November 13, 2023

Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, Plot C-1, Block G,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051

Symbol: MAXHEALTH

Listing Department,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

Scrip Code: 543220

Sub.: Transcript of Earnings Call held on November 7, 2023

Ref.: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir / Madam,

Please find enclosed copy of transcript of earnings conference call, organized on November 7, 2023, on financial results of the Company for the quarter and half year ended September 30, 2023.

The said transcript is also available on the website of the Company at www.maxhealthcare.in/investors/investor-resources.

Kindly take the same on record.

Thanking you

Yours truly,
For **Max Healthcare Institute Limited**

Dhiraj Aroraa
Digitally signed by Dhiraj Aroraa
Date: 2023.11.13 15:01:01 +05'30'

Dhiraj Aroraa
SVP - Company Secretary and Compliance Officer

Encl.: As above

Max Healthcare Institute Limited
Q2 & H1 FY24 Earnings Conference Call
November 07, 2023

Moderator: Good day and welcome to the Max Healthcare Institute Limited Earnings Conference Call. Please note that this conference is being recorded.

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

Suraj Digawalekar: Thank you, Aman. Good morning, everyone, and thank you for joining us on Max Healthcare Q2 and H1 FY24 Earnings Conference Call. We have with us Mr. Abhay Soi, Chairman and Managing Director, Mr. Yogesh Sareen, Senior Director and Chief Financial Officer, and Mr. Keshav Gupta, Senior Director – Growth, M&A and Business Planning. We will begin the call with opening remarks from the management, following which we will have the forum open for an interactive Q&A session. Before we start, I would like to point out that some 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 the opening remarks.

Abhay Soi: A very good morning to everyone. We are pleased to welcome you to Max Healthcare's earnings call for the second quarter and first half of fiscal year 2024.

Let me start by stating that our performance in the first half of this fiscal year has set a commendable precedent for us to follow in the latter half. We recorded a year-on-year increase of 17% in network revenue and 20% in EBITDA in H1, while Q2 turned out to be the 12th consecutive quarter of year-on-year growth. Our Q2 performance this year largely mirrored our quarter-on-quarter performance last year,

alluding to the steady state of our operations as well as secular demand for quality healthcare services.

Further, with a granular focus on execution and capital allocation, as is evident from our pre-tax ROCE of 38.3% in Q2, we are well poised for the next leg of growth that is set to come from planned capacity expansion as well as inorganic opportunities.

On that note, we are happy to share that the developer of an upcoming hospital in Dwarka has applied for the occupancy certificate, which is a significant milestone. It is the final milestone. We expect to commission the same in the fourth quarter of the current year.

Moreover, our most recent brownfield expansion, Max Shalimar Bagh, has reported an overall average occupancy of 78% and a year-on-year revenue and EBITDA growth of 41% and 48%, respectively in the second quarter.

On the clinical front, we have signed a memorandum of understanding with Intuitive Surgical, the US-based pioneers of robotic surgical systems, to establish Southeast Asia's first Total Program Observation Centre located at our Max Saket facility. This centre is expected to have a positive impact on both India and Southeast Asia's surgical healthcare ecosystem by enabling healthcare professionals to drive advancements in patient care using robotic-assisted surgery and elevate surgical healthcare standards in the region.

Moving on to the highlights of our Q2 performance:

1) Occupied bed days grew by 3% year-on-year and 5% quarter-on-quarter, reflecting an average occupancy of 77% for the quarter. 93% of the year-on-year and 118% of the quarter-on-quarter increase in occupied bed days was driven by preferred channels, which is cash, insurance, TPA, and international (CTI). With the increase in occupied bed days and marginal drop in ALOS, the inpatient discharges were up by 7% year-on-year.

2) Even OP volumes exhibited a strong growth of 14% year-on-year and 4% quarter-on-quarter.

3) Institutional bed shares fell to 27.3% compared to 27.9% last year and 29.7% in Q1 this year. However, after excluding Max Shalimar Bagh, our most recent

expansion, overall institutional bed share stood at 25.4% during the second quarter.

4) Average Revenue Per Occupied Bed (ARPOB) for the quarter stood at INR 74,600, growing by 13% year-on-year, and remaining flat quarter-on-quarter due to seasonality. Year-on-year improvement was witnessed across all specialties, with oncology being the key driver.

5) Network gross revenue was INR 1,827 crore compared to INR 1,567 crore in the Q2 last year and INR 1,719 crore in the previous quarter. This reflects an increase of 17% year-on-year, led by growth in ARPOB and occupied bed days (OBDs). Quarter-on-quarter growth of 6% was mainly driven by increase in OBDs.

6) Revenue from international business grew significantly by 25% year-on-year and 11% quarter-on-quarter, now accounting for around 9% of the total revenue from our hospitals. During the quarter, we have operationalized company-owned patient assistance centre (PAC) in Nepal, while all formalities for the Bangladesh centre have been completed. We expect to operationalize this centre shortly. This is despite the Afghanistan business, which was 12% of our total international business, still down to zero.

7) Direct costs were lower quarter-on-quarter due to increase in medical patients, attributable to seasonal vector-borne diseases. On the indirect costs side, while the overall percentage was lower, there was an increase in absolute costs primarily due to marketing costs for international channels and seasonal increase in power consumption.

8) Network operating EBITDA stood at INR 497 crore, just below the magic mark of INR 500 crore, reflecting growth of 21% year-on-year and 14% quarter-on-quarter. Accordingly, the operating margin increased to 28.7% versus 27.7% in the Q2 last year and 26.8% in the previous quarter.

9) Most importantly, annualized EBITDA per bed rose to INR 75 lakhs, yet again our highest ever, clocking a growth of 17% year-on-year and 7% quarter-on-quarter.

10) Profit after tax was INR 338 crore versus INR 267 crore in Q2 last year and INR 291 crore in the previous quarter on a like-to-like basis. The year-on-year improvement of 26% was primarily attributable to flow through of improved EBITDA and lower finance costs.

11) Free cash flow from operations was significantly higher this quarter at INR 436 crore, of which INR 90 crore was deployed towards ongoing capacity expansion projects. Net cash position improved to INR 1,303 crore at the end of September 2023 compared to net cash of INR 42 crore same time last year.

12) Continuing efforts to support the local communities, we treated approximately 39,000 patients in OPD and 1,300 patients in IPD from economical weaker sections free of charge.

13) Both our strategic business units continued to tread strongly on their growth trajectory:

- Max@Home reported a top line of INR 42 crore, reflecting a growth of 23% year-on-year and 8% quarter-on-quarter. We continue to receive good feedback for our services and the same is reflected in the SBU's revenue growth.

- Max Lab, the non-captive pathology vertical, offers its services in 36 cities and now has an operational network of over 1,000 collection centres and active partners. This SBU reported a gross revenue of INR 39 crore, reflecting a like-for-like growth of 32% year-on-year and 15% quarter-on-quarter.

Now, coming to the status on our upcoming expansion projects:

- As most of you know, 122 beds at Shalimar Bagh have been operationalized at the start of this financial year. And as mentioned earlier, the hospital reported an annual occupancy of 78% for the quarter.

- For 300 beds at Dwarka – Application for occupancy certificate (OC) has been submitted in October and majority of the interior works have been completed. And some of it is just being finished as we speak. We expect to

commission the hospital in later half of Q4, subject to receipt of OC by the developer.

- For 329 beds at Nanavati – Excavation and raft work is complete. Steel fabrication up to the ground level and slab work have also been completed. Ground level structure is expected to be completed in the current quarter and the project continues to be on schedule.

- For 300 beds at Sector 56, Gurgaon in Phase I – D-wall has been completed and the site excavation is almost done. EPC contractor is already on board and design development is under process. TDR approval for additional 0.5 FAR has been received and the project is on schedule.

- For 190 beds at Mohali – D-wall is complete and excavation work is underway. All statutory approvals to start the construction have been received and the project is almost entirely on time. EPC contractor has been mobilized and the design development is in progress.

- 350 beds at Max Smart at Saket Complex, which had seen some delays initially – We have now initiated the process of transplanting the trees as permissions had taken some time to come. This has been on the critical part, but now the project is back on schedule and work should start by December 2023.

- For 300 beds at Vikrant at Saket complex – Environmental clearance (EC) has been received and the submission of drawings in the Municipal Corporation of Delhi is in process.

- For 250 beds at Patparganj – Drawings have been submitted to the Municipal Corporation of Delhi and the application for environment clearance has been submitted.

So, all the other projects are on schedule and there is no delay as such. And finally, coming to the overview of the company's performance in the first half of the financial year:

1) Network gross revenue stood at INR 3,546 crore, reflecting a growth of 17% year-on-year.

2) Network operating EBITDA grew by 20% year-on-year to INR 933 crore. Increased ARPOB, improved case mix and augmentation of network bed capacity by 130 beds resulted in margin expansion to 27.8%, while EBITDA per bed grew by 15% to INR 72.8 lakhs per bed.

3) In the first half, we generated INR 697 crore of free cash flow from operations after interest, tax, working capital changes and routine capex, of which INR 128 crore was deployed towards ongoing expansion projects.

With this, we open the floor for Q&A.

Moderator: Thank you very much. The first question is from the line of Damayanti Kerai from HSBC.

Damayanti Kerai: My question is you continue to see progress in reducing bed share to institutional patients. So, a few quarters back, you had given an indication that we would like to bring it down to the industry level. But with Shalimar Bagh, I guess, you have taken on more institutional bed to ramp up occupancy, etc. So, do you still target to bring it down to, say, industry average and when it will likely happen?

Abhay Soi: There is no classified industry level, so to say. I think it highly sort of changes between metros and non-metros. You have more PSUs, headquarters, etc., out of Delhi NCR, so you have a larger share of institutional businesses coming through. Now, two-three things have happened.

One is apples-to-apples from 29.7%, we have come down to about 25% in the current quarter. Second is that it's on increased capacity, including Shalimar Bagh. Thirdly, certain rates have moved up in CGHS and we're expecting certain other rates for institutional business to move up in the current quarter, because of which we have taken the foot off the accelerator a little bit.

And finally, even within the institutional business, there's been a churn in the specialties we are catering to and the ones we are not catering to. And all of it largely comes down and plays out in your higher EBITDA. So, what we're seeing is, although because of the overall capacity constraints that we have, our occupancy has

moved up by only 3% year-on-year, but there's also been a churn of about 3% to 4% year-on-year within the payor mix. And all of that tends to translate into a higher percentage margin as well as EBITDA per bed.

I mean, apples for apples, the same inventory going forward will be coming down as far as institutional business is concerned, but to your point, as you rightly mentioned, as and when we have new capacities coming in, those capacities initially will see an increase in institutional business. So, in percentage terms, it will move up, or remain stagnant just when those capacities are coming. But I think overall, it still translates to better EBITDA margins.

Damayanti Kerai: Okay, so you mentioned like…

Abhay Soi: Just to complete that point, you may have seen because of new capacity coming in Shalimar Bagh, the institutional business has moved up. But if you see the EBITDA coming from those incremental beds, basis this increase in institutional business, it is yet at a 40% margin.

Damayanti Kerai: Okay, so that means obviously you are getting much better realization from these set of patients also. As you mentioned, rate hike in CGHS could be one of the reasons which might be contributing and then obviously specialty mix?

Abhay Soi: Not that, this is largely because of the operational efficiencies. We have a huge operating leverage for the new beds. We don't have the fixed costs, etc. As a result, what happens is that even the lower payor mix becomes more viable and even more viable on the new beds. Because our operating cost is very low on the incremental beds.

Damayanti Kerai: Okay, so it's primarily driven by efficiency as you mentioned. Like you have better absorbed overheads there that is resulting in these kinds of numbers.

Abhay Soi: That's right.

Damayanti Kerai: Okay, and just a clarification, you mentioned there has been a bit of hike on the CGHS patients also. So right now, like what is the difference between that price channel and then the normal cash and others, like very broadly.

Yogesh Sareen: If you take the ARPOB of these two channels, the CTI channel and the preferred channel, CTI is 85% higher than the CGHS / PSU channel.

Damayanti Kerai: So the preferred channel is 85% better ARPOB number?

Abhay Soi: If your PSU ARPOB is 100, CTI ARPOB will be 185.

Damayanti Kerai: Okay, 100. Okay, my last question is your difference between gross revenues and net revenues which you go for pro forma financials, that's primarily driven by what you pay for EWS patients, right? That's right.

Yogesh Sareen: Largely that number, yes.

Damayanti Kerai: Yes, and I'm seeing that number has broadly remained somewhere like 5% of gross revenues. So, should we assume similar numbers to trend, even if like say we are commissioning new facilities ahead and then according to government rules, we have to allocate some beds for the EWS?

Yogesh Sareen: Dwarka does not have any EWS obligation.

Abhay Soi: Dwarka does not have, Mumbai will have, and others will have. I mean, Gurgaon also won't have.

Damayanti Kerai: Okay, so Dwarka and Gurgaon does not have.

Abhay Soi: Other than Gurgaon, Dwarka and Mohali, all others will have EWS obligations.

Damayanti Kerai: Okay, okay. Thank you.

Abhay Soi: Out of around 2,600 additional beds, I think approx. 1,000 beds will not have EWS obligations, balance will have.

Damayanti Kerai: Approximately 1,200 beds will be utilized and then others don't have such requirement?

Abhay Soi: Yes, so let's say we have approx. 2,600 beds further coming up, out of which around 1,000 beds will not have any EWS obligations. Now the balance 1,600 will have the 10% obligation, so let's say about 160 beds out of 2,600 beds.

Damayanti Kerai: Okay, got it. Thank you. And all the best.

Abhay Soi: Thank you.

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

Kunal Dhamesha: Thank you for the opportunity, sir. First on the housekeeping question on the international patient bed share. What was that for the quarter?

Yogesh Sareen: Yes, that will be around 5%.

Kunal Dhamesha: 5% only?

Yogesh Sareen: Yes, the ARPOB is higher, so that's how the revenue share goes up. It's 5.5% to be exact.

Kunal Dhamesha: 5.5%, okay. Okay, so then probably the pricing, etc., kind of more or less has remained the same. Okay, thanks for that. And secondly, when I look at our specialty mix, oncology therapy, if I see, has been growing at almost 2x the overall revenue growth, at least for the last two quarters. And even if I look at a longer-term trend, for the last nine quarters in a row, it has grown faster than our overall revenue growth. So what are we doing differently there? And is it a market growth or?

Abhay Soi: Yes, I think the overall growth is 17%. And oncology growth is about 26%-28%. Not exactly double. But there's been a focus on oncology, and we've also seen a larger disease burden playing out. We've also had a focus on robotics. And as we are moving up the value chain, what we are seeing is more people are choosing better technology.

As you're seeing higher percolation of insurance, then people tend to do less of window shopping for higher end procedures. They go to more established corporate hospitals and brands. We are seeing more-and-more people for oncology and some of the other specialities, whereas they would have gone to smaller places earlier and now coming to larger hospitals. So, insurance plays an important part.

Yogesh Sareen: Also, oncology tends to have higher entry barriers. There's a lot of investment required in equipment, bunkers, infrastructure, etc. To that extent, the patients do navigate towards bigger players.

Kunal Dhamesha: Sure. And is it possible to share the split of this 25% of revenue mix between, let's say, surgical and non-surgical? Because we have also have chemotherapy and radiotherapy included in this 25%, right?

Yogesh Sareen: Well, that's not a public number. But obviously, a large part of this will be chemotherapy. But I would say, it's a fair share of all three – radiation, surgical and medical. We haven't publicly disclosed that number, so we won't publicly disclose the exact split between the three.

Kunal Dhamesha: Sure. And is it fair to say that oncology would be highly accretive to profitability for us?

Yogesh Sareen: Yes. The oncology happens to have a higher ARPOB. To that extent, yes, it'll be higher profitability also.

Abhay Soi: It depends on how you're looking at it. I mean, it also occupies more space. So, there's also a return on capital and return on real estate over there.

Kunal Dhamesha: Okay. So return on capital is also higher in your view? Or does it require more space so it would more or less...

Abhay Soi: Return on capital is even with the rest.

Kunal Dhamesha: Okay. Great. Thanks for that clarity. And secondly, on drivers of our strong ARPOB growth of around 13% year-on-year for the first half, if I kind of, do some back calculation using the bed share and revenue share, it seems that CGHS ARPOB or institutional ARPOB would have at least gone up by around 20%, 25%. Is that a fair number or I'm overestimating, underestimating?

Yogesh Sareen: No, that's right. The PSU ARPOB has gone up by 28%.

Kunal Dhamesha: 48% for the first half?

Abhay Soi: 28% year-on-year. And that's not because of price increase. It's also because of the mix change, which I was mentioning earlier. It's not a change in price. The change in price will not even have INR 14 crore impact on your overall revenue.

Kunal Dhamesha: Okay. Perfect. Thank you. I have more questions. I'll get back in the queue.

Moderator: The next question is from the line of Bino Pathiparampil from Elara Capital.

Bino Pathiparampil: Hi. Good morning and congrats on a great set of numbers. Just one question on the expansion plans. For all the facilities, the greenfield facilities that are coming up over the next couple of years, what's your internal target for EBITDA breakeven, in how many months or quarters?

Abhay Soi: Almost 90% of our expansion is brownfield. And normally, we see EBITDA breakeven in a quarter or two if not the first quarter itself. Our last brownfield experience was that we had EBITDA breakeven, and we were hitting 40% margins within 40 days.

Yogesh Sareen: On Greenfields, we do see breakeven within the first 12 months. That means 11th or 12th month should be the EBITDA breakeven month.

Abhay Soi: Greenfields are only 10% of the total expansion.

Bino Pathiparampil: Okay, understood. So, within a year for Greenfields and within a quarter for brownfields?

Abhay Soi: Yes.

Bino Pathiparampil: Great. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Dam Capital.

Nitin Agarwal: Hi, can you give us some numbers on what has been the increase in discharges, outpatient discharges of Q-o-Q and Y-o-Y?

Abhay Soi: 7%.

Nitin Agarwal: This is Y-o-Y?

Abhay Soi: Yes. Q-o-Q doesn't matter because you have more medical patients in Q2. So, when you have more medical patients, your ALOS is lower, and your discharges tend to be higher. Look at everything on a year-on-year basis for better comparison.

Nitin Agarwal: And secondly, on the seasonality part of it, typically, how should one think about seasonality in our business? Q2 obviously is bigger than Q1. And how should we think about the rest of the year with respect to Q2?

Abhay Soi: See, Q4 is the best quarter in a year. Q2 is the second-best quarter. Q1 and Q3 are weak quarters. And that seasonality in the business that happens every year. Typically, your H2 is better than H1.

Nitin Agarwal: And I guess given the way things are, that's a trend we should follow even this year for us.

Abhay Soi: That's right unless something disruptive happens. Typically, the secular trend in healthcare is that H2 is better than H1. And Q4 is peak because of the burden of the diseases, etc. Also, Q2 is the second best simply because you have seasonality due to dengue and vector season. Q1 is weak because you have just had an increase in salaries and fixed costs on the 1st of April. So, your margins are kind of squeezed. And Q3 is the festival season, which is Diwali, Christmas, etc.

Nitin Agarwal: And secondly, on your expansion plans, barring beyond what we've already outlined so far, how are we thinking about expansion? We've got enough cash reserves on books now in terms of the inorganic growth opportunities which are there. I mean, how do you see the landscape playing out? There's been a lot of private interest in the space, which probably, I don't know, would have had its own challenges for value buying. So, how are you looking at the inorganic growth opportunities outside of NCR?

Abhay Soi: I think there are quite a few. There are 21 cities that we're looking at. And we've been busy at it. And hopefully in the near future, very shortly, we should come up with some surprising stuff. But yes, we want to maintain some fiscal discipline. There are quite a few opportunities, both on the build side, partner side, on the asset-light model, as well as certain acquisitions as well. So, yes, we intend to deploy this capital.

Nitin Agarwal: And last one, on the Shalimar bag expansion that we did in Brownfield, what is the capacity utilization on that?

Abhay Soi: 78% on the overall, new and old beds combined.

Nitin Agarwal: And when you would have put the new capacities, the older one would have been closer to 80% plus.

Abhay Soi: 82%-83%. Yes.

Nitin Agarwal: And just sort of reconfirming, on the incremental beds, we are making 40% incremental margins.

Abhay Soi: Yes, that's right. And within 40 days of opening those beds.

Nitin Agarwal: Right, right. And in your assessment, incremental Brownfields that we're going to be putting out, how should we think about --We did talk about the first quarter break-even. But in terms of… Is Shalimar Bagh an exception in the way it's played out, or this is going to be a template that's broadly going to get replicated across the new Brownfields?

Abhay Soi: Look, honestly, our Shalimar Bagh experience was the same as our experience in Vaishali before that as well. Because, theoretically, you're tapping into untapped demand on your doorstep to start with. And then you have operating leverage – you don't have any real fixed costs with those incremental decisions. Theoretically, this should be the template going forward as well. I don't see that changing.

Moderator: The next question is from the line of Ankur, an individual investor.

Ankur: Hi. I think my question is partly answered in one of the previous questions that was raised by one of the participants. Really, it was about the last two years. There's a bit of a concern that we haven't acquired any project and added anything on to our already announced development pipeline. And obviously, we've been running an underleveraged balance sheet for a while now. And then now, we've got all this cash accumulating.

And you've talked about acquisitions, M&A, and all of that. But I mean, it's two years since we added anything. And, on the Greenfield side of things, are we looking at any Greenfield projects that we want to add? And I know you keep saying imminently that there should be some announcements. But it also takes about, I think, if you add a new project, a Greenfield project, about three or four years before it's operationalized. So, if you can throw some light on all these things, please?

Abhay Soi: Yes, I think there's always a tug of war between the desire to expand and the fiscal discipline. And one has to maintain that. It's not as if we haven't been looking. And we are quite certain that shortly we should be able to deploy the cash. Do keep in mind that it's not a huge amount of cash. Because even to construct a 500-bed

hospital, you require about INR 1,000 crores. To acquire a 500-bed hospital will cost you another maybe INR 1,000-1500 crores.

So, one or two acquisitions and you're done. On one side, we are excited about the fact that we are accumulating cash. But we are also conscious of the fact that this amount of cash and even the ability to leverage the balance sheet is not going to take us very far. Today, transactions are available at 15-16X EV/ EBITDA. What that means is, even at entry, if I was to go and spend INR 5,000 crore, we'll be able to buy INR 300 crore EBITDA? That's about 15% of my total EBITDA.

So, I can increase my EBITDA by 15% by deploying INR 5,000 crore. And that would pretty much use up all my cash and my leverage ability. So, it's important to, while we notice that there's cash accumulating, do keep in mind that one, this is a capital-intensive sector. And secondly, there are a massive number of opportunities in the sector yet.

So, if we want to sort of participate in that, we need to accumulate the cash and spend it with the right amount of fiscal discipline at the right time. Because there is money, but it's not that much money also.

Ankur: Yes. And also, like, you know, like as where we've been going and it's almost, let's say, 20% sort of EBITDA growth, cash flow growth over the last couple of years. And going forward also, it seems we're going to continue that trajectory over the next four, five years. So, then beyond that, to continue growing at the 20% sort of rate, we'll also need to keep adding the bed capacity at that sort of rate. Right?

So, we need to have like this continuous development pipeline, which keeps, you know, every year keeps adding projects year on year so that, you know, the growth continues for long duration. So, I'm sure you guys are working on it, but just -- and you mentioned, like, we're looking at 20 cities. So, but there has been no, like, actual project acquisition. So, that was my only question. But, yes.

Abhay Soi: No, you're absolutely right. Just keep in mind two aspects. Right? In the last two years, there's not been any significant capacity expansion. Yet, we're seeing around 20% increase in EBITDA. So, in the next three to four years, we're going to have around 2,600 beds coming up, increasing your capacity, 85% of which is through

brownfields. That is almost like doubling your capacity over the next three to four years.

Those are coming on stream. So, shouldn't that be giving you expansion for the next five or seven or ten years itself? And given the fact that your breakeven is so short in these brownfields, it'll add a bunch of more cash flows, all of which again gets deployed and gives you further returns. So, there are three streams of growth over here.

One is your current bed capacity, which has been growing in terms of EBITDA. Then all the expansions that are already announced, which are already underway, which we said are largely online. And the third is what you want to do with this cash. Right? It's an exponential 3X strategy. It's not a strategy of 15%-20% growth. If I was not to sort of deploy this cash, give it all back as dividends, yet you'll be doubling your capacity over the next three years to four years.

Ankur: Yes. I think that's it, from my side. I understand where you're coming from. And also, it's clear, like, as the cash flow keeps accruing over the next three, four years and they keep growing, you continue to add on to your development pipeline and continue this growth for long term. So, that's it from my side and thank you and all the best.

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

Tushar Manudhane: So, just on the organic basis, on EBITDA per bed, while we've already, I presume you've optimized in terms of efficiency at the overall level. So, how do you think about the levers for improving EBITDA per bed for the next two to three years?

Abhay Soi: I think EBITDA per bed, now the first half has already happened, right? And second half is usually marginally better than the first half. At least for the rest of the year, some sort of trajectory has been already articulated.

Tushar Manudhane: Beyond FY24, how do you think about it? In the sense, the case mix or the payor mix is also, we have already taken good price hike on account of institutional patients, the insurance penetration is...

Abhay Soi: No, it's not the price hike. In fact, the price hike impact is only INR 14 crore. There's a 28% increase in PSU ARPOB and that's due to the clinical mix, because we're moving into higher end procedures. We're distilling the procedures.

Tushar Manudhane: Right. Okay.

Abhay Soi: Price hike has been negligible, in fact.

Yogesh Sareen: In fact, of the 28% increase in PSU ARPOB, only 5% is due the price hike in the PSU segment.

Abhay Soi: So, like Yogesh rightly pointed out, out of the 28% increase in PSU ARPOB, only 5% increase is due to price hike.

Tushar Manudhane: Right? No, I meant to ask that how much more can further be optimized, if not on price hike, but other levers so as to drive the EBITDA per bed, maybe in mid-teens or more or less growth over the next two to three years?

Abhay Soi: In a similar fashion, as our payor mix starts moving up on a particular trajectory and our clinical mix moves up on a particular trajectory, all of it goes to our EBITDA. Our indirect cost is increasing by around 6-7% every year. The difference between our revenue increase, now you have to make an assumption of our revenue increase, and the indirect cost increase is all going down to the EBITDA effectively.

Tushar Manudhane: Got it. Understood. Thank you.

Moderator: Thank you. The next question is from the line of Bansi Desai from JP Morgan. Please go ahead.

Bansi Desai: Hi. Thanks for the opportunity. So, I have one question and this is on the advancement of robotics that we have seen in the overall healthcare space. We have seen more and more specialties using robotics and even the non-complex ones are making use of robots. In general, where are we today in terms of surgeries which are getting done on robots and what is the scope here, where it can go to? Also, I am assuming this will be lucrative enough. What is it in terms of ARPOB and margins, how different they are compared to our traditional surgery work?

Abhay Soi: First and foremost, although robotics has been around for some time, over the last couple of years, there has been a sudden uptake of that and acceptability between both doctors and patients has been quite dramatic as far as robotics is concerned. To be honest, it surprised us also on the upside. As I mentioned earlier, our total number of robotic procedures have more than doubled in the last one year. And, it has been a pleasant surprise. For most specialties now, you get into this flywheel concept as their acceptance goes up. We are being pushed by many of our hospitals and many of the clinicians now, to set up robots because, frankly, it has become more and more viable.

What happens is, of course, it's at a higher cost compared to laparoscopic, or even for that matter, a general surgery for the same procedure. So, it leads to higher ARPOBs. But the contribution levels from robotics are lower. And EBITDA in terms of margins is lower, in percentage terms, although in value terms it is higher. And this is something that we have previously mentioned with respect to both higher-end payor mix and clinical mix, that you get lower percentage margins but higher value in terms of absolute EBITDA coming from this.

Yogesh Sareen: It also helps us in terms of reduction in ALOS, right? EBITDA per bed is obviously better. But in terms of margins, that may probably be lower than the overall average.

Abhay Soi: Right now, it’s a little difficult to present a trajectory of where do we see growth happening and will it continue to be 100% growth, or will it taper down to 70% or 50%? Or will it increase from here?

Bansi Desai: Got it. But the adoption has increased. And in general, it also improves your throughput, right, within a particular specialty?

Abhay Soi: That’s right. And, I mean, overall, it’s got all the positives with it. And, as public acceptability increases, as technology advances, there are entry barriers in this, smaller places can’t adopt it increasingly and the awareness increases, then you see this move towards larger hospitals and more sophisticated healthcare systems. It also results in better medical outcomes for the patients.

Bansi Desai: Got it. Thank you. That's it from my side.

Yogesh Sareen: Thank you.

Moderator: The next question is a follow-up question from the line of Kunal Dhamesha from Macquarie.

Kunal Dhamesha: So on Dwarka. So as we are kind of getting closer to the commissioning of the facility, would have we like started hiring in terms of doctors or key specialties, nurses, paramedical staff, or would it be more closer to the commissioning?

Abhay Soi: We have started all of that. And at least all the head of the programs and functions are already in place and in the system. As we speak, they are working in some of our other facilities. So, as far as the soft power is concerned, the people are concerned, all of it is in line and as per schedule. There is no lull on that. And there's enough availability and excitement around this facility from a clinical standpoint.

Kunal Dhamesha: And would it be more like a staggered hiring in terms of specialties, or we would go with the full-fledged 300-bed operationalization on day one?

Abhay Soi: No. We will do about 164 beds, like Yogesh pointed out. And as we require more beds, we will open up more and more.

Kunal Dhamesha: And one follow-up on the robotic surgery, while you have alluded that it's good from the ARPOB perspective and the absolute EBITDA perspective, but in a longer term, if let's say even the other hospitals also kind of start affording it, does that bring them to the equal level in terms of surgical outcome, etc., and then the importance of brand or surgeon's skill kind of get reduced? Do you see that happening?

Abhay Soi: Not particularly. I think the market is growing. There's only so many players that can adopt robotics. Your people also have to be trained on it. You have to have availability of the talent to be able to do this. All of that will take time. But before that, your market would have already expanded. And we've seen this, right? I mean, why robotics? As far as any technology is concerned, the larger players adopt it first. The smaller players adopt it thereafter. The market only continues to expand.

But I've never seen the larger players' market share go down because the smaller players have adopted the technology thereafter. You actually end up increasing the size of the market. All the smaller players also have a hand in increasing awareness for that product.

Kunal Dhamesha: And for us, is it more like a capex model or is it more a pay-per-use model?

Abhay Soi: Actually, we started robotics as pay-per-use because we were quite unsure. But we've bought back or bought more than 50% of the robots recently because it kind of surprised us in any case. So, yes, at this point in time, we have a hybrid model simply because we started off with pay-per-use. But now we've got into buying it back. So, we've bought more than 50% of the robots that we have.

Kunal Dhamesha: Okay. And return on capital is higher on…

Abhay Soi: Of course. That's why we are buying.

Kunal Dhamesha: Okay. Thank you, sir.

Abhay Soi: Thank you.

Moderator: Thank you. The next question is from the line of Naysar Parikh from Native Capital.

Naysar Parikh: Yes, hi. Thanks for the opportunity. My first question was on the overall industry trend. Are you seeing still there is a gap between supply and demand growth? And do we see for the next, couple of years, there will be leverage to continuously grow price and ARPOB? How are you seeing that?

Abhay Soi: I'm not seeing it over the next couple of years, but I'm seeing it over the next few decades. I think this is a multi-decadal opportunity. There is a huge amount of under penetration. There's a massive gap between supply of quality healthcare and demand for quality healthcare, which is only increasing as we go by.

So, that's the reason -- and India perhaps offers this opportunity which nowhere else, no other country, no other health system in the world does. I mean, at one side, you operate almost like a utility because it's inflation-free, it's an insulated business. But on the other hand, you also have this massive growth opportunity because of just to sheer lack of penetration or availability of quality facilities.

Naysar Parikh: Got it. And on the international patient side, you said around 5-5.5% of your beds. Is there scope for that to significantly go up to, say, 10% or higher? And how are we seeing the international traffic on the hospital side?

Abhay Soi: Traffic has grown by 25% in revenue terms at least over last year. Even in terms of total number of beds, that is in terms of volume of patients, also it has grown by 25% over the same quarter last year. And 11% over the last quarter itself.

And do keep in mind, that this is without 12% of the total business which came from Afghanistan earlier, now being down to zero. If you assume that coming back to normalcy, it will mean an increase of around 30% or more over last year. So, I mean, where does this train stop? I think we haven't even scratched the tip of the iceberg. You know, this should continue, in my mind, at a significantly higher pace than the rest of the hospital growth.

Naysar Parikh: Got it. And the 2,600-bed expansion that we have, can you give us some idea in terms of how much can come in the next six months and how much in FY25?

Abhay Soi: 300 beds should come in by end of FY24, current fiscal year. FY25, towards the end, you will have another 329 beds of Nanavati coming. Then Mohali, another 190 beds again, same time next year. And 300 beds at Gurgaon, same time next year. So, you have about 819 beds coming in the next one year.

Naaysar Parikh: So, 300 by the end of this year and another 800 to 900 by the end of next year.

Abhay Soi: Yes, it's available in the presentation on our website. You can see year-by-year capex and date of completion.

Naysar Parikh: Got it. And just one last data point. You said the institutional ARPOB obviously has improved significantly. So, now, where does the gap between institutional and non-institutional ARPOB lie? What would be the gap?

Abhay Soi: 85%. If ARPOB for institutional is INR 100, for non-institutional, it is INR 185.

Naysar Parikh: Okay. Thank you.

Moderator: The next question is from the line of Alankar Garude from Kotak Institutional Equities.

Alankar Garude: So, you mentioned about expecting to make some announcements on the expansion bed shortly. So, just wanted to check when it comes to different expansion models,

like say between partner, built-to-suit, O&M, and acquisitions, do we have any specific preference?

Abhay Soi: No. I mean, acquisitions are, at the right price for the existing, but otherwise built-to-suit, in the sense being asset-light, is very good. We don't particularly like Greenfields.

Alankar Garude: Understood. Okay. And on that point, on this CARE acquisition, you have been providing regular updates, including one yesterday night. Now, on one hand, the appeal is reserved for orders and on the other hand, Blackstone seems to have announced the acquisition, at least as per media articles. So, not sure what to make out of this. Can you please help elaborate on the current situation?

Abhay Soi: The situation is what it is. We have made an appeal to the High Court, now it's for the High Court to decide.

Alankar Garude: Understood. Okay. And one final question.

Abhay Soi: I can't give you any opinion on that. It's for the judge to decide.

Alankar Garude: True. And one final question. Now, when it comes to some of these allied services, we are into diagnostics, then at home, but we have seen some of the other hospital chains doing far more as far as some of these allied healthcare services is concerned, getting into pharmacies, then insurance, diagnostics in a maybe a bigger way. So, maybe in future, not immediately, but in future, are we open to being more aggressive on some of these allied services?

Abhay Soi: I am open to anything and everything in the healthcare business, which others have succeeded in. Philosophically, we don't like to do pioneering things. When they succeed, we will study, we will learn from their mistakes and we will gain confidence from what they got right, and then we will do it better, like we already do. Anybody who does it, I'm very open to doing those things, but let somebody else do it successfully first. There are more than enough examples in front of you where people have jumped into a situation and got it wrong. That's not a game we play. That's not what we're good at, to be honest.

Alankar Garude: Fair enough. Okay. That's it from my side. Thank you.

Moderator: The next question is from the line of Amit Kavani, as an individual investor.

Amit Kavani: Hi, my first question is that I don't know if it's already been asked or have you answered it, but the revision impact on the institutional business, can you tell us what is expected to be in the December quarter and March quarter?

Abhay Soi: I have no idea what it is expected to be because they haven't taken us into confidence on that. So far, the impact has been 5% of the ARPOB of the PSU business, but we have absolutely no clue how the government is thinking about it.

Amit Kavani: So, no further institutional revision has been announced?

Abhay Soi: No. We were expecting it this quarter and now hopefully we are expecting it next quarter, but we don't know when it will come through and how much will it be.

Amit Kavani: Okay. The second question is actually, when I speak to other hospital companies who are not really in metros, they say that the institutional business does not have lower margins than the overall business. So, just trying to understand the kind of, the difference between them and us. Is it just because that we are in metros that our – we are -- non-institutional business is higher paying? Is that the conclusion to reach?

Abhay Soi: No. The institutional business, let's say, has an ARPOB of, let's say, INR 40,000. If the rest of your business, for whatever reasons, has an ARPOB of INR 40,000 or lower, then it doesn't impact you much, does it? My ARPOB is the highest in the industry. Now, why is that? A lot of players have an ARPOB of INR 40,000. Now, that should be a function of two or three things. One is that they're not doing high-end clinical programs like transplants, high-end oncology, etc. They have more medical patients. Their payor mix is not very diverse. They don't have international patients. They don't have cash-paying patients, insurance patients to that extent, and whatever else it is. Substitution of institutional business isn't there. So, obviously, for them, there is no difference in the two.

Amit Kavani: But the question actually is that suppose someone has a hospital, let's say, in Ranchi, which is like a Tier 2 city. So, will the CGHS compensation to them be the same as another hospital in, Saket?

Yogesh Sareen: Almost the same. There are differences in the NCR price and non-NCR price, but I would say not a material difference.

Abhay Soi: Negligible difference, basically the same. The only difference is, Ranchi, there won't be too many CGHS patients, right?

Amit Kavani: Got it. Got it. Got it. Thank you. Thank you, Abhay. Thank you.

Moderator: Thank you. The next question is a follow-up line from Kunal Dhamesha from Macquarie.

Kunal Dhamesha: Thank you, sir. So, on the CGHS and self-pay ARPOB, we have said the difference of around 85%. Can you also quantify what would be the difference for the international patients? So, let's say CGHS is INR 100...

Yogesh Sareen: Well, international patients typically is 1.5x of the cash and insurance.

Kunal Dhamesha: So, could it be roughly around INR 250? Like, if CGHS is INR 100...

Abhay Soi: If CGHS is INR 100, cash and insurance is INR 185. This is 50% more than INR 185.

Kunal Dhamesha: Okay, okay. Perfect.. And these are the numbers for H-1, I would say? Or, like, more or less, this remains...

Abhay Soi: They're current numbers, running numbers.

Kunal Dhamesha: Current numbers. Okay, okay. And secondly, on CGHS, on institutional, you said that we are now taking higher complex procedures, etc. So, do we have that flexibility, you know, to choose on the specialty on CGHS or some of the institutional business?

Abhay Soi: Well, we inherently do, because some of our hospitals are now disengaged, and other hospitals which are engaged may not sometimes have those kinds of facilities.

Kunal Dhamesha: Okay.

Abhay Soi: There's a churn which happens.

Kunal Dhamesha: Okay, so, basically, some word of mouth, something, you know, more people...

Abhay Soi: Not word of mouth. Like for some of our hospitals, we've stepped out of CGHS contracts. So, you start moving away from that.

Kunal Dhamesha: So, we have the flexibility of, you know, saying no to other specialties, basically?

Abhay Soi: It's not a question of flexibility. It's a matter of contract. We've gone and told them that we can't treat patients, right? Our contract has been amended to that effect. It's not a flexibility that we have. If we have a flexibility for all of it, then you do all of it. You can't start anything. You can start for whatever arrangement you have.

Kunal Dhamesha: Okay. So, our contract is only for few specialties where we have, you know, strong base and more complex. Okay. Perfect. Thank you.

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

Abhay Soi: Thank you all for coming on to Max Network's Q2 FY24 results. We look forward to seeing you for our next results as well. Thank you very much. Goodbye.