



## Max Healthcare Institute Limited

### Q1 FY24 Earnings Conference Call Transcript

August 08, 2023

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**Moderator** Ladies and gentlemen, good day and welcome to the Max Healthcare Institute Limited's 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 sir.

**Anoop Poojari:** Good morning everyone and thank you for joining us on Max Healthcare's Q1 FY'24 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 of the Company.

We will begin the call with opening remarks from the Management, following which we will have the forum open for an interactive question and answer session.

Before we start, I would like to point out that some statements made in today's call 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. I am pleased to welcome you again to Max Healthcare's First Quarter Earnings Call for fiscal 2024.

Before we delve into the Quarter 1 highlights, I am happy to share that this is our 11<sup>th</sup> consecutive quarter of year-on-year growth in revenue and operating EBITDA.

Second, we have added 44 beds to our capacity through internal reconfiguration during this quarter. This is in addition to the 92-bed oncology block we commissioned at Shalimar Bagh in March this year. Notably, Max Shalimar Bagh hospital has reported an average occupancy of 77% in Q1, with a year-on-year growth in revenue and EBITDA of 37% and 43%, respectively.

Third, we have released the in-patient module on our proprietary app, 'Max MyHealth', which allows IPD patients to track the entire process right from their admission to their discharge. It also provides them access to their reports and up-to-

date billing data, with the ability to make payments online. This will not only enhance patient satisfaction on one hand, but also reduce administrative burden on the other.

### **Highlights of our Q1 performance**

- 1) Occupied Bed Days (OBDs) went up by 3% year-on-year and the average occupancy for the quarter stood at 74%, do keep in mind this is on a higher capacity, remaining flat compared to Q1 last year. This is on expected lines coming off from seasonally the best quarter to the worst quarter. With increase in occupied bed days (OBDs) and marginal drop in ALOS, the admissions were up by 4%.
- 2) Institutional bed share fell to 29.7% compared to 30.3% in Q1 last year. However, it is pertinent to note that excluding Max Shalimar Bagh, where we strategically decided not to optimize payor mix at the cost of occupancy in light of the newly added 122 beds on a base of 280 beds, the share dropped by 270 basis points year-on-year to 27.4% of institutional business on overall basis.

Moreover, as you may be aware, CGHS has revised its tariff in April and June this year for certain segments after a gap of nine years. And we expect further revisions for the balance segments in the coming quarters. Therefore, we have not taken any aggressive calls on disempanelments.

- 3) The average revenue per occupied bed (ARPOB) for the quarter touched a new high of Rs. 74,800, reflecting a growth of 13% year-on-year and 6% quarter-on-quarter. This was mainly led by improvement in specialty mix, particularly Oncology, Orthopedics, Cardiac Sciences, and doubling of robotic procedure volumes. This was further aided by price revisions across almost all channels, which usually happens on the 1<sup>st</sup> of April.
- 4) Network gross revenue was Rs. 1,719 crore compared to Rs. 1,473 crore in Q1 last year and Rs. 1,637 crore in the previous quarter. This reflects a growth of 17% year-on-year and 5% quarter-on-quarter. The year-on-year increase was largely driven by growth in ARPOB and occupied bed days (OBDs).
- 5) Revenue from international patients grew by 31% year-on-year and 3% quarter-on-quarter. This now accounts for around 9% of the revenues from our hospitals.
- 6) Digital revenue grew to Rs. 356 crore and accounted for 21% of our overall revenue.
- 7) Direct costs were up year-on-year, due to growth in surgical mix, medical oncology and doubling of robotic procedure volumes. On the indirect costs side, while the overall percentage is lower, there is an increase in absolute costs due to commissioning of 4% additional capacity, creation of around 10 new operation theatres (OTs) and 80 ICU beds by cannibalization of existing ward beds over the last 12 months. In addition, we have strengthened our projects, digital and homecare teams, while also increasing efforts on ESG activities and marketing for the international channel.
- 8) Network operating EBITDA stood at Rs. 436 crore, reflecting a growth of 18% year-on-year, while remaining relatively flat quarter-on-quarter, in spite of the fact that we are coming off perhaps Quarter 4, which is the best quarter, onto Quarter 1, which is usually the worst quarter.
- 9) The operating margin stood at 26.8% versus 26.5% in Q1 last year and 28.2% in the previous quarter. This is largely because we have been focusing on higher

payor mix, which is international patients, higher clinical mix which is Oncology, Cardiac Sciences and robotics, etc., which in percentage terms may provide lower margins, but in absolute terms provides higher value.

- 10) Most importantly, annualized EBITDA per bed, rose to Rs. 70.4 lakhs, yet again our highest ever, clocking a growth of 14% year-on-year and a nominal growth quarter-on-quarter.
- 11) Profit after Tax was Rs. 291 crore versus Rs. 229 crore in Q1 last year and Rs. 320 crore in the previous quarter. The year-on-year growth of 27% was primarily attributable to the flow through of improved EBITDA.
- 12) Free cash flow from operations stood at Rs. 261 crore, of which Rs. 38 crore was deployed towards the ongoing capacity expansion projects. Net cash position improved to Rs. 957 crore at the end of June 2023 compared to net debt of Rs. 217 crore same time last year. Expediting our routine CAPEX, coupled with buildup of account receivables, led to higher working capital during the quarter.
- 13) Continuing our efforts to give back to the community, we treated approximately 37,500 OPD and 1,260 in-patients from economically weaker sections free of charge.
- 14) Both our strategic business units (SBUs) continue to report robust performance:
  - Max@Home reported a top line of Rs. 40 crore, reflecting a growth of 24% year-on-year and 7% quarter-on-quarter, with 'Critical Care' and 'Medical Rooms' service lines being the major contributors to this growth.
  - MaxLab expanded its geographic footprint to 36 cities and reported a gross revenue of Rs. 34 crore. This reflected like-to-like growth of 39% year-on-year and 10% quarter-on-quarter.
- 15) During the months of June and July, there was a slowdown in the projects activity due to heavy rain in Mumbai, Punjab and Delhi NCR. The current status of our expansion projects coming on stream over the next three years is as follows:
  - For 300 beds at Dwarka – The majority of the MEP and interior work are complete, while application for power, water and sewage connections are in progress. The developer is expected to apply for occupancy certificate (OC) in the latter half of this quarter. We expect to commission the hospital in Q3, subject to the developer obtaining the OC.
  - For 329 beds at Nanavati Hospital in Phase I – Excavation and Raft work are nearly complete. Steel fabrication and wall casting for LINAC and Brachytherapy are in progress. The project is largely on time and we expect to cast the ground floor slab by the end of October.
  - For 300 beds at Sector 56 Gurgaon in Phase I – 50% of site excavation is complete and the EPC contract is in the final stages of execution. All statutory approvals have been received.
  - For 350 beds at Max Smart in Phase I – As stated during the Q4 update in May this year, this project was facing delays due to forest approval for tree transplantation. Happy to report that the final forest approval has now been received and we are initiating the process of transplanting the trees shortly after subsiding of rains.
  - For 300 beds at Vikrant (Saket) – Environmental clearance has been approved and is under processing with the State-level Environment Impact Assessment Authority (SEIAA). DDA has reconstituted our file and we plan to formally upload the drawings for approval in September. So, this should be well on its way as well.

- For 190 beds at Mohali – Demolition of existing building and shifting of services have been done. D-wall is completed and excavation work is underway. EPC contract is in the final stage of negotiations. The project is largely on time.

16) Lastly, I would just like to state the three months already into this fiscal, we continue to strive to improve operational metrics across all our current facilities and businesses, keenly monitor the execution of all our projects underway, while also prudently evaluating inorganic opportunities in our existing geographies as well as new, promising geographies.

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

**Moderator:** Thank you very much. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

**Tushar Manudhane:** Just on the kind of growth what we have seen on ARPOBs and how sustainable that is let's say for next 12 to 24 months? And secondly, while the ARPOB growth is there, the EBITDA per bed has been pretty stable maybe on a quarter-on-quarter basis. So, if you could share your comments on that?

**Abhay Soi:** We will continue to keep doing what we are doing – focusing on higher end specialties and better payor mix, etc., so your ARPOB growth should continue. And when it comes to EBITDA per bed being almost flat quarter-on-quarter, like I said Q4 is the most solid quarter in the year. It's the strongest quarter and Q1 is the weakest quarter. I am very encouraged by the fact that in spite of this our Q1 results are flat with our Q4 because if you look at it historically, and I am taking away that one COVID year, Q1 is usually lower than Q4 because on April 1 you have increase in costs, particularly your salary costs, for the whole year. Therefore, Quarter 1 normally is seasonally the weakest quarter with high indirect costs, and thus has lower absolute EBITDA and margins emanating from it. But that is not the case this year. It has been flat compared to Q4, so it's actually a very encouraging sign.

**Tushar Manudhane:** So, what kind of growth one can think of on a sustainable basis given the kind of bed additions that are happening over next 12 to 24 months, on EBITDA per bed?

**Abhay Soi:** I am not going to give you any guidance on the exact EBITDA per bed, but I think this is our 11<sup>th</sup> quarter of year-on-year growth like I mentioned. Also, the fact that recently when we opened the Max Shalimar Bagh, i.e. 122 beds on a base of 280 beds, you can see that there is 77% overall occupancy within the first month or two itself. And it is giving us a revenue and EBITDA growth of 37% and 43%, respectively. That should hopefully continue into the future as well and it should be positive from all of these standpoints.

**Tushar Manudhane:** And just while you have already highlighted hospital wise the kind of work underway in terms of bed expansion, but just on the CAPEX number if you could also sum up for FY'24 and for the quarter?

**Abhay Soi:** We are looking at around Rs. 900 crore.

**Yogesh Sareen:** Tushar, the cash outflow expected is around Rs. 900 crore. That's obviously subject to change and we are just trying to give you a block number. But the outflow could shift from one month to another.

**Moderator:** The next question is from the line of Damayanti Kerai from HSBC.

- Damayanti Kerai:** My first question is on your Shalimar Bagh, clarity on your comment that you decided not to optimize payor mix. So, does it mean like you have taken up more institutional patients there?
- Abhay Soi:** Yes, basically we do not disempanel over there and we don't filter business because the extra capacity is, firstly, at a significantly lower cost due to operating leverage. So, even at the institutional rates, we still generate EBITDA, as we have already seen. But the first thing to do is that you bring in the occupancy and then start filtering down at a later stage.
- Damayanti Kerai:** Okay, so institutional bed share at around 29.7% for first quarter. So, earlier you guided like by end of '24 or so, you will bring it down to 15% to 16%, does it still hold or you have some different thoughts now?
- Abhay Soi:** Excluding Shalimar Bagh, it has come down to 27.4% and clearly we have had some increases in pricing for institutional business recently. Although, it doesn't have a big impact on ARPOB, it's about 0.6% to 0.7% so far. But we are expecting further revisions of balance rates in the next month or two as far as institutional is concerned. That makes us go slow on the churn, but again the gap is still too much between institutional and cash. It just pushes the can down by a quarter or two, not more than that. We are still going to face capacity constraints and going to have to distill because our CTI business on the preferred channels still need those beds.
- Damayanti Kerai:** So, you said like gap between CGHS state and CTI patient reduces so you might not be chasing that 15% to 16% bed share very strictly, right?
- Abhay Soi:** We are not per se chasing a 15% to 16% bed share. Let me put it in perspective. There is a certain rate at which our CTI business is growing. If the new capacity doesn't come in, we have no place to accommodate the growing CTI business. The best case for us is if we can keep the institutional business and we can accommodate the increased CTI business. As and when we can't, we will distil that capacity and bring institutional down. Today, let's say if I had a magic wand and we could put up these extra beds to accommodate the increase in CTI, we would not let the institutional business go either. We are having to do that so the trajectory that we have set, it will come down to about 15% by that particular time. It may go and up down a couple of quarters because of these changes, but that's about it. But that's still our trajectory. Let's put it this way, if I can today acquire big unoccupied capacities, theoretically, adjacent to my hospitals, then I will do both the businesses.
- Damayanti:** My second question is on EBITDA, so healthy ARPOB but occupancy down sequentially and then EBITDA down around 260 basis point quarter-on-quarter. So, does it mean like you did more high-ticket surgeries where ARPOB is high but there you might be paying higher like higher payout to doctors, etc., like higher cost and that's why your margins declined sequentially, it should be read in that way?
- Abhay Soi:** You need to complete that story. A higher end surgery, let's say you do a LVAT surgery, it costs you Rs. 85 lakhs. The implant itself will cost you about Rs. 56 lakhs. Now a patient stays in hospital for a few days, say 4-5 days, the hospital will make about Rs. 15 lakhs. The percentage margin is much lower. When you do robotics, higher end Oncology, Cardiac Sciences, Orthopedics, or any of the higher end surgeries, the percentage margins are lower. But the absolute bill is higher and in spite of the lower percentage margins, the absolute profitability is higher per patient and per bed.
- When you do international business, the international people come for more severe diseases to India and so the billing is higher. ARPOB for the patient is higher. The

percentage revenue is lower, but the absolute EBITDA per bed is higher. So, I have always said, I would rather do a \$10,000 surgery with a 20% margin than do a \$2,000 surgery with a 50% margin. As you move up the payor mix and you move up the clinical mix, you are going to see margins, in percentage terms, come down but in absolute terms ARPOB as well as absolute EBITDA per bed will move up. And that is what you have seen.

So, our overall EBITDA, in spite of a lower occupancy and cost increasing on 1<sup>st</sup> of April, has been flat over Q4. And in spite of Q4 being the strongest quarter and Q1 the weakest quarter. I mean that's a big positive isn't it.

**Damayanti Kerai:** My last question is on your utilized bed so as per your presentation in last quarter we have 2,523 utilized beds of the total operating beds and this quarter it came down to 2,474. So, how should we read into it?

**Yogesh Sareen:** As we said that generally Quarter 1 is a weak quarter on occupancies. You will see the same trend even last year. Last year also the occupancy was 74% in Quarter 1, 77% in Quarter 4. This is the seasonality in the business. During the Quarter 1 when you have summers set in, doctors do go on leave. Generally, occupancy in the months of May and June come down.

**Abhay Soi:** Not just us, for any other hospital or hospital group, you will always see that Quarter 1 is always lower on occupancy, EBITDA and everything else compared to Quarter 4.

**Yogesh Sareen:** But, at the same time, even if the occupancy is same, the OBDs have gone up. If we were not to add beds in Shalimar Bagh and other places, then the occupancy would have been 2% higher. So, you have to also consider and that factor into account.

**Abhay Soi:** Our occupied bed days have moved up.

**Moderator:** The next question is from the line of Nikhil Mathur from HDFC Mutual Fund.

**Nikhil Mathur:** Just one question I have. Now you have reported pretty strong occupancy on the incremental beds in Shalimar Bagh. We are able to track numbers for one of your peer Fortis as well as in Shalimar Bagh they have reported decent numbers on a Q-o-Q basis, despite 1Q basically is generally weak. So, it kind of seems that in that particular micro market the demand is very strong. Would you say that this is reflective of many of your other markets as well where any concerns, I mean there is some bit of divided opinion whether the demand factor is likely to be weak or not in this particular year. Would you say that a similar trend is kind of playing out in other micro market as well especially in which you are present?

**Abhay Soi:** I don't see this playing out anywhere, in fact for anybody. I have read other people's numbers and our numbers, year-on-year we have an increase in occupied bed days. If our total capacity goes up by let's say 4-5% and our occupied bed days go up by 3-4%, while our percentage occupancy remains the same, it is bound to happen. When you increase capacity, in percentage terms your occupancy may be flat, but in the actual terms your occupancy is more.

**Yogesh Sareen:** Also, I think we have not seen any dwindling of demand in any of the hospitals. If that's what you are looking at, then there is no impact on demand. While in June quarter, the occupancy is generally lower, but we have seen that occupancy coming back in this quarter.



- Abhay Soi:** I don't cater to this point at all. You have to look at the business year-on-year rather than quarter-on-quarter. Unless you have a fourth quarter, which is supposed to be a good quarter and is running below the third quarter or something like that, then I will be worried.
- Nikhil Mathur:** No, I am looking at it on a year-on-year basis only, but I mean in this particular micro market the numbers are looking strong on Q-on-Q basis as well, so that's why this question I had. But I mean I completely understand what your thoughts are on the demand and how its panning out.
- Moderator:** We have the next question from the line of Lavanya Tottala from UBS.
- Lavanya Tottala:** I just have one question, so I understood that there is an increase in employee cost, but if I look at Max consol. level, there is also increase in raw material as percentage of sales. So, is there any increase in the pharma medicines that you are seeing?
- Abhay Soi:** As far as the pharma cost is concerned, there is an increase because, like I mentioned, we are doing more higher-end work. Like I said earlier, we doubled your robotic procedures; when you do all of these the consumables are more expensive in that and is higher as a percentage of the procedure. But the overall EBITDA per procedure, overall value that we get out of the billing is higher. So, in terms of percentage it is lower, but you will see that the ARPOB is higher. Cost of goods goes up, but your absolute EBITDA per bed and EBITDA also moves up. So, that is what we have seen.
- Your second question was with respect to the employee cost. The employee cost moves up by usually about 6.5-7% per year and it happens on April 1<sup>st</sup>. This year you will see a larger year-on-year increase because we also have 144 new beds that we put up, we have created 80 more ICU beds and we have created 10 more OTs. When we are doing that, the manning of all of these is more. Theoretically if you double capacity, then you will almost be doubling your employee strength, and therefore your employee cost. But then you have to have a resultant increase in revenue. So, if you look at it as percentage of revenue, there is not much of a change there.
- When you look at it in absolute terms, it is bound to increase because we are putting up more capacity. If we put 4-5% more capacity, that itself should increase our employee cost by about at least a few percentage points. And then you add a few percentage points of higher ICU beds. A regular ward, for example, requires 5:1 nursing, while ICU requires 1:1 nursing. It's almost five times the amount of people that are required for ICU versus ward. But it generates you more revenue as well. So, you want to do all of those things.
- Moderator:** The next question is from the line of Kunal Dhamesha from Macquarie.
- Kunal Dhamesha:** I think there is some confusion regarding the seasonality at least on my end. So, I think there is seasonality with specialty mix that plays out in different quarters and then there is what you cited as in terms of volume also kind of there is some seasonality and that impacts our revenue on a quarter-on-quarter, year-on-year basis. So, could you help us explain how this seasonality because as far as -- Quarter 2 is more like internal medicine patient because of infectious season in the country, right. So, how that impacts our revenue and EBITDA on a quarter, let's say starting from Quarter 1 to Quarter 4, how you see specialty seasonality and then how it impacts revenue and EBITDA?

- Abhay Soi:** Orthopedics happen less in winter, Cardiac Sciences happens more in winter. More insured patients come in for annual checkups, etc. in Q4 because it is lapsing and so on. For any hospital or hospital chain over the last 10 years, whether it's a mature hospital or otherwise, when you speak to their management or you look at their history, Q4 is the strongest, while Q1 is the weakest as far as occupancy is concerned. As far as Q2 is concerned, occupancy is higher, like you rightly said, because of dengue and more internal medicine admissions, etc. So, you have the highest occupancy in Q2, but you have lower ARPOBs in Q2. That's a very standard thing.
- Yogesh Sareen:** Our Q1 is also down because doctors were on leave.
- Abhay Soi:** They go on summer holidays; they postpone their surgeries, their children's schools are on holidays. In fact, people postpone their own procedures because its examination time for kids, etc. All of these things matter and not only this year, but they have been a factor every year since I have been in healthcare or even much before.
- Kunal Dhamesha:** And let's say to that extent the trends in July and August how are those panning out, because we are anyway one and half months into the next quarter, right.
- Abhay Soi:** I am not going to give you any forward-looking guidance, but it's secular.
- Kunal Dhamesha:** And secondly on the 13% ARPOB growth I am not sure if I have missed your initial comment, because I joined a little late. But on the 13% year-on-year growth in ARPOB, if you can highlight the major moving pieces, because we have quite a few right CGHS rates revision, international --
- Abhay Soi:** Revision in CGHS rates have not impacted ARPOB by more than 0.6-0.7%. Let's look at year-on-year to start with. Our international business has grown by 31%, our robotics have doubled, our Oncology business is growing at a much faster pace and so is our Cardiac Sciences, Orthopedics. These are all high end specialities. When you have that, your ARPOB increases. There are less medical admissions during this time, so that also kind of helps your overall ARPOB to increase.
- The best part is that at least I can't remember the last time Q1 was almost equal to Q4 as far as overall EBITDA is concerned. I won't comment on the COVID year. Now this is not due to revision CGHS rates. Every year we have an increase in pricing, which impacts our revenue by 2-2.5%. But in spite of the increase in salaries and other indirect costs on the 1<sup>st</sup> of April, we not only absorbed it, but our Q1 overall EBITDA is equal to our Q4 EBITDA.
- Kunal Dhamesha:** And then if I may just two very housekeeping kind of question, what was the international bed share, we have shared the payor mix, but bed share if you can share?
- Yogesh Sareen:** It's around 5.5%.
- Abhay Soi:** And it gives you 9% revenue.
- Kunal Dhamesha:** And just a clarification, so the way I understood is any procedure which uses more devices, which is where our EBITDA per bed would be higher in absolute term, but in terms of margin, it might not be accretive, is the correct way to understand.





- Abhay Soi:** Actually, any high-end procedure has lower percentage margins and high value margins. If you look at Oncology, Orthopedics, Cardiac Sciences, etc. all of these have lower margins percentage wise, but higher ARPOBs, higher billing, higher EBITDA per patient and higher EBITDA per bed.
- Yogesh Sareen:** Typically, you will also pay a doctor more for a surgical procedure compared to medical specialties, so there obviously would be a higher impact of that also on margins.
- Abhay Soi:** Actually, for medical specialties, we are only giving the patients medicine, doctor visits, etc. Your margins maybe more, but your absolute billing is lower.
- Moderator:** We have the next question from the line of Bino Pathiparampil from Elara Capital.
- Bino Pathiparampil:** Just wanted to know earlier you used to give a schedule of new capacity coming online all the way up to FY'28, I haven't seen it for the last couple of quarters. So, just wondering if all those timelines given earlier two, three quarter back still stay or is there any change in that?
- Abhay Soi:** We just gave you an update so there is no necessary change in that. And I think other than the update that has been given in last couple of quarters.
- Yogesh Sareen:** It's there in our investor presentation.
- Abhay Soi:** It's there in our investor presentation, on our website.
- Yogesh Sareen:** But I think Abhay has given you the update. Firstly, everything else is on time except for Max Smart, where we are delayed because of the forest approvals and those approvals have also been received now, and we have to transplant the trees. That's the only project where we find some delays. And we said it last time, that because of those delays we are fast-tracking the Vikrant Foundation capacity addition.
- Abhay Soi:** Usually any data which is static, which doesn't change, we don't give out every quarter. But you can see it on our website, it is part of our investor presentation.
- Moderator:** The next question is from the line of Kunal Dhamesha from Macquarie.
- Kunal Dhamesha:** So, to the fact that we have added this 144 beds in Shalimar Bagh and we have also said that we have added some of the doctors, etc., so would it be fair to say that the addition of let's say manpower would be largely in line with what our average is at network level would be.
- Abhay Soi:** Are you talking about for the incremental beds at Shalimar Bagh and others?
- Kunal Dhamesha:** Yes.
- Abhay Soi:** No, it's lower. Because you don't have to add the same amount of manpower, and especially not the same cost of manpower. I have mentioned earlier that there is operating leverage in it. But that's not all, we added 144 beds, 80 ICU beds, 10 OTs. All of this generates a lot more than what it was previously being used for, both in terms of revenue and EBITDA, but has higher manpower requirement.
- And then we have, over the last year, strengthened our projects team because of all the projects we are doing, the digital team for the app that we have come out with, increased efforts on ESG, etc., as well. All of these things play out, but I would

encourage you to look at it as a percentage of sales rather than an increase necessarily year-on-year. Our salary increase has been the same, 6.5-7%.

- Kunal Dhamesha:** And one of the strategy side our earlier comment was that we would be mainly focused on the metro cities like Delhi and Mumbai etc., but some of the competitions have been now opening up into Tier II cities and they are seeing good kind of ramp up in terms of both top-line and the profitability. So, would we also look at these markets going forward and probably broaden our horizon as to where we are going to expand?
- Abhay Soi:** Any city, where at least one or two of our competitors have proven viability, we will enter into those cities. Presently the expansions we are doing, we are not doing because we only want to be in metros, we are doing because we have a business need. We have run out of capacities and there is demand which is surging on my doorstep. I have waiting of a couple of days, if not more, sometimes in ICUs. We are doing brownfield capacity in order to tap that demand. First and foremost I need to alleviate the business need that I have. Thereafter we are looking at other cities we continue to look at. As we have said in the past, there are 21 cities that we have identified that we are looking at. These are cities where at least one or two of our peers have proven viability. So, we think we can go there and do it better.
- Kunal Dhamesha:** And in terms of inorganic activity, obviously probably my sense is valuation could be a factor, but do you see that intensity, I mean in terms of the ask price versus what we are willing to pay is reducing, increasing over the last let's say six months?
- Abhay Soi:** For that you have to know how much we are willing to pay. We are usually guided by ROCE, we seek a 20% to 25% ROCE in a business case. For us, it's less important what we are paying today, of course nobody likes to pay more. But what is important to us is what is the business case we are willing to underwrite four or five years down the line. Do keep in mind that our EBITDA per bed is at least 50% to 55% better than the next best player in the industry. So, our ability to underwrite a stronger business case is more than others and that's what we are willing to back.
- Kunal Dhamesha:** So, that is why I ask about the spread and not if you are willing to pay right. So, spread whether that has increased, decreased you know, can give a sense --?
- Abhay Soi:** That is irrelevant. The point is this that it does not matter what somebody is willing to pay. If we are shooting for a 20% to 25% ROCE pre-tax, four or five years down the line, with a particular ability to underwrite a business case so that's the maximum number we are willing to pay today. Now somebody else will be willing to pay a higher number, but the fact is the other person then has to underwrite a business case which is at least equivalent to mine.
- Kunal Dhamesha:** And the last again a housekeeping question, let's say the consumption of drugs if we can quantify as maybe percentage of revenue in our hospital business as a percentage of revenue or as a percentage of COGs would be helpful, a broad range would also be fine not --?
- Abhay Soi:** That's not a static number. Let's say if we were to do more higher-end surgeries, this number would increase. What you need to do, we have beds and we have days in a year, right EBITDA per bed --
- Kunal Dhamesha:** Quarterly basis maybe two to three years of average would also be fine or a range would also be fine.
- Abhay Soi:** We don't give forward-looking statements and guidance.

- Kunal Dhamesha:** I am asking about the historical what would be the drugs as a percentage of probably revenue.
- Yogesh Sareen:** That is in the range of 23% to 25%, depending on which month or quarter you are talking. That's the range I would say historically. And we don't call it material cost, we call it direct cost and this includes F&B (food & beverages), drugs, and other direct costs.
- Kunal Dhamesha:** This includes what?
- Abhay Soi:** F&B and so on and so forth. We don't give a precise number as far as drugs or consumables are concerned. It includes F&B and some of the other costs as well.
- Moderator:** The next question is from the line of Dheeresh Pathak from WhiteOak Capital.
- Dheeresh Pathak:** So, you gave a commentary on the projects that are underway, but I am just trying to get a better understanding of the commissioning timelines. So, Dwarka, which is 300 beds Q3 of this fiscal year, FY'23 -- end of Q3, right. In FY'25 as per the earlier Investor presentation bit there were four assets Smart is delayed so now there are three; Nanavati is 329, Mohali 190 and Gurgaon Sector 56, 300. So, of these three if you can individually call out their commissioning timelines, as per your current understanding based on the current project progress.
- Yogesh Sareen:** What we given is the timelines for the completion of the construction of these projects. You can presume that in the next quarter of that will be the commissioning. For example, if the slide says Q4 FY'25 that means Q1 FY'26 will be the commissioning. Once the beds are constructed, we need to obtain the OC, so there is a time lag of a 1.5-2 months, but as Abhay had mentioned already, we are largely on time for these projects.
- Abhay Soi:** Sometimes it comes sooner also. More or less it's the timeline.
- Yogesh Sareen:** Yes. All projects are on time except for the Max Smart, which is part of the Saket Complex. We are delayed by six to seven months there because of the forest approval and that's the only project where we feel there will be a slip in timeline. But we are fast tracking the Vikrant one which is also in Saket Complex.
- Dheeresh Pathak:** So, individually if you go, Nanavati 329 you expect in Q4 of '25?
- Abhay Soi:** Yes, as scheduled.
- Yogesh Sareen:** So, this will be finished in Q4 FY'25. That means March '25 is when we finish and we will be starting this in the first quarter of FY'26, between February and April.
- Dheeresh Pathak:** Mohali?
- Yogesh Sareen:** Similar.
- Abhay Soi:** Similar.
- Dheeresh Pathak:** So, most of the assets Q4 of FY'25 commissioning and Q1 of FY'26 is where the commercial --
- Abhay Soi:** We had mentioned in the end of '25.

- Yogesh Sareen:** Yes, end of '25.
- Dheeresh Pathak:** Now just to understand for these assets whatever is the estimated CAPEX outlay, I don't know if that number is handy or not, how much have you already spent?
- Yogesh Sareen:** So, I think as Abhay has given you the projects update, for example, in Nanavati we would have spent probably around 26% of the total spent. But other than Nanavati, Mohali we just finished the excavation, we have done the D wall. The contracts have been given to the EPC vendors now. So, I would say a large amount of CAPEX is yet to be spent. On an overall basis, it will be probably at 12-13% spent, but Nanavati is the only one where we have more than 25% spent.
- Yogesh Sareen:** Also, the CAPEX spent, because it also includes equipment, is largely back ended.
- Abhay Soi:** Yes, the super structure doesn't cost too much, around Rs. 2,000 square foot. So, if you are building 1 million square feet you will spend Rs. 200 crore for the super structure. That's not the expensive part of the project, which we do upfront.
- Moderator:** We have the next question from the line of Harith Ahamed from Avendus Spark.
- Harith Ahamed:** Couple of questions on the CAPEX numbers that you talked about. Firstly, the operating cash flows you mentioned is lower because there was higher routine CAPEX spends this quarter. Will you be able to quantify the same, the routine CAPEX that you spent this quarter and the budgeted spend for the year? Just trying to understand what is our ongoing regular maintenance CAPEX.
- Yogesh Sareen:** Yes, so typically we spend around Rs. 170-180 crore in a year. This quarter alone we have spent Rs. 70 crore. That means we advanced and fast tracked the spend to get the benefit of it during the course of the year.
- Harith Ahamed:** And on the project CAPEX, the Rs. 38 crore spend I am assuming it was lower because of the weather situation that we had in the Delhi region and then we should expect it to pick up. So, for the year is there a number that you can share?
- Yogesh Sareen:** Yes, we shared earlier that it's around Rs. 900 crore spend for this year.
- Harith Ahamed:** So, there will be a significant pick up as we go into the next year?
- Yogesh Sareen:** Yes.
- Harith Ahamed:** So, on the M&A front are there any opportunities that we are exploring currently, our name keeps coming up in, as per various media articles in various M&A situations. And on the litigations that we had initiated against Care is there any update and what are the next steps on that particular situation?
- Abhay Soi:** CARE matter is sub-judice, so we can't really speak about it, but we have filed an appeal in the Bombay High Court. As far as inorganic expansions are concerned, yes our name is everywhere, whether that is true or not is beside the point. But a lot of places where we are looking at opportunities, our name doesn't come up or those matters are not in the public space. But, coming to your point, we are looking at it quite actively. We have fortified our teams as well. Keshav has been a new addition to head M&A from our standpoint. So, we are quite focused on this.
- Moderator:** The next question is from the line of Pallavi Deshpande from Sameeksha Capital.

- Pallavi Deshpande:** Just wanted to understand how was the operating cash flow and if you could also highlight on the debtor days. And secondly what would be the debtor days separately for the government mix?
- Yogesh Sareen:** DSO at the end of the quarter was 66 days. It has gone up compared to 55 days at the end of March. There is a buildup of accounts receivables (AR) in the PSU and insurance segments. But, we are seeing that in July this has started to unwind a bit.
- Pallavi Deshpande:** So, just continuing on this I didn't follow the first part. There you said there were two parts to the increase, so the first part was due to...
- Yogesh Sareen:** Yes, I said that the overall DSO went up by 11 days, from 55 days at the end of March to 66 days at the end of June. This is basically because of the build-up of AR, for the PSU segment (CGHS and ECHS) and also some build up in the insurance segment. The insurance segment had a 24-days DSO at the end of March, which has gone up to 34 days at the end of June, so there is some build up there. But as we speak today, there is some unwinding which has happened in July. We have got some of those over dues in July and things are getting normalized.
- Pallavi Deshpande:** And overall, on the strength of the PSUs and the CGHS are we going to see better years than last year in terms of government making the payments faster?
- Yogesh Sareen:** Yes, I mean so far the story looks bright, but we don't know what's going to happen. When their budget gets finalized, how much time they take for new allocation, etc., will determine how fast they will pay.
- Moderator:** The next question is from the line of Mayur Patel from 360 ONE Asset Management.
- Mayur Patel:** Just in your business planning about the new assets which you mentioned would be commissioned by end of FY25, what would be the peak occupancy which you are targeting in the new assets, is it possible to share some thoughts around that?
- Abhay Soi:** Peak capacity would be similar to our Network levels, could go up to about 80%.
- Mayur Patel:** In line with whatever are your matured assets currently 77% to 80% is fair to assume?
- Abhay Soi:** That's right.
- Moderator:** The next question is from the line of Amit Kadam from Canara Robeco Mutual Fund.
- Amit Kadam:** So, just on the timelines that you provided for the commissioning of those biggest beds, so from that what I can understand is that from here on 300 beds of Dwarka is expected to get commissioned in start of the Quarter 4 of this year and then we have something coming in the quarter one was FY26.
- Abhay Soi:** Yes, last quarter FY'25, first quarter FY'26.
- Amit Kadam:** But then I am just focusing on the commissioning or revenue generation --
- Abhay Soi:** It's a little early to project exactly in which month it will happen. I mean when we said end of FY'25, we meant February/March. Now whether it continues to be February/March or its March/April, is a little difficult to project at this point. But assume it comes on stream next year for calculation purposes.

- Amit Kadam:** So, the thing which I want to understand so during this particular period, so I understand we have a 300 bed to ramp it up, what are other levers in that particular year which could still make sure that our growth momentum continues?
- Abhay Soi:** We fall back on payor mix, that's one. We have another 20 to 30 beds on the margins, which will come on stream through the year. This is in terms of occupancy, the quality of occupancy and occupied bed days. And of course, we have our case mix, which has increased as you have seen. That continues to hold strong. If you look at Q4 or Q1 last year versus Q1 this year, other than occupancy, and take out the 2-2.5% increase in revenues, we have seen an increase in ARPOB because of increase in clinical mix largely, and in payor mix more international.
- Amit Kadam:** Just wanted to understand that when that Dwarka comes on stream what are the changes this thing will have on our overall number, because I think this will be a kind of a new complete standalone asset even though in the same region, but it would have its own individual standalone case where you have to do all the recruitments start from top to bottom.
- Abhay Soi:** Right, yes so typically there is breakeven period, but it shouldn't be consuming more than Rs. 30-40 crore.
- Yogesh Sareen:** There is some time taken to breakeven so there may be some loss in the initial phase. But that is the story with any green field.
- Abhay Soi:** But the loss should not exceed Rs. 30-40 crore.
- Yogesh Sareen:** Yes, it's not a big sum of money that we are going to lose. Dwarka is a green field so we are targeting a breakeven in the 10<sup>th</sup> month of operations.
- Abhay Soi:** We intend to do better but our projection is about 10<sup>th</sup> month odd breakeven, but it should not consume more than Rs. 30-40 crore.
- Amit Kadam:** And the third and final thing is on the international thing, so we have been doing it quite well in that particular segment, how do I look at this particular thing at least on an annualized basis how this piece should further do for us like moving towards double digit is like a percentage away, but then how do I look at this particular piece beyond that particular percentage point increase?
- Abhay Soi:** It's going well. I have always maintained that this is a big area of growth for us. Again I will stay away from making forward looking statements, but Afghanistan, which was 12% of our business, is still down to zero. Recently they have started some flights from Afghanistan, so that's a very big positive. Hopefully, in the next few quarters that should begin and should give us something as well. This business is growing, and I am going to avoid giving any forward-looking statements. But do keep in mind that we have had a 13% year-on-year growth, of which 3% has been through occupied bed days (OBDs) or occupancies as you may call it. Out of the 10%, if you take out a couple of percentage points for price increase, I think the balance has really been through clinical mix, a little bit has been through international and so on.
- Amit Kadam:** Why I was asking, so one thing is that the volume or the inflow or the patient count may go up because there would be certain like some geographies would open up which were restricted or maybe there was some embargos. And second is that some efforts what you guys have taken by going into various geographies setting up front-end offices there that also all led to your inflow. And second is that this inflow could also have some kind of delayed surgeries because they were not able to have that particular --



- Abhay Soi:** Well not so far. I don't think we have got business from any place, which had those embargos, but hopefully in the future some of it may be through that. We don't see any sporadic demand right now. It has been fairly kind of secular and should continue, I mean that's the plan. We have not seen any one-time business, if that is what you are saying, like bottled up demand which has suddenly come in and the rest is going to come later. We have seen this secular growth through the year.
- Moderator:** The next question is from the line of Alankar Garude from Kotak.
- Alankar Garude:** Firstly, Abhay when are we planning to commission the 100 Brownfield beds at Vaishali?
- Abhay Soi:** Vaishali was commissioned two years ago.
- Alankar Garude:** Brownfield, we had signed an agreement right for 100 beds?
- Yogesh Sareen:** We have signed an agreement to sell (agreement to buy for us), so there are some conditions precedent (CPs) for that. Basically there are some ongoing litigations at the High Court and district courts, and we have to settle those litigations first before we can take the handover of that piece of land.
- Abhay Soi:** Right now it's early stage. I mean right now firstly we have to procure the land. That's why I was wondering which Vaishali you are talking about. One, the agreement to purchase the land has to be sorted and then we will purchase the land and then will be building over there so that's –
- Alankar Garude:** And the same question on Gurgaon the second piece of land I think there as well there is a litigation ongoing right?
- Abhay Soi:** Yes.
- Yogesh Sareen:** We have received a status quo order from the Punjab High Court. There is a litigation ongoing since they cancelled the lease deed after one year of giving us the possession.
- Abhay Soi:** And taking full money.
- Yogesh Sareen:** And taking the full money. I think we have a good case there. The next date is somewhere in December.
- Abhay Soi:** But that was in any case post 2028 plan, it was never part of the plan till 2028. Even if you see the CAPEX plans in the investor presentation, it was something which was never even kind of accounted, neither the funds nor commissioning nor start date for it was ever accounted for.
- Moderator:** The next question is from the line of Senthilkumar Natarajan from Joindre Capital Services Ltd.
- Senthilkumar N.:** Can you share the revenue and EBITDA growth for exclusively March, Shalimar in Q1FY24 on a year-on-year basis?
- Yogesh Sareen:** So, we already said that the revenue has grown by 37% YoY in Shalimar Bagh and 43% EBITDA growth.
- Senthilkumar N.:** So, what is the contribution in topline from Shalimar --?

- Yogesh Sareen:** So, I don't have the ready number.
- Senthilkumar N.:** And my second question is what is the gross debt as on June 2023?
- Abhay Soi:** There is no net debt, there is net cash.
- Yogesh Sareen:** On a gross basis, it will be Rs. 641 crore, which includes the CC limits.
- Abhay Soi:** But we have got cash against it of Rs. 1,681 crore.
- Yogesh Sareen:** Yes so there is a net surplus of Rs. 957 crore.
- Moderator:** The next question is from the line of Amit Thawani, an individual investor.
- Amit Thawani:** I saw the presentation and I saw the performance in the Oncology segment and even some of the peer hospitals have reported some really good numbers in the Oncology segment. So, I was just wondering what's happening, is there some kind of change in the health insurance policies that are allowing more coverage of Oncology or can you elaborate little on what's happening there?
- Abhay Soi:** Nothing in particular. The incidence of cancer is increasing, awareness is increasing, more people are acquiring health insurance and are able to afford to come to private sector hospitals, which obviously for more high-end diseases are preferred compared to perhaps smaller nursing homes. So, we have seen a drive towards that.
- Yogesh Sareen:** Also, we have seen that in Oncology, there is more usage of ORC drugs, which improves the revenue / ARPOB because these ORC drugs are generally expensive.
- Amit Thawani:** And how does Oncology growth impact our in-patient, out-patient revenue, because how is really radiation and chemotherapy really accounted in terms of bed occupancy?
- Abhay Soi:** It's not, its day care. Any day care procedure is not part of occupancy or IPD. It comes through into the ARPOB because you take all the revenues and you divide it by in-patient beds. But any day care procedure is not part of occupancy.
- Amit Thawani:** So, the ARPOBs will go up?
- Abhay Soi:** It's not a part of the ~3,500 beds since these are not census beds. When you compute occupancy, you take a denominator of total number of beds. We have ~3500 beds, which does not include the non-census beds, which is a chemo beds, dialysis beds, day care beds, ER beds, etc.
- Moderator:** The next question is from the line of Damayanti Kerai from HSBC.
- Damayanti Kerai:** I just have one question so Abhay you mentioned you added 44 beds though internal restructuring, etc., during the 1<sup>st</sup> Quarter. How many more such beds can come say in 24?
- Abhay Soi:** We expect another 20 to 30 beds.
- Damayanti Kerai:** For this fiscal right, 20 to 30 beds?

- Yogesh Sareen:** So, plan is to add another 40 beds. Some of them are getting added in July and some will happen in October.
- Damayanti Kerai:** 20 to 30 beds?
- Yogesh Sareen:** 20 to 40 beds.
- Damayanti Kerai:** And it will be an ongoing exercise right in coming years also you can choose to add such bed?
- Abhay Soi:** No, we can't. We are now pressing and at the final stages of capacity, we require that capacity so somehow you will find it. There is always some elasticity at the end. We move the laboratories out, we move the offices out, we move the kitchen out, etc. So, that's what we are doing to add these beds.
- Abhay Soi:** This is not annual; you can't do it every year let me just put it this way.
- Moderator:** The next question is from the line of Lavanya Tottala from UBS.
- Lavanya Tottala:** I just wanted a small confirmation, so the CGHS increase in rate is related to the radiology test that has not come in, in the Q1 any impact right. And what kind of impact that can have on our part?
- Abhay Soi:** No, some of it came in June and some of it came in May, but all of the impact so far has been about 0.6-0.7% on ARPOB.
- Yogesh Sareen:** For CGHS business, 60% of what we bill is material costs, which includes drugs, consumables, etc., and balance 40% are the items which are tariff items. 26% out of the 40% has been touched by the price revisions so far and on that 26%, we have around 50% price increase. In a nutshell, overall 5% price increase in the total billing for the PSU patients. And so that's the story today. The absolute amount for us would be around, if I take the Q4 volumes and the price increase which has happened till June, Rs. 49-50 crore number on an annualized basis.
- Lavanya Tottala:** All of that is still not there in Q1 number right then?
- Yogesh Sareen:** Yes, it won't be there fully. Q1 would be probably Rs. 10-11 crore out of the Rs. 50 crore full year annualized number that we see in terms of price revisions.
- Moderator:** The next question for the line of Alankar Garude from Kotak.
- Alankar Garude:** Just one follow up, historically in the run up the general elections has Max seen any increase on the receivables front given the higher institutional mix?
- Abhay Soi:** Not really.
- Yogesh Sareen:** No. There was an increase in the receivables by end of June, but in July we have seen some of it unwinding. So, we don't see any impact of that.
- Alankar Garude:** Yes but even in the prior years be it 2014, 2019 no impact per se?
- Abhay Soi:** No.



- Moderator:** Thank you. Ladies and gentlemen that was our last question. I would now like to hand the conference over to the management for closing comments. Over to you sir.
- Abhay Soi:** So, I would like to thank each one of you for taking time the time out and being on the call. Appreciate your time, thank you and see you next quarter.
- Moderator:** Thank you. On behalf of Max Healthcare Institute Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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