



MAX Healthcare Institute Limited Q2 & H1 FY21 Earnings Conference Call November 13, 2020

Moderator: Ladies and gentlemen, good day. And welcome to the MAX Healthcare Institute Limited Earnings Conference Call. Please note that this conference is being recorded. would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good morning, everyone, and thank you for joining us on MAX Healthcare's Q2 & H1 FY21 Earnings Conference Call. We have with us Mr. Abhay Soi – Chairman and Managing Director of the Company; Mr. Yogesh Sareen – Senior Director and Chief Financial Officer; Mr. Dilip Bidani– Senior Director, Finance; and Mr. Gautam Wadhwa – EVP, Business Development and Business Intelligence of the Company

We will begin the call with opening remarks from the management, following which we will have the forum open for an interactive question and answer session. Before we start, I would like to point out that some statements made in today's call maybe forward-looking in nature and a disclaimer to this effect has been included in the investor presentation shared with you earlier.

I would now like to invite Abhay to make his opening remarks.

Abhay Soi: A very good morning to all. It gives me great pleasure to welcome you all to the second quarter earnings call for MAX Healthcare. Let me give you the key highlights for this quarter before opening it up for Q&A.

Starting with the COVID update, we continue to take pole position in the fight against COVID-19 in Delhi, NCR and in Mumbai through our Nanavati Hospital. We continue to have 1,200 beds dedicated to COVID. We have now treated over 16,000 patients and tested over 1.6 lakh samples to date. On the clinical side, we continue to build our capabilities. We did the world's first removal of ruptured Hydatid Cyst using Cryoprobe at BL Kapur Hospital. We also did India's first bluetooth enabled pacemaker implant in a 62 year old patient and MAX Saket. Despite COVID, we have had over 82 publications in national and international journals. We have over 80 ongoing research projects at the moment, and are also training over 400 DNB students presently. MAX Saket has become a part of the prestigious Illumien IV, which is a global research project for precision angioplasty. Most importantly, we continue to serve patients from the economically weaker sections of the society. In quarter two alone, we have treated over 600 patients in our IPD and 25,000 in OPD, free of charge.

Now coming to the financials. As you would be aware, COVID is a particularly challenging time for hospitals financially, given a large number of beds, which otherwise would be utilized for higher ARPOB business is blocked for COVID, which is a relatively lower ARPOB business for us. Despite these challenges, we

have been able to show a strong business performance, which is a testimony to the robustness of our business model and structural cost savings program which has been undertaken.

The gross revenue for this quarter was Rs. 932 crore, which represents a growth of 53% over the trailing quarter, but is lower by 17% compared to the same quarter last year. Our contribution margin at 58.8%, while being about 450 basis points higher than the trailing quarter, was also 85 basis points higher than same quarter last year. Now this is largely on account of material cost savings that we have done. The operating EBITDA for this quarter was Rs. 143 crore, which represents a significant jump from the -Rs.22 crore) in the trailing quarter. However, this is still lower by 8.5% compared to the same quarter last year. The ARPOB for quarter two was similar to Q1 at Rs. 46,000 to Rs. 47,000 levels compared to Rs. 50,000 in quarter two of the previous year. Lower ARPOB compared to last year is driven by lower ARPOB from beds reserved for COVID. However, the drop in ARPOB is more than compensated by the increase in occupancy. We have been operating at historic highs of close to 80% in the last two months against our normal average occupancy of 72% to 73%.

While the COVID beds are operating at a 70% occupancy, the non-COVID beds are operating at an 85% occupancy. The high occupancy in non-COVID beds is testimony to the recent demand for the high quality of services being offered by MAX and gives reasonable visibility on higher ARPOB business coming back in a post-COVID world. Despite the lower revenue compared to the same period last year, EBITDA margin for this quarter was 16.2%, which is higher than the same quarter last year. This has been possible because of the ongoing implementation of cost saving initiatives and synergies. As you would remember, last year, we had implemented cost savings of Rs. 220 crore on an annualized basis, only Rs. 140 crore of which was banked in the last year itself as these were implemented through the year. In FY21, the remaining Rs. 80 crore of annualized cost savings are being banked. In addition to that, in current year to date, we have implemented additional cost savings of over Rs. 90 crore already on annualized basis, of which Rs. 65 crore would be banked in the current year and flow down directly to the EBITDA.

Overall, on most parameters, we have seen steep recovery and are back on track, especially towards the second half of the last quarter. In fact, our September EBITDA was almost 4x our July EBITDA. More importantly, towards the end of the quarter, for the month of September while our revenues for the month were 6% lower than same month last year, our EBITDA for the same period was materially higher this September compared to last September. Our non-COVID tower specialties were between 80% to 90% of pre-COVID levels by the end of September. However, we are lower by 37% on OP consultations compared to last year, although OP to IP conversions are much higher this year compared to last year. As a consequence of improved cash flows, we have also reduced our net debt by Rs. 128 crore during this quarter. The net debt inclusive of put options now stand at Rs. 1,988 crore. Overall, I am pleased with the recovery that we have seen in this quarter. And from today's vantage point, believe quarter three will be a growth quarter for us.

On this note, I wish you all a very Happy Diwali and now open to conversation and discussion.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ruchi Srivastava from Edelweiss Financial Services.

- Ruchi Srivastava:** Congratulations on a great quarter, especially in such a tough macro. Sir, in your analyst presentation you have mentioned that occupancy is at 81% and especially non-COVID is leading a much better recovery, and which is showing up in your ARPOB as well. But overall, this looks like its much faster normalization than what you were saying in first quarter, especially for non-COVID, for COVID it's understandable. So what do you make of the current situation for both your Delhi and Mumbai hospitals? That was my first question.
- Abhay Soi:** So in terms of non-COVID, if that's what your question is, although we are operating at 85% of occupancy in the non-COVID beds, it basically means this is night-time occupancy, during the day we are almost 100% full, and we have queues and waiting periods in our emergency. So there is a huge amount of latent demand as well. Unfortunately, or fortunately, we have had to set aside certain amount of beds, which are like I mentioned, at 1,200 which are being used for COVID. And the occupancy of these beds is also significantly quite high. And we can't really utilize these beds for non-COVID. I am very certain as and when the COVID numbers go down, we have more than adequate latent demand to kind of occupy the COVID beds which will then be converted to non-COVID. Having said that, in spite of us running both COVID and non-COVID concurrently at this point of time, and as you are aware, Delhi is in the midst of a third wave, we are at least fiscally in a very good place. We have been hitting historic highs on EBITDA and occupancy is also at a historic high.
- Ruchi Srivastava:** Second question was just on EBITDA margins, at 16.2% how sustainable is this? You said in your opening remarks that a lot of structural cost savings is to be banked this year as well. And COVID related would be definitely transient. But how do you see EBITDA margins sustaining going ahead?
- Abhay Soi:** So two things, one is, we were 15.2% last year in quarter two, this quarter we have 16.2%. So, we are higher than last quarter in the current quarter. Do keep in mind, in this quarter our revenues are lower by ~17%, which translates to about Rs. 187 crore of revenues. So in order to partly compensate for this loss in revenue, then the increase in cost, we have some transient savings in salaries, which take care of about 15% to 20% of this cost or reduction in revenues. Other than that, everything else is structural cost savings. So, these are not likely to disappear. And we believe there will be expansion of EBITDA margins going forward.
- Yogesh Sareen:** So Ruchi, as Abhay mentioned, during the close of the quarter itself, we have higher margins towards the end of the quarter, which we think is sustainable. Our average is obviously lower, because July, August revenues have gone lower, so I think as we see it, it should only improve from here.
- Abhay Soi:** So our EBITDA, in fact, for the month of September was 3.5x to 4x the EBITDA of July. The aggregate margin for the quarter was 16.2%, but September clearly was significantly higher than that. And this is while we have unwound majority of the structural or the salary cost reductions that we have done.
- Moderator:** The next question is from the line of Sangeeta Purushottam from Cogito Advisors.
- Sangeeta P.:** Congratulations on a great set of numbers. My question was a follow-up on what the previous participant had asked. You mentioned that the September EBITDA numbers were significantly higher than July. And in your presentation, you also mentioned the occupancy rate for October. Now going into the October-December quarter, is there any guidance you can give in terms of the occupancy rates you expect as well as the EBITDA that you are likely to get? So would that be, can we take therefore the September numbers as a indication of what it will be in the October-December quarter, or is that likely to be even higher?

- Abhay Soi:** So two things, the October occupancy and November occupancy till date is higher than September. And the second is, the quarter EBITDA, like you rightly put it, was in aggregate of July to September, which was a steep hike whilst the third quarter, which usually historically has been a weaker quarter, but in the current year we will continue on this trajectory of higher occupancy. And therefore, we are seeing higher revenue. In fact, there has been revenue growth in October. So we are expecting the quarter three to be a growth quarter for us, we don't go back to FY20 levels but we should be able to exceed those.
- Sangeeta P.:** Okay, and you were anyway on a cost reduction program even before COVID. Now, as a result of COVID, are there additional structural cost reductions that you have identified?
- Abhay Soi:** So, we have done structural cost savings, like I said, even for the current year there was a program for about Rs. 100 crore of cost savings. These are structural cost savings other than the transient or the salary reduction which have largely been unwound by now. But even the structural costs savings of about Rs. 100 crore we had identified in addition to the Rs. 220 crore we implemented last year.
- Sangeeta P.:** My question was, so in many industries we have seeing that as a result of COVID there is a change in the way of working, and that itself is leading to new cost structure. In your case, is that also true or is it that you continue to be on the path you had identified earlier?
- Abhay Soi:** No, so there have always been changes to that. So yes, there have been changes to the way of working as well, particularly in terms of how we are conducting our OPDs and how we are doing things with digital and so on and so forth. The permanency of this and how long these habits will last is another question altogether. But we don't really hang our hat as far as this is concerned. What we are talking about are structural cost savings, which we don't believe are likely to disappear in the years to come. And out of the Rs. 100 crore identified for the current year, we have implemented Rs. 90 crore, Rs. 65 crore of which will get banked in the current year.
- Sangeeta P.:** Lastly, on your fundraising program, is there any update that you have on that? And in terms of quantum of funds you are looking to raise now, has there been any change or in the end use identified, will you be using all of it to repay debt?
- Abhay Soi:** So, A, the QIP we were doing was more in compliance with our MPS norms, minimum public shareholding requirements that we have, as well as to fund growth. As far as our current debt is concerned, like I said, even in the worst quarter we paid down Rs. 128 crore, Rs. 130 crore of debt. We have a net debt of Rs. 1,980 crore and given our current run rate, we believe, we are very comfortable in terms of debt-to-EBITDA, as well as, throwing out more significant amount of free cash flow per month to bring down this debt even further. So, we don't necessarily require a QIP to pay it down, that was more to fortify ourselves for a growth opportunity.
- Moderator:** The next question is from the line of Sarang Gupta from Briarwood Chase Management.
- Sarang Gupta:** Congratulations on the strong quarter. The first question is, given the volatility we have seen around COVID, could you give us some colour on EBITDA progression throughout the quarter? And how is September versus earlier in the quarter? And I guess, a follow-up on that is, any colour on how October performed versus September and revenue going forward?

- Abhay Soi:** Like I said, September has been 3.5x to 4x July EBITDA. And this is largely on account of two things, which is ramp up in occupancy which continues and in fact, improves through October and November. And the other was structural cost savings that we have implemented by September, and that, again, is something which will continue in the current quarter. So whilst our EBITDA was lower for the second quarter this year compared to the previous quarter by about 8.5%, in the forthcoming quarter, which is quarter three, we are seeing it as a growth quarter for us. Because from today's vantage point, we are hitting historically high levels of EBITDA, which we did in September, we hope to do the same given not much changed and there have only been improvements since then.
- Sarang Gupta:** And, can you share some colour with us on what you see about the pace of recovery for medical tourism and when that comes back? And I guess, any initial signs of the recovery in medical tourism that you see happening?
- Abhay Soi:** So first and foremost, we are achieving the numbers that we are achieving without a significant amount of medical tourism. Having said that, of late we have seen, at least in the month of September and onwards, it having returned to the extent of 20% to 25%. So we are at 20% to 25% of pre-COVID levels now, as far as global medical tourism is concerned. We are only going to believe this number will go up in the forthcoming months.
- Sarang Gupta:** And one last question then I will get back in the queue is, how do you see as the right run rate level of Q2 performance for MAX? Because Q2 was obviously impacted by elevated elective surgeries, but also that some cost cuts, some of which are temporary and a lot of which are structural. So, I guess, if you could help us how these headwinds and tailwind shakeout to see what do you see as the right run rate of EBITDA for MAX once we have a normalization in all of these factors?
- Abhay Soi:** So, I wouldn't give you exact guidance on the EBITDA. But I can tell you that compared to last year, if I just compare the September quarter this year to the September quarter of last year, we were lower in revenue by Rs. 187 crore, which means it's about Rs. 103 crore contribution towards my fixed cost. Only about 20%, 25% of that, okay, has got kind of absorbed by the transient, salary reductions that we have done in this quarter. And this has now pretty much has gone back again, almost entirely. But that's the amount of contribution we are missing out, firstly, from the top-line. So, I mean, you can do the math, you can add that to the current quarter run rate and figure out what it would be in normalized state of affairs. But we are seeing constant increase in non-COVID surgeries, the number of surgeries have only been increasing. It's still not back to pre-COVID levels because International is, in fact, we are still only at 80% to 90% of pre-COVID levels, we expect this number to ramp up significantly. I mean, right now the constraint is the number of beds we have on the non-COVID side of things, rather than anything else. I think demand is there, and huge amounts of demand because the waiting in emergencies are quite large, the queue for our surgeries and OTs is quite long. What we are seeing is unavailability of beds, so to say. I mean, I am expecting a very good quarter three.
- Moderator:** The next question is from the line of Tushar Manudhane from Motilal Oswal.
- Tushar Manudhane:** Compared to say, Q2 FY20, Rs. 156 crore EBITDA which was without COVID, can we have like-to-like comparison on that? So Rs. 143 crore would be, I mean, broadly the breakdown of EBITDA into COVID and non-COVID?
- Yogesh Sareen:** No, so I don't think that's possible, because there is a lot of costs, which you cannot allocate to a COVID or non-COVID bed, so we will have to see the overall

thing. But I think in the overall scheme of things, there is roughly around 23% - 24% of the revenue has come from COVID in this quarter.

Abhay Soi: And this is a lower ARPOB revenue as far as we are concerned. Because as you are aware, our hospital operates at a significantly higher ARPOB. So the beds which are being occupied by COVID are actually earning us less.

Tushar Manudhane: Yes, so effectively then so like-to-like comparison would have been much better had the COVID not been there.

Abhay Soi: Absolutely. I mean, if there was no COVID then you would perhaps have had a lower occupancy but a higher ARPOB, certainly.

Tushar Manudhane: And how do you see this occupancy of COVID beds panning out? Let's say, maybe 2Q and then in October, November, is that reducing, increasing or it's still fluctuating?

Abhay Soi: So right now presently it is increasing, at least in Delhi NCR region. Eventually, we are hoping as soon as possible for this to come down, like it has everywhere else. But like I said, on the non-COVID side we are facing capacity shortages, so we are looking forward for this COVID to unwind as quickly as possible so we can put beds to non-COVID and which will allow us to earn more. So it should actually work out better for us.

Tushar Manudhane: Got it. And is that the reason for ALOS remaining at an elevated level?

Abhay Soi: Yes. You have to understand, our numbers are not because of COVID, these are despite or in spite of COVID. As a healthcare chain, given where we are and where our hospitals are, we are suffering due to COVID, because those beds earn us less.

Tushar Manudhane: Got it. And on the payor profile, we have been commenting in terms of reduction on the institutional side. So, how are we progressing on that?

Abhay Soi: Quite well, actually, because in a couple of hospitals we have stopped that business. And it's obviously a good time for us to do so because in any case, we have such a severe shortage of non-COVID bed capacity. And being a preferred hospital for COVID, in any case our occupancy is higher than everybody else's. So we have started on that program and quite successfully.

Tushar Manudhane: And just lastly in terms of this TPA and corporates where the use of MAX plan were to have a pricing benefit, I mean, how is that progressing?

Yogesh Sareen: That has started to flow in quarter two, some of the prices have already been revised and some are getting revised from 15th of November. So the way we see it, other than discharge, most of it will be done in this quarter, you will not see the full year or full quarter impact in this quarter, I mean, ensuing quarter, but you will have it in quarter four.

Abhay Soi: So quarter three will see a part of it, quarter four will see, but that's other than discharge, we are still under discussion, which is a major part of the revenues in terms of TPAs.

Moderator: The next question is from the line of Dhananjay Tikariha from Kotak Mahindra AMC.

Dhananjay Tikariha: Just one small question. So yesterday we had this news where Delhi High Court had vacated stay on 80% reservation of ICU beds for COVID for 33 hospitals. So do some of our network hospitals are part of list of the 33 hospitals? And if yes, than what can be the impact?

Abhay Soi: So, yes, our hospitals are a part of the list of 33. It's a slightly more complex order because it also states that non-COVID life is as important as a COVID life, and therefore it is an obligation of hospitals to ensure that no non-COVID person suffers because of lack of bed as well. Now, we have heard the third wave we are in the midst of and essentially what it means is that you need to increase your bed capacity on the COVID side of things. And which we will, we will ensure that it positively impacts us rather than negatively impacts us.

Dhananjay Tikariha: Okay. So this current wave which has come, so this should not kind of delay our estimate that Q3 should be better than last year's Q3, right?

Abhay Soi: That's correct.

Moderator: The next question is from the line of Mayur Gathani from OHM Portfolio.

Mayur Gathani: I just wanted to check on the branding. I mean, we continue to use the brand MAX, so is there a timeframe where we can use it or is there a royalty that we continue or end up paying them?

Abhay Soi: So neither, we own the brand MAX Healthcare.

Mayur Gathani: Okay. So with this merger you own the band itself?

Abhay Soi: That's correct.

Mayur Gathani: Okay, and on the effective savings that you have been mentioning, so I will just run through this once, correct me if I am wrong. Rs. 220 crore was a target, out of which Rs. 140 crore you did in FY20, the balance Rs. 80 crore is to be done in in process in FY21. Over and above this, you are talking about Rs. 100 crore structural savings in FY21, out of which Rs. 65 crore will be implemented this year and Rs. 35 crore will go to next year. Are those numbers correct?

Abhay Soi: No, I mean, the numbers are correct, but I think you are going about it the wrong way. We implemented Rs. 220 crore last year. We didn't identify Rs. 220 crore, we implemented Rs. 220 crore. We got benefit of not the entire 12 months of savings. Suppose if I had done the savings, all the Rs. 220 crore I had implemented them on the 1st of April, then last year I would have got Rs. 220 crore of benefit to my EBITDA, right? But because it didn't happen on the 1st of April, it happened through the year, we got the benefit of only Rs. 140 crore, which got banked, although we implemented Rs. 220 crore. In the current year EBITDA, the balance Rs. 80 crore would have automatically flown down, because it was something which was already been implemented. So that's already happened and you are seeing that in the numbers. In the current year, okay, we identified Rs. 100 crore of additional structural savings and synergies. We implemented these, Rs. 90 crore of these we have already implemented, Rs. 65 crore of which will get banked in the current year, current financial year, balance will automatically flow in in the next year, it has already been implemented. Rs. 10 crore more have to be implemented in current year, of which may be a couple of crore, well not maybe, but a couple of crore of that should come into the current year as well. So the Rs. 65 crore will become perhaps Rs. 67 crore.

Moderator: The next question is from the line of Farokh Pandole from Avestha Fund Management.

Farokh Pandole: My first question was on the brownfield expansions at your existing sites, could you just share some sort of colour on the size and the cost and the timing of these expansions?

Abhay Soi: Yes. So we are looking to start the expansion in the new financial year. The size in Delhi we will be building, well, we have permission to build 900 beds. At this stage we will be building a superstructure of 650 beds, of which we will be fitting out 350 beds. In Mumbai, it will be 550 beds additional that we are building out. This is at Nanavati Hospital in Mumbai and Delhi is adjacent to a cluster of hospitals in MAX Saket. Now, the timeframe for this, the construction period is three to four years. These are full scale hospitals and these should come online three to four years later from the date when you start construction. So this is at a cost of Rs. 1,300 crore over the next four years. The first two years is when you are building, it's about 30% of the cost and the latter half of this thing should be 70% of the cost, where initially you only build the superstructure, the finishing and the equipment and so on and so forth all comes in and paid for in the latter part of the construction period.

Farokh Pandole: Okay. And also on your cost exercise, this Rs. 100 crore figure which you had given for this year, of which Rs. 65 crore will be banked, that is where you see this exercise ending in terms of all of the initiatives that you would have identified. And I am also presuming that the Rs. 220 crore of last year will naturally get fully banked this year.

Abhay Soi: Absolutely. So Rs. 65 crore of the Rs. 100 crore, the balance Rs. 35 crore will get banked next year. So, you are going to calculate it as Rs. 220 crore of last year entirely coming. And Rs. 65 crore of the Rs. 100 crore being implemented in the present year, Rs. 65 crore EBITDA impact will happen this year. It will get banked and the EBITDA impact will happen this year.

Yogesh Sareen: It is as per the situation as we see today, so maybe it will go up.

Abhay Soi: Yes, I mean, if we are able to identify more than it can perhaps go up.

Farokh Pandole: Okay. And do we have any target, debt : equity or ROCE in mind in the context of everything that you have said in terms of the cost cuts, in terms of the expansions, the QIP which is coming in, further maybe inorganic opportunities which may or may not arise. So, through all of this, is there any target debt equity and ROCE that we can work with?

Abhay Soi: So, I think there are minimum thresholds. So as far as target is concerned, we try to do as better as we can. But our minimum threshold, given the total amount of capital which has been allocated in the business which is Rs. 3,600 crore, and if you see the current run rate or the exit run rate of last year, you will see our ROCE was late teens. So, I think clearly will be looking at the ramp up, which should be in the mid-20s or early 20s on normalcy, given the current state of affairs. And for the brownfield, we are looking at anything between 25% to 30% ROCE, this is on an incremental basis. As far as debt to EBITDA is concerned, we are comfortable with around 3x.

Farokh Pandole: Okay. And just a last question, there was a footnote in your results yesterday about some payment of Saket, could you just explain what that is?

- Yogesh Sareen:** So, this is basically put option liability that we have. So this is the stake that we were to buy from Modi's for the balance of that hospital that we bought in 2015. So this liability has to be extinguished by a borrowing so that is the reason why we put that note, because when we see borrowing on the balance sheet, that borrowing is excluding that. And so if you see the balance sheet also which we sent to you in the investor presentation, you will find that after this gross debt there is a put option liability there. So that liability is what is it, it's in dollars and in rupee terms. So, since there has been some dollar movement, so there is a gain which comes up, because this liability is fixed in terms of dollars and these liabilities are now resting with KKR, as KKR bought these shares from Modi's at the end of March, and we are supposed to buy it from KKR at no profit, no loss. But the liabilities, both in rupee terms also it is frozen, it's frozen in terms of dollar terms also. So when I take the dollar, and there is a gain which comes up there, so that gain has been reflected in the borrowing cost in this quarter. So one there is a liability, and there is a gain on the liability which is there in the quarter. So these are the two notes that you will find in this quarter's presentation.
- Abhay Soi:** But I want to point out that all of this forms part of the Rs. 1,980 crore.
- Yogesh Sareen:** Yes, I mean, that's the reason why we put in the balance sheet upfront.
- Farokh Pandole:** So I am presuming this is part of the reason for the QIP also?
- Abhay Soi:** No, this is not part of the reason.
- Yogesh Sareen:** So we have a little debt tied up of this liability. So IFC are supposed to disburse the debt, so this debt, I would say, 85% of it is already tied up.
- Moderator:** The next question is from the line of Ashwin Agarwal from Aakash Ganga Investment.
- Ashwin Agarwal:** Congratulations on a very encouraging set of numbers and also a very detailed explanation in your opening remarks. Sir, you have already partly answered this question, but still. I thought the Rs. 2,000 crore debt standing on your balance sheet and you said probably you may not go ahead with the QIP. But in such challenging times don't you feel if you reduce your debt, you have more financial flexibility in terms of M&A in next two, three years and your balance sheet will be much stronger?
- Abhay Soi:** So, there are two things. Given, firstly, Rs. 2,000 crore or Rs. 1,900 crore or whatever it is, has to be looked at in the context of the EBITDA that we have and debt-to-EBITDA ratios. From today's vantage point, our current run rate, etc., if it is coming around 3x or below we are comfortable with it. Having said that, you are absolutely right, there is a chance going forward for consolidation, inorganic growth, etc. And that is one of the reasons we are looking at the QIP. And secondly, there is also an obligation for us to dilute simply because we have to meet a minimum shareholding norm, and we have to do it before August next year. So from that standpoint, we will be doing it which kind of matches both the purposes. So we are not saying we are not doing the QIP, what I said is, we don't need to do a QIP to deleverage.
- Ashwin Agarwal:** Okay, I wrongly misunderstood. I thought you have put the plans on hold.
- Abhay Soi:** No, no, that's not what the idea is.
- Moderator:** The next question is from the line of Ashish Thakkar from Motilal Oswal AMC.

Ashish Thakkar: Sir, a bit of your commentary on the oncology side of the business. How do you see that business shaping up, overall, broadly at the industry level and also specifically for your entity?

Abhay Soi: So, we are one of the largest players in oncology in India. The largest part of our business comes from oncology, which is 16% in oncology, which traditionally also has been growing at 16% per annum. In fact, during COVID, at present, this business has grown by 18.3% of the total. And so we have seen come back and ramp up and growth in this business. It is one of our mainstays, we intend to continue focusing on it. Of course, as the disease burden is only increasing in India, so we see an opportunity from that standpoint to be able to focus further on this.

Ashish Thakkar: Sir, but are you seeing a month on month improvement over the patient footfall here?

Abhay Soi: Absolutely. We have been seeing it even prior to COVID, like I said, that business has been growing at 16%, much higher than any other business, it is 16% of our total disease mix, which is far higher than any other business verticals that we have. And even in COVID we have seen it increase. And going forward we don't see this abating, we believe that there is a huge shortage of clinicians as well as infrastructure to serve cancer.

Ashish Thakkar: Okay. And how about the OPD, sir, are like Derma, ophthalmologist, all the specialists are coming to the OPDs now or you still feel there is a case for digital thing to go ahead?

Abhay Soi: So, I think three things. Although our business, most specialties are back to 80%, 90% across the board, the three things which have not happened so far and which will happen going forward, one is International business which haven't come back entirely. The second is the elective surgery, what we call really elective such as ophthalmology, dental and all of that stuff that you are speaking about, that is yet to come back, because it's not necessary. Third is OPDs as a whole, whilst conversion rates have improved and have gone up, okay, the total number of OPDs are still significantly below pre-COVID level. So it's 70% of normal only as yet, so that again when COVID abates is something which will come back. It is pretty much like people going to the walk-in in malls is low although conversion is high. Because when we are going to a hospital or going to a mall, as a purchaser has a conversion in mind is not looking at shopping around.

Ashish Thakkar: But do you feel that it will take some more time than expected three, four months or how do you see the things panning out?

Abhay Soi: With these three things I clearly believe International perhaps may come back sooner, because it is based on necessity and it is something which is stopped not because of anything else but the flights being reduced to India. And once those flights come back, that is something which will, the second two are more to do with COVID. Like I said, international has got more to do with the lockdown that we have for international flying into the country, etc. But the other two which is OPDs and this thing has got more to do with COVID and the fear psychosis, as COVID abates this will abate.

Yogesh Sareen: The oncology has grown in quarter two over quarter one by 28%.

Ashish Thakkar: And you said, the contribution is now 18% of the total sales, right?

Abhay Soi: That's right. Yes. In fact, you will see growth on this in quarter three compared to quarter of last year as well.

Moderator: The next question is from the line of Kunal Randeria from Edelweiss Securities.

Kunal Randeria: Sir, if you could just explain us the revenue growth levers for the next three years until the CAPEX that you are doing, and the beds are ready? So because you have pretty much maxed out, it seems, on the occupancy side of things, and ARPOB growth might be limited going forward. So if you can just explain how you see the revenue growth in the coming years?

Abhay Soi: So, I think, firstly, on the ARPOB side, there is a huge amount of growth, because even pre-COVID levels we were at Rs. 51,000 ARPOB, we are at present at Rs. 46,000, Rs. 46,500, so there has been a huge reduction of ARPOB. So when you see normalization, that is something which will go up. Second and most importantly, a very large amount of the business, 36% of our beds are catering to Institutional business and this Institutional business is at a 40% discount to our normal hospital rack rates. We will, rather than keeping beds empty, what we do is we earn less from beds, similar to airlines, and we are unwinding this, we already have a huge amount of latent demand. So what we are going to be doing is what you are going to see is churn or a payor mix churn happening over the next three to four years, where we will bring this 36% business down to about 15% over the next three years, and the rest can be used for the higher paying business. Do keep in mind, the operating expenditure for these beds has already been incurred. So, essentially what happens is, the minute you are able to kind of instead of Institutional patient put a cash paying patient or a insurance patient or international patient on it, you are able to earn 40% more from the same bed.

Kunal Randeria: Right. And sir, you are very confident that this can be achieved in the next three years or so.

Abhay Soi: Absolutely. So if you see some of the other healthcare chains which are a lot more mature than us, their dependence on Institutional business is significantly lower compared to us. A normal trajectory of a hospital or a younger hospital chain would be, you kind of fill up your beds with all sorts of payor mix, the high paying one and the low paying one, because you want to do more occupancy. And in over a period of time, you kind of start moving away from it and you have this payor mix churn. It also is a natural trajectory for the hospital.

Moderator: The next question is from the line of Prateek Mandhana from Nomura Financial Advisory & Securities.

Prateek Mandhana: I just have one question, I read in the PPT on the strengthening of digital platform and that the significant ramp up has been happening in the tele-consulting and over 11% of consultations are digital in 1H. So exactly like what kind of revenue contribution are we making from this digital platform and what is the future for this, how we see this landscape in future?

Abhay Soi: So, I think it forms the part of the OPD. What we are doing right now is OPD consults, what we have been doing some time back is also delivery of medicines at home, diagnostics and so on and so forth. So going forward, we believe this forms a part of our MAX At Home service. We have been fairly successful in that. At this point in time, it is an extension of our services, providing the convenience to our doctors, as well as our network of hospitals going forward. And frankly, this is not something new to us, because we invested in a proprietary platform about four years ago. It's only now the idea and the time has kind of converged. And what we have seen is the doctors as well as the patients being able to embrace it a lot

more. And whether to make it agnostic to us and put into a separate Company or keep continuing as an extension of our own hospital services is something which has to be seen. But clearly, digital is here to stay. What was in the peripheries of most sectors and most businesses, we have all embraced and more healthcare to health-tech. And this is helping us reach more and more patients. And this allows us better conversion, more people we reach the better conversion to IP we can do, the better pre-consult and post-consult, it's likely to help a lot with the international business, particularly with the post consultants and so on. So from a hospital standpoint, I mean, clearly this environment has been a blessing in disguise, because of dependency on healthcare platforms or digital performance has increased, both from a doctor's and a patient's standpoint. In terms of revenue, it is still marginal, and it's likely to be marginal in the near future at least. This is all about scale. And I don't think anybody is playing for that scale. Right now it is, for us, an extension line, keeping our patients at the core and to be able to reach them seamlessly and efficiently.

Prateek Mandhana: Okay, got it. And sir one more thing. So, the doctors that are consulting are just on your rolls or they are also external doctors who are not associated with MAX and they are also on your digital platform?

Abhay Soi: So, we work with close to 5,000 people. We also work with other nursing homes and so on. At this point or time, we kept it for our doctors, and at some stage we will be extending it to others as well. But that is to be seen, whether it is going to be agnostic platform, not agnostic platform, what some of the other players such as the big boys who are coming into the country, including DIO and so on and so forth are going to be doing. Because look, that's a different space altogether. Right now we are building it as an extension of our own services, our own doctors.

Prateek Mandhana: Okay. And sir, what was this 11% number like pre-COVID what we have, 11% of total consultations in H1, so what was this number pre-COVID?

Abhay Soi: So it went up to 16%, 17% in COVID, it was less than 1%. I think it would be less 0.1% pre-COVID.

Moderator: The next question is from the line of Praveen Sahay from Edelweiss PMS.

Praveen Sahay: The first question is related to your internal medicine contribution, is that a COVID contribution included in that? In presentation 20% of your revenue comes from that.

Gautam Wadhwa: Yes, you are right the Internal medicine and pulmonology has improved which is why contribution has gone up in H1 and Q2.

Yogesh Sareen: Yes, these are the two specialties that we are talking about, not medicines per se, but this is the internal medicine department. Obviously, the contributions went up because we said that all the COVID patients are admitted under either internal medicine or pulmonology.

Praveen Sahay: Okay. And secondly, in the previous participant's answer you said that there is more scope for improvement in the ARPOB. So, it's more to do with like your cardiac ortho has not reached to the pre-COVID level, that's contribution is lower as compared to that time. So that is expected to improve and that's going to improve your AROPB or is there some price improvement also you are expecting?

Abhay Soi: So I think there are two things, one is, pre-COVID we were operating at Rs.50,000 - Rs. 51,000 ARPOB, because 30% or 1,200 beds are doing COVID duty, which in turn generate lower ARPOB, it is pulling our entire ARPOB down. So one thing like you rightly said will happen, once we get back to normalcy or pre-COVID levels, where the percentage of COVID business goes down and the non-COVID goes up, we will automatically get back to pre-COVID levels of ARPOB. After that we also have every year a 2%, 3% price impact. And then like Yogesh said, we have also been negotiating with our insurance and TPA's, so there is going to be price impact improvement through that as well.

Yogesh Sareen: Also, when we filter or distil the Institutional channel revenue, that will also help us improve the ARPOB.

Abhay Soi: Yes. So, when we move away from the Institutional business, we said that earns 40% less, that is something which will improve ARPOB as well.

Praveen Sahay: Great sir. And secondly, on your TPA, your TPA contribution or what last half of the year has increased to a (+30%). So will that continue at this percentage or with the covid subsidy this will also go down to 25% or 26% TPA contribution?

Yogesh Sareen: So our take is that after the COVID, the insurance penetration levels have gone up, because we were talking to some of the companies and they said that they sold as much as in April itself as much they used to do in a quarter. So you can understand that the penetration has gone up. So we expect the revenue to maintain at this level. But I think we will have to really see how this whole thing pans out. But as of now, this is what we heard from the insurance companies.

Abhay Soi: I mean, the minute you put international into it, you will see the TPA percentage come down as the total, on the whole we see it go up. But I think the wrong way to see it as a percentage, because you also have International which is not a part of it. The minute you make that 10% or 12% or 13% of revenues, the relative percentage of TPA will go down. But in absolute terms, I think percentage wise it will go down, but in absolute terms it will go up.

Praveen Sahay: Okay. How much percentage of revenue comes from NCR this quarter?

Yogesh Sareen: So, 84% of revenue generally comes from NCR.

Praveen Sahay: So as for this quarter or this half?

Yogesh Sarene: Yes. I have not calculated this quarter but I think that's the number that MD kind of stated.

Abhay Soi: We also had higher stickiness for this quarter, which was less from outstation and so on, because I guess COVID has also created some barriers for travelling.

Praveen Sahay: Okay. Sir, last question is, is there any revenue related to the COVID or associated to the COVID has been booked in non-COVID revenue? Like some extension of COVID that has been booked over here in non-COVID, any related revenue?

Abhay Soi: So, anybody in the COVID ward, any test or any related thing, even if with respect to comorbidities, while he is in the COVID ward, will be booked under COVID. And if he is in the non-COVID ward, now for example, if a patient comes through COVID, has comorbidities, he will be booked under COVID revenues. If he becomes COVID negative, okay, and has a heart problem and moves into the non-COVID section and he's like a regular patient who is non-COVID, at that time he

will be booked in non-COVID. Anything done on a COVID patient is booked as COVID revenue.

Praveen Sahay: Okay. Once he is COVID negative then after that that's a normal revenue you are booking.

Abhay Soi: When he moves into a different section of the hospital, right, he becomes a non-COVID.

Yogesh Sareen: So, typically in our system we have identified COVID beds. So anybody admitted on those beds will be a COVID patient, and for that purpose, all revenue will come through COVID side.

Abhay Soi: You don't mix COVID and non-COVID patients, right.

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

Geetika Gupta: Great set of numbers. One follow-up on an earlier question on the revenue drivers, relating to the decrease in the share of the Institutional patients. Now, this is one driver which has been spoken about for a long time and even the earlier management was trying to bring down the share of Institutional business, that we have seen it remain at 25%, 30% of revenue. So wanted to check what are the challenges here and how confident are you on bringing this share of business down?

Abhay Soi: We are very confident about it. And I don't think we have much of an option. We have already capacitated out. And the normal quality of events should move away from the lower ARPOB business. It may have been thought about in the past, but we have already started implementing it. We have done it entirely in our Gurgaon hospital, 20% of business used to be Institutional business, we brought it down to zero. That hospital pre-COVID was doing Rs.61,000 ARPOB, in fact, and a 25% EBITDA margin. We have started this journey in our Saket hospital as well, we have moved away from ECHS, now we have done it in our Patparganj hospital. So we are moving away from this business as we speak.

Geetika Gupta: And is there a transitory impact when that happens, in the sense that does the occupancy come down, because a large proportion of taking at least sometimes moves away?

Abhay Soi: Not really, because look, the Institutional business is not one homogeneous, one contract, these are multiple contracts, which kind of represent different pools of Institutions or different silos of Institutions. Some are large, some are small to put in overall perspective. I basically need to increase the occupancy. If I take out 10 beds from Institutional, I need to fill them up with four or five beds to breakeven on the EBITDA.

So I mean, we haven't seen that as a challenge. And of course, we are not doing it for the sake of it, we won't remove the business for the sake of it, we will remove the business only at those specific hospitals. And that's the entire program, that we are doing it where we believe that there won't be any loss in revenue. So we don't foresee any loss in EBITDA because of this.

Geetika Gupta: So, EBITDA per bed for the institutional business, how much lower is it as compared to a normal bed?

Yogesh Sareen: So, typically what we see is that we have 100 beds of Institutional and we fill up only 45 of them we will be home in terms of EBITDA.

Abhay Soi: But really EBITDA if you see, it is negative EBITDA. I mean, you can imagine, if you are looking at 20% odd sort of EBITDA margins, and this is a business at a 40% discount, then overall EBITDA is negative, it is contribution positive and EBITDA negative.

Moderator: The next question is from the line of Aditya Khemka from InCred AMC.

Aditya Khemka: Just a couple of questions on the medicine part of the business. You said that in the presentation it says 20% of your sales this quarter came from medicine sales, you think this is a new normal given the way your business mix is evolving, your cases are evolving? Or you think this is an aberration driven by the lower lead generation from the OPD in the current environment?

Abhay Soi: Just to clarify, it's not 20% from sale of medicines or pharmaceuticals, it is 20% from internal medicine. Internal medicine is a stream like pulmonology, like oncology, like cardiac. So when a COVID patient come he meets the internal medicine doctor, what he practices internal medicine. The sales is not coming through sale of medicine.

Aditya Khemka: So what part of your revenue comes from sales of pharmaceutical products?

Yogesh Sareen: So typically, in any hospital, 28% to 30% of the revenue will come from sale pharmaceuticals, and we are no different.

Abhay Soi: And that hasn't increased.

Aditya Khemka: And this 28%, 30% of sales from pharmaceutical, could you further give us some colour on how much of this would be from oncology drugs?

Yogesh Sareen: So, I will tell you that off this 30%, typically 13% to 15% of that will be in the OPD, which will be Max Chemist, which is an OPD pharmacy store that we have in hospitals, and balance will be in IPD. In IPD, one-third of drugs are typically oncology. There is price capping on onco drugs, as you are aware.

Aditya Khemka: Sorry, I missed that number. What part of IPD would be oncology?

Yogesh Sarene: So, let's say, first of all, 30% of the revenue is medicine, let's assume for a minute, then 13% to 15% of that would be sold in the OPD. So balance 85%, one-third would be oncology and two-third would be non-oncology. And that's ballpark numbers I am giving, because this includes daycare as well.

Aditya Khemka: Just one last questions, so what is our total budgeted CAPEX over the next three years? Because I understand we are going to do some brownfield CAPEX at some of our facilities, including Nanavati, Saket, etc. So just wanted to understand the total CAPEX budget over the next three years.

Abhay Soi: So I will give to you over the next four years, it's Rs. 1,300 crore over four years.

Aditya Khemka: And other than the dilution that we have already planned, Abhay, to bring down the promoter stake below 75%, other than dilution would do you need to raise more funds to fund this CAPEX or rest of it can come from internal accruals?

- Abhay Soi:** No, absolutely. So it can come from internal accruals, I mean, just to put it in perspective, we have prepaid debt like I mentioned, we have paid Rs. 120 crore of debt almost in the last quarter. We don't have any amortization coming up over the next two years. Even if I take all in, including put options if I take the debt at 1,980 crore, you are looking at about an interest cost of about Rs. 15 crore a month. In addition to Rs. 15 crore a month we have a maintenance CAPEX of Rs. 10 crore a month, that's Rs. 25 crore, right, all in. I may have an increase in working capital of another Rs. 4 crore, Rs. 5 crore. So, a Rs. 30 crore of total commitment that I would have on a monthly basis on a growing business. As against this, if you see my present EBITDA or where we are, the current rate etc., is significantly higher than that. And that is the differential of additional cash flow that we use to pay down the debt over the last three months. Even if you look at my total CAPEX requirement of Rs. 1,300 crore, 30% of it is going to be spent over the next two years, 70% of it is going to be back ended, because first two years you only make the superstructure and the back ended on the latter half of the construction period is where the expensive equipment and the fit outs and all of that kind of stuff happens.
- Aditya Khemka:** And all of this is just on the asset side, right, where we lease the building and the land or do we plan to own the building and the land?
- Abhay Soi:** No. I mean, well, it's not going to be asset light because the land is leased and the building, we are financing. So, whether it's owned or leased is not the point, we are financing the building in both the cases. The advantage over here is, these are Brownfield unlike Greenfield, these are adjacent to hospitals which are already operating at very high capacity, four years later we will be bursting at our seams. And typically, in a brownfield you don't have the 20%, 25% of operating losses at start up, if you typically have in a normal hospital.
- Aditya Khemka:** So, the equity dilution that we need to do, I mean, have we decided whether we will issue fresh equity to shareholders so that the promoter stake comes down or will the promoters come in and sell equity?
- Abhay Soi:** No, the promoters are not looking to sell any equity, we will be only doing a dilution, a maximum of up to about Rs. 1,000 crore, and that would just get us past, I think, MPS requirements, etc. This will also help us fortify our balance sheet further to take care of any inorganic opportunities. As you are aware, over the last 10 years, at least, my growth has come from consolidation and unlocking value and creating value in assets that you acquire rather than Greenfield. We intend to stay with that course because we have been on ROCE as well as from allocation of capital standpoint makes a lot more sense to us. We want to stay the course on that. And I believe post COVID we will see a lot of opportunities come back.
- Moderator:** The next question is from the line of Kapil Banga from ICRA.
- Kapil Banga:** Would it be possible for you to share the OPD traction as compared to last year what is the percentage footfall that we are seeing now?
- Abhay Soi:** We are only at 70% of last year, so the IP obviously is more necessary. We do quaternary care so that sort of bounce back has happened much sharper. But OPD is not entirely back because, look, people are still hesitant to come to hospitals like they are to go to malls or shopping and so on and so forth. And these are typically vulnerable people who are unwell and therefore a little more concerned or sensitive about going out. So clearly OPD is only 70%. But as things normalize, this should come back as well. Like I mentioned conversion is much higher, because when they actually brave going out, such people, they are going out with a purpose only when they have to. So the conversion from OP to IP conversion has increased.

Yogesh Sareen: And also, within the OP you will find that even the pharmacy sale is still lower, I mean, let's say the sales are 65% of normal, the pharmacy sale is roughly 60% of the normal. That means the people are coming but they are not even buying medicine at the pharmacies in the hospital. Similarly, even the diagnostics are a bit lower, the ophthal is still further lower, ophthal is roughly 55% of the normal. So, I mean, it varies within the OP but consult, as Abhay mentioned, is 65%, 75% of the normal in the quarter two.

Kapil Banga: Okay. Could you share the trajectory of occupancy over the last few months? How has it progressed post the sharp dip in April on a month-on-month basis?

Abhay Soi: We have shared the details in the presentation. For this current quarter, in June it was 61%, in August it was 66%, in September it was 77%, in October it's 79%, in November we are seeing, again, 80%.

Kapil Banga: Just last question from my end. Earlier in the call you mentioned that the medical tourism business is about 25% of what it was last year of pre-COVID. So just 25% is primarily coming from neighbouring countries or we are getting some patients even from the Middle East and other African countries?

Abhay Soi: No, we are getting from Middle East, we are getting from Africa, so it's actually an even spread. So this was not there in the last quarter, we are seeing it in October, November, only over the last couple of months as the business has really come in. And Q2 you do not have this business.

Moderator: Thank you. The next question is from line of Sangeeta Purushottam from Cogito Advisors.

Sangeeta P.: What I wanted to check was that are you also going to be participating in any COVID vaccination program that the Government would take on going ahead, like some of your competitors have said they would?

Abhay Soi: Absolutely, whatever programs we afford to or we can enlist in, we will certainly be going ahead in that. We have the capacity of inoculating most of Delhi NCR very quickly, we have the cold chain network and so on and so forth. Right now, the Government is not clear, even if they're clear; they haven't really communicated to the private sector how they would like to get things done. They wanted to do it as a part of the election process, or whether they will be using their own infrastructure. But our entire infrastructure is available, not only our infrastructure but 6,000 GPs that we interact with as well as our own GPs, doctors, 8,000-odd nurses, so everybody is on call for that.

Sangeeta P.: Is that likely to be a profitable activity?

Abhay Soi: Look, I think we will do it whether it's profitable or not. But one doesn't know right now what they are paying. In the UK for example, a normal inoculation cost, the GPs are paid GBP11, and I am told for COVID they will be paid GBP18 per inoculation. And that may not be a yardstick for India at all. So whatever it is, we will do it even if we have to do it. Look, I mean, if it's something like this you don't hold back.

Moderator: Thank you. Ladies and gentlemen, that is the last question for today. I would now like to hand the conference back to the management for closing comments.

Abhay Soi: Thank you all and wish you a very Happy Diwali. Let me not hold you back. Thank you for being on MAX Healthcare Earnings Call for the second quarter. Look

forward to having you and addressing your questions for third quarter some time again. Thank you.

Yogesh Sareen: Thank you very much.

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