

Aster DM Healthcare Limited

Q2 and H1 FY20 Conference Call Transcript

November 13, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Aster DM Healthcare Limited Q2 and H1 FY20 earnings conference call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and 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: Thank you. Good day, ladies and gentlemen and welcome to the Aster DM Healthcare Earnings Conference Call for Investor and Analysts. The call has been hosted to discuss the Q2 and H1 FY20 Financial Performance, and to share operating highlights and outlook. On the call, we have Dr. Azad Moopen – Chairman and Managing Director of the company; Alisha Moopen – Deputy Managing Director; Sreenath Reddy – Group CFO; Dr. Harish Pillai – CEO, Aster Hospitals and Clinics, India; Balachander R and Sumanta Bajpayee from the Finance and IR team.

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

Azad Moopen: Thank you very much and good day everyone and thank you for joining us on this call today. The first half of the financial year has been very fruitful for us. We have seen a steady performance and growth in what is relatively an offseason period in GCC. With current ramp up trend of our new hospitals and we now stepping into the peak season, we expect our performance to strengthen in the coming quarters.

We operate across three segments; hospitals, clinics and pharmacies. Our hospital segment has been a key contributor for revenue growth last quarter in both India and GCC. With 6 of our 25 hospitals being less than 3 years old and in ramp up stage, we expect this trend to continue. Further, over the next 3 to 4 years, we plan to add around 1900 beds across the GCC and India. We have just signed lease agreements for 2 new hospitals in Bangalore, one is a 350 bedded hospital to come up in Whitefield, Bangalore in next 18 months, the second hospital is in association with Karnataka Lingayat Education Society KLE and will be a 600 bed Multispecialty Quaternary Care Facility. Both these hospital projects follow the asset light model.

Our focus continues to be expansion in tier 1 cities where we will have a much higher ARPOB. The Aster Labs vertical which we had announced earlier is getting ready

for commissioning with the central referral lab at Bangalore being done up. We are waiting for the set up of equipment and are expecting to start operations by quarter 4 of current financial year. In order to control cost and improve our margins, we are in the process of setting up a shared service arrangement in India on which the discussions have already progressed well. We hope that we will be able to have significant savings in our employee cost by doing so. We have also set up a central purchase organization, CPO, which is in the process of streamlining procurement function across geographies which again will be helping to bring down our cost.

While more than 80% of our revenue is currently from GCC, growth in India has always been our long-term plan. Over the next 5 years, we expect India to contribute around 25% of our business. We feel that this strategy of ours to diversify will bear fruits for us over the period of time. Our expanding presence in India also helps us in sourcing doctors and other medical professionals for our GCC operations. Also our facilities in GCC act as a feeder to our hospitals in India for medical value travel.

Around 80% of our GCC business is from UAE where we are one of the largest healthcare providers. In UAE, we operate under 3 brands; Medcare catering to the high income population, Aster catering to the mid income population and Access to the low income population. Differentiation across 3 brands is based on the service level. This clear demarcation allows us to focus on differential cost structure across brands resulting in profitable operations while providing affordable patient care in different segments. We have a large primary care network in GCC with 100 plus clinics and 230 pharmacies. Mandatory insurance regulation in some of the key markets of UAE has helped us in the past to grow to this extent. Along with our hospitals, they operate as part of a healthcare ecosystem and are one of the key contributors to the growth and fast ramp up of our hospitals also.

On the regulation front, we have previously informed that UAE government has released the list of business activities that can have 100% foreign ownership and healthcare is part of the lists, though retail pharmacies are excluded. We are in the process of converting the ownership structure of our business entities under this regulation and we expect that a substantial portion of the conversion will happen in this financial year. On the macro level, this is very positive development establishing UAE's reputation as a business friendly nation and is expected to contribute significantly to the economic growth.

For the operational and clinical highlights of the last quarter, kindly request you to refer to the investor presentation. Overall, this has been a good quarter supporting our growth story and considering that we have fared better than the previous corresponding quarter and also our facilities ramping up faster, we look forward to an exciting year forward. Thank you. 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 Q2 FY20. As you already know, we have transitioned to Ind-AS 116 during the year, however, for the purpose of comparability we will present the numbers before Ind-AS 116 impact and later brief upon the financial impact due to the accounting standard transition.

In Q2 FY20, we have registered revenue from operations of Rs. 2086.9 crore which is 14% growth on year-on-year basis and corresponding constant currency growth is 13%. In Q2 FY20, we have reported EBITDA of Rs. 173.7 crore which is 39% growth on year-on-year basis and corresponding constant currency growth is 38%. The EBITDA margin in Q2 FY20 was 8.3% as against 6.8% in Q2 FY19. Profit after tax excluding exceptional item grew by 118% to Rs. 27.4 crore.

Now coming to the Ind-AS 116 impact, it is important to note that our GCC operations are predominantly based on an asset light model with lease land and building. Due to this, Ind-AS 116 accounting standard has a significant impact on our financials. Due to Ind-AS 116 impact, the EBITDA has increased by Rs. 71.1 crore in Q2 FY20 and PAT has decreased by Rs. 24.2 crore. Resulting EBITDA and PAT post Ind-AS 116 are 244.8 crore and Rs. 3.1 crore respectively. The EBITDA margin has increased by 3.4% and PAT margin has reduced by 1.2% on account of Ind-AS 116 impact.

The accounting standard change has further resulted in a lease liability of Rs. 2,493 crore and the right to use of assets of Rs. 2,187 crore in the balance sheet. Net debt has increased to Rs. 2,604 crore as at 30th September 2019 from Rs. 2,329 crore as at March 31st 2019. The debt increase resulted mainly due to expansion in GCC and India. Net debt in India increased from Rs. 242 crore as at March 31 2019 to Rs. 330 crore as at 30th September 2019. Net debt in GCC increased from US \$301 million as at March 31st 2019 to US \$323 million as at 30th September 2019.

Coming to the segmental performance, revenue in hospitals increased by 22% year-on-year to Rs. 1,143.7 crore in Q2 FY20, EBITDA increased by 38% year-on-year to Rs. 142.6 crore in Q2 12.5% compared to 11% during the same period in the previous financial year. Revenue in GCC Clinics is stable at Rs. 459 crore in Q2 FY20. The EBITDA margin is lower at 9.1% compared to 9.6% during the same period in the previous financial year. The muted performance in this segment was on account of higher volume of lower economic segmentation. This is being closely monitored and effective steps are being taken to increase revenues and maintain margin. For pharmacies in GCC, revenue has grown 13% to Rs. 544 crore and the EBITDA margin is 7.3% in Q2 FY20 compared to 6.9% in Q2 FY19.

One point that we would like reiterate is the seasonality of our business in GCC. Revenues in GCC are usually around 40 to 45% in H1 and 55 to 60% in H2 but the EBITDA split can vary as much as 30% and 70% for H1 and H2 respectively. Seasonality variation has consistently been visible over several years and can be expected to continue. Considering our robust growth in Q2 FY20, we have a positive outlook for the current financial year with a strong focus on growth and cost optimization initiative, we believe that our financial results will further improve going forward.

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

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: This is Anmol Ganjoo from JM Financial. My first question is around clinic and pharmacies, so historically you have seen there is very strong correlation between performance of clinics and pharmacies given that 50% odd pharmacies are attached to clinics. This time, however, that correlation seems to have somehow weakened, could you just call out something which might have led to this?

Sreenath Reddy: I can explain that so if you look at the pharmacies, the pharmacies is something where we have also introduced the opticals which is leading to higher revenues because we have about now 20 clinics with opticals out of which 15 were added during the current year, so including the opticals the revenue growth will be around 5 to 6%, the remaining is on account of intersegmental revenue arising out of the

purchase consolidation, so that is something which we have decided to make sure that there is a purchase consolidation to get economics of scale, so that is this intersegmental revenue, so on a full year basis this should even out and also in terms of the margin, we have pushed the supplier to give us better discount. That is something which we have got those discounts, but again on this front on a full year basis that should also even out.

Anmol Ganjoo: And second is obviously the challenges that you referred to in the pharmacy business and you also spoke about some of the steps being taken but clearly volumes won't seem to be offsetting the weakness in insurance rates, so if you can just call out some of the steps and how do you intent to redeem this situation and what should be working with on a full year basis?

Sreenath Reddy: If you look at, definitely there will be correlation between pharmacies and clinics, so that is where our focus now is going to be more on the clinic, so the steps what we are taking is to divert lower economic segment patients to Access Clinic. We have got the lower end clinic called Access Clinic, so there have been certain patients coming into Aster Clinic, the low segment patients which we are now diverting to the Access Clinic and freeing up the existing capacity, so that this capacity can be used for middle income segment patients. So, that is one and also to improve on the margins, what we are looking at is to rationalize on HR cost, so mainly the doctor incentive model and also we are looking at the shared service which will also reduce some of our costs, thereby we should be able to maintain the margin.

Anmol Ganjoo: Prima facie that sounds a bit counter-intuitive because we are basically pushing patients from a higher realization segment to lower realization, so at blended basis, unless you kind of running close to 95% kind of occupancy that would see margin dilutive, not accretive, am I missing something?

Sreenath Reddy: Yes, let me answer that, many of our Aster Clinics if you look at they are at the peak capacity but there is a mix of, during the last few months what has happened in this Aster Clinics is, there has been certain low yield patients going to Aster, now that is where we are pushing them to Access. See the Access Clinic, the model is different. There, the margins are good and more patients going over there, we do have capacity at the Access Clinic and these patients can be accommodated at the Access Clinic, thereby the free capacity at Aster, we get high yield patients. So, that is the plan of action and that plan is already put in place and we are seeing some positive results.

Anmol Ganjoo: My last question before I get back into the queue, you referred to a lot of cost saving initiatives contributing to efficiencies which would reflect in margin improvement, just wanted to understand in terms of the low-hanging fruit, when do we see the full impact of most of these initiatives be visible in the margins? I know it is a continuous exercise but largely when do we expect this process to be done and numbers to be reflective of that?

Sreenath Reddy: If you look at two major costs for us is, one is on the material cost and the other is on the HR cost. So, on the material cost, we have already engaged McKinsey in the GCC region and EY in India and that work is in progress and we are seeing certain savings which will get reflected on the material side in quarter 3 and quarter 4 but the full impact of that will be in the next year. On the HR side, we are looking at mainly the shared service that we are likely to set up the shared service in Q4 of this financial year and thereby the impact of that will be seen only in the next financial year, so by this initiative we are looking at 50 basis points improvement in our margin.

- Moderator:** Thank you. The next question is from the line of Dipan Mehta from Elixir Investment. Please go ahead.
- Dipan Mehta:** Sir, in your page 30 where you have shown the financial summary, there the profit after tax is coming at Rs. 3 crore but when I am looking at what you have filed with the stock exchange is the profit for the year is Rs. 6.87 crore, so why is the difference like that. Even previous quarter figure doesn't tally?
- Sreenath Reddy:** So, one is the PAT for the company and the other is the PAT for the shareholders, so this PAT what you are referring to is the post the NCI, the noncontrolling interest that is the minority, after removing the minority contribution of the profit.
- Dipan Mehta:** And second question was relating to again slide number 29 where we have shown that in India, the newer hospitals, 0 to 3 years, the EBITDA is Rs. 14 crore, could we have a figure for the first half of the previous comparable figure? And how has it changed the quarter also and would certainly help us in understanding better? Is this new hospitals in India?
- Sreenath Reddy:** So, this hospital mainly because two hospitals that are contributing to the losses in the first half of the year is one at Kannur and the other at Bangalore which is the Aster RV Hospital but Kannur has already gone into positive, they are EBITDA positive. That is the record of cost wherein 3 months' time, the EBITDA breakeven has happened at Kannur; however, Bangalore is still under losses.
- Dipan Mehta:** What is the comparable figure sir, for Rs. 14 crore for H1 FY20? Do you have a number ready for FY19 H1?
- Balachander R:** Dipan, this is Balachander here. Last year, these two hospitals were not present, so there is no comparison to these Rs. 14 crores. These hospitals had started only current year.
- Dipan Mehta:** And third question was regarding investments in the two new hospitals that you were commissioning, you are saying you are following asset light model, so please can you elaborate a little bit more over there?
- Sreenath Reddy:** So, this hospital, one which is coming up at Whitefield which is the 350 bed facility should be functional in the next 12 to 18 months and the other hospital which is in Yeshwanthpur that is a 600 bed facility which will take at least another 3 to 3-1/2 years. The investments in these hospitals for the Whitefield facility is around 170 crore and for the Yeshwanthpur facility it is 270 crore but this will be spread out over a period of next 3 years.
- Dipan Mehta:** But this is good investment. That is not asset light model. You are actually investing in the land building and the equipment and thereafter, you will go through the process of taking it to maturity and breakeven?
- Sreenath Reddy:** No, when we say asset light, we don't own the land and building. The land and building will be by the landlord, will be leased out to us, we do certain interiors to that building and then equip, so our investment is mainly for the interiors and equipments. So, roughly the cost per bed if you go on an asset light model where we don't own the land and building, you will be around 50 lakh per bed and if in case we own the land and building that will be around 1 crore per bed, so in both these hospitals, we are not going to own the land and building.

- Dipan Mehta:** And one last question sir is regarding, there was some news that in the GCC and UAE they were looking at consoling the insurance companies trying to fix the price as far as medical procedures are concerned and there was some pressure on that count over there, so is there any reality in that or if you can just give an overview as to the regulatory and the pricing scenario in the GCC area sir?
- Alisha Moopen:** Dipan, this is Alisha. So, what Abu Dhabi had done a few years ago was to implement the DRG procedure pricing so that is something which Dubai has been considering. They have just been doing the analysis over the last 3 years. It is something which has been pushed again and again. We don't have visibility when exactly it is happening but the comfort that regulatory authority of DHA has given us is that it will be revenue neutral for us, so we don't see any negative impact from that happening. That assurance has been given, so what we are trying to do with that is make sure that since we will have a better understanding of our own costing, how is this that we can actually get a benefit out of the whole exercise actually.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.
- Tushar Manudhane:** First of all congrats Sumanta for joining Aster DM crew. Secondly, just would like to understand again on the India, the young hospitals basically where the ARPOB has already reached 63-65%, so therein how is the scope to increase the profitability?
- Harish Pillai:** When we talked about the two new hospitals, one is in Kannur and as already as mentioned by Sreenath, we have 300 bed unit which ramped up quite rapidly with the focus on specialty such as cardiac, gastro, neurosciences, orthopaedics, so typically these are specialties where ARPOBs are much significant compared to broader specialties and it has already become like a referral hospital for the district of Kannur. When you look at the Bangalore, Bangalore as a city has better ARPOBs than in the side of Kerala and the new facility which we opened, it is also having a specialty mix focusing on neurosciences, orthopaedics and cardiac where ARPOBs are significantly high. Going forward, because of the change in payer mix, of course in Kannur the facility is already at almost peak occupancy about 95%, so there is a scope for us to treat the direct structure looking at Kannur whereas in Bangalore there is still room for growth, so we are quite confident that the current ARPOBs would get better in the coming quarters.
- Tushar Manudhane:** And secondly just on this Kolhapur construction, the pipeline project you have mentioned, if you can just highlight about the kind of CAPEX we are going to do for this particular hospital?
- Sreenath Reddy:** So, Kolhapur, we are adding another 60 beds to our existing facility, so that will help us with more or less the same cost, so this was a question on Kolhapur. Kolhapur is where we are adding additional 60 beds in our existing facility, what we have got over there. So, by adding these additional 60 beds, the profitability of the Kolhapur hospital will improve further from where it is now. The investment what we are looking at is minimum, so we are looking at around 30 crore of investment and we are planning to add LINAC for oncology treatment over there.
- Tushar Manudhane:** So, overall CAPEX for FY21?
- Sreenath Reddy:** The overall CAPEX for FY21 is, in fact we had communicated this in the previous quarter as well, so we are looking at around Rs. 580 crore in the current year, but going forward from next year onwards, this will get reduced to around Rs. 400 crore for the group as a whole.

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

Chandra Mauli: The first question is on the sequential decline in GCC hospital margins, it looks like margins have declined in that business by about 80 basis points. I know you called out the higher volume of lower economic segment patients. I think this quarter was supposed to have more business base than the previous quarter given the holiday cycle, so I thought that to be more operating leverage there so if you could just give us some clarity on the rationale for this?

Balachander R: Chandra Mauli, this is Bala here. Generally, you are talking about, when you say sequentially, you are comparing to Q1 to Q2, right?

Chandra Mauli: That is right.

Balachander R: Q2 is actually our lowest quarter and Q1 is actually in fact slightly better because April month is slightly better. Having said that, the decline that you are seeing is only, these are just minus seasonal ones. On a full year basis, this should even out and on a full year basis, there should not be a problem, in fact hospitals we are expecting a decent growth on a full year to full year.

Chandra Mauli: Second question is on the flood impact, so I think Y-o-Y if I look at the India revenue, it has probably grown about 35% probably because of the lower base of revenue as last year because of the flood, so if you were to remove the impact of the floods both last year and what was the little impact that might have been this year, could you tell us what is the normalized growth in the India business would have been for this quarter?

Sreenath Reddy: So, that would be around 20% growth.

Chandra Mauli: And the last question is on the payer mix, so I think there was a question earlier as well on how pricing is with insurance, so if you could just tell us latest, what is the payer mix, the broad split between self-pay patients, government insurance and private insurance for the business as a whole, that will be helpful?

Sreenath Reddy: So, this is in India or GCC?

Chandra Mauli: You could give us for both GCC and India, is that okay?

Sreenath Reddy: Yes, so if you look at in India, some of our hospitals have got anywhere around 35% as credit which includes insurance and corporate but many of our hospitals which are in the state of Kerala, significant portion of it is cash, so there the credit is just less than 20%, so on an average if you look at in India, so it will be around 25% credit and 75% will be cash which is out of pocket. Coming to the GCC, it is the other way around and here, the insurance plays a significant role, so 90% of the business will be by insurance and 10% will be out of pocket.

Chandra Mauli: Just one follow-up on this, so how are you looking at price hikes this year FY20 and FY21 in the context of the payer mix that you are operating?

Sreenath Reddy: So, in terms of pricing in India, the way we look at it is that we look at what is happening to competition the peers and all that so generally we look at around 8% every year in terms of price increase but on the GCC side, the price increase will be in terms of inflation, slightly above inflation, so it will be somewhere around 3% will be the price increase, but the way we achieve higher revenues is all changing the

case mix, so that way we would be in a position to increase the revenues on the GCC side.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: Sir, my question is to understand the balance sheet and cash flows a little better, I mean if I am looking at both on the standalone basis as well as on a consolidated basis, one is we have not seen much of a drain in terms of working capital and I would believe partly is because of this increase in other financial liabilities, loans and other assets, this is common for both and given that we have generated about Rs. 600 crore of cash on the consolidated side on operating level and even post the CAPEX, we are sitting at around Rs. 350 crore of cash FCF, I mean why is there an increase in debt because the CAPEX numbers that you are talking about today, I mean if one is looking at second half being little bit more bloated in terms of growth given that GCC contribution is higher and your ROCs are significantly higher on the GCC side, shouldn't the debt actually start coming down?

Balachander R: Quickly to answer your question, first I think you are referring to the cash flow statement and you are asking this question, correct?

S. Padmanabhan: Yes.

Balachander R: So, first thing I think is some current year because of Ind-AS, the cash flow statement unfortunately that you are seeing was not only for our company or all the company will not be directly relevant to the actual cash situation because of earlier Ind-AS impacts skewing that. Now having said that internally to look at Aster cash flows, I you look at our pre Ind-AS or without taking Ind-AS impact, our EBITDA is around Rs. 338 crore, now out of the Rs. 338 odd crore, the operational cash in the business, real cash generation is around 75 to 80% of that has been converted as cash in the first half for us, so the Rs. 600 crore that you are seeing is because of all the Ind-AS impacts and all of those things. So, the real operational cash flow is around 75 to 80% of the EBITDA which is in line with generally what we have been doing over the last few years and in terms of investment, out of the total investment that we have put in is around close to Rs. 400 odd crore which include acquisitions that we have done in the current year, acquisitions of minority which we had put up in the stock exchange also. Including that we have spent around Rs. 400 crore and then you of course have interest servicing also of Rs. 90 odd crore which is why you are seeing a net debt increase of close to Rs. 300 crore. Does that answer your question?

S. Padmanabhan: Yes and second is sir, my question is on the benefits that you are talking about in terms of the 50 bps margin expansion that is going to be there and specifically this quarter as you have talked about, there has been an impact on probably the lower mix of patients in GCC, I would like to understand probably if largely what I would understand is that the majority of the population would be the mid and lower and if there is any kind of a screening or skimming of that I mean should that have an impact in terms of volumes, in terms of utilization and volumes?

Sreenath Reddy:: Sudarshan like what you said, the volumes at the lower levels are significantly higher, so Access Clinic is where the volumes will be significantly higher because what happened was that the way we looked at is that some of our facilities where we had excess capacity, we got in at Aster, we brought in these patients, but what happened over a period of time these facilities at Aster got clogged because of which the higher paying patients stopped coming to these facilities. So, now the plan of action is to move away these low segment patients from the Aster Clinic to Access, thereby we free up the capacity at Aster which will increase our revenues as well as profitability.

S. Padmanabhan: And sir, specifically if you can comment a bit on some of these hospitals in GCC, specially with respect to the Women and Child hospital that is basically doing that has kind of kicked up a bit in the past and also about the Sanad Facility where we had taken an impact and probably it has been a little slower than expected, just wanted to understand how the traction is happening in these two hospitals?

Alisha Moopen: This is Alisha. So, specifically on the Medcare Women and Children, what we are seeing is an increased utilization, so both in terms of the obstetrics and now what we are focusing on building the Children's Department, so actually the margin expansion is seen and as Sreenath mentioned earlier one of the things that we are trying to do is the manpower optimization there, so that is two-fold benefit, one there will be cost reduction that happens when you are focusing on the increased productivity for manpower but also what we are focusing is on more technology adoption which will improve the service levels for the people because the Women and Children Hospital is under the Medcare branch, so what really distinguishes the hospital is going to be the service level that is rented, so there is a lot of investments and access made both in terms of technology implementation as well as other activities to enhance that service level, so we would expect to see one, an increase in business as well as the corresponding reduction in cost, so we expect that to go more positively in the coming two quarters. Coming to the Sanad facility, you are right, the last quarter has been a bit muted but that was expected because the summer impact was quite high in Saudi, in general, but in the last couple of months what we are seeing is positive traction on the unit. We have had some good number of visiting doctors who have been signed up. There had been an infrastructure upgrade that has also happened where we have started the IP Clinic, we have also started associating the branch Sanad with Aster now, so there is more visibility for Aster and making the connection for the larger ecosystem that we have. We have got a new leadership team that have started 3 months ago and that is also showing very good prospect. So, we are quite confident about the next 2 quarters seeing a very different story for Sanad.

S. Padmanabhan: Ma'am one final question from my side is on the working capital intensity, given that we are seeing aggressive growth going forward in terms of CAPEX and also that we would require fair amount of cash, I mean capital to fund the kind of a growth. While we have talked a lot about the initiatives in terms of improving margins, is there any initiatives that you have in terms of improving the working capital, given that you have a higher, buying it centralized, I would assume that there could be some kind of benefit in terms of at least the raw material and the working capital, some kind of an improvement but on the other sides as well in terms of debtor days?

Sreenath Reddy: So, this is something which we are looking at various ways as to how we improve our working capital. So, one of the ways what we are looking at is that, see right now what happens is that the clinic, they raise the bills, they send it, then again it gets scrutinized at the insurance company, the whole process takes time, so we have been talking to the insurance company instead of having some mechanism like this, whether we can have fixed price mechanism which will reduce significant manpower from our side as well as their side and also reduce the time taken, so that is one initiative which we are taking and at least few insurance companies have shown interest and they would like to at least test it out on a pilot basis which we are confident that at least in quarter 3 we should be able to look at least part of our revenue from the clinic coming through this mechanism. So, that is one. So, another thing on the receivables, whatever receivables we have got we are seeing whether we can also see whether someone can take the responsibility of these receivables wherein without recourse whether some agency can take it which will give us significant upfront cash. That is another thing which we are exploring.

Moderator: Thank you. The next question is from the line of Shankar KP from HSBC. Please go ahead.

- Shankar KP:** I had three questions, first is when do you expect to have free cash flow generation that is do you expect to see net debt reduction? Will we see that in say FY21 probably?
- Sreenath Reddy:** FY21 is the year because end of this year is something which we are looking at it but then on a full year basis, it is going to be in FY21.
- Shankar KP:** The second question is, could you give us some kind of guidance in terms of say revenues and margins for FY21, revenue growth and margins?
- Sreenath Reddy:** As a policy, we don't provide guidance.
- Shankar KP:** And any update on the dividends that you plan to give?
- Sreenath Reddy:** Yes, the dividend is something which the board will take and call sometimes, but at this point of time the standalone company has got certain accumulated losses. So, the accumulated losses need to be wiped out even before we could give dividends, so that is something which the board is evaluating and they will take a decision at the appropriate time to declare dividend.
- Shankar KP:** One last question, this is regarding GCC clinics, so we have seen a drop in revenues there, is it mostly driven by the pressure from insurance that is you are not getting a price increase from insurance? Is that the case?
- Sreenath Reddy:** In an insurance environment, definitely there will be a pricing pressure but what the insurance companies do is that they provide volumes but in our case, at least for this quarter, what has happened like what I was telling you a few minutes back, some of the Aster Clinics, we have got both Aster as well as Access Clinics, so Aster is for the mid segment, Access is for the lower end segment, so some of the Aster Clinics because we had capacity, we started allowing the low end patients to come in over there due to which these clinics at Aster got clogged up in spite of small increase in the volumes but however, if you look at there was no increase in terms of revenue, so that is something which we decided that the increase could fall, we now shifted to Access which is the low end, thereby freeing up the capacity at Aster and then getting the high end patients at Aster. So, this is something which is already undertaken, and we should see in the next 2 quarters to normalize.
- Moderator:** Thank you. The next question is from the line of Sharan Silay from Allegro Capital. Please go ahead.
- Sharan Silay:** I just wanted a little bit of clarification as to how we were able to breakeven within three months at the Kannur facility?
- Azad Moopen:** So, Kannur, there was a huge gap because there was no multispecialty hospital and many of the patients, even though it is the large district in Kerala, we are going to either Mangalore or to Calicut. So, there was a big gap and that was one, so demand supply gap was very heavy especially in the areas like in emergency medicine, critical care and many of the specialties that was one and second thing there is also, we got all the good doctors in Kannur, they all joined because they were also looking for a platform where they could practise professionally. All the hospitals in Kannur were comparatively smaller and it was not having all the facilities, so these two together are the ones which really helped us for a very early ramp up leading to even a breakeven, so that is something which we are looking at and we are even looking at the possibility, may be in future to add more beds there because we have 300 beds which are getting filled up many of the days.

- Sharan Silay:** And my second question was at the Bangalore loss making hospital, when do we expect that breakeven?
- Sreenath Reddy:** So, that is the hospital at JP Nagar, Aster RV. We started in the month of April, so mid of next year, we expect it to EBITDA breakeven, so we should have EBITDA breakeven in less than 18 months.
- Sharan Silay:** And just a quick question, typically for us how long is the time period for any of our hospitals to breakeven on average?
- Sreenath Reddy:** So, generally hospital take anywhere around 24 months to 36 months, but what we are seeing in our case, many of our hospitals in India, we are able to breakeven now anywhere around 18 to 24 months. Similarly, in the GCC also, we are able to breakeven anywhere between 12 to 18 months.
- Moderator:** Thank you. The next question is from the line of Dipan Mehta from Elixir Investment. Please go ahead.
- Dipan Mehta:** Ma'am if just again to take that whole insurance change of regulation little bit forward, so when it happened in Abu Dhabi what was your experience? Did you end up losing revenue over there or have you done some analysis because there is a major risk factor considering that lot of revenues are coming from that one particular small country, so if you can just elaborate a little bit more I would appreciate?
- Alisha Moopen:** Sure Dipan, we don't have significant presence in Abu Dhabi, but all the units that have positive, they have never been any advance implication from it, so in fact some of the units benefited. I think what kind of drive this is, there are some departments which does better and therefore in some departments which don't do as well, so what the hospital provider did is say just with the size of departments depending on that if orthopaedics is not as fulfilled they might sort of focus more on the general surgery or the obstetrics and gynaecology, so overall in fact if you look at the Abu Dhabi margins, most of the units are doing very well, so obviously that is not really a concern and because of what we had seen happening in Abu Dhabi in the past as well.
- Moderator:** Thank you. The next question is from the line of Harith Ahmad from Spark Capital. Please go ahead.
- Harith Ahmad:** I am looking at the India hospitals and clinic segment margins, we have seen a sharp improvement sequentially, how much of this is seasonality or should we expect the margins to sustain for the second half as well? Is there Q2 seasonality? We have seen this with some of your competitors, so just trying to understand that part?
- Harish Pillai:** In India, unlike GCC, we don't have so much of seasonality, yes, the Diwali, Dussehra months which is basically September, October, we do have a slight drag. In some states like in Kerala where Onam is coming up in September, we do find fall in volumes, especially in outpatient numbers, but on answering your question on margins, we have instituted since last year lot of efficiency measures, whether it is in terms of manpower or in material space and that has been taken up on a national level and we are very confident that the margin growth would continue in H2 also.
- Harith Ahmad:** And on the clinic segment, I know you have talked about this quite a bit but given some of these challenges that we have seen on the pricing front, what are your thoughts on expanding the network or would you be looking at consolidating the current network drop for the near term?

Azad Moopen: . We think that there is more of an opportunity in the lower segment that is in the Access segment because the number of people covered by insurance are more in the lower segment, so as we are getting as good day margin as in the Aster or in the Medcare from that segment also, we are now looking at the Access segment for our growth because that is the place where there is more of opportunity, so the whole idea is to shift some of the patients from the Aster down to Access as well as to look at more opportunities in Access where the cost for operations will be less, so we will have a better margin.

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

Shyam Srinivasan: Just wanted to get, Dr. Moopen your thoughts on the overall competitive environment in the GCC, we had I think NMC hold capital markets, they recently where they talked about increasing capacity, adding some specialties, so can you just give us your broad thoughts on how you are looking at that landscape specially in UAE and GCC evolving? Do you foresee all these new capacities will, may be the government is not putting pressure, but do you think new private capacity could put pressure on prices?

Azad Moopen: When you look at the GCC, mainly I am talking about UAE, there is an increased capacity which is being built in the top segment. That is where we have our Medcare Hospitals and all, so there is a capacity oversupply there but luckily as we have been there for a pretty long time and we are in geographies which are surrounded by people who can cater to that, this has not affected us but this has very badly affected many people who have started in other areas, so answering your question, yes, there is over capacity in that area. In the Aster level, it is okay, we still have some more and provided we start specialty clinics instead of going for regular clinics, there is still opportunity both for hospitals as well as clinics. As I was mentioning in the earlier question, if we come to the lower segment, the Access, there is a dearth of capacity there especially hospital. So, we are looking at two things, one is the hospital in that segment which we are starting on shortly, in the next 3 months we will be having our hospital in Muhaisnah which is catering to that segment of the blue collar workers as well as we are looking at the clinics also where there is an opportunity for consolidation by inorganic growth where we are looking at some of the opportunities, so answering your question, yes, there is a congestion but still there is an opportunity for consolidation as well as there is strategically moving into the lower segment, we could have the clinic business continuing with the same growth what we were having earlier.

Shyam Srinivasan: My second question is on medical tourism, if you can give us an update on how much India now, what is the kind of percentage for medical tourism, is it largely from your referrals from the GCC, if you can give us an update on medical tourism?

Azad Moopen: Some of our hospitals like the Cochin hospital as well as Bangalore hospital and all get lot of patients from our hospitals as well as because of the brand is present in both GCC and India, there are people who know the brand who come because they have that confidence. So, looking at the numbers, it will be between 15 to 20% of our revenue in Medcity that is the Cochin hospital comes from the medical value travel whereas in Bangalore, it will be between 5 to 10% of the revenue. We are trying to increase it and various ways which we are looking at to increase this. So, as I was saying, we think that there is still opportunity for increasing this, so we are now positioning people, so that we can get business and we are also looking at other geographies from where we can get business, so we hope that this will be a good stream of revenue, so we are quite bullish about that.

- Shyam Srinivasan:** Dr. Moopen, 15-20% in the Kochi facility, so you still think there is upside there as well?
- Azad Moopen:** Yes, we hope that we can increase it but at least at that level it is quite good there because we must be doing much better than compared to other people who are into the same area and we but are trying to increase it but 15 to 20% is what we can expect reasonably.
- Shyam Srinivasan:** And my last data point question on this medical value travel, I remember it was some 55,000 ARPOB, is that number ballpark right or that changed since then?
- Sreenath Reddy:** So, Shyam, MVT is something which use higher ARPOB, so we are around that number.
- Moderator:** Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management for closing comments.
- Azad Moopen:** Thank you. It has been a pleasure interacting with you over the call. We thank you for taking time out of engaging with us today. We value your continued interest and support. If you have any further questions, we would like to know more about the company, kindly reach our investor relations desk and we will be very happy to answer. Thank you very much. Thanks a lot.
- Moderator:** Thank you very much. On behalf of Aster DM Healthcare Limited that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.