August 28, 2020

The Secretary,
National Stock Exchange of India Limited
Exchange Plaza, Plot C-1, Block G,
Bandra Kurla Complex,
Bandra (E),
MUMBAI - 400 051
Scrip Code: MAXHEALTH

The Secretary,
BSE Limited
25th Floor,
Phiroze Jeejeebhoy Towers,
Dalal Street,
MUMBAI - 400 001
Scrip Code: 543220

Sub: Transcript for Investor and Analysts Conference Call made on July 30, 2020

Dear Sirs,

In furtherance to our letter dated August 21, 2020, regarding the presentation (dated July 27, 2020) made to the investors on July 30, 2020, please find enclosed herewith transcript for Investor and Analysts Conference Call made on July 30, 2020.

This is for your information and records.

Thanking you,

For Max Healthcare Institute Limited

RUCHI MAHAJAN
Digitally signed by RUCHI MAHAJAN
Date: 2020.08.28 19:47:24 +05'30'

Ruchi Mahajan
Company Secretary & Compliance Officer

Encl:- As above

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www.maxhealthcare.in

Max Healthcare Institute Limited

Investor and Analysts Conference Call Transcript

July 30, 2020

Moderator: Ladies and gentlemen, good day and welcome to Max Healthcare Institute Limited's Investor and Analysts 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: Thank you. Good afternoon, everyone. And thank you for joining us on Max Healthcare Institute Limited Investor and Analysts Conference Call. We have with us Mr. Abhay Soi – Chairman and Managing Director of the company; Mr. Yogesh Sareen – Senior Director and Chief Financial Officer; Mr. Dilip Bidani – Senior Director, Finance; and Mr. Gautam Wadhwa – EVP Business Development and Business Intelligence 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 maybe for looking in nature and a disclaimer to this effect has been included in the investor presentation shared with you earlier.

I would now like to invite Abhay to make his opening remarks.

Abhay Soi: Good evening each and every one. I am delighted to welcome each one of you to the first formal investor call for the new combined Max Healthcare entity. Max Healthcare is now the second largest hospital chain in India in terms of revenue, this is just behind Apollo. It has been formed recently through a merger between Radiant Life Care and Max Healthcare effective 1st of June, and we are perhaps looking at a listing sometime in the middle of August. Presently we have 17 facilities, 11 of which are state-of-the-art tertiary and quaternary care hospitals, with a large concentration within the Delhi NCR region, with 13 of the 17 present over there. We totally have 3,400 strength of quaternary care beds, and our vision is to be considered the most well-regarded healthcare provider in India.

Before we get into the details of where we are planning to go in terms of a strategy, I thought I should also better introduce myself. I would like to touch upon my background, my journey, Radiant's journey in healthcare so far, what really attracted us to Max, the journey with Max so far, and what our experience has been with COVID as well as what is our strategy and the way-forward is from here. We will of course be open to questions and answers after I finish with my opening remarks.

So, my background is, I used to head the restructuring practice at Arthur Andersen and then I did a short stint at E&Y where I used to do the same thing, and then KPMG. Thereafter, started a Special Situations Fund in 2003 with backing from a very large US hedge fund called Baupost. So purely looking at special situations

and turnarounds of companies across sectors but agnostic to which sector I was dealing in, so Specialty Chemicals to paperboards to textile. My healthcare journey really started in 2010 with commissioning of BL Kapur Hospital in Delhi. This is a 550 bed, the state-of-the-art quaternary care hospital which was built in Karol Bagh in Delhi. And I believe was involved in acquiring the company first which was Radiant at that stage, which had a concession on a single hospital which is BLK, which was yet to be commissioned. So, with a handful of employees, zero revenues, this is when I walked into Radiant and we commissioned the hospital. We had a bit of a delayed run, because it was the first healthcare venture that I had gotten into, and it took us about three years to break even.

By 2014-2015, we were well in profits and that's when we looked at Nanavati Hospital, which was again a state-of-the-art quaternary care hospital which was set up in 1953 in Mumbai but had seen better days, but was in deep distress. So, we walked in to Nanavati when the ARPOB was about Rs. 12,000 per occupied bed and the sales were about Rs. 9 crore per month but was operating at (-20%) EBITDA margin, was successful in turning that around in a space of four years

So, after the initial success, this is within the first decade of our operations, and with BLK in Delhi as well as Nanavati in Mumbai, we were backed by KKR to look at Max Healthcare. And Max Healthcare was clearly something that throughout our journey we had aspired for. We went back to look at Max Healthcare, at that point of time the promoters were looking at an exit window – it was a joint venture between Life Care South Africa as well as Max India Limited. What initially attracted us, and what continued to be the attraction of Max Healthcare, was it was a very, very dominant brand within the Delhi NCR region. It had geographical concentration in this area, while being present in the tri-city of Noida, UP-Haryana as well as Delhi. It is very well located along with a well-built infrastructure, state-of-the-art technology and very high contribution margins, yet a very high indirect cost as well, which created a situation of a very low EBITDA margin. It had certain adjacencies like a very good network of laboratories business which had already been created and an extremely valuable land bank right in the middle of Delhi. Now, looking at very early on, our core Delhi business was operating at a far higher EBITDA margin compared to Max, and that was initially the attraction as far as Max is concerned.

Our journey so far, initially we spent some time making a plan which was essentially about controlling the indirect cost, making structural cost savings within Max in order to bring up EBITDA margins, which would have been followed by synergies and further cost savings post-merger as well as a focus on revenues. Now, this was our stated KPI and stated goals that we have had initially, and thereafter would have been about, the plan is to spin off some of the adjacent businesses and build a retail value in those. So, our journey so far has been quite satisfying and quite promising, because what the KPIs that we have within the first two years of doing the acquisition and merger we were able to deliver upon them within 10 to 11 months. It can be seen in the current performance of the company as well over the last 10 to 11 months.

Now, essentially what we have done is, we have worked to our plan and we have actually implemented cost savings of Rs. 220 crore over the last one year, of which Rs. 140 crore have been banked, and the balance is yet to be banked over the next year. And because we got the benefit of only six to seven months and not the entire one year for the entire savings. We have also been able to form, there have been certain vulnerabilities in the market because of certain transactions which took place within our competitors, which also brought a very interesting situation. Where we were able to attract excellent management team, not only from what was available at Max and Radiant but also from Fortis and some of the other competitors that were there, including some clinical programs and some doctors,

which we were able to attract and bring in place in H2 FY '20. Our performance clearly has demonstrated these strengths. And as far as Max is concerned, we saw the EBITDA increase from Rs. 238 crore in FY '19 to Rs. 410 crore in FY '20, and combined EBITDA of Rs. 356 crore in FY '19 has moved up to Rs. 545 crore in FY '20. Now, this is a pre-IndAS numbers, post-IndAS 116 this number has moved to Rs. 587 crore.

Now, these numbers are in spite of the impact of COVID. We were clocking an extremely high rate, in fact up till almost the 20th of March, and things fell off the cliff in the last 10-11 days of the quarter, but in spite of that we have hit actually very good numbers. As far as COVID is concerned, again, it is something which caught many of us off guard, but very early on we decided that, "Look, we will step into the eye of the storm. This is perhaps one of the greatest pandemics in living history and we are not going to sit this one out". So far, we have treated more than 6,000 patients. We have conducted over 60,000 tests. We have participated in about 40-odd clinical studies, we have conducted the first convalescent plasma in the country, and now we even happen to be the most preferred destination both in Delhi or Mumbai, as far as COVID is concerned. The organization itself has showed great agility through meticulous planning, and has in fact demonstrated the ability to face adversity in a very ambiguous and volatile environment, which has brought the team together and made it extremely battle hardy management team. We have been able to conserve cash through cost cuts, and better collections in a manner that we have maintained our net cash position even through the worst times. And today I am happy to say that, "Look, while the worst is behind us, our net cash position has not deteriorated even during the downturn".

We used this opportunity to work very closely with the Government. We have built bridges with the Government to work with the community. We conducted over 300 webinars with corporates and others, and built an extremely robust tele-consultant platform. In fact, while not even a handful of our OPDs were conducted through tele-consultants earlier, now we have 15% of our total OPDs are conducted through tele-consultants. Going forward, again, we now see the worst behind us, the positivity rate itself at our own flu clinics, where very serious patients normally come, it's not the people who are asymptomatic in Delhi, and NCR has come below 5%. Our occupancy levels, which had gone down to below 30% are up to 60%. Our losses, in fact, has been gradually reducing and we have been in positive for the last month or so. In fact, to the extent that our losses of May were made up in June through the surplus EBITDA in June, and July we continue to be even more profitable. Our non-COVID work has also increased, and that is a very positive sign that at present we have a 60% to 63% occupancy, pre-COVID times we used to have a 70% to 73% occupancy, and a majority of this occupancy is coming through non-COVID rather than COVID work.

We expect a full recovery sometime in Q4 and perhaps the following year our business would be back to normal. Besides the Rs. 50-odd crore of cost savings, which were implemented but were not banked in the last year, which is going to come through in FY '21, we also have a plan for further cost savings and synergies between Radiant and Max to the tune of about Rs. 100 crore. We expect Rs. 60-odd crore of this should be banked in FY '21, and the balance will spill over perhaps to FY '22. Again, in the current year, we are also looking at focusing further on enhancing our clinical programs in continuation of what we did in Q4 FY '20, and we are looking at optimizing our payor mix. Because some amount of our business, and as some of you would have seen in the presentation as well, is lower sponsor groups and we will be looking at optimizing it going forward. Again, the strategy going forward, overall strategy would include to build a medical tourism business to build on the clinical programs, but clearly the ecosystem is available in the metros, the best of doctors in the high-end clinical programs can be conducted in Metros. So, that infrastructure lends itself to medical tourism, both from a

domestic and international standpoint because the best of talent, technology and infrastructure is available in metros one way or the other.

We are looking at rolling out in future Brownfield expansion projects, because we have arguably the most valuable two pieces of land that we have arrangements for in Delhi and in Mumbai. In Delhi it is right in the middle of South Delhi in Saket where we have got 7.2 acres of land in Max Smart where we are looking at a partial build out of 600 beds, first phase will be 350-odd beds. And in Mumbai, right in the middle of Juhu we have Nanavati Hospital which is 4.2 acres of land, where we are looking at about a 600 bed build out going into the future, both these build outs will cost us about Rs. 1,300 crore, but it will be conducted over a period of five years. We intend to do it going forward out of internal accruals. It's also the three main pillars of growth going forward, essentially are going to be, first and foremost is going to be to optimize our existing network. We continue to develop high-end tertiary and quaternary care programs, like I said, which lends itself to medical tourism. We are also looking at setting up a large network of direct to fly offices overseas, which will enable medical tourism very similar to perhaps what Bumrungrad has done. We are looking at strengthening our upcountry reach, while we understand for low-end clinical programs and for the usual stuff, people will have their single-Specialty hospitals and other nursing homes which are created in Tier-2, Tier-3 cities. But for high-end and quaternary care programs, people will continue to come to the metros, because, again, availability of talent is there. We are also looking at realizing synergies through Max and Radiant, like I said. And also, further cost optimization that we are looking at.

Besides Brownfield projects, which we have to executed over the next four to five years, we also have an opportunity to partner through asset-light models. For example, O&Ms with others, whether it is real-estate players or real-estate equity funds and REITs. Where we are looking at a build, own operate and transfer sort of a thing, where our own allocation of capital is going to be limited, but we will be partnering with them to provide the O&M as well as perhaps some equipment. Opportunistically, of course, we can look at inorganic growth. And we presume that there is going to be some amount of shake down in the industry, there will be further consolidation because the challenging time would have created stress on balance sheet. And we will be opportunistic and look at value accretive opportunities as we go along. Other than that, we are also looking at scaling up and unlocking value in some of our adjacent business, like the Max Laboratory business, this we have a part retail and a lot of it is also got to do with the in-house. But it happens to be the third-largest laboratory path business in North India at present, and we believe that the time is ripe for us to build out that business in order to be able to unlock value in it.

I think other than that, like I mentioned earlier, our vision is to be amongst the best regarded businesses in the industry. And this essentially, we are looking at as a combination of what is it that Regarded means, in terms of what does it mean to investors, what does it mean to clinicians, patients and employees. From the investor standpoint, we are maybe looking at a very, very strong governance, we have a strong board, we have majority of our directors which are independent. For example, we have Michael Neeb on the board, who is the former President of HCA, one of the largest healthcare companies in the world, definitely the largest in the US. Mr. UK Sinha is on the board, and he is the former Chairman of SEBI. We have Mr. Mahendar Lodha and Narasimha Murthy, who are also independents. Other than that, we have Ananya Tripathi and as well as Mr. Sanjay Nair who is the CEO of KKR India. So, it is a strong governance that we have out there. Plus, from an investor's standpoint, we are looking at a healthy balance sheet, we are looking at efficient operations and we are looking at a profitable growth going forward.

From a clinician standpoint, we are looking at creating world-class infrastructure, building out further on the world-class infrastructure that we already have, state-of-the-art technology, of course. Very well-defined clinical programs and focus on research and academics. One of the hallmarks of us is, majority of our hospitals are teaching hospitals and this is something we want to continue building out on. Our facilities, like I mentioned, our quaternary care facilities which perhaps have the best-in-class clinical programs. We are going to be further focusing on patient-centric approach, which is going to be defined by transparency as well as quality of care that we are looking at providing, by assuming even a global best-practices and the Indian way of practicing as well. I think we have a lot to bring in to global-best practices as well.

Our compensation structure for the employees, again, is that they are going to be rewarded by growth going forward. And there is a constant pursuit to strengthen the management. And this comes through extremely collaborative approach. We genuinely believe we perhaps have the best management team at present in the industry. And this has been not only through confluence of the best of people from the industry over the last one year, but having performed and having delivered on a very steep performance over the last one year, but also having come together in the face of an adversity, which is COVID. And perhaps someday I am going to write a book on this, how they have come together, and we have really danced on a dime in order to cater to the COVID requirements, address this challenge that was in front of us. And I genuinely believe this is going to hold us in very, very good stead.

So, thank you. That was my opening remarks. And me and my team are happy to answer any Q&As that you may have.

Moderator: Thank you very much, sir. The first question is from line of Aditya Khemka from DSP Investment Managers.

Aditya Khemka: Good to hear you, Abhay, and rest of the team. So, first question Abhay you mentioned that we are looking aggressively at growth rate, looking at expansion of Rs. 1,300 crore, Rs. 1,500 crore over the next few years, we are looking at brownfield, greenfield, even we are looking at inorganic. In a time when you look at some of your competitors or your peers in India, most of them seem to have rather raised their hands when it comes to CAPEX. And they are saying, "Look, we want to ramp-up the existing BTEs, the occupancy at the existing facilities and even prefer to wait to see where government is going with the regulations before we plan raise further capital. So, what are your thoughts on that?

Abhay Soi: So, a couple of things. Essentially, we are already operating at 73-74% capacity utilization. And if you see, our main hub facilities, they are operating at even higher capacity utilizations. Now, if you look at an aggregate, it's 72% but we are +80% in some of our main facilities. Now, what happens is that doctors from one facility necessarily don't transfer into the other, and nor do the patients. So, what you have to solve for is capacity utilization in a specific place rather than at an aggregate level across the district. Now, I mean, if I give you an example of Delhi, while Max is operating at +75% occupancy in the Delhi NCR region. We also have certain sponsor groups which are the government sponsored groups which are ECHS, CGHS and so on and so forth. While there are other hospitals like Gangaram or Apollo in Delhi which are single hospitals, which don't cater to them, and these are sponsor groups which provide you lower ARPOBs as well as even a lower contribution. And the reason they don't cater to them is that perhaps they, over the last two, three decades just stopped at that one facility, while Max has added more facilities. The minute you do that, you don't churn or distill the sponsor groups. Now we believe, over the next three to five years, okay there is adequate idle capacity that we have in the system, idle capacity means through churn, moving up to 75%

which we would be able to. But thereafter, you are going to come and hit a full stop at some stage where you are going to be out of capacity.

Now, having said that, there is a major difference between a greenfield venture and a Brownfield venture. Here we are looking at adjacent capacity, we are not looking at any greenfield. So, we are saying, "Look, here is a business, here is a 700 bed cluster which is operating at 75%, 76% in the middle of South Delhi, I am going to add another 350 beds over there over the next five years to six years, which is already operating at full capacity". Now, what happens is, when we expand this, one of the large costs in a new hospital opening is perhaps the operating losses at startup, but a Brownfield doesn't have that because fixed costs are already taken care of and it's pretty much like opening one floor after the other. And look, frankly, it would be a travesty where we have perhaps one of the most valuable land rights in the middle of South Delhi and you don't expand on that. We look at the same thing in Mumbai. I mean, there is a huge shortage of beds. We are operating at close to 70% capacity utilization over there. Even at present, even during COVID times we are at about 66%-odd, and there is an opportunity. I mean, no iconic hospital in Mumbai has even the ability to expand, because there is no FSI and there is no space. We have adequate land, we have adequate FSI, and we have approved plans to do so. So again, it's a great opportunity for us to be able to expand at a fraction of a cost what other greenfield would have done. And frankly, the capacity will come over the next five years. And in a place like Mumbai we don't even do panel patients, we don't do GIPSA, we don't do the lower payor groups, and so on and so forth.

So, clearly there is an opportunity. In the immediate run, of course, you will be looking at things from post-covid standpoint. So we are not looking at capacity coming in line over the next one year or two years. We are looking at coming in line over the next four to five years. But prior to that, we are looking at optimizing capacity utilization through payor mix. But do keep in mind that overall, we are still at 70% to 73% occupancy.

Yogesh Sareen: Also, I think you mentioned about BTEs so, obviously, we also know that there can be that sort of events, which can happen. But at the same time, as Abhay mentioned, that we have a team which is an agile team. We know how to navigate the regulatory challenges that we face. And I think we have already done that. For example, even in the start of the year, in March 2019 there was a price cut of Rs. 20 crore of impact on the oncology drugs. But despite that, we have grown over contribution levels, that means the material price have also come down. So, I think that shows that the team knows how to really navigate and really work around these regulations.

Abhay Soi: And I think, frankly, if you see, not only the oncology drugs but even there has been increase in minimum wages in Delhi by about 45%. There have been various price capping and other measures etc., and those are expected to continue going into the future. But eventually it's about how you navigate through it and we have been better off for it rather than worse.

Aditya Khemka: Got you. When you embark on such capital projects, Abhay, obviously you would be doing some sort of modeling to see what is the potential return you can earn from such projects. If I ask, what is the benchmark rate that you model in your numbers when you find such projects and such CAPEX programs, what is the hurdle rate that would allow you to do such CAPEX versus stop you from doing it? I mean, so is there a minimum return on investment that you guys look at, an IRR, what is the approach that you take?

Yogesh Sareen: I would say, we obviously look at, at least an IRR of 18% to 22%. But that means that the EBITDA margin of 25% on a stable state basis on an incremental basis .

Aditya Khemka: Got you. And Abhay, you made a very interesting comment on Max Diagnostic, that being the third largest in NCR region in India. Could you give us some sense of how many labs you have? So, does Max Diagnostic have a standalone lab outside Max Hospitals? Or is it only the in-house laboratory? And if it is either case, what is the total revenue profitability of that enterprise, if you could give us some hint on that side.

Gautam Wadhwa: So, when we talk about the lab business, this is the outside hospital, and there are different formats. So, you have the collection centers, which we call the partner run collection centers. We have phlebotomists at site where in regular clinics we have our own phlebo sitting. So, when a patient comes into that particular GP, the sample can be taken, that's called a phlebos at site. We have something called pickup points where we go and pick up samples from the GPs and other clinics and nursing homes.

Aditya Khemka: Got you. So, how many laboratories or points of collection centers would you have outside of Max Hospitals in the NCR region?

Gautam Wadhwa: So, coming to that, so if I exclude the Max Hospital, of course, we have about +100 collection centers, +120 phlebos at site . The third one I said pickup points, we have +130. And hospital lab management, which is basically the lab is outsourced to us, we do 16 such hospitals. Now, all of this in FY '20 gave us a revenue of roughly about Rs. 60 crore.

Aditya Khemka: Understood. You made a very interesting comment O&M contracts, partnership model. My understanding is, O&M contracts are a way of leveraging your existing manpower and more productive than otherwise. But in your historical experience, are O&M contracts profitable? Are they worth the effort and time the management spends on it?

Abhay Soi: I mean, if you look at it, whether it's BL Kapur or BLK, etc., I mean these are management contracts that we have, and they have been extremely successful. Going forward we believe there is opportunities because of the ways the REITS are coming up, they are looking at there is going to be growth capital and there is going to be actually stable yield that people are going to be looking at. So, two ways that is bifurcated and segregated. While some players may be looking at yields through REITS, others may be looking at a growth capital, and growth is where we want to play at, while that 7% to 8% growth by REITS by building out an asset and providing it to us to our specification make work very well for us. Then what you do is you kind of slice the return profile and you segregate the two.

Aditya Khemka: Got you. One last question from me, if I may. Most of the hospitals historically have had a problem with debt. And they generally have that debt problem when they decides aggressive expansion plan, and if things don't go their way on the base business, then the debt ends up piling up on the balance sheet and then we see promoters pledging shares and trying to manage the liquidity somehow. Could you guys have like a plan on the balance sheet side, where a level of debt that you won't cross, some threshold which you don't want to cross or a threshold where you are comfortable with in terms of your debt-to-EBITDA ratio, net debt-to-equity ratio, whatever ratio you guys may be looking at?

Abhay Soi: So, we certainly want to bring it down below 3. At present we have a total debt stack of net debt of about Rs. 1,500 crore, we are sitting on close to about Rs. 375 crore of cash. It's also auto designed simply because we have during Covid times

wanted to hold on to cash. Interestingly, our cash position has not deteriorated through this entire downturn. So, we have long-term loans of Rs. 1,750 crore, of which Rs. 620 crore is an unsecured loan to the company, it's a loan which is guaranteed by KKR. We have against that about Rs. 372 crore of cash that we are sitting on. Other than that, we have a put option of about Rs. 586 crore in the company, which is to do with the Max Saket partial share put option as well as Crosslay. So, we are looking at about Rs. 2,100 crore net debt number at present.

Aditya Khemka: So today the net debt number is Rs. 2,100 crore, right?

Yogesh Sareen: We have a net debt of Rs. 2,100 crore at the end of June, of this Rs. 2,100 crore, this is net of the cash in hand that we have, which is around Rs. 370 crore of cash that we have. This doesn't take the undrawn CC limit, we do have undrawn CC limit, but I am not taking that into account. So, I am saying, Rs. 2,100 crore net debt, of which, Abhay mentioned that Rs.620 crore is in instrument where we have not serviced it through the company's cash flow. That means that we have a line to pay the interest from, so that means this will ultimately be taken out through some other route. But this is not a big amount coming out of the company's cash flow. So, eventually what we have ended up with is Rs. 1,500 crore of debt, and we will have enough cash flows from the business to services this debt. And as things stand today, the debt is 6-13 years debtthe debt repayment amount will be very small. In FY '21, the total debt repayment will be roughly in the tune of Rs. 35 crore, and FY22 is Rs. 70 crore. So, we see there is not major stress coming because of the debt, it is only the level of service around Rs. 1,500 crore of debt. This includes the put option liability, that means this is the liability for which we want to take this loan to take the balance share from the two minority shareholders that we have in two of the subsidiaries.

Abhay Soi: But having said that, which we mentioned earlier, any expansion that we do, we will be doing through subsequent equity raise. And we may use that money to retire debt upfront, and therefore the expansion will happen through internal accruals over the next five years.

Moderator: The next question is from the line of Sriraam Rathi from ICICI Securities Limited.

Sriraam Rathi: So, basically we are already at around 4x net debt-to-EBITDA, and for the future growth, of course, we will have to expand since we are already at 73% occupancy level. So just wanted to get an idea of that for the addition of this around 2,000-odd beds over the next four to five years, what kind of CAPEX will be required, since these are Brownfield expansions? And how the same will be funded?

Abhay Soi: So, perhaps one needs to look at it slightly differently. Although you are looking at the EBITDA at a particular point in time, that is like I mentioned, out of the total savings we implemented of Rs. 220 crore, Rs. 140 crore was banked in the previous year, the balance will be banked in the current year. On top of that, we are looking at another Rs. 100 crore of savings as well as synergies to be implemented in the current year, which will be banked between the current year and the following year. Okay? So, those are two things that one has to keep in mind.

Secondly, we are looking at an expansion of about close to 1,000 beds, okay, in Phase 1 over the next five years at a cost of over Rs. 1,300 crore. The expansion will happen through an equity raise, because frankly we don't have surplus cash to that extent, nor do we want to leverage further in order to do this CAPEX. So, what we are going to be doing is, at the right time doing the equity raise to fund this CAPEX. Of course, because you can't be doing equity raise in batches, initially we will be of course retiring our debt with it, the present debt that we have. And

therefore, using internal accruals to fund the CAPEX rather than internal accruals to fund the current debt obligation.

Sriraam Rathi: Okay, fair enough. Secondly, particularly this Mumbai Nanavati Hospital, a significant turnaround has happened in the last year, the margins are around 7%, but much lower than the other facilities. So, what is the reason for the same? And how far it can go in terms of further expansion?

Abhay Soi: Yes. So, look, our Delhi facility has been operating at about 18% to 19% EBITDA margin. And if I look at line by line, even perhaps Nanavati is at a similar this thing. There has been some historical baggage in terms of personnel cost, which has been 30%+ in Nanavati and it should be pretty much at the early 20s compared to every other hospital which is there, but this is due to unionization etc. We were looking forward to conducting a VRS in the hospital, so use a bit of balance sheet in order to do away with the high cost of legacy employees. Now, this can be sorted out through two ways, one is to expand capacity so that high labour cost tends to get spread over a larger amount of beds and normalizes. And second is that you use your balance sheet in order to retire, through voluntary retirement of some of the employees.

Now this whole COVID situation did happen in the middle. And of course, we had to delay all of this. And as soon as this kind of abates, that is the direction we want go to. So, it would be a step change as far as the ARPOB is concerned, as far as the contribution margin is concerned, as far as every other line item is concerned, it is comparable to any other good facility that we have. Except for this one line item which is the 10% delta.

Sriraam Rathi: Okay, got it. And, particularly this COVID related occupancy, what will be the difference between the normal ARPOB and COVID ARPOB? And also, the profitability part.

Abhay Soi: So, at present, the COVID ARPOB is clearly lower than the normal ARPOB. But on a weighted average basis, we are coming out on a decent footing compared to what our erstwhile ARPOB was. And mind you that erstwhile ARPOB included international business, which was at a fairly high rate. But having said that, what has also happened during COVID times is, only people are coming for more surgical procedures and more serious procedures, which kind of pushes up your ARPOB rather than the less serious stuff like medical admissions etc. So, people are only visiting hospitals where they think it is absolutely necessary and it is typically for higher rate programs, the more complex situations and procedures which is kind of driving up your ARPOB.

Yogesh Sareen: So present ARPOB has already dropped, it has dropped by around 25% over the normal ARPOB. It is mainly because of the fact that we have a lot of COVID. So, typically, I mean if you ask me, today it is 24:76, that means 24% of the patients in the hospital today are COVID, and 76 are non-COVID. So, to that sense, the impact is lower as of now. But obviously, in the previous months, for example in April, May or even June, we had a higher impact of the COVID occupancy. So as of now, at the outset, quarter one will be 20% lower than the normal quarter. So, if you take present, there is 10% to 12% delta between the normal occupancy and the normal ARPOB and the COVID ARPOB. It's also probably because the OPD has not really picked up as much as we wanted to be. For example, on the DHP has not picked up, the admission is not that high today. So obviously that impacts the ARPOB as well.

Abhay Soi: And the more important thing is, the way we look at it is more seasonal then structural, it is more due to the pandemic. And like I said, by Q4 we are looking at things to come back to where they should have been.

Sriraam Rathi: Sure. And lastly just one thing. We have 60% occupancy now in July we are back to, we are in cash profit positive right now, right?

Abhay Soi: So, we have been cash-profit throughout, even in the worst month of April we cash profit. Having said that, let alone that profit, even in terms of EBITDA we are positive. So of course, April was a big loss month for us, but after that it has progressively improved to such an extent that although we would have lost a little bit of money in May, we made up the loss of May in June and July continues to be more profitable. So essentially, really net-net the lost month would have been April for us.

Yogesh Sareen: Some of it has also put some temporary cuts that we have made in terms of doctor payouts and salaries, etc., which we will have to unwind once we see the occupancy of the levels that we want it to be. So, I would say, June EBITDA, as Abhay mentioned was positive and we could recover the EBITDA loss of May in June, and probably a bit more than that. It's only April loss, which was a heavy one, which we are yet to recover, which we do feel that in the month of July and others we should be able to achieve.

Abhay Soi: Again, that is EBITDA loss and not an operating cash loss, because of some of the cost saving programs. These are now seasonal cost saving programs. And not to be mixed with the structural ones of Rs. 220 and 100 crore that we are speaking about, which were really seasonal in order to arrest the financial loss of the COVID. We had some temporary salary cuts and so on and so forth. Other than that, we focused on collections. So, between the salary and the collections, we were cash flow positive for that month of April as well, which was the worst month, of course, subsequently every month we will be positive.

Yogesh Sareen: So that's been, I would say, good part of the COVID that we went to the Government and although we didn't get any special packages for hospital, but what we got is the funds which were stuck up. And also, we got an outstanding from CGHS and ECHS, both are the government payor, the AR has come down by Rs. 80 crore by end of June, which means that this is the money that services some of those more than 270 days of outstanding. So we got that money from the Government, once we went to them asking for this money to really fund us. And also, we got Rs. 45 crore of Income Tax refunds which were also stuck up by June. And in July, we got another Rs. 45 crore, so we got Rs. 85 crore of Income Tax refunds till now. So, which is what is helping us on the cash side, and which is what Abhay mentioned that despite the fact that we had EBITDA losses, etc., and the revenues also lower, we still have been able to make sure that we have the enough cash available with us, which is going to be deployed in business for CAPEX and other things.

Moderator: The next question is from the line of Pritesh Chhedda from Lucky Investment Managers.

Pritesh Chhedda: Sir, some clarification, , in quarter one there is an EBITDA loss but there is no cash loss because of a better working capital, that's the conclusion?

Abhay Soi: Yes, right.

Pritesh Chhedda: Then in July when you are operating at 62% operating utilization level, still the ARPOB is down by about 25% because of the mix of the cases?

Yogesh Sareen: 10% to12%.

Pritesh Chhedda: Okay. My third clarification is, there is a debt figure which is mentioned in your presentation, which is about Rs. 1,926 crore. Then there was a debt figure which was given of Rs. 2,100 crore, which was a net debt figure. So, just wanted to understand, post the whole merger and you taking the residual subsidiaries 100% stake, what is the gross debt number and what is the cash which has to be considered? Because I think the past con-call referred to Rs. 2,500 crore gross debt. So, if you could just clarify that.

Abhay Soi: Yes, it will be in the same ballpark. So, I think the only difference is, last time the Rs. 2,500 crore was being spoken about, at that time the cash in hand, of course, which was being envisaged, perhaps was not Rs. 426 crore at the end of March. So, while we are talking about the Rs. 2,500 crore number now end of March, we also have Rs. 426 crore of cash end of March. Now, this is largely due to two or three facts, one is, we were able to negotiate discounts on a put option to the tune of Rs. 90 crore. On top of that, we have had a better performance than in regards as far as EBITDA is concerned to the tune of about Rs. 80 crore to Rs. 90 crore. And in addition to that, we have unlocked working capital to the tune of about Rs. 80-odd crore. So, I think between the three of them we have had surplus cash. So, your net debt figure, I mean, of course, that time when we were talking about Rs. 2,500 crore net debt, nobody was assuming Rs. 426 crore of cash in hand. But here, because of COVID, we have kept those limits drawn down, we have kept excess cash with us. In normal times we would use this money to pay down the debt that we have.

Yogesh Sareen: So, you see a number of Rs. 1,500 crore as net debt. Add to that Rs. 586 crore of put option liability loan, which we will use to buy those shares from minority shareholders. And add to that Rs. 426 crore of the cash that we have, that makes it Rs. 2,500 crore gross debt. So, Rs.1,500 crore plus Rs. 586 crore plus Rs. 426 crore.

Pritesh Chhedda: In your Slide #23 when you are mentioning about cost initiatives, so you want to highlight that Rs. 80 crore plus additional some number will bring to Rs. 100 crore cost reduction in FY '21? Or I have to read it as Rs. 80 crore plus additional Rs. 100 crore?

Abhay Soi: No, so you are going to read it as Rs. 80 crore plus additional Rs. 100 crore, but that additional Rs. 100 crore, all of it won't flow in, in FY '21. Only 60% of that will flow in, like when we implemented Rs. 220 crore in FY '20, you had Rs. 140 crore flew in FY '20 and balance Rs. 80 crore will be banked in FY '21. So, similarly, we have Rs. 100 crore of implementation happening in FY '21, of which Rs. 60 crore is estimated to flying in FY '21, and balance Rs. 40 crore in FY '22. So, what you are going to have is, in FY '21, Rs.60 crore plus Rs.80 crore will come in, additional to Rs.140 crore which has already coming in the previous year. And then in FY '22 additional Rs.40 crore should come in.

Pritesh Chhedda: What would be the networking margins be in July when you are operating at about 60% to 63% type utilization and a 10% or 15% lower ARPOB of about Rs. 40,000. So, at that number, what is the margin that we make?

Yogesh Sareen: I don't have the number yet for that, I think we have to wait for the numbers to come. And I don't think we would like to guess the number at this stage.

Pritesh Chhedda: And on the EBITDA, the IndAS adjusted EBITDA for FY '20, because your slide 25 doesn't mention the IndAS adjusted EBITDA. Did you refer to a Rs. 510 crore is what do you said?

Gautam Wadhwa: No, Rs. 587 crore, it is on Slide #8 Rs.587 crore on slide#25 is also the same, it is IndAS adjusted and adjustment is given below in the footnote.

Pritesh Chhedda: Okay. And lastly on the capital structure side, when few questions were being asked. So, running at Rs. 2,500 crore gross debt with Rs. 200 crore -odd crore interest payment plus some maintenance CAPEX. So, ideally you cannot have an expansion CAPEX, so have we chopped out a peak debt for us over the next two three years before the equity raise? Or how are we looking at the capital structure?

Abhay Soi: So, like I said, I think CAPEX we are going to do, clearly, I think the current cash flows will take care of it. Given the fact that a large part of the debt is a big instrument and it is a gross debt number that you are looking at and not a net debt number. So actually, the serviceability on with the current cash flows is adequate. But clearly, I think as far as like you rightly mentioned, as far as CAPEX is concerned, we will require external funding. And we intend to do that through equity at the right time.

Pritesh Chhedda: So, which means this is the peak that basically which we have to look at?

Abhay Soi: Oh, yes.

Pritesh Chhedda: And your CAPEX for expansion, when does it starts happening?

Abhay Soi: So, look, I think the proposal was to do it in the current year, but of course things have changed. I mean, at this point in time we are looking at putting it into the next year if things play according to plan, which is where we get back to normal in Q4, then we will commence it in H1 FY '22. If things change, then we will obviously have to keep our plans in storage to that extended period of time till we get normalcy. So, we are not going to do guesswork on that, we will look at getting things on a firm footing, business like normal firm footing before we intend to commence this capital expenditure. It clearly does not make sense to do any capital expenditure or commence capital expenditure till we are on firm ground, our occupancy levels are back to where we were looking at. And there is a requirement of that extra capacity.

Pritesh Chhedda: Okay. Is maintenance CAPEX of Rs. 200 crore a right number or different number has to be considered?

Abhay Soi: I would say probably Rs. 150 crore is more likely.

Moderator: The next question is from the line of Geetika Gupta from First Voyager Advisors.

Geetika Gupta: First of all, congratulations on great set of numbers. I have a question on the ARPOB side. We have taken the ARPOB up to almost like Rs. 53,000 for Max. Do you see further upside to this number, because it's already I think one of the highest in India, some colour on that?

Abhay Soi: So, absolutely. We see a significant upside to that, in fact if you ask me. Because if you see, 40% odd of the business, and there is a specific slide to. 40% odd of the business is through lower payor groups, lower sponsor groups like CGHS, ECHS and so on. If you could just see slide 20, I mean, I don't know if you have that in front of you. But essentially what it will tell you is, about 50% of the capacity is occupied by what we call CTI, that means Cash, TPAs and International travel. And those businesses actually operate at extremely high ARPOB. The ARPOB is pulled down by the CGHS and ECHS and GIPSA business, and what you are seeing is a blended ARPOB of, let's say Rs. 50,000 odd. But as you churn the payor group, for

example, if you don't do ECHS and that 20% occupancy with that you churn up on the payor group and you kind of cannibalize it through the CTI business going forward, you will see even higher ARPOB. Now, our ARPOB is a function also of the fact that, -, A, we are predominantly metro centric, and we have a significant part of our capacity in the metros, unlike some of our competitors. And B, our hospitals are predicated on the extremely high-end quaternary care clinical programs. So, people are coming to us, we do a large number of transplants, we probably have one of the largest oncology practices in the country, definitely in the in North India. We run the largest bone marrow transplant unit in Asia, one of the largest in the world, and so on. And again, solid organ transplant is something we focus on. These are all expensive things. So, there is a huge amount of leeway that we have as far as our ARPOB is concerned.

Geetika Gupta: Just I was trying to reconcile the debt number again so from what I understand is, there is a net debt of Rs. 2,100 crore right now on the business, right?

Yogesh Sareen: Yes, you are right. Net debt is Rs. 2,100 crore, yes.

Geetika Gupta: And for the expansion you are proposing a CAPEX of Rs. 1,300 crore, all of which will be funded through equity base, right? So Rs. 2,100 crore is the peak of debt that one should look at in the business for now?

Yogesh Sareen: So, don't take net as a peak, I think you should take gross as peak. Gross is Rs. 2,500 crore. So today we have cash sitting on the balance sheet which we have one that we have to deploy in some of these CAPEX that we do. And some of it we will have to take a call. as we have already kept some of it as as reserve for COVID, etc. So, I would say, you should go with gross and not the net.

Abhay Soi: So for peak debt, it should be somewhere between Gross and Net Debt.

Geetika Gupta: Got it. And this put option of Rs. 586 crore, when is that payout likely? What is the timeline for that?

Yogesh Sareen: For the first Rs. 100 crore we have a December date, so we have to do it by December. But they have already exercised the put, so the long stop date is December. For the other ones, we are supposed to that by July 31, but I think we will have to get an extension, because that is the money that IFC has to disperse to us. So, we have forced IFC to give us some waiver on the covenants, because of the COVID situation. So KKR is one who has bought these stakes, so we are buying from KKR. So, this I think will happen in December.

Abhay Soi: And the December put is the value of about Rs. 70 odd crore.

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

Prakash Agarwal: Just trying to understand this better. So, in April you said that loss at the EBITDA level, at what level you actually breakeven at EBITDA? Since you said that you were marginally positive in May.

Abhay Soi: So, look, at EBITDA level we have had certain cost cuts. Without temporary cost cuts, we will breakeven at a 56% occupancy. And including temporary cost cuts, etc., we will breakeven at 48%, 49% occupancy.

Prakash Agarwal: That helps. And correct me if my understanding is correct, most of the hospitals are under mature stage. And we have done a fairly good job from 2019 to 2020 in terms of margin expansion with the cost levers that we already had and part of it

which would be playing out next year, Rs. 30 crore that you mentioned. So how much of it is still left, Rs. 80 crore is given, so you are already touching exit rate of 19%. So, given that, if COVID moves out, so you would be at a steady state 19%, 20%? Or there is more scope in terms of, since you said that your Nanavati hospital still at 7%, on an organic basis is there more scope to go beyond 20% on a base business?

Yogesh Sareen: On that you have to see this exit. So, don't see the Rs. 80 crore on the exit, that would be a wrong calculation. Because Rs. 80 crore is own liquid, so we had a program for Rs. 220 crore, and Rs. 140 crore is delivered. A large part of it would have already flown into quarter four, if you see the exit numbers. So, don't build that Rs. 80 crore on the exit, you have to build the Rs. 80 crore on the full year.

Abhay Soi: I think what you have to do is, if you are looking at percentage, I mean, build it on a full year rather than the exit quarter.

Prakash Agarwal: Yes. So, your exit rate for the fiscal 2020, if I may call it that way is 16%, and you add another Rs. 80 crore absolute on that?

Yogesh Sareen: Since August to March 20, we are saying Rs. 80 crore is yet to come, Rs. 140 crore already has come, Rs. 80 crore is yet to come. That Rs. 80 crore is yet to come because of the fact that this program was implemented in the course of the year, and chances are that quarter one, quarter two this does not happen, even some of it happened in quarter three. So more likely, quarter four will have a large impact of it already there.

Prakash Agarwal: More so, fiscal 2022 when things normalize?

Abhay Soi: Yes, so we will look at it is that, if you were to add the savings that we are yet to do, so take 25% of the savings which you are yet to do, not yet to bank, but yet to implement. Add it to your Q4, probably that will be right way.

Prakash Agarwal: So, I got that right. But what I am trying to understand, so that is the real question that a large part of the operating margin levers has been played out in the maturity assets, apart from that Rs. 80 crore? Or are you working on the case mix side and on the ARPOB also?

Abhay Soi: Rs. 100 crore are yet to be played out.

Yogesh Sareen: In addition to the Rs. 80 crore full year impact of last year's initiative, we are saying that there is another Rs. 100 crore of initiatives yet to get played out on get added to this Rs. 220 crore less in this year, which means FY '21. And obviously, as it happened last time, we will bank some of it in the course of the year, which our current anticipation is that it will 60% of it. So that means Rs. 60 crore will get banked in this year, out of the Rs. 100 crore that we are adding to the program of Rs.220 crore.

Abhay Soi: But I think if you look at it in the context of FY '22, for example, then what you want to do is add Rs.180 crore to your margin for the whole year FY '20. Then of course you have your annual cost increase, and then you have a top-line increase and 57% of that flows into your EBITDA.

Moderator: The next question is from the line of VP Rajesh from Banyan Capital Advisors.

VP Rajesh: Just to clarify on the cost savings. So are you saying that your EBITDA will be roughly Rs. 700 crore in fiscal year 2022? Is that sort of the ballpark number?

Because you have Rs. 587 crore of EBITDA in fiscal year 2020 as of now, right, that's the number in the presentation. And you said, add Rs. 120 crore of potential savings.

Abhay Soi: Rs. 180 crore.

VP Rajesh: Okay. So that goes even higher, okay.

Abhay Soi: There is some other things also which happened by FY '22, that means you have certain structural cost increases annually, so you have structural costs increase in FY '21 and you will have structural cost increase in FY '22. FY '21 structural cost increase, maybe a large part of it, majority of it, not the whole thing, should be offset by a seasonal cost reduction that we have done, which is essentially tightening the belt. These are temporary relief that means cost cutting of management, and other people, so on and so forth. But this is temporary in nature. But there will be an increase, so every year typically we have a 5% increase on our indirect cost base. In this current year, it may be a 2% to 3% increase. But that increase will be offset by the seasonal reduction or should be the same as a seasonal reduction or the temporary cost cutting measures that we have undertaken. Thereafter you are going to have a certain growth in top-line, hopefully, over the next two years, if you are looking at FY '22, and you have a certain amount of that, at present if I look at it is about 57% is our contribution margin, that kind of flows to the indirect cost.

VP Rajesh: That's very helpful. That commentary is quite useful. The second question was just on this medical service agreements with Crosslay and the Modi Trust. So, could you just comment on that, what exactly is the nature? Are we paying them a rental on the property or there is some other arrangement, if you can just clarify that?

Yogesh Sareen: No, so Crosslay is a subsidiary, so it gets consolidated in the financials. So that's not a problem.

VP Rajesh: I am sorry, I meant Devki Trust and Balaji Trust.

Gautam Wadhwa: Yes. So medical services agreement serves as DDF, with Balaji and with Gujarmal Modi.

VP Rajesh: Right. So, these agreements are essentially is it a long-term lease on the land or what kind of arrangement is this?

Yogesh Sareen: It is not a long-term lease; it is a medical service agreement where we have the right to provide medical services in these hospitals for certain specialties. And under that agreement, we also allow them to use the name Max Hospital. Now, under this agreement, we basically are able to take the services fees out, which we every two year we negotiate with the Trust. And basically, literally we will need the cash that they need to service the loans that they have or to spend on CAPEX, and balance cash is in a way sucked out of the Trust under the services agreement. So that's how we manage the cash flows. So, we do a memorandum consolidation of these numbers, that's what we present to the investors. Hence, the numbers that we have today are inclusive of the Trust financials.

VP Rajesh: I see. So, you consolidate the P&L and then back out?

Yogesh Sareen: We don't consolidate the P&L in the financial in these statutory books We do it only in a memorandum consolidation for the investors. I am saying, specifically you can't consolidate a trust and you have a services agreement. But since we think that we

have given them the brand Max and all the footfalls are, and all the protocols, etc., are as per Max's guidance, so to that extent we have in a way control over the cash flows, or we are able to, I would say, take the cash outflows from the trust through the contracts. And so that's how we put a memorandum number to show you what network revenues and the margins are. But otherwise we can take the margin out, we can keep the loss in trust and take the margin out. So that's how we want to present to the investors so that there is complete transparency with respect to what the network margins are.

VP Rajesh: Understood. Okay. That's helpful. And then, I believe, there is a shift of equity from the erstwhile promoter to KKR once you get listed, right? And if that is so, then what is the purchase price on that particular stake sale?

Abhay Soi: Rs. 80 per share

VP Rajesh: Okay. All right. And that will happen at the listing, right, that's the plan?

Abhay Soi: Yes, I think that's a part of the public document as well.

Moderator: The next question is from the line of Rohit Balakrishnan from Vrddhi Capital Investment Advisors.

Rohit Balakrishnan: Most of the questions have been answered, just a couple of questions. So one is, what is your overall foreign contribution to your patient profile, how much is through the medical tourism part? And how you see that in this situation with regards to international travel, etc., being impacted? So, if you could talk a bit about that.

Abhay Soi: If you see slide 20, you will see international is about little less than 11%, 10.8% of total revenue for us. As far as bed share is concerned, it's only 5%, 5.3% of the bed share. Also, occupancy is about 5%. But your revenue share is 10% to 11% of international tourism. Clearly, I think at present, we don't see much medical tourism happening. But over a medium run to long run, I certainly believe that this number is going to go up. A lot of the medical tourism, which goes out is sponsored by the Government, and particularly by the Governments of the Middle East. So you have a lot of the oil economy which send their patients to the United States, to Thailand and to other places, etc., Singapore, and this is also a way of them keeping fees that they are paying for the medical program, and particularly on the defense forces, the police and so on and so forth, as well as the citizens as well. These countries, I believe, will be stressed and would be looking at perhaps cheaper alternatives to the more developed nations. Because clearly, I mean, look, the cost of healthcare in India is 4% to 5% of that in the United States, and pretty much it's a significant discount to what is available even in places like Thailand, and Turkey, etc. So, we see a lot of that medical tourism come to India because people will become more and more sensitive, governments become more and more sensitive to what they pay for medical tourism. We have seen this, whether it is the rate of VAT or other taxes which are increasing in the Middle Eastern economies. So, I certainly see a transfer of people towards value in medical tourism to countries which are providing value. And India is clearly right up there, both in terms of the skill sets as well as the cost advantage.

Rohit Balakrishnan: Got it. So, in the near term there may be some margins pressure, because my understanding is that the margins profile of such medical tourism business is slightly higher, is that a fair understanding?

Abhay Soi: Look, don't hold me to it, but frankly, there is a convergence of two things which are happening at present, at one end I certainly see medical tourism stopping for a while, at least in the coming quarter. But there will be latency of that demand,

because people are not coming here out of choice, they are coming here out of compulsion. And they are coming for serious medical things. A person for a medical tourism, the reason the ARPOBs and billing is higher is not because they come in and stay in a suite class, they are coming for more complex things like transplants, etc. And then coming to India not because they want to, because they have no choice, it's a life and death situation. During this lockdown, I personally believe that once the international travel opens up, there is going to be huge amount of latent demand, that's one.

Secondly, even domestically if you look at it, domestic medical tourism or even people coming for surgical programs, we saw a huge drop in Stage 2, Stage 3 surgeries, oncology for example, and so has everybody else, every player in the market. But these are now going to transfer into Stage 4 surgeries, which are more expensive, complications are more and unfortunately even the fatalities will be a lot more. But you are going to see a lot of this latent demand come back.

Third is the smaller nursing homes, their balance sheets have been stressed, and a lot of them have gone out of business. Doctors themselves are concerned about operating in smaller nursing home, etc., so there is a lot of the transference that we see happening to larger hospital. So, look, there are three or four things which are going to play out, and I don't necessarily think that it is going to hit us in the shin it's going to be negative for us, even if the medium run. Short run, of course, all bets are off.

Yogesh Sareen: Also, on your point on margin. So, the margin percentage may not be very different from the cash business or self-help business. But it will, as Abhay mentioned, will be higher EBITDA per bed, because of the fact that these are more complex procedures and the ARPOB is very high there. So, since the ARPOB was high, even if the margins remain same, per night and per bed you make more money.

Abhay Soi: Value is more, percentage is not.

Rohit Balakrishnan: Got it. And one more point on this put option that you have. You mentioned that the first deadline is to pay in December of Rs. 100 crore, right?

Yogesh Sareen: Rs. 70 crore. So as on March that was Rs. 100 crore, I think we paid them roughly around Rs. 20 crore, Rs. 25 crore to them, so there is other Rs. 75 crore to be paid, for with the long stop date is December 31st.

Rohit Balakrishnan: Okay. And this stake has been, so I think you mentioned somewhere, sorry, I didn't catch that. So KKR has bought that stake and you will just buy it later from them, is that right?

Abhay Soi: That is separate one, Rs. 486 crore, which was the Max Smart, this was the Modi stake, which they purchased and 'warehousing' it, they will eventually sell to us.

Yogesh Sareen: So basically, that was from Modi side, so KKR has bought the shares and we will buy it from them at the same price, that is to happen by 31st July. But since the money has to come from IFC, we have gone back to IFC to give us some remission on the covenant side, because of the COVID situation that we have. Because the first quarter we have an EBITDA loss on the first quarter basis. So, I think the IFC is considering that, they have taken to IFC. And as we see, the disbursement will happen in August. So that part will happen in August, so of the Rs. 120 crore we have already done, so Rs. 80 crore we have till December 31st.

Abhay Soi: We don't necessarily have a gun against our heads, but at the earliest we will be swapping and we will be acquiring the stake from KKR because they have been kind enough to warehouse this at not necessarily any profit basis. And essentially, this has to be done because the Modi put option was due for which we were raising money from IFC. This transaction happened in the last week of March, actually during the 28th or 29th of March. And you are well aware of what the situation was at that point of time, in terms of the banking system. On top of that, we were able to negotiate a very large discount, Rs. 90 crore discount on this transaction because we were able to do in that period of time and KKR was able to warehouse it, they were kind enough to warehouse it for us.

Rohit Balakrishnan: And currently you mentioned your interest cost of around 10%, is that right?

Yogesh Sareen: So, our average WACC today is 10.25%.

Rohit Balakrishnan: And is there any scope for that coming down.

Yogesh Sareen: No, I don't think that, actually that would be a bit costlier than 10.25%. So, I don't think that will change materially.

Moderator: The next question is from the line of Anuj Sharma from M3 Investments.

Anuj Sharma: So, you have been through multiple turnarounds, what are the key low hanging strategies you deploy to get it on basic par when you take it up? So let's take Nanavati or BLK, what have been the basic ones?

Abhay Soi: To be very honest, none of them have been about any big bang strategy. Unfortunately, doesn't sound very good, but just to give you an example of Max, which has been the more recent one, it's more to do with a lot of planning prior to the acquisition and merger, prior to the transaction. And we spent a good, I think, close to a year planning, and what has come out is essentially a result of about 225 or 228-line items. And it has been all about collecting inches, which has taken up this thing. And perhaps, what has happened is, we have been able to refine this, we have been able to refine our playbook since commencing BLK, precisely because being outsiders to the game and not having a corporate antecedent or a background, we had to make our money work. Look, also we did not have the option of throwing money at problems and trying to see how it solves out, there was a very little elbow room. So costing, standard costing, so I think devil is being in the detail. It took us some time to learn this at BLK, which was our first commissioning, we kind of refined it, I think, at Nanavati, which was a deep restructuring and turnaround. And we have improved upon it at Max. We still have a while to go to master it, it's a changing thing. But again, we have to be agile, it has to be about meticulous planning. And that is what is held up in good stead. So essentially, we played to the book. A lot of the planning and a lot of effort was done prior to the acquisition. And I think we have been, to be very honest, we had certain KPIs, we made certain plans and we actually hoped to achieve this much what we did in a period of two years, because, of course, we have built in our anxieties, we have built in our apprehensions, actually none of them came through. However, we were surprised on the way up, we got a lot of pleasant surprises. And therefore, we have been able to do it in a very, very short period of time.

I also want to say, look, it was a confluence. And mergers like this, consolidations like this are very sensitive to management teams. The chemistry, which is amongst people, etc., and that's something that has worked out very well. At least from the management standpoint, the merger is more like a three way, simply because we have people at Max, people from BLK, and then there were a whole host of people that we brought in from our competitors. And that really worked out well and I think

this COVID crisis has actually really, really made us battle hardy and gave us a lot of confidence. So, look, we have been lucky enough on the management and a lot of other accounts, but at the same time, it's been a productive meticulous planning. These have been turbulent times, a lot of our competitors have aborted transactions, as you aware, in the NCR region, which has allowed us to be a first pit stop for clinical talent. We are the first port of call now, and we have been able to take our pick. And a lot of it came in H2, in fact, at Q4. So, a lot of the results we were looking forward to in FY '21, but I think it's good to hold us. Look, we were always going to do better all the way up, but I think we will certainly do, may have less losses on the way down as well. And my estimate is, we should probably be better off than most of our competitors, even in the Q1 this year. From a cost standpoint, I think it's all about productivity, it's all about getting more bang for the buck. And I think that is where it is.

Anuj Sharma: Okay, thank you. Another question is on your doctor or talent management strategies. Some hospitals or some management do bank upon a star doctor strategy, and thereby variablize the cost. Some hospitals believe that it's more of a hospital brand rather than a doctor led strategy. And the costs of doctors are generally fixed, how do you think through this cost structure and attracting the patient?

Abhay Soi: So, I think you have asked me a very interesting question, and I must take you through the genesis. When we started at BLK, like I mentioned, we commissioned the hospital, we had no background. And the playbook on starting a hospital has always been to get the star doctors, and the star doctors are able to fill the beds by getting patients, etc. But here I was, I wasn't a corporate, and let's say I didn't have a strong balance sheet. People didn't know how long it was going to last, I didn't know how long I was going to last. So when I pitched to actually doctors, not that I didn't want them, but when I pitched to doctors at that point of time, the star doctors to join me, the question they had is, "Look, we don't know how long we are going to last, so we are apprehensive about joining you". And rightly so, they didn't. So therefore, the only choice we had was to go for the number two and the number threes. So, essentially the number two and the number threes they have great skill sets, but we call it a sunrise industry, the fact of the matter is the guys who have been topping and handling the program have been doing it for decades and aeons. The number two and the number three never really got the chance. So therefore, I got the number twos, the number threes because those were the only people who were available to me. That's one.

Secondly, what they had missing was reputation in the market, but what they had with them is strong skill set and a desire to succeed. That's one. So therefore, what we said is, "Look, how do we build on it?" Now, if we are going to focus on domestic business, then reputation will mean more, so let's look at international business where reputations mean less. So, if you actually look at BLK, 25% of the total revenue instead of 10% odd for MHC comes from international medical tourism. We had to bend our back and do a lot of marketing for them.

The next thing was, we looked at subspecialties, we didn't look at the typical specialties like cardiac surgery, orthopedics, and so on. We looked at solid organ transplants, at that time we looked at organ specific oncology which was not really among the top five programs about 10 years ago. We looked at bone marrow transplant, we looked at spine surgeries, etc. So, we started focusing on sub-specialties. We were able to build, we were able to punch above our weight and we were able to build the business based on very strong marketing that we did, our doctors didn't have the reputation to build the patient, so we had to do the hard work. The fact of the matter is, look, through this entire journey we succeeded in being able to do that. So we know a world without leading star programs. And I always said this, we were driving a Fiat till Max came along, now we have keys to a

Ferrari. Now we have all the top leaders and the top stars, etc., and it is so much easier to be able to do that. But yes, look, you are always better off making a team of Rajasthan Royals then Mumbai Indians, from that standpoint. I mean, don't quote me on that.

Anuj Sharma: Right. And just an extension to that. So, would you variabilize generally the compensation structure so that the talent is retained for long term? Is it more of a fixed in nature or is it a share basis with the doctors, how do you think through that?

Abhay Soi: So, there are two things. I think we have a minimum guarantee and we have a fee-for-service, whichever is higher. So, for example, we have to attract doctors from a place to our facility, then we basically have a minimum guarantee we have to assure him at least what he is earning and generating in the facility that we bring them from. And we also have a promise of better marketing them and so on and so forth, and therefore an ability to earn more or generate more for themselves through a fee-for-service, whichever is higher. And all our doctors are exclusive to us. That means they do not go and practice in any other hospital, don't treat patients anywhere else.

Anuj Sharma: That's interesting. Okay, and my last question is on ARPOB. I think somebody made a reference to it. Now, Rs. 50,000 is the blended of multiple averages, and we have compounded at 8%. Do you think that compounding of 8% or let's suppose +5% is something which you continue to see? And a number like Rs. 75,000 or Rs. 80,000 wouldn't surprise you over the next few years?

Yogesh Sareen: So, the amount of Rs. 53,000, as you said, is obviously mix of various averages. For example, Saket is at Rs. 63,000, BLK is at Rs. 52,000. So, I would say this is a mix. So, then Abhay mentioned that there is a 2%, 2.5% lever which is price lever, you will get that lever anyway, so you make sure that you get some price up every year. And we endeavor always is to price should actually meet cost increase on the indirect side, alright. So, having done that, I think this 2%, 2.5% is secured and the balance comes from, one is the mix, which is the case mix; other is the payor mix. And that's what Abhay alluded to, and if you see the slide 20, so as many beds we are able to shift from that institutional to self-paying or the international, will give you higher ARPOB, bed is same but you will get more throughput. So, our endeavor is always to move more and more beds from that segment to the segment above. And also, within that do more equity work, that means if you do a liver transplant for a per day, you will pay Rs. 1 lakh. As we do more liver transplants further that will mean more ARPOB. So, I think that is the lever. I mean, that 2.5%, 3% is fine, that will happen. The balance is how are you able to play it to between the case mix as well as the channel mix.

Abhay Soi: So, let me give an example. If you look at the stacking of the patient mix. Typically let's say you have a pricing for a cash patient, would be let's say Rs. 100, for international patient it would be at a 10% premium to that, it will be at around Rs. 110. But to a CGHS and ECHS patient, etc., would be to 30% to 40% discount to that. 40% to 45% of your patients are what we call the sponsored patients or CGHS and ECHS, which is at a 30% to 40% discount to what you earn from a cash patient. So tomorrow if I increase in cash and TPA and CTI and international happens, and I have a capacity constraint, that means I can't go beyond 80% capacity utilization, I am already operating 80%. What I would essentially start doing is churning or moving away from my PSU patients etc. and start occupying that bed capacity with the higher paying patients. So, if you see the weighted average ARPOB, it starts moving up. And the second thing that you do is, the second lever when you start moving away, eventually when you get to that stage where everybody will move to cash and every patient is TPA, cash etc., and you stopped doing the panel of patient, so patients which are 30% to 40% discount.

Essentially what you are going to do is start moving away from the lower end specialties when you start moving towards higher end clinical programs.

Gautam Wadhwa: And I think just to add, another lever, mostly ARPOB is the ALOS So as your ALOS starts going down, your ARPOBs are going up, and the endeavor is always to keep moving the process to improve your ALOS. So, it will be a culmination of price increase, specialty mix, your payor mix and ALOS. So, these are the four levers which we continue to drive the ARPOB. And to your specific question, in the future because of the growth of 6% to 8%, if it hit Rs. 70,000 to Rs. 80,000 at some point in the future in your model, I think that's fair. It does not surprise us. Because as the ARPOB keeps increasing year-on-year, sometime in the future it will hit those numbers.

Moderator: The next question is from the line of Sabyasachi Mukerji from Centrum Broking.

Sabyasachi Mukerji: I have a couple of questions. Number one on the occupancy. Good to see that 62% kind of occupancy level in July. You know, out of that, if I do some math of 950 COVID dedicated beds, and that translates to almost 30% of your total bed capacity. And I am assuming almost 90% plus occupancy in COVID beds. That translates to non-COVID occupancy of 60%, is my understanding correct?

Yogesh Sareen: No. See, COVID beds are quite empty, these are not 90% full. So, as I mentioned, for the month of July it will be probably at 25:75, 25% of the occupancy is because of the COVID beds, 75% is non-COVID.

Sabyasachi Mukerji: Secondly, could you throw some light on the OPD, how has been OPD performance in both Max and Radiant properties?

Yogesh Sareen: Actually, numbers have come back to 60%. But through the last two weeks we do some traction in OPD, OPDs have come up. We also mentioned that 50% of the consults have moved to the video conferences and video calls also. So, we do see up a bit, but it is not up to the level. So, we can clearly see that the increase week after week, that is not happening, for last two weeks it is not stable. So, we are keeping our fingers crossed what happens in August, but it's around 60% of what normal was.

Sabyasachi Mukerji: 60% of pre-COVID level you are saying?

Yogesh Sareen: Yes.

Sabyasachi Mukerji: Okay. A clarification on the Rs. 2,100 crore net debt number. You are including the entire amount you need to buy back the stake from KKR for the Max Smart, you are including that number in Rs. 2,100 crore?

Yogesh Sareen: Yes, very much. It does not include any lease with IndAS 116 which creates a finance lease. Since we have hospital leases for next 25, 30 years, so that liability is not included in this. And also, there is BLK and Nanavati they have some contingent consideration that they have to pay to the trust, so there is IndAS accounting which is a standard that we have gone for, we have to show the finance liability. Those are not debts, we are not paying any interest on that, that is accounting, that is taken out, that we are not putting in debt. So, the debt is only that is what we are going to service.

Sabyasachi Mukerji: Got it. So basically, nothing notional or accounting that has happened because of IndAS that is not included in this number?

Yogesh Sareen: That's right. But we specify the number on slide, so the number is Rs. 244 crore for INDAS116 and Rs. 247 crore of the contingent consideration for O&M agreements that we have

Sabyasachi Mukerji: Sure. Last thing, a bit long-term question on the two of your SBUs, the Max Lab and Care at Homes. What is the long-term vision on these two SBUs?

Abhay Soi: So, I think, look, the Max Lab requires perhaps a different, a little more intense focus and kind of getting obfuscated as part of the hospital business, we need to build a retail on that. It's got the critical mass, and I think it's time for it to perhaps fly the nest. And that is going to be a part of our strategy going forward, how to unlock value in that. The plan is kind of got delayed a little bit due to this entire COVID cycle, because we have had to operate under different circumstances for the last four or five months. But having said that, that is what the thought is.

As far as Home Care is concerned, I think it is an important extension of our service line, and that is not something that we are looking to spin off at this stage, that is going to continue to be an extension of our service line good forward.

Sabyasachi Mukerji: Okay. So if I understand correctly, you are going to monetize this Max Lab at some point in time in the future, maybe not in the immediate future?

Abhay Soi: Well, I am not certain about monetizing it at all. I am speaking more from a business standpoint; I think it requires a focus and it requires a retail mindset for the business to be built upon. So, at this point in time we are not looking at monetizing it, but we are definitely looking at building it up, it would be from a standpoint of better focus on the business rather than any monetization.

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

Abhay Soi: Thank you for spending time on our presentation and being on this call. I look forward in the future to interacting in these investor calls and being as forthright and transparent as I can to be able to give you a better understanding of the company and what our plans are going forward. So, once again, thank you for your time. I really appreciate this.
