

Max India

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Ladies and gentlemen, good day, and welcome to the Max India Limited Q1 FY '19 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Jatin Khanna, CFO, Max India Limited. Thank you. And over to you, Mr. Khanna.

Thank you. Good afternoon, ladies and gentlemen. I would like to thank you for all for being part of Max India's earnings call. Before proceeding with the performance highlights, I would like to introduce my colleagues who are with me on this call. I have Mr. Rajit Mehta, Managing Director for Max Healthcare; Mr. Yogesh Sareen, CFO for Max healthcare; Rahul Ahuja, who is the CFO for Max Bupa couldn't join us on the call this time, but I'll be happy to take questions on his behalf.

So now we will move on to the quick highlights of our business performance for Q1 FY '19 and the key initiative for FY '19. I request Rajit to summarize Max healthcare performance, and then I will talk about Max Bupa thereafter. Over to you, Rajit.

Thank you, Jatin, and good afternoon to all of you from my side as well.

So the performance for Max healthcare is pretty much what I spoke last time on the earning call as well exactly what we had anticipated. We have grown about 3% quarter-on-quarter to about INR 641 crores net revenue, as I said last time as well. As you can see, the calibration of the business due to some regulatory headwinds and volatility calibration, there are some irreversible impacts, and that's how the growth was supposed to be, so we have come in line with what we had expected.

In Q1, the specialties like oncology, orthopedics, neuro specialties have grown very healthily at 15.8%. The alternate businesses, which is the Max Labs, the Max@Home and Daycare oncology, have grown very well about 31% sequentially. Looking at a revenue of INR 29 crores with these alternate businesses, because all expected to bottom up, it has about INR 30 crores, primarily due to the Noida is a facility which we closed down due to some risk contagion safety. That facility will be up and running as an oncology Daycare center by January of next year. As you know, oncology is our flagship facility, and therefore, the success we have had on the Lajpat Nagar in Delhi Daycare facility is also encouraging us to replicate that model, and that's how Noida is going to come up. Coming back to the Q1 EBITDA, as I said, we're all on expected line, but we are online for the INR 300 crore exit rate of Q4. In fact, July is already better. We just concluded our financial results for July itself, and the EBITDA was INR 17.5 crores for a month as compared to INR 30 crores for the last quarter. So that's an indication of how we are going to now ramp up as we go forward. All the performance measures we had said we will take on the revenue side, which is recasting the sales and marketing, whether it is BPL or international business or looking at digital, which is now a very healthy contribution. It started about 2 years back, and digital channel is now contributing INR 100 crores plus to our revenues. All those have been implemented. Also, the cost action, the fourth quarter, we've spent primarily on focusing on bucking down the cost initiative for the year. Those are all underway. And the overall target we had taken for this year was INR 64 crores or INR 67 crores of target that will get realized. Some of it is already visible to us in the first 4 months.

But primarily, these savings now are targeted across 3 lines, 50% in the personnel costs, 30% in material costs and 20% in direct costs, and those will come through. And now we are shifting our focus this quarter to revenue. And there are some new initiatives we had taken, there are existing customers who identified about 2.5 lakhs will come to us sporadically and some others who came to us in last 2 years only once about 4.5 lakhs, and we are now doing a very intensive CRM program to be able to encourage them to visit us more. We've also done some tie-ups in nursing homes for a quid pro quo, so they will get from us specialty clinics and while they will refer patients to us. And therefore, new revenue channels, about 20 locations but we are opening up 3 more, which is Patna, Ranchi and one more and also one in Punjab and some new international tie-ups. So all initiatives of revenue, of course, are well underway. We also, at the same time, disentangled some PSUs, which was not that profitable, so about 30 tail accounts have been closed in the first quarter including NDNC, primarily aims at freeing up OPD slots, so to give an example, one account of NDNC frees up about 1.25 lakh OPD slots in the year, primarily being done to improve standard economics. We also hired about 60-plus clinicians in the first quarter, strengthening our physician bench strength, and therefore, allocating larger beds to higher contributions specialties. Considerable what had happened on the regulatory front as well, while there has been a reversal by the High Court on the minimum basis, let's wait and see how the government proceeds on that one. But besides that, interventions of packaged pricing and shifting of pricing to value-added services is also underway. Therefore, I will just conclude by saying that the results are exactly what we had anticipated, what we had shared, and all of the initiatives meant to push up the revenue from now on and costs are underway, and that has also started becoming visible to us in the month of July. So that's all I have to say. So we remain intact on our trajectory projected for exit rate of Q4 this year, about INR 300 crores. So with that, I hand over to Jatin.

Jatin Khanna, Max India Limited - CFO [4]

Okay. Thank you, Rajit. Now on Max Dupa, our GWP has grown by about 17% to INR 186 crores, driven by 21% growth in renewal and 10% growth in new sales. And you would observe that the new sales growth are, all of a sudden, come down, but that's more to do with the sales uptick which we had in Q1 FY '18 due to the significant price increase. As you see today, we are seeing a massive reversal in July whereas because of the price increase the base was low and the new sales have grown by about 52%. So national, the growth will normalize as we progress through the year.

We have also had significant improvement in claim ratio and across cohort. Claim ratio is down by about 230 bps to 53%. Now we though had a loss of about INR 12 crore in first quarter, that's again on the expected line, because the moment we normalized for reinsurance impact last year, the loss is pretty much in line with last year.

Now Max Dupa has found new partnerships with Karur Vysya Bank and HDFC Bank during the last quarter, and we launched the branch banking segment in HDFC Bank.

Now our digital innovation, GoActive has been awarded as the best health insurance product and AnyTimeHealth machine has been awarded as the best technological innovation in the insurance awards.

Now with that as a background, the plan going forward is to accelerate growth, strengthen our multichannel distribution strategy, expand our distribution footprint by opening new branches, leverage a variability model in the loan -- loss ratio market and synergize with Max Life to leverage the (inaudible) from branches. We also intend this standard of product proposition, so there is a synergy project on the way that Bupa -- to develop global product, so that we can offer our customers a global health insurance product. We will continue to increase the share of its benefit products to further improve our loss ratios. We are piloting some of these initiatives in FY '19 to accelerate growth further, which has a consequent impact on profitability as we would sort of target, and therefore breakeven. We will share the launch of business plan by next year when we have better visibility on prioritization of some of these initiatives. And based on outcome of this pilot, I'm sure the implication of this growth on capital on breakeven.

Now moving on to Antara. The asset-light growth has been kick-started with the first projects in Noida. We have already signed the contract and the sale launch is expected sometime in Q3. There are few more projects which are currently being sort of explored. And as they take shape over the next few quarters, we'll be happy to share more details with you all. Needless to say that all of these projects are very light on capital. There have been sales trajectories which just goes with around 3 sales a month and overall units sold at least about 100 mark.

Now to sum up. Max India will continue its robust growth trajectory with Max healthcare, starting out a profitable growth path over the next 5 to 7 years, and the bed capacity probably would be about 5,000 beds. Max Dupa goes accelerating from current levels of about 25% as conclude the long-term strategy for the business, and Antara driving a capitalized growth in the future.

On that note, I will hand over to the moderator to open the floor for Q&A.

Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Dhwanil Desai from TurtleCapital.

Dhwanil Desai, [2]

Three questions. First one is on the healthcare side. So I think, as expected, our revenue growth has tapered down because of the recalibration in the product mix. Can you give us some sense as to how this going to pan out in next 2 to 3 years? Are we going to go back to our earlier trajectory of 15% plus kind of a revenue growth? And if so, what would be the levers of this growth? That's my first question.

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [3]

Yes. So I'll take that question. You're right, as I said, that the revenue growth is as expected. And you will see the ramp up happening from Q2 onwards. And we expect next 2, 3 years, about 12% to 15% trajectory of growth we will settle down to.

Dhwanil Desai, [4]

Okay. And so would it be a more of a organic growth? Or will it come through the bed additions that you have planned in the past?

Jatin Khanna, Max India Limited - CFO [5]

Primarily organic. As I said, there are several initiatives we have taken to ramp up revenue, from reorienting our entire sales activities, BTL, to reactivating customer data business, to digital, to opening more of country, and also, a very healthy uptick in international sales.

Dhwanil Desai, [6]

Okay, okay. Yes. And my second question is related to the new businesses that we have been trying to kind of grow. Can you give us some sense in terms of absolute numbers where these businesses are? And what is the kind of number that we are looking at, especially in the Max Lab business, down the line maybe 2, 3 years? Because I think earlier we had talked about a number of around INR 250 crore in 3 years. So are we on course to achieve that? Or I think we have recalibrated that as well.

Yogesh Sareen, [7]

So this is Yogesh. So first of all, I think in this quarter, we have kind of broken even on the new initiatives that we use, so that is good news. The ramp-up is roughly INR 6.5 crores, INR 7 crores a month. So that's another good news. I think we kind of now gotten the fiscal hurdle now. So that's where we are. I mean, the EBITDA is positive, the story is quite good there, and we're doing the network, we're also

doing the number of samples, which are showing in the Max Lab. We are now making new offerings in terms of products, et cetera. So I think it's a good story there, and I think the trajectory that we see is what we had planned for like.

Dhwanil Desai, [8]

Okay. So do we -- are we still on course to hit INR 250 crore in maybe 2, 3 years, or I mean are we be calibrating the number?

Jatin Khanna, Max India Limited - CFO [9]

Sorry, what did you say? What number?

Dhwanil Desai, [10]

The Max Lab number, I think we were targeting around INR 250 crore -- I mean to hit the INR 250 crore number in maybe 3, 4 years, and I think we are already one year down the line. So my question is, are we recalibrating that number?

Jatin Khanna, Max India Limited - CFO [11]

I think we spoke about this total alternate business revenue. So this year -- last year, we closed our alternate businesses at about INR 40 crore revenue. This year, our target was about INR 100 crores, but we -- in the first quarter itself, we've done INR 29 crore. And sometimes we are ahead of our targets. So I wouldn't see any reason why our long-term trajectory of alternate businesses will change.

Dhwanil Desai, [12]

Okay, okay. Yes. And my last question is on the health insurance side. So I think if I understand correctly, now our objective has moved from being breakeven in FY '20 -- or FY '19, FY '20 to now going back to growth, and we are investing money in this business. So any kind of a ballpark guideline as to when do we see this like breakeven point for the Max Healthcare business?

Jatin Khanna, Max India Limited - CFO [13]

Okay. So before I talk about the breakeven, let me just say, what's [new]? I think it's very important to sort of recognize the fact that we have, today, tied up with the largest retail bank in the country, which is HDFC Bank. Now really when you have sort of a partner such as that then you got to invest behind growing that business, trying to capture the lion's share of the field which happens with the their network, et cetera, et cetera. So that is one sort of material change which has happened in the business. It's such a big changes that while we've been sort of calibrating our growth and working towards the breakeven by FY '19. But really if you look at it in last 3 years, we've grown from some 20 offices to 30 agency offices. Whereas if you look at industry, Apollo, Star Health, they have now more than 150 to 200 offices. I mean, there are 2 ways you can sort of deal with this situation. One is to say that you continue to do what you are doing. The other is to say that, sort of, this industry is growing so rapidly, why don't we also invest behind our proprietary channel and start growing. Now we've taken a call to say that let's do some pilots because there is also a proven margin in terms of variable agencies, which is far more profitable, there is an opportunity in terms of synergizing with Max Life, a very little guarantee there, offices will expand our business tree there, branches in their agents. So what we had given as a guidance to the business is to say that you figure out through pilot whether the synergy opportunity with Max Life or the variable agency model is as profitable as one believes it to be. Now depending on the outcome of this growth as well as depending on how soon or how quickly we can ramp it in HDFC Bank, really the outcome on capital and breakeven will depend on, and sometimes their learnings. So we request you to give us another 6 to 9 months, and I think as we do business planning for next year and the year follows in this November, December, we will be in a better shape to come back and report on both capital and growth outlook, as well as the breakeven outlook. This is some of the initiatives.

Dhwanil Desai, [14]

Okay, okay. So I think we will wait for your feedback on the same as and when you crystalize your plan.

Jatin Khanna, Max India Limited - CFO [15]

I just want to say that this is good growth. This is profitable growth. This is something, which I mean, frankly, after Bank of Baroda this is the best thing which has happened to Max Bupa in terms getting HDFC Bank tower. So really these are the opportunities which you will not want to just correlate let it be or go slow on, because when you hit being sort of marginalized and your other competitors taking on the lion's share, et cetera, et cetera, which then becomes difficult and irreversible to increase your share.

Dhwanil Desai, [16]

Sure, sure. I think it's quite logical and reasonable.

Operator [17]

(Operator Instructions) The next question is from the line of [Harsh Bhardwaj] from (inaudible) Advisory.

Unidentified Analyst, [18]

So my question is around -- there have been several reports around a potential buyout of the healthcare partner Life Healthcare. What is the current status of this discussion? And are there any other significant strategic expansion plans for the healthcare business? And are there any similar inorganic expansion plans for Bupa as well, especially against the backdrop of the processes like Star Health and ReadyCare?

Jatin Khanna, Max India Limited - CFO [19]

Sure. Well, firstly, on Life Healthcare, Life Healthcare has been sort of on the exit spree for about 9 months. Earlier, at Max India, we were very keen on looking at this opportunity, which we have now given apart, given the stock price has moved the other way, and obviously, we don't want to be diluting our shareholders at a stock rate that such as this. So therefore, we, sort of, given in the past at the Max India level. However, their remains seems to exit because they have to take care of certain things and priorities at their end. So currently, there are players who are looking at acquiring their ownership, and let's see how that shapes up and as something sort of plans out in that front, we'll be happy to report that. So that's on the Life Healthcare exit. Now on the inorganic expansion of the growth going forward, see, one is that our organic expansion itself where we can double our (inaudible). So really if I can just sort of become 2x by growing my existing network versus going and buying something else, I'd rather respond to that one piece. The other is having said that, there is a big inorganic play which can be created out of alternate businesses but we -- right time, sort of look at that opportunity, because currently, we are trading that business up. Like we said, we'll be a INR 100 crore revenue business this year, and it's growing very sharply, I mean, very close to INR 100 crores is about 2.5x growth. So I think at some stage, we will want to leverage that hidden value and create some growth capital to take care of (inaudible) sort of existing balance sheet of the business growth, as well as to grow more in terms of your hospital business. That's on the healthcare front. On the Max Dupa business front, I don't -- there is so much which is happening on the growth this time. So I don't know what I can say in terms of inorganic opportunities which you've seen in terms of Star Health, but originally, time will tell how some of those pan out for Star Health or for Max Dupa, I think, we'll have to wait and see.

Operator [20]

(Operator Instructions) The next question is from the line of Rafael Foo from Target Asset Management.

Raphael Foo, [21]

I just had a couple of questions. I think the first one is, think in the last several weeks, you did mention that you will close the Noida facility in (inaudible). Can I just check how much of the revenue...

Jatin Khanna, Max India Limited - CFO [22]

Sorry, you're not very clear. You're not very clear.

Raphael Foo, [23]

Hello, can you hear me clearly now? Can I check how much of the Noida facility, how much of the revenue decline came from the Noida facility?

Jatin Khanna, Max India Limited - CFO [24]

Okay. Yes. So we lost about INR 10 crore revenue on (inaudible) crore.

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [25]

(inaudible)

Jatin Khanna, Max India Limited - CFO [26]

So that's about INR 40 crore revenue a year so we lost about INR 10 crore this quarter because of that.

Raphael Foo, [27]

And can I also check. I think I also noticed that the occupancy had come down. I just wanted to understand what happened to the occupancy.

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [28]

Occupancy?

Jatin Khanna, Max India Limited - CFO [29]

Yes. So (inaudible) in the first quarter, the revenues go down, primarily in the large [3] business. So the effect of Ramadan came a month early. Last year, it was July, this year, it came in June. That's one reason for the (inaudible) is coming down, and the second was Noida facility, that slows down. A third that was an emergency in Ethiopia, and also in Turkmenistan, (inaudible). So primarily (inaudible) international business and Noida shutting down.

Raphael Foo, [30]

Sorry. What was the third reason you mentioned. I couldn't hear so clearly.

Jatin Khanna, Max India Limited - CFO [31]

Okay, I'll repeat. (inaudible) international business. So (inaudible) Ramadan came a month earlier, and there was a state of emergency declared in Ethiopia, and also in Turkmenistan, the (inaudible) so the international business took a big hit, (inaudible) it will come back in the next few months. And the other was the (inaudible) [revamp] which we lost about [INR 30 crores] in this quarter.

Raphael Foo, [32]

I see. Okay, okay. I also noticed that the prices have come down year-on-year. I was looking at the revenue per bed, the revenue per bed seems to have come down. Is that because you decreased the price?

Jatin Khanna, Max India Limited - CFO [33]

No, we haven't decreased the price. There has been a price control through regulatory action in some parts of last year. (inaudible) happened very early on, and then in August of 2017, the orthopedic implants got a price control. Apart from that, we haven't reduced prices.

Operator [34]

(Operator Instructions) The next question is a follow-up from the line of [Dhwani Desai] from [Doshi Capital].

Unidentified Analyst, [35]

Sir, 2 questions. Sir, first one, I just wanted to understand your thought process in terms of expansion, and I think we are at a juncture where [we're creating] a lot of regulatory headwinds and I think that's impacting our margins as well because of the price control and other measures. So how do you look at the economics of while you're putting in additional capital in kind of putting up new beds? Because currently, even on a short-term basis, the economics don't look very attractive. So what gives you confidence to putting additional capital at this point of time in terms of expansion? If you can share your thoughts with us?

Mohit Talwar, Max India Limited - MD & Director [36]

Okay, [a good] question. I think a couple of things. [Now it's always] putting up a tower in Vaishali which is about 80 beds will become operational in December, January, as we go forward. So I think while (inaudible) temporary headwinds in terms of regulation and price control, there is more issue of demand. It's a supply constrained market. We are not going to see suddenly a spike up in the government allocation [to help the spike] Ayushman Bharat announcement that will come. And by the way, Ayushman Bharat will unleash a certain volume. It has to be focused at the certain model, because certain [signature] of profits. It's a question of recalibration. So if you look at either the demand side from the going disease burden, the number of the (inaudible) ratio in our (inaudible) or the medical value channel. We are not able to see any -- it is just that we are recalibrating our model to be able to preserve profitability and that is what is taking the time. As I said, the cost initiatives are already being implemented and we are able to see the run rate coming through and that's sort of (inaudible) 64 to 68 crores will get realized as part of our budget. And on the revenue side, we are recalibrating our model and therefore, it's taking us time, and therefore, the first quarter was what we have predicted. So at least from a demand perspective, we are still very bullish, and therefore, mindful investment will go in. On the same front, we are also looking at the alternate businesses, as Jatin said earlier in the call and seeing what additional growth capital needs to be given on that side for the alternate business as well.

Unidentified Company Representative, [37]

Also your comment on the sort of profitability and all of that. I think it's pretty -- we were at about 11%, 11.5% margin before all the regulatory headwinds came (inaudible). Now as we [see, we need] to look at the core revenue run rate, we will back at about 11%, 11.5% EBITDA margin by the close of this year. So in some terms, I think it's a 12-month of catch up period that business really (inaudible) long term view on the business. Now -- and also, I think somewhere, the quality of growth and where the growth is coming from is also important. One is the alternate businesses, the other is also for example if you look at these quarterly results also, oncology is growing 15% for us. Now so really if you look at my expansion plan over the next 4 years, [they're coming up in 40,380] dedicated only to oncology. Now with respect to (inaudible) at whatever is happening in the environment, oncology continues to grow, so that is one thing which we want to grow. The second is as Rajit spoke about Vaishali expansion and Vaishali Hospital is in a place which is in the middle of a concrete jungle in the sense that all you find is apartments and apartments and apartments all over where that hospital is located. So to fill up that hospital is a very easy one, plus the whole demand trajectory moving up, et cetera. So the growth is coming there. So I think there is also calibration of growth in terms of where to grow, et cetera, et cetera, which is very important when we think about our growth.

Unidentified Analyst, [38]

Okay. Sir, I think just to follow up on that, my question is it possible that we will be able to make 15%, 17% (inaudible) or additional cash that deploy even after the regulatory environment changes? That is the question that I want to put at the moment.

Jatin Khanna, Max India Limited - CFO [39]

Sure, sure. So if you look at sort of long-term projection of the business, we are looking at the overall business getting to sort of a midteens ROE [3, 4] years from now. So now it's our overall business (inaudible) midteen ROE 4 years from now. Then your sort of whatever (inaudible) in some sense, you will also capture (inaudible) ROE and therefore your core businesses have higher ROEs actually. So to that extent, I think [we will build on Jatin] comment which [means] it will take long term to get your business even that. We are [taking] whatever it takes to ensure that, that trajectory remains intact and therefore our view on long-term profitability and earnings potential of the business (inaudible).

Operator [40]

The next question is from the line of Rushabh Shah from Sameeksha Capital.

Rushabh Shah, [41]

Sir, I'm looking at net income (inaudible), it is highest in the last 7, 8 quarters, at [62%-ish]. So what is happening? What is the trajectory going forward?

Jatin Khanna, Max India Limited - CFO [42]

I don't know what number you're referring to. But our claim ratio have actually come down to 53%. And there is actually an improvement of 230 bps on claim ratio. So I'm not sure where 62% is coming from. But I'm happy to -- we can (inaudible) help you -- we can take these numbers off-line. but actually, the claims ratio have improved.

Rushabh Shah, [43]

I'm actually looking at the public disclosure document.

Jatin Khanna, Max India Limited - CFO [44]

I don't have it in front of me, but what we can do is we can off-line chat on this and we will be happy to explain the gap.

Rushabh Shah, [45]

Okay. And second thing, looking at the document, I'm seeing that most of the revenues are coming from metros. So is that a strategy going forward or?

Jatin Khanna, Max India Limited - CFO [46]

Yes. You're referring to the health insurance business, right?

Rushabh Shah, [47]

Yes.

Jatin Khanna, Max India Limited - CFO [48]

Sure. So in the health insurance business, the strategy going forward is to grow more and more in Tier 2 and Tier 3 cities through the [reliability] model, and through Max [light synergy] model. And the reason why it is Tier 2 and Tier 3 is because your question on metros is very (inaudible). Our growth is higher in metros. But at the same time, we are [both] (inaudible) is higher in metros because (inaudible) the cost of delivering health care is also higher. So because of that the profitability of the business is not -- as one would expect it to in terms of the (inaudible) channel. So as we grow more in Tier 2 and Tier 3 cities from our experience in the last (inaudible) and part of it is in Tier 2 and Tier 3 locations is that the Tier 2 and Tier 3 locations are both profitable relative to the metro cities. So our growth going forward will be more skewed towards those cities and (inaudible) cities.

Rushabh Shah, [49]

Okay. And so on the bed rotation side, you had guided (inaudible) [to 110 beds] for the full year. So are you sticking to the guidance or is there any change in that?

Jatin Khanna, Max India Limited - CFO [50]

Yes. (inaudible) beds, which is about 100 beds plus will come this year by December, January.

Rushabh Shah, [51]

Okay. (inaudible) one last question. [Servicing in] regulatory headwinds [in the case of] (inaudible) going forward or the status quo?

Jatin Khanna, Max India Limited - CFO [52]

So yes, so on the regulatory side, as I said it's a mixed bag, currently. We don't know (inaudible) given the election in 2019, how much of it is going to pan out in reality. Some of the actions of the Delhi government have already been challenged and you have seen the minimum wage reversal by the [high] court (inaudible) the notification (inaudible) is also in the high court currently. I think everybody's waiting for the August 15 announcement on the Ayushman Bharat. Whatever little we have heard from the Delhi government in the health ministry et cetera is that the (inaudible) fluctuates which will be a lot better than what Ayushman Bharat (inaudible) announced. So at this point of time, it is currently wait and watch. Some early timings of the court coming to our rescue, but let's wait and see.

Operator [53]

The next question is from the line of Geetika Gupta from First Voyager.

Geetika Gupta, [54]

I have a couple of question on the (inaudible) facility. So firstly, on the revenue line, there was a 5% year-on-year revenue decline. And sometimes, back on the call, you mentioned that a part of your revenue decline was also because of the slowdown in the international business. So could you quantify how much was the decline because of the international business and how much is it because of recalibration of the business that's taking place?

Jatin Khanna, Max India Limited - CFO [55]

Yes. So number is correct, about INR 5 crores to INR 6 crores will be impact of international business, and (inaudible) number is less than that is the recalibration that we are going through currently.

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [56]

As you know, when we compare the revenue between last year same quarter impact of the Noida hospital where the hospital that we shut down for temporary repairs. And then (inaudible) mentioned that we had this Ramadan which came in June, so we had impact of (inaudible) revenue there. And also, there is some impact of the fact that the price cuts which have (inaudible) of the joint price in August last year. So when you compare the number quarter 1 to quarter 1, then what will be the (inaudible) in the revenue (inaudible) price has dropped by more than [50%]. And also, there has been some [government] on the PSU side where they have stopped to refer the [PPR] (inaudible) to the private healthcare hospitals. So we do have (inaudible) revenue per month from this kind of revenue from PSUs and this has dropped (inaudible) average now. So (inaudible), but (inaudible) Rajit also mentioned that we are recalibrating [there is stability and to that sense], there is (inaudible) sales force, which is happening. So there are these [factors] which actually made it a flat quarter.

Geetika Gupta, [57]

All right. Just on the international business, you had a couple of other hospitals who also reported results during the last week, none of the other hospitals seem to have indicated this. So is this something which is specific to Max? Or you think the entire industry will have faced the same issue?

Jatin Khanna, Max India Limited - CFO [58]

It's difficult for me to comment on their numbers. But what I can -- [my purpose] is we have, in the last 6 months, tried to move away from [healthcare] business into direct business. Some of us have increased the [health] which reduces the margin of the business. So that could be one potential reason, and we don't want to go that route. We have wanted to do direct business more and more to make it more sticky. So that could be one possible answer.

Geetika Gupta, [59]

Sure, okay. And just one last question for the -- on the health care side again. You mentioned that you would like to get to a revenue run rate of 15% in a couple of years. Could you just break this down, this 15% growth? How much of this will be (inaudible) increase, and how much of this will be bed increase? How should one look at it?

Jatin Khanna, Max India Limited - CFO [60]

Yes, that's very difficult to put numbers like that. (inaudible) mix, then the channel mix, then the pricing and then (inaudible) also have new beds coming in to there. So there will be volume, there will be a channel, there will be a mix and there will be price. So I mean it's tough to really give a number like that. But actually I think there will be 8% to 9% of the organic growth, then this will come to be expansion with the new beds that we're adding. And within the 8% to 9%, there will be 3 to 4 -- 3% should be pricing, and then balance will come from channel and from (inaudible)

Operator [61]

(Operator Instructions) The next question is from the line of Jigar Shroff from Financial Research.

Jigar Shroff, [62]

I'm looking at the presentation. Here, you mentioned identifying for healthcare presentation I think the [price] of country locations, but [9] (inaudible) operations by Q2. Can you throw some light on this initiative, please?

Mohit Talwar, Max India Limited - MD & Director [63]

Yes. So on the country side, this is something we built about 1.5 years back, there are 2 models operating currently. One is a model that [there are some decisions] (inaudible) which are very close to not to Delhi (inaudible) [then offset] some are (inaudible) being done by doctors (inaudible) there, for example, the diagnostic center, and all the (inaudible) are coming to the hospitals in Delhi. The other model is (inaudible) now, (inaudible) and information center with the sales and marketing folks who are doing -- covering corporates, (inaudible) and partner hospitals. There, (inaudible) happened by speciality doctors in the partner hospitals, and the (inaudible) similarly flow back to hospitals in Delhi. So currently, there are 2 models operating depending on distance, and as I said, we have 10 centers from (inaudible) that now (inaudible) Vaishali, Antara and Mohali.

Operator [64]

The next question is from the line of Charu Gaidhani from Dalal & Broacha.

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [65]

Can you give me the mix by treatment?

Jatin Khanna, Max India Limited - CFO [66]

The mix by?

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [67]

Treatment, revenue...

Jatin Khanna, Max India Limited - CFO [68]

Treatment?

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [69]

Yes, in the sense...

Jatin Khanna, Max India Limited - CFO [70]

You mean speciality mix?

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [71]

Yes, yes.

Jatin Khanna, Max India Limited - CFO [72]

Okay.

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [73]

(inaudible) were roughly 11% of total revenue. Then neuro would be 9% to 10%. Oncology as (inaudible) mentioned is 15% to 16%, ortho would be roughly 8% to 9%. And then we have renal internal medicine, et cetera (inaudible). So total 80% is [IT] and 20% is (inaudible). [Got it]? And renal, as I mentioned, will be 8% to 9%. Then we have a [bed] share in general surgery (inaudible), which should be another 5.5%. And balance would be other specialty line, that will be (inaudible) and internal medicine and (inaudible) and others.

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [74]

Okay. This 5.5% is relating to?

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [75]

5.5% is basically the general surgery.

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [76]

General surgery. Okay, okay. And how much is revenue from international?

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [77]

So typically, revenue from international is 9% to 10% of our revenue.

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [78]

This quarter also it has been that much?

Jatin Khanna, Max India Limited - CFO [79]

(inaudible)

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [80]

Okay, fine. By what -- by when do you expect things to get balanced again to previous levels?

Jatin Khanna, Max India Limited - CFO [81]

(inaudible) you're saying? When do you...

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [82]

For the health care business.

Operator [83]

(Operator Instructions)

Charulata Gaidhani, Dalal & Broacha Stock Broking Pvt Ltd., Research Division - Analyst [84]

Yes. By then, do you expect the healthcare business to come back to normal?

Jatin Khanna, Max India Limited - CFO [85]

Yes. The transformation journey of 18 to 24 months. However, we have already started seeing green shoots in the month of July, and we hope in the H2 of this year, we will end exactly as we have said in (inaudible). And thereafter, it's a transformation journey spanning about 18 to 24 months, assuming that there is no surprise by the regulatory action.

Operator [86]

Next question is from the line of (inaudible) from investor.

Unidentified Analyst, [87]

My first question is on Max Bupa. Your ratio has been consistently between 50% and 60%, so that's clearly a good number. So my question is, can you talk about your underwriting process? What is the incentive structure in the system? And also, is this like across the industry or is this specific (inaudible)? That is one. And then linked to that is, do you see any regulatory headwinds because of such good claims ratio in this segment?

Jatin Khanna, Max India Limited - CFO [88]

Okay. So let me first talk about underwriting. That underwriting particularly are very robust and actually (inaudible) in some sense started. So we underwrite at the point of sale what we are underwriting at the point of (inaudible). So what that means is (inaudible) health insurance and we actually, the point (inaudible) actually has to claim without asking question and (inaudible) giving (inaudible) sound medical underwriting and things like that. Whereas in our case, when we onboard the customer, we do what we have to do and then the claims process is smooth. So for example we have a 30-minute turnaround time on claims processes. And this -- if you are a claimant in a hospital, then you have a point of care beds, for example in Max healthcare, we have those and we are now setting these up in (inaudible), the turnaround time for claims processing is 15 minutes. Whereas when it comes to some of the (inaudible) insurers, it takes (inaudible) to process claims. Now that is one (inaudible) differentiator. The second is there is a lot of focus on health risk management. Now on the one side (inaudible) a good job and (inaudible) in the industry. So we honor most claims. But on the other side, because we have done underwriting at the point of closure, therefore we are happy to honor all the claims and things like that. Irrespective of all of that, (inaudible) and why we have delivered -- how we have delivered [the EBITDA] (inaudible) a lot of focus on health risk management, there is on [wording to the percussion and] a lot of data analytics engine will go behind your onboarding, et cetera. And then our strategy going forward where we are setting up we want to expand more and more to Tier 2 and Tier 3 cities, versus Tier 1 cities where the claims ratio tends to be lower. And thirdly, as opposed to most of the other players in the industry, we were very low on fixed benefit products, and the proportion of the fixed benefit product is rapidly increasing in our overall case. So a combination of these 3 things is how we are able to keep the claims ratio low. Now question [one] on regulatory option, we worry about on the claim side. So the answer is no, because the regulatory happens on the industry level and not at the player level and at the industry level, you know that how most of the other players (inaudible) on how the claim ratios (inaudible). So I don't see an [international] regulator on the claims side wherein they go the other way around. [Importantly], we have been (inaudible) in the health insurance business on the regulatory point out of the (inaudible).

Unidentified Analyst, [89]

That is very helpful. My second question is on the hospital side. Some other players I have looked at, for them, the operational leverage kicks in at, let's say 55% occupancy or 60% occupancy, [for us] I think last quarter occupancy was at 75% and (inaudible) the bottom line, we haven't been able to make profit. So how does this -- why does this happen? And then is the brownfield -- how will this change once we start doing brownfield expansion when we're adding that?

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [90]

So I think one thing is I haven't seen many hospitals with 55% occupancy turning a profit. So we are really look at the financials on the hospitals very minutely. I have not seeing many of them. The other result is so (inaudible) of the world, but then that's only one single specialty hospital. But if you otherwise see, we [do conduct] [70%], 71% occupancy basically means that you have a lot of room to grow. It can go up to 85%. And I think, at that point of time, the (inaudible) will come through into EBITDA because there's no extra cost will be incurred for this extra occupancy. So I think we basically manage the hospital at a [65%], 70% occupancy level in terms of demand [for] and other infrastructure. And when the occupancy passes that level, then the margins become (inaudible) which happen [to EBITDA] and the margin will go up. So I think this also relates to the model that we have in terms of employing doctors where we don't have doctors for on fee-for-service. We employ them as employed. So then (inaudible) there is a fixed cost structure that we build up and beyond the point, (inaudible). So I think that's how the economics work today, the model that we run the hospitals. There are other hospital who can (inaudible) fee-for-service, et cetera, but in that case, when the hospital gets to occupancy of 75%, 80%, you'll find that their EBITDA margins have improved, which is not the case that we have. So in our case, once the occupancy go up, there's a lot of flow through which happens because of the model.

Unidentified Analyst, [91]

Okay, okay. And how will this (inaudible) when the expansion (inaudible)?

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [92]

I'm not able to hear your question. Can you repeat, please?

Unidentified Analyst, [93]

Yes, yes. When you (inaudible) start coming in, because we have a plan in 2022, 2023, to double the number of bed size. So how will this play out once -- as and when (inaudible) the beds start coming in?

Jatin Khanna, Max India Limited - CFO [94]

His question is the brownfield (inaudible). Will be profitable in terms of occupancy in (inaudible). [This is how we got you].

Rajit Mehta, Max Healthcare Institute Limited - CEO, MD and Director [95]

Yes. As you know, that a lot of the expansion that is happening is in the existing hospitals, all right? So as we are able to mention, a short while ago, we have 110 beds coming up in (inaudible) in December, January. Now this is already in the existing hospitals, so there's another block which is coming up there. Similarly, the expansion in (inaudible) that we're planning is all in the existing hospitals. So all the growth of this kind actually brings down the cost structure, because you don't have to hire another hospital, hire the support services, et cetera, front office. So to that sense, the incremental gain is always much better in terms of the [flow through] and also it is you ramp up hospitals when you add (inaudible) in the existing hospital. So we do [think that] the margins, and [after that], we mentioned that we will come back to the 14%, 15% margin (inaudible) time, and that's what -- that's the reason why we think this will happen.

Operator [96]

(Operator Instructions) As there are no further questions from the participants, I would now like to hand the conference over to Jatin Khanna for his closing comments. Over to you, sir.

Jatin Khanna, Max India Limited - CFO [97]

Thank you for everyone who joined on the call. We appreciate you taking out time to be part of our call, and we sincerely hope that we addressed most of your queries (inaudible). In case you have additional queries, please feel free to reach out to us. And a recording of the call will be available and the transcript will be put on our website. We look forward to more interaction in the future. Thank you, and goodbye.

Operator [98]

Thank you very much, sir. Ladies and gentlemen, on behalf of Max India Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.