Max Healthcare Institute Limited

Q3 & 9M FY24 Earnings Conference Call
February 01, 2024

Moderator Ladies and gentlemen, good day and welcome to Max Healthcare Institute Limited Earnings Conference Call. Please note that this conference is being recorded.

I now hand the conference over to Mr. Suraj Digawalekar from CDR India. Thank you and over to you Suraj.

Suraj Digawalekar: Thank you, Michelle. Good morning, everyone and thank you for joining us on Max Healthcare's Q3 and 9M FY24 Earnings Conference Call.

We have with us Mr. Abhay Soi – Chairman and Managing Director, Mr. Yogesh Sareen – Senior Director and Chief Financial Officer, and Mr. Keshav Gupta – Senior Director – Growth, M&A and Business Planning.

We will begin the call with opening remarks from the management, following which we will have the forum open for an interactive Q&A session.

Before we start, I would like to point out that some statement made in today's call may be forward-looking in nature and a disclaimer to this effect 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: A very good morning to everyone and a warm welcome to Max Healthcare's Earnings Call for the 3rd Quarter.

This quarter has been exceptional for us, primarily for two reasons. First, it represents our 13th consecutive quarter of year-on-year growth. We recorded a healthy increase in network revenue and EBITDA by 14% and 12%, respectively. And more importantly, we managed to grow ARPOB and EBITDA per bed sequentially, despite Q3 being a seasonally lean quarter.

Second, this quarter marks our foray into central UP, which is one of the most populous and fast-growing states in the country, through the acquisition of 550 bed Sahara Hospital in Lucknow. This acquisition will fortify our presence in Northern India and is in line with our articulated strategy of entering new markets where peers have demonstrated success. We expect to consummate the transaction in Q4 and are ready with a plan of action to improve the infrastructure, augment the operational bed

capacity, add to the existing medical talent as well as integrate the hospital with our IT systems.

On the clinical front, we have launched the CAR-T cell therapy at Max Vaishali in collaboration with ImmunoACT. Also known as a 'living drug', this groundbreaking therapy is expected to enhance the quality of life for many patients and reflects our continuous endeavor to provide our patients with the latest therapeutic options for cancer treatment.

Now, coming to the highlights of Q3 Performance:

1. Occupied bed days dipped marginally by around 1% year-on-year due to lower prevalence and spill-over of vector borne diseases in this quarter compared to last year. Average occupancy for the network was 73%.

2. Institutional bed share stood at 29.5% compared to 29.4% last year, and 27.3% in Q2 this year. However, after excluding Max Shalimar Bagh, the overall institutional bed share stood at 27.4% during Q3 and occupied bed days were down by 8% for this segment. Sequential increase institutional bed share was a conscious call taken owing to Q3 being a seasonally weak quarter on occupancy.

3. Average revenue per occupied bed for the quarter improved to Rs.76,800, growing by 15% year-on-year and 3% quarter-on-quarter. Year-on-year improvement was witnessed across all specialties with oncology, neurology and renal sciences being the key drivers.

4. Network gross revenue was around Rs. 1,779 crore compared to Rs. 1,559 crore in Q3 last year, and Rs. 1,827 crore in the previous quarter. This reflects an increase of 14% year-on-year, driven mainly by growth in ARPOB. Revenues declined by 3% quarter-on-quarter due to festive season in Q3 and vector-borne diseases led jump in admissions during Q2.

5. Revenue from international business grew significantly by 25% year-on-year. This payor channel now accounts for around 9.4% of the total revenue from our hospitals.

6. Network operating EBITDA stood at Rs. 471 crore reflecting a growth of 12% year-on-year and a decline of 5% quarter-on-quarter. Most importantly, annualized EBITDA per bed rose to our highest ever of Rs.75.6 lakhs, clocking a growth of 13% year-on-year and 1% quarter-on-quarter. Operating EBITDA margin stood at 27.9% for the quarter.

7. Year-on-year growth in EBITDA was impacted due to additional charge of Rs.25 crore, driven by movement in provision for doubtful debts, reversal of provision for old phantom stock option plan in Q3 last year after launch of the new ESOP scheme in November 2022, GST impact of variable management fees and one-time litigation cost.

8. Max Shalimar Bagh, where we added 122 beds, recorded year-on-year growth of 36% and 42% in its revenue and EBITDA respectively, with an average occupancy of 74%.

9. Profit after tax was Rs.338 crore versus Rs. 269 crore in Q3 last year and at the same level as in the previous quarter. The year-on-year improvement of 26% was primarily attributable to the flow through of improved EBITDA and lower finance costs.

10. Free cash flow from operations generated this quarter amounted to Rs. 226 crore, after additional outlay of Rs. 40 crore for purchase of robotic systems at four of our hospitals. Of this, Rs. 137 crore was deployed towards the ongoing capacity expansion projects and Rs. 97 crore was distributed as dividend.

11. Net cash position improved to Rs. 1,295 crore at the end of December 2023 compared to Rs. 372 crore same time last year.

12. Continuing our effort to support the local communities, we treated approximately 36,700 patients in OPD and 1,250 patients in IPD from economically weaker sections of society absolutely and entirely free of charge.

13. Both our strategic business units continue to maintain growth momentum.

    Max@Home reported a top line of Rs. 44 crore reflecting a strong growth of 24% year-on-year and 5% quarter-on-quarter. We continue to witness good demand for this SBU's services as demonstrated by over 50% repeat transactions by patients in the last one year.

    Max Lab, the non-captive pathology vertical, now offers its services in 41 cities and has a network of over 1,000 collection centers and active partners. This SBU reported a gross revenue of Rs. 34 crore, reflecting a growth of 20% year-on-year.

14. On the status of our expansion projects:

    For 300 beds at Dwarka – As informed previously, application for occupancy certificate was submitted in October. Finishing is under progress. In the meanwhile, we already have the unit head and all other key functional heads in place. We have commenced hiring for middle-level staff as well.

    For the 329 beds at Nanavati – Basement and ground level structures have just been completed, while steel fabrication above ground floor has begun. The project continues to be largely on schedule.

    For 300 beds at Sector-56 Gurgaon – Approval for structural drawing has been received in the first week of Jan and RCC works have already commenced.

    For 190 beds at Mohali – Design development is under finalization. In the meanwhile, the base raft concrete activities have started.

    Both of these are largely on schedule.

    For 350 beds at Max Smart (Saket Complex) – Tree transplantation work is underway, with 159 trees transplanted and balance 316 trees in process for transplantation. As per plan, existing structures have been demolished and shoring work for sewage and water treatment plants is going on. Barring the initial delay of 6-7 months the project is on schedule now.

    For 300 beds at Max Vikrant (Saket Complex) – The building plans have been resubmitted to the Municipal Corporation of Delhi post their initial review and the dues for water and sewer infrastructure charges have been paid. Tender documents are under review for floating to the contractors. Application for NOC by Forest department has also been filed.

For 250 beds at Patparganj – The fire department issued NOC for the building plans and municipal corporation approval is in progress.

All projects continue to be largely on scheduled despite some disturbances linked to enforcement of GRAP (Graded Response Action Plan) in NCR to combat air quality issues.

Finally, moving on to the overview of the company performance for the nine months ended December 31, 2023:

15. Network gross revenue stood at Rs. 5,325 crore, reflecting a growth of 16% year-on-year.

16. Network operating EBITDA grew by 17% year-on-year to Rs. 1,404 crore. Increased ARPOB, improved case mix and augmentation of network bed capacity by 146 beds translated into improvement in EBITDA per bed by 15% to Rs. 73.8 lakhs per bed.

17. During the nine months we generated Rs. 924 crore of free cash flow from operations, after interest, working capital changes and routine CAPEX, of which Rs. 265 crore has been deployed towards ongoing expansion projects and Rs. 97 crore was distributed as dividend.

With this will open the floor for questions and answers.

Moderator: Thank you. The first question is from the line of Damayanti Kerai from HSBC Securities and Capital Markets.

Damayanti Kerai: My first question is on this institutional tariff revision, which we saw in the month of December. So, you mentioned there will be net loss of around Rs. 6 crore annually, is this like ongoing and just want to understand if this wouldn't have happened the net gain which you mentioned for 3rd Quarter Rs. 14 crore should we have added this Rs. 6 crore back, Rs. 14 + Rs. 6 if the prices were not declined?

Yogesh Sareen: No, Rs. 14 crore is for the quarter. That is the run rate, which also has some impact of this price revision that happened in the month of December. So, around one week's impact is already reflecting there. Rs. 6 crore number is an annualized number, while Rs. 14 crore is a quarterly number.

Abhay Soi: Coming to your question, if you didn't have the Rs. 6 crore then you would have added this to the EBITDA for this quarter, which would be around Rs. 1.5 crore.

Damayanti Kerai: Okay. And do you expect any further revision in tariffs for this channel or do you think like now government has broadly done and we might not see any additional?

Abhay Soi: We are expecting revisions in tariff. We think that even the PET CT revision has been erroneously done and we are in talks with them to revise the same.

Damayanti Kerai: Okay, so further revisions can come right and then, that should be like maybe beneficial to our institutional channel.

Abhay Soi: We expect that even this PET CT tariff should get revised the other way. We believe it was an error.

Damayanti Kerai: Okay, Rs. 10,000 went to some Rs. 11,500 or something, right?

Yogesh Sareen: No, the tariff for PET CT has come down by around 50%, from Rs. 22,500 to around Rs. 11,000. So, it is 50% reduction and that has a major impact because oncology happens to be a big share of revenue for us. There is Rs.10 crore downward impact for the PET CT, while the cardiac tariff has gone up by around Rs. 4 crore. The overall net impact is Rs. 6 crore and these are all annualized numbers.

Damayanti Kerai: Okay, understood. And Abhay, a few quarters back you talked about this Heal in India initiative, which should be giving good boost to your international business. So, any update on that front or any discussions ongoing around that initiative?

Abhay Soi: What they have done is that there has been a lot of movement in the embassies, etc. They're fast-tracking medical visas, they've taken off those policies on reporting to police stations, they have brought down the price of the medical visas and are generally promoting it globally. The government of India is participating in various medical tourism forums. And this is leading to a trickle effect right now. Trickle effect meaning that it's a growth of 25% Y-o-Y for us. In some manner, just given the size of the opportunity, it's not exponential yet but it's still incremental at 25% CAGR on this channel.

Damayanti Kerai: Okay. And from March perspective right now it's around 9.4% revenue contributed by international patients, how much it can go up in say next three years, even if we don't hear any big changes by the government and these kinds of small regular improvements happen?

Abhay Soi: It's growing at 25% CAGR. And it's not just this quarter but last couple of quarters it has been growing at this pace, so I don't really see it abating.

Yogesh Sareen: If the overall revenue growth is 14% and this channel is doing 25%, then obviously this share should go up going forward.

Damayanti Kerai: Got it. And my last question is, as you mentioned, oncology is a big focus for you and you have been investing in this segment. So, which are, I will say, key growth opportunities as per Max focus, and then what kind of expectation you have from this segment, in terms of addition to your hospital revenues, over the next few years?

Abhay Soi: There are three streams of oncology – surgical, medical and radiation. There are various sort of innovations happening within these three. If you look at surgical, with more robotics happening, it translates to better ALOS and better outcomes. At the same time, while the percentage margins are lower, but absolute value to hospitals is more because in terms of the EBITDA per bed that you are able to derive from that is higher than what you do for normal oncology surgery. And robotics number has sort of doubled for us over last year and we are seeing major growth in this. Now, similarly if you look at radiation, from a typical LINAC you have gone into various kind of innovations. And there have been other kind of innovations within medical oncology as well. But now, we are also looking at immunotherapy, like we have mentioned that we started CAR-T cell therapy recently. This is another stream altogether, which is a sub segment of chemotherapy. Globally, it's a little expensive right now and we are seeing prices come down so adaptability of that is going to be a lot more going forward. But that's what the world is moving towards is oncology, its immunotherapy now.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Avendus Spark.

Harith Ahamed: My first question is on the recently acquired Lucknow hospital. So, currently, we have around 250 operational beds there and you talked about the capacity of 550 beds. So, can you share your thought process in terms of making the operational bed count higher more towards the capacity's headcount?

Abhay Soi: The amount of area, which has already been constructed, is close to about 1 million square feet and the number of beds operational are 250 so, there's obviously an opportunity to ramp up to 550 as intended originally within this area. The facility has been ignored for a while, so we are going to be changing the equipment and redo some of the infrastructure. When I say redo the infrastructure, it is basically internal renovation that needs to be done. It's a brand-new building made by L&T and designed by Hafeez Contractor, started in 2008-2009. It's not an old structure but we need to renovate it to some extent. Within a couple of years, we should be at that 550-mark, perhaps a little before that. Please do keep in mind that we in the process of closing the transaction. We are not in the saddle as yet. Majority of the conditions precedent (CPs) as per schedule have been done and the rest are also on schedule. We will be able to share more details about this facility once all the CPs are completed.

Harith Ahamed: Okay. My second question is on the timelines of some of the upcoming hospitals. So, apart from Dwarka, you have guided for three other hospitals, getting commissioned in the next 12 to 15 months. Mohali, Nanavati and Gurgaon but when I look at the project CAPEX specifically, we are tracking a bit lower versus our guidance of Rs.900 crore for FY24, we are at around Rs.300 crore nine months of FY24 so, are we still expecting these three hospitals other than Dwarka to get commissioned in FY25?

Abhay Soi: Absolutely. So, Dwarka which is getting commissioned, do keep in mind it is off our books, because this was the asset light model. The developer is investing the money, whereas we are bringing the medical equipment in place. The hospital is complete in all respects and we are right now in the phase where we are doing the finishes to the hospital. And, sort of whatever medical equipment that we brought in, we are implementing it. It's not going to be a major CAPEX for us going forward either as far as Dwarka is concerned. It was never meant to be because it is asset light, where we are essentially paying a lease amount for that at a yield of 6.5-7% p.a. It is a sixty-year contract for finished land and building of 300 beds. As far as Nanavati is concerned, we've already built our three basements and we've come to ground level. Now, this is where things start speeding up. Please do keep in mind that the first part of construction is the superstructure, which doesn't really cost that much money. If you were to build, it typically costs Rs.1500 to Rs.1800 per square foot. So, if you are building even a million square feet, then you would have spent like Rs.120 crore just doing the construction of the superstructure. Real money is spent towards the latter part of it when you go into finishing, interiors, equipment, lifts, air conditioning, etc. So, we are on schedule and as far as the payments is concerned, I would not look at that since the payments are always lumpy towards the end. So, I would not look at that as a surrogate for completion of projects, at least at this stage.

Harith Ahamed: Okay, last one with your permission. Slightly broader question, when I look at the Saket Complex currently. And if I am correct, we have around 800 beds there. And in the next three years we are looking to add 800, 900 beds and we have plans to add maybe 500, 600 beds beyond FY28. So, that's almost 2000 beds in almost a single location. So, it's kind of unheard of so can you share your thought process behind such a large number of beds at a single location. How are we going to differentiate and how do we plan to whatever strategy to ensure that there is no overcapacity situation in that?

Abhay Soi: Firstly, Saket Complex is the main flagship as you are aware. We are pretty much tearing at the seams as far as Saket is concerned. We've added 40-50% more capacity in a place like Shalimar Bagh, and within the first month or so, our occupancy went up by about 80-85%. These 800-1000 beds that you are speaking of is not coming all together, as you may appreciate. First, the 300 odd beds come into play. My belief is, when we add 40% capacity on top of the current capacity of 770 beds that we have, those will be more or less instantly taken up. We could have a very quick occupancy of the first 300 beds. And very soon thereafter we are going to be ready for additional capacity. Like in the case of Shalimar Bagh, we have already run out of capacity. So, even over here we expect to have the same situation and will require the next 300 beds. So, what we can't do is start constructing 300 beds then and take another three years since we will need those 300 beds once these first 300 beds are occupied. And that really speaks for the first year. Now then comes the last phase of let's say another 300 beds thereafter. Now that only when these 300 beds, the second 300 beds get occupied, we will look at the last piece. We will make the superstructure, which I again mentioned is not a major cost. This is if things are going as per plan, but we can always stall. We can, at the last 300 beds, always say look, we are completing the superstructure and the external façade but we are not fitting it out if we see any sort of softness of demand. Our belief is that this is the trajectory that we have over the next five to six years, and we will be able to occupy all those beds. But it does not mean that after phase one, if, let's say for some reason, the first 300 beds don't get occupied, we are not going to fit out the next year 300 beds. We will never build the next 300 beds.

Harith Ahamed: Okay.

Abhay Soi: This is the base case. At various stages and at various places, these are the default options. It's a running hospital, so we can't have a disruptive process. The superstructure cost isn't a lot. Again, if you're looking at a million square feet, it is only Rs. 150-180 crore for that matter.

Yogesh Sareen: Also, FY28 onwards is a placeholder. That's the potential we have, but we are not investing anything for the FY28 capacity now. We don't even have the approvals from the Board to spend on that. It only reflects that we can build those many more beds on those land parcels.

Abhay Soi: Theoretically, in Lucknow, it is 27 acres of land so you can build another 3500 beds. That's the potential. So, you see the potential post 2028 up to infinity, but it does not mean we will be building 3,500 beds there**.**

Moderator: Thank you. The next question is from the line of Neha Manpuria from Bank of America.

Neha Manpuria: Abhay, on the Lucknow acquisition, how should we think about narrowing the operating performance gap that is there between, let's say, what Max is doing now. In Lucknow particularly since we will continue to ramp up the beds, is it fair to assume that we need to get to that full 550 to narrow that gap meaningfully and it would happen over a period of time?

Abhay Soi: We are quite confident that within a couple of years we will be able to get all of these beds in the condition or perhaps better than what we have in any other hospital and be able to catch up with our peers as well in terms of every financial parameter, if not exceed.

Neha Manpuria: Okay, but this would take a few years in your view?

Abhay Soi: It should be done within two years.

Neha Manpuria: Got it. And second, just extending the Lucknow question to a broader strategy, now that we have this, we will have 500 beds, you said you have land for adding more capacity. But do you see that as a market where you can have let's say, multiple facilities and is that something that you're looking at this could be a third hub outside of let's say the current two hubs that you have?

Abhay Soi: Absolutely. So, we are looking at Lucknow just to find certainly many more healthcare facilities. UP's population is the size of Europe and literally it's got only one and a half corporate hospitals over there right now as we speak. Besides, hopefully, when we get in, we will become two and a half. But I don't know if you've been there recently, but the level of development, connectivity, roads, infrastructure, the kind of focus that city is getting, I think it's going be a metro very soon. And just the scale of the infrastructure, the airport, connectivity with other areas through rail, air, road, every which means. On top of that, the government itself has a very strong program. The Chief Minister's Relief Fund over there actually pays hospital tariffs for patients. So, you can imagine there is an entire population where the Chief Minister's Relief Fund is paying hospital tariffs for patients at the hospitals. Not the CGHS rates or some other low rates. It certainly justifies more than one hospital on multiple fronts.

Neha Manpuria: And this would be through M&A, do you think to just make it happen faster or would you choose a more organic approach of expanding into that market?

Abhay Soi: Unfortunately, I don't think there are too many M&A opportunities or existing hospitals in Lucknow. They are far and few, if we are able to get lucky again like we have got in this case. Of course, we will look at an acquisition first because that's faster, but if not, then we will look at organic growth as well.

Neha Manpuria: Right. And my second question is on Dwarka, you mentioned that the unit head and key function heads have already been appointed, is that cost already sitting in the quarter because if I look at our direct, hasn't increased as much in the last three quarters?

Abhay Soi: That's right, that cost is sitting on our books. Also, certain doctors have been on boarded and that cost may also be sitting in this quarter.

Neha Manpuria: Okay. So, as we commission this and phase it up, you should start seeing that contribute EBITDA pretty quickly?

Abhay Soi: That's right, because that cost is already incurred. The biggest cost is always the non-medical personnel, like we have always mentioned, around 23% or 24% of the overall revenue. In fact, for a new hospital its higher because revenues are lower. It's basically the significant functional heads that you have under that cost. And that comes in closer to the hospital commissioning, which is now. Very shortly we should have that hospital up and running.

Neha Manpuria: And for breakeven in Dwarka is 12 months, 18 months a good timeframe to assume?

Abhay Soi: Well, that's the textbook. We are hoping to do it faster.

Moderator: Thank you. The next question is on the line of Kunal Dhamesha from Macquarie.

Kunal Dhamesha: So, first one on the institutional rates there has been some revision upward, some revision downward, but when we sum it up, let's say for the first nine months what

could have been the ARPOB impact in that channel. For the first half we had suggested the institutional ARPOB has grown at 28% year-on-year, if you could provide that number for the first nine months?

Abhay Soi: In my knowledge, it's been revised upwards on everything except for one item, which went down and we believe it is a mistake, so we have made appropriate representation.

Yogesh Sareen: Kunal, you have the number with you. The price increase is Rs. 14 crore per quarter and there is a Rs. 6 crore annualized impact of the downward revision. So, that means the net impact is Rs.50 crore p.a. on the institutional business in terms of price. So, if you divide it with the numbers, you will get the increase in the ARPOB rate, which will be around 3-4%.

Yogesh Sareen: In the overall ARPOB, the impact is less than 1%.

Kunal Dhamesha: No, but last quarter we had said that institutional ARPOB increased by 28%?

Yogesh Sareen: We are talking about the overall ARPOB impact, which is less than 1%.

Kunal Dhamesha: No, but if our institutional revenue is around 18% and that revenue is growing at 30%, then the weighted average impact should be around 5%, right?

Yogesh Sareen: Let’s not confuse ourselves. First of all, the total impact is Rs. 50 crore as things stand today. On the overall top line, it has an impact of less than 1%. Our top line last year was around Rs. 6,200 crore, so if we take Rs. 50 crore on this, it will be less than 1%. That’s on the overall ARPOB. Now, if we talk about the ARPOB of the institutional channel itself – on around Rs.1200 crore of business in a year from institutional, there is a Rs. 50 crore impact, so it will be around 4%.

Kunal Dhamesha: Yes, this is clear but last quarter…

Yogesh Sareen: The last quarter growth in ARPOB is not only price, we never said that it is all because of price.

Abhay Soi: There has been a growth in institutional ARPOB, but we haven't said it's driven only by price.

Yogesh Sareen Even this quarter if you see, the price impact is only 4% and rest is the business mix. Also, you should understand that when oncology goes up, the chemotherapy goes up, the ARPOB improves.

Abhay Soi: We have been focusing even with institutional on the higher end specialty. That’s the outcome you see.

Kunal Dhamesha: Sure. And the 15% ARPOB growth that we have seen, first half was also 13%, 14%. Going into next year what is, is that what your kind of would be thinking about in terms of ARPOB growth, because clearly these numbers are in my view at least is above the historical trend line. And we have been doing high end surgeries, robotic surgeries. Do you think that this can sustain this run rate of ARPOB growth for the next two to three years?

Abhay Soi: We keep asking the same question of whether there any one-time price change that has led to this? In my mind, there are a few factors which have led to higher ARPOB.

One is more higher end surgeries, second is international patients, third is proliferation of insurance, etc. These are things which are leading to higher ARPOB and if any of these is non-secular, then your guess is as good as mine. My belief has been that, they seem pretty secular and that should read into next year as well. None of this is based on one time price changes, etc.

Yogesh Sareen: It's not only us. You can see the competition, ARPOB has been improving for all other hospital chains also.

Abhay Soi: Unless there's a non-secular trend which has been propelling it. But, I'm at a loss of what it could be.

Kunal Dhamesha: And sir one logistic question on the international patient bed share this quarter, if you can share it?

Yogesh Sareen: So, it will be around 5.8%.

Moderator: Thank you. The next question is from the line of Ankit Shah from Canara Robeco AMC.

Ankit Shah: So, my question pertains to the Dwarka additions. So, you mentioned that some of the costs have started coming, but the major portion of the non-medical costs will come going forward. So, can you give some sense of like, how much of that non-medical cost would be of the total cost. And also, you had mentioned earlier that the total losses initially in this should not exceed Rs. 30-40 crore so can you give some sense on how this, would this be completely front ended or cost come in a stepwise fashion so it will be more divided, some granularity on that front?

Abhay Soi: I feel it will grade down, so it will be in a decreasing fashion. Of course, the first month is more, the second month should be similar and then it sort of starts petering down till you hit breakeven. So, the textbook would say that this size of the hospital should have around Rs.40-50 crore loss, but we hope to perform better and maybe break even hopefully sooner. This is hard to project, because as and when the doctors come in and those particular programs kick in, certain doctors will be brought in with certain minimum guarantees, and others with certain other minimum guarantees, etc. So, in order to give you that loss figure and what is the trajectory of the loss, we need to figure out what are the exact revenue figures going to be in that particular month.

Ankit Shah: So, on the hiring front, does the hiring happen in one shot for the entire capacity or does it happen in stepwise fashion?

Abhay Soi: No, we are going to be coming up with around 160 beds first, and of which, let's say, we want to operate around 100 beds, then in the first go we will be hiring at least for 100 beds. Unless we get enough of those kinds of clinical programs to kick in where we start off with 160 beds. Right now, we are only doing this much but let's say if there are 20 letters of intent (LOIs), which we have issued to 20 various doctors, and 12-15 of them have joined while others are in the process, it's in the works, right? So, as and when we have it in hand, we know this doctor is joining, we need to get him enough nurses and resident doctors to support him.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir just on the international patients would like to understand the growth maybe for the quarter and as well as for the nine months, if you could break down into volume and maybe the realization growth?

Abhay Soi: The growth has been 25% both for nine months as well as the quarter.

Yogesh Sareen: Yes, so the ARPOB has grown by 9% in the quarter, but the bed share is 5.8% and it is flat overall Q-o-Q. Revenue from this channel was Rs. 158 crore last quarter and Rs. 157 crore this quarter.

Tushar Manudhane: Right. So, the 9% increase in realization is to do with case mix or it's like the similar treatment?

Yogesh Sareen: There is no price element in this, so it is basically case mix. We haven't increased the prices. Typically, the price of international patients is linked to the self-pay patients, which gets revised only in the month of April. To that extent, there is no price element in this, it is only the case mix which is increasing the ARPOB by 9%.

Tushar Manudhane: Understood. And secondly, just on the overall operational cost, in terms of let's say employee cost and other expenses for FY25 in particular were considering the different new hospitals coming up. So, what kind of cost increase one should think about?

Yogesh Sareen: We can tell you about the cost increase on the existing hospitals, which is typically an increment of around 7%. And then if any additional bed is getting created, there will be manning required. So, typical manning would be six people to one bed. If we are adding 100 beds to the operational capacity, you should assume that there will be six hundred more people. I can't give you exact number of the growth, etc., but I'm giving you the math to get to that number.

Tushar Manudhane: Got it. So, effectively trying to understand considering the scope of ARPOB growth as well, but at the same time addition of cost on account of, at the existing sites, as well as new hospital getting added. So, is there a scope for further margin improvement in FY25, or we would be let's say having bed related revenue growth, but margin would be pretty stable, is that the way to understand or there is a scope for margin improvement even in FY25?

Abhay Soi: No, you are mixing two things. One is our current capacity, which is about 3,500 beds. There is a certain cost growth and certain revenue growth. Assuming the revenue growth continues on the same trajectory, and then there is cost growth, which would be similar to what happened last year. So, EBITDA growth in that fashion should be currently what is there and plus, because you get some operating leverage as well. So, whatever EBITDA growth that you for existing hospitals, you will continue having that. Then comes the new hospitals. The new hospital will be, let's say 300 beds, which is about 7% to 8% further capacity. Those 300 new beds on day one will start with the lower ARPOB and negative EBITDA. Then there is the question of when do you break even – six months, eight months or 12 months? If, say, you breakeven even in 12 months, then it will have a negative impact on the EBITDA for the year. If you breakeven in six months, then it may have a neutral impact on your EBITDA one year later. Even a neutral impact will still pull the margin down because if it's zero, you are taking the positive EBITDA and you are taking the negligible EBITDA on an increased revenue base. So, you have got two conflating kinds of wins happening over here. But my belief is because it's only 8% bed addition on the overall bed base, it doesn't move the needle too much.

Moderator: Thank you. The next question is from the line of Karan Gupta from Varanium Capital.

Karan Gupta: So, basically my question is related to international business. So, what kinds of attraction we are seeing in the television for medical tourism and what systems we are taking to increase the traction, or maybe increase or improve the quality of our treatments. I am asking this question, because in India the treatment cost is 1/5 of what the US and Europe is. So, what's the traction coming from US and Europe, because basically you said in your early con-calls that the major traction is coming from Bangladesh. So, what's the position of these two US and Europe?

Abhay Soi: We don't get many patients from US and UK because even though India is much cheaper, but in US and UK, medical treatment is sponsored. For instance, NHS pays for it in UK. And in the US also, it's the government. So, it doesn't matter if it's expensive since somebody else is paying for it. It has never been our case that people from developed countries will come to India. You will only see people come to India from countries where you have self-paying patients.

Karan Gupta: Okay. So, when you talk about medical tourism, where are the patients coming from?

Abhay Soi: We're getting patients from around 145 countries.

Moderator: Thank you. The next question is from line of Amit Kadam from Canara Robeco Mutual Fund.

Amit Kadam: Just couple of things, the swing what we saw in the inpatient volumes this quarter, largely you attributed to the vector borne disease, just wanted to know because we have a very limited understanding like in last three years or so, we haven't seen such kind of large swing because the bed days for this quarter is -1%. So, can you just throw from your past experience we had seen such kind of large swing which could have a material impact on the inpatient volumes, and which could result in bed days?

Abhay Soi: What we are seeing is that last year same quarter, we had a big influx of the dengue patients. We haven't had the same level of influx this year. Therefore, there is a reduction of 1% on occupied bed days (OBDs).

Yogesh Sareen: If you see the historical trends, you will find that from Q2 to Q3, there is always a decline. If you pick up any competitor's previous reports of Q2 and Q3 of previous years, you'll find that Q3 is always softer. And therefore -1% OBD is very normal. If you compare Apollo, Fortis, Narayana, and you pick up their last year results, you will find that there's a decline in Q3 over Q2. There is no exception here. This is the secular trend, and you will always find Q3 is down compared to Q2 because of the festivities – Diwali, Dussehra, etc. Now, in our case one peculiar feature is that in last year, especially in Delhi, we had an influx of dengue patients in October. Typically, dengue season finishes by September, but last year, we had patients even in October, which was a Diwali month. We had dengue patients and this Diwali month's occupancy was 76%, which is unheard of. In a Diwali month, you will usually have an occupancy of less than 70%. So, last year October was exceptionally high on occupancy because of dengue, and that is the reason why you see a sharper drop in OBDs. Otherwise, it would have been probably flat, if we were to take out the drop in internal medicine and pediatrics, where we get these dengue patients admitted. The drop in these specialities is 12%, while you see that Y-o-Y the drop in OBDs is only by 1%. But these particular specialties, which is 22% of the overall bed share dropped by 12%. So, what we are trying to say is that there is nothing operationally wrong in this quarter. It's only when you compare Y-o-Y because of this October influx of patients, there looks to be a sharp drop, rather than what it should actually look like.

So, if you adjusted for this influx, then you'll find that the OBDs actually went up Y-o-Y.

Abhay Soi: It is a seasonal business. Q2 and Q4 are the strongest quarters in the hospital business, while Q1 and Q3 are weak quarters. Q1 because the cost structure moves up and Q3 because the revenue comes down.

Yogesh Sareen: Is that clear Amit?

Amit Kadam: Yes. No, I was just not contesting your that particular point. I just wanted to know because we have a very limited history because we got, so from the data point we did not have, I did not have the insight that whether such kind of some seasonality, when I'm talking seasonality, I'm trying to compare Y-o-Y because of some like vector borne disease, we have a material impact on the volume growth Y-o-Y. I can understand how Q2 to Q3 seasonality works. But I was just saying in the past history whether such kind of events like vector borne is not there, could have a material impact on the volume growth just wanted to.

Abhay Soi: 100%, it does. And it's not an anomaly.

Yogesh Sareen: And it depends on when the rains happen, when this epidemic type stuff happens.

Abhay Soi: You are not comparing 9-months to 9-months, you are only comparing this quarter to last quarter Y-o-Y. On an overall annual basis, it will be not a significant impact on the occupancy.

Amit Kadam: Right that I get it.

Abhay Soi: But yes, say if you don't have a dengue season, the drop can be much sharper than this, in fact much sharper than the 1%. Between 1% to 3% fluctuation on both sides, positive as well as negative.

Amit Kadam: Okay, got it sir. And this on the outpatient thing is it just an outcome of the similar effect that because there were lesser patients visiting because of the there was no dengue disease?

Abhay Soi: That's right.

Amit Kadam: So, nothing much to read in this particular thing based on this particular like because I've earlier seen this outpatient at least growing at mind-teens or kind of thing, but now it showed 3% in this particular quarter there is nothing much to read.

Abhay Soi: One thing you are rightly doing is, you are looking at it Y-o-Y rather than Q-o-Q, because we have seasonality in this. So, Q3 in any case is weaker than Q2. But if you look at it on Y-o-Y basis, you can attribute it to the number of dengue patients.

Amit Kadam: Okay. And just one more final point is on the Lucknow thing. So, as per the current timelines we should be able to integrate that particular business financials to ours by quarter one next year FY25?

Yogesh Sareen: Yes. It depends on when does the transaction closing happens. Say, even if the closing happens in this month, then we'll have to consolidate it from the date of closing. We don't have a choice.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today, which is from the line of Alankar Garude from Kotak Institutional Equities.

Alankar Garude: Sir on that question on ARPOB, we have reported a 15% ARPOB CAGR over the last three years. And you alluded various factors – case mix, international, institutional insurance, et cetera. Now, would it be fair to say that a larger chunk of this improvement can be attributed to an improved case mix?

Yogesh Sareen: So, Alankar you know the elements of ARPOB increase – one is the increase in the prices, which we've been saying that it can be up to 3%. Then there is an increase in OPDs – you know that OPD revenue increase will improve the ARPOB because you don't consume any beds for those OPD revenues. So, that typically contributes around 2%. So, this makes 3 + 2 = 5%. Then we have growth in oncology. In our case, you have seen that the oncology growth is outpacing the overall growth. Oncology happens to be a high-end specialty, so that typically adds another 2-3% to the ARPOB. And then comes this whole channel mix and the case mix. If you take oncology out of the case mix, then there is improvement in balance specialties as well and the channel mix. This typically has been contributing around 6-7% increase, and we don't see any reason why it should not continue going forward. From our perspective, if there's a 9-10% growth in ARPOB, that should be reasonable.

Abhay Soi: But, having said that, you have to keep in mind one thing that we are talking about a healthcare system where there is capacity constraint in some manner. You have got occupancy levels that are pretty much at their threshold. When you have this situation, then, typically, you will see a higher uptick on ARPOB vis-à-vis occupancy because you can't move up on occupancy as there aren't so many beds available. So, more and more patients get pushed to daycare, all smaller surgeries compared to larger surgeries. So, you would schedule the larger surgeries first. The smaller surgeries would be scheduled at or the appointments are given at later dates, etc., so some of the later date patients may evaporate. So, what you see is that the quality of work starts moving up. But at the same time, if I had a magic wand in my hand and I could put up beds adjacent to each one of the hospitals, then what you would see is the higher uptick on occupancy and lower on ARPOB. There is always an interplay between the two.

Alankar Garude: That's helpful. Maybe a question linked to that is, as we double our bed count over the next four, five years would the case mix for the newer beds be as good as our flagship hospitals right from year one or the ramp up in our case mix would be?

Abhay Soi: You can look at expansion akin to Shalimar Bagh, where we did a brownfield, since 85-90% of the expansion is brownfield essentially. If you look at Shalimar Bagh where we added 40% or more beds, and you see our experience over there, the new beds got taken up more by the institutional business, which we are bringing down. So, therefore, if you see our institutional business, apples to apples, year-on-year, it is the same but if we look at it excl. Shalimar Bagh, then we are far better in the institutional, because overall institutional business has come down. But what it means is that even if your ARPOB is lower but your operating leverage is so significant, that your EBITDA per bed that comes out of from the incremental beds is significantly better.

And in fact, the operating margin even from these beds is higher than the existing beds.

Alankar Garude: Understood. My second question is, you spoke about the potential of Lucknow and Uttar Pradesh for us in general earlier. Now, when it comes to expansion beyond our already announced plans, you said earlier that we are looking at some 20, 21 cities for potential expansion. Will we continue to aggressively look out for acquisition

opportunities in these 20 odd cities now, or do our priorities get aligned more towards Uttar Pradesh now with the Lucknow entry?

Abhay Soi: No. Our priorities don't get aligned towards UP from that standpoint, because it's not as if we are going to get two or three acquisitions in a place like Lucknow. Even if we have a strategy of looking at building it out, it's going to still take some time. It takes years, while we are looking at deploying our balance sheet today. And we have the wherewithal to do it, for us to add 304 hospitals in a space of one to two years is not a big deal because rest of the expansion that we are doing is essentially brownfield in any case. It doesn't tax us more. It takes us as much effort to do expansion on Shalimar Bagh as operating Shalimar Bagh, and similarly, wherever we are doing brownfields. Both from financial and human resources standpoint, we are quite comfortable with what we are doing and we are prepared to go to the other cities as well. We are actively looking at it, but not aggressively. We don't like to do things aggressively. But we are actively pursuing opportunities in other cities as well.

Moderator: Thank you. As that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.

Abhay Soi: Thank you all for being on the call, yet again for Q3 and we are looking forward to a robust Q4, as usually is the case because of the seasonality. Thank you so much.