



“Aster DM Healthcare Limited
Q1 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good morning and welcome to Aster DM Healthcare Q1 FY2022 Earnings Conference Call hosted by ICICI Securities. 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 the 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. Vinay Bafna from ICICI Securities. Thank you and over to you Sir!

Vinay Bafna: Thank you Lizann. Good morning everyone and welcome to the Aster DM's Earnings Call for first quarter. First I would like to thank the Aster DM to give ISEC the opportunity to host the call. Now let us introduce everyone from the management, the company is represented by Dr. Azad Moopen – Chairman and Managing Director; Ms. Alisha Moopen – Deputy Managing Director; Mr. Sreenath Reddy – Group CFO; Dr. Harish Pillai – CEO, Aster India; Mr. Amitabh Johri – CFO, GCC; and Mr. T.J. Wilson – Director. Over to you Sir!

Dr. Azad Moopen: Hi. Good morning everyone. Thank you for joining our FY2022 Q1 Earnings Call today. We started the new financial year 2022 with more positive sentiment and hope that as the pandemic seems to be coming under control. While the new variants are creating concern with new waves and lockdowns across the world, looking at performance of Q1 FY2022 we feel a lot more confident and sincerely hope that the worst is behind us. The light at the end of the tunnel is the active vaccination drive going on in the world.

In UAE where we have large part of our business, the infection rate has stabilized with majority of the population now being vaccinated - in fact the UAE is one among the most vaccinated countries in the world now and life is almost back to normal. In India however the vaccination drive has not been that active to start with, the second wave that happened during quarter one led to restrictions in many parts of the country including states like Kerala and Karnataka where we have large part of our business. However, I am happy to inform that this did not have an impact on our business performance - compared to previous quarters and Q1 last year our performance in India has been quite robust. In our continuing battle with COVID we have set up two field hospitals in Calicut and Kochi this quarter to cater to the requirement of the patients. Aster is also actively involved in the vaccination drive across all major hospitals in India and during the quarter we have administered a total of 3.8 lakh doses of vaccine. The GCC business is back to pre-COVID levels with good traction in the first quarter which is usually a lean quarter due to people traveling out of GCC. We are happy that large number of our doctors and their families in UAE have been provided with long-term residency for 10 years as golden visa, in fact nearly 400 people and their families, which will increase their commitment to be in UAE as well as attract more

healthcare professionals to the country. Another important thing is a conversion of our business to 100% ownership and this is also almost complete giving much more structural and legal stability.

During the first quarter we posted revenue of 2372 Crores which is an increase of 36% when compared with the same period last financial year. The EBITDA in Q1 is 281 Crores an increase of 97% when compared with Q1 FY2021. The profit after tax post NCI for Q1 is Rs.44 Crores compared to the loss of 83 Crores during the same period last financial year. I am happy to report that India part of the business is going up year-on-year. We are pleased to let you know that India's share of revenue to the total revenue has now gone up to 23% and as you know this was around 11% some years back and gradually it has climbed to 23%. The revenue from India operations has gone up by 84% to Rs.550 Crores and EBITDA increased by 460% to Rs.71 Crores year-on-year.

The focus going forward as a strategy is to expand capacity in India. To the existing capacity beds of 3757 beds in India, an addition of 411 beds is being planned in the next 18 months, which includes the addition of 60 beds to Aster Aadhar Hospital in Kolhapur, 276 beds in Bengaluru Whitefield Hospital and 75 beds in Aster MIMS Kottakkal. In GCC, 225 beds are being added in the current financial year. This shall take our total capacity in GCC and India together to 5544 beds. We continue to actively expand the Aster Labs and our pharmacy distribution network in India in line with our strategy to have wider presence with an asset light model along with focus on digitalization. The plan is to establish 130 franchisee pharmacies in India during this financial year, which is on track. We have already established some 30 pharmacies, so it is on track. By the end of the financial year, we will have 21 Aster Labs and 200 patient experience centers which again is on track. This along with Aster Home Care and Teleconsultation platform being rolled out shall give us an Omni channel offering to the people connecting them to the hospital with a single ecosystem. So that is the whole plan what we are looking forward to, it is not only the hospital it is along with that we are going to have this network across, which will help us to have the ecosystem of people coming in for primary to quaternary care.

The quarter also saw some other important things like felicitation for Aster. As a company, we get lot of awards and I am happy that we were honored with the prestigious Harvard Business Council International Award 2021 for dealing with COVID and also the innovation areas which we took part, along with that. There are many other awards that were restored on the individual hospitals during this period. While closing, I would like to highlight two things. One, the focus on India. Two, the focus on digital transformation. I have already given you a flavor of the focus on India as a growth market for Aster, which has started paying rich dividends. We have invested significant amount in India and are now beginning to sweat the assets and getting the full benefit out of it. I hope that India will

start contributing a much larger share of revenue and profits in future with ramping up of the hospital and the exponential power unleashed by starting of the lab, pharmacy and the associated things which I described. The second is digital transformation which is going to have a huge long-term impact on our Company and this is one area we are really focusing; we have started this journey with Bain as our consultants. This will transform Aster into a digital healthcare care company in future. I now request Deputy Managing Director, Alisha Moopen to talk to you on the digital transformation journey and other initiatives undertaken at Aster. Thank you very much.

Alisha Moopen:

Thank you Chairman. Good morning everyone. Echoing the state of optimism, we have had a good quarter. We continue our pursuit to make Aster more future ready and better experience of patient care. We continue to remain committed to our digital journey. We have been making some very strategic investments in bolstering our digital backbone. On our digital pursuits we continue working to create our digital assets which are foundational, efficient and help us expand quickly in an asset light model. As I shared in the last quarter, we are investing in creating an app 'One Aster', which will be our unified mode of engagement with our patient base for their wellness. This will house Teleconsult, e-Pharmacy, home health, e-diagnostics, chronic disease management and creating various streams to support patient wellness. We will be launching the first version of our virtual care app in Q2 at UAE level and we are actively working on the e-pharmacy buildup. This will mark our Omni channel presence across a wider base of patient care. We will be launching wave one in GCC followed by the launch in India later in the year. We have hired a CEO to head our Digital Business across locations. Investments are made to create a digital organization to sponsor all our ambitions. We have till date invested almost 21 Crores in digital investment. Riding on the back of digitization, we have also set up our Aster global delivery center in Bengaluru and Calicut. This shared services center today houses around 180 employees mapped to centers of excellence in UAE. Early signs are very supportive of our strategic intent of leveraging the human capital in India. We have also had a strong focus on data analysis and digital CRM, so again looking back at our patient base and seeing what the necessary services are relevant for more personalized care and action. We are trying to enhance and strengthen our patient connect looking at how we can further improve the patient journey. The phase one of our Aster Hospital's Cayman Medcity has also received the central planning authority approval on its planned area development for the 150 bed hospital. Construction of the hospital should commence soon as well. I will now request our Group CFO, Sreenath Reddy to take you through the details of the financial as well as the segmental performance for the quarter. Thank you so much.

Sreenath Reddy:

Thank you Alisha. Good day everyone. We start the financial year with a relatively better quarter both in GCC and India. The quarter saw higher patient count in GCC and better hospital utilization in India. For Q1 FY2022 our revenue from operations has increased to

Rs.2372 Crores compared to FY2021 Q1 revenue of 1747 Crores. On a year-on-year basis revenue increased by 36% and corresponding constant currency increase is 38%. In India the revenues have increased by 84% year-on-year with occupancy levels of 70% with outpatient and inpatient count increasing by 42% and 38% respectively. The revenues in GCC have increased by 26%. The outpatient count and inpatient count have increased by 84% and 10% respectively. GCC contributes to 77% of total revenue whereas India revenue contribution to the remaining 23%. In Q1 FY2022 we have reported consolidated EBITDA of Rs.281 Crores, an increase of 97% compared to FY2021 Q1 EBITDA of Rs.143 Crores. GCC EBITDA contribution was 75% of total EBITDA and India EBITDA contribution was remaining 25%. EBITDA margin in Q1 FY2022 was 11.8% as against 8.2% in Q1 FY2021, an increase of around 360 basis points. PAT post NCI increased to Rs.44 Crores as compared to a loss of 83 Crores in Q1 FY2021. PAT for the quarter is after considering one time charge on account of fair value of consideration payable on home care company acquisition in FY2020 amounting to Rs.16 Crores and expense with respect to digital initiatives amounting to Rs.8 Crores. This has impacted the non-analyzed EPS. Eliminating the impact of these expenses the non-analyzed EPS for the quarter would have been Rs.1.37 per share instead of the reported Rs.0.89 per share.

Coming to the segmental performance for the quarter, GCC hospital revenue has increased by 23% from Rs.686 Crores in Q1 FY2021 to Rs.842 Crores in Q1 FY2022. EBITDA increased by 27% year-on-year to Rs.130 Crores in Q1 FY2022. The EBITDA margin increased from 14.9% in Q1 FY2021 to 15.4% in Q1 FY2022. Last year, same quarter, clinics had a lower footfall due to COVID which made us reset our cost base. This quarter, the revenue is at Rs.550 Crores compared to Rs.356 Crores in Q1 FY2021, an increase of 55%. EBITDA for Q1 FY2022 is at Rs.100 Crores compared to Rs.15 Crores in Q1 FY2021. The EBITDA margin increased to 18.3% in Q1 FY2022 compared to 4.3% in the same period previous financial year.

We have been seeing an uptick in revenue of GCC pharmacies and also in preparation for the upcoming Expo 2020, certain ahead of time investments have been made in human capital which has impacted the operating margin during this quarter. In India, we have seen significant jump in terms of both revenue and profitability. Hospitals in India are now reaching matured state thereby observing improving margin. India's share of revenue to the total group revenue has gone up to 23% compared to 17% in Q1 FY2021. Revenue for the quarter from India operations is Rs.550 Crores with an EBITDA of Rs.71 Crores and a margin of 12.9%. We expect these trends to continue as hospitals attain maturity in India. In India, the vaccination revenue for the quarter was at Rs.31.84 Crores.

Coming to the balance sheet, the group net debt stands at Rs.2021 Crores as at June 30, 2021, compared to Rs.2004 Crores as at March 31, 2021, which is an increase of Rs.17

Crores. The breakup of net debt; India stands at Rs.314 Crores compared to Rs.306 Crores as at March 31, 2021, and the GCC net debt stands at \$230 million, a reduction of \$2 million compared to March 31, 2021. 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: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is in the line of Aditya Khemka from Incred AMC. Please go ahead.

Aditya Khemka: My question is we are obviously one of the larger hospital chains listed in India and we are becoming larger with the capex that we are doing in India in Cayman. The problem that I face as a shareholder or as a potential shareholder is that it is becoming more and more complex to analyze the company given the different moving parts that we have, we have three, four parts in GCC, now we will have a part in Cayman, we have multiple centers in India and then the digital mission that you have on India, you have the labs, the clinics, and the pharmacy in India, so is there a thought in the management to sort of demerge these businesses to make it simpler for a layman to understand, analyze the business model and to maybe unlock some potential shareholder value for your shareholders. This is my first question?

Dr. Azad Moopen: That is a very good question. We also understand the challenge and in the last four years we have been listed and found that the India investors, the fund managers as well as everybody for that matter finds it difficult to understand because it is a complex business, we run hospitals, clinics, pharmacies in many geographies and different types of hospitals at least in the UAE so it is a complex business like what you said with the increasing complexity coming into India also with the pharmacies as well as with lab and all. So definitely we feel that there is a requirement for us to have some method by which these two are differently looked by these investors, so we are looking at ways in which we are in discussion to have that opportunity. We know that the business in India is doing very well in that aspect if it is looked by the India investors will be valued at a much better way rather than when they look at the GCC also along with that. So, you have asked a very, very pertinent question this is on the top of our mind as a priority and we are looking at ways in which this can be done in the near future.

Aditya Khemka: For how long has this deliberation been going on inside the company because you have been listed for four years now your stock price has pretty much told you that this confusion has been there for the past four years in the investors mind and they cannot properly value you because of this confusion. So for how long have you been deliberating this and the reason for asking this question is to get a sense of when you say near future are we talking a few months, are we talking a few years, a few quarters?

Azad Moopen: First two years after we got listed, we thought that as you may be aware all the analysts everybody were giving very high buy for this stock and they were actually because they go deep into it. They were actually in the phase from the very beginning, and it is even now confusions going there, so when it comes to get those who have to invest, they do not want to sort of, they do not want to look at something which they do not know fully so that is the reason. So, answering your question yes, it is in the mid-term it would not be too far away, and it is not immediate onset but within the next few quarters I think we will be able to come to some way in which this can be discovered, the value can be discovered more easily.

Aditya Khemka: Why would it take us a few quarters what is it that we are working on to arrive at that decision what is the hurdle?

Azad Moopen: I do not want to talk about that now because this is a matter which, it is a listed company actually and I would not be able to tell but what I can tell you is that this is on top of our agenda and we would not take too much time to take a decision and move forward.

Aditya Khemka: Understood Sir, as long as it is top of your mind and it is a top priority I think your shareholders will really, really appreciate that. Second question Sir, is on the capital expenditure that we are doing in Cayman and again so healthcare chains like us globally is obviously an infinite opportunity where there is a lot of opportunity for us to open hospitals and to create affordable healthcare for the patients; however, what we also see is when hospital chains go on expansion sprees like the one you are on it basically puts a lot of stress on cash flow like we can see in this quarter there has not been any material cash flow despite a very profitable business in the GCC and India business doing well. So the problem that happens when you go on an expansion sprees you stretch your balance sheet, you stretch your P&L beyond this particular point and that again is something that the investors are not very happy with because end of the day when we buy an asset we buy the cash flow and there is no cash flow today because we keep reinvesting what we generate. So what is the capital allocation policy you guys are looking at is there end to this capital expenditure funnel or is it that we are just going to keep reinvesting what we make and we keep becoming a more a larger asset rather than a cash generating machine, what is the thought processes. That was my question?

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

Sreenath Reddy: Yes, I can answer that. Yes, you are right that increasing the capex will definitely put pressure on the balance sheet. But the way we are looking at it is that you are aware that we are in two geographies India and the GCC, so in GCC going forward we do not want to expand much. Our focus is going to be in India, but having said that we would like to have

some growth coming from the GCC region, the reason is that it gives us good cash. So one geography which is similar to the GCC market or I can say slightly better compared to the GCC market at Cayman Island and therefore Cayman Island is an extension of the GCC and the project cost for this particular venture we are looking at various ways of funding it, so it is not that we will leverage the balance sheet, to some extent we are also looking at whether we can partner with some healthcare player or an insurance player from the US to be part of this particular venture. But having said that, this particular project in Cayman because one of our peers over there who is doing well and therefore we are confident that irrespective of whether there is a partner or not this particular project even though we invest the capital over a period of next two-and-a-half years will give us a good return. So, in GCC you will not find us investing significant capital going forward because any capital that we are going to invest is going to be more on the asset light models like the clinics and pharmacies which will not take much of the capital. So now the focus is going to be more in India and the capital allocation in India will be higher compared to the GCC geography. Adding on, it is now that we will continue with the capital expenditures spree. It is because in GCC on the capex side we will be going a little bit slow, India we would like to continue to add assets but we will have a balance. It is not that we will continue incurring a significant capex we will have a balance on that.

Aditya Khemka: Understood thank you so much Sreenath for that response I will conclude it by giving you one remark and this is my opinion. The highest valued businesses in India have two common characteristics across businesses one they are easy to understand they are simple business structures they do not have two, three, four, five lines of businesses and two their cash generated even though the growth may be slightly lower they generate a lot of cash free cash flow after capital expenditure. That is something I just wanted to highlight and bring to the management's notice. Thank you so much for your time, all the best.

Dr. Azad Moopen: Thank you very much. Thanks a lot, that was very insightful, and we will definitely we are aware that we will definitely look at both these. Thank you.

Aditya Khemka: We will really appreciate that Sir.

Moderator: Thank you. The next question is in the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: My first question is on the margins. Could you give us some sense of what are the long-term sustainable margins for each of the key lines of business? So, you have GCC hospitals, you have GCC pharmacy and GCC clinics as well as the India business I understand that currently the margins may be a bit suppressed because of COVID and because of many of

the hospitals are not yet mature but could you give some sense of what the long-term margins could be in each of these lines?

Sreenath Reddy: GCC hospitals we are looking at a steady state margin of around 18% to 20%. Similarly the clinics we are looking at around 18% and pharmacies the EBITDA margins will be around 9% to 10% and India hospital at this point of time we are at 14.3% but we are confident that this margin in the next couple of quarters will steadily keep increasing and on a steady state, hospitals in India can have an EBITDA margin of 20% to 25%. But, as you are aware at any point of time we will be having some projects, new projects which will be a drag on the margin, on the profitability. So, on a consolidated basis, India hospitals considering the new hospitals can be anywhere around 17% to 18%.

Amit Khetan: These would be post Ind-AS right?

Sreenath Reddy: Yes, these are post Ind-AS.

Amit Khetan: My second question is your India strategy page right if I look at your investor presentation it mentions that the focus will be on large format hospitals in Tier-1 cities but if I look at your pipeline of projects you put your Chennai and the Bengaluru hospital on hold and you are expanding in Kolhapur and Kottakkal so is there a change in your strategy here?

Sreenath Reddy: There is no change in the strategy but if you look at Kottakkal and Kolhapur these are already our existing hospitals which are already there and you are aware that if any addition to the existing hospitals will give us better returns in terms of possibility and both these places are doing fairly well and we are pretty confident that by adding this because the fixed costs are already there so it will give us better margins.

Dr. Azad Moopen: I just want to come in here so there is a point in what you said, some time back we were talking about just hospitals like what I mentioned in my speech there is a focus now on the other areas to create an ecosystem of the pharmacies, labs and also expansion of the existing hospitals which already has reached a maturity stage it will be straightaway be increasing the collection which goes into the bottomline so while we are not aggressively looking at other metros and looking at the large hospitals in the metro so that requires huge capital again it goes to this question of again bringing in capex so we are going for an asset light model till all the assets mature and we are on to that level of ramped up state of 25% to 30% EBITDA which will give us that opportunity to go into larger projects in larger cities.

Amit Khetan: Got it and lastly could you share the July occupancy level for both the India and the GCC hospitals?

Sreenath Reddy: The July number we will get back to you.

Amit Khetan: Alright thank you.

Moderator: Thank you. The next question is in the line of Rajat Srivastava from Incred AMC. Please go ahead.

Rajat Srivastava: My first question is on the India business I see that our new hospitals which are zero to three years old they are running at a higher occupancy level than the matured hospitals that is hospitals which are more than three plus years old and ARPOBs also are higher right the ARPOB for new hospitals is around Rs.32000 while for mature hospitals it is around Rs.30000 but still when I look at the EBITDA margins the EBITDA margin for new hospitals is around 10% and for the matured hospitals around 17% may I know why is there a difference between the two like where is the headroom for expansion in the EBITDA margin going ahead, in the new hospitals because occupancy levels of 75% in any which ways is a very good occupancy to have?

Dr. Harish Pillai: When you look at the three assets which you said is a ramp up so two of them are in Bengaluru and one is in Kannur so when the first question you asked is about occupancy level so the Kannur project has been extremely unusual that it is a peak occupancy that we have almost run out of bed in comparison to the Bengaluru unit so that is why when you look at overall the occupancy level of two, three assets look at 75% in compared to the rest of the mature units and now the other question is to do with ARPOB so the ARPOB of the two Bengaluru assets are much higher compared to the Kannur asset so when you look at that the category of three it just looks like the ARPOB of the cluster of three units is much higher than the other units in India. So yes the third question is in terms of margin improvement so the three units are just settling down in terms of like I spoke about the Kannur unit because now the entire focus is on cost efficiency so we will be realizing the results in the couple of quarters coming up, one asset which is already there in Bengaluru it is really settled down well so that is coming up whereas a Whitefield unit is brand new so it is just ramping up that is a small boutique facility which we have built for women and child so yes in the next few quarters the margin improvement in these three assets will be much more than what it is right now. Thank you.

Rajat Srivastava: Internally what are the peak EBITDA margins you are looking at for the India hospital business?

Dr. Harish Pillai: This question was answered by the CFO earlier at a steady state we are looking at consolidated India business at about 17% that is mainly because as I mentioned we have the three assets already there which are in the ramp up stage but if you look at individually at

the mixture the cluster what we have in the mature hospitals it is at high teens compared to the others so overall it will be steady state maybe around 16% to 17%.

Rajat Srivastava: I was just trying to understand the India business is better, may I know what was the thought process behind Aster DM targeting Tier-II cities first and then moving to Tier-I cities because from what I gather is getting good talent in Tier-II cities like good doctors is very hard because good doctors like the star doctors generally prefer to stay in Tier-I city so what was your thought process behind going after Tier-II cities first?

Dr. Harish Pillai: When you look at the evolution of the growth in India the first asset which we had was the Calicut hospital which is the Malabar Institute of Medical Sciences and we are currently the largest player in the State of Kerala, now the ecosystem in Kerala is that being India's most literate state the availability of healthcare workers in this state is so high that it is a net supplier of healthcare manpower to the rest of the country and even overseas. So, we have never felt that kind of crunch where the State of Kerala is concerned. The other example in terms of Tier-II that is our asset in Kolhapur, now Kolhapur is also pretty interesting socioeconomic mix that it is also one of the richest districts in the state of Maharashtra with its own availability of locally based healthcare workers. So, we have not really faced manpower crunch in the geographies where we operate right now.

Rajat Srivastava: Sir one last question from my side in our results press release we mentioned our unallocated assets of around 1000 Crores may I know what has that attributed to?

Sreenath Reddy: We will go the next question after that next question I will be there.

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

Shyam Srinivasan: Just the first one is on the EBITDA margins for India there are two, three numbers so maybe you can clarify so on slide 22 we are saying 79 as EBITDA if I look at the previous slide, I think previous 12 or 13 I think it is showing 71 so what is the right number and is it function of the labs and the clinics being added in one and not in the other if you can clarify that?

Dr. Harish Pillai: The one number when you look at the 79 Crores that is before the corporate expenses in India.

Shyam Srinivasan: Does it also include the function of clinics and labs?

Dr. Harish Pillai: Yes, because our clinic presence is rather small but yes clinics and the labs are also included because they are in the startup mode especially the lab.

Shyam Srinivasan: When you say 17%, it is assuming this 14% goes to 17% pre-corporate overhead expenses. That is where we should be looking at?

Harish Pillai: Yes, that is right.

Shyam Srinivasan: Second question on the state of the pandemic in Kerala any thoughts around the high persistent number and what are you seeing in your hospital in terms of is it a different variant, Kerala also has one of the toughest lockdowns so from your experience what do you think is happening?

Dr. Harish Pillai: Shyam this is actually a classical case of misinterpretation and misreporting in India I am honestly quite disappointed at the quality of media that we do not have a cadre of epidemiologists who assess data. You see the fact of the matter is that if you look at for 1000 people from a population statistics point of view the state of Kerala is testing much more than the rest of India obviously if you test more you will pick up much more cases compared to any other state in India number one. If you look at the ICMR zero prevalence survey it is clearly shown that the level of infectivity of the entire population is much less it is around 43% even if you look at in a pan India basis for Kerala and even the population group which has turned positive it is all to do with vaccinations so if you look at right now the actual state and the status on the ground is that it is quite life is almost as normal like this next week Onam is going to be there and the kind of calibrated strategy which they are following the state government it is all to look at resuming of economic activities and also looking at a micro lockdowns looking at where is the concentration of a pandemic cluster and focus on zoning that area off rather than on a pan statewide. So we are quite comfortable because interestingly when you look at hospital occupancy data of COVID it is more or less in line with what we spoke about during the second wave which was in Q1 the occupancy of COVID numbers was quite high then post Q1 in the month of July the occupancy of COVID numbers came down and we are following the general pattern it is just that because the testing is much more the public infrastructure in Kerala is probably the best in the country and that is why you are finding these numbers which unfortunately are wrongly interpreted.

Shyam Srinivasan: Thanks for that and I needed one last data point on the India side what is the revenue we have got from vaccinations?

Dr. Harish Pillai: This was already mentioned by the CFO we had already clocked in revenue of 31.84 Crores this is looking at an administration of 380000 doses.

- Shyam Srinivasan:** So, the 550 includes that 31%, 32%.
- Dr. Harish Pillai:** Yes, 550 includes that.
- Shyam Srinivasan:** One last one GCC pharmacies we have called out for about 10% margins aspirational but I am just looking at growth also of all the three, four formats we have it seems to be the one still underperforming I am just looking at like a two year CAGR even in Y-o-Y this year is slowest growing, so are we done with all the restructuring and the changes that we have been doing here and when will we likely to go for better margins?
- Alisha Moopen:** You are right we have been having a little bit of a slow growth in the retail especially on the pharmacy side but like what Chairman had mentioned in the opening remarks we are seeing sort of footfalls coming back and kind of getting restored back to 2019 levels even at the pharmacy right now so we are pretty much at that level and sort of estimate is that by the end of this financial year we would be able to see again a healthier CAGR and footfall growth is coming up and as I mentioned on the digital CRM we are doing a lot of activations just to make sure that the connection between the hospitals, clinics, pharmacies will sort of drive footfalls, we have got the expo coming up so we are quite positive about what the next two three quarters will look like. So, we should be able to see a different trend than what we have seen over the last 18 months.
- Shyam Srinivasan:** Got it. Thank you and all the best.
- Moderator:** Thank you. The next question is in the line of Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** Sir we have a couple of questions. If you look at the GCC pharmacy revenues now what do you attribute the sharp sequential fall to 35% have you guys been losing market share to e-pharmacies or there is something else at play here?
- Amitabh Johri:** Since you asked the question about the sequential drop in revenue Q1 for this financial year has the e-pharmacy so we pretty much had a seven to eight day downtime which leads to a slower footfall in this period and people go on vacation and as a result the revenue takes a bit of a beating in this quarter. Historically also this has been the same trend, but as of now we do not see a challenge about the upcoming quarters because we have seen the footfalls largely rising over the recent past.
- Anmol Ganjoo:** So basically I was trying to correlate it with Alisha's opening comments where she said that we are looking to do Omni channel and e-pharmacies so just two questions just tied into this one is that from a market landscape standpoint are you seeing a fair acceleration for e-

pharmacies and therefore the digital initiatives are to protect the existing market share especially in the GCC markets or it is just you are trying to play catch up or there is a real e-pharmacy focus where you really think you can reasonably create value in line with what has been happening elsewhere and does India anywhere stand in that picture of e-pharmacy rollout of an Omni channel or a pure play e-pharmacy model?

Amitabh Johri:

On the e-pharmacy side we do believe that there is a need of an Omni channel and Aster has a unique advantage because we have clinics, we have hospitals and we are also actively trying to get into diagnostics so an Omni channel where we can provide both family and the tertiary care as well as provide the pharmacy support through a same app is something that is perhaps the way we can create more opportunities of customer care for ourselves. We do believe that there is an opportunity sitting over here, there is a brick and mortar plus as we call it brick and click approach where there are pharmacies which are onsite pharmacies as well as the digital model that will allow us to engage more adaptation base that was an answer to your first question. On your second question yes there is an active plan to take the e-pharmacy to India also because here again we are trying to expand pharmacy base and that pharmacy base will be complemented by an app where both the pharmacy as well as the e-pharmacy will co-exist to provide the retail for pharma and the non-pharma supplier transitions.

Dr. Azad Moopen:

I just wanted to add here you asked a very pertinent question, so we are not playing a catch up game in GCC. In GCC in fact there are not too many players into the e-pharmacy space whereas in India yes there are established players and what we are doing is that we are coming with physical pharmacies and adding e-pharmacy on to that whereas here we have an established plane of physical pharmacies and we want to leverage that. In fact, we are in discussion with many of the major e-commerce players to be along with them as well as starting our own activity in the same area to get that traction. So, here there is a definite advantage of being in the forefront when it comes to e-pharmacy.

Anmol Ganjoo:

Would you have any number as on to what the e-pharmacy penetration in GCC or the representative markets today versus what it was pre-pandemic because in India also we have seen a fairly sharp acceleration in that penetration so just curious in terms of how various markets are behaving?

Azad Moopen:

I would not be able to tell that Alisha are you there?

Alisha Moopen:

Like what Chairman and Amitabh mentioned we do have a unique advantage, we are the only one player who is able to kind of close this loop on clinical services as well as on the pharmacy, it has not been as accelerated as you have been seeing in the India landscape so we are probably much ahead of the game here, we already have almost 8% to 10% of our

orders that are coming through some sort of digital form whether it is online, whether it is WhatsApp, whether it is a phone call, so some sort of technology intervention that is happening so we wanted to make sure we continue to take that market leadership and then build on this asset and then bring it across to India, but we do not have the exact percentage of what the e-commerce one looks like but it is not very intense right now so we wanted to make sure we continue leading it.

Anmol Ganjoo:

My second question is around diagnostics so that is again a piece that you have been talking about and as a value creator just wanted to understand what are the key monitorables here and where are we in that journey and what is the game plan here with any defined timelines as on to when we see a scale up in that business to be called out separately?

Dr. Harish Pillai:

As you know our model in India is fairly simple, we went about establishing a state-of-the-art reference lab in Bengaluru which covers most of the basic bread and butter specialities and also added up with high-end specialties. We were quite fortunate that Q1 2020 our reference lab was one of the first in the state of Karnataka to get both ICMR and NABL approval for RT-PCR testing so that ramped up quite nicely. Now we are looking at genome sequencing and how we can participate in that. Parallel to that the lab team also looked at consolidating the existing labs within the hospital what we called as HLM Ventures and at the same time of course the strategic outlook was parallelly to look at B2B and B2C models where we can look at the non-Aster opportunity which is out there so following that track we had established satellite labs already we have four satellite labs but the big focus is bottom of the pyramid what we call it the patient experience centers and this is already alluded to in the Chairman's opening remarks so we are currently looking at this fiscal of a big bang approach to increase the number of franchisee centers across the network so that we can sweat the assets both in the reference lab and also the main units what we have. The number what we are targeting this financial year is 200 patient experience centers so I feel that this kind of it is a pretty simple and elegant strategy it will really help us to not just consolidation but improve margin significantly in the space.

Anmol Ganjoo:

I would love to have further details on that in terms of 200 experience centers what is the revenue outlook with respect to that I know it is slightly early, but we can probably take it offline in terms of how is the rollout looking like?

Dr. Azad Moopen:

We have a person joined who is from the SRL Labs come to us who is driving this, his name is Anindya Chowdhury and he will be available for any, if you would like to get any clarifications so we can connect definitely.

Anmol Ganjoo:

Perfect thank you that is helpful and my last question is on the India hospitals so basically if you were to triangulate all three variables; ALOS, ARPOB, occupancy with the current

installed bed capacity and with no major capex how much can the quarterly run rate ramp up by relative to this quarter. I know that for individual hospitals there are radius increases and you might not be able to share things for competitive reasons also but how much of a quarterly run rate upside do you see to current numbers?

Dr. Harish Pillai: Let me put it this way that obviously I would not like to make a forward-looking statement but if you look at our occupancy levels for Q1 it is already at 70% and out of that 70% yes we had a share of COVID occupancy also, but when you look at Q2, Q2 the ramp up of non-COVID business has been quite significant across the geography so we are looking at a similar kind of a steady state performance of what we saw in Q1 despite the COVID numbers coming down in comparison to Q1.

Anmol Ganjoo: I missed the last sentence.

Dr. Harish Pillai: What I said is that even though the COVID occupancy has come down from Q1 there has been a significant ramp up of non-COVID business across the geography so we are looking at a steady state performance on par with Q1 where the margins will look better because obviously COVID impacts a certain case mix and the material consumption due to COVID is much more when the COVID numbers relatively come down the margins will also look relatively better.

Anmol Ganjoo: Thank you that is really helpful, that is it from my side and all the best.

Moderator: Thank you. The next question is in the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

Harith Ahamed: My first question is on the GCC clinics business so just trying to understand the recovery here excluding the RT-PCR revenues so the OPD volumes here is what percent of pre-COVID levels currently and we have heard that in certain specialties like pediatrics which is very important for the business the volumes were low in the previous few quarters so how are things shaping up there?

Alisha Moopen: We have seen some recovery on the clinics which has happened primarily because of the RT-PCR but also when you look at the profitability a lot of them have been the cost optimization measures. When you look at the footfall volumes for this quarter what we are seeing is where it had dropped down to almost 40% now we are probably just 15%, 20% below as far as Aster is concerned it has been a little bit more steep in terms of footfall reduction in Aster just because that is the population that had shrunk in the market but again with the expo coming we are seeing sort of it has also been a little bit of a challenge because the borders have been closed to India so now again we have seen the relaxation of the travel

restrictions so our assumption is that the population on that base of the pyramid which had dropped during just the wave one and wave two of the COVID will get restored in the population and we will be seeing an increase in the Access. So, Aster levels going back to your question, things are pretty much 15% to 20% only below what it was and we are seeing a steady climb especially this quarter and we expect the Access numbers also to sort of come up in the next couple of quarters.

Harith Ahamed: On the pharma distribution side in India, we recently announced an acquisition of a small entity here so can you talk a bit more about our plans here and should we look at more addition of distributors and front-end stores on this part of the business?

Dr. Harish Pillai: We have as announced to the stock exchanges we have acquired an existing player in the Bengaluru market which has already been supplying to our Bengaluru cluster hospitals so there is already an existing relationship with them so the way we are looking at is leveraging their USPs and know-how in the supply chain logistics space to extend this not just to the hospitals but to the growing retail activities both in the diagnostic space as well as in the pharmacies so we are working closely with them to extend their geography beyond Karnataka to Kerala and other places so this is something which is a work in progress at this stage. There is also technology bit where we are also looking at there is an ongoing ERP integration work which is happening both for finance and supply chain so we are looking at efficiencies brought in which will also improve operating margins for the larger business through this activity.

Harith Ahamed: Any targets in terms of a number of stores that you would like to have from a two year or three year perspective on the pharmacy side?

Dr. Harish Pillai: For this fiscal we have already announced 130 of which as Chairman has already alluded to we have already have 30 stores which are already operational in the Bengaluru cluster and in phase 2 we are entering Kerala after which we will go to other parts so we are only entering geographies where there is a certain brand equity and that is what Chairman's opening remarks were that the strategy for India is to unlock value through an integrated care delivery platform which will connect hospitals, clinics, diagnostics chain, the pharmacy and home care so that is what our GCC CFO Amitabh also alluded the click and brick model of healthcare.

Harith Ahamed: Last one from my side on Cayman so what are the timelines we are looking at in terms of commissioning our hospital here and peer in India who has had a head start in this geography operating a hospital for the last four or five years they have announced a expansion and then that should be online by next year so how should we think of the

competitive intensity here given it is a small market even if we include the neighboring Caribbean Islands so what are your thoughts on this?

Dr. Azad Moopen: We know the plans of our peer group over there so we were aware about it even when they went in but we see an opportunity to be slightly different from what is being done by over this presently doing the business there. So, it is not for the local crowd, the Cayman, we are looking more for getting patients from US it is a huge opportunity so that is a huge opportunity that attracted us to Cayman it is not the Cayman as such or the Caribbean Island it is the mainland US as well as other places like Canada which has got significant potential. So, our whole focus we have already started strategizing for getting patients from those geographies and it will be very easy to fill up the hospital as well as to get good revenues and good profits if we are able to make it successful so that process has been started in fact our senior functionaries we have taken people who have exposure to this and who are certainly in Aster we are working for the corporate in areas like service excellence as well as the areas like digital transformation, the person who is in service excellence David Boucher has been a CEO of many hospitals in the US as well as he has been the Head of Service Excellence for the Bumrungrad Hospital in Bangkok so he is looking at how medical value travel can be made to India as well as to our GCC hospital and later when he goes on to hospital starts in the Cayman, there too. So, answering your question Harith the idea is to look at patients who can be attracted from the mainland and look at specialties which are more pertaining to that requirement that is what we are looking at.

Harith Ahamed: Got it. Thank you doctor, thanks for taking my questions.

Moderator: Thank you. The next question is from the line of Monica Sharma, an investor. Please go ahead. As there is no response from the current participant this is the last question. I now hand the conference over to the management for their closing comments.

Sreenath Reddy: Yes, one second before the closing comments there was a question related to occupancy for the month of July. So in India the occupancy is at 65%, in GCC it is at 50% and there was another question related to unallocated assets in the consolidated statement of 1050 Crores so this relates to the Sharjah hospital which is in the UAE so which is still under construction and also relates to the land which is in India which is in some of our companies which is not directly linked to a hospital. So, in fact we are looking at monetizing some of these lands which are in the management company in various companies so that is one way of monetizing those assets and also the tax effects related to the advance tax and deferred tax also form part of it.

Dr. Azad Moopen: Thank you Sreenath for the clarifications and thank you everyone, thanks a lot for very active participation and very good questions and we look forward to meet you for the next



quarter and hope that the business will look up and we have taken your suggestions as well as very positively your questions. Thank you very much. Thanks a lot.

Moderator:

Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. We thank you for joining us and you may now disconnect your lines.