

Aster DM Healthcare Limited

Q3 and 9 months FY19 Earnings Conference Call

February 14, 2019

Moderator: Good morning, ladies and gentlemen. Welcome to the Aster DM Healthcare Limited's Q3 and 9 months FY19 Earnings Conference Call. 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. Rishab Barar from CDR India. Thank you and over to you, sir!

Rishab Barar: Good day, everyone. Welcome to Aster DM Healthcare Limited's earnings conference call for investors and analysts. The call has been hosted to discuss the Q3 and 9 months FY19 financial performance and operating highlights of the company. I have with me on the call Dr. Azad Moopen - Chairman and Managing Director of the company, Mr. Sreenath Reddy - Group CFO and Dr. Harish Pillai - CEO, Aster Hospitals and Clinics, India.

We will commence the call with comments from the management team, post which we shall open the call for a Q&A session where the management will be very glad to respond to any queries that you may have. At this point, I would like highlight that some statements made or discussed on the call today may be forward-looking in nature. The actual results may vary significantly from forward-looking statements made. Detailed statement in this regard is available on the company's earnings presentation which has been circulated earlier. I would like to invite Dr. Azad Moopen hence by sharing his thoughts. Over to you, sir!

Dr. Azad Moopen: . So, we have very good result this quarter, experience strong financial growth over the previous year with revenue growth of 19% and EBITDA growth of 54%. As the summer months had passed by the third quarter there is an improved growth not only sequentially, but we also witnessed considerable growth on a corresponding quarter basis. All the 3 segments contribute to increase in revenue, but hospitals have added to the major chunk in revenue. The hospital business has grown 26% during the quarter whereas the clinics and pharmacies have grown by 15% each. You might be aware that we had a comparatively low result in the first of 6 months even earlier years and this is because of the summer months which affects the business in the GCC, where we have the most of our business.

To reiterate during the summer months there is lot of expat population that travel to their homes primarily for vacation. Although this travel is fragmented during different times of the month overall our business is impacted due to the behavior. The second half of the year leads to better performance as this cycle is reversed. The impact of which is reflected quite positively in our Q3 financial year 2019 results.

Coming to the performance of the business:

Revenues increased by 19% from Rs. 1,814 crore in Q3 year 2018 to Rs. 2,150 crore in the quarter 3 financial year 2019. EBITDA increased 54% from Rs. 172 crore in Q3 FY18 to Rs. 263 crore in Q3 FY19. PAT adjusted for exceptional income in previous year grew by 42% from Rs. 71 crore in Q3 FY18 to Rs. 100 crore in Q3 FY19. Our 9 months performance has also been quite strong. Revenues increased by 17% from Rs. 4,937 crore for YTD December 2017 to Rs. 5,762 crore for YTD December 2018. The EBITDA increased 47% from Rs. 350 crore YTD December 2017 to Rs. 513 crore YTD December 2018. PAT adjusted for exceptional income grew from a loss of Rs. 6 crore YTD December 2017 to profit of Rs. 125 crore YTD December 2018. I'll spend a little time talking about our India operation. For us it is only the Indian business that we focus on, but it brings to the table, it gives us flexibility acts as to the huge talent pool of doctors and nurses which in turn helps us our business in GCC countries during times of shortage of people.

The ROCs are not as high as GCCs for the India business, but we prefer to expand and strengthen our brand through the geographical presence in India. Significant number of patients also visit our facilities in India referred by our GCC hospitals and clinics. Our focus that we have said before is on large format hospitals in large cities on asset light models which is in line with our business philosophy. Over the next 5 years, we see our India business contributing to about 25% of the revenue and balance 75% will come from GCC. We now have 21 hospitals in India and Middle East together. A 300-bed hospital will be operational at Kannur in Kerala in Q4 financial year 2019 and a 220-bed hospital will start in Bangalore by Q1 of financial year 2020. We are also planning a 500-bed tertiary care hospital in Chennai which will be commissioned within the next 2.5 years.

Moving on to the GCC region:

With the insurance becoming mandatory in many countries we have witnessed significant growth in business. It is now mandatory in most countries to insure their employees by the employer and this has naturally increased the business. Regarding the hospitals that we have; apart from whatever we have, we have added the Aster Hospital in Dubai which has started in the current year and is ramping up nicely and trending as per our expectations. We have the hospital in Saudi Arabia which is still in the transition stage and is expected to reach a steady state in the next 12 months. 3 more new hospitals will come up in Dubai, Sharjah and Oman in the next couple of years. Now, regarding the clinical efficiency we have performed well and have some areas of medical excellence, our Aster CMI hospital has performed ace split liver transplant for a 32-month-old baby. Aster Medcity women health achieved another milestone in month of November when the 1,000th baby was delivered on 20th November. In MIMS at Calicut we performed a successful heart surgery for a patient from Somalia diagnosed with severe valvular pulmonary stenosis and small hypertrophic right ventricle. He was rejected from other hospital because of high risk and we did a successful surgery. Another key surgery was at Medcare Orthopaedic and Spine Hospital in Dubai where we performed a spinal reconstruction surgery on a 28-year-old Emirati man suffering from Achondroplasia. This quarter had definitely better result as is evident from healthy top-line growth and strong margin profile. We continue to focus on our business by bringing in efficiencies in costs yielding better margins going forward.

Thank you very much. I would like to pass it on to our CFO, Sreenath Reddy who will walk you through the financials.

Sreenath Reddy:

Thank you Doctor. Good day, everyone. Aster DM Healthcare has shown a healthy financial performance in Q3 and 9 months FY19. The revenues from operations in Q3 FY19 grew 19% year-on-year to Rs. 2,150 crore up from Rs. 1,814 crore in Q3 FY18. Constant currency growth stood at 9%. All segment depicted healthy growth. In Q3 FY19 EBITDA excluding other income stands at Rs. 263 crore from 172 crore in Q3 FY18 a growth of 54%. Constant currency EBITDA growth is 42%. PAT shows a de-growth of 35% from Rs. 155 crore in Q3 FY18 to Rs. 100 crore in Q3 FY19. This de-growth is on account of exceptional income of Rs. 84.5 crore accounted in Q3 FY18 for write back related to Saudi Arabia operations. However, PAT adjusted for the exceptional income in previous year grew by 42% from Rs. 71 crore in Q3 FY18 to Rs. 100 crore in the current quarter. In terms of constant currency adjusted PAT growth is 31%.

Coming to 9 months performance, revenue from operations for year till date December 2018 grew by 17% at Rs. 5,762 crore from Rs. 4,937 crore for year till date December, 2017. EBITDA excluding other income grew by 47% from Rs. 350 crore for YTD December, 2017 to Rs. 513 crore for YTD December, 2018. PAT adjusted for exceptional income grew to profit of Rs. 125 crore from a loss of Rs. 6 crore in year to date December 2017. Our revenues and the EBITDA under constant currency growth stood at 10% and 38% respectively. Coming to the balance sheet, net debt has increased to Rs. 2,301 crore as December 31st, 2018 from Rs. 1,916 crore as at March 31st, 2018. The debt increased resulted mainly due to expansions in GCC both for Greenfield projects and acquisitions and also due to movement in currency exchange. The actual net debt increase in India is Rs. 94 crore from Rs. 160 crore as at 31st March, 2018 to Rs. 254 crore as at 31st December, 2018. And GCC net debt increased in US Dollar 24 million from USD 271 million as at 31st March, 2018 to USD 295 million as at 31st December, 2018. Our target net debt to EBITDA ratio on a full year basis will be below 3.

We are happy with the performance this quarter which is in line with what we expected. We have performed better in Q3 FY19 over the previous corresponding quarter and this is a testament to our focus from high quality service that we provide to the patients for which our business is being recognized. Revenues in hospitals have grown by 26% whereas both clinics and pharmacies have grown 15% each over the same quarter of the previous year. Coming to the segmental performance, revenues in hospital increased by 26% to Rs. 1,053 crore in Q3 FY19 from Rs. 839 crore in Q3 FY18. EBITDA increased by 55% from Rs. 97 crore in Q3 FY18 to Rs. 150 crore in Q3 FY19. The EBITDA margin was at 14% in Q3 FY19 compared to 12% in Q3 FY18. Considering our robust growth in Q3 FY19, we are extremely positive of finishing the year on a positive note. We strongly believe that with the plan initiatives and cost efficiencies in place all 3 segments will continue to thrive.

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. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara:

My question was on Sanad, could you share with us what is the revenue and EBITDA for the first 9 months?

Sreenath Reddy:

Yes, so Kashyap, we do not share unit wise revenue and EBITDA. But what we can tell you is that Sanad hospital is still in the transition stage and it has taken more time than what we expected. And right now if you look at it, is still in lower single digit

EBITDA margin and we expect that in the next 12 months we should be able to reach in a steady state. But right now at this point of time, its EBITDA margins are lower single digit.

- Kashyap Pujara:** So it is started to make money at the EBITDA level at least?
- Sreenath Reddy:** Yes, at the EBITDA level it is positive. But however it is in lower single digit EBITDA margin.
- Kashyap Pujara:** And what would be the steady state here that we can get to?
- Sreenath Reddy:** So, over here the steady state we should be able to get to around 18% EBITDA margin. This is what we are expecting it to be at the exit of the year. So, on a full year basis next year it may, it will still in a mid may be at a single digit number, EBITDA margin. But at the exit we will definitely be somewhere around 15% to 17% EBITDA margin.
- Kashyap Pujara:** So by FY21 there should be in mid-teens to 18% margin is what, if I were to basically look at it from over a 2 year perspective we should definitely be at that level.
- Sreenath Reddy:** Yes, that is what we are expecting because with the addition of the 64 bed which got delayed. So, once the additional beds come up we should be over there which we are expecting in the next 9 to 12 months.. And that should lead us to that kind of margin. But one thing I would like to add, if you look at the overall scheme of things, Saudi business at this point of time is very minimal. So both in terms of revenue as well as profitability the contribution is less than 6% to 7%. In terms of revenue that is in 6%-7% but now our profitability is very low. So, there is an opportunity for this business to grow in Saudi and once this starts delivering, we will see better results on a consolidated basis.
- Kashyap Pujara:** So, basically there is room. and this would be the occupancy there because in 2 years what is the occupancy that you would require to generate that kind of a margin?
- Sreenath Reddy:** See, right now the occupancy is around 65% but what the patients, class of patients what we are getting is C class of patient. We are planning to add that additional 64 beds. Once we add that 64 bed then we will be getting B class patients. B class patients pay higher charges and our expenses will not go up proportionately. So, that will give us a big jump in the margins on a total basis.
- Kashyap Pujara:** And reset which was required from a government driven to a private has that transition has happened. But you are still getting less remunerative patients is what you are saying?
- Sreenath Reddy:** Yes, for the insurance patients, the insurance charges at this point of time because of the C class patient the tariffs are very low. Even though we have made a transition from government business to the private, because of the low charges that is affecting us mainly because of the C class patients. So, once we start getting the B class patients, I think the trend should change but the margins would be much better.
- Kashyap Pujara:** And this would basically be achievable?
- Sreenath Reddy:** Yes, it is achievable. Only thing is that it is taking more time than what we expected.
- Kashyap Pujara:** This would certainly add a huge amount of delta to the overall consolidated EBITDA, if you are able to achieve this?

Sreenath Reddy: Yes.

Dr. Azad Moopen: Yes, just to add to that what Sreenath was telling, so Saudi from a negative we have come into the positive and if you look at between insurance and government even though insurance tariffs are better even in the C class when compared to government, the delay in payment is not there. So, we are little better placed regarding the payment, but I think when we go migrate to the B-band there will be significant increase in the, top-line and bottom-line and which we are hopeful and our teams are hopeful of going into a double digit EBITDA next financial year. So, there has been some hang up. But I think, next financial year we should be in the double-digit EBITDA.

Kashyap Pujara: Sreenath, I had one more question for you. I mean, if I were to basically look at return on capital employed for the entire Middle East business excluding Saudi that the current point in time in the first 9 months, how is that return on capital shaping up?

Sreenath Reddy: So return on capital as you are aware in GCC region our return capital which has to be employed is fairly healthy. So, if you look at clinics and pharmacies excluding the clinics and pharmacies will be anywhere in the range of 34% to 35% and hospitals will be in the range of 28% to 29%.

Kashyap Pujara: So the overall ROC which is at 7% on a blended basis is largely because of India investments which are yet to mature and the Sanad hospital which is yet stuck and what would be the, is that a correct interpretation then?

Sreenath Reddy: Yes, that is a correct interpretation and the ROC what I had mentioned was when the hospitals are all on a steady state. So, some of the hospitals because we have started one hospital in the current year which is a Hospital in Dubai and 2 hospitals were started last year. So, there the returns will take some more time for us to get the returns in these hospitals. So, excluding these new hospitals, the return on capital employed will be around 28% to 29% in the hospital and in clinics and pharmacies anywhere around 34% to 35%.

Kashyap Pujara: And what would be the capital employed of the Sanad property per say? Would you be able to share that figure?

Sreenath Reddy: So, the capital employed in Sanad for the total this particular hospital is anywhere around close to Rs. 2,000 crore.

Kashyap Pujara: So, over 2 years if once this hits mid-teens to 18% margin if that were to come through and given your current momentum what is the management view of ROC in the business 2 years or 3 years out?

Sreenath Reddy: At Sanad, are you asking?

Kashyap Pujara: No, at a total level.

Sreenath Reddy: So, as a total level we are looking at the anywhere between 18% to 20%. **Kashyap Pujara:** And that is you think is achievable in a 3 year timeframe?

Sreenath Reddy: Yes, we should be able to achieve that.

Moderator: Thank you. We will move on to the next question that is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

Tushar Manudhane: Sir, I just would like to understand on the ARPOB both GCC as well as India that has been sequentially good increase. So, if you can just help us understand that?

Sreenath Reddy: Yes, so if you look at the ARPOB in GCC, GCC it has gone up significantly higher for the reason that the facilities what we started recently, it is a mid-cap facility and that the charges are much higher. What we see is the average between Aster hospitals and the mid-cap facilities. Mid-cap facilities will have much higher ARPOB and also the hospital what we started the outpatient volumes are high because of which the ARPOB is looking higher. But however, what we need to keep in mind is that this will get normalized to over a period of time and it will start rating at around 155,000 at a GCC level. So, India the ARPOB is higher because of the facility that we had in Bangalore and which is ramping up nicely, there is an upward trend. So, a combination of both GCC and India gives her higher ARPOB on a consolidated basis.

Tushar Manudhane: And even the EBITDA margin for the India hospitals sequentially or even year-on-year basis has been moved up at least 2%. So, can you help?

Sreenath Reddy: The margins is something because that we as, in India many of our hospitals are new, are in a ramp up stage and these hospitals as they keep trending in terms of occupancy, the revenues keep going up and because the cost have already irrespective of whether it is at a lower occupancy or higher occupancy we need to have certain fixed cost. So as these hospitals keep ramping up the margins tend to keep getting better. So, that is how you see on the India side the margins going up. On the GCC side mainly with the margins on all 3 verticals have gone up because some of the units especially the clinics which were on a ramp up stage now has gone into a steady state, also we have brought in lot of efficiencies on the cost side which has increased the margin.

Moderator: Thank you. We will move on to the next question that is from the line of Harit Ahmed from Spark Capital. Please go ahead.

Harit Ahmed: Sir, you talked about the first half, second half seasonality in the business and it is quite evident from the numbers. Now, when I look at last year's numbers, within the second half there is a significantly higher proportion of EBITDA coming from the 4th quarter. So, should we expect that for this year as well and why would there be a seasonality between the certain 4th quarters?

Dr. Azad Moopen: Yes, so we do not expect that this may reflect what was there in the last quarter 4 because of the reason that we have started this new hospital in **Al Qusais**, which is a large facility. So, there may be some pull due to that and we have done very well in the third quarter but we hope when compared to that the growth percentage when compared to the quarter 3 may not be to that level but we expect to have a decent growth but we do not want to over promise. But overall when you look at the year it is going to be quite good when compared to last year. But quarter 4 alone we are not promising anything, but we hope that it will be a fairly good performance.

Sreenath Reddy So, generally Q4 tends to be stronger compared to Q3.

Harit Ahmed: And then why would that be, stronger 4th quarter compared to 3rd quarter excluding.?

Sreenath Reddy: See, what happens is that in the first 6 months because of the summer vacation that spill over will also be in Q3 to a certain extent. So, when you look at Q4 there has no spillover of the summer month. So, it is one of the best quarters always for us historically.

- Harit Ahmed:** Next question is on the unallocated expenses of around Rs. 150 crore when I look at the segmental break up of EBITDA. So, what exactly is this number? I know there is a lot of corporate expenses sitting there. But since it is a fairly sizeable number, how should we think of this going forward?
- Sreenath Reddy:** So Harit, this is mainly the corporate expenses as well as the intra departmental, intra unit transactions which happen. What we could do is that we could provide it separately to you, the break up in case you want further details on this.
- Harit Ahmed:** And on the interest expense, you did talk about this but the increase is quite sharp and when I look at the gross debt figures between Q3 and Q2 it is almost flat. So, can you just give more color on this.
- Sreenath Reddy:** So again here because the currency has played a role because of which the interest expense also has gone up. But however, if you look at in my opening speech I had mentioned that what you look at in the books is not the actual debt because this on conversion the debts look higher. But if you look at the actual debt let me just give you the actual debt numbers. So, if you look at effective increase of net debt is only Rs. 260 crore, post-adjustment of currency fluctuation. But however, you will feel our increase of net debt of Rs. 385 crore. Actual increase in that in India is Rs. 94 crore and in the GCC it is \$24 million US.
- Harit Ahmed:** And on the net debt how should we think of it for the end of the year and FY20? And broadly our CAPEX guidance for next year?
- Sreenath Reddy:** So the CAPEX for this current year we were looking at around in all around 650 crore and the next year we are looking at around Rs. 350 crore to 400 crore. So, that is something which is still in line, this excludes any acquisitions that we may make. So, in case we make any acquisitions because we are looking at acquiring few units which are EPS accretive. So, in case that happens then the debt levels could go up but if we are not doing that that will remain more or less at this present levels because also the repayment will start and I do not see significant increase in debt going forward. Maybe that could be a Rs. 100 crore–200 crore of increase in debt but from here the debt will taper down. But as I said in case there are acquisitions then the acquisitions need to be funded through debt.
- Harit Ahmed:** And last one from my side. Given we are expecting commissioning of 2 new hospitals in the near-term Kannur and the Bangalore. How should we think of the India hospitals margins for next year? What is the kind of losses that are likely to come through from these 2 assets and especially Kannur if you could give some color, given it is a tier 3 hospital would the losses be similar to what we typically see in new hospitals in the first year?
- Dr. Azad Moopen:** So, this Kannur hospital we are just doing the soft launch within 2 days and we will be doing the real inauguration in April, that is what we have planned and one good thing which we notice in Kannur is that there is no other good hospital which is providing comprehensive care. There has been tremendous interest from the Doctor community as well as from the patients. So, as we look at now there is significant confidence in the management there, including Dr. Harish is online, he will also speak couple of words. So, the confidence of the local team as well as the India corporate team is very high on Kannur and we hope that, that will definitely be going into an early break even. Now, going into Bangalore again the same thing we had a very early break even in our first hospital in Bangalore. This hospital also has attracted significant number of talents from the local market because we are already present in Bangalore and that has given confidence to the doctor community. So, the Doctor community or the Doctor panel that we could have is very high standard. They

already have good practice and this is in a very good location in JP Nagar close to Jayanagar and we hope that that will also go into a very early break even. Dr. Harish if you can just add few words on these 2 hospitals and your outlook on that?

Dr. Harish Pillai: So, I echo your sentiment. We have had as Aster DM India, we have had some significant learning's from our existing units in tier 3 settings and we have ensure that the key learning's are incorporated into the design, clinical program mix and also engagement with clinician. Broadly, we remain bullish on performance and we are quite hopeful of an early EBITDA break even for both these units. Now, even though the location is, you can classically say it is, Tier-3 place where Kannur is concerned. The modeling of the hospital is primarily towards high end departments such as Cardiac, Ortho, Neurosciences, there is significant outbound traffic from Kannur to Mangalore which this hospital will lethally tap into and we are, as Doctor mentioned, we are opening up for soft commissioning from Monday onwards with our outpatient and diagnostic services and the ramp up will start from mid-March onwards. In both these units, both as well as Kannur and Bangalore the core success of our strategy is that the engagement with Doctors and the Aster brand equity in India enables us to attract key clinical talents that has been one good thing for us and it is not been very difficult for us to attract and retain clinical talent and I think that will be the ex-factor which will reflect in finance numbers, thank you.

Sreenath Reddy: So, Harith answering specifically your question, so the estimated losses in these 2 hospitals could be anywhere around Rs. 50 crore to 55 crore. And if you look on a consolidated basis on a full year basis our EBITDA will be much higher compared to the current financial year. And the margins will be more or less similar to what we are achieving for the full year in the current year in spite of that loss is coming in next year.

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

Shyam Srinivasan:: Just on clinic, GCC clinics I think, I was just doing the math for Q3 volume growth is 11% but if you look at constant currency growth is 4%. So, what is happening here in terms of why the revenue is kind of trailing where the volume growth is?

Sreenath Reddy: Yes, so because if you look at, see because there is insurance, when there is an insurance the pricing is controlled by the insurance company. So, in the past if you look at, we had better pricing but now the pricing is much lower. So, even though there is an increase in the volumes also and because of some of the case mix that we had, so in terms of revenue in constant currency term it is showing much lower. But however, going forward we are looking at various case mixes and we expect growth to be better. And also another thing is that we, in clinics we had this Access brand clinics which is for low-end blue collar workers. Here the volumes are significantly high, but our pricing is much lower. But in terms of margins we have got better margins in Access clinics even compared to an Aster clinic. So, what happens if that in terms of numbers when you look at volumes we look on a combination of both Aster as well Access. Numbers will look on the higher side in terms of volumes. But in terms of revenues also because of Access clinics, the growth in terms of revenue will be lower.

Shyam Srinivasan: Sir, I am just going back to the first point on, if there a structural change in terms of what the payers, insurance companies are asking for better terms versus what we have early. What has changed this last 2-3 quarters that is the question?

Sreenath Reddy: In 2-3 quarters nothing much have changed in terms of insurance pricing, but it has changed 1.5 years back or so. Well there was a little bit pressure on the pricing but

that was compensated through volume. But during last 2-3 quarters there is no change.

Shyam Srinivasan: So, we are seeing a delayed onset of this because this is the highest we have seen were the divergence scheme volume growth and total revenue growth as such.

Sreenath Reddy: Yes, if you look at the ramp up of the insurance also was in phases. So, it happened over a period of time. It was rolled out over a period of time. That is one of the reason but the other reason as I told you this is mainly the Access clinic which is catering to the blue collar workers, where the pricing is much lower and the volumes are higher then.

Shyam Srinivasan: And with the second question is on the pharmacies again similar kind of question. So, we are seeing 4% volume growth this is like one of the lowest volume growths I think we have seen in pharmacies and like again revenue growth on constant currency is 4%. So, is there something that is changing, I believe you have had some kind of M&A strategy only here. So, can you just outline that kind of slower growth we have seen in the pharmacies?

Sreenath Reddy: Yes, so this is because if you look at most of our pharmacies 50% of the pharmacies are clinic attached. So, what happened at the clinic will get reflected even at the pharmacy level.

Shyam Srinivasan: So, for both these segments now looking forward when do you see this kind of gap kind of narrowing and starting to trail or you think, no this is how it is going to be very high-volume growth, revenue growth will be lower than that but your margins will improve?

Sreenath Reddy: No, this is a temporary gap and we expect that this gap will narrow down in the next 2 quarters.

Shyam Srinivasan: And my last question is on the projects, I think both we have seen the Sonapur one as well as I think the Sanad expansion both of them have been pushed out to the right. I think, to second half FY25 you declared it right. So, is there some change in the thought process is it for Sanad is it got to do with your first comments on things being slower than expected?

Sreenath Reddy: Yes, so Saudi is a difficult market because getting approvals and licenses it takes its own time. Because of which there has been delay at Sanad and we are not able to come up with definite timelines because that has a lot to do with the government over there. But however, we are pretty confident that in the next 12 months this additional capacity should come up. In case of Sonapur, there has been a slight delay and nothing to do with the government regulation. But it is a small delay from our side but there is no change in plan as such.

Moderator: Thank you. The next question is from the line of Pragma Vishwakarma from Edelweiss. Please go ahead.

Pragma Vishwakarma: Just one question on India EBITDA margin. So sir, post our expansion in FY20 also we have some projects coming up. So, post that on 2021-2022 basis what is the sustainable EBITDA margins you think because I think we are already doing more than expected at least at this quarter. So, what is the sustainable level we can see in next 2 to 3 years for India?

- Sreenath Reddy:** So, we are looking at sustainable on a consolidating India basis if you look at in the next 3 to 4 years. We are looking at a 15% EBITDA margin.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** Just on Kerala, now we have had some disruption due to floods and Nipah virus. So, how is that part of the business doing and if you call out how much of your India revenues-17% of total revenues, how much is coming from Kerala, please. Thank you.
- Dr. Harish Pillai:** Yes, so we have successfully mitigated all these issues both due to the Nipah virus which impacted mostly our Calicut operation and the flood issue primarily impacted the Kochi operations. We are seeing on a huge growth ever since; if we look at Q3 the numbers reflect the steady state in occupancy levels as well as case mix both in Calicut and in Kochi. So, that disruption we would put it behind us and both these operations are quite stable. Coming to your other question, the current operations of Kerala contribute approximately 50% of top-line for India.
- Shyam Srinivasan:** And my last one is on the wage impact. I know there has been a reversal of the hikes, is there anything that is on the annual from a wage hike perspective in India that could come through or any color there from a government or a regulation perspective is helpful. Thanks.
- Dr. Harish Pillai:** At this point of time, from a regulatory perspective the minimum wage cycle happens every 5 years and we are already in a proactive discussion with the government, so that operations do not get impacted like what happen last year, that it should not be disruptive in nature, but it should be with participation of all stakeholders. So, we do not anticipate any such things in any other part of India operation at this time.
- Shyam Srinivasan:** So, we are not taking anything in Kerala as well or what is the status on that? Or did we have to take something, sorry I missed that?
- Dr. Harish Pillai:** The wage impact has already been incorporated that is already in effect since the last. So, there is nothing new in the anvil.
- Shyam Srinivasan:** And we have managed to pass this on through our pricing?
- Dr. Harish Pillai:** Yes, so whatever little apprehensions we had in terms of market capacity to absorb we have been pleasantly surprised at the ability of the market, because it is not just an isolated hospital when regulatory changes take place everyone in the sector will have to pass the cost on. And so, we have come to a new normal. So, it has been quite smooth.
- Moderator::** Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.
- Dr. Azad Moopen:** So, thank you very much. It has been a pleasure interacting with you over the call. We thank you for taking time out and engaging with us today. We value your continued interest and support. If you have any further questions or would like to know more about the company, kindly reach our Investors Relations desk, we are always available. Thank you very much.

Moderator:

Thank you members of the management team. Ladies and gentlemen, on behalf of Aster DM Healthcare Ltd, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.