add color on why the slowdown in India growth percent?
- Sreenath Reddy** See if you look at most of our assets are in the Kerala geography. So, any impact in Kerala definitely has got a major impact on the whole of India business. So, MIMS which was just recovering from Nipah virus in the first quarter has only recovered in the second quarter. And unfortunately the floods in quarter 2 were something where it had an impact for 2 months, no doubt we are now back to normal. But however, both in quarter 2 and quarter 1 it was unfortunate that we had these issues because of which the growth, you do not see that growth. But having said that you will start seeing the growth in Q3 and Q4 from India.
- Shyam Srinivasan** So, can you just walk us through, so in October and November are you seeing a back to normalcy especially in Kerala whether you owned or O&M all of them have actually started coming through?
- Sreenath P Reddy** Yes, so most of our assets are back to normal. So, we do not see any issue from any of our hospitals.

Shyam Srinivasan If 61% is what you have given as the occupancy in H1 for India? Where do you think we are now tracking? Is it like 65-70%

Sreenath P Reddy We are looking at 65% kind of an occupancy in Q3.

Moderator Thank you. Next question is from the line of Harit Ahmad from Spark Capital. Please go ahead.

Harit Ahmad On the GCC hospital segment, I think you talked about the Gusais hospitals being responsible for the margin decline. But I am noting a decline in the established units margins as well from around and this is quarter-on-quarter from first quarter to second quarter. So, decline from around 16% to 13%. And a similar trend is also seen in the established units in the clinic segment. So, can you just provide more color on this first quarter to second quarter decline in the established units?

Sreenath Reddy Yes, so this is purely because of the seasonality because the number of holidays in Q2 was more compared to the number of holidays in Q1. I think, you should look at H1 as a whole, mainly because of this seasonality. So, quarter-on-quarter could be a little bit defective when it comes to the GCC business. So, it evens out on a half yearly basis.

Harit Ahmad And in the second quarter of last year FY18 there was, the margins were quite strong. Was there any one-off in that quarter?

Kartik Thakrar I think, second quarter of last year there was one one-off of Saudi where we decided to stop the business of government of Saudi in Q2 of last year. So, we were in the exit point of fag end of stopping that business where some of the revenues were clocked in Q2 from this business. So, that would have produced some one-off margins or one-off profits in the last year. At the same time last year in the second quarter of financial year which is the Q3 of the calendar year started receiving some money from the government also which actually encouraged which at least in that quarter we had under provided some of these provisions which were required because we are getting money from the government. So, because of this maybe a small impact of in terms of EBITDA would have come in the last Q2 and that can be viewed as one-off.

Harit Ahmad And just to understand this first quarter to second quarter decline, I am also seeing in the ramp up units of the clinic segment which is roughly one third of the clinics network. There is a decline especially in revenue from Rs. 50 plus crore in the first quarter to Rs. 20 crore this time. So, that again is due to the holiday situation. Is that a correct understanding?

Kartik Thakrar Yes, in fact if you notice the last year the first half itself clocked only 30% of the total yearly EBIT, then also it was giving around 40-60 spread. Now, this is nothing but Q2 impact of the season. So one, to a good extent at least April month is a normal month, May half onwards the summer and the holiday starts but Q2 completely goes into this holidays as well as lull month. So, I think that is the common reason you will see across all the 3 segments in terms of revenue as well as margins.

Harit Ahmad And how much of the improvement in the profitability that we expect in the second half in the GCC segment is going to be occupancy driven. I am looking at a GCC hospital established unit occupancy of around 64% in the first half. So, what kind of improvement in this number is expected in the second half or is it really a case mix driven improvement in profitability?.

- Harish Pillai** So, I do not think established unit will move the needle more. Established unit occupancy will be more or less hovers between 65 to 70 odd percentages. But what you could see an improvement is the 3 hospitals in the new; which is the ramp up unit. There we see some improvement from the 20% occupancy to we expect at least it should cross 30% towards the end of the year. So, that should drive the overall occupancy of 56% towards the 60%.
- Harit Ahmad** But do we see a better case mix in the second half will be established units, even if the occupancy remains more or less the same. I mean, is that a driver or the better case mix driver for profitability improvement?
- Harish Pillai** Maybe small change will be there but that does not actually, you cannot measure the case mix impact on a quarter-to-quarter basis. But yes, our entire efforts always go through year-over-year through the case mix. So, over a period of 18 to 19 you might see small improvement but otherwise from the quarter-to-quarter you may not see the realizing factor.
- Harit Ahmad** And last one from my side on Aster CMI, can you talk a bit about the ramp up here, how the case mixes improving and how the profitability is improving, whether we are not track with our initial expectations here.
- Sreenath Reddy** Aster CMI in fact is beyond expectation. It is being ramping up very nicely and I think it will continue to ramp up for some time and I think by end of next year it should go into a steady state.
- Harit Ahmad** And the second hospital in Bangalore is schedule to be commissioned exactly in which quarter?
- Sreenath Reddy** Last quarter of this financial year is what we are expecting it to be commissioned.
- Moderator** Thank you. Next question is from the line of Pragya Viswakarma from Edelweiss Asset Management. Please go ahead.
- Pragya Viswakarma** Sir, as we understand that there are 2 new properties which are yet to come up during the course of second half. So, one is asset-light and the other is owned, firstly if you can just please throw some light on how was the start up clauses different in both the models and for the full year like we had some Rs. 96 crore of losses last year. What is your expectation that post commissioning these 2 new properties? What is the kind of losses we will see from new properties for the full year and for the next year?
- Sreenath Reddy** Pragya 2 facilities which are coming up in India is one is in Kannur, which is coming up in Q4 of the current financial year and also the Aster RV hospital which is coming up at Bangalore. So, both these 2 facilities will be coming up somewhere in the end of Q4. So, in Q4 the contribution of losses when you start because what normally happens is that as my colleague was saying the pre-operative expenses and other expenses in month one or the quarter one and quarter 2 will be higher. Then eventually it will taper down as the revenues keep building up. So, we are expecting these losses partly in the current year as well as partly in the next year. The component of these losses is something asset wise we will not be in a position to tell but if you look at generally assets make losses of this site, make losses of anywhere around on an annual basis of anywhere around Rs. 30 crore to Rs. 40 crore. This is what we are expecting

from these 2 hospitals. But however, this will be spilled over in 2 financial years.

Pragya Viswakarma And sir, if you can just throw some light on how are the, I mean is there any difference between your asset-light and own model in terms of pre-op expenses?

Sreenath Reddy No, there will be not much difference on the asset-light and pre-owned. Only thing is that in an asset heavy model we do not pay rent but in an asset-light model there will be either a revenue sharing or a rental model which will impact the EBITDA. If an asset is owned then we do not have an impact on EBITDA but however, there will be an impact on the finance cost that is the only difference. Other than that, there is no other difference.

Pragya Viswakarma So, next year what are the kind of losses you expect from these 2 properties? I understand that you have already given number Rs. 30 crore to Rs. 40 crore annually but if you can just elaborate on that. And as I said last year you had probably Rs. 96 crore of losses, so for this full year what is your expectation in terms of losses from your all new properties?

Sreenath Reddy So Pragya, see I can only indicate the broad numbers because it all depends upon at what date these facilities are starting because at this point of time we still do not have very clear dates in mind as to when these projects will start. The mainly for the reason is that Bangalore being an asset-light model, we have got not much of control on that asset. The asset has to be handed over to us by the other party. So, therefore it becomes difficult for us to tell as to in the current year or what kind of impact it will have in the next year. But broadly it will be something like what I said it all depends on the date when it is put into operation.

Pragya Viswakarma And please can you give the number of beds in both these hospitals?

Sreenath Reddy Yes, so RV Hospital, Bangalore will be 234 beds and Kannur is a 200 beds facility which we now we are having a small design change which would take up to around 240 beds.

Pragya Viswakarma And next year Rs. 350 crore of CAPEX is that entirely for India?

Sreenath Reddy No, it is both at GCC as well as India. Roughly we are already indicated the capital allocation will be in the 60-40 ratio.

Moderator Thank you. Next question is from the line of Shree Shankar from Prabhudas Lilladher. Please go ahead.

Shree Shankar Quick question you mentioned about your Kerala properties which is back to normalcy after the rains. What is the kind of an impact and did you have any loss of profit insurance in these properties?

Sreenath Reddy Yes, we did not have the loss of profit in these hospitals. But after this incident we have taken loss of profit across all our hospitals. We had insurance for all the equipment's and building and all that which anyway is covered and we will be getting the insured amount. But however, when it comes to loss of profit it is something which we have taken post the flood but having said that if you look at our hospital it was temporarily down for 10 days even in the case of loss of profit the first 7 days will not be covered as per the insurance policies. So, even if we would have had the insurance policies still we would have suffered a loss but we decided to go ahead and take the policies across all our hospitals.

Shree Shankar Did you have any material damage in anyone of the equipment's in anyone of these hospitals?

Sreenath Reddy Yes, we did have damages to the tune of approximately around Rs. 31 crore and all these equipments have been covered by the insurance and almost all the equipment's now are up and functioning.

Shree Shankar This is spread across which hospital, Aster Medcity?

Sreenath Reddy The effect was only mainly in one of our hospitals that is Medcity Kochi.

Shree Shankar And recently I also happened to read some of the articles which said that one of colleges of yours has been getting into some problems on the legality of medical college, etc. What is the status there? Is there any liability going to be there on us?

Sreenath Reddy No for the company there is no liability. It has got that particular hospital or educational institution has got nothing to do with the company. So, it is a separate entity owned by the promoters, so there is no linkage to the company as such.

Shree Shankar But it shares the same name right?

Sreenath Reddy No, we have entered into a management contract where we get certain percentage of the revenues and we just manage that but we are only looking at the health care delivery part of it. We have got nothing to do with the educational part of it.

Shree Shankar So, what you mean to say is that whatever liability arising out of all those educational thing goes this responsibility of the promoter and not of the corporate entity.

Sreenath Reddy Right.

Moderator Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for their closing comments.

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

Moderator Thank you very much. Ladies and gentlemen, on behalf of Aster DM Healthcare we conclude today's conference. Thank you all for joining us, you may disconnect your lines, sir.