

## **Aster DM Healthcare Limited**

### **Q4 FY20 Earning Conference Call Transcript**

**June 24, 2020**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Aster DM Healthcare Q4 and FY20 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* and 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar of CDR India. Thank you and over to you, sir.

**Rishab Barar:** Thank you. Good day, ladies and gentlemen and welcome to the Aster DM Healthcare Earnings Conference Call for investors and analysts. The call has been hosted to discuss the Q4 and FY20 financial performance, to share the operating highlights and outlook. On the call, we have Dr. Azad Moopen – Chairman & Managing Director of the company; Alisha Moopen – Deputy Managing Director; Mr. T. J. Wilson – Executive Director and Group Head, Governance and Corporate Affairs; Mr. Sreenath Reddy – Group CFO; Dr. Harish Pillai – CEO, Aster, India and Mr. Sumanta Bajpayee – Head, IR and M&A.

We will commence the call with opening comments from the management team, post which we shall open the call for an introductory question and answer session. At this point, I would like to highlight that some statements made in today's discussion may be forward-looking in nature and the actual results may vary significantly from the statements made. The detailed statement in this regard is now in the company's earnings presentation which has been circulated earlier. I would now like to invite Dr. Moopen to commence by sharing his thoughts. Over to you, sir.

**Azad Moopen:** Good morning everyone and thank you for joining us today on our earnings call. This call is, as you all know during unprecedented times in the history of mankind due to the COVID-19 pandemic. While it is relieving that the last financial year didn't have too much of an impact due to COVID, we have seen significant changes across the business and geographies in Q1 of 2021. I am happy to report that we did not witness significant impact of COVID-19 in 20 except for the last two weeks of March but I should add that the last 2 weeks of March are extremely important for the business because this is the time when we have maximum revenues coming in.

We have posted a revenue growth of 10% for the whole year as compared to last financial year with an EBITDA of Rs. 968 crore. This is pre-IndAS 116 which is an increase of 12% compared to last financial year. We have improved our EBITDA margin by 25 basis points to 11.1% the current year. We also have a 3% growth in PAT on a pre-IndAS 116 basis for financial year 20. During the year, India revenues had grown by 24% to Rs. 1631 crore and in GCC by 7% to Rs. 7108 crore. Mr. Sreenath Reddy – Group CFO will take you through the details of the financial performance for Q4 and for the whole year 19-20.

Coming to the quarter of the financial year 2021, we observed approximately 35% reduction of revenue for both our GCC and India business in the month of April 2020 as compared to April 2019. We started witnessing some recovery in May and in the first 3 weeks of June looks encouraging, as the drop in revenue for the month of June is less with signs towards recovery. We hope of achieving levels of previous year by next quarter if there are no further waves of COVID-19 in countries we operate. On a consolidated basis, for the financial year 2019-2020, our occupancy level for hospital segment was 60% which is in line with historical trend; however, lockdown restrictions in India and GCC along with restrictions to undertake elective procedures had impacted occupancy level for the month of April 20. The occupancy rate for GCC hospitals and India hospitals were 52% and 38% respectively for April but now, most of the GCC countries and in most parts of India, lockdown has been lifted and elective cases are being performed resulting in increased footfalls and occupancy level.

Let me now give you some insight into the COVID situation and how we are tackling it. During COVID-19 period, patients were reluctant to come to healthcare facilities, especially to the clinics. Due to this, the negative impact of COVID-19 on clinics business was higher as compared to hospital or pharmacy business. In GCC, where we have majority of our facilities, there has been an overflow from the government to private sectors in the hospital with some of our facilities being converted into COVID specific hospitals. We managed large number of patients including some of them requiring advanced care with ventilation support. In Dubai, we have also taken some hotels on short-term basis to accommodate and cater to the needs of COVID-19 patients.

In India, apart from the disruption to inpatient footfalls in hospitals, shutdown of international travel has also impacted medical value travel business. Medical travel contributes around 6% of consolidated India revenue which primarily comes from CMI Hospital, Bangalore; Medcity in Kochi and MIMS Hospital, Calicut. International travel restrictions have not been lifted but in some of the countries, it is easing out. We expect medical value tourism business to start returning to normalcy in the second half of 2020.

We are highly focused on safety of our staff during the COVID period and we all, due precautions for safety at the work place have been adopted which includes compulsory wearing of mask for everyone entering our facilities, mandatory temperature screening for all staff and visitors, social distancing measures and most importantly the usage of PPEs and sanitizers. Management have encouraged employees to work from home and frequently use video conferencing tools to reduce contamination risks that maintain enhanced level of services.

At the beginning of the outbreak, we had also observed disruptions in the supply chain which then led to shortage of medical devices, PPEs, medicines and other essential supplies. Material cost have gone up due to higher consumption of PPE kits, sanitizers, gloves, masks, etc., but the situation has improved significantly now and sourcing of material has normalized. To mitigate the impact of COVID-19 on our business, we have given highest importance towards maintaining a strict watch over our operating expenditure. We have either paused or stopped some of our overheads and nonessential expenditures. We have rationalized our people cost for both GCC and India employees. We have also taken the challenge of COVID as an opportunity to improve efficiency by optimization of manpower through measures like rightsizing of the staff and using shared services. We hope to reduce our HR cost in coming months significantly. We have also managed to secure better payment terms with our vendors and rent payment waiver from our deferment of our leased facilities in GCC and in India.

All planned CAPEX have been postponed except for projects which are in the advanced stage of completion such as Aster Hospital, Sharjah; Whitefield Hospital in Bangalore and expansion plans for Kolhapur Hospital. I am happy to inform you that the Sonapur Hospital in Dubai is complete and we have operationalized it in the month of May. We have put all other projects on hold till overall business environment go back to normalcy. Once we go back to normal, we will then expedite these projects to completion. We are also continuously servicing our existing debt and we have sufficient unutilized working capital limits to support our operational liquidity requirements.

We have taken COVID as an opportunity for digital transformation. We witnessed an uptake of our Telehealth services to deliver and facilitate health and health related services with the help of telecommunication and digital communication technologies pointing at an untapped potential which can be immediately scaled up. In India, total number of doctors enrolled on e-consult portal are 581 across Aster Hospital. Teleconsultation for international patients have been done through existing platform as a pilot for 25 to 30 patients. Similarly, home healthcare is another service which we are focusing and we have seen an uptake in the nursing, pharmacy and lab services and home ICU also is a top revenue generating service. The present focus is on extending care for the discharge of patients through home care.

The new business vertical in India, Aster Lab has been seeing increase volumes month by month. Aster Labs, a NABL accredited lab, has received ICMR approval for RT-PCR testing for COVID-19 and so far conducted more than 4500 COVID tests including government and private hospital samples. Presently, the Aster Labs team is focusing on strengthening B2B business by entering MOUs with other hospitals. As we have communicated in our last call, we have received formal approval letter from government authorities to convert all our business in Dubai to 100% legal ownership. Initially, we intended to complete the process by March, but due to present situation, we could not do that process but we have now completed it. We expect the work flow in government offices will be normalized shortly and we expect to complete this legal transfer processes for all our subsidiaries in hospitals, pharmacies and clinic verticals in Dubai during the second quarter. Whatever is left, we will be completing that.

Before I conclude, I would like to add that though the situation is volatile, we are continuously monitoring it and taking adequate initiatives to address the situation through proactive measures. The need of the hour is to ensure smooth functioning of our existing business operations and focusing on business continuity. We believe that overall improvement in business will start to be evident from early quarter 2 of financial year 21 and hope to cover up lost ground and achieve near normalcy by second half of 2021. Thank you. I would now like to pass it on to Sreenath Reddy, the Group CFO, who will walk you through the financials.

**Sreenath Reddy:**

Thank you, doctor. Good day everyone. Before I get into the numbers, I would like to highlight that COVID-19 pandemic has caused havoc on world economy and on several businesses in various magnitude. The current unexpected situation has impacted our regular business operations, majorly during the last 2 weeks of March and in the first quarter of the current financial year. Our priority is to support existing business operations and have increased focus on cost control measures. In terms of overall financial position, I would like to place that we have sufficient liquidity and undrawn credit line for both GCC and India. We have not availed any enhanced credit line as we are yet to utilize the existing banking limits. Banks are also willing to provide additional credit lines if required. In India, we have taken the benefit of deferring the principal and interest as per RBI guidelines and in GCC, we have not taken any benefit and we continue to service the term loans. The loan covenants in the term loan, we are within the limits and if required, we shall approach banks for

relaxation. Based on present trends, we expect the business to go back to normalcy by Q3.

Now, let me share the financial numbers for the financial year 19-20. As you already know, we are transitioned to IndAS 116 during the year; however, for the purpose of comparability, we will present the numbers before IndAS 116 impact and later brief upon the financial impact due to the accounting standard transition. In Q4 FY20, we have registered revenue from operations of Rs. 2,301 crore which is 5% growth on year-on-year basis and corresponding constant currency growth is 2%. This is due to the contribution of Wahat Home Care business which we had acquired in December 2019, ramped up operations in Aster Qusais, , MIMS Kannur and RV Hospital.

In Q4 FY20, we have reported EBITDA of Rs. 316 crore which is 10% reduction on year-on-year basis and corresponding constant currency reduction is 12%. This is due to reduced EBITDA contributions from the clinics vertical and loss in the RV Hospital, Bangalore and Aster Labs as well as COVID-19 impact. The EBITDA margin in Q4 FY20 was 13.7% against 15.9% in Q4 FY19, a reduction of around 220 basis points. Profit after tax decreased by 32% to Rs. 142 crore as compared with Q4 FY19 which is mainly due to the mark-to-market currency loss of approximately 25 crore as well as the impact of reduced EBITDA. Q4 is normally a supportive quarter for us but because of the pandemic, we lost 2 good weeks of business.

Coming to the 12 months performance, revenue from operations for FY20 grew by 10% to Rs. 8739 crore from Rs. 7963 crore. EBITDA excluding other income grew by 12% to Rs. 968 crore from Rs. 863 crore for FY20. PAT has grown by 3% to Rs. 342 crore from Rs. 333 crore for FY20. The reason for lower PAT growth is on account of increased finance cost of approximately Rs. 56 crore including mark-to-market loss of approximately 40 crore, additional depreciation of 49 crore and loss and closure of Philippines operations of Rs. 18 crore. Our revenue and EBITDA growth in constant currency stands at 8% and 11% respectively.

Moving onto IndAS 116 impact, it is important to note that our GCC operations have predominantly based on asset light model with leased land and building. Due to this IndAS 116 accounting standard has an impact on our financial. EBITDA has increased by 290 crore in FY20 and PAT has decreased by Rs. 65 crore due to IndAS 116. Resulting EBITDA and PAT are Rs. 1258 crore and Rs. 277 crore respectively for FY20. EBITDA margin has increased by 3.3% and PAT margin has reduced by 0.7% on account of IndAS 116 impact for FY20.

Coming to the segmental performance, the revenue in hospital increased by 16% on year-on-year basis to Rs. 4607 crore in FY20. EBITDA increased by 22% on year-on-year to Rs. 612 crore in FY20. The EBITDA margin remained at 13% compared to previous financial year. The revenue in GCC clinic is at 2005 crore in FY20. The EBITDA margin dropped to 14.3% compared to 15.9% in the previous financial year. This is due to the low yield patients coming to mid segment of Aster Clinics rather than going to Access Clinic. We have taken steps to channelize the low yield patients to Access Clinics. This will free up capacity at Aster Clinic. The impact of COVID on clinics vertical is much more compared to other vertical. For pharmacies in GCC, revenue has grown 9% to Rs. 2,372 crore and the EBITDA margin is 7.7% in FY20 compared to 10.2% in FY19.

Coming to the balance sheet, the group's net debt stands at Rs. 2,783 crore as at 31st March 20 compared to Rs. 2,329 crore as at March 2019. The breakup of net debt stands in India at Rs. 358 crore compared to Rs. 242 crore as at 31st March 2019 and in GCC, net debt stands at US \$324 million compared to \$301 million as

at 31st March 2019. CAPEX during the 12 months period was Rs. 531 crore and the purchase consideration for acquisition was Rs. 233 crore. Cost control liquidity and efficiency will be our focus going forward.

On that note, I conclude my opening remarks. We would be happy to give you our perspective on any questions that you may have. I would request the operator on this call to open the question and answer session. Thank you.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** First one is on your update that you put out on June 1st where I think one of the lines mentioned that there was difficulty in getting receivables in GCC because of the largely insurance kind of nature of that business, insurance pay, so can you give us an update on what has been the progress there in terms of receivables and my second question is on occupancy trend, April, May, June, I think the update said 38% in India and 52% in GCC, but if you could give us the ramp in the month of May and month to date in June?

**Sreenath Reddy:** On the receivables, you can look at in the month of April, we got considerable amount of the receivables because there was directions from the government to the insurance company to release as much money as possible to clear the bill and to start releasing the money. So April month, the collections were 50% more than the normal collection but however, subsequently because of the lockdown, many people started working from home and all that and because of which the collections during the last one month has been lower but we expect the collections to normalise in the coming month, now that most of the insurance people are coming back to the offices, we expect the collections to go back to normal. Regarding the occupancy, yes, you are right, the occupancy levels in the GCC at this point of time is just 10% lower compared to normalcy but however, in India we are still facing challenge in terms of occupancy. Certain hospitals of ours in Kerala have got good occupancy, but however outside Kerala we are facing challenges in terms of occupancy and the coming days could also pose the challenge especially in India. Dr. Harish, would you like to add on?

**Harish Pillai:** Thank you, Sreenath. So like the lockdown in India was really impacting our OP footfalls as well as IP numbers mainly in the month of April but after the easing of the lockdown especially in Karnataka and in other states we find that the occupancy levels have actually increased compared to April. Kerala because in terms of the public health response is the best governed state, like for example, in Northern Kerala the hospital occupancy is almost like pre-COVID levels, so as a cluster Kerala occupancy levels are much higher than others but overall as a trend we find that the numbers are going up but like you said Sreenath, we need to be cautious because there seems to be a surge in COVID numbers in bigger cities like Bangalore, so we have to be cautious about what happens next.

**Moderator:** Thank you. We have next question from the line of Anmol Ganjoo from JM Financial. Please go ahead.

**Anmol Ganjoo:** Between various segments, if you look at the COVID impact, would you just grade the impact across your segments, for example, in order of the impact what is it that suffered the most and also that we have observed strong recovery trends in May, if you could just identify the business lines where the resilience of the recovery has been the most? That will be helpful?



**Alisha Moopen:**

So in the beginning, most of the units were impacted severely across the board, but like Sreenath mentioned in the clinics because of the lockdown and because we see large volume of patients, this was the one where we had the biggest hit because the number of people getting out of the houses were very minimal and of course in the hospital as well because the electives were stopped. For may be around two weeks, we actually saw a big drop in our revenue up to the tune of 70% but very soon this was picked up by the COVID patients coming in where we had pretty much 100% occupancy in our hospitals, so the recovery which happened in April and May were all because of the COVID revenue. We had our hospitals full, we realized hospitals were full, we opened up new tracks to expand the bed capacity which we did by commissioning around 400 to 500 beds in hotel, so that helps in terms of the hospital revenue being a little bit more intact over this quarter anyways in the first two months. Now what we are seeing is that since the lockdown, the OP numbers are coming back up, the surgery numbers have been reinstated, so in the last two months, the biggest impact had been in the clinics. We saw the pharmacies did quite well because even though the OPs had come down drastically and we were worried about the pharmacy dispensing of medicines would naturally come down as well, but it was almost offset because people were coming in to buy the sanitizers, masks, vitamins, all of these things, so actually the pharmacy did quite well and also a number of pharmacies had shut down during the period because they were trying to control cost, so you only had two or three of the larger chains which were able to sustain and keep open. So in UAE this was the trend, whereas in Oman and Qatar, we were not really involved in taking the COVID cases, so we had a larger impact in the business because the government for the last two months had primarily tried to manage the COVID cases themselves, so because of that we could not really participate in the only business which was available during this time whereas now there have eased the lockdown and now they have also started asking the private sector especially in Oman and Saudi to participate in the COVID care as well. So we are seeing the same trend pretty much like a month apart where UAE had the largest surge in sort of April and May whereas we are seeing that surge happening in Oman now and Saudi is also just surge and now sort of coming down slowly. So I think this one is at the end of the day has been the one which was largely hit over that period. In the hospitals, we managed to sort of offset some of the revenue, of course not to the full extent of what we get with our surgical load, it was long stay patients, we are talking about everyone staying at an average of 10 to 15 days, but that was somewhere we said it helps us to kind of recover our fixed cost at least. I hope that answers, I don't know if you have any additional...

**Anmol Ganjoo:**

My second question is that everything has changed in the COVID while the situation is unprecedented, so how are you guys thinking about your CAPEX plans, what are some of the projects where you would now be willing to go slow versus where we were in February, so what are the pullback areas from a CAPEX standpoint and also Sreenath spoke about some amount of cost efficiencies, what could be helpful to understand would be that where is the low-hanging fruit you think will be able to be plucked from and what are some of the areas that you have identified in terms of those maneuvers that you may be able to undertake?

**Azad Moopen:**

I will just mention about the pipeline projects. We have actually put on hold and terminated some of the projects, for example, there was one Aster Hospital in international city, Dubai which we had planned earlier, 65 bed facility, which we have decided not to go ahead and many of the hospitals, like one in Muscat, Oman, 145 beds facility, we have put it on temporary hold as well as the Sanad Hospital, there was an expansion plan for 69 beds, which again we have put it on temporary hold and in India, there is Chennai, we had announced a hospital, 500 bed large hospital which again we have put it on hold and the Aster KLE Hospital, again 600 bed hospital in Bangalore, this again is on hold. So the ones which are going ahead are the Aster Hospital, Sharjah which is in the construction stage which we are going

ahead, it is a 80 bed facility and then we have in India, the Aster Aadhar Hospital which is an expansion of our existing hospital, 60 bed which construction is going on and the Whitefield Hospital which we are starting new one where the phase 1 of that is being done up now. So there has been significant focus on reducing the CAPEX because we don't know where this is going; we are not able to predict it, so we thought that we will conserve funding and we won't go ahead with that. Now, coming to the cost efficiency measures, I briefly mentioned in my speech but one thing which I want to just highlight before others also join is regarding the focus on the human resources where we thought that there is a good opportunity for us for rightsizing our present staff and reducing the cost by increasing efficiency, utilizing more of technology by way of systems and all by better utilization of that and going into shared services, work from home and all these measures together and also reducing some staff, we think that we will be able to make significant changes in the HR cost which is the major focused area for cost control.

**Moderator:** Thank you. We have next question from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.

**Sabyasachi Mukerji:** Couple of questions from my side, so if you look at the margin profile for quarter 4, basically what happened is that GCC hospitals give us a price and India business was in single digit margins, if you can explain the same?

**Sreenath Reddy:** If you look at India, for us Q4 was not a good quarter. Q3 was a good quarter in India and in GCC, generally Q4, for us it is a very good quarter. So if you look at the hospitals, it is something have been doing very well, some of the hospitals which ramp up in India have been doing very well and that explains the reason as to why the margin have gone up, but for the last two weeks where we had an impact due to the COVID but only challenge what we faced, if you look at in the last quarter and also if you look at in the earlier quarter was on the clinics front. So there we have been facing a bit of challenge, mainly like what I said was the low yield patients coming into the Aster Clinics and that is something which we were looking at, moving this patients back to the Access Clinics which enabled us to ease some capacity at Aster but however, even though we eased the capacity at Aster, still we need get that many number of footfall because that was a process but by the time the entire exercise was completed, came the COVID and the COVID has major impact on the clinics verticals compared to the hospital verticals.

**Sabyasachi Mukerji:** So why actually I am asking this question is, if I look at the occupancy levels, Q4 FY20 vis-à-vis Q4 FY19, your GCC hospital's occupancy is 58% and vis-à-vis 54% a year ago. That is an improvement and while India business occupancy has come down from 65 to 56, while I understand that in India business you have added capacities and there was a lockdown in the last two weeks, what happened to GCC, there is a 400 bps kind of improvement in the occupancy levels, despite COVID disruption in the last two weeks of March, what explains that rise in occupancy? I was just curious about that?

**Sreenath Reddy:** There was a new hospital that we started, then we also started the Medicare Hospital at Sharjah, so these were the two hospitals where the occupancy was lower in the previous year, so the occupancy of these hospitals got ramped up nicely, so that explains for the increase in the occupancy in the GCC. In India, even though we have been saying last two weeks but the impact in India was slightly a little bit earlier in terms of, because as soon as the lockdown was imposed in India, India the occupancy started dropping drastically and that continued into the month of April as well, so therefore the reduction in occupancy in India was much more, but however in the GCC, the occupancy at least for last year because the impact of the COVID in the GCC we are seeing more in the month of April and May but however, during the last quarter, we didn't see that kind of impact in terms of occupancy.

**Alisha Moopen:** Just wanted to add to what Sreenath was saying, so in the GCC we have three projects which have done exceptionally well, of course like you mentioned the Qusais hospital which was the new in Dubai, the Qatar project as well, but another unit which was a big flow in sort of the uptake was the Medcare Hospital in Sharjah. We had some change in the leadership and we have seen improvement in the occupancy there as well which we feel in the next two quarters will also ramp up much better, so we would expect the GCC hospital margins to go up because these are three large projects and especially the Medcare is a very large project.

**Sabyasachi Mukerji:** Next on the margins front, what kind of sustainable margins we can work for the clinic and the pharmacies if you can highlight that?

**Sreenath Reddy:** So if you look at the hospitals, we would look at anywhere around 14 to 15%, so that is what we expected margins should set like that may be at 15%. GCC clinic, this I am talking for the full year, right because there are various quarters where the margin fluctuate. GCC clinic is where we are finding a bit of pressure, so the margins over there may not improve because in fact if you look at in the current year the margins have decreased and we expect the margins to be under pressure for some more time, maybe we will continue to remain at the same level for few more quarters. At this point of time due to COVID, the margins will significantly have dropped at the GCC clinics. What I am talking about is once we go into normalcy, wherein we are expecting the second half of year to go into normalcy, so we are expecting similar margins like what we have seen last year to around 14% and pharmacies will also continue to remain at similar margins which we have got around 10.7%, may be it can improve up to a maximum of 11% but we don't see it going beyond that and in the case of hospitals in India, the margins at this point of time is 11.2% but however, we expect if we are able to go back into normalcy by second half of the year hopefully, so we should go back to around say, 13 to 14% on an annualized basis in the second half of the year.

**Sabyasachi Mukerji:** Just on the FY20 India business margins, if I look at your, I think you updated one slide for the India business in FY20 where you have mentioned the EBITDA margins in two buckets, 0 to 3 years maturity and 3 years plus and in spite of 67% kind of occupancy in less than 3 years hospitals and we have posted an EBITDA loss, I guess, any reason behind this, was there any one-off into this?

**Sreenath Reddy:** First I will answer, then I will ask Dr. Harish to add on. So we started one facility in Kannur during the last year, in the month of March last year we have started and April, we started the Aster RV, Bangalore. Now, the Kannur project, there the EBITDA breakeven happened around 4 months' time, less than 4 months, which was the record of firm and even today if you see, it is just one year old now and it is at the peak occupancy, so this is one of those hospitals where within a year time it has reached peak occupancy and they are struggling to find beds in that particular hospital. In fact, we are looking at adding few more beds at that hospital. Now, the pricing is something which was lower being in the first year, the pricing was kept lower, it has already gone into profitability and now in the current year, we were to increase the margins over there but with COVID coming in, we are going a little bit slow but very soon, we should be in a position to increase the pricing over there at Kannur because the occupancy is at its peak. The Bangalore hospital, RV Hospital that is still under losses. It had almost gone to EBITDA breakeven during the last quarter but immediately with the COVID coming in, again it has gone into losses, so for the full year there is losses at the Bangalore facility, the new hospital that was started, Aster RV Hospital. Dr. Harish, would you like to add?

**Harish Pillai:** Yes, thank you Sreenath, so like you mentioned the Kannur hospital actually surprised all of us in terms of its performance, it had an EBITDA breakeven in around 4 months' time, so this EBITDA loss what we look at it is mostly by the RV Hospital



in Bangalore. Having said that compared to what we initially thought RV has also done much better than what we had initially forecasted. When you look at India vertical overall, I just wanted to add one more point is that like you mentioned in the last two weeks of March, we had just completed almost 90% drop in our footfalls in OP mainly because of lockdown. It had its consequent impact in inpatients but right from the beginning of the quarter, from January itself we could find a deceleration of international patients coming to India, so when we look at that MVT segment in terms of degrowth that was quite significant for quarter 4 compared to the same time in the previous fiscal, so that is an important contributor because we get better margins from the MVT segment.

**Sabyasachi Mukerji:** Last but on the home care business, if you can just guide something on the revenue and the profitability part in the Wahat Al Aman Home Care Center?

**Alisha Moopen:** On the new business, you mean on the Wahat that we acquired?

**Sabyasachi Mukerji:** Yes.

**Alisha Moopen:** So that business has been doing quite well, we have around 350 to 400 nurses within that business and I think with the timing of COVID actually, this is one area where not just in Wahat, but actually home care across the group has taken off. The only challenge has been sort of recruiting more manpower because there is a nursing trend coming through at least in the GCC where the border is being closed but otherwise people are quite reluctant. Since there is a reluctance to come into the facilities, there is more and more preferences of at least affordable segment to go into home care. So the home care that we have, it has been doing quite well. Sreenath, would you be able to just pitch in on the margin, I think if you can just give the exact range that might be helpful, we have been doing that consistently.

**Sreenath Reddy:** So Home Care, generally the margins are much better compared to the hospital but the thing is that because we are in a very small geography, so now the focus is going to be whether we can extent home care to other geographies, so we are exploring Saudi, whether we can have home care over there. Similarly, in Dubai we have got some home care, but very small. In Saudi, we got the incidents both in Saudi as well as in Abu Dhabi incidence base for it. What we have also done is that now, we also have started in India, so we began in Kerala, so it is very promising. We started off with Kannur because anyway our facility there is at peak capacity, so therefore Kannur, Calicut, so we are starting the home care from those areas. Then eventually, we will spread across various geographies. So this is going to be promising. That is what we expect. Even though in India it has mainly paid out of pocket, but the initial response has been fairly good.

**Moderator:** Thank you. We have next question from the line of Anmol Ganjoo from JM Financial. Please go ahead.

**Anmol Ganjoo:** I had one question, there has been fair amount of dislocation in the GCC market by one of your competitors getting into some kind of a trouble, do you see that throw up any interesting opportunities for us? As a significant player in that market, how are you looking at developments there?

**Azad Moopen:** As you said, unfortunately there have been total destruction of one of the large companies by way of its senior management, but if you look at the operational level, there has not been much of impact by that. The hospitals and their other facilities in GCC at least are running as usual, so we were looking at this. We have this in mind, so two things, one we would be interested on selected assets if it becomes available, not like the company or a large vertical or a large geography, so that is something

which we are looking at in places where there are synergies with our facilities. We are looking at that opportunity and second thing of course, because of the challenges there, there are lot of people, healthcare professionals starting from doctors to others who are wanting to shift and that is happening and we see it as an opportunity for us to improve our manpower efficiency, get more people who are capable.

**Moderator:** Thank you. We have next question from the line of Shankar from HSBC. Please go ahead.

**Shankar:** Can you please let us know who is funding the UAE COVID patients, is it the government or the insurers funding that?

**Alisha Moopen:** In the beginning of the pandemic, the government had actually mandated the insurance company to be funding it on the basis of anyone who is covered with medical insurance. Someone who have not covered, government would go into sponsor their treatment. The change thus happened probably just over a month ago, where they standardized a rate for COVID, so they categorized into 5 different from mild, symptomatic, moderate and ICU care and they came up with one universal rate for COVID which was quite healthy rate and they said if you are part of the medical insurance scheme, then this will be rate that will be reimbursed by the insurance company and if not this would be the rate that would be given by the government. That is how it has been handled here in at least for UAE. In Saudi again, the government has said that they would be paying for the COVID patients and these are the two countries where we are largely seeing the COVID cases within our care.

**Sreenath Reddy:** Yes, yesterday, in Bangalore the government gave a notification on the COVID where who is going to pay for the COVID patient, whether it is the government, whether the insurance or how that works?

**Harish Pillai:** So let me just explain that see at different levels, one is at the central government level, many of us from the private sector, we have made a representation on recommended prices, so we have given benchmark prices to the government of India which is still under consideration. This is part of the FICCI task force representing the private sector that has been already given. The second aspect is because we, Aster in India is across 5 states, the state government have got their own jurisdiction in terms of price capping if at all. The Karnataka, like Sreenath mentioned, yesterday there was a circular where they have given two broad categories, one is price capping, this is actually defined per day per general ward, then the isolation room without ventilator and ICU with ventilator for patients referred by the government and the second category is, if a patient comes on his own that is without referral, third category is insurance patients, so that they have already announced and we have all been asked to comply but still there are ongoing discussion with the private hospital association. So there is some feedbacks which we have given based on some ambiguities which has been visible, so it is still I would say a work in progress.

**Moderator:** Thank you. We have next question from the line Agraj Shah from Tata AIA Life Insurance. Please go ahead.

**Agraj Shah:** I wanted to get a clarification on the sharp increase in depreciation and finance cost sequentially and year-on-year, so you mentioned that there was a mark-to-market component over there, so you can just help me understand the increase?

**Sreenath Reddy:** This IndAS, if you look at this number IndAS because the lease rental that gets bifurcated into depreciation and interest. Because of which when you compare it to last year, the numbers both on the interest as well as the depreciation would have gone up significantly. The EBITDA, if you look at it, the EBITDA will be higher but it

has got an impact on the PAT. Now added to that we have already given a separate slide on that in the presentation, the impact of IndAS, both on the EBITDA interest depreciation and on the PAT. Now, the other thing is that in terms of finance cost, we have got a policy where our loans, whatever we have got in the GCC as a policy we hedge them, so 50% of the loan amount is hedged. If you look at in the GCC, it is a dollar denominated loan and the currency over here that the dirham with respect to the dollar, so therefore there is no currency risk at first but however, the hedge what we pay is more on the change in the LIBOR because the interest rate of LIBOR plus the spread. So by an interest rate swap we have taken that sales for 50% of the loan. Now that has caused an impact because of the LIBOR going down. It has caused an impact for us in this financial year of Rs. 40 crore and if you look at in quarter 4 alone that is a 25 crore hit, so this is a notional hit because the hit what it is appearing over here no doubt we get the benefit of the interest with the lower LIBOR, but however the benefit what we get on a lower LIBOR is just for that one quarter, but however the hit what we take on the mark to market is considering the future rate that are going to be on the LIBOR to the extent of our outstanding timeframe, so because of which the impact on that mark to market for the whole year is 40 crore impact.

**Agraj Shah:** On the depreciation, there is almost a 30 crore impact quarter on quarter, increase?

**Sreenath Reddy:** On the depreciation, Sumanta, can you get him on that from quarter to quarter?

**Sumanta Bajpayee:** I will just give you a little more clarity on your first question as well as on your depreciation question. If you really look at the increase in Interest that had happened during the year is basically 180 crore. That is the total increase in finance cost, and out of that 130 crore is the extra because of IndAS impact on the finance. 40 crore as Mr. Sreenath explained due to mark to market impact and that adds up to 170 crore and balance 10 crore is the extra increase because total debt has slightly increased on year-on-year basis, so that explains the increase of 180 crore in a full year basis and now coming back to your depreciation part of it, the depreciation has only one impact, it is because of this IndAS. The hit due to IndAS in one quarter itself is around 67 crore, so that is basically adds up to the full year basis, it is exactly at 230 crore, so that is the reason you see a depreciation increase in quarter on quarter as well as in full year basis.

**Sreenath Reddy:** And also I would like to add on, what happens is that this lease rental right, the breakup of lease rental into depreciation and interest, so this is something, let me explain, a little bit in detail. Some of our assets are short term, for example, pharmacies and others are less than one year, so when it is less than one year, so what happens is that it directly goes as rental cost but however, if it is more than 12 months, then that gets broken up into depreciation and interest. Now what happens is that during the period every quarter, there are many rental agreements which keep getting renewed, so when these rental agreement gets renewed, so sometimes we chose one year, sometimes we chose two years, especially when it comes to short term thing, so on a quarter to quarter basis there will be a difference in lease rentals in terms of the depreciation and interest that is getting reflected because of the IndAS 116, so that is where few lease rental agreements where we enter into a longer duration during this period, so that also will have an impact in terms of the change in the depreciation as well as the change in the interest.

**Agraj Shah:** And on the CAPEX side, do you have a number in line for the full year, FY21?

**Sreenath Reddy:** The CAPEX as initially mentioned, right now most of the CAPEX has been put on hold and we will be looking at only once we go back to normalcy, so we are expecting to go back to normalcy in quarter 3. So at that point of time we will have clarity as to

what all projects we will take up again or whether we will not take it up because some of the projects like doctor said we have put it on hold, whether there was projects to continue to remain on hold or whether we should take it up, it will be only decided once there is normalcy. Now until then, there are few projects like what doctor mentioned, for example, the Aster Sharjah Hospital and similarly the Bangalore Whitefield, the phase one is only Mother and Child, so the expense that goes into these projects is very minimal, so we are looking at less than 100 crore in the first half of the year, so that is what we are looking on the CAPEX side and this is something which we would like to complete these projects for the reason that it is almost close to completion. So instead of keeping it pending, it is better that we complete these projects, so that we get that revenue and we could get some margins out of it because we have already significantly spent money on the Aster Sharjah project, it is 85% complete, so what needs to be completed is just 15%, so no point holding on the project where it is 85% complete, so we will like to go ahead and complete it. So these are the only two projects at this point of time where we are looking at moving forward. All other projects are on hold and appropriately we will take a call once normalcy comes back.

**Agraj Shah:** For this three projects, Aster Sharjah, Whitefield and the Kolhapur expansion?

**Sreenath Reddy:** Sorry, I missed out on the Kolhapur expansion. Kolhapur expansion again doesn't need; Bangalore Whitefield project for completion will take only 20 crore. This is the Mother and Child because we are not investing into the land, we are not investing into the building, so therefore the amount required is very minimal. The second phase is where we required significant amount for the hospital. That CAPEX will not come into this at least for the first half of the year. Kolhapur is hardly anything that we need to spend, it is almost 80% complete again there, so we need to spend may be around 10 to 12 crore and that project will get completed and the rest of the CAPEX is mainly for Aster Sharjah. So once we complete, we will be in a position to add additional bed which will contribute to the revenue.

**Agraj Shah:** The Aster Sharjah amount would be how much crore, roughly?

**Sreenath Reddy:** Roughly, we are looking at anywhere around 50 to 60 crore.

**Agraj Shah:** Finally, could you tell us about the COVID testing at the Aster Labs, Bangalore facility? How is that progressing, can you give us some numbers and your experience, so far, with the government?

**Sreenath Reddy:** The COVID testing is something which have started because we have been recognised by ICMR, so therefore the testing is happening but then you must be aware that the government has fixed the pricing of 4500, so that is the pricing what it is, so with this testing has happened and it is just a coincidence that the lab came into operations and also this COVID started, because of which there are increased volume and many hospitals within the city also are tying up with us including many other competing brands, mainly for the reason that we are able to give the test results at a very fast pace, so that has picked up well but the next few months is where we are focusing on. No doubt for the next few months also, there is likely to be more of COVID tests, but we would like to get into a regular B2C business once this COVID comes down and because the initial plan was more to go with the B2C model but at this point of time, it is more of a B2B model.

**Azad Moopen:** Just to add on to that Dr. Azad here, so I just wanted to add on the lab. We have the advantage of having a captive business for the lab sitting in our hospitals, 25 hospitals and the clinics. So this we are now in the process of consolidating and sending the samples which are now being send outside into our lab which in itself

should be a significant business coming from the B2B even though it is internally. So that part is being focused now which we think that will be significant business in the next 3 to 6 months, we will be able to get through that and as well as in the development of the B2C business and outside B2B business, so that is the plan in which we are going and the COVID testing and all will be only temporary and it may not have too much of an impact in the long term, but this is the one which is going to have a significant impact.

**Agraj Shah:** Now, where is the test menu for this and how many tests do you offer?

**Azad Moopen:** We will have to get back to you on that because there is no expert in this, so we can separately offline give you those details. The Head of Lab which is Mr. Jayaprakash who sits at Bangalore and manages this and unfortunately somehow Dr. Harish also has dropped out, so we can get this details directly send to you by them.

**Moderator:** Thank you. We have the next question from the line of Rupen Masalia from RN Associates. Please go ahead.

**Rupen Masalia:** My question is in the medium term that is 2 to 3 years, where do you see the net debt level which currently stands at approximately 2800 crore and the capital efficiencies in the form of ROCE, in the light of likely reduced CAPEX intensity and may be some inorganic growth initiatives and of course your focus on cost rationalization, so taking all these three initiatives together where do you see the net debt level and your capital efficiencies in the medium term?

**Sreenath Reddy:** That is something which we would like to reduce. The focus is on reducing the debt, so we don't want to take more debt and right now, if we look at the net debt to EBITDA, we are at 2.9x, but however, we would like to reduce it close to 2 in the next 2 to 3 years. It will take at least 2 to 3 years. We are looking at various options because unfortunately this COVID has come in and some of the initiatives what we were trying to do is not happening to the extent we were expecting, for example we were thinking of some of the idle land what we have got at some places in India, so we were thinking that is something which we should monetize, so such kind of things have got a bit delayed, but we are very clear in our thought that we should bring it down the debt level to levels around 2, net to EBITDA to around 2 in the next 2 to 3 years' timeframe.

**Rupen Masalia:** And on your capital efficiencies, like currently you all are operating at below optimal capacity in GCC and India hospitals and likely reduction in CAPEX going forward plus improvement in margins at EBITDA level due to cost rationalization exercise, so what sort of capital efficiencies can be expected in the medium term over next 2 to 3 years?

**Sreenath Reddy:** The thing is that efficiency is the focus, right, so if you look at many of our facilities which are new, some of the facilities have already ramped up, but there are also few facilities which are in the process of ramping up and also in many of our facilities mainly in India if you look at there is still enough of beds available, so therefore the need to have more CAPEX or more hospital bed will not arise and that is one of the reason also why we terminated one project in Dubai, the international city one. Similarly, we have put some of the projects in India on hold and we have got second thought whether we should again spend CAPEX and again add those capacities. The existing capacities will continue to see a good ramp up in the occupancy and therefore that will bring in additional margins. Once the occupancy goes up because the fixed cost are more or less the same, so that should bring us margins that is one way of we getting the margins. The other way of we getting additional margins from where we are today is on controlling the cost. The cost is something like what doctor



said, we are looking at various ways of controlling the cost including it could be offsite where many of the staff work offsite instead of being in GCC and we are also looking at work from home and other such options, so therefore we believe that these cost saving and similarly the increase in occupancy level should give us better margin and should increase at least by 150 basis points to 200 basis points over a period of next 2 to 3 years is what we expect because on the pricing front, at least in GCC, we don't expect significant increase in the price, so therefore it is important that we bring in efficiencies.

**Azad Moopen:**

Just to add to that what Sreenath said, so 3 things which are in our favour and even though COVID is a challenge, we think these are blessings for us, one is on the cost front like what Sreenath said, we have an opportunity to reduce the cost, especially in the area of manpower and the second thing of course is the opportunity of digital transformation where the cost again will be less and the incomes generated will be higher and that is another very important thing. The third thing is that as a result of COVID, the CAPEX will be much less what we are spending and that will definitely help us to have better return on capital whatever is employed and so all these three together, we hope that we will have better margins as well as overall, the cash flow and debt reduction.

**Moderator:**

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

**Azad Moopen:**

Thank you very much. Thanks a lot for participating in the earnings call and we are all in very difficult circumstances but we all hope that this is actually in the lower side of the pandemic and we are going down and we sincerely hope that it will be like U or V in all the countries, not like a W which means that there will be again something coming up and we sincerely hope that we will come out of this as early as possible. So we look forward to meeting you in the next quarter call. Thank you very much. Thanks a lot to everyone who participated.

**Moderator:**

Thank you very much sir. Ladies and gentlemen, on behalf of Aster DM Healthcare Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.