

August 19, 2022

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

Sub: Transcript of Earnings Call for the quarter ended June 30, 2022

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 12, 2022, regarding Video/ Audio recordings of Earnings call of the Company for the quarter ended June 30, 2022, held on August 12, 2022, 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/investor/financial-information>.

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

Thank you

For Aster DM Healthcare Limited

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Company Secretary and Compliance Officer



Aster DM Healthcare Limited
Q1 FY23 Results Earnings Conference Call

August 12, 2022

Management:

- Dr. Azad Moopen – Chairman & Managing Director**
- Ms. Alisha Moopen – Deputy Managing Director**
- Mr. T J Wilson – Non-Executive Director**
- Mr. Sreenath Reddy – Group Chief Financial Officer**
- Mr. Amitabh Johri – Chief Financial Officer, GCC**
- Mr. Sunil Kumar M R – Head of Finance, India**

Moderator: **Mr. Saurabh Paliwal – Head, Investor Relations**

Saurabh Paliwal:

Good morning, everyone. My name is Saurabh Paliwal, and I welcome you to Aster DM Healthcare's earnings conference call for the first quarter of Financial Year 23. The company declared the Q1 FY23 results last evening. I hope you've got a chance to review them, along with other materials, which were posted on the stock exchanges and also uploaded on the company website.

Today, to discuss the quarterly business performance and the future business outlook, we have the senior management at Aster DM Healthcare available with us. It includes Dr. Azad Moopen, Chairman and Managing Director; Ms. Alisha Moopen, Deputy Managing Director; Mr. T.J. Wilson, Non-Executive Director; Mr. Sreenath Reddy, Group Chief Financial Officer; Mr. Amitabh Johri, Chief Financial Officer for GCC and Mr. Sunil Kumar, Head of Finance for India.

I would like to remind everyone about how we will conduct this call. All external attendees will be in the listen-only mode for the duration of the entire call. We will start the call 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 questions to 2 but not more than 3 per participant at a time. Post the completion of your query being answered, we will lower your hand.

Finally, before we get started, the safe harbor related to the earnings conference call. Certain statements that may be discussed in this meeting that are not historical facts and might be forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties like government actions, local, political, or economic developments, technological risks and many other factors that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. 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.

T J Wilson: Chairman is on mute, I think

Saurabh Paliwal: Dr. Azad, if you could unmute yourself, please?

Dr. Azad Moopen: Yes, sorry about that. Am I audible now?

Alisha Moopen: Yes, you are.

Dr. Azad Moopen: Sorry about that. There was some technical issue. Good morning, everyone. Thank you all for joining us for our earnings call for the first quarter of FY23.

I hope and pray that all is well with all of you and your families. As the summer vacations conclude in India and other parts of the world, I hope most of you, were able to take a break this summer. The world has now reached a stage where COVID cases continue to be there, but we now consider it to be a part and parcel of our lives, exercising necessary safety precautions.

The Ukraine conflict continues and along with it, high-energy prices and Taiwan standoff between USA and China. We also continue to battle high inflation with global central banks responding by increasing interest rates, thereby dampening growth prospects.

However, we are happy that the scenario in our key markets in India and Dubai seems to be much better with strong growth prospects. GCC, from where we derive majority of our revenue has the benefit of spiraling oil cost which will have an impact indirectly in all businesses there whereas this is actually a dampener for India.

Let me discuss the financial performance of Aster for Q1 FY23,

At a consolidated level, we posted a revenue of Rs. 2,662 crore which is an increase of 12% when compared with the same period, last financial year.

EBITDA grew only 4% to Rs. 292 crore when compared to Rs. 281 crore in Q1 FY22. EBITDA growth was impacted due to losses of Rs. 20 crore from commissioning of new hospitals in GCC and India.

Profit after tax (post-NCI) stands at Rs. 69 crore when compared to Rs. 44 crore with Q1 FY22, a growth of 54%. Profit After Tax (post-NCI) excluding impact of commissioning of new hospitals and one-time other income is Rs. 77 crore, a healthy growth of 74 %.

With respect to the GCC business, revenue grew 10% year-over-year to Rs. 2,011 crore with EBITDA of Rs. 208 crore as compared to Rs. 210 crore in the same period, last financial year.

The Aster India business is growing well with revenues growing 18% to Rs. 651 crore and EBITDA increasing by 18% to Rs. 84 crore. Profit After Tax (Post-NCI) stood at 19 Cr as compared to a loss of Rs. 1 Cr in Q1 FY22. This shows that we can sweat the assets well in India, increasing revenue and profits. I also want to mention that regarding the GCC, as we all know, this is relatively a weak quarter or half when you look at the first half of the year. So that is part of the reflection of that and, of course, along with the starting of the new hospitals, which were mainly happening in GCC.

Moving to the operational updates of the quarter –

In India, during quarter 1, we started operations management of the 140-bed Aster Mother Hospital in Areekode in Kerala, kick starting our planned brown field, low capex initiatives which give a much better ROI and improves our efficiencies. This addition takes our total bed count in India to 4,033 capacity beds. As stated earlier, we are looking at more of such opportunities in various parts of India and we hope to announce some of these in coming quarters.

We have submitted revised plans for an integrated advanced healthcare facility at Trivandrum, capital of Kerala named as Aster Capital. While the hospital is planned to be ultimately a 550-bed facility, the first phase shall be a capacity of 350 beds and is expected to be operational by FY26. We had brought 6.5 acres of land 5 years back and the project was kept on hold due to COVID. We see a huge demand supply gap in Trivandrum and expect an early breakeven of this project, in about a year after inauguration, like what we did at Kannur.

Aster Labs, which has its presence in both Karnataka and Kerala has now also entered four other States: Maharashtra, Tamil Nadu, Andhra Pradesh, and Telangana. As of 30th June 2022, there were 2 reference labs, 15 satellite labs and 109 patient experience centers. The B2C business in Aster Labs is yet to pick up to the levels we wanted due to many factors including tough competition — however, we have started realizing the benefit of having the lab as integral part of the ecosystem to create an omni channel. We have recently launched Aster Labs on WhatsApp. This customer centric approach should help us service our customers even better.

With respect to the Aster Pharmacy branded retail stores, operated by Alfaone Retail Pharmacies Private Limited or ARPPL, as of 30th June 2022, there are 176 pharmacies: 89 in Karnataka, 45 in Kerala, and 42 in Telangana. As part of its service proposition which provides facilities like prescription refill reminder, customer centric promotions, and free home delivery, Aster Pharmacy in India plans to launch its e-commerce operations, in the second half of FY23.

In the GCC region, the 101-bed Aster Hospital Sharjah had a soft launch during the quarter. There has been some delay in launch of 145-bed Aster Royal Hospital in Muscat, Oman, due to authority approvals. We have now got the permissions and we hope to inaugurate this soon. These two hospitals will increase our capacity bed count in GCC to 1,431.

I just want to touch upon the Saudi Business. Over the past few quarters, the Saudi business has seen an improvement in performance. As a result of this

turnaround, we are now looking at getting a minority investor on board instead of selling off the whole business. The first quarter EBITDA of Saudi business, despite the challenges of Ramzan etc. was in the single digits. We are also looking actively to enter the Retail Pharmacy business in Saudi and discussions are going on.

Status of Restructuring:

The process is going on. The Board of Directors have provided their approval for appointment of the bankers to explore potential restructuring options which present an opportunity to unlock value for the Company and its stakeholders and provide further update to the Board in relation to further steps to be taken in this regard. Appropriate announcements and public disclosures in accordance with the Listing Regulations and other applicable laws will be made as and when required, in this regard.

I now request the Deputy Managing Director, Alisha Moopen, to elaborate on the GCC business, the Digital Transformation and other strategic initiatives undertaken by Aster.

Thank you very much.

Alisha Moopen:

Thank you, Chairman. Good morning, everyone. Just like Chairman mentioned, we are in stage where COVID has now become a part and parcel of our lives with normal life and business moving in full swing and so is Aster.

As Chairman mentioned again, we have two of our new hospitals which we had put on hold during COVID; now we have begun the commissioning. The Aster Sharjah, which is a 101-bed hospital has opened up with a soft launch during Q1 and Aster Royal Hospital in Oman with 145 beds is expected to have the soft launch end of this month since we got the regulatory approval. We are excited to get them operational in Q2 of this year as we expand our footprint in GCC.

Revenues at GCC saw a return towards normalcy. This period of Q1 marked by both the Ramadan Break as well as the Eid Holidays and there is also the

sad demise of the ruler of UAE which had some extended mourning period as well. So, the combination of all of that, we have seen a little bit of a soft quarter, which anyways is quite typical of Q1 and Q2 in GCC.

Hospitals revenue during the quarter increased by 8% Y-o-Y. The Retail business saw a strong comeback with an increase in Revenue of 30%, while the core revenue of Clinics business, which is excluding the PCR revenue saw an increase of 26%. The GCC business would have seen a much better EBITDA but for operational losses of the new hospitals commissioned during this period which resulted in losses of INR 15 crores in GCC.

As Chairman briefed on, the Saudi business which really was a concern for a long time. It has witnessed a positive turnaround. We have seen a very sustained Revenue and EBITDA numbers despite summer as well as Ramadan. Some of this is emanating from certain systemic changes which were made in the business and we believe, they are likely to maintain business trends. We truly believe Saudi has huge potential and for our GCC strategy, we can't ignore this. We have recently signed a preliminary MOU with one of the largest Retail and Entertainment Group to launch our Pharmacies in Saudi. These will be low capex but will help us harness the Healthcare Ecosystem better.

On the digital initiatives, we are continuing to tread along the planned lines. We have done a successful launch of our digital app in Dubai. Currently we are live with both Teleconsultations as well as the Online Pharmacy in the UAE - which have seen a positive response too. With pretty much no marketing, we have had more than 100k users since the launch in June and these were the numbers up till end of July. We actually aim to aim for marketing to be driven from end of August and the numbers are expected to scale quite significantly. At this moment, we are running live load tests and refining the system responses to ensure that the platform continues to remain stable at higher loads that we expect post marketing. For India, the teams are engaged in solving the specificities of the technology and workflows. We expect the Indian businesses to be enabled on the digital platform soon which will

complement both our pharmacies as well as the labs, which are growing in scale.

For the Aster Innovation and Research Centre, which is the innovation hub of Aster DM, we have collaborated with Intel Corporation, and CARPL to announce a state-of-the-art 'Secure Federated Learning Platform.' This collaboration will enable the development of AI-enabled health tech solutions where data can securely reside where it is generated. This collaboration will boost innovation in areas such as drug discovery, diagnosis, genomics, predictive healthcare. It will also help clinical trials to access relevant data sets in a secure and distributed manner.

I will now request our Group CFO, Sreenath Reddy, to take you through the details of the financial and segmental performance of the quarter. Thank you.

Sreenath Reddy:

Thank you, Alisha. Good morning, everyone. On a consolidated basis, our revenue from operations for the quarter has increased by 12% to Rs. 2,662 crores year-on-year. India revenues have increased to Rs. 651 crores, up 18% year-on-year from Rs. 550 crores. The revenue growth excluding COVID vaccination in India was 26%. Revenue from our GCC operations was Rs. 2,011 crores, an increase of 10% year-on-year whereas the revenue growth excluding COVID testing was 18% YoY.

Consolidated EBITDA for the quarter was at Rs. 292 crores, an increase of 4% year-on-year. However, if you exclude the losses of new hospitals not present in FY22 Q1, namely Aster Hospital Sharjah, Aster Hospital Sonapur and Aster Mother Hospital Areekode, the EBITDA growth will be 11%.

EBITDA from India operations was Rs. 84 crores, a growth of 18% Y-o-Y. EBITDA from GCC operations stands at Rs. 208 crores, a decrease of 1% Y-o-Y. Excluding losses of new hospitals in GCC amounting to Rs. 16 crores, the EBITDA growth will be 6.7%. An important point to mention is that we are now going back to the pre-COVID scenario, wherein the EBITDA for the first half of the year as per the historical trends will be in the range of 40% of the full year number.

Consolidated PAT (post NCI) is at Rs. 69 crores as compared to Rs. 44 Crores in Q1 FY22. Excluding losses of Rs. 32 crores from new hospitals and one-time other income the PAT stands at Rs. 77 Crores, a growth of 74% Y-o-Y.

Coming to the segmental performance for the quarter. GCC Hospital revenue was at Rs. 913 crores, an increase of 8% Y-o-Y and the EBITDA stands at Rs. 133 crores compared to Rs. 130 crores in FY22 Q1.

Our hospital in Saudi has performed well during the quarter. The EBITDA from the business has nearly doubled with high single digit margins.

GCC Clinics revenue stands at Rs. 538 crores, a decrease of 2% Y-o-Y. Excluding revenue from COVID testing the business registered a growth of 26% which is a sign of our core business normalising. EBITDA decreased by 9% Y-o-Y to Rs. 91 crore and EBITDA margin stands at 17.0%.

GCC Pharmacies revenue increased 30% Y-o-Y from Rs. 508 crores to Rs. 660 crores. EBITDA increased from Rs. 44 crores to Rs. 58 crores, an increase of 32%. EBITDA margin for this segment is at 8.8%.

India Hospitals and Clinics segment has grown to Rs. 627 crores when compared to Rs. 549 crores, an increase of 14% year-on-year. EBITDA has increased from Rs. 84 crores to Rs. 99 crores, an increase of 18%.

Consolidated net debt as at 30th June 2022 stands at Rs. 1,847 crores compared to Rs. 1,806 crores as at 31st March 2022. India net debt stands at Rs. 359 crores compared to Rs. 319 crores as at 31st March 2022 and GCC net debt has reduced to USD 189 million from USD 197 million as at 31st March 2022. Capital expenditure during the quarter was Rs. 142 crores.

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

Saurabh Paliwal:

Thank you Sreenath. Anybody who wants to ask a question, please use the 'raise hand' icon at the bottom of the Zoom application. We will wait a

moment for the line to assemble and then take the question one by one. The first question is from Nikhil Chandak. You may please unmute your line and ask a question.

Nikhil Chandak: *Good morning. My question was on the proposed restructuring. If you could share some more elaborate thoughts on what exactly is the plan of action? Because frankly every con call we hear that this is under consideration. But it's been a long time, and there's no visible progress at least to the investors on what really is happening, what is the thought process? Even on the Saudi hospital, as you mentioned, there's a change in plan where you're not exiting or you're getting an investor there. So, what exactly is the plan? Do we eventually see 2 separate entities, 1 India and 1 non-India? Some plan and timeline would help.*

Dr. Azad Moopen: Yes. Thank you very much. Thanks a lot. So, the first part I'll answer, then Alisha will answer about the Saudi. Regarding the restructuring, I assure you that it's going forward in the direction which we wanted; where we wanted 2 businesses: 1 in GCC and 1 in India. So, in the GCC, now it's very clear, earlier, there was a lot of talk about that. But now we are looking at the GCC business and looking for somebody to come into the GCC business. So, there is a vendor DD happening in GCC, which is in progress and once the vendor DD happens, and that is over, that's the time we hope that we'll have more clarity on that.

So, answering your question, there is more of clarity and this is going in the direction where there will be a segregation between the 2 businesses. Once we have a clarity on what are the bids and after the vendor DD happens, then we will get back to you. As per the requirements, we will inform the stock exchange. So that's the first part.

Regarding Saudi, Alisha, if you can just enlighten him.

Alisha Moopen: Thanks, Nikhil. Thanks for the question. So earlier, when we were looking at the potential exit from Saudi, it was because the Saudi market requires quite significant capital allocation for us to grow in a market like that. And we thought maybe if we are continuing as a global entity with the GCC business,

we would rather allocate the capital into India rather than in some of the other GCC markets. But now with this potential restructure, what we realized is a lot of the investors who have expressed interest to come into the Aster GCC business thinks of Saudi as a core business and a core geography that they would want to pursue. So, at that point in time, we did not feel comfortable exiting from a market at this point in the restructuring process.

We felt it would be better for us to stay until we have clarity on the partner who's coming on board and if they wanted to pursue the Saudi business, we thought it would be a bit premature for us to exit from it, especially as we mentioned earlier, the business seems to have been doing well. Most of the Saudi business are turning around, and there seems to be a very positive traction there.

So, one, on its own effort, it's standing strong and two, as part of the restructure also, we believe that Saudi is an important element to get the right investor attention and demand. I hope that clarifies.

Nikhil Chandak: *Perfect, thank you. Then the last question was on capital allocation in the interim till the restructuring doesn't come into effect. How do you see capital allocation between India, non-India and even within India, in the competitive diagnostics space, where do you think the focus would lie?*

Dr. Azad Moopen: Yes. So see, we have a clear plan now and we are following that in spite of the restructuring process happening. The only changes that we would like to hear from the investors regarding the GCC, what their requirement is. But to a great extent, whatever we have announced regarding the India-GCC split between the capital allocation will happen this year because we are almost halfway through. So, regarding the allocation of the capital, see the capital required for a very low capex business like the lab as well as pharmacy is not very high when compared to a hospital. What we have allocated now, a large part is going towards the major projects like the hospital in Trivandrum as well as the one which we announced for Kasaragod. So, the hospital projects will be the one which will be attracting the largest capital. The others will be there, but the numbers will be high when you look at the total number of

establishments, but the capital requirement for these businesses are much lower when compared to the hospital business.

So answering your question, there is no change from what we discussed earlier between GCC and India for the capital. And second, in India, the focus will be on the hospital business. Even in that, as we have mentioned, there is a change now. We want to make it low capex, and that's why these brownfield projects like the Mother Hospital; we are looking at many opportunities, and we hope that we'll be able to have a significant number of beds added through that where the capex allocation that is required is very minimal.

Nikhil Chandak: *Thank you so much.*

Saurabh Paliwal: Thank you, Nikhil. The next question is from Amrish. You can unmute yourself and ask the question.

Amrish Kacker: *Thanks for the opportunity and congratulations on a solid set of numbers despite the loss of COVID revenues and thank you very much also for increased transparency in the clinics and pharmacy data in India. The first question I had was on the operational performance in India. Is there something more you could shed on what's happening in Andhra and Telangana in terms of financial, operational metrics? Everything seems much weaker than the rest of India.*

Dr. Azad Moopen: Yes. So, I'll ask Sunil to add on to whatever I say, Sunil is our India CFO. So, the business in Andhra and Telangana, when compared to our businesses in Kerala and Karnataka has been weaker. So, part of it is because we had very high business last year because of COVID. The COVID revenue was very high but in spite of that, we have put some budgets, but they have not reached those budgets. So, the reason for that is mainly because the hospitals in Andhra and Telangana have come out of the schemes, the Arogya Shree and such schemes, which are there because they wanted to cater to more of a cash and insurance business. But this thing, that is something which we should be looking at because that is reducing the occupancy. So, we are now in a process of going into that will ramp up the occupancy and which will help

us to have better occupancy and also to sweat the assets better. So that's more about the Andhra and Telangana. And we hope that with these strategies that have been adopted, that should do better. And if not, to the speed of the other two clusters, should be doing better. Sunil, do you want to add something on to that?

Sunil Kumar M R:

Sure, Chairman. Thank you. Thanks, Amrish, for the question. So just to add to what Chairman said, as you know that, just to put numbers to it, last year same time, we had the Wave 2 going on. And Andhra and Telangana is where we have the smaller format hospitals, which really did good, wherein the COVID revenue went up to 50% of the total revenue. So because of this, what happened is that the EBITDA margins were very high, upwards of 20%-30% and all. Now you know that right it is H2 last year, the COVID number essentially have come down and now we are trying to depend on more non-COVID numbers. So this is a scenario across the hospitals, across the clusters but we've seen that Karnataka and Kerala did very well to bring back the non-COVID revenue. They're even better than the pre-COVID numbers, what we see. But that is not the case in Andhra and Telangana and similar other hospitals also facing that issue and currently the occupancy is now sub 50%. As Chairman said, we are also looking at how to increase the numbers by bringing the schemes because considering scheme patients are quite high in Andhra and Telangana cluster, we cannot work without those schemes, but we will try to see how to get in to see that we don't dilute the ARPOB, neither the EBITDA margins. But whatever you see is just a onetime thing we're just trying to recover. So future quarters are going to look quite better on this aspect.

Amrish Kacker:

Thank you and then I suppose it's better to look at it from a longer term and assume the FY22 numbers are a little bit of a blip as well. That's helpful. A couple of just strategic comment/questions. On Slide 18 on Aster Labs, there is a mention of Delhi being added as a potential location. Is this a planned activity? Or is this an error just because it's getting very competitive and is this where we want to go?

Dr. Azad Moopen: So, thank you for that question. So, this is something which we internally reviewed and so in the overall plan, North was very minimal. Because maybe even that our CEO for the hospital sector was earlier in the North. So, he had huge hope, and he wanted a presence in the state capital as well as in some other major metros. But we have now thought that we will look at the next few quarters, how the business is doing in South, then only, we will go into the North. So, whatever you have seen there is not going to happen immediately. So, we have said that we will go into the North only after stabilizing the South.

Amrish Kacker: *Thank you. That makes sense. Just a quick one on the restructuring as well. Through the process, I am assuming that we don't lose the benefit of the synergies that we have both ways. I assume that's already been considered, but if you could just give some comfort on that because we benefit from, say, the digitalization activities in GCC, patients this way, and of course, from India, we can send doctors and staff?*

Dr. Azad Moopen: That's a very, very important thing, which we have deep in our mind. So, one of the things which is going to remain as it is, is that we are going to be there on both sides. Whatever restructuring happens, as promoters we will be there on both sides. So, the synergies which are there, which are beneficial for the company will be continuing like, for example, the movement of employees, the movement of patients and things like what you mentioned about the digital, those things will continue, wherever there is a benefit to both sides and at arm's length, we'll be doing that.

Amrish Kacker: *Thank you. I will get back into the queue*

Saurabh Paliwal: Thank you. The next question will be from Spark Capital - Harith Ahamed. You can unmute your line.

Harith Ahamed: *Hi, morning. Thanks for the opportunity. My first question is on Sanad. So, you mentioned that there's a fair bit of improvement there. So, can you give an indication of the EBITDA margins there currently? Are we at a high single-digit of margin level there? Or have we touched double-digit margin there?*

Some sense would be helpful. And one more follow-up would be that you talked about bringing in a minority shareholder there. So, can you elaborate a bit more on the rationale for this? What exactly will the fund be used for because the way I see it, the expansions that we've talked about so far at Sanad, we should be able to finance it through our own balance sheet?

Sreenath Reddy:

Yes. So, Dr. Harith, Alisha will come on the second part. So, on the first part, in terms of the margins that Sanad achieves. See, historically, if you look at quarter 1 and quarter 2, for us, in the GCC, these are lean periods, mainly because of the summer holidays and quarter 3 and quarter 4 are strong periods. Now if you look at Saudi, quarter 1 will be the weakest. But however, if you look in the current year, in spite of the holidays and the festivals, in quarter 1, we are at around 9% of EBITDA margin (pre-IFRS 16) at Sanad Hospital. So, these margins will get into double digits getting into quarter 3. So therefore, the turnaround has happened, and this performance will lead to stronger margins in the coming quarters. Alisha, on the minority interest.

Alisha Moopen:

Sure. Thanks, Harith. So, on the minority interest, there is an expansion of the hospital. We have 60 beds, which again, we have put on hold. Right now, we are running at almost 85% occupancy. Like you said, the internal accruals should take care of us expanding that bed capacity. But this was more looking at a more strategic partner for Saudi. So, we were thinking of using these funds from the potential minority partner coming in for the expansion of the pharmacies. We would use it for the pharmacies and also the base on the digital that we are setting up in UAE, we would like to quickly mobilize the same in Saudi. And that would, again, go towards some of that in Saudi. So that was the plan towards Saudi.

Harith Ahamed:

Thanks, that's helpful. My next one is on GCC pharmacies. I see that revenues have increased; I know we generally don't look at the GCC business on a quarter-on-quarter basis. But still looking at the GCC pharmacy segment, the revenue increase quarter-on-quarter has been almost 10%, but the EBITDA has almost halved. So, I'm struggling to understand why with

revenues growing, there's such a high impact or such a high decline in EBITDA?

Dr. Azad Moopen: Amitabh, you would like to answer that?

Amitabh Johri: Sure. Thank you for the question. So, I think you're looking at a sequential number between quarter 4 of FY22 ...

Harith Ahamed: **Yes**

Amitabh Johri: So typically, this is impacted by 2 factors. One, of course, is a factor that quarter 4 is the highest quarter that we have in a year. It's a seasonality factor that is there, which is a reflection that if you look at the quarter 1 of the year, as Alisha called out the Ramadan holidays and the summer period, there is a natural reduction in the volumes that are sitting over there. But it's also the factor on EBITDA that comes in, wherein as we close the financial year, there are typically procurement benefits that come in, which we do not know for the whole year, but they only come towards the end of the year in our knowledge, which is why you would notice that the margins for quarter 4 for pharmacies are relatively higher than the other balance part of the year. However, if you were to compare the year-on-year basis performance of pharmacies, I think that data is more representative. Because we've seen, between the quarter 1 of FY22 and quarter 1 of FY23, a 30% increase in the top line on pharmacy and a bottom-line increase of 32%. I think that is a more relevant data to look at because it's representative of the business change that we observe.

Harith Ahamed: ***All right. And Sreenath, these unallocated and elimination item that we have, both at revenue and EBITDA level, there's been a sharp increase. It's almost INR 120 crores at the revenue level and INR 80 crores at EBITDA level. This is an increase from INR 60 crores in the last couple of quarters. So, what exactly is the nature of these items here? And can you explain the increase as well?***

Sreenath Reddy: Yes. So if you look at it, Harith, the pharmacy business has increased during the quarter, right? And the pharmacy business also provides their services to our other verticals. So that is where, this unallocated will be a higher number.

Harith Ahamed: *Thanks for that. That's all from my side.*

Saurabh Paliwal: Thank you Harith. The next question will be from Manoj Bagardia. You can go ahead and unmute your line. Manoj... I guess he's gone. Next question will be from Manish Bandari.

Manish Bandari: *Can you hear me clearly?*

Dr. Azad Moopen: Yes, yes. Please go ahead.

Manish Bandari: *Hi, good morning. I have two questions. One is regarding the medical tourism, which ideally the southern hospitals should have benefited. So, are we seeing some recovery in the medical tourism, which should ideally lead to a potential improvement in the operating utilization of the hospitals in South?*

Dr. Azad Moopen: Yes. So definitely, there is an increase. This has gone down significantly in the COVID period. So this year, the...

Saurabh Paliwal: Dr. Azad, your line is muted by mistake.

Dr. Azad Moopen: Okay. Sorry about that. There is some technical issue. So, are you able to hear now?

Manish Bandari: *I can hear you.*

Dr. Azad Moopen: Yes. So, I was telling that there is definitely increase in the MVT revenue, which is coming from mostly GCC as well as from other regions. But to give you some numbers, Sunil, can you give some numbers, indications in the first quarter?

Sunil Kumar M R: Yes, Chairman. So Manish, thanks for the question. Now if you see pre-COVID, when we look at MVT revenue, we were clocking 5% of the total India revenue

and 8%-10% in the hospitals where we used to do MVT revenue. That had dropped to almost 1% during the COVID period. That is between FY21 and FY22. Now what we see is that the percentage in Q1 is already back to around 7%-8% when I look at only the units which do the MVT revenue. But at the India level, against the 1%, which was down, now it has moved to almost 4%. So, to put it in a very simple manner, yes, MVT revenue is almost back to pre-COVID levels, almost 80%-90%, you can say. And we are seeing good numbers already coming in July itself. So, we should be able to do very good in FY23.

Manish Bandari: *Sir, my second question is regarding the pricing pressure in GCC. Are we at the bottom of the cycle in terms of the pricing pressure? Or do you think so any more pricing pressure is left from where we are standing today?*

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

Alisha Moopen: Yes. So, when you are working in an insured market, there is always some pricing pressure that comes in. But over the last couple of quarters, one, internally, our focus has also been on shifting a bit of our portfolio from insured business to noninsurance. So, we have actually seen an upswing on medical tourism. We've had more than INR 200 crores of revenue in the last sort of 9 months just to our Medicare facilities. We have increased our focus on cosmetics, aesthetic business as well as the non-pharma piece, which is all cash. So, we ourselves are trying to get more than close to 20% of our business coming in from the cash element.

Separately, there has been a lot of discussions with the regulators to add with the inflationary pressure to do a tariff revision upwards. So, this is a constant dialogue that happens between the payers and the providers. We believe, that will keep continuing to happen, but there seems to be a lot more upward increase as far as premiums are concerned, and we're just making sure that we get it passed on to the providers as well.

Manish Bandari: *Would this strategy be implemented in India also looking at the success what you are trying to find in Middle East?*

Alisha Moopen: Sorry, on what Manish?

Manish Bandari: *So, I mean to say the noninsured portion; the cash payment portion, would you implement this strategy in India also?*

Alisha Moopen: Yes. I mean, in India anyways, it's largely cash for us. I think we're talking about 70%-80% of our business in India is cash. But as the insurance penetration is increasing here, and as our focus on our flagship facilities, whether it is in Medcity, whether it's in CMI as well as Aster MIMS, there is a focus on MVT. In fact, we were just with the Medcity teams. There is a focus on a lot of the cash elements like we spoke about. We're building the rehab center, 80 beds over there in Medcity, which would again be international patients, which will happen in the next 1 year. There is a focus on cosmetics and similar model. So, we are trying to extend some of these strategies, which make sense for India, of course.

Manish Bandari: *Thank you*

Saurabh Paliwal: Thank you Manish. The next question is from Mehul Sheth from Axis Capital. You can go ahead.

Mehul Sheth: *Yes, yes. Am I audible?*

Dr. Azad Moopen: Yes. We can hear you, Mehul.

Mehul Sheth: *Yes sir. So, some questions related to your margin guidance, like what are your expectations towards segmental margins like in GCC as well as in the India hospitals, right? So, we have seen that Q1 was a bit on the lower side for both hospital business in GCC and in India as well. Clinic was expected to be on a lower side, but even pharmacies declined. So, what is your overall outlook as for the segment in terms of margins?*

Dr. Azad Moopen: So Sreenath, would you like to take the question?

Sreenath Reddy: Yes. Thank you. So in terms of margins, hospital margins, if you look at it, especially in the GCC has been more or less the same, mainly because of the

new hospitals; new facilities that are coming. But for the new facilities; the existing hospital margins have improved. So, from a 15.4%, the improvement is to 16.3% on the existing hospital. So that improvement should continue in the coming quarters, and we expect somewhere around existing hospitals almost close to 17%-18%. This is what we expect our existing hospitals to do in the GCC.

Now on the clinic side, we had indicated earlier itself because with the RT-PCR testing going away, definitely that will have an impact on our margins from the previous year. And we expect anywhere around 150 to 200 basis points of impact, which is playing out. And in the coming quarters, we should do better even on the clinic side because the core business on the clinic has come back and our dependence on the RT-PCR testing is now very minimal. So pharmacies, the revenues have gone up but however, the margins continue to remain the same and on a full year basis, the margins will go up to around 11.5%. Because once we get the various purchase benefits, the volume rebates and other things, so these margins will go up over the subsequent quarters, mainly in quarter 3 and quarter 4. And coming to the India hospitals, we are seeing an improvement in the existing hospitals. There has been a slight drop because of the new hospital Areekode which has made some losses but in spite of that, the margins have improved to 15.7% from the earlier 15.2% during the same period last year. But however, in India, we expect these margins in the current year in quarter 3 and quarter 4 to be somewhere around 18%.

Mehul Sheth: *Thank you, sir. So, one more question on your pharmacy business itself in GCC. So, what's your expectation in terms of sustaining this kind of momentum in sales for at least FY23?*

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

Alisha Moopen: So Mehul, we are actually quite bullish about the growth on the pharmacy. We have been working quite a lot with aggregators. We have been seeing a real uptake on home delivery business and once our digital platform; the push happens, as I mentioned earlier, we do believe we will have a very sustained

and very strong year coming forward for Aster retail. In general, when you look at Dubai, the retail business has been soaring. We have also been focusing on shifting from the pharma to the non-pharma, building up the cash component there. So, the margins should look better, like what Sreenath was saying, and we believe the growth will be better as their digital platform takes off.

Mehul Sheth: *Thank you. These are the questions from my side.*

Saurabh Paliwal: Thank you Mehul. The next question is from Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: *Thanks for taking my question and good morning team. I joined a little late, so if some of my questions are repeating, my bad. So first one is on the cluster-wise India hospital and clinics data that you're sharing. So just noticed that the Andhra- Telangana cluster has had a good growth fiscal '22 rate, I think 30%-plus growth, we have seen some like decline. So just trying to understand what's happening there. Even some of the metrics around occupancy, if I look at capacity beds is also down. So just your initial thoughts on this one?*

Dr. Azad Moopen: Yes. Thank you, Shyam. In fact, like what you mentioned, we had this question earlier, and that was answered. But for the benefit of you as well as others who might not be there, so Sunil, if you can just give those details, the numbers which you mentioned about the Andhra-Telangana cluster?

Sunil Kumar M R: Sure, Chairman. Shyam, thanks for the question. Now as I put across that H1, specifically Q1 in the Andhra-Telangana cluster, we have smaller format hospitals - 150 beds. So there, the revenue was almost double during the COVID period and the EBITDA margins were higher than 25%. And you know that right, that weathered out India in H2 and considering we don't do any scheme side, only we depend on the cash and insurance patients. The recovery, what we have seen the recovery in Kerala and Karnataka cluster, the recovery is not same. In Kerala and Karnataka cluster, the recovery is better than pre-COVID levels, but we are not able to recover the same way in

Andhra- Telangana cluster because we have limited hours only to walk-in patients and considerably in this particular region, there are more scheme patients also. So that is one of the reasons why you can see the revenue drop per se and that is indirectly affecting my EBITDA margins also. But saying that, this is just a one-off thing because we are seeing improvement in numbers happening in Q2. And I think this should be taken just as a one-off, not for the full long term for the full year. And we see the trends, the way it improved in Karnataka and Kerala, it's going to improve going forward in the Q2 end or Q3, Q4 period.

Shyam Srinivasan: *Got it. Helpful. And just again, sorry if it's a repeat but just noticed Q1 over Q1, even occupancy in Kerala, Karnataka/Maharashtra is also down. More so Maharashtra, was that covered, sorry?*

Sunil Kumar M R: Shyam, that occupancy, you are referring to Wave 2 wherein everything was 70% plus occupancy. Even in India as a whole, we did almost 70% and now we are at 63%. And you can see the ALOS also, right? ALOS is very high at 4.5 in the Q1 FY22. Now we are at 3.5 or 3.6. So, it's purely the COVID numbers, which is. And if you look at the sequential Q4, we are at 60% occupancy margin. From there, it has improved to 63% in India. So on an occupancy level, Kerala is above 75%, Karnataka-Maharashtra between is between 55%-60% and Andhra, as I said, because of the occupancy being lower, sub-50% is what it is.

Shyam Srinivasan: *Yes. So, what's the outlook for the remainder of the year? How should we look at occupancies for the India hospitals?*

Sunil Kumar M R: Yes, chairman?

Dr. Azad Moopen: Please go ahead Sunil.

Sunil Kumar M R: Shyam, it will be better that because Q1 is the quarter which we start and Q2 is the best quarter in India, right? And Q3 is what we have festival and all. Usually, you can see a decline. So Q2, as I said, the indications already in July

is 70%. So that shows that, we will do better than occupancy in Q2 and Q4 better than what we have seen in the numbers in Q1.

Shyam Srinivasan: *Fair enough. Very helpful. Last question is on the ARPOB dynamics. I think some question asked on GCC pricing pressure. But even in India this quarter, we have about 20% ARPOB growth. So maybe if you could get an overall sense of how we should look at ARPOB for the fiscal '23?*

Sunil Kumar M R: Yes. Shyam if you're referring to Q1 FY22, as I said, because of the higher ALOS, ARPOB gets diluted. And also you know that COVID revenue was as high as 25% during that time. And also because of the restrictions what we had in Kerala, Karnataka very specifically, the ARPOBs are dragged down. Now what you see, 36,000, is because we have also taken certain price increases in majority of the locations, what we are or the clusters, what we have. And the consol number, what you've seen or the ARPOB what you see in the cluster level, these ARPOBs are very stabilized because there is no one-off item in this quarter, right? So there is nothing as in with respect to the vaccination or the COVID revenue, specifically in Kerala and Karnataka. But in Andhra, yes, if I take scheme patients more, which is not there today. You can expect certain dilution of 10%-20%.

Shyam Srinivasan: *Sunil, what's the price increase? Like quantitatively, what have you taken? Is it like same...?*

Sunil Kumar M R: It's between 5%-10% not across the board. It depends, certain services we have taken, certain services not taken. But overall, it ranges between 5%-10%.

Shyam Srinivasan: *Got it sir. The reminder of the question was for the GCC, what's happening to ARPOBs?*

Dr. Azad Moopen: Yes. The GCC ARPOB, Amitabh, if you could give some color on that?

Amitabh Johri: So, thanks for the question, Shyam. Shyam, if you look at it in the GCC ARPOB, while our overall revenue from hospitals has increased, there's also an increase in the bed capacity. With the Sharjah hospital coming in we have added, the bed capacity has increased from a 1,160 to a 1,260, while the

hospital is not fully operational. The occupancy between a Q4 and a Q1 also declines, which is around 53% going to 51%, which has resulted in the reduction on the ARPOB from 205,000 to 194,000. Those are largely the reasons why we've seen our ARPOB reduction between Q4 and Q1.

Shyam Srinivasan: *And outlook, Amitabh?*

Amitabh Johri: So, the outlook is only going to get better from here because this is the lean quarter for us. The Q1 and Q2 are the lean quarters for us. If you look at the last year, you would observe the same trends. Despite COVID, we saw better ARPOBs in the quarter 3, quarter 4. As we go towards the end of the year and between the quarter 3, quarter 4, we expect this ARPOB to rise.

Sreenath Reddy: Shyam, so ARPOB definitely because in terms of the revenues, we will do better in quarter 3 and quarter 4. But in terms of ARPOB, because more beds are getting added and more to the Aster cluster, because this is a mix of Medicare and Aster, no doubt our Medicare Sharjah also occupancy starting to go up. But however, more beds will come into this segment of Aster because we have got Oman, which is coming up, then we also got the Aster Sharjah, which is more in the Aster brand. So you could see some slight decrease once these beds get occupied. That would be a small decrease in terms of the ARPOB.

Shyam Srinivasan: *Got it. Thank you and all the best.*

Saurabh Paliwal: Thank you, Shyam. The next question is from Puneet Maheshwari.

Puneet Maheshwari: *Sir, my question is already asked. So, it's already answered.*

Saurabh Paliwal: Thank you. Next question is from Nikhil Mathur from HDFC Mutual Funds.

Nikhil Mathur: *Hi good morning. I hope I'm audible?*

Dr. Azad Moopen: Yes, yes, we can hear you.

Nikhil Mathur: *Sure. Good morning sir. Sir, my question is on the Saudi operations. You mentioned that the outlook for that particular country is looking good, at*

least in FY23. So just wanted to understand what exactly is changing there? I believe that there's a lot of macro-driven tailwinds at the region is perhaps seen, COVID opening, maybe influx of blue collar workers investments happening. But a lot of business is to do with macros, and we never know how the macros could trend, let's say, in '24, '25. If the oil price were to, let's say, take a sudden downturn again, things might again go back to where they were. So isn't this actually a good opportunity for you to continue on the path that you were envisioning 2-3 quarters before when you were looking to exit these operations and now you are trying to bring in a minority investor? I just want to understand, is it something can change such in that market because of which you're relooking your stance on that particular facility?

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

Alisha Moopen: Sure. Thanks, Nikhil. So, there are some intrinsic inherent issues with our own asset, which we believe that we have rectified. I think I've mentioned in the last call that we had a lot of long-term onerous contracts with insurance companies, which had kind of affected our pricing significantly. So those are things which we believe will be sustained because which we were getting a certain ARPOB for, we have reduced our percentages by more than 30% here. So, which all pretty much goes to our bottom line. So that's the increasing margin. On the macro level, of course, the government has taken a strong direction towards diversifying away from oil. You have a high Saudization policy over there. We used to have a lot of Saudis working for us, but then they were working in other departments as well and their contribution and productivity was always a challenge. What shifted over the last 1-2 years is they're all expected to sort of be a lot more effective within the system. I think the contribution from the Saudi population who work in the environment is also different. So, all of those activities have also seen kind of a positive; those we believe will not change even if some of the other macro conditions that you're talking about will disappear or go adversely. So, for us, inherently, the business has become better. Our own team has also been restructured, and we're seeing the strongest team on the ground and we've had to go through

a couple of leadership in just before we have found a team that's actually working, and we have the confidence that the current team can take things forward. And it's been almost close to 9 months. Now we're seeing that consistent performance as well.

Nikhil Mathur: *That's helpful. And any particular investments that you're planning in Saudi region in '23 and '24? Any capex plans for that country?*

Alisha Moopen: So, we haven't confirmed any plans yet. We would like to commission the facility, which was put on hold during COVID in Saudi. It was half constructed. We have a 60-bed additional capacity that can be commissioned. So, we would ideally and there's not a lot of capital that needs to go in to get that in order. We could probably make it go live in another 4 or 5 months. That's something which we would like to complete because we are sometimes at choking capacity and that this is in the summer months. So we believe by October, November, but there are a lot of tenders from the government, which are out there, which we would like to bid for. So that's something which we would like to do for this financial year. For the next financial year, it's more for the pharmacy which is still under consideration, we'll probably have a little bit more information to share in the next quarter. But again, this would be ideally funded through the minority stake that comes in and we believe anyway that lower capex, so it wouldn't be a significant capital outlay.

Nikhil Mathur: *Got that. And one question on India. I understand that there are capex stands for the India business from a 2-3-year perspective. Can you give some directional sense on the return on capital employed for that particular business? I think the investments are going to be there. So, would it be safe to assume that the return on capital employed, whatever it was in FY22, might remain flattish in the next 1 or 2 years and only 2-3 years out, can we expect some bit of improvement on that front?*

Dr. Azad Moopen: Yes. Sreenath, you would like to answer on the ROCE in India, how it is trending and what we are looking at?

Sreenath Reddy: Yes. So see, the return on capital employed in India, even though the other business segments like the labs and pharmacy; the capital outlay over there very minimal and we are not expanding across India, right? It's more of creating that ecosystem in the geographies where we are present. So that is our main strategy of getting into the pharmacy distribution and labs. The focus is going to be mainly on the hospitals. Now these hospitals; now most of the hospitals are reaching a state of maturity and thereby the return on capital employed as well; you'll keep seeing an improvement every year by at least 200 basis points from hereon, in spite of some of the losses coming from the labs as well as the pharmacy distribution, because that will be minimal. So therefore, the return on capital employed will continue to improve, and you see that increasing trend for the next few years.

Nikhil Mathur: *Yes, I think that's quite helpful. So basically, is the understanding correct that there might be some margin dilution as the lab and the pharmacy distribution revenue share goes up, because pharmacy distribution itself is margin capped, right? I mean, at the distribution and retail end. But at the same time, that helps our overall ROCE profile. So, would that be fair assumption that at the expense of ROCE, the margins might get diluted a bit?*

Sreenath Reddy: Margins yes, on a consolidated basis, the margins, the pharmacy is significant, yes, there could be a dilution because pharmacy business, you don't have that kind of margin what the other segments are, which we see in GCC as well. But the way we are looking at like what I say, the pharmacies as well as the labs, it is not that we have an aggressive spree of expansion. We are creating the ecosystem. So therefore, this will be limited. We'll pause and take a call once things stabilise and once we feel that it is scalable and the margins are good. But for now, the focus is more to create that ecosystem. So, considering even the lower margins that we may get from the pharmacy segment because the business is small, so we don't see that diluting much in India margins.

Nikhil Mathur: *Thanks a lot. These all are my questions.*

Saurabh Paliwal: Thanks, Nikhil. The next question is from Alankar Garude from Kotak Securities. You may please go ahead.

Alankar Garude: *Hi, thank you for the opportunity. Dr. Moopen, you mentioned about announcing some more capex plans, expansion plans in the coming quarters. Were you referring to the 500 to 700 beds to be added through the O&M model, in addition to the 1,300-odd beds which we have announced in India so far?*

Dr. Azad Moopen: Yes, yes. So, I was talking not about any new capex where we'll be going into new hospitals. I was talking about the low capex model, the brownfield model, which we started off and we hope that we will be... See, our hope is that this financial year, we'll be able to reach around 750-1,000 beds in that category by end of this financial year. It may not require too much of capex. It's very minimal capex. For example, the 140 bed hospital which we started now in Areekode Hospital. The capex requirement was less than INR 15 crores or around that. So, it's not going to attract too much of a capex.

Alankar Garude: *Understood. So basically, that 700-1,000 beds number which you mentioned, it doesn't include Aster Mother as well as Whitefield Phase 2, right?*

Dr. Azad Moopen: No, Whitefield, that's our own hospital where we are spending money, and those are like even when I mentioned about Trivandrum and Whitefield overall. The second part of Whitefield is happening. It will take another 4-5 months for us to complete. Where we are investing in [indiscernible] Aster Mother Hospital go to 750-1,000 beds. There are many things in discussion, and we hope that we will be able to reach that number by end of this year.

Alankar Garude: *Yes. Sorry, sir, I think I lost in between. So okay, can you just repeat the last 2 sentences, please?*

Dr. Azad Moopen: Yes. So, there is some echo. People who are not speaking, if they can put the mic on off mode, please. Yes. So, what I was saying is there are 2 things. One, there are hospitals of our own where we are investing capex. So, Whitefield

Hospital is such a project where we are investing capex and in the next 4-5 months, we'll be able to complete that and we'll be investing more capex into that and whatever has been projected. Now the project which I mentioned, like the brownfield and low capex is something like the Mother Hospital or Areekode Hospital - 150-bed hospital, where there has been only very small amount which has been spent. So, such models, we are looking at different places. So, for example, we are looking in Kerala again, another project which most probably we'll be able to announce in the next quarter. We are looking one in Andhra Pradesh, where, again, it is a very low capex, same model. So, there are many hospitals which are being discussed and we hope that we'll be able to reach about 750-1,000 beds in that category with very minimal capex in this financial year.

Alankar Garude: ***Sure. That's helpful, Dr. Moopen. Sreenath, one clarification on the margins, the India margins. You mentioned about 18% margin expectation in the second half. So, was that for the existing hospital only? Or you're talking about the overall India hospital business?***

Sreenath Reddy: So, I was talking about the hospital business in India. So that is something; see if you look at present, our hospital business is 15.7%, right? So, we expect Andhra and Telangana to deliver in the next couple of quarters. And we are also looking at the Kerala cluster. Some of our hospitals in Kerala cluster are doing extremely well and even with good EBITDA margins. But on a consolidated basis, because there has been a drag in some of the hospitals. We are looking at that improvement, and we expect that the hospitals will go up to 18%. It could even get better. There is a possibility that it could even get better if Andhra and Telangana vertical, that we are able to bring into good margins. We are working on that.

Alankar Garude: ***Understood. So just to clarify this, I mean, we have the Whitefield hospital coming in the fourth quarter and I'm sure there would be some start-up losses from this hospital considering it's our own hospital. So, despite that, you are saying 18%-plus EBITDA margins in India in the second half; India hospitals rather is possible?***

Sreenath Reddy: That's right. Because see, the Aster Hospital at Whitefield, it will be somewhere at the end of the quarter 4. So, despite that, we should be there in that 18%.

Alankar Garude: *Fair enough. And also, given that we are having this hospital expansion towards the end of this fiscal. Possible to comment on the trajectory in FY24 as well?*

Sreenath Reddy: Yes. So, on the hospital margins?

Alankar Garude: **Yes.**

Sreenath Reddy: So, see because what happens is that if you look at there are additions to the hospitals which is coming up. So, the Whitefield is coming up so for at least 1 year, that will be losses from that. Similarly, the 700 beds, what Chairman was talking about, when we add that, even though it's existing hospitals, those margins could be slightly lower compared to our established hospitals. So therefore, considering all this, we expect the next year '24, the hospital margins to improve from that 18% to 20%.

Alankar Garude: **Understood. The other question was on -- yes, sorry?**

Dr. Azad Moopen: No, no I was just adding. I mean, some of our hospitals are doing even at the level of 25%-30% EBITDA margin. So that's a good thing, which we never had. So, we have gone to that level, the efficiencies have improved, the occupancy has improved as well as the costs have come down. So, we hope that there will be many hospitals, especially the larger hospitals, which will be in that level of 25%-30% which will be able to, I mean, absorb the losses or lower margins in other hospitals. So that's one thing. At the same time, when you look at this, the low capex model, which I mentioned, where we are going to do it this year as well as in future years, you will find that there is a dilution of the margin because this is not owned by us. So this will be somewhere, we will have to give a percentage of the overall profit to the people who are coming in as partners with us. So definitely, the margin will be lower when you look at the EBITDA margin of the hospitals. But when you look at the

ROCE, it will be significant improvement in our ROCE. So that's the benefit that we are seeing. The ROCE will go up significantly, whereas there may be some dilution of the EBITDA margin.

Alankar Garude: *Understood. Thank you Dr. Moopen. The other question was on the investments in labs and pharmacy. I think just now, you mentioned that it's more about creating ecosystem and you maintained that, you would like to take a pause if required. So just wanted to understand what's the threshold which you are tracking here? Is it more in terms of timelines? Would you want to give the business, say, another year or so before looking at the progress? Or are you taking certain numbers to take that call?*

Dr. Azad Moopen: Yes. So, regarding this, while we are creating an ecosystem which will be complete only when the digital platform comes into India, that will tie up all this together, the hospitals, the pharmacies, the labs and the online consultation. So, which will take about a year for us to know that how is the impact, even though that may be losses sustained in the pharmacy or in the lab, how is it overall? And also, it's a start up like. You know that there is huge discounting happening in the pharmacies and all. So how are we going to sustain without that discounts being offered. We are not going for a discounting model. We are looking at a profit model. So how can we do that in the pharmacy as well as in the lab? How can we have sufficient number of patients coming in, in spite of the competition? So, I gave about 2 years for that. I'm not burning cash, but at the same time, not going into profit, but at the same time, helping the overall ecosystem, including referrals to the hospitals and helping us as a whole.

Alankar Garude: *Understood. And one final question from my side. Can you provide a firm timeline on the GCC restructuring as well as the minority stake sale in Saudi?*

Dr. Azad Moopen: Yes. So, we won't be able to give a definite timeline. One thing which I can tell you is that there are certain firm steps which have been done. One is the appointment of the investment bankers. Two investment bankers have been appointed by the board. And the second is regarding this DD which is happening. So, you know that anything, if we don't find a proper value or a

proper price for the GCC, we may not even do that. So, this all depends on what price we are going to get from whoever is bidding for the GCC business. So we hope that there will be a good value, which will be discovered, and we will be able to sell. That's our hope and that's why we are doing this. But we won't be able to definitely give a timeline on that.

Regarding the Saudi, like what Alisha said, we are now, looking at maybe in the next 6 months, we'll be able to find a minority partner who can take a stake in the hospital and that person probably will also be partner in the pharmacy business. We are looking at strategic partner rather than just this money coming in. In Saudi, what we have understood by our failure in the last 7-8 years is that there has to be a partner who is ready to support on ground and who will be standing in front and will be seen as somebody who is running the business by the Saudi authorities. Only in such a situation, you can have a successful business in Saudi. With 30 million population in Saudi, which is almost the same, much more than the other GCC countries all together, that is the future if you have to have a good business in GCC. So, we hope that we have found a partner like that. There have been a lot of discussions. Now we have somebody who has been identified. With that person who is coming into the hospital as well as into the pharmacy business, we think that we will have a partner who will stand in the front and will be able to ride forward.

Alankar Garude: *Understood sir. That's it from my side. Thank you and all the best.*

Saurabh Paliwal: Thanks Alankar. The next question is from Harith Ahamed. You may please go ahead.

Harith Ahamed: *Thanks for the follow up opportunity. Alisha, on the GCC clinics business, I think you mentioned that there's been a growth of 26% Y-o-Y, excluding the COVID testing revenues. So, what I'm trying to understand is whether COVID testing is still a significant part of this segment and also trying to understand what is a sustainable number because this is a segment that we've had some pricing pressure exerted by insurance players? There's been a significant impact during COVID. We've also seen some impact from the economic*

situation in UAE in the past. So, what exactly would be a sustainable number is what I'm trying to figure out here?

Alisha Moopen: Sure. Thanks, Harith. I can't remember exactly. I will have to ask Amitabh about what was the exact ratio of COVID, but I do think Amitabh, what is it? Around 10%?

Amitabh Johri: Alisha, at the same time last year from the clinic's revenue perspective, the PCR revenue was almost 33%. Now that has come to almost 9% in the clinics business. That has dropped down significantly. And which is why, Harith, when you are looking at the growth of the business year-on-year basis, it's a 26% growth if you take out the PCR revenue.

Alisha Moopen: Yes. So that was on the COVID business. So, it has come down quite significantly, Harith. On the other part, we've made a kind of conscious strategic call that earlier Aster was also eligible for the lower segment of the population. We had a clinic network, which was exposed to all the networks. Over the last 1 year, what we have said is we want to actively disengage from the lowest network. We want to make sure those people have only access to Access brand of ours and we want to make sure that Aster is able to command a higher pricing and the higher segment, the core middle income segment to be our customers. So there has been a reshuffle and change in the portfolio, a much stronger focus on that, which we believe will enhance our margins to enhance the brand and keep it more intact as well and we believe that this is working. So again, it goes back to the whole point. It is with that segment that you can push more of that cash business. You can do more of the dental work. You can do more of the aesthetic work. So, all of that is much more suitable and well suited for the middle income population over there and that's a population which is increasing in Dubai. So, post this whole COVID, we are seeing that less of the blue-collar workers, all that segment is getting more diminished and there is a much more increase in the higher segment and the middle income population. So, we said, let's restore Aster brand to be much more of the core middle-income brand and avoid the dilution, which had happened at some point when we had an overcapacity of clinics and we said,

let's try and increase the volume into the business. So that's something which we believe is a much more strategic better the initiative for Aster and keep the lower blue-collar workers for our Access brand and referral into our hospitals where we have capacity being built up in Aster.

Harith Ahamed:

Thanks, that's helpful and Dr. Moopen, last one from my side on this new hospital in Kerala, which is in Areekode. So, our strength historically has been in tertiary care and high-end care. When I look at our other assets in Kerala, they're all in the larger cities in the state. So, this appears to be a bit of a deviation from our strategy in Kerala and I'm also trying to understand if there is a market for the high-end services in a smaller town like Areekode?

Dr. Azad Moopen:

Yes. So, thank you. So, there are multiple things why we selected this hospital. One, this was having an excellent infrastructure. This was built over the last 15 years, and that has not been successful. So, that has not even been run. We are the first people to operate that. So excellent infrastructure, so there is a potential for us to even grow it further because there is land and other, I mean, foundations even laid for the building. So from the point of view of the services that we are offering, as this is only 30 to 35 kilometers from the Aster MIMS Calicut, the ability to provide tertiary care in that hospital is there, and that is something which we have already started doing. So, we are providing services like cath lab, neurosurgery and all these where the doctors from the Aster MIMS Calicut; where they can reach in half an hour. So, they are going there and providing this treatment. And if at all, there is a patient who has to be transported, within half an hour, that patient can be brought to this hospital. So, this is a real hub-and-spoke model where basic services like the gynecology, obstetrics, general medicine, pediatrics and all are provided and the higher services, the doctors are not employed there, but they are actually going from our main hospital. So, we also now see, because there is a huge issue on the capacity and the full capacity utilization at our Kannur and the Calicut hospitals, there is an overflow and this, we are now able to send to this hospital and take care of them in a hospital like Areekode. So, answering your question, we have been having this strategy and which has worked out very well. And just to give you some numbers, we have started 2 months back,

and we hope that we will go into a breakeven next month. In 3 months, we are going into a breakeven in the Areekode Hospital. Just because the HR cost is very minimal because we have taken all the specialist doctors under MIMS Calicut and they are providing the support. And so, the breakeven is very, very low amount, even though it is a large hospital. So, we hope that we will have good EBITDA coming out of it as we go forward and it will also help to increase our footprint in the areas that we are operating.

Harith Ahamed: *Thank you Doctor. That's it from my side*

Saurabh Paliwal: Thank you Harith. As we are approaching the close of our call, the last question is from Mehul Sheth from Axis Capital.

Mehul Sheth: *Yes sir. Thank you. So just to confirm a couple of numbers, like your capex plan will remain like more of like a INR 580 crores, like nearby INR 600 crores for this current year? And of that, around INR 300 crores will be towards India expansion?*

Sreenath Reddy: That's right.

Mehul Sheth: *Okay. And so far, you have done something like INR 147 crores kind of capex in Q1.*

Sreenath Reddy: That's right.

Mehul Sheth: *Yes and also, there is one observation like earlier you had a guidance of having the Aster lab expansion strategy with 38 satellite labs and around 500 collections centres, which is now you have reduced to like 35 labs and 300 centers. So, is there any major change in expansion plan?*

Dr. Azad Moopen: Yes. So, thank you. We have found that there is a very tough competition like what we told earlier because of the competition. We thought that unlike the pharmacy, where we have found much more traction, we thought that according to the market, we should look at it and try to change like what has been told earlier, not to go into North. So, we are trying to create this ecosystem so around our hospitals, we are focusing. Beyond that, how much

we should spread and how much we should make it a stand-alone large lab alone is something which we are looking at. So that's why there has been some dousing of the numbers which has been provided earlier.

Mehul Sheth: *Ok sir. Thank you. That's it from my side.*

Saurabh Paliwal: Thank you Mehul. Ladies and gentlemen, this concludes the earnings call for this quarter for Aster DM Healthcare. I thank you all and the management for joining us today. If you have any further questions or queries, please do get in touch with us. Have a good rest of the day and have a great long weekend.

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