Max Healthcare Institute Limited
Q4 & FY24 Earnings Conference Call
May 23, 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. Anoop Poojari from CDR India. Thank you, and over to you.

Anoop Poojari: Thank you. Good evening, everyone, and thank you for joining us on Max Healthcare's Q4 and FY24 Earnings Conference Call. We have with us Mr. Abhay Soi, Chairman and Managing Director; Mr. Yogesh Sareen, Senior Director & Chief Financial Officer; and Mr. Keshav Gupta, Senior Director – Growth, M&A and Business Planning of the Company.

We will begin the call with opening remarks from the management, following which we'll 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 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 afternoon to everyone, and a warm welcome to Max Healthcare's earnings call for the last quarter of fiscal 2024. This has been yet another noteworthy year for us. We witnessed a robust growth in revenue and profitability, with both gross revenue and operating EBITDA registering 16% to 17% growth year-on-year. We touched all-time highs for all our key operating and financial metrics including ARPOB, margin and EBITDA per bed.

This year also marked our foray into 2 new cities, namely Nagpur and Lucknow, adding ~750 beds to our existing bed capacity with further expansion potential. Both these cities represent key markets in the fast-growing and populous states of Maharashtra and Uttar Pradesh.

We consummated the Nagpur transaction on February 9 for a net consideration of Rs. 395 crore, financed through internal accruals and QIP funds. While the Lucknow transaction was consummated on March 7 for a net consideration of Rs. 993 crore, with Rs. 600 crore being

financed through external debt. We have already embarked upon the performance improvement journey for these hospitals, which includes revamping of existing infrastructure, expansion of bed capacity, strengthening of clinical talent and establishing a robust sales & marketing programme.

These hospitals have been renamed as Max Super Specialty Hospital, Lucknow and Max Super Specialty Hospital, Nagpur. We expect them to be the key drivers for future growth in these regions.

In addition, we have acquired ~5.4 acres of prime land at Shaheed path in Lucknow with the potential to build ~550 beds. The plans for this hospital will be firmed up once we turn around the operations of MSSH Lucknow.

Now coming to the Q4 performance – this is our 14th consecutive quarter of year-on-year growth.

The new hospitals have added Rs. 42 crore of revenue, Rs. 3 crore of EBITDA and a net loss of Rs. 11 crore during Q4, including one-time transaction expenses. Consequently, overall Network gross revenue stood at Rs. 1,890 crore, registering a growth of 15% year-on-year and 6% quarter-on-quarter. While Network operating EBITDA was Rs. 503 crore, a growth of 15% year-on-year and 7% quarter-on-quarter. PAT dipped marginally to Rs. 311 crore compared to Rs. 320 crore in Q4 last year, due to increase in effective tax rate having an impact of Rs. 31 crore, net loss from the new hospitals of Rs. 11 crore and movement in non-cash item of fair value of contingent consideration by Rs. 25 crore, which reflects improved projected profitability for the managed hospitals.

Growth numbers from here on are being shared on a like-for-like basis, excluding new hospitals.

1) Average occupancy for the Network was 75%. Occupied Bed Days (OBDs) rose marginally by around 1% year-on-year and 3% quarter-on-quarter, driven largely by increased admissions under preferred channels (Cash, TPA / Insurance and International). Growth in occupancy and footfall was impacted due to capacity constraints.

2) Average revenue per occupied bed (ARPOB) for the quarter improved to Rs. 78,100, growing by 10% year-on-year and 2% quarter-on-quarter. Year-on-year growth was driven by increased share of super specialties (oncology, neurology and cardiac sciences) and increase in tariff, including that for the institutional segment.

3) Institutional bed share was 29.1% compared to 29.2% last year and 29.5% in the previous quarter. However, after excluding Max Shalimar Bagh, the overall institutional bed share stood at 27.1% during Q4 and OBDs were down by 6% year-on-year for this segment.

4) Network gross revenue was Rs. 1,847 crore compared to Rs. 1,637 crore in Q4 last year and Rs. 1,779 crore in the previous quarter. This reflects an increase of 13% year-on-year and 4% quarter-on-quarter.

5) The international patient revenue grew by 14% year-on-year, slightly subdued due to credit risk-related actions taken by us and visa-related issues in two markets.

6) Network operating EBITDA touched the magic mark of Rs. 500 crore, reflecting a growth of 14% year-on-year and 6% quarter-on-quarter. Most importantly, annualized EBITDA per bed rose to our highest ever of Rs. 78.5 lakhs, clocking a growth of 12% year-on-year and 4% quarter-on-quarter. While operating EBITDA margin stood at 28.4% for the quarter.

7) Year-on-year growth in EBITDA was impacted due to cost of people hired for Dwarka hospital, GST on variable management fees and higher provisioning due to build-up of accounts receivable.

8) Max Shalimar Bagh, where we added 122 beds, recorded year-on-year growth of 33% and 48% in its revenue and EBITDA, respectively, with an average occupancy of 78%.

9) Profit after tax was Rs. 322 crore versus similar level in Q4 last year and Rs. 338 crore in the previous quarter.

10) Free cash flow from operations generated this quarter amounted to Rs. 412 crore. Of this, Rs. 176 crore was deployed towards the ongoing capacity expansion projects and Rs. 1,509 crore was spent for recent acquisitions.

11) Consequently, Net Cash position stood at Rs. 22 crore at the end of March 2024 compared to Rs. 733 crore same time last year.

12) Continuing our efforts to support the local communities, we treated approximately 35,200 patients in OPD and 1,200 patients in IPD from economically weaker sections of society entirely free of cost.

13) Both our strategic business units (SBUs) continued to report significant growth in the revenue and profitability:

- Max@Home reported a top line of Rs. 46 crore, reflecting a strong growth of 25% year-on-year and 3% quarter-on-quarter. This SBU continues to garner customer loyalty and has now expanded its footprint to over 10 cities.

- Max Lab, the non-captive pathology vertical, now offers its services in 41 cities and has a network of over 1,100 collection centres and active partners. This SBU reported a gross revenue of Rs. 39 crore, reflecting a growth of 26% year-on-year and 15% quarter-on-quarter.

14) On the status of expansion projects:
    - For 303 beds at Dwarka – We are awaiting last few licenses and will be ready to launch the hospital by early June. We have already onboarded over 280 people, including senior doctors.
    - For 241 beds at Nanavati (Phase I) – The hospital structure should be up by mid-July, and the project is on schedule, with expected completion by Q4 FY25.
    - For 375 beds at Max Smart (Saket Complex) – Post the initial delay due to tree transplantation issues, this project has now been fast tracked and is expected to be completed by Q1 FY26, 9 months ahead of the previously communicated timelines.
    - For 155 beds at Mohali – Slab work for the 3 basements is underway and base raft has been completed in May. The number of beds has reduced due to change in configuration and requirement to build a fire ramp, which is a new requirement as per Punjab Fire Authorities. Project completion is expected by Q1 FY26.
    - For 300 beds at Sector-56 Gurgaon (Phase I) – Slab work for the 3 basements is in progress. The pace of work at the project has slowed down due to restricted working hours in view of adjoining residential complexes. This will likely impact the project timeline by a maximum of 6 months.
    - For 250 beds at Patparganj (Phase I) – Fire and Water Departments have issued NOCs for the building plan, while the Environmental Clearance (EC) and Municipal Corporation approvals are in process. Tendering work has been initiated.
    - For 415 beds at Max Vikrant (Saket Complex) (Phase I) – EC and Consent-to-Establish (CTE) have been received, while tendering work has been initiated.
    - For Nagpur Hospital – Work has been initiated to add 25 beds through internal reconfiguration by Q3 FY25, while we are simultaneously firming up plans to augment infrastructure by another 140 beds.
    - For Lucknow Hospital – We have commenced works for installing additional 140 beds and refurbishing existing 250 beds by December 2024. Further 50 beds will be added through internal configuration in FY26. In addition, we plan to put up a new tower with 300 beds in the first phase by Q1 FY27.

Finally, moving on to overall performance, including new hospitals, for the 12 months ended March 31, 2024.

15) Network gross revenue stood at Rs. 7,215 crore, including new hospitals, reflecting a growth of 16% year-on-year.

16) Network operating EBITDA grew by 17% year-on-year to Rs. 1,907 crore, including Rs. 3 crore from new hospitals. Increased ARPOB, improved case mix and augmentation of network bed capacity translated into a 13% improvement in EBITDA per bed to Rs. 74 lakhs.

17) During the fiscal year, we generated Rs. 1,336 crore of free cash flow from operations after interest, tax, working capital changes and routine capex, of which Rs. 441 crore has been deployed towards ongoing expansion projects, Rs. 97 crore was distributed as dividend and Rs. 1,509 crore was spent for recent acquisitions.

With this, I would like to open the floor for Q&A.

Moderator: We take the first question from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, firstly on Lucknow, where we already have acquired Sahara, where you also plan to add 140 beds and then another tower of ~350 beds. So, if you could just explain conceptually the need for the buying land at Shaheed Path, Lucknow, that is my first question.

Abhay Soi: Firstly, the size of UP itself is the size of Europe, and it is an extremely underserved market. It has a major supply of clinical talent because traditionally they've had many government hospitals and medical colleges, etc. It drains a lot of patients from various places, right up from Bihar to Nepal and so on. We believe that there is an immense need for quality infrastructure over there. And furthering our presence in the Lucknow market, in the UP market, will add to further volumes.

I mean, we've barely been there since the 7th of March and in the last couple of months itself, we have moved up the occupancy by 8%. Just our presence right now has taken it up from 54% to 62%. That's the extent of ramp-up that we expect. Having said that, I would also like to tell you that our infrastructure is AAA+ over there. It is right in the heart of Lucknow, if you're familiar with Lucknow.

This is in the heart of Gomti Nagar, 27 acres of land and with access like no other. In terms of infrastructure, it is superior. In terms of location, it is superior to anything else over there. And we believe that there will be a lot of traction. In the state of UP itself, the kind of development, which is happening that you see -- 5 airports have been launched, another 4 are

being added. The development which is happening is huge, the state is aiming to be a $1 trillion economy by 2027.

It's not a matter whether they do it by 2027 or 2028 or 2029, but the rate of development over there is second to none -- I mean not even second to none, but it's right up there. And for development of any state, any economy, quality healthcare is a prerequisite. There is a lot more demand over there.

Tushar Manudhane: Understood, sir. Sir, but just that when we could have spread across maybe other cities of UP because peers are also trying to at least build-up 500 bedded hospital if not in Lucknow but in other smaller cities so that can sort of reduce the pace of patient flow to Lucknow, and they are also coming up with super specialty hospital like that.

Abhay Soi: The demand is there across the country, right? The supply of clinicians is where the problem is. Lucknow is where the clinicians reside. That is where the government hospitals, the medical colleges have traditionally been. Now our belief is that as far as tertiary care is concerned, the entire tertiary care of the region will be serviced through Lucknow. You cannot set up tertiary care hospitals in tier-3 cities, in smaller cities, because doctors aren't willing to go there and stay there because the social infrastructure isn't there, the school isn't there and so on.

And given the kind of roads which are being made, the connectivity which is there, it will act like what Delhi is in NCR. You get people from various places in Delhi. Similarly, in Lucknow, you'll have many more hospitals. I mean for the entire state of ~240 million people, there are 2 corporate hospitals and both of them are in Lucknow. We haven't heard of a third corporate hospital in all of UP, right?

I believe that you can have 5 more super specialty hospitals, why 1 or 2 more. The only question that I needed to ask at that point in time when we were even bidding for this piece of land is that does it deserve another super specialty hospital, what if somebody else gets it, etc.? Similar to in Delhi, our approach is a cluster approach. We believe that Lucknow could be the next Delhi NCR. And frankly, it can do with many more hospitals.

Tushar Manudhane: Got it, sir. That's helpful. And secondly, with these beds sort of coming up and just to refresh per se in terms of the EBITDA growth for, say, '25, '26, the kind of expenses that will be coming on board, particularly for FY '26. So, if you could share in terms of whether we'll be able to grow on the EBITDA front even in '26?

Abhay Soi: You're talking about FY26 or FY25 now?

Tushar Manudhane: FY26, particularly.

Abhay Soi: Let’s imagine what's happening in FY26. You would have had Dwarka, which starts now in the month of June 2024 and we breakeven by the end of the fiscal year. And next year, we’re definitely in the positive and making money. We put all the building blocks of Lucknow and Nagpur in place. Both of them are profitable in any case, and they become more profitable in FY25.

But look, it will have a tremendous growth in FY26 simply because in this year, we'll be fixing everything. Then we have three capacities coming in, in beginning of FY26 effectively, for which we will get the benefit of the whole year – 155 beds in Mohali, 241 beds in Nanavati and 375 beds in Max Saket.

All three additions are brownfields, adjacent to properties, which are already fully occupied. We should see the same sort of results that we've seen in any of our brownfields. In fact, FY26 will be a very exciting year for us. This year, if you look at FY24, was always meant to be a year of incremental growth. We're very fortunate we were able to add new hospitals.

In fact, FY25 would have also been incremental growth if we hadn't added Lucknow and Nagpur. Now, we'll have the EBITDA and revenue kicking in from both of these. Then we add Dwarka, where we will have some losses up to breakeven in the first year, which will get more than absorbed by Lucknow and Nagpur, but next year all three will be exploding.

And in relation to that, we have three brownfields, which don't take time to breakeven and you have seen that in the past.

Tushar Manudhane: Understood, sir. That's helpful. And just lastly, what may push or in fact, prepone the Max Smart by almost nine months. If you could just elaborate on that.

Abhay Soi: As you are aware, we were coming up with a much larger capacity in two phases in Max Smart, and we were also coming up with the first phase of Max Vikrant capacity. Now, the fact is that we got delayed on Max Smart. So, what we've done is instead of doing one phase of Max Vikrant, which is contiguous, on the adjoining land, and doing two phases of Max Smart, we are doing one phase of Max Smart and two phases of Vikrant.

So, what we've done is essentially we have preponed. We are not going to be making as many basements and so it will take less time and we have managed to prepone the entire project. I mean, we'd rather have 375 beds sooner than have 600 beds later and then another 300 beds coming through Vikrant at an even later stage. Right now, we have sort of caught up with Vikrant timelines, which was supposed to be later. And that's how we've done this.

I'd like to add that it's a pleasant surprise that we've been able to prepone Max Smart. A lot of people were expecting delays, but let alone delays, we have preponed this entire project.

Moderator: We'll take our next question from the line of Damayanti Kerai from HSBC Securities and Capital Markets India Private Limited.

Damayanti Kerai: Abhay, you mentioned in your opening comment, there were some visa issues in two markets, which slightly impacted the international segment -- international patient segment. Can you please elaborate on it?

Yogesh Sareen: Damayanti, basically there are markets of Iraq, etc., where we have accounts receivable build-up. We took some calls on credit control and we decided that we will not take more patients till such time we recover our money. And that's what Abhay was alluding to. There are also some markets, where there were some disturbances on the visa side. Because of the elections in these markets, visas were not being issued.

These are the 2-3 markets that got impacted. You will notice that overall, we've been growing the international market revenue by around 23%. This quarter, it is 14% growth, which is a bit subdued because of these two reasons.

Damayanti Kerai: Okay. And these are more temporary in nature, right?

Yogesh Sareen: Yes, very much.

Abhay Soi: We continue to see great traction with new offices that we are opening overseas. It is very positive and we intend to sort of double down on that further.

Damayanti Kerai: Okay. In all focus markets, you will be doubling down your effort to get more footfall.

Abhay Soi: We started these direct-to-fly offices, as you recall last year, and we've seen great traction and great throughput through those. We're seeing a lot of success through the new markets where we're setting up our own offices. We will continue with this strategy.

Damayanti Kerai: Okay. Abhay, is the way you mentioned attractiveness of Lucknow market in terms of like demand and then availability of clinical talent, etc. Can you talk a bit about how do you see the Nagpur market? And do we have similar supply of clinical talent in that market, too?

Abhay Soi: Yes, you do have supply of clinical talent. But if I look at India, Lucknow that way is unique, as in perhaps it has the most amount of supply -- just to give you an example, at least 20% or so of our own doctors in Delhi, which work for Max, have come from Lucknow. So, it has traditionally been the repository for talent. Of course, Nagpur is also a repository for clinical talent, but not to the same extent as Lucknow. You don't have other places with the same sort of supply. I would compare Nagpur more to Dehradun, where we have a hospital which is doing quite well. So, I would compare it to that market rather than Lucknow.

Having said that, it is emerging as the transplant capital of the country. Because there is a huge amount of awareness of organ donation and it seems to be a cultural thing there, with a lot of people donating organs. Also, it has been a big centre for mouth cancer because of much higher consumption of gutka, etc. We're seeing a lot of oncology patients in Nagpur. And with oncology being our mainstay, I have no doubt that we will do well there. Let me also clarify that Nagpur also has much fewer quality health care assets.

I don't think there is anybody even compared to Alexis Hospital over there. Competition is also significantly lesser. In a way, we will have first dibs on most of the clinical talent over there. We are quite comfortable that even though the supply may be less than Lucknow, but nevertheless, we'll get the best. We don't have a challenge in getting the clinical talent. And the market itself is quite big. It also draws a lot from Madhya Pradesh – Chhindwara, etc. And of course, it also has great connectivity and infrastructure.

Damayanti Kerai: Okay. And my next question is a quick clarification on occupancy. So now you're giving it on like-for-like basis, 75% for fourth quarter and then you have given separate numbers for the new units. Can you just for understanding purpose, on a blended basis, what is the number occupancy number for fourth quarter?

Yogesh Sareen: Around 74%.

Abhay Soi: Please do keep in mind that Nagpur has only been there since 9th of February and Lucknow since 7th of March. So, you don't get the full impact of the fourth quarter, right?

Damayanti Kerai: Got it. And my last question is like your upcoming hospitals, most of which are located in very attractive locations, brownfield location, etc. For both, we are assuming breakeven within a year of start of the operation. So very broadly, like what kind of loss you generally incur when hospitals are ramping up maybe like loss per month or any indication. For your upcoming hospitals, most of which are brownfield. So, I just want to understand while hospitals are ramping up, what kind of loss you generally incur.

Abhay Soi: I'll give you the example of the last brownfield we did. We added about 122 beds on a base of 280 beds. That would have broken even in 10 or 15 days. And by the 40th day, the additional beds were generating 40% EBITDA margin. And in the whole year, we have 78% average occupancy on the new and old beds. So, brownfields don't take time to breakeven. They don't take years; they take a month. We normally say a quarter at best, but we have kind of beaten that every time.

Damayanti Kerai: Yes. Just like in NCR, I can understand this kind of performance we may expect. But is it true for, say, Nanavati or Mohali, etc, also, we should see similar ramp-up?

Abhay Soi: No doubt. I mean Nanavati is in Mumbai, right? In the heart of Mumbai, we have another 375 quality beds coming in. And in a place where no new hospital has come up in 20 years, I don't see a challenge in breaking even. Mohali again -- it's the highest ROCE, the highest occupancy that we have in the Network right now. It's not Delhi or Mumbai.

Moderator: We'll take the next question from the line of Neha Manpuria from Bank of America.

Neha Manpuria: Given the background you gave on Lucknow is it fair to assume that Lucknow can get to what we have margins for our corporate average much faster probably, let's say, in FY26 itself. Would that be a fair assumption? Or do you think because of the addition, etc, that could take a little bit longer?

Abhay Soi: See, addition is separate altogether. Addition is a capital expenditure, right?

Neha Manpuria: Sir I mean -- associated with the addition, etc?

Abhay Soi: I didn't get the question. Can you repeat the question?

Yogesh Sareen: Neha, basically, in terms of margin, we can probably get to the overall similar level of margin very soon; not probably in the initial part of the year, but maybe by the end of the year. But the EBITDA per bed will have to wait because the ARPOB there is lower. ARPOB of Sahara Hospital when we acquired it was Rs. 47K.

First, the ARPOB needs to go up. Higher margin on lower ARPOB doesn't mean much because we generally look at EBITDA per bed metric. So, EBITDA per bed will have to wait. I would say it will take some time to get to that level. But in terms of margin, probably by the end of the year, we should be closer to what the margins are on overall basis.

Abhay Soi: On pretty much all, including ARPOB and other metrics, we will be able to catch up in the next two years. And when I say catch up, I mean we know the numbers of some of our peers over there. So, we should be able to get there, if not further.

Neha Manpuria: Okay. Understood. And what about Nagpur, given the margins there at least the numbers that you gave seem close to 14%, 15%. And it's probably not as flourishing as UP, would that take a little bit longer, a much slower pace to Lucknow.

Abhay Soi: Nagpur or Lucknow?

Neha Manpuria: Lucknow.

Abhay Soi: So, Nagpur is a different ARPOB, and different ARPOB means different ROCE as well. You can compare it similar to a Mohali or Dehradun rather than any other location. You can't

compare ARPOB of Nagpur to Delhi or Mumbai for that matter. You'll be looking at obviously more subdued ARPOBs, but given the price you pay, you'd look at ROCE.

Neha Manpuria: So, if I were to look at the Nagpur ARPOB, it is very similar to where Lucknow is, right? So that's why I was asking. Will it take the same trajectory as Lucknow?

Abhay Soi: Today it is, but Lucknow has potential for a lot more, right?

Like I said, for Lucknow – even if we look at some of our peers who are operating there, they operate at a significantly higher ARPOB.

Neha Manpuria: Yes.

Abhay Soi: Nagpur as a market, well -- you can use maybe Dehradun as a surrogate.

Neha Manpuria: Okay. Understood. Got it. And in terms of incremental M&A, now that you've announced this in land in Lucknow, you've always said we'd rather be the second or third player in the market. Any markets that you think are interesting, particularly given you've done two of these Nagpur and Lucknow now, which could interest you?

Abhay Soi: In the 19-20 cities, where at least two or three of our peers have proven viability and are doing fairly well. We intend to go there if we find the right targets. And we are quite confident we'll be able to perform better than them.

Neha Manpuria: And Abhay, what would be your target leverage? I mean, let's say, if you were to get multiple assets, what leverage are you comfortable with in terms of when you're looking at M&A, particularly given the strong cash flow generation?

Abhay Soi: Yes. So, we are quite comfortable going up to 2.5x debt-to-EBITDA. If you see our EBITDA at present, we will be circa Rs. 2,000 crore. We are at Rs. 1,907 crore presently, and if we add up 11 months of EBITDA for both Nagpur and Lucknow, we'll be closer to Rs. 2,000 crore plus. And then we have growth in the current year.

But even if we take 2.5x that, we get to around Rs. 5,000- 6,000 crore of debt that we can use. Please do keep in mind, anything bigger than that would mean that we're acquiring something that is listed. And if it's a listed entity in any case, you'll have to look at a merger because you can't have a step-down subsidiary of a listed company, being a listed company.

Moderator: We have a next question from the line of Andrey Purushottam from Cogito Advisors LLP.

Andrey Purushottam: Okay. I have two questions. One is, could you comment on the valuation parameters in acquiring these two hospitals, they are at two different EBITDA multiples. Are they meant

to be ROCE accretive? Or what is the philosophy in -- financial philosophy apart from growth, obviously? That is my first question.

And my second question is going forward in the next 12 months, how do you see the levers for profit working in your favour, whether it is the increase in mix of international patients, whether it's a better mix, whether it is a lower proportion of government cases, etc. I just wanted to gain your general outlook on the trend that you see in the next 12 months that will lead to profitability growth.

Abhay Soi: Two aspects here. One is on the financial aspect; we seek 20% to 25% pre-tax ROCE within 4-5 years from acquisition. In both these cases, our belief is that we will be able to hit that number far sooner than that. And we do these transactions by seeing what is the value we are paying versus what we believe with adequate amount of intellectual integrity, what is the business plan that we are able to or capable of underwriting. And then we do a goal seek for that number at 20%-25% pre-tax ROCE, and that's how we come up with the maximum that we are willing to pay for an asset. Of course, we wouldn't pay that maximum. We try to negotiate, but that's where we are on the financial side. I hope that answers your first question. Now as far as drivers for the year is concerned, it is all of the things that you -- sorry?

Andrey Purushottam: For the next 12 months.

Abhay Soi: Next 12 months is this financial year, effectively. Well, instead of 12 months I will draw a line at 10 months because that's the number of months left for the current financial year. All of these factors that you mentioned – higher international patients, which means better payor mix, better clinical mix as we are seeing more robotics happening, we are seeing more growth in oncology, higher-end surgeries, etc. So, all of these things should be in play. We're also hoping and believe that CGHS rates will get reworked. So even on the institutional side, we're expecting better rates. So, all of these are levers for us in the current year.

Other than that, of course, compared to last year, we would be adding incremental EBITDA emanating from both Lucknow and Nagpur, whilst Dwarka will have some level of initial losses at start-up. But those initial losses at start-up, we will be able to more than absorb it with our profits that we're generating through Lucknow and Nagpur.

Andrey Purushottam: Right. And do you see a drag on profitability?

Abhay Soi: No. Like I said, of course, Dwarka will take time to breakeven, but we've added two new capacities, with ~500 beds in total, which are already generating profits and free cash flows. We will be adding to that. That number is only likely to go up under our watch.

Moderator: We'll take a next question from the line of Bino Pathiparampil from Elara Securities (India) Pvt Ltd.

Bino Pathiparampil: Just two clarifications. One, did you say you're adding -- planning to add more beds in Nagpur over there over and above between 200 beds there?

Abhay Soi: That's right. We're going to add another 140 beds on top of the 200 beds that we have.

Bino Pathiparampil: By when would that be?

Abhay Soi: We are working that out at present, but definitely within the next 24-30 months.

Bino Pathiparampil: Okay. And I didn't quite understand the Saket Smart and Saket Vikrant. So, both put together, how many beds are now getting added in FY26?

Abhay Soi: No, Vikrant is not getting added by FY26. Smart is getting added in FY26 now. Vikrant wasn't meant to be commercialized in FY26. Whereas Smart, which was going to be added in FY27 (after initial delay), has now been preponed by nine months and is going to come through in Q1 FY26.

Bino Pathiparampil: That is 350 beds?

Yogesh Sareen: 375 beds.

Bino Pathiparampil: Sorry, 375, okay. I was looking at your Feb investor presentation, that shows Vikrant 300 beds in FY '26. Is that old one?

Abhay Soi: Maybe you're looking at the older presentation.

Yogesh Sareen: No. I think in the investor presentation, we are yet to change to 375 beds as well as other changes. That will be updated now with whatever we have done in terms of preponing the beds. There are some beds being preponed and some being postponed. I would say the new presentation will get updated in another week's time. And that is the one that should be referred to. As Abhay mentioned, we've done some re-setting in terms of some beds coming in advance and some beds getting delayed for that reason.

Bino Pathiparampil: Okay. Understood. I will refer to it.

Abhay Soi: Your total number of beds remain the same overall. But like I said, this gets preponed. The total number of beds don't change.

Moderator: We have the next question from the line of Rishabh Tiwari from Allegro Capital Advisors.

Rishabh Tiwari: So, I have two questions. Firstly, what would your EBITDA look like now post Ind-AS for this quarter and for the year?

Abhay Soi: We don't provide forward-looking projections.

Rishabh Tiwari: No, I'm asking for Q4 FY24 and FY24.

Yogesh Sareen: For Q4, EBITDA was Rs. 500 crore from the existing hospitals and another Rs. 3 crore of EBITDA came from these two hospitals that we added in Q4 – one in February and one in March. And the Rs. 3 crore is actually net of Rs. 5 crore of one-time transaction expenses. The overall EBITDA for the year is Rs. 1,907 crore.

Rishabh Tiwari: This would be post-Ind AS right?

Abhay Soi: Yes.

Rishabh Tiwari: Yes, I'm asking post Ind-AS and pre Ind-AS.

Yogesh Sareen: For pre-Ind AS, you will have to reduce the number by around Rs. 70 crore. So, if you want to take the leases up, that's the only difference in our case. The lease cost would be around Rs. 70 crore.

Rishabh Tiwari: For the year or for the quarter?

Yogesh Sareen: For the year.

Rishabh Tiwari: And next question is Abhay you mentioned that we took the occupancy up from 54% to 62% in Sahara Hospital. I just wanted to know more about it – was this through operational levers? Or did we see some improvement in seasonal mix? How do we take this up within Q1?

Abhay Soi: No, it is the result of changing some basic processes. You always have some very early and easy wins when you walk in, because you would have seen those things earlier in your existing hospitals. So those changes kick in. These are very cheap, early wins.

Rishabh Tiwari: Okay. And are we looking to add any beds here as well in Sahara?

Abhay Soi: We will be adding beds. Like I said, we will be adding 140 and then another 450.

Moderator: We move on to our next question from the line of Amey Chalke from JM Financial Institutional Securities Ltd.

Amey Chalke: Congratulations on a good set of numbers. The first question I have is on the volume growth. So IPD volume seems to be around low to mid-single digits. Anything to read there? Or do you expect the volume growth to remain at this kind of level? And second question I have is on the safety selection. I understand we generally map 20-odd cities across country. What would be the cities you would not like to enter into? And what are the reasons for the same?

Abhay Soi: First and foremost, you have to keep in mind that our occupancy growth till we come up with new capacity, brownfield or otherwise, will be fairly muted because we have capacity constraints. We don't have beds available to put more patients. That's why we are doing the brownfields.

Having said that, because of constraints on capacity, our occupancy ramp-up will be limited, whilst it will have a play, a positive impact on ARPOBs. What tends to happen is that the lower-end surgeries get posted at a later date, whilst the major ones get priority, as they should. Therefore, the lower-end ones sometimes have a tendency of evaporating, because the patients then decide to go to some other facility or some other brand, because they may not be very important sort of surgeries as well.

What happens is that -- while the occupancy doesn't ramp up, you see a significant growth in ARPOB. But when you come up with brownfield capacity, the interplay which happens is that the occupancy ramps up immediately, but your ARPOB growth becomes more muted. Having said that, the impact on overall EBITDA per bed is positive simply because you have huge operating leverage emanating in the new capacities that you add, since the management cost, clinical costs, etc., are already being incurred by the existing capacity.

I just wanted to answer that question as far as occupancy is concerned and assure you that there's nothing to read into it. It is simply that we don't have capacity. So, our occupancy will go up at a slower pace.

Your second question was with respect to which cities we would not go to -- so conversely, we would not go to cities where our peers have not proven viability or to uncharted territories because we don't see ourselves as pioneers going into new places and taking chances. We would rather have somebody else define the market, demonstrate success and then we would go there and try to do it better. We've been very comfortable in doing that. And we've been successful in doing that.

Amey Chalke: So, is there any city in which you think is oversupplied with the quality of the beds, etc.? Or is just that the -- because it's uncharted territory, that's why you don't want it.

Abhay Soi: Let me give you an example. The maximum number of beds, in any geography, is in Delhi NCR. We have 11 hospitals over there with ~2,500 beds. We are the largest player by far. We are equal to next three of our peers put together and multiplied by two in terms of number of locations, and we are equal to all three of them put together, as far as number of beds are concerned.

And the next 15 players have similar number of locations and a similar number of bed capacity. Yet we only have ~2,500 beds – 10% of which are free, 10% of which are catering

to international business, 40% of which are catering to upcountry. Essentially, if the largest player has ~800 beds catering to the NCR, and the next three peers of ours also have 800 beds and then the next 15 people have 800 beds, that is like 2,400-2,500 beds for a population of ~48 million people, which is ~85% of the U.K.'s population.

And this is a place where you have the maximum amount of supply. Look at the places we're going to -- if we are going to Lucknow, literally there are 2 corporate players, then we've come up with a hospital and in a state with a population of 24 crore people. In Dehradun, we are pretty much the only players over there. In Mohali, it is us and one more player. If some of our peers in Patna, then they are the only players over there.

If you look at places like Kanpur or Pune, I mean, every place is underserved, right? Even in a place like Mumbai, no new hospital has come up in 20 years. I don't think in India, we have a problem of oversupply anywhere.

Amey Chalke: Right. But in generally, speaking about the Mumbai, like we generally don't see except -- I'm talking about the private hospital, we don't see hospitals being overrun or something like that or there is a like we have not seen many hospitals getting added, but we have not seen capacity getting over --

Abhay Soi: No, no. You haven't seen hospitals being added because to make a 400-bed hospital, you need four acres of contiguous land. Firstly, you can't find four acres of contiguous land in Mumbai. And even if you find it, you'd rather make a residential complex or a commercial building there.

I mean no new hospital has been made for 20 years. It's the same hospital in Hinduja, the same in Breach Candy. They haven't added one square inch because where is the space. Even H.N., they brought down the earlier hospital and made a new hospital. Bombay Hospital is the same one, Jaslok is the same one. Nanavati is the only one which has the land, so we're building on it.

Moderator: We have a next question from the line of Kunal Dhamesha from Macquarie Capital.

Kunal Dhamesha: So just kind of continuing on the previous question. So mature hospitals, we are at 75%. And we are seeing that there is not enough capacity for us. But we have done quarters with 77%, 78% occupancy, right? So, what is it that -- is it a mix of hospitals where our good hospitals are already full and some of the hospitals are below that 75% run rate? And secondly, if it's kind of across the hospitals, we are facing difficulty in terms of capacity, then why our peer mix improvement is not accelerating in terms of reducing the institutional patients?

Abhay Soi: Because it is a seasonal business. There are some quarters which are surgical quarters and some quarters which are medical quarters. In a medical quarter, you require rooms while in

a surgical quarter, you require more ICU beds. And every kind of capacity is not fungible across every hospital.

In fact, some hospitals may have certain constraints that they're operating at 75% because maybe they have lesser single rooms where there's demand for it and more ward beds where you don't have demand for, etc. But whereas in a dengue season, even the lower category or multi-share rooms get absorbed. But that doesn't happen in the surgical season. That's the reason that we are constrained by seasonality as well as the kind of infrastructure that we have.

Now as far as the payor mix is concerned, the payor mix is a slow churn now. If I look at ex-Shalimar Bagh, ex-new capacity that we've come up, it's come down from 29% to 27%, but there's been a 6% reduction as far as the OBDs are concerned. What we are seeing is – a turn perhaps more so on the OBDs than anything else.

Kunal Dhamesha: Sure. But let's say, when you say the 122 beds added in the Shalimar Bagh capacity or hospital. And we say that it's been EBITDA positive in 10 days. Is it more on a contribution margin? Because if I back calculate our payor mix for that 122 beds, there'll be roughly 46%, 47% of those beds have been occupied by institutional patients, right? And we all know that the ARPOB roughly 50% of what you get in other channels.

So, is it on a contribution margin we are seeing that the EBITDA turned positive in 10 days? Was it loaded with the management cost? Or how should we think about that?

Yogesh Sareen: Kunal, it is on EBITDA. It's after the incremental cost that you have to incur for those beds. So, it's not contribution, it's EBITDA. We had two options. We had an option to open only 50 beds to start with, and not all of the 122 beds. But what we did is that we opened all the beds and filled up the balance also through the institutional patients.

There were two options and we chose to open all 122 beds and then try and fill up and then filter, then distil -- that's where we are today. But when we say the number, 40% is EBITDA margin, after incremental cost. If there are 122 beds being opened, there is more manpower being recruited, right? There are nurses required. There will be GDAs required, maybe less doctors, but obviously there will be extra costs, etc. So, the number reported is after all those costs.

Kunal Dhamesha: So even with 46% kind of institutional payor mix, we are making 40% EBITDA there. Is that the correct...

Yogesh Sareen: Because the incremental cost of running those beds, which we opened, is very less.

Abhay Soi: Let me explain this separately. Let's say, if you look at bed-by-bed, unit wise, right? Or let's say, all 100% of the beds over there, you were operating only for institutional business. It will still be EBITDA positive.

It will be EBITDA positive simply because you have operating leverage. The only thing you're getting over there necessarily is the nurses, which is not very expensive, is the resident doctors, again, not very expensive, and allocated to those beds alone, which are operational. What you're not doing is you're not fitting out beds and you're not sort of staffing beds where you don't have capacity.

You basically open floor by floor, whatever you have demand for. There's no fixed cost associated or fixed variable costs associated with beds which are not operational. And the ones which are operational, we have only the low-end cost. It does not have high-end sort of clinicians, etc., or their minimum guarantees, which are being taken on board. Because those clinicians already exist, their minimum guarantee is already being paid. Utilities are common. The general set of management costs has already been incurred. You don't operate with a separate CEO, separate Medical Director, separate HR, separate Marketing, nothing for that.

Kunal Dhamesha: And if I may, just one more on the Supreme Court matter. Now it seems that the next date for that hearing of PIL seems to be somewhere around September. So, what's your internal assessment? Is it kicking the can down or would you say that the risk of adverse outcome has reduced meaningfully in your view? How do you view that?

Abhay Soi: We would not like to comment on it. It's a Supreme Court matter and currently sub-judice. We've seen the rap IMA got, so we definitely don't want to be speaking about it. But in the last hearing, the comments, the observations of the judge, etc. were for everybody to hear and make their own inferences.

Kunal Dhamesha: Sure. Thank you, all the best.

Moderator: We'll take our next question from the line of Shubham Harne from Purnartha Investment Advisers.

Shubham Harne: Sir, on Dwarka, I want to ask questions. So that is getting added in tranches or it will be on one go?

Abhay Soi: In tranches. Because our occupancy will also have been in tranches only.

Shubham Harne: Okay. So initially, earlier, you have said 160 beds will be added and then 140 like -- something like that only?

Abhay Soi: Yes, since occupancy also ramp-ups in that manner. No point staffing all the 300 beds when we don't have occupancy on day one for all 300 beds.

Shubham Harne: Got it. And on Gurugram sector 56 hospital, by when it will get commissioned or something from -- around that?

Abhay Soi: Gurugram Sector 56, we are delayed by 6 months. So, it should be second quarter of FY26 now.

Keshav Gupta: Yes, Q2 FY26.

Shubham Harne: Okay, thank you sir.

Moderator: We have our next question from the line of Rishabh Tiwari from Allegro Capital Advisors.

Rishabh Tiwari: Sir, just one follow-up on the lease impact. So Rs. 70 crore is what you mentioned for the year, is this taking into account the recent acquisition? Could you please help us with the like-to-like number?

Yogesh Sareen: The recent acquisition does not have any lease rentals. The land is getting converted into free hold. We have already put in our application for same. Rs. 70 crore is on the existing hospitals. Rs. 71 crore is the total impact since there are one or two more entries which come below the line. So, I'm taking all those – there's also the liability for donations that we have. So, Rs. 71 crore is total impact of the Ind-AS movement. If I was to do IGAAP accounting, then Rs. 71 crore will come before the EBITDA.

Abhay Soi: Just an important point to note. I don't know if you picked up my statement earlier or not that during the fiscal year, we generated Rs. 1,336 crore of free cash flows from operations. This is after interest, tax, working capital changes and routine capex also, let alone leases. Our translation of post Ind AS EBITDA to free cash flows, after the pre Ind AS impact, post interest tax, working capital changes and routine capex, is 70%. This is a significantly high number.

Moderator: Thank you. We'll take our next question from the line of Senthilkumar Natarajan from Joindre Capital Services.

Senthilkumar Natarajan: My question is what is the management policy on writing off goodwill and other intangible assets over a certain period of time as a matter of prudent accounting policy?

Yogesh Sareen: Under the Ind AS method, Goodwill is only tested for impairment. Intangible assets represent some of these contracts that we are writing off over the period of the respective contracts. But there is an element of Brand in the intangibles, which is again tested for impairment. Ind AS accounting standards required to only test for impairment for Goodwill and Brand. And

for the other intangibles, you will find that they are coming down progressively year after year because we're putting them in the amortization charge.

Senthilkumar Natarajan: Yes. OK, understood. Thank you. That's it from my side.

Moderator: Thank you. We'll take our next question from the line of CA Vipul Makwana from Makwana.

CA Vipul Makwana: Apart from all the financial queries which my peers have asked, I just want to ask on the qualitative aspects like what is Max doing separately or concisely different than the others were seeing a good number set, like on ARPOB and everything. So, Abhay if you could just throw some light on it.

Abhay Soi: First and foremost, the fact that we have significantly higher occupancy levels than any of our peers means that we are doing well on qualitative aspects as well as the value proposition that we are able to provide to our patients.

And it's not only in Delhi or Mumbai. Our highest occupancies also continue to be in Tier 2, Tier 3 cities. Yes, it's for the patients to perceive more than what we can say in terms of what are the qualities that they appreciate. And we continue to cater to a lot of free patients – we treated ~35,000 patients in OPD and ~1,200 patients in IPD in the last quarter itself.

All our hospitals are teaching hospitals. We have 500+ MBBS doctors as part of our DNB program – these are post-graduate students. We write a lot of -- you've seen the number of publications that we're doing, which is the highest ever that we did last year, both for international and domestic journals. We continue to do academics and research as well besides, of course, the financial parameters that we offer.

CA Vipul Makwana: That helps. Thank you so much.

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

Abhay Soi: I would like to thank each one of you for either covering the company or having invested in the company. We appreciate that. And we believe that the next two years will be years of exponential growth for us, particularly FY26, where a lot of things are going to be coming on stream. So, we look forward to an extremely lucrative journey going forward. Thank you.