



Max Healthcare Institute Limited

Q2 & H1 FY22 Earnings Conference Call Transcript

November 15, 2021

- Moderator** Ladies and gentlemen, good day and welcome to the Max Healthcare's Q2 & H1FY22 Earnings Conference Call. Please note that this conference is being recorded.
- I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you.
- Anoop Poojari** Good morning, everyone and thank you for joining us on Max Healthcare Q2 & H1 FY22 Earnings Conference Call.
- We have with us Mr. Abhay Soi -- Chairman and Managing Director and Mr. Yogesh Sareen -- Senior Director and Chief Financial Officer of the Company. We would like to begin the call with opening remarks from the management, following which 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 subject has been included in the earnings presentation shared with you earlier.
- I would now like to invite Abhay to make his opening remarks.
- Abhay Soi** Wish you all a very good morning. It gives me great pleasure to welcome you to the Q2 & H1 FY22 Earnings Call for Max Healthcare. Let me start by giving you the key highlights of this quarter, before opening it up for Q&A. In the Q2 FY22, the operations move towards normalcy. The impact of various initiatives both on cost and revenue side got reflected in this quarter's results. And we also made considerable progress on the growth initiatives. There are six key highlights of the quarter's performance –
- (1) Significant drop in COVID admissions, leading to only 2% of occupied beds being used for COVID patients, compared to 39% in the previous quarter.
 - (2) Normalization of OPD footfalls and return of surgeries to pre-COVID levels. In Q2 FY22, we had the highest ever OPD consults at 5.8 lakhs, which is a 49% sequential quarter-on-quarter increase. Almost all the surgical specialties including those



dependent on electives, saw a surge in admissions. Consequently, surgical-medical mix improved to 53:47 from 35:65 in the previous quarter.

(3) The ARPOB improved and reached highest ever at Rs.59,000, 14% higher than the previous quarter. This more than compensated for drop in occupancies from 81% in Quarter 1 to 75% in Quarter 2 of FY22.

(4) The vaccination related revenues reduced from Rs. 136 crore in the Q1 of the current year to Rs. 91 crore in the Q2.

(5) All these have culminated in achieving industry best EBITDA per bed of Rs. 55 lakhs, a growth of 21% quarter-on-quarter and 112% year-on-year.

(6) ROCE for the quarter improved to 32% excluding vaccinations and Max lab related EBITDA. And we consequently generated Rs. 294 crore of cash from operations, after payment of taxes, routine CAPEX, finance costs and movement in working capital.

Above mentioned highlights have helped us report best ever performance in the Q2 FY22, despite revenue and margin from vaccination dropping, significantly compared to previous quarter. In addition, the international patient's footfall is still lagging at one-third of the pre-COVID levels and the payor mix lever was avoided to retain high occupancy, early in the quarter, while COVID occupancy was reducing.

This quarter can be characterized as almost entirely a non-COVID quarter. With improved footfalls, relatively higher surgical volumes leading to higher ARPOB. Most importantly, we continue to serve patients from economically weaker sections of the society. And in the Q2 FY22, we treated almost 35,000 patients in ICDs and OPDs free of charge. The value of treatment provided to such patients free of charge in the Q2 stood at Rs. 44 crore.

We have four key highlights on the growth initiatives as well –

First, we settled the ongoing dispute with the Vikrant Foundation and now have the right to aid development of a 500-bedded hospital on three and a half acres of land falling between the two existing Max Hospitals in South Delhi. This small value, but big acquisition paves way for an integrated medical complex spread over 23 acres of land, with a potential for 2,300 beds at a prime location in Delhi.

Second, we have also been allotted two parcels of land in Gurgaon under an auction aggregating 11.4 acres, enabling addition of 1,000 beds in well habited areas. Our present facility in Gurugram yields us the highest EBITDA per bed within our portfolio of hospitals.

In addition, Government of Punjab has allotted us additional land contiguous to the existing hospital in Mohali. This will enable addition of another 190 beds.

And finally, the construction work for Onco tower for additional 100 beds at Max Shalimar Bagh has commenced in September '21. And we expect these beds to become operational from the third quarter of FY24.

Now, coming to the overview of the financial performance of Q2 FY22, the gross revenue stood at Rs. 1,434 crore, a growth of 52% year-on-year. This includes Rs.



91 crore from vaccinations compared to Rs. 136 crore in Q1FY22. The gross revenue excluding vaccinations grew 42% year-on-year and 8% quarter-on-quarter. Non-institutional business, share of revenue was 77% in the quarter. The contribution of digital channel improved to 11% of the overall revenue as compared to 8% in the previous quarter.

We achieved the highest ever operating EBITDA of Rs. 362 crore in the Q2 FY22. Operating EBITDA excluding COVID vaccination and related antibody tests was Rs. 337 crore and reflects a growth of 12% quarter-on-quarter and 135% year-on-year.

The Profit after Tax for this quarter was Rs. 207 crore after the exceptional cost of Rs. 8 crore for the ongoing VRS Scheme at Nanavati-Max. This is the fourth consecutive quarter where we have recorded the highest ever revenue, EBITDA, and operating margin in our core operations.

Max Laboratories, the non-captive pathology business vertical. Non-COVID revenue grew by 67% year-on-year and 18% quarter-on-quarter. We are rapidly expanding our footprint in the lab business and during the quarter alone, Max Lab has added 140 channel partners taking the count of active partners to 600 now. Further, Max Lab is offering his services across 20 cities now.

Max@Home also reported improved performance with gross revenue of Rs. 27.5 crore, representing a growth of 75% year-on-year. With 650 strong team of frontline and support staff served more than 60,000 patients during the quarter through Max@Home.

All of the mentioned has enabled the network to generate cash of Rs. 294 crore during the quarter of which Rs. 93 crore was deployed towards growth initiatives mentioned. Consequently, net debt by end of quarter has been reduced to Rs. 259 crore.

I would like to put the first half of FY22 performance in perspective. The operating EBITDA of Rs. 722 crore for the first half of the current financial year has surpassed the full year EBITDA of any of the past years. Do note that our previous best full year EBITDA was Rs. 636 crore in FY21. Going to the future whilst we believe the current state of operations is sustainable. We look forward to new levers of growth. While vaccination declined, we believe that our growth from Q3 onwards is likely to be fueled by the following –

- (1) Return of international business to pre-COVID levels and beyond.
- (2) Improvement in payor mix towards non-institutional.
- (3) Impact of senior clinicians on boarded in the Q2 FY22, which was a significant number.
- (4) Likely increase insurance penetration which is expected to increase by 10% as per CRISIL in the next five to six years.

We are also planning to launch the proprietary app for digital by the end of this financial year. With this we expect higher digital footfall as well as better experience for patients visiting the hospital. Consequently, we are confident of a strong sustained performance in the future as well.



On this note, now I wish to open the forum for the Q&A session. Thank you.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin the Question-and-Answer session.

The first question is from the line of Damayanti Kerai from HSBC Securities.

Damayanti Kerai

Abhay, just wanted to understand how we should look at the ARPOB number, My question was on your ability to sustain growth for ARPOB from current level, which is one of the highest in industry. So, where it can move from Rs.59,000 in Q2?

Abhay Soi

Well, we are expecting it to move up on account like I mentioned, of onboarding senior clinicians, improvement in payor mix, because the previous quarter, beginning of the quarter was the switchover period when COVID occupancy which was 81%, was dramatically coming down very quickly. So rather than sort of hold back on institutional business, we encouraged it to have higher occupancy, no point keeping beds vacant. But now that it's gone up to about 75%, our overall occupancy, we are looking forward to reducing the institutional business going forward. The third is the preferred channels moving up in any case, and like I mentioned, the international business is yet to come back so all of this should play out in higher ARPOB and higher EBITDA per bed as well.

Damayanti Kerai

We should continue to see growth from current level on back of factors which you just mentioned.

Abhay Soi

That's right.

Damayanti Kerai

My second question is, can you update on uptake for the VRS Scheme at Nanavati? Is it in line with your expectation? And how much of cost savings you expect by the end of this scheme?

Abhay Soi

So at present it's slightly lower than our expectations. But having said that so we are expecting, we have extended the scheme. So, typically, it gets taken up towards the end, on the last few days, and we are yet to sort of see that, and that we will know closer to the finish date of the scheme.

Damayanti Kerai

Until when is the scheme extended?

Yogesh Sareen

So, I think the scheme should actually end in this week. We have also taken some other action that will actually get us to the desired level of reduction in the manpower over the time. The reduction may thus come basically from the contract workers. So, I think basically, where we, so as Abhay mentioned, it's lower than what we expected. But I think with whatever action we have taken; we think we should be able to get to the level that we wanted it to be by the other methods that we are using.

Damayanti Kerai

My final question is on your CAPEX plan for the current fiscal in next two to three years in view of the land parcel which you have brought and your expansion plans.

Abhay Soi

Essentially, what we are looking to do is over the next three to four years, we are essentially looking to almost double capacity. And this is going to be at a cost of about Rs. 3,500 crore plus, we expect the first expansion plan, which is that Shalimar Bagh to come through, we already started work over there in September '21, like I mentioned. And we expect commencement of operations by third quarter of FY24.



So, that will be the first, subsequently we are expecting the Mohali Hospital, which is, we are expanding by another 190 beds. We will expect to start work over here in the fourth quarter of FY22. And we are expecting again completion of this in perhaps the third quarter of FY24. We are looking at starting the works at our Max Saket Complex in the fourth quarter of FY22. The first phase should come up in FY25. So, it's significant capacity expansion that we are looking at over the next three to four years, and this is going to be at a cost like I mentioned of over Rs. 3,500 crore which we intend to sort of fund through our internal accruals itself.

- Moderator** The next question is from the line of Praveen Sahay from Edelweiss Financial.
- Praveen Sahay** So for this quarter, I can see that's a good improvement in the treatment and surgeries like Ortho and General Surgery has given. Can you give some color, how much is of pent-up demand, or will we see in the coming quarters continuing the similar numbers?
- Abhay Soi** We believe this is sustainable numbers. And like I mentioned international is yet to come back, which towards the end of the quarter has already started moving up. And we see this number grow in this current quarter and there on. So, we believe this is sustainable, this is not any pent-up demand that was there. So yes it is immensely sustainable.
- Yogesh Sareen** You would have also seen that we have given the disclosure in the COVID slides that the occupancy in October was 81%.
- Praveen Sahay** Yes, right.
- Yogesh Sareen** So that really sums up what this quarter is leading to.
- Praveen Sahay** Secondly, related to this question, oncology has given around Rs. 230 plus crore of revenue. So how much we can expect as a one specialization to go from here, whether we have capacity in a place to go further significant upside in the contribution from such kind of treatments.
- Abhay Soi** So, Oncology stands at about 14% of our total overall sales.
- Yogesh Sareen** So it's the largest growing specialty.
- Abhay Soi** It's the largest growing specialty, but at the same time, it's only 13% to 14% of our overall revenue. So, it's not, as if there is over dependence on one. And that's probably the largest in our portfolio as specialties but nevertheless is only about 13% to 14% of the overall revenue mix.
- Praveen Sahay** Lastly, on the clarification, one is related to the institution business. In this quarter, we had seen contribution has increased. So, what was the reason for that?
- Abhay Soi** It is like I mentioned previously this was also a switchover quarter or the beginning of the quarter was a switchover period. Our occupancy under COVID was beyond 81% and that COVID occupancy came down. And there is typically a couple of weeks of lag between non-COVID business coming back and COVID going down. So, when you have this sort of switchover, rather than keeping beds empty, we did institutional business over there, because at least it is contribution positive, although it's EBTIDA negative business. But towards the end of the quarter, now that you see this is



highest sort of occupancy of non-COVID and preferred channels, etc. you will see this change over, again you will see institutional business reducing in quarters to come, in line with what we sought.

Moderator

The next question is from the line of Abhishek Sharma from Jefferies.

Abhishek Sharma

Just, I was looking for two comments first on Saket as one single facility of 2,300 beds. So how do we determine that you can absorb 2,300 beds in one location, right now you are operating 770 beds. So, what gives us confidence that we can scale up to 2,300 beds in that location? And then similarly on Gurgaon, considering the fact that it's more competitive kind of a market, how are you looking at adding 1,000 beds there? And how will you position yourself in that market?

Abhay Soi

So I think first and foremost, what we are seeing is at Max Saket, which is a hub we have 750 beds, or 770 beds over there, right now. With the land banks that we have been able to tie up, we potentially can go up to 2,300 beds. We are not going necessarily up to the 2,300 beds, that's the potential of the place. What we are looking to do, I mean, we are operating it at extremely high capacity over there and with even very low institutional business. So, the first phase, you will see is about 350 beds, which should come up by, in FY25. And this is on a 770 beds, and like I said, we already tearing at the seams today, for the 770 beds in two to three years down the line. I see when this capacity of 350 in FY25 come up additional it taken up extremely quickly, because you are going to see very fast occupancy of these 350 beds.

The second phase is going to be another 250 beds in Max Saket, which is going to come up in FY27. So, we are looking at expanding it by 600 beds. But this is entirely going to happen up till FY27 rather than before that. So, I think we are fairly comfortable between what we can do in Max Saket, thereafter any expansion is going to be based on what has been taken up in the first phase and the second phase of expansion. So, any subsequent expansion is going to be thereafter.

As far as Gurgaon is concerned. It is a competitive market, but it's also extremely lucrative market. So, our highest ARPOB in our portfolio, highest EBITDA per bed in our portfolio is in a hospital in Gurgaon. We see similar sort of numbers as far as our competitors are there as well. So, we are quite confident about Gurgaon. What gives us the advantage is that we can have these 1,000 beds in two separate facilities, one right in the middle of Golf Course Road, which from a location standpoint is we believe is better than any of the peers, any of the competitors, because this is as prime as you can get. And the other piece of land is about 550 meters away from Golf Course Road. Again, we are looking at setting this up sequentially by FY26, you should have about 500 beds ready. The first phase will be, we are looking at starting works over there by Q3, Q4 FY23. And the balanced 500 beds will be post FY28.

So, we are quite comfortable in terms of our ability to absorb, because we believe there is a huge amount of latent business today in both these locations that we have.

Yogesh Sareen

To add that, if you look at the DHRP, Medanta has filed, there is a CRISIL report there. And it says that the NCR penetration is only 1.9 beds per 1,000, right, which is lower than Lucknow, lower than Indore, lower than Patna. So, while you see that there are lot of bed but see the penetration also, it's a very populous market that we have with 80% of UK population living in NCR.



Abhishek Sharma

I just had one more question. When I compare your non-institutional ARPOB it's way higher as compared to your peers right. Now, while you already have the best ARPOB, it's somewhat suppressed because of your institutional business. So, when I adjust it for the non-institutional piece its way higher. So, what has led to this kind of gap between your ARPOB versus your competitor?

Abhay Soi

I think first and foremost is a location that we are located in Metros. And usually, typically you have a lot of preponderance of specialists and super specialists while there is a paucity in most of the country the super specialists and specialists do reside in the Metro cities. So, our hospitals are given to higher-end surgeries, more tertiary care, more quaternary care, relative to anybody else. We have 85% of our capacity, which is Metro centric. And most of the expansions that you are seeing is also in the Metro. This should take up our Metro base capacity, not only are we doubling our capacity over the next four odd years, but we are going to turn out that look 95% plus of our resultant capacity thereafter is going to be Metro centric.

Now, what happens is most people whether domestically or internationally, whilst they get the lower end surgeries and procedures done in their local sort of markets and areas, they travel to large Metros in India for higher tertiary care. So that sort of leads to and another indicator is that we have a significantly higher number of beds, which are critical care beds, 30% of our total beds is critical care capacity, which is ICU beds, which is again a number which is higher than most of our peers.

So, it's a virtuous circle you are in. We are located in the cities where the specialists reside, our infrastructure is geared to tertiary care and quaternary care, that's what we do and that's what sort of leads to higher ARPOBs and EBITDA per bed. And if you actually see the three indicators for ARPOB, one is pricing, we are certainly not the highest. If you look at the payor mix, clearly like you mentioned, it's the inferior payer mix compared to some of our competitors as well. But as far as the third is concerned, which is a surgical mix, we have such a superior surgical mix that it sort of, doesn't compensate, but even more compensates for the lack of the first two, and that's really the resilience and the moat around our business.

Abhishek Sharma

So, if I understand so like for like, any other premium hospital chain, which is out there, let's say Medanta in Gurgaon or Fortis (FMRI) in Gurgaon, will they have similar ARPOBs as your Saket Hospital let's say, for example or will there still be a difference because of the surgical mix?

Yogesh Sareen

Yes, and we expect there will be a difference because of the surgical mix. Because, for example, in Saket we do liver transplants, right. So, a fair proportion of the revenues come from LTPs and KTPs etc. that we do, and they are, it's a 21 day stay and it's a 21 Lakh package so it's a Rs. 100,000 ARPOB for the patient, right. So obviously, there are those programs, which actually lends it to higher ARPOB. And there would be some difference vis-à-vis with the other players because of this. And also, the other factor is that we have larger share of oncology vis-à-vis with other competitors, right. So, we see our share of oncology, vis-à-vis, let's say Fortis or Apollo or even Medanta, we have a larger share. And that itself also lends it to higher ARPOB because there is a daycare business which comes with a price right, this chemotherapy setup. So, relatively speaking, oncology has higher ARPOB.

Abhay Soi

And proportionately we do a lot more liver transplants, kidney transplants, lung, heart transplants, etc. compared to this, we are more on the higher end of the quaternary care and tertiary care than relative to some of the other players.



Moderator The next question is from the line of Sonal Gupta from L&T Mutual Fund.

Sonal Gupta Abhay, one of the drivers that you mentioned for Q3 onwards growth was the impact of senior clinician you onboarded. So, I am just wondering, given that we are already operating at like 75%, and like you mentioned October was 81% occupancy? How does this, like how will this improve further --?

Abhay Soi I think a way to look at it is, and I keep saying that the way to look at it is we can look at it in glass half full or half empty. The fact is that although it's 80% occupancy, but one-third of the beds are today catering to institutional business. We do this business is contribution positive, but EBITDA negative. So rather than keeping beds idle, we continue doing this business. As you see the preferred channels grow, and grow on account of onboarding senior clinicians, grow on account of higher proliferation of insurance, and we have seen this segment grow significantly, grow on account of international business coming back entirely. This will displace the institutional business, which is because we have no choice, it will displace the institutional business.

This institutional business is at a 40% discount, to my normal preferred channel. So, what happens is, the minute I displace it, I am able to derive 40% better pricing, 85% of which comes straight to my EBITDA. So, this is a significant lever that you are going to see over the next couple of years, okay, prior to our new capacities coming out, because like you rightly alluded, we are already at high capacity, where do you go from here, before your new capacity sort of comes in two or three years later. So, in the interim, I mean the way to look at it as 80% occupancy, or we can look at it as occupancy of 50% with preferred business and the balance with un-preferred sort of business.

Sonal Gupta And in terms of the cost then with the clinicians, I mean you expect that the cost will sort of remain in the range that it has been.

Abhay Soi Absolutely, so look, our cost in terms of percentage is best-in-class. At the same time, our clinicians are able to earn more or generate more for themselves, compared to anybody else out there. And it's a simple function of our ability to generate more through high end surgical programs. So, if you actually see and you have seen the ARPOBs, our average revenue per bed is significantly higher than anybody else. So, that essentially again you can do this virtuous cycle whereas a percentage the total payout for us is the best-in-class yet the doctor is able to generate more.

Sonal Gupta And just my last question on what has been the cost of acquiring this land in Gurgaon, I mean like, what is the payment for this?

Yogesh Sareen This would be total of Rs. 300 crore including the TDR that we will additionally buy. The TDR is for 0.5% of FSI. We have already paid Rs. 28 crore in Quarter 2 and balance is to be paid by March.

Abhay Soi So that works out for let's say 30 lakhs the bed, cost of constructing a bed is Rs. 1.2 crore. So, that's about Rs. 1.5 crore a bed. Our EBITDA per bed right now in Gurgaon is I think Rs. 66 lakhs to Rs.70 lakhs. So, you can imagine the sort of ROCE that we are looking at over there. I mean the network EBITDA per bed is Rs. 55 lakhs in Gurgaon itself we are doing about Rs. 66 lakh to Rs. 70 lakhs.

Sonal Gupta So, this is the total payment that you have to make by March and then you will have control of the land, right.

Yogesh Sareen Yes.

Abhay Soi That's right.

Sonal Gupta And so on an aggregate overall basis, what is the total CAPEX or spend that you are expecting this year and next year?

Abhay Soi So, in the current year FY22, we are expecting CAPEX on brownfields of about Rs. 188 crore. FY23, we are looking at Rs. 486 crore. FY24 we are looking at Rs. 514 crore and FY25 we are looking at Rs. 568 crore on brownfields. On the Greenfields, we are looking at Rs. 160 crore, in FY23, Rs. 155 crore in FY24 and Rs. 190 crore in FY25. So, in summation FY22 remains Rs. 188 crore or let's say Rs. 200 crore. FY23 will be Rs. 600 crore. FY24 would be Rs. 750 crore.

Sonal Gupta And the land payments are separate, right.

Abhay Soi Land is separate.

Yogesh Sareen We already paid some money in this quarter so there is balance that has to be made. So, balance is to be around Rs. 190 crore to be paid.

Abhay Soi About Rs. 190 crore to be paid.

Sonal Gupta So, total CAPEX for this year including these payments for FY22 is how much?

Yogesh Sareen So, I think Abhay mentioned this already. So, what we are spending on the --. So, the project capex is less than Rs. 200 crore, plus Rs. 180 crore, I would say the land that is yet to be paid, so total Rs. 380 crore, right this does include routine CAPEX, routine CAPEX is roughly around Rs. 160 crore, right. So, it's 380 plus 160 it's 540 kind of a number that we will have for the CAPEX including projects in this year.

Abhay Soi I mean at current run rate are or free cash flows are over Rs.1.000 crore after routine CAPEX. So, that's sort of -- we are only looking to deploy a part of our internal accruals, over the next three to four years, and this would absorb our entire project costs.

Moderator The next question is from the line of Nikhil Mathur from HDFC AMC

Nikhil Mathur So, I had a question on the expansion plans, whether it's Shalimar or in Saket and also in Gurugram. I want to understand the target population that Max is trying to cater to. Is it more of domestic medical tourism from other parts of the country, is it more international or within Delhi NCR itself you are seeing some bit of increased demand or some bit of lack of facilities, for which you are going so aggressive again on the Delhi NCR region itself? So, what is the target population here that the company is trying to target?

Abhay Soi I think at the macro level all of the above, okay. So, we are not looking at doing it in only for international, only for Delhi NCR or people from outside Delhi NCR. We are focusing on high-end tertiary care programs. We believe hospital such as ours are

not only an answer to India's healthcare problems, but world's healthcare problems, simply because of the sort of skillsets that we have, the cost we are able to do it, the technology equipment and infrastructure that we can create. So, I think all of it sort of lends to that. This is at the top level; this is the top down.

So once you are able to create these programs, and able to expand these programs, like we have been able to do effectively, and attract clinicians to be able to participate in these programs, then those programs lends themselves to all of these, because for you likely to do delivery in a small town around Delhi, which people perhaps or an angioplasty, for which people used to come to Delhi earlier, they don't anymore. But for a kidney transplant, you will travel to the best clinician possible, and so on. And we believe this market, not only in Delhi NCR but domestically, in other parts of the country, it increasing as well.

Now having said all of that, we are also looking at a bottom-up approach, each one of these facilities where we are looking to expand, is operating at 80% plus capacity. With lower institutional business, and over the next two to three years, we believe that these facilities will be bursting at the seams, and these are brownfields largely. So essentially, what we are saying is that look, there is no way out, we have to be able to procure land, which is contiguous, and we need to expand capacity over there.

So, each facility has its own justification. Just to give you a case-in-point, we have ability to expand further at BLK by another 200 beds, this is at BLK-Max in Karol Bagh, but we are not doing so. Shalimar Bagh, we have had the land and the plans to expand over the last four years, but it's been done now. I mean, it's a little late in the day, because we had COVID last year, we couldn't, but each one of these is being timed in a manner that will absorb what we are seeing as increase in capacity in the short to medium term. So, each capacity that you seek will come out is going to come out post-demand, so we are not creating capacity saying look, hey, where is the demand is going to come from. We believe the demand is already there. And the capacity is going to be six months, one year, one and a half years later that is going to flow in.

Nikhil Mathur

So the question really is that what has created this demand supply gap, so you are suggesting that the demand is already there, there is a gap on offerings, whether it is requisite hospitals or clinicians. So how come Max will be able to capture this gap, while other competitors might not be able to capture this gap?

Abhay Soi

Because we have the land, I think the biggest differentiator is land. So, case-in-point, Mumbai, for example, you have seen most hospitals have hit capacity sort of ceilings, many, many years ago perhaps even decades ago. So, it's not as if you can expand the Hinduja Hospital because that's only land that they have, or you can't do at Lilavati Hospital or Jaslok or Breach Candy and so on and so forth. Whilst we have Nanavati Hospital, where you have the extra land, we are building that out, I mean it's the availability of land in the heart of the city.

Similarly, in Delhi, we have this land available, which is not available to anybody else. To have land in the middle of South Delhi, is the kind of land bank that we have is, everybody would love to. I mean, I would love to have the similar land bank in Chennai, and I am sure Apollo would like to have the similar land bank in Delhi and Manipal, I would like to have in Bangalore and vice-versa, but it's not available to each. Whoever has whatever is sort of building out on that. I think the biggest problem is being able to acquire land in these Metros. And these are large parcels



of land which are required, which are well located, well connected and so on, which is the big differentiator.

- Nikhil Mathur** Another quick question I had was, is there any revenue contribution which is meaningful from COVID protocols that are being followed for inpatients, I mean, whether it is PT or BioFire test or other COVID tests that are part of the revenue and might taper off fairly sharply in the coming quarters?
- Abhay Soi** None.
- Yogesh Sareen** So other than vaccination there is hardly any revenue, we said that already it's less than 2% in this quarter.
- Nikhil Mathur** Okay, so no meaningful contribution has been in the inpatient revenue that has been booked in third quarter.
- Abhay Soi** Nothing. We believe these current numbers are highly sustainable and there are levers to grow it, like I said in my conversation.
- Yogesh Sareen** By the way whatever patients we have had in this quarter, they were all more of them in ICU and on ventilators, and so to add to the ARPOB of the COVID patient is same as the other in this quarter.
- Abhay Soi** Less than 2% of occupied beds or maybe 1% or 1.5% of our total beds, which are occupied by COVID. And just to confirm the point, there are no other attendant or separate revenue streams, which are COVID related.
- Nikhil Mathur** And then on ARPOB, I mean, again, the comments are suggesting that going forward as the mix improves, as some of the international patients come back, this ARPOB is going to improve. Are you also witnessing slightly inflationary trends on your various costs, and you might want to pass that on? And so ARPOB can have an element of slight improvement, or higher improvement on the back of the recent inflationary trends as well.
- Yogesh Sareen** Not in Quarter 2 but we do think that the drug prices may go up a bit in future as we are seeing some shortages out there. And to the extent it will get passed on. We haven't seen much of that in Quarter 2 as yet.
- Abhay Soi** But there has also been some news articles about NPPA and prices being revised by 20%. And these are drug manufacturers which have been pushing the Government to increase by 20%. So, if that happens, that should augur well for us, in fact, so margins, there should be a little more contribution there.
- Moderator** The next question is from the line of Suchi Srivastav from Edelweiss.
- Suchi Srivastav** I joined this a little late, I wanted to confirm if somebody else has asked this question, but this was more on direction of the promoter entity Kayak Investments. How are they trying to take their stake, it has only come down to 37% from here on? How do you think the arrangement is going to be like?
- Abhay Soi** I mean as company we do not hold brief and I can't comment on Kayak's shareholding with their investors, you will have to ask, I mean, there are no strings, I mean you will have to essentially direct this question to Kayak, I think.



Moderator The next question is from the line of Bharat Sheth from Quest Investments.

Bharat Sheth One question is on the update on the expansion at Nanavati, when do we see and when it is likely to be operational?

Abhay Soi So we are looking at the first phase, which is going to be 330 beds, should be operational by early FY25. Works over there have sort of started. So, we should be, that is the first phase. The second phase will be operational by early FY27.

Bharat Sheth Would you like to comment something on the diagnostic business? How would you like to take it forward? And ultimately setting up a separate business unit only, in subsidiary or?

Abhay Soi So it is a separate business unit. We are investing extensively in this. We had 450 or 460 channel partners we have added another 140 in the last quarter alone. So that's almost a 25% increase in number of partners in one quarter so this is indicative of how we are looking at this business, how we are sort of doubling down on this business. We are seeing the numbers, the non-COVID revenue on this grow extensively as well. And as soon as we have a little bit of critical mass, we will move it down into a separate vehicle. Right now, we don't want to sort of --. And that critical mass can come through both organic as well as inorganic manner. As you know we have been in conversations, and we continue to be in conversations to look at opportunities for acquisition as well. And once we are able to do it, we will split it into a separate, be it a subsidiary or a demerged entity is something to be seen.

Bharat Sheth You just mentioned that we want to double down also any timeframe, I mean, doubling down this business.

Abhay Soi I mean that's more a statement of intent when I said doubling down, I mean doubling down in the sense that we are investing to create more and more franchisees. Whilst we are looking at inorganic acquisitions, we have a great ambitions to grow it organically as well, and this is what we are doing.

Yogesh Sareen If we compare the business in Quarter 1 of FY21 to Quarter 2, Quarter 1 of this year, I mean, it's already doubled, right. So, even after say Quarter 2 of last year to this quarter it's Rs. 14 crore to Rs. 22 crore. So, it's actually growing in that manner right. So, what Abhay is saying that we will continue to grow here on. And our endeavor is that it should become a sizable business. And we have said that we want to be in the top five in this business.

Bharat Sheth So other players where we are facing, land availability as a challenge where we are better placed, but which are other major challenges that we envisage to grow the business?

Abhay Soi So, I think we are looking at, whilst our expansions are going to come in line in the next two to three years, and capacity expansion is going to be happening thereafter. In the interim, we are going to be looking at using the payor mix lever, to increase both ARPOBs as well as EBITDA per bed and profitability. We are also generating significant amount of free cash flows in excess of what we can deploy in doubling our capacity over the next four to five years through organic, both greenfield, as well as brownfield.

So, I think the challenges that we are facing right now, and not challenges they are good challenges to face, we are looking at acquisition opportunities, which we are evaluating. And the challenges will be entering new markets and acquiring new facilities and do value unlocking in similar manners that we have done in the past. So, I think we are looking at growth related challenges, which we are sort of engaged in evaluating at present and which should give us an upside in terms of both revenues as well as profitability in the short to medium run.

Bharat Sheth

When you are talking about new geography, so which are the new geography that we are evaluating in first and second line?

Abhay Soi

I think we are looking at other metros. We are looking at Maharashtra. We are looking at some south based this thing as well, but we are also looking at the acquisition opportunities, in geographies that we already existent in the north, to add to our hospitals like I said, already operating at very high capacity. Places like, even the Tier-II cities, we operate in, they are perhaps the highest ROCE businesses that we are doing right now. We don't intend to build out over there. We intend to acquire or get into collaboration with developers, who will be doing built to suit for us, that sort of decrease the construction and the build out risk from our books, both the risk of time and cost overruns. So, we are quite excited about that, as well.

Moderator

The next question is from the line of Sachin Kasera from Svan Investments.

Sachin Kasera

Just one clarification on this CAPEX thing so this Rs. 3500 CAPEX that you alluded to, it includes land but excludes the maintenance CAPEX or that also includes the maintenance CAPEX also?

Abhay Soi

Actually it's the other way around, it excludes lands and excludes maintenance CAPEX. This is other than maintenance CAPEX. Our maintenance CAPEX is about Rs. 130 crore per year.

Sachin Kasera

And you mentioned this has to be spend in the next four to five years, this Rs. 3,500 crore right.

Abhay Soi

That's right.

Sachin Kasera

So what would be the CAPEX including both maintenance and land for this expansion that we are talking of almost doubling the capacity next four to five years?

Abhay Soi

If you take, let's say, you will have to take a particular run rate right, so if you take today's run rate, H1, we had Rs. 720 crore or Rs. 722 crore of EBITDA. You sort of double it to about Rs. 1,450 crore. So, you have, I think by next quarter we should effectively be net-debt free. So, I wouldn't really take the interest cost, you reduce about Rs. 130 crore of maintenance CAPEX and then tax off another Rs. 100 crore of tax. So that's Rs. 240 crore from Rs. 1,450 crore you get over Rs. 1,200 crore, maybe some change in working capital of Rs. 40 crore to Rs. 50 crore. You are looking at about Rs. 1,100 crore to Rs. 1,200 crore of free cash flows effectively per year. So, your free cash flows itself should be northwards of Rs. 5,000 crore to Rs. 6,000 over the next four to five years. And your total CAPEX towards other than the maintenance CAPEX which has already been covered in this calculation, which is Rs. 3,500 crore should be taken care of through internal accruals.



Now, do keep in mind that the first two years, you are going to be spending less than, the majority of the expenditures towards the backend of the project period because that's when you do the fit outs and the more expensive equipment and so on and so forth. Whilst the first part is releasing the superstructure which has to be created which is less expensive. So, we are sort of quite confident that this will more than be absorbed by our internal accruals itself.

Yogesh Sareen Your question was on routine CAPEX, I think routine CAPEX is spent from FY22 to FY26, would be in the vicinity of Rs. 800 crore.

Sachin Kasera So Rs.3500 plus Rs.800 plus land extra, that's the way to look at this entire CAPEX, right.

Yogesh Sareen Rs.3000 plus Rs.800 is Rs.3800 is what you should take from FY22 to FY26.

Sachin Kasera But these Rs.3800 is excludes land, that's my main question.

Yogesh Sareen Yes, that excludes land, that's Rs. 300 crore.

Sachin Kasera The second question is you also mentioned that you are also looking at acquisition both in terms of your new businesses, as well as hospitals. So, you think that that would also suffice from the internal accrual or at that point of time that we will have to look at rising equity or also maybe to look at some debt.

Abhay Soi Like I said, this is a debt free balance sheet by next quarter. Even if you were to look at a prudent debt to EBITDA of two to two and a half times, okay, that will over the next three to four years, which should give you another Rs. 5,000 crore to Rs. 6,000 crore of war chest. Other than that, from your Rs. 5,000 crore to Rs. 6,000 crore internal accruals, you are deploying maybe Rs. 4,000 crore or Rs. 3,500 crore to Rs. 4,000 crore as far as internal accruals, post and Rs. 5,000 crore to Rs. 6,000 crore is internal accruals, free cash flows, post-maintenance CAPEX of Rs.800 that has been mentioned by Yogesh.

So, you are going to look at Rs. 3,000 of that you will deploy towards projects, but the balance is there, plus your ability to leverage the balance sheet. So, I don't see any case for raising equity, but certainly we use a balance sheet for these acquisitions as well.

Sachin Kasera Just one question, on this mix, you had in the previous calls mentioned that this 35% institution and 5% international, so, you would like to bring down the institutional from 35% to like 15%, 20% for the next two, three years, and the international to about double digits. So, do you continue to look at it that way? And secondly, you are also adding capacity. So, is it that this mix will first go down and as we add capacity, again, the mix of institution will go up or structurally the way things are moving, once it goes to the 15% to 20% it will more or less remain in this range?

Abhay Soi I think first and foremost, the international revenue was about 11% prior to COVID. So that we are just looking at it bounces back to pre-COVID levels and then go beyond. So, the 11% or double digits is not so much of a challenge. I think as far as the changeover from the 35% to 15% of bed share for institutional, you rightly mentioned again, as high capacity, we have no choice. And this is something we intended to do. As our preferred channel grows by a certain percentage, it has no



choice but to displace the un-preferred channel, which will happen in line with what we had discussed.

There was a little bit of disruption in being able to do so because we had to be tactical during this COVID switchover and so on and so forth, which has happened over the last year, year and a half. Hopefully, if there isn't a third wave and business is sort of secularly going up as going on as normal, okay, we should be in line or even perhaps, faster than what we had guided earlier towards. The capacities we are looking at is sequentially which is going to come up in three to four years later we don't believe will be catering to institutional business because it's coming out in phases, and these are very small capacities considering the preexisting capacities over there. And we believe this will be taken up by the latent demand of preferred channel business rather than institutional.

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

Charulata Gaidhani I had three questions, one in terms of international patients what is the visibility that you have? From when do you see growth in international patients coming in? Are there any issues relating to visas?

Abhay Soi So I think if you actually see, during the quarter it was 33% of pre-COVID levels. At the end of the quarter, it's already come to 50% of pre-COVID levels. With opening up of flights and even the Government of India is giving huge amounts of visas, including medical visas free to encourage tourism to India, and opening up flights, we believe this number of 50% of pre-COVID levels, again, should ramp up very quickly by the end of the financial year, to perhaps pre-COVID levels. So, we are quite confident, well of course, this is all, from today's vantage point, and hoping no third wave comes to that extent, either here or in the countries where international tourists come from. So yes, we are quite encouraged by the numbers right now. And we believe this trajectory should lead to return of medical tourism, hopefully by the end of the financial year.

Charulata Gaidhani In the sense when there are international patients coming into the Max network, you all would be knowing possibly a month in advance that these patients' surgeries are lined up for the foreign patients.

Abhay Soi That's right so that pipeline continues, a lot of people are waiting on this thing, waiting for connectivity and for flights to open up. Typically, the pipeline is there, but people are unable to act upon it, simply because there is no way of making their way into the country.

Charulata Gaidhani My second question pertains to be EBITDA per bed of Rs. 30 lakhs that is at what occupancy levels?

Abhay Soi Our EBITDA per bed is Rs. 55 lakhs and it is at occupancy level of 75% and end of the quarter it was at 81%.

Charulata Gaidhani And the last question pertains to the brownfield expansions. What is the timeframe for completing the brownfield expansions? Is it like as good as a greenfield or it is faster than greenfield?

Abhay Soi (A) It is faster. (B) It is more lucrative and (C) The investment for a Brownfield is less. So, all of these three things apply. They are going to be opening up in different times.



I think the first one would be Shalimar Bagh which is September to December 2023. But everything else will be in quick succession thereafter within the next 18 months from that date.

Moderator

The next question is from the line of Prakash Agarwal from Axis Capital.

Prakash Agarwal

Just one question or clarification rather so we have seen significant improvement in ARPOBs, and you have already alluded to what are the further scope in terms of payor mix and case mix. But looking at Q1 to Q2 jump, should we see that as an average of the two in terms of ARPOB going forward or you think this as the base. I asked this because I understand for many other companies that there are a lot of pent-up with opening of travel etc. has happened. So just trying to understand going forward, what would be the average ARPOB levels from here on?

Abhay Soi

So I don't actually see, I mean, assuming there is no COVID third wave, which sort of affects the ARPOB. I don't see the ARPOBs going down. I see them going up. I don't see, COVID for us was, we have generated lower ARPOBs during COVID. Even if you look at pre-COVID times, okay, we were doing about Rs.55,000 to Rs.56,000 of ARPOB, which number kind of got dislocated last year due to COVID. And the Rs.56,000 now on a non-COVID quarter, you are seeing is Rs.59,000. So that's one.

Second is, as far as the international is concerned, we don't see any pent-up coming, because like I said it's only one, in this quarter, only one-third of international came back. I mean if there is pent up, then we should have been doing 110%, 120%, more than pre-COVID levels. That number towards the end of the quarter has come up to over 50%. And we are hoping that it comes back to 100% and beyond, by the end of the financial year.

So, we are not seeing any sort of bounce up or pent-up demand. I mean, the highest demand, the highest occupancy that we have seen within the quarter has been at the end of October, rather than beginning. Typically, a pent-up would happen, in the beginning of the quarter, not with a three-month lag, post-COVID coming down.

Prakash Agarwal

By pent-up I mean interstate, intercity etc. I mean, I didn't mean international.

Abhay Soi

No, I am not seeing any such this thing, I think it's fairly secular. Yes, you will always have demand come down by a few days during Diwali, but it's again, it's back to sort of normalcy. And we are not seeing really a pent-up demand from that standpoint. You know, pre-COVID levels, we were at Rs.56,000 ARPOB, and our occupancy was 73%, 74%. You are seeing 75% and Rs.59,000, so I mean, it's not such a, sequentially quarter-on-quarter you are seeing a jump, but if I compare it to FY20, you don't see a jump.

Yogesh Sareen

Q4 FY21, ARPOB was Rs.56,100, right so this is in the public domain. So that way it's not a big increase from those numbers.

Prakash Agarwal

And you said that the exit rate, I mean current occupancy rates are around 80% plus.

Yogesh Sareen

81%, Yes, in the October, so we are not disclosing the current capacity. But we think what were the numbers in October, end of October.



Prakash Agarwal So just trying to connect the dots. So, when I had last quarter, 81% and Rs.55,000 ARPOB, we were at 25% margin. Q2, we had Rs.59,000 and 75% occupancy. So, if we are at 80% plus occupancy plus Rs.59,000, to Rs.60,000 kind of ARPOB. So, we are heading for some more margin improvement, would that be fair to understand?

Abhay Soi No, well, I would expect margin improvements, but perhaps not on this count. Because it's also, although there was no COVID, towards the end of October, you had Dengue which, again, those beds come at cost of the surgical beds, at that point of time. But it's not a big give or take. So effectively I think 75% to 77% sort of occupancy levels is what needs to be looked at, and ARPOBs which are, the base will be this and with international travel and payor mix levers, we see that improving. And typically, you will see H2 is better than H1, right.

Prakash Agarwal And lastly on the occupancy side, at what occupancy level, you are very comfortable. I mean, where there is no hiccups in operations?

Abhay Soi 77% to 78% at best, on a sustainable basis, but like I said, the big lever over here is now displacing the institutional.

Prakash Agarwal And you are currently operating at 81%.

Abhay Soi Well, Dengue month we typically operate in high, so it is 81%. But it's not a sustainability one, you don't operate it at 81% through the year.

Prakash Agarwal So base business 75% to 80% and --

Abhay Soi 77% to 78%, max on the base levels, on a sustainable basis.

Moderator Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Abhay Soi So I wish you all a very Happy Diwali. And hopefully we need to keep ourselves safe and sorted and hopefully avoid any third wave. Thank you so much for making the time and being on this call.

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.