



“Aster DM Healthcare Limited Q4 FY'21 & Full Year FY'21
Results Conference Call”

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MODERATOR: **MR. SHASHANK KRISHNAKUMAR – JM FINANCIAL
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Moderator: Ladies and gentlemen, good day and welcome to Aster DM Healthcare Limited Q4 FY'21 Results Call hosted by JM Financial Institutional Securities Limited. As a reminder, all participant 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shashank Krishnakumar from JM Financial Institutional Securities Limited. Thank you and over to you sir.

Shashank Krishnakumar: Hi! Good morning, everyone. On behalf of JM Financial Institutional Securities, we are happy to host the Aster DM management for the 4Q FY'21 & Full Year Earnings Conference Call.

From the management side, we have Dr. Azad Moopen – Chairman and Managing Director; Ms. Alisha Moopen – Deputy Managing Director; Mr. Sreenath Reddy – Group CFO; Dr. Harish Pillai – CEO, India business; and Mr. Amitabh Johri – CFO, GCC business.

I will now hand over the call to the management for their opening remarks and look forward to an engaging session. Thank you, Aster DM management and over to you, doctor.

Dr. Azad Moopen: Good morning, everyone. Thank you for joining our '21 Q4 Earning Call today. The year gone by has brought in unprecedented times, challenges and opportunities to prove our resilience as healthcare operators. The multiple waves of COVID posed various challenges, but our doctors, nurses and support staff along with the enabling services have stood strongly and provided life-saving services for the patients. However, there are many challenges regarding the management of the pandemic as there are changes in the presentation and the mode of the cases happening. The positive news, however, is that vaccination drive is continuing at an aggressive pace in UAE where we have majority of our operations. Here, most of the population are now vaccinated which give significant protection but does not rule out infection. In India, however, the vaccination efforts are going on at a slower pace due to the lack of availability of vaccine and other factors, the population size, the geographical spread, etc., and this could be a major challenge as we go ahead regarding further wait. The Q4 Financial Year '21 saw the second wave of COVID in the GCC region. So, that's highlight of the whole presentation. In the Q4, the second wave which came in the GCC region. The international borders were closed, travel restrictions were brought in, night curfews and lockdowns impacted the hospitals and pharmacies of our business adversely in the GCC countries, mainly UAE. Restrictions on elective surgeries were imposed on some of the locations and in some other places even workforce were taken over by the state bodies to deal with the pandemic. However, in India, the Q4 '21 which witnessed first wave of pandemic receding. Our hospitals saw an increase in occupancy and patient visits. This is reflected in our revenues and profitability in India.

During this period, we started the Aster Whitefield Women & Children Hospital in Bangalore during this time. It's a boutique hospital catering to the unique healthcare needs of the children

and women. The hospital specializes in obstetrics care including normal and high-risk pregnancy, comprehensive gynecology care starting from birth, motherhood to menopause and beyond and complete neonatal and pediatric care including pediatric surgery. The hospital also provides 24x7 pediatric and maternal emergency services. The 49-bed specialized hospital is strategically located in Whitefield, Bangalore and it's designed to provide personalized medical care in a calm, soothing, nature-inspired environment. The hospital has the most advanced technology and it's well equipped with birthing suites, labor delivery room, modular operation theatre, single and deluxe suite for comfort of the mother and baby. This is our specialty hospital in Bangalore which shall be further developed adding two more blocks as we go forward.

We continue to be committed to our expansion in India and see a strong potential for growth. In order to widen our healthcare offerings for our patient base, we are actively expanding Aster Labs and the pharmacy distribution network in India. This is in line with the strategy to have wider presence with an asset-light model. Also, digital transformation initiatives creating various revenue streams shall be our focus in the coming years.

Aster Volunteers, our division which helps people who are in need, has signed a MoU with Al Shifa Multi-Specialty Hospital in New Delhi to help set up a 50-bed field hospital to meet the increasing shortage of hospital beds during the COVID-19 pandemic. The initiative is aimed at supporting patients who are financially disadvantaged, yet in need of critical care. As part of the MoU, Aster will be supporting the development of the medical facility and ensure that the necessary infrastructure is in place while Al Shifa will be responsible for operating the hospital. We have started such measures later also in other places in Kerala in Kochi, Calicut, etc.

We are actively working towards creating our global tie-ups and leveraging the same across the group. Recently, we have signed an MoU with Roche Middle East, the world leader in biotechnology as a strategic partner across United Arab Emirates, the Kingdom of Saudi Arabia, Qatar and Oman. The partnership will enable Aster DM Healthcare hospitals, clinics and laboratories across the region to adopt the latest diagnostic innovation and solutions to support doctors in providing optimal treatment solution to their patients. This is part of our core strategy to introduce smart system and encourage early and accurate detection that can facilitate timely medical intervention essential to prevent unwanted disease outcome.

We continue to be committed to our healthcare heroes who relentlessly work to save lives and often have risked their own lives in their line of duty. We have announced 10-year salary support for families of employees who died of COVID-19. This will be applicable to all employees of Aster in India and GCC who lost their lives due to COVID-19 or those who may succumb, God forbid, to the disease in future. Around 5,000 employees of Aster have been infected with the virus since the start of the pandemic while most of the infected are back to work, to continue the battle, four of them have succumbed to the virus. They have sadly left behind young families with wives, children and ageing parent. The Asterians are irreplaceable and they will always

remain close to our hearts. We are focused on guarding our employees against the COVID-19. I am happy to say that we have ensured that 84% of our employees across the globe are now fully vaccinated.

During the fourth quarter, we posted a revenue of Rs. 2,391 crores which is an increase of 7% compared to previous quarter and an increase of 5% when compared to the same period last financial year. The EBITDA in Q4 was Rs. 336 crores, an increase of 2% when compared to previous quarter and a decrease of 17% compared to the same period last financial year. The profit after tax post-NCI for Q4 was Rs.105 crores, an increase of 14% when compared to previous quarter and a decrease of 20% compared with the same period last financial year.

I now request Deputy Managing Director who also heads the Digital Transformation to take you through the initiatives being taken by the company, after which Sreenath Reddy, our CFO shall be briefing you and giving you more details regarding the financial. Thank you very much.

Alisha Moopen:

Thank you, chairman. Good morning, everyone. At Aster, we do recognize the fact that digital is really the way to further our mission of healthcare and wellness. Our outreach for patient care is restricted right now to the hospitals, clinics, labs and pharmacies we have. We want to break these barriers and create an omnipresent model of clicks and bricks. We are working actively towards creating digital assets which are foundational, efficient and can help us expand quickly in an asset light model. We're investing in creating an app "One Aster" which will be our unified mode of engagement with our patient base for their wellness. It shall have Teleconsult, e-Pharmacy, Chronic Disease Management and creating various themes to support patient wellness and wellbeing. Organizationally, we are committed to drive this across the board and we have taken initial few steps over the last six months.

We also saw expenses of approximately Rs.11.85 crores in our P&L during the quarter which is our investment for a better future. We are hopeful that we shall be doing the soft launch of this app in GCC in Q2 of FY'22 and by the end of the financial year we shall have this rolled across India as well.

I now request our Group's CFO, Sreenath Reddy, to take you through the Details of the Financial and Segmental Performance for the Quarter and the Financial Year. Thank you

Sreenath Reddy:

Thank you, Alisha. Good morning, everyone. As doctor mentioned, the threat from COVID is not over but the vaccination rollout all over the world is happening at a record pace. This gives hope to everyone that we shall soon have this threat behind us.

During Q4, there was a second wave in GCC which had an impact on our business. During the same period, India did fairly well. In spite of the second wave of COVID in GCC, we were able to perform better in Q4 compared to Q3.

For Q4 FY'21, our revenue from operations has increased to Rs. 2,391 crores compared to Q3 FY'21 revenue of Rs. 2,228 crores. On a year-on-year basis, revenue increased by 5% and corresponding constant currency increase is 4%. The revenues in GCC has increased by 2% and in India the revenues have increased by 20% year-on-year. Our India operations saw increase both in inpatient and outpatient visits.

In Q4 FY'21, we have reported EBITDA of Rs. 336 crores which is 2% higher than the previous quarter of Rs. 328 crores, but a 17% decline on a year-on-year basis. In constant currency terms the decline is 18%. EBITDA margin in Q4 FY'21 was 14% against 17.7% in Q4 FY'20, a reduction of around 370 basis points. PAT post-NCI decreased by 20% to Rs.105 crores as compared to Rs.131 crores in Q4 FY'20. The reduction in EBITDA numbers in Q4 FY'21 is largely on account of revenue mix changes in GCC, our pharmacy vertical saw revenue shrinkage over last year owing to lesser footfalls in UAE and lockdowns in Oman, Qatar and Saudi including frequent travel bans imposed by the states.

Coming to 12-months performance for the year ended March '21, revenue from operations for FY'21 decreased by 0.5% year-on-year to Rs. 8,608 crores from Rs. 8,652 crores. This is largely emanating from a weak first quarter of the financial year on account of COVID and for the following quarters recurring COVID impact in turns between GCC and India. EBITDA decreased by 14% from Rs. 1,258 crores in FY'20 to Rs. 1,077 crores in FY'21. PAT post NCI decreased by 47% from Rs.277 crores in FY'20 to Rs. 148 crores in FY'21. The constant currency decline for revenue, EBITDA and PAT for 12 months is 4%, 18% and 50% respectively.

Coming to the Segmental Performance for the Quarter, the GCC hospital revenue has increased by 5% from Rs. 785 crores in Q4 FY'20 to Rs. 826 crores in Q4 FY'21. EBITDA decreased by 6% on a year-on-year basis to Rs. 156 crores in Q4 FY'21. The EBITDA margin decreased from 21.3 % in Q4 FY'20 to 18.9% in Q4 FY'21 on account of change in case mix and increased material cost.

Revenue in GCC Clinics is at Rs. 587 crores in Q4 FY'21 compared to Rs.521 crores in Q4 FY'20, an increase of 13%. This is also better over last quarter by 9.5%. EBITDA was at Rs. 115 crores in Q4 FY'21 compared to Rs. 121 crores in Q4 FY'20. The EBITDA margin decreased to 19.6% compared to 23.2% in the previous financial year. The reason for the decrease in margin is due to the reduction of the regular clinical activities with a corresponding higher cost on account of the fixed expenses and outsourced lab expenses. For Pharmacies in GCC, revenue is at Rs. 559 crores in Q4 FY'21 compared to Rs. 644 crores in Q4 FY'20. EBITDA has decreased from Rs. 126 crores in Q4 FY'20 to Rs.67 crores in Q4 FY'21 and the EBITDA margin decreased from 19.6% in Q4 FY'20 to 11.9% in Q4 FY'21. The drop in margins is mainly due to the reduction in footfalls and underachievement of revenue resulting in lower rebates.

Coming to the balance sheet, the group net debt stands at Rs. 2,004 crores as at 31st March 2021 compared to Rs. 2,783 crores as at 31st March 2020, which is a reduction of Rs. 779 crores. We

have been reducing our debt exposure steadily. The break-up of net debt; India stands at Rs. 306 crores compared to Rs. 358 crores as at 31st March 2020 and GCC net debt stands at US\$231 million compared to US\$324 million as at 31st March 2020. CAPEX during the 12-month period was Rs. 374 crores.

Considering that in the GCC, significant part of the population have been vaccinated and our facilities in India are approaching a mature state. We have a positive outlook for the next financial year.

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 now request the operator on this call to open the question-and-answer session. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.

Sriraam Rathi: Firstly, this laboratory outsourcing charges seems to be significantly higher this quarter, I mean versus of course YoY and also QoQ it has doubled. So, what has led to this if you can just give some more idea about this particular item?

Sreenath Reddy: Sriram, see, like what we said in Q4, we had wave-two, right, so whenever the COVID number increases, there is an increase in the RT-PCR testing, right. So, these testings are directly linked to the number of COVID infection. So, therefore, we had significant numbers of RT-PCR testing done and for which there was an associated cost. We do have in-house, but that is not sufficient for us to cater to the demands of the testing requirement. So, we have to outsource and which we are doing outsourcing in the past as well, but this quarter being wave two, the numbers are significant.

Sriraam Rathi: So, going forward as the COVID cases go down, so this amount should have been normalized?

Sreenath Reddy: Sriram, extending my explanation, the thing is that now COVID wave-two has decreased, it's very-very minimal in most of the GCC region, but however we are seeing increased numbers in India, no doubt, during the last couple of weeks even India have seen reduced numbers. So, when this reduces, the regular business comes back to some extent and the COVID testing goes down.

Sriraam Rathi: Last part of this will be for the GCC region only, right?

Sreenath Reddy: Yes this is mainly for the GCC region. In India we have got our own lab testing facilities and in fact that is a separate line of activity which was established during the last financial year and this financial year we will scale up the lab business in India.

Sriraam Rathi: Secondly, on the vaccination, are we participating in this opportunity of vaccinating patients, if you can provide in terms of if there can be some upside on the number?

Dr. Azad Moopen: Vaccination, we are very actively participating in this opportunity. Unfortunately, in India there are a lot of restrictions for getting the vaccine for the private sector companies. In GCC there is no revenues involved, this is being given free of cost, so we have to provide this to the patient free of cost, it's provided by the government in the UAE, whereas in India you can charge the administration fee, but there are a lot of restriction. Even though we are very actively involved and want to do it more and more, there are restrictions in getting the supplies, but we are trying very hard to get more and more stock and provide it to as many people as possible, not even as a business, it is very important that we control this pandemic, doing the vaccination to the maximum number of people.

Sriraam Rathi: Lastly, if you can just provide some details in terms of our expansion plan now, wherein FY'21, we have not done much, in FY'22, how should we look at in India and GCC? And also any update on the Cayman Islands multispecialty hospital plan that we had?

Dr. Azad Moopen: So, regarding the expansion we have two hospitals which are getting ready in UAE which was slowed down but may be in the next two quarters we should be able to start both these hospitals; one is in Sharjah, which is a Greenfield hospital, 80-bed hospital which we hope that in the Q2 of financial year '22 we will be able to start. And in Muscat, Oman, we have another Greenfield hospital which is 145-bed hospital which is again we hope that in Q4 of financial year we'll be able to start that. Both these are leased facilities whereas we have an owned facility, Sanad hospital in Riyadh, a 69-bed hospital. This is put on temporary hold and we have not proceeded with that and these are the GCC projects. In India, Aster Aadhar hospital, which is in Kolhapur, Maharashtra, there is an expansion going on. This is a 60-bed hospital, the construction is going on and we hope that by Q2 of financial year we should be able to complete that. This is an owned facility. And we have actually another construction going on, the one which I mentioned in my speech, the phase-II of the Aster Whitefield Specialty, this is going on, and we hope that by 2023, the next financial year we will be able to complete that. These are the projects which were in pipeline which we had put on hold. We haven't started anything new. In fact, the hospital which we announced earlier in Chennai and another hospital in Bangalore we have put this on hold.

Sreenath Reddy: In terms of CAPEX numbers for the current year was Rs.374 crores and for FY'22 we are looking at Rs.580 crores of CAPEX. During the COVID year, we went a little bit slow. Our focus was not to take up new projects but in the current year the uncompleted projects we are moving very fast and that will increase our CAPEX because like what doctor said, we have got projects coming up in Bangalore, Kolhapur, similarly at Oman and at Sharjah. So, therefore the total CAPEX outlay estimated is Rs.580 crores for the coming financial year.

Dr. Azad Moopen: You will notice is that there is significant reduction in our debt which has come down by some Rs.780 crores for GCC and India together. Part of this has been because we have to put some of the projects on hold but also because of the prudent financial management that's been done. So, there is a significant reduction in the debt which has happened during the financial year.

Sriraam Rathi: Any update on Cayman Islands?

Dr Azad Moopen: On Cayman Islands, we have got the (PAD) Planned Area Development approval for the hospital building. The land is now getting ready for that filling which will take about three months. Meanwhile, we are negotiating with the contractors for getting onboarded. So, we hope that in two years' time we should be able to start the hospital. So, that's the status. And we are quite excited because it's not only the Cayman which is a small country but there is opportunity to get business from the surrounding areas, that's the whole plan from the Caribbean as well as from the US and all.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just the first one on the outlook. You said you have a positive outlook for fiscal '22. So, just want to understand from a 1Q perspective, how is the GCC in terms of occupancies, has it improved from the 49% or so given that the COVID base has kind of eased there? And also the outbound restrictions you also talked about which impacted in 4Q...maybe in 3Q as well. Just want to see how that is panning out and how things are improving in the GCC?

Dr. Azad Moopen: GCC generally is looking up because the vaccination has definitely given a lot of confidence to people and to the authority and we hope that with 70% of the people being covered in UAE and even in other GCC countries we will be seeing opening up as well as most of the restrictions being lifted. So, this will help in the people coming back as well as the people who are already here taking up many of the things which they have postponed as well as even there are other opportunities in the country where we are mostly having this UAE we have the Expo 2020 coming up and it is only three months away. So, overall there is a positive feeling, but we can't say, see, COVID always has been unpredictable but we feel it's a little more better than what it was last year. And one good thing which has happened is that see, when we look at the first wave which happened and the way in which we managed that in India as well as GCC, that's been slightly better from the financial point of view as well as from the point of view of the overall operations when we look at the second wave which we addressed. So, we think that we are also learning, and we will be able to do it better as we go forward.

Sreenath Reddy: Shyam, also occupancy is improving. So, that is something which is good. Only concern at this point is on the retail pharmacy side but we expect that also to improve but it could take some couple of quarters to see an improvement on the pharmacy front. Coming to India, India is something we are positive. The reason is that many of our facilities now are reaching a mature

state. So, therefore both from the top line as well as the EBITDA contribution, India should be doing significantly well compared to last year.

Dr. Harish Pillai:

Like Dr. Azad has mentioned, a lot of lessons what we learned with our experience in 2020 the first wave, the clinical teams are now fairly equipped, infrastructure has always been robust because all the hospitals in India of ours has been NABH accredited. We also have a good control over the supply chain situation which we had some challenges last year. One big thing about the India hospitals which Dr. Azad also mentioned is the extensive coverage of vaccination of healthcare workers and that has been really good, and it has given the team a lot of confidence. When we look at the second wave in our hospitals even though the COVID numbers were quite significant in terms of business footfalls it has been very positive when you compare the same time last year when we had impact of the lockdown. And we are expecting a rebound of elective non-COVID cases as the lockdown is eased in all the states so that we operate. So, we are bullish for this year.

Shyam Srinivasan:

Just trying to get clarity on the GCC Pharmacy margins, you mentioned two reasons; reduction in footfall and lower rebates. Can you explain the second one please?

Sreenath Reddy:

There are certain targets of revenues when we achieve, we are entitled for certain rebate, when the footfalls drop, revenues get impacted and in turn we get reduction in the rebate. Now this rebates whatever we get, these are incentives right so whatever we get that 100% of that generally flows into the bottom line. So, when the revenue doesn't meet up, so we get hit a little bit higher at the bottom line mainly because this rebates get reduced which otherwise would have flown completely to the bottom line.

Dr. Azad Moopen:

I just wanted to add here, there has been a change in the mix of the disease profile also. What is happening is that as people are mostly staying home and they don't have much of infections at all. So, the mix of the medicines and all is more towards chronic medication which has got much lower margin when compared to antibiotics and other things which are required for acute infection and all. So, even that might have played a role in reduction of margins.

Shyam Srinivasan:

My last question is on the EBITDA margin profile. How should we look at it going forward? We have multiple hospitals starting up. So, is there a worry or a concern that there could be dilution in margins of these new hospitals both in GCC and the mother and child hospital in Bangalore actually ramp up, how should you think about margins of fiscal '22?

Sreenath Reddy:

Even though the new facilities are starting right both in India as well as in the GCC, but these facilities will be a little bit later during the year. So, one of the facilities is expected at the last quarter of this year, that is the Oman facility which will not have much of an impact on the financial. Similarly, the hospital at Sharjah is expected somewhere to start in the month of August or September and the impact of that will be very minimal, no doubt, initial period there will be losses, but we don't see that impacting the overall hospital margins because we are

bringing in efficiencies in other places and therefore for the current year we will be looking at similar margin on the hospital side. Similarly on India, even though that's a new facility which is coming up, that will not have any dent in the margin. In fact, on India as a whole the margins will improve significantly, mainly for the reasons like what I said many of these hospitals are now getting into that mature state.

Moderator: The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Can you throw some light on your plans in Cayman Islands?

Dr. Azad Moopen: This is a 150-bed multi-specialty hospital with focus on three, four specialties. We have taken a concession agreement from the government and have bought 40 acres of land there and this plan has been prepared and it has been approved by the government. Local population require hospital facility. There is a good hospital by an Indian player there already but there is a gap, they are not providing all these areas which are required. So, we will be filling that gap as well as we are expecting more importantly patients coming from the US as well as other Caribbean countries, that is the surrounding area. Now the advantage that a player like us has when compared to any player in the US or in that region is that we are allowed as per the agreement to bring in doctors and staff from countries like India so that our HR cost will be much lower when compared to hospitals there. So, even if we do it at double the price of what we are doing here, it will be much less when compared to what is available to the people there. Our cost will be lower, and this will attract patients from the US and all to this facility for medical value travel. So, we hope that we will be able to do well, and we are looking at areas where we can get situations like for elective surgeries, for cosmetic procedures as well as of course the mainstream area.

Charulata Gaidhani: What is the kind of treatment focus that you would have?

Dr. Azad Moopen: Apart from the mainstream facilities like the cardiology, neurology, orthopedics and all, which any hospital should have, we also are looking very actively on oncology, we are having comprehensive oncology's plan in the new hospital which is built into that as well as a major plan into the area of wellness, all wellness related cosmetic surgeries as well as other dermatological and the cosmetic procedures so that will be another area where we can get large number of patients from the other countries around.

Charulata Gaidhani: By when will this hospital be commissioned?

Dr. Azad Moopen: We hope that we'll be able to start it in two years' time, maybe around '23 or '24.

Moderator: The next question is from the line of Shashank Krishnakumar from JM Financial. Please go ahead.

Shashank Krishnakumar: So, this is on the India hospital EBITDA margin. It has declined sequentially. Is it because of Aster Labs or is there something specific that you'd like to call out?

Dr. Harish Pillai: Shashank, when you look at Q3 to Q4, the main thing is... it has already been explained by the speakers before, we have commissioned Aster Women and Child Hospital in Q4 in Whitefield Bangalore so that is the primary reason for the dilution of EBITDA margin in Q4 and there has been also slight increase in facility maintenance elsewhere too. These are the two main factors.

Shashank Krishnakumar: Secondly, on the Home Healthcare and the Pharmacy business in India, you earlier talked about brand licensing agreements or the acquisition of retail, any update on that front?

Sreenath Reddy: Like what was mentioned a bit earlier by doctor, so these two businesses; one is the lab which we will be scaling up which is well established now, now is the time for us to scale it up aggressively which we would do in the current year; and the other line of business activity is the pharmacy distribution network. So, that is something which already I think there are 17 units which have been started and which we have got an arrangement and we would like to expand this distribution network which will be another business activity, catering mainly to the customers. At this point of time, we are not getting into online but in future there is a possibility that we will also get into online.

Dr. Harish Pillai: On the pharmacy distribution network, like already mentioned right, we are focusing on the geographies where we are and we have brand licensing agreement so the brand obviously is Aster Pharmacy, we are basically looking at the distribution end, we feel that it will bring in lot of synergies both at the distribution and also for the hospital procurement side. So, as of right now we are focusing on clusters; Cluster-A is Karnataka, Cluster-B would be the state of Kerala, we will slowly enter Telangana. So, that's going as per our plans. And like you rightly mentioned we need to have some sufficient base in terms of brick-and-mortar before leverage an omni-channel network.

Moderator: The next question is from the line of Ayush Pansari from Allegro Capital. Please go ahead.

Ayush Pansari: You had mentioned the CAPEX for FY'21 as Rs.320 crores and Rs.580 crores. Would you be able to guide us on the India number please?

Sreenath Reddy: We are looking at around Rs.280 crores in India.

Ayush Pansari: What would be your capital employed for the India business?

Sreenath Reddy: 40% of the total capital employed is in India and 60% is in GCC.

Ayush Pansari: I know in GCC you have reclassified revenue to material cost. But what would be the like-to-like number as you have stated historical for Q4 period? It would be higher in Q4 because of

reclassification, right, because earlier you had reduced discounts from revenue. So, if you still continue doing that, what would be the number?

Sreenath Reddy: It would have been an increase of Rs.50 crores for Q4 of FY21, provided other income was at same level as Q4 of previous year, pre knock-off.

Moderator: The next question is from the line of Mehul Sheth from Axis Capital. Please go ahead.

Mehul Sheth: First question is related to your GCC business. Can you highlight on your performance related to your Homecare business of Wahat since its acquisition? And also same in GCC part two question, your new hospital EBITDA margin has improved significantly even on a sequential basis. So, what is driving this growth?

Sreenath Reddy: So, Amitabh, do you want to take that question on Wahat?

Amitabh Johri: In case of the Wahat acquisition, we have seen a significant increase in terms of the volume and revenue. This acquisition of ours has turned out to be a good acquisition. We have seen gross margin buffer of almost 28% - 30% on this and the revenues have been steadily growing on this one.

Mehul Sheth: The driver for the new hospital margins improved significantly?

Amitabh Johri: So, in the case of the new hospital margins, we have Cedar hospital that was commissioned last year, we have seen better occupancy on that. Between Q3, Q4 as the electives were allowed to be opened, we saw better occupancy as well as in the case of Mankhool Hospital, we have seen better margins there.

Sreenath Reddy: In the case of new hospital, one of the hospitals over there is the Qusais hospital which is in Dubai. So, that hospital being within Dubai has done extremely well. So, therefore over there the margins are higher. But during the quarter in other places if you look at the existing hospitals, some of them didn't do that very well mainly because of the COVID but over here in the GCC especially in Dubai, the hospitals which are less than three years mainly the Qusais hospital has done very well. So, that is the reason why the margins there are high.

Mehul Sheth: So, this relates with the vaccination that you may be giving through these hospitals, the margin driver for that?

Amitabh Johri: Because vaccination is free in GCC, so this is not because of the vaccination.

Mehul Sheth: One question related to your working capital cycle that is say in FY'21, this is largely because there is a reduction in the receivable days for you. So, how do you see this going forward means

it is sustainable or once the Saudi business will again get into normalize space then again there is increase in receivable and there will be a stretch in the working capital cycle?

Sreenath Reddy: So, in terms of days there will be a slight increase because this time you're seeing a small reduction that is mainly because in terms of business that we had due to COVID mainly on the RT-PCR testing, it is cash business. But once things normalize, these numbers will slightly go up but we are trying to keep it around those numbers.

Mehul Sheth: One question related to your contribution from your COVID related revenue in your overall say in GCC and India?

Sreenath Reddy: In the GCC, mainly COVID revenue comes from the clinic, no doubt, it is there even in the hospitals when government refers the patient. So, coming to the clinic, around 30% of the revenue comes during the COVID time, it all depends on how long that COVID-related business is there, in the sense that the COVID would last. And in the hospital, it all depends upon how long the government restricts our elective cases and generally during the quarter if you see hospitals it could be around 10% to 15%. Dr. Harish, you would like to answer, in India it is slightly higher, right?

Dr. Harish Pillai: Yes, it is quite interesting, because Q1 we had no COVID at all, it was zero, Q2 was the highest exposure to COVID, that's about 14.6%, Q3 again the case load came down and Q4 was the least. So, if you look at consol for the whole fiscal it was about 8% roughly.

Mehul Sheth: In FY'21 starting of this early two months again there will be increase in the COVID revenue because of this increasing number especially in India?

Dr. Harish Pillai: Yes-yes, we had a pretty severe second wave, so all our hospitals in India were affected, so that is quite expected and we're just coming out of that right now. So, the worst hit month was May, June is obviously much better and with this lockdowns being phased out we think that July things will be far better. So, even on year-on-year in spite of these COVID challenges the business performance has been very good for India hospitals.

Sreenath Reddy: If you look at on a consolidated basis for the quarter that includes even clinics, hospitals and everything, across the geographies. 20% of the business is from COVID. Like what I said clinics will have 30%, hospitals will have lesser.

Mehul Sheth: One last question related to CAPEX, the 5.8 million guidance. What is the amount deployed towards Cayman Islands from this Rs.580 crores?

Sreenath Reddy: We are looking at around Rs.150 crores during this year because this year will be minimal on Cayman. Already one quarter is gone, so we've got another three quarters. So, the activity will be a little bit slow in the current year, but it'll start picking up momentum in the next year.

Mehul Sheth: So, your CAPEX breakup largely it's like 580 of which 280 is for India, 150 is for your Cayman and remaining is largely for GCC?

Sreenath Reddy: That's correct.

Moderator: The next question is from the line of Shashank Krishnakumar. Please go ahead.

Shashank Krishnakumar: Sorry if this was clarified earlier but any update on the offshoring of back-end operations, you talked about establishing a shared service center in India?

Amitabh Johri: So, we have done a soft launch for our shared service center out of Bangalore. We already had a presence in Calicut. So, we have integrated the Calicut and the Bangalore office. Presently, we have close to 130 people working between Calicut and Bangalore and we have created a CoE model wherein the operations of finance, procurement, revenue cycle management have been front-ended in GCC, but back-end work is happening out of the Bangalore center.

Shashank Krishnakumar: The last one on the Home Healthcare business in India. So, how is that progressing particularly in the Kerala and Bangalore clusters, any update on that?

Dr. Harish Pillai: The entire home healthcare business was started in a pre-COVID because we already had a model of continuum of care, but COVID has really given it a big push and we saw strong growth in the home care business starting off with the Malabar cluster where we had three hospitals; Calicut, Kottakal and Kannur. And currently we are spread across the geographies in Cochin, in Bangalore, Andhra cluster, Hyderabad and Kolhapur. So, it's across the network and it's done fairly well. We also have an interesting model that we leverage our own skilled personnel within the hospital for extending of care to our own patients. So, it has done steady growth over the past few quarters.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just one question on the landscape for the hospitals in UAE. We have seen the news of one of your competitors the lenders have actually now swapped for equity exposure and they're looking to turn around. So, just want to understand from an M&A, are there parts in that business which is interesting for us, how should we look at the landscape in the UAE?

Dr. Azad Moopen: We always look at opportunities and we were also wanting to make sure that we don't increase our debt. So, while there were opportunities which were coming including some of the recent one, we are now looking at only those which are strategically aligned to our activities in UAE and which will be coming in not as a whole but as individual hospital. So, that thought process is there. If something comes which is fitting into our present chain of hospitals, we will be looking at that, but then we will make sure that it's not going to have a huge impact on our debt position.

- Shyam Srinivasan:** Doctor, can we open our own hospitals in Abu Dhabi? Now that the competitor is having its own issue, the point is earlier there was this understanding that the terms are different, I am just putting out stuff but now that there are other issues are there.
- Dr. Azad Moopen:** Even now there are opportunities for Greenfield hospitals, and we continuously explore that but because of COVID and all we didn't want to increase our exposure and bring in more of the Greenfield hospitals, of course, also takes time for us to go into break even and that will have a drag on our margins and all. So, we are looking at like what we also mentioned, maybe in operations and management if there is an opportunity that is something without investing for the funding we can look at that. Even very good EBITDA multiple if something is available, if the prices are very attractive, maybe we can look at even buying out individual hospitals. Constructing something new? Yes, that is there and we should have a pipeline because we have now 13 hospitals in GCC, for further growth in future we have to have that. We already have two hospitals which are coming up and beyond that for the year three, four and all we must be looking at Greenfield also as an opportunity. So, answering your question, yes, we have some amount which is allocated for growth which can be utilized, for usually we do Greenfield, but it can even be used for a small acquisition if that is available.
- Moderator:** The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** My question pertains to CAPEX for the full year for FY'22 and '23?
- Sreenath Reddy:** For FY'22, I had already mentioned that it will be around Rs.580 crores and the year after that because Cayman is something which is going to pick up, so we are looking at various other options as well to see whether it can be funded through other means but at least in terms of CAPEX, we are looking at a similar number the year after that.
- Charulata Gaidhani:** Can you give the breakup of Rs.580 crores, where all it will go?
- Sreenath Reddy:** I had already given the breakup few minutes back. I'll repeat; India we are looking at Rs.280 crores, Cayman we are looking at Rs.150 crores and in the GCC we are looking at Rs.150 crores.
- Charulata Gaidhani:** Will you be taking debt?
- Sreenath Reddy:** The capital can be funded through internal accrual, but during certain intervals when there are cash flow mismatches, maybe for some time there could be a borrowing, but broadly the way we are looking at it is fund it through internal accrual. There could be borrowing in certain geographies, for example, India there could be some additional borrowing, but GCC there will be a reduction in the borrowing, so on a consolidated basis at least we don't see the debt going up because most of these projects will be funded through the internal accrual. That is the first.

Charulata Gaidhani: Like currently India contributes 19% to sales and 15% to EBITDA. So, by what timeframe do you see that the EBITDA growth will be higher than the sales growth?

Sreenath Reddy: At least in the coming year we are looking at India contributing more towards the EBITDA in terms of the percentage. So, we are looking at anywhere around 24% of the total EBITDA coming from India. So, that is in the FY'22. So, that is our estimate, but we will have to wait and watch because it also depends upon how the COVID plays out in various geographies, but that is what our expectations are. And this number over a period of time will continue to keep increasing.

Charulata Gaidhani: What are the challenges in terms of profitability in India, GCC that you see apart from COVID?

Sreenath Reddy: In terms of profitability, COVID could be a major challenge, no one can predict as to what is likely to happen, but only thing is that because we already seen COVID earlier and we know that we are able to do better and better over a period of time, so therefore the challenge of COVID also is diminishing. The other challenge in terms of the financial-related thing could be in terms of the economic situation in the GCC. In India we don't see that as a challenge at least for us but in the GCC if the economic situation turns out to be bad and if there are significant job losses, then there is a degrowth in the population. So, that could have an impact on our business. Like what doctor was saying earlier, so there has been a decline in terms of population in some of the geographies in the GCC but the current year there is a pickup in the economic activity. So, therefore along with the pickup of economic activity especially in the UAE we have got this (Expo) 2020 which is now 2021, this is a major event which is going to happen. So, therefore we could see an upswing in the economic activities. But having said that there is always that risk involved.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Shashank Krishnakumar from JM Financial Institutional Securities for closing comments.

Shashank Krishnakumar: Thank you Aster DM management for joining us and giving us the opportunity to host the call. Wish you all the best and have a good day.

Dr. Azad Moopen: Thanks a lot, Shashank and the whole team, thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen on behalf of JM Financial Institutional Securities Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.