Aster
We'll Treat You Well

August 22, 2023

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| The Secretary<br>Listing Department,<br>BSE Limited,<br>1st Floor, Phiroze Jeejeebhoy Towers<br>Dalal Street, Mumbai 400001<br>Scrip Code: 540975 | The Manager,<br>Listing Department,<br>The National Stock Exchange of India Ltd<br>Exchange Plaza, C-1, Block G<br>Bandra Kurla Complex<br>Bandra (East), Mumbai 400051<br>Scrip Symbol: ASTERDM |

Dear Sir/Madam,

**Sub: Transcript of Earnings Call for the quarter ended June 30, 2023**
**Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations")**

This is further to our earlier letter dated August 14, 2023, regarding Video/ Audio recordings of Earnings call of the Company for the quarter ended June 30, 2023, held on August 14, 2023, please find enclosed herewith the transcript of the said Earnings call.

The same is also made available on the website of the Company at https://www.asterdmhealthcare.com/investors/financial-information/earning-call-transcripts

Kindly take the above said information on record as per the requirement of SEBI Listing Regulations.

Thank you

For **Aster DM Healthcare Limited**

HEMISH PURUSHOTTAM
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Date: 2023.08.22 17:39:01 +05'30'

**Hemish Purushottam**
Company Secretary and Compliance Officer

# Aster DM Healthcare Limited
# Q1 FY24 Results Earnings Conference Call

AUGUST 14, 2023

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| **Management:** | **Dr. Azad Moopen – Chairman & Managing Director** |
| | **Ms. Alisha Moopen – Deputy Managing Director** |
| | **Mr. T J Wilson – Non-Executive Director** |
| | **Dr. Nitish Shetty – Chief Executive Officer, India** |
| | **Mr. Amitabh Johri – Joint CFO** |
| | **Mr. Sunil Kumar M R – Joint CFO** |
| | **Mr. Hitesh Dhaddha – Chief of Investor Relations and M&A** |
| **Moderator:** | **Mr. Balachander R** |

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**Balachander R:** Good evening, everyone. I welcome you to Aster DM Healthcare's Earnings Conference Call for the First Quarter of Financial Year '24. The company declared the Q1 FY24 results today. To discuss the quarterly business performance and future business outlook, we have the senior management team at Aster DM Healthcare available with us. Namely, Dr. Azad Moopen; Chairman and Managing Director at Aster DM Healthcare; Ms. Alisha Moopen, Deputy Managing Director; Mr. T.J. Wilson, Non-Executive Director; Dr. Nitish Shetty, CEO of India, Aster India Business; Mr. Amitabh Johri; Joint CFO; Mr. Sunil Kumar, Joint CFO; and Mr. Hitesh Dhaddha, Chief of Investor Relations and M&A.

We'll begin with opening remarks by management followed by an interactive Q&A session. During the Q&A session, you will get a chance to ask a question by raising your hand by clicking on the raise hand icon in the zoom application at the bottom of the window, we will call out your name after which your line will be unmuted and you will be able to ask your question. We request you to please limit your question to two but not more than three per participant at a time.

Certain forward-looking statements may be discussed in this meeting and such statements are subject to certain risks and uncertainties like government action, local, political or economic developments, technological risks and many other factors that could cause the actual results to differ materially. Aster DM Healthcare Limited, will not be in any way responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances. With this, I will ask Dr. Moopen to start with the opening remarks. Over to you, sir.

**Dr. Azad Moopen:** Thank you very much, Bala. Good evening, everyone. Thank you all for joining us for our earnings call for Q1FY24. Before I talk about our performance, let me touch upon the health care space in the region briefly. The Indian health care market is expected to touch USD 638 billion in 2025, with a compound annual growth rate, (CAGR) of 22% and the GCC, health care market is expected to reach USD 135.5 billion into 2027, growing at a CAGR of 5.4% from 2022.

Healthcare being an essential service has also become one of the largest sectors in terms of both revenue and employment opportunities. Several factors are driving the growth of the healthcare sector, including an aging population and a growing middle-class population with the rising proportion of lifestyle diseases. The requirement for healthcare services of an individual is directly proportional to the age with increasing spend on medical care as we age. It is estimated that nearly 80% of the total healthcare spending of an individual occurs in the last 20% of his lifetime. This highlights the increasing healthcare budget of individuals, families and nations with an aging population.

There is a requirement for increasing the allocation in budget to increase the proportion to the GDP, which is very low in India now at around 3%. In addition to these demographic trends, COVID-19 has catalyzed long-term changes in the attitudes towards personal health, hygiene, health insurance, fitness and nutrition as well as health monitoring and medical checkups. The pandemic has also accelerated the adoption of digital technologies, including tele-medicine. The advent of artificial intelligence is transforming healthcare, and it is very important that all the healthcare providers brace for its influence in the coming years and be ahead of the curve.

On the policy front, the government is undertaking deep structural and sustained reforms to strengthen the healthcare sector. It has also announced conducive policies for encouraging foreign direct investment. India has emerged as one of the fastest-growing emerging economies for the last two decades, receiving the largest FDI inflows. The health care sector has received heightened interest from investors over the last few years. All these factors together create several opportunities for investment in Indian healthcare industry, making it a significant focus area as we approach 2030.

I would now like to share a few highlights of our financial and operating performance. On the financial performance of Aster for Q1 of FY24. At a consolidated level, our revenues delivered a strong growth rate of 21% year-on-year, amounting to INR 3,215 crores, primarily driven by an increase in the number of beds through commissioning of new hospitals as well as an increase in the ARPOB. The strong growth across both India and GCC and various cost improvement initiatives enabled even higher improvement in our EBITDA performance which recorded a robust growth of 33% to INR 388 crores from INR 292 crores in Q1FY23.

Although the headline PAT performance appears weak. But if we exclude the impact of new hospitals and non-recurring exceptional items, the profit after tax grew 87% to INR 84 crores in Q1 FY24, as against INR 45 crores in Q1 FY23.

**Moving to the operational updates for the quarter.**

The Aster India business is growing even faster with revenues growing 29% to INR 838 crores and EBITDA increasing by 47% to INR 123 crores. Profit after tax for Aster India grew 115% to INR 41 crores, as compared to INR 19 crores in Q1 FY23. While Aster India's growth momentum remains robust, we are looking at expansion across two of our existing hospitals, which are running at near full capacity.

We are progressing well on our expansion of 100 beds each at Aster MIMS Hospital in Kannur and Aster Medcity in Kochi. Our strategic approach includes the development of new facilities in regions where Aster brand has strong presence. Our project pipeline is advancing significantly, which includes Aster Hospital Kasargod, where 200 beds are being built. Aster Capital Hospital Trivandrum, Phase-I with 350 beds, the Phase-II development of Aster Whitefield Hospital in Bangalore, comprising of 275 beds, which is nearing completion and is expected to be operational in the month of September 2023.

Building on our O&M asset-light strategy that has potential to generate higher ROCE over a period, we are excited to announce our collaboration with PMF Hospital in Kollam, Kerala. Aster PMF Hospital commenced its operations in the month of August 2023. This step aligns with our commitment to extending quality healthcare services to new horizons.

With this, we have added 530 beds under O&M asset-light model in less than 2 years. As we forge ahead Aster PMF hospital stands as the next milestone embodying our unwavering dedication to healthcare excellence, taking it to the peripheral areas.

Coming to our other businesses as on 30th June 2023, we have a total of 255 Aster Pharmacy branded retail stores, 103 in Karnataka, 86 in Kerala, 61 in Telangana and 5 in Andhra Pradesh. Aster Labs has established its presence in Karnataka, Kerala, Maharashtra, Tamil Nadu, Andhra Pradesh and Telangana.

As of 30th of June 2023, there is 1 reference lab, 14 satellite labs, 214 patient experience centers. These dynamic businesses not only delivered strong growth at 51% over the last year to INR 64 crores but also contributed significantly to reaching masses brand recognition and awareness. Additionally, we are pleased to announce that we have increased our stake in the profitable subsidiary, Malabar Institute of Medical Sciences, MIMS, Calicut from 77.93% to 78.82%. MIMS manages 4 hospitals in North Kerala with a capacity of 1,480 beds.

Our GCC revenues grew 18% year-on-year to INR 2,377 crores, and EBITDA grew 27% to INR 265 crores. In line with our capital allocation strategy for sustainable growth, last year, we had invested significantly in new assets, the focus for the current financial year will be to improve utilization of those assets. We are also working towards commissioning as a state-of-the-art 126 bed Medcare Royal Specialty Hospital in Al Qusais with oncology services, which is badly needed in the region. We are also planning to add many of the tertiary and quaternary care treatment facilities in Dubai, including robotic surgery and transplants.

We are proud to announce that we have managed to get permission to import the versatile Indian manufactured SSI Mantra robot to UAE. This is the first export of this robot to a foreign country. We see Saudi as a major growth market in GCC. Our Saudi hospital - Sanad has shown sustained margins where we completed the civil and interior work for annex building, which is expected to go operational in Q2 of FY24. The launch of Saudi pharmacies shall happen soon, Alisha shall speak more on Saudi plans, and the wellness focused Zest Pharmacy brand.

**Status of restructuring:** The company has been periodically updating the stakeholders on ongoing restructuring process of its GCC business to help unlock value for the shareholders. We are happy to report that significant progress on the restructuring of GCC business has been made, and the company continues to be engaged in discussion with shortlisted bidder, focused on the GCC region. On the basis of requests received during the bid process from the bidders, for continued promoter participation in the GCC business, the company's promoters have expressed their interest in continuing to participate in the GCC business, and their intention to hold a stake in the buyer entity along with the shortlisted bidder.

Given that the promoters have decades of experience and goodwill in the GCC region, their involvement is core to the intrinsic value of the GCC business. Being a complex transaction with sale and separation of a material overseas subsidiary, the process is taking longer than expected. The transaction remains subject to finalization and execution of definitive documents and appropriate corporate approvals, including approval from the Board and shareholders of the company. We continue to believe that separating the two businesses will maximize value for shareholders. Requisite disclosures have been made in compliance with the SEBI regulations at the appropriate stage.

I now request Deputy Managing Director, Alisha Moopen, to elaborate more on the GCC business, digital transformation and other strategic initiatives undertaken by Aster. Thank you very much.

**Alisha Moopen:** Thank you, Chairman. Good evening, everyone. The healthcare market is set to expand with the GCC population expected to grow to 66 million in 2027 due to gradual increase in expat base, conducive government policies supporting immigration and expansion of Golden Visa coverage. Also, the elderly population is projected to rise to nearly 21% by 2027. In anticipation of this population growth, the GCC region is projected to require an additional over 12,000 hospital beds by 2027, with Saudi Arabia anticipated to have the highest demand, necessitating over 8,000 new beds to manage this patient needs.

With the rise in non-communicable disease, a focus on preventative healthcare is emerging, leading to emergence of new opportunities in the sector. Advanced technology is introducing cutting-edge tools, improving preventative care and thereby reshaping healthcare.

Now going into the Q1 FY24 performance highlights, as Chairman mentioned, benefiting from these favorable circumstances, our GCC business has experienced a strong revenue growth of 18% in Q1 FY24 to INR 2,377 crores. Excluding the COVID testing and the vaccination income, the revenue growth surged even higher at 22%, which highlights the strength of our business model and our growing potential in this geography. Our last year was really a year of investments during which we saw addition of 2 new hospitals, 24 pharmacies and the 6 clinics, a feat unprecedented for us in a single year.

We have diligently continued and enhanced these projects throughout the year by getting the due empanelment from the insurance companies and providing further specialized doctors. These investments are witnessing growing utilization and will help us maximize the returns over time. The hospital vertical witnessed increase in operational bed count, driving the revenue growth of 19% year-on-year growth in Q1 FY24. The retail business of the pharmacies demonstrated strong performance with healthy growth across product lines, including the expansion in the e-pharmacy and retail in-store formats.

The pharmacy segment experienced a growth of 24% year-on-year growth in revenues for Q1 FY24. Coming to the clinics business, the revenue grew by 16% year-on-year growth in Q1 FY24. Excluding the COVID testing revenue, we experienced an even stronger growth of 27% in the clinic business.

Coming to the EBITDA and the margins, the GCC business EBITDA for Q1 FY24 grew by 27% and the GCC business EBITDA, excluding the operational losses from all the new hospitals and the non-recurring expenses, delivered a higher growth of 34%.

At the PAT level, we have unfortunately witnessed a certain one-time adjustment owing to the upcoming corporate tax changes in the UAE. I will request our GCC CFO, Amitabh Johri, to share more details on the same. It is really worth re-emphasizing that despite a significant expansion in our GCC capacity, our occupancy rate has remained consistent at 51%. This accomplishment not only highlights our operational efficiency, but also reaffirms our capability to effectively meet the rising demand for our services. The financial progress in this quarter can be largely attributed to extensive outreach through digital initiatives.

Now to share some of the other important business updates. As Chairman mentioned, we have partnered with Dubai developments to build a state-of-the-art Medcare Royal Hospital in Al Qusais. The hospital will offer specialized care and it's set to commence operations by the end of this year 2023. Aster Pharmacy in partnership with Spinneys, which is one of the leading grocery stores in UAE has launched Zest Pharmacy, which is a premium wellness concept in the UAE, leveraging on cutting-edge diagnostic technologies, Zest Pharmacy offers personalized health insights and plan through its innovative stations.

The expansion plan includes operating and opening 25 Zest pharmacy stores within the next 2 years. I'm also delighted to share with you that our Saudi pharmacies are on track for commissioning with an anticipated start later in October this year. The strategic endeavor aligns seamlessly with the expansion plan and reinforces our commitment to delivering quality healthcare services.

Additional initiatives have also yielded impressive results with unique users, reaching 270,000 in Q1 FY24. We've also added some key features over the last quarter, one of them being the InstaGP, for instant consultation and appointment bookings has been well-received, as we have had more than 110,000 net installs in the UAE in Q1 FY24.

Non-prescription orders have surged by over 35% in Q1 FY24, which is contributing to a 30% increase in average monthly revenue from non-Rx orders. We're also harnessing hyper personalized omni-channel communication to engage with the 2.1 million unique customers across our network. We've also started tele-calling for maternity and high-value pharmacy patients, which has proven effective and our holistic digital engagement strategy resulted in some of the incremental revenues that we have witnessed in Q1 FY24.

In conclusion, FY '23 strategic investments have set the stage for a profitable growth in FY24. We are set to maximize our assets, meet the growing demand and continue delivering exceptional healthcare experiences through digital innovation. I would request now our GCC CFO, Amitabh Johri, to share more details on the financial performance. Thank you.

**Amitabh Johri** Thank you, Alisha. Good evening, everyone. On a consolidated basis, our revenue from operations for Q1 FY24 was INR 3,215 crores, an increase of 21% year-on-year. Consolidated EBITDA for the quarter was at INR 388 crores, as against INR 292 crores, which is a growth of 33%. EBITDA losses from new hospitals amounted to INR 10 crores and non-recurring restructuring costs amounted to INR 6 crores, in Q1 of FY24. Excluding these losses, EBITDA stands at INR 404 crores, as against INR 292 crores during the same period last financial year, which is a robust growth of 38%.

Consolidated PAT post-NCI, is at INR 5 crores as compared to INR 69 crores in Q1 FY23. PAT losses from the new hospitals amounted to INR 29 crores, deferred tax liability of INR 44 crores in Q1 FY24, in GCC, on account of one-time non-cash tax adjustment as new tax regime gets implemented to GCC, and there is one-time other income of INR 23 crores in Q1 FY23. Excluding these items and the restructuring costs mentioned before, adjusted PAT, post-NCI, stands at INR 84 crores in Q1 FY24, as against INR 45 crores in Q1 FY '23, a growth of 87%.

Talking specifically on GCC performance, revenues from our GCC operations in Q1 FY24 was INR 2,377 crores, an increase of 18% year-on-year. COVID revenue in Q1 FY23 was INR 63 crores. Adjusted for this, the growth of core business was 22% on a year-on-year basis. EBITDA from GCC operations stands at INR 265 crores as against INR 208 crores in Q1 of FY23, excluding losses from new hospitals, non-recurring restructuring costs in GCC, EBITDA stands at INR 280 crores in Q1 FY24, a growth of 34%.

The growth in EBITDA did not translate into growth in PAT in GCC, mainly due to non-recurring items highlighted before. Post adjustment of these non-recurring items like the deferred tax liability on goodwill, losses from new hospitals, PAT post-NCI, stands at to be INR 41 crores in Q1, as against INR 26 crores in Q1 FY23, which is again a growth of 57%.

Coming to the segmental performance for the quarter. GCC hospital revenue was at INR 1,090 crores, an increase of 19% year-on-year basis and the EBITDA stands at INR 170 crores compared to INR 133 crores in FY23 Q1, a growth of 28%. Excluding losses from new hospitals, the hospital segment had an EBITDA of INR 179 crores. The EBITDA margin adjusted for losses from new hospitals was 17.4%.

GCC clinics revenue stands at INR 626 crores, an increase of 16% year-on-year basis. EBITDA for GCC clinic segment, stands at INR 114 crores in Q1FY24, a growth of 25% with an EBITDA margin of 18.2%. Normalized for the COVID testing which was there last year, the core business of the clinic segment grew at a rate of 27%. GCC Pharmacies revenue increased 24% year-on-year basis from INR 660 crores to INR 817 crores. EBITDA increased from INR 58 crores to INR 76 crores, an increase of 32%. EBITDA margin for this segment in Q1 FY '24 was 9.4%. GCC net debt stands at USD 175 million as of 30th June 23, compared to USD 163 million as of 31st March 23. The capital expenses for FY24 Q1 were at INR 76 crores.

Now I request Joint CFO, Mr. Sunil Kumar, to take you through the India performance during the period.

**Sunil Kumar M R** Thank you, Amitabh. Good evening, everyone. For the quarter ended 30th June 23, India revenues have increased to INR 838 crores, up by 29%, from INR 651 crores in Q1 FY23. EBITDA from India operations has increased to INR 123 crores with a margin of 14.7% compared to INR 84 crores in Q1 FY23 with a growth of 47%. PAT post-NCI for Q1 FY24, is at INR 41 crores, compared to INR 19 crores in Q1 FY23 with a growth of 115% year-on-year.

With respect to the segmental performance, revenue from India hospitals and clinics, excluding O&M asset-light hospitals, stands at INR 777 crores in Q1 FY24 with a growth of 25% year-on-year. EBITDA stands at INR 145 crores, with a margin of 18.6% in Q1 in FY24, as compared to INR 103 crores in Q1 FY23, with a growth of 40% year-on-year.

ROCE for this segment stands at 21.9% in Q1 FY24, trailing 4 per month compared to 13.8% in the same period last year.

In the Q1 in FY24, matured hospitals operating for over 3 years showed strong performance. Revenue for these hospitals stands at INR 749 crores in Q1 FY 24, with a growth of 24% year-on-year. EBITDA for the same period stands at INR 152 crores, with a margin of 20.2% compared to INR 104 crores in Q1

FY23, with 46% growth year-on-year. ROCE for these mature hospitals improved to 24.3% in Q1 FY24 (TTM), compared to 14.7% in the same period last year. Aster India net debt stands at INR 565 crores as on 30th June 23. The capital expenses for the quarter is INR 119 crores.

On that note, I conclude my remarks. We will be happy to answer any questions that you may have. I now request Mr. Balachander to open the question-and-answer session. Thank you.

**Balachander R:** Thank you, Mr. Sunil. Now, I would like all the participants to raise their hands, based on which you will be called in for your questions.

I will repeat just in case if there is a technical issue. Please raise your hands so that I can unmute you to ask your questions.

I think the first question is from Ms Jaina. Please go ahead with your question.

**Jaina:** ***Thank you so much for the presentation. Just three short questions from me. So first on Medcare Royal, that's going to commence operations. Is that at the end of FY23 or calendar year '23? Then on the digital initiatives in the GCC region, is it that non-prescription orders are making up 30% of revenue? Did I get that right? And lastly, it was mentioned that there were some restructuring costs. Was that INR 6 crores? And then the other one-off was on the GCC taxes.***

**Dr. Azad Moopen:** **Alisha, you would like to answer that.**

**Alisha Moopen:** Sure, Thank you, Jaina. So on the Medcare Royal Hospital, we're expecting it to, hopefully, be operational by Q4 of FY24. So, by between December and February of the upcoming year.

On the non-prescription orders, we were just saying that there is an increase of 30% year-on-year. So it's not like it's contributing to 30% of the overall revenue for pharmacy. On the cost, the INR 6 crores, Amitabh, do you want to comment?

**Amitabh Johri:** Yeah Sure. I shall do that. So, Jaina, you're right, the INR 6 crores that we have accounted for in this quarter pertains to adviser cost, diligence cost, and legal costs that we have incurred till now. As a principle, we are expensing them since these are period costs. You had mentioned about GCC tax. Would you like to elaborate on your question, [Jaina]?

**Jaina:** ***Just what is the loss that is coming from that? What is the one-off? I think in the statements, it look like about INR 50 crores or so?***

**Amitabh Johri:** Yeah, Okay. I'll try and give you an answer to that. It's INR 44 crores to be precise, and this is not in the nature of a loss. It's in the nature of a deferred tax liability provision, it's a non-cash item put below the EBITDA line, and the reason for that is because as the new tax regime is coming up in GCC, the difference between the book profit, which is coming from after the amortization of goodwill, and under the tax loss, where the goodwill amortization is not permitted.

There is a timing difference. To accommodate that timing difference, there's a deferred tax liability that has been created of INR 44 crores is for all the acquisitions made till date, this is a one-time cost and will not be repeated. In fact, the full cost is being accounted for in one quarter. That is why you see such a significant amount sitting there.

**Jaina:** ***Okay, I see. Thank you so much for taking my questions.***

**Balachander R:** Thank you Jaina. The next question is from Mehul.

**Mehul Sheth:** ***Hi, So first question on your restructuring part. Can you give some more detail, like, where the current process is like current status, any timeline for completion and also on what kind of valuation that you are getting from the bidder side. So can you provide some more detail on that front?***

**Dr. Azad Moopen:** Yes. Mehul, as you know, it's not possible for us to disclose more than -- whatever we have to say, we have actually wrote in the statement. I can repeat that. We see this going in the direction that we wanted, which is for restructuring. But that exact timeline and the price, it's not the time for us to disclose that or it's not possible, but we hope that while it took some time because of the complexity of this whole restructuring, we know that we had thought that this is going to happen earlier. But it's slightly delayed that's all.

**Mehul Sheth:** ***And one question on India hospital side. So sir, how do you see the progress, Q1 possibly, there will be a seasonality impact, but till now Q2 onwards, how that makes the overall operations traction is going on? In terms of occupancy, ARPOB, how the things are moving up from here?***

**Sunil Kumar:** Thank you, Mehul. So India, Q1, if you saw the numbers said, year-on-year, we have done very well. In the occupancy also, we have closed the quarter with 64% occupancy. But again, that is blended with O&M asset-light hospitals, which got operational also in Q1. If you remove that O&M asset-light hospitals, apple to apple comparison, you will be at 67%. That's almost a 3-4% or 400 basis points improvement year-on-year.

In terms of ARPOB, we've also seen that, we closed the quarter with almost INR 39,400 ARPOB for India. And compared to last year same time it is INR 36,000, so almost 8% - 10% increase has happened. Now margin-wise, we have closed at 14.7%. And see, this is a quarter wherein you all know that there will be increments be happening. At the same time, there are certain price increase also, we have taken. Now to ensure that the bottom line improves, Q2 you will see further growth happening in here.

So, this is the quarter which has always got a pressure because from 1st April, we'll have the cost increasing, but at the same time, price increase will trickle down only slowly, right? You can't take the complete price increase in one quarter. So keeping that in mind, I think we have given a good number. And in July, occupancy is doing well. So we see that Q2 was always very good in India. Considering the season, the medical specialties usually do very well. So that way, I think we'll have a very good number.

**Mehul Sheth:** ***The question I asked because Q2 of FY23, the occupancy level was almost 72%. So are we on track to almost like achieving that kind of occupancy in this quarter, Q2?***

**Sunil Kumar:** So, We can't predict, Mehul, but occupancy numbers are quite good. In the month of July, we're already at 68%. So considering that we expect this quarter to do very well.

**Mehul Sheth:** ***And also, sir, like, just a last question on like ARPOB driver. What factors are basically driving your ARPOB? And what will be the sustainable ARPOB growth that you are expecting from here on?***

**Sunil Kumar:** So, there are multiple factors in India, Mehul, which is driving the ARPOB growth. One is that we have a 58% to 60% cash payer mix, considering that we can take the price increase and we are doing that.

Second would be the geography where the occupancy grows. Third would be the case mix, right? We do a lot of high-end cases like DBS, cochlear implants, TAVI, a lot of transplants, liver, renal, BMT transplants. All these like quaternary care specialties, the procedures which we do really add to ARPOB growth. And if you've seen our trend year-on-year, we are adding almost 8% to 10% ARPOB growth, which is happening. And I think that will continue to do so.

**Mehul Sheth:** ***Okay. And just before I fall back in the queue. So, sir, on the Aster Lab side, how do you see the business scaling-up like? And what will be our EBITDA breakeven time period from here?***

**Dr. Azad Moopen:** So the Aster Lab India, we hope that in the next, I mean, quarter -- by end of next quarter, on a month-wise, we should be going into a breakeven. We are gone to that stage where we are seeing the profitability just starting. So this year, we hope that we will go into an EBITDA breakeven, not as a whole the year, by end of the year, definitely, we'll be going into a breakeven.

**Mehul Sheth:** ***Thank you. That's done from my side right now. Thank you.***

**Balachander R:** Thank you Mehul. The next question is from Amrish.

**Amrish Kacker:** ***Thank you for the opportunity. Congratulations again on a very good result, especially in India. And bear with me for nitpicking on what is otherwise a fantastic set of numbers. So again, the question is relating to the labs and pharmacy business. Is there some color you can provide on whether we are still pushing forward? I understand that the pharmacies and the role that they are playing is an ecosystem role. But the numbers of pharmacies seem to have are flattish. And I'm not sure whether is this deliberate, or is there something in the business model that we need to tweak? Is there something you can share on this, please?***

**Dr Azad Moopen:** Yes. So I'll start and then Dr. Nitish will join, the India CEO. So like what you said exactly, we are not -- we were not looking at earlier while we started off, we thought that it has to be large rollout across many regions. But later, as we mentioned, and you also mentioned now, we thought that we have to create an ecosystem around our hospitals. So, that doesn't require a huge rollout of like what we mentioned earlier of 500 pharmacies in 3 years and all. We think that we will be able to do that with 300 pharmacies is what we are now thinking. That's why that rollout has come down. And we were also burning some cash, whereas in the lab like what I mentioned, we hope that within the next 3, 4 months, we will be going into a breakeven. We have started just 2, 2.5 years back.

Pharmacy, it may take a little more time. So, we are people who would like to be very conservative and conserve money rather than burn it for getting business spread out. Once we stabilize and we know that business model, we hope that by that time we will have a lot of our own products, which will give us better margins. Then, maybe the possible to have larger numbers if we make sure that individual stores are becoming profitable.

So what you said is absolutely true. We are not going for a large rollout, we have, in fact, reduced our numbers. This year, we thought that we will stabilize the existing stores and go, whereas labs, it is slightly different. We are a bit more aggressive because we are finding -- having more labs, it's possible to go more profitable. So now further to this, Dr. Nitish, if you would like to add on from your perspective.

**Nitish Shetty:** Yes. Thank you, Chairman. Coming to your question about the pharmacy going forward plan, like Chairman mentioned, we are in a state of consolidation. We are looking at our pharmacy completing the ecosystem for our patient experience. At the same time, we want to mitigate the cash burn. So, we have been very prudent in our approach in stabilizing the backend and taking a major step in increasing the top line.

So as Chairman mentioned, we are hoping by early H1 or H2 of the next year, we will be able to stop the losses and will breakeven in the pharmacy. And further take stock of the situation in new geographies like Andhra, and the other area in Maharashtra, based on the how early the breakeven, we would like to re-strategize and look at further expansion. But at this moment of time our focus is in the consolidation and mitigating the cost expenses and improve the customer experience. That's our focus now for next 6 months.

**Amrish Kacker:** ***Second question is a broader question, and I'm not sure how much you can share at this stage in a post-restructured scenario, whether we will lose some of these synergies. So for example, we have done a lot of work in the GCC with -- in the pharmacies with our own health wellness kind of products. Would we be able to bring these across to India? Aster have been in any case is all the technology that's been built there, will it be migrated? Is there anything we can share? So what sort of synergies would we lose or will we be able to retain most of it?***

**Dr. Azad Moopen:** So, while after this process, these will be two separate companies, the India company remaining public and the GCC becoming private. It will be two companies. So, whatever we do will have to be on the way, keeping that in mind. So answering your question, yes, there are certain things that we have developed here, like myAster, which is the app, which is becoming very popular here, like Alisha mentioned. We will definitely be looking at ways in which how we can utilize it by way of either one-time purchases or like licensing, it can be utilized in India. Like that, there will be also other areas, medical value travel, for example, patients traveling from GCC to India, which is happening now, there will be patients again traveling. We are looking at ways in which how this can be beneficial on both sides at the arm's length method pricing wherever there is the possibility.

Now there are people, doctors, nurses coming to GCC from India, so we want to remain on both sides as it will be Aster and as promoters, we are participating. We would like to get those benefits at the same time, making sure that both the companies are getting separately the benefit out of it.

**Amrish Kacker:** **That's it. Thank you very much and all the best.**

**Balachander R:** The next question is from Mohit.

**Mohit:** ***Thank you for this opportunity. Okay. So I had this question about last year, there was this note that we have recognized income of INR 23 crores for reversal of this contingent consideration provision. So when you're comparing 1Q this year versus 1Q last year, is this excluded from the normalized numbers?***

**Amitabh Johri:** Yes, Mohit. We have excluded that. So, when we are looking at the growth and we are trying to a normalization, this INR 23 crores have been backed up from the INR 69 crores of what was the Q1 FY23 numbers.

**Mohit:** ***And one more thing. So you said that the promoters will be participating in this GCC business after it's carved out. So is it going to be transferred? I'm worried about a big increase in pledge shares in the Indian listed business to finance promoters participating in the GCC carve out. So is that going to happen? How will it be financed?***

**Dr. Azad Moopen:** No, no, no. It's not going to happen because the structure that we are looking at, we have brought this money from outside India as foreign direct investment. So this money can be repatriated whatever comes in India when it is dividend out, we can bring that money back and that can be deployed here. So there won't be any requirement for promoter pledge and all happening in India.

**Mohit:** ***Okay. Got it. So the bulk of the proceeds are going to be dividend out?***

**Dr Azad Moopen:** That is, the Board has to decide. Our desire is that as promoters, but the Board has to decide. So we have seen that as one of the sources for getting the stake in GCC. If it's not possible, we have other methods in GCC to raise our own funding.

**Mohit:** ***Okay. Got it. And this is like more of a minor concern, but for the last couple of quarters we've been saying that we would receive binding bids in 1Q FY24. And we've always known that this is a complex transaction, right? So what happened?***

**Dr Azad Moopen:** Yes, yes. So as you mentioned, it's a very complex transaction because of many reasons. So, the Board wants to be 100% sure before it accepts the bid and sends it to the shareholders. So that whole process, the rigor which we have put into this because of many reasons. Because it's a transaction between GCC and India, outside of India, the promoters are involved. So there has to be, again, hundreds of checkpoints where we make sure that it is beyond any doubt, there is no conflict of interest. So a lot of things, a lot of lawyers and advisers involved, apart from our own; the resources we have. But the independent directors are helping us, giving us direction, as well as helping the Board to go in that right direction. So as you mentioned, it's a complex, but the good thing is that we all believe that this is going to significantly, I mean, sort of unlock value for the shareholders and that's why, we are doing this. Otherwise, there is no point in doing this.

**Mohit:** ***Perfect. So we have received some sort of bid because you said you are evaluating them?***

**Dr Azad Moopen:** Yes. So, that is beyond the scope, it will be difficult for me to now to commit. So, you know, there are certain restrictions, but what I can tell you is that it is going in the right direction, even though it's delayed, it's progressing well.

**Hitesh Dhaddha:** So Mohit, in some of these larger transactions, and you must have been tracking for various other companies as well. There could be a few months of delays if the transaction of this kind of magnitude and size is happening. Those things can always happen. But I think as Chairman mentioned, so far, we are reasonably confident of moving forward on that transaction. That's the limited point I would like to make for. Thank you.

**Mohit:** ***Perfect Thank you.***

**Balachander R:** The next question is from Harith.

**Harith Ahamed:** ***Hi, Good evening. Thank you for giving me the opportunity. So there's INR 7 crore loss from associates that I'm seeing in the P&L. It's not a big number, but just trying to understand which entity it's coming from?***

**Amitabh Johri:** Yes, I will try to answer that question. It's a combination of entities across GCC and India. There are certain entities in India, especially in the IV side, where the business had invested, and these are the cumulative losses that are coming from there. This is largely that amount. There's around Rs. 4 Crs from GCC and Rs. 3 Crs from India, which has resulted in this loss.

**Harith Ahamed:** ***Okay. That helps. On the O&M asset-light strategy, we've added, I can see another hospital getting added under this model, which is in Kollam. So, some color on this particular hospital, as well as what your experience has been operating hospitals under this model because we've added some 3 to 4 over the last 12 months. And then particularly when I look at this hospital, it's a slightly smaller hospital, very different from the other assets that we have in Kerala and in general, the O&M model, we are focused on Tier 3 and 4 locations. Again, a deviation from our Tier 1 focused high-industry care, quaternary care focused model. So thought process around this O&M asset-light strategy would be helpful.***

**Dr Azad Moopen:** Harith, thank you very much. So this is something which is very close to our heart because of many reasons. One, from the point of view of providing care in the areas where it is not there, where we are all mostly our assets are in city such as Bengaluru, Cochin and Calicut or where we would like to go to the interior. That's why we have gone to these places. The 4 hospitals, which we have started confirms to that. The size are smaller like what you said, it's more than our other hospitals. But this whole thing, apart from making us the healthcare providers, who can provide tertiary care, like an angioplasty or neurosurgery, in a place where it's not possible because of our connect with that hospital is something which is really lifesaving and being appreciated by the medical professionals, as well as the patients. So that is from the point of view of taking this to the periphery.

From the point of view of an investment, as you know, this is a very asset-light model where already there is existing infrastructure. What we do is we bring in some equipment, and sometimes, we have to give some deposit and all. So, Sunil will tell further about this hospital in Kollam, which we are the latest one, which we have added, before that we started one in Tirupati also. So, the advantage is that it is very asset-light. So, while the EBITDA margins may be lower, and it may even dilute our overall EBITDA margin, we find an opportunity to have significant increase in our ROCE. So that is the whole idea. One, bringing care to places where it is not available. And second, to get a very high ROCE, while there may be some dilution on our EBITDA margins. So Sunil, if you can just tell him the experience of couple of these hospitals regarding the financials of that.

**Sunil Kumar:** Sure, Chairman. Thanks, Harith, for the question. So, as you know, already, we have 3 assets live, one is Aster Mother Hospital in Areekode, with 140 beds, that's almost 1 year back we started that. Aster Narayanadri in Tirupati, we started 2 quarters back, with again, 150 odd beds, and recently, this quarter, we started with 100 beds Aster G Madegowda Hospital in Mandya. Out of the 3, we've already broken even in Narayanadri, there is something which we communicated in the last quarter itself, and doing very well. It does more than INR 3.5 crores revenue per month, with a more than 10% EBITDA margin.

Now the Kollam one, we tied up in the first of June 2023. And already we have gone live, in the sense, the operations already started on 1 August 2023. Revenue has really picked up. So, this has also been a similar range of Aster Narayanadri revenues.

And in terms of the contract, as Chairman told, it is a combination of the Security deposit and a little bit of a CapEx. In this case, we have given around INR 6 crores to INR 7 crores as security deposit, and my CapEx is around INR 2 crores to INR 3 crores, that's it, not more than that. And another good part of the Aster Padmavathy Medical Foundation, Kollam hospital is that there's no fixed revenue share at all. See, in other places, we have done fixed or variable, whichever is higher. In this case, there is no fixed and it's purely variable.

**Harith Ahamed:** ***And then just one small clarification. I see in your presentation as per KLE hospital, you've classified it as O&M. And then, how is it different from this O&M asset-light set of hospitals? Are there any differences in these two models?***

**Sunil Kumar:** Yes, Harith. Only for Aster we qualify that, only O&M means, we usually go with the interiors plus medical equipment or will only go with medical equipment. When we call O&M asset-light, not only just O&M, here we have an existing hospital already, we've already asked about equipment also. So we go only with the small deposits and just refresh the medical equipment, which is required. And to add wherever the specialties are lacking, trying to get a new doctor, a new specialty want to start, so only those CapEx we incur, nothing more than that.

**Harith Ahamed:** ***Okay. And these hospitals like this Kollam asset, they are already operational hospitals.***

**Sunil Kumar:** Yes. It's the existing running hospital, we have taken it over.

**Harith Ahamed:** ***Okay. And one last question. Looking at the ARPOB profile of mature hospitals in India, it's around 40,000 that we have for this quarter. So how should we think of this number going forward in terms of further expansion from here? We've seen a lot of peers reporting double-digit ARPOB growth in recent years. But for us, how should we think about ARPOB growth, particularly for this mature hospital cohort.***

**Sunil Kumar:** So Harith, if you see the historical numbers, right, we were able to comfortably grow around 8% to 10% ARPOB year-on-year. And considering that, our cash business is still 58% to 60% of our total revenue that comes from cash patients, that is at least the place where we have the capacity to do the price increase, right? So keeping that, yes, we have that leverage available, at least, I'm not giving a long term, but this in a short term, yes, that percentage growth can really happen in the ARPOB.

And also in case of balance, also, we have got 20% to 30% of TPA. We don't do a lot of schemes. If you do a lot of schemes for state government patients, right, usually, you don't have the control over the increase in the pricing. But at the same time, TPA also, you enter into a multiyear agreement. So you really don't have a year-on-year comfortable. But every 2 years or 3 years, you can see a jump in the ARPOB. So that's a broad, I think, guideline we can give you.

**Harith Ahmad** ***Thank you for taking my questions.***

**Balachander R:** Thank you Harith. If there is anybody who wants to ask any question, please raise your hand

**Balachander R:** Since there are no more questions, we'll close the call with that. Thank you all for attending. And if there are any further questions, please do get in touch with us outside this call. Thank you. Thank you all.

**Dr. Azad Moopen:** Thank you, all. Happy Independence Day in advance.

<End>

***The contents of this transcript may contain modifications for accuracy and improved readability.***