“Narayana Hrudayalaya Limited
Q1 FY23 Earnings Conference Call”

August 11, 2022

MANAGEMENT: **MR. VIREN SHETTY – VICE CHAIRMAN**

DR. EMMANUEL RUPERT – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

MS. SANDHYA J – CHIEF FINANCIAL OFFICER

DR. ANESH SHETTY – MANAGING DIRECTOR, OVERSEAS SUBSIDIARY HCCI

MR. DEBANGSHU SARKAR – HEAD, MERGERS & ACQUISITIONS & INVESTOR RELATIONS

MR. DURGA PRASAD – SENIOR MANAGER, MERGERS & ACQUISITIONS & INVESTOR RELATIONS

Debangshu Sarkar: Hello everyone. Good afternoon to all of you. Myself Debangshu and as most of you are aware, I run the Investor Relations and Mergers and Acquisition Practices at Narayana Hrudayalaya. On behalf of the company, I welcome you all to the first quarter fiscal year 2023 earnings call of our company. To discuss our performance and address all your queries today, we have with us Mr. Viren Shetty -- our Vice Chairman, Dr. Emmanuel Rupert -- our CEO and MD, Ms. Sandhya -- our CFO, Dr Anesh Shetty -- MD of our Overseas Subsidiary HCCI, and Durga Prasad from the team.

I'm sure you have gone through the investor collaterals, which have been uploaded on the stock exchanges as well as on our website.

Before we proceed with this call, I would like to remind everyone that the call is being recorded and the transcript of the same shall be made available on our website at a subsequent date. I would also like to remind you that everything that is being said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and the risk that they face. These uncertainties and risks are included, but not limited to what we have already mentioned in our prospectus filed with SEBI before our Initial Public Offer in late 2015 and subsequent annual reports on our website.

On that account, I'm sure you guys probably would have also gone through our annual report as that has also been very recently updated for the last fiscal.

Post the call, in case you have any further queries please do feel free to get in touch with us. With that, I would now like to hand over the call to Dr. Rupert.

Dr. Emmanuel Rupert: Good afternoon to all. We are pleased to report the highest profitability for our Indian operations during the quarter gone by which surpassed the previous highs witnessed in Q3 FY22. Aided by steady operations at Cayman, we managed to achieve a consolidated EBITDA of INR 2.0 billion at a margin of 19.4% and PAT of INR 1.1 billion at a margin of 10.7% for the period Q1 FY23. Since our planned capital outlay for India and Cayman is still running behind schedule due to external factors, we incurred a cash capex of over INR 1.1

billion during the period. Our overall balance sheet and liquidity profile remains strong with INR 5.2 billion of gross borrowings against a consolidated cash and liquid investments of over INR 4.4 billion as on 30th June, 2022. Separately, we have reorganized our operating regions to ensure greater alignment among our hospitals. From this financial year onwards, Jaipur hospital will be part of the Northern group and Raipur hospital would form part of the Eastern Peripheral grouping.

With negligible contribution of Covid-19 and vaccine volumes combined with recovery in elective volumes, we registered the highest ever EBITDA margin of 16.2% for Q1 FY23 for our Indian operations. Compared to previous high in Q3 FY22, the domestic operations' EBITDA grew 27.5% while registering an absolute increase of around INR 300 million and it registered 46.8% growth compared to Q4 FY22, which was impacted by the omicron wave. The Indian operations also registered the highest percentage contributions from the international patient business since the onset of the pandemic at 6.5%. While we are working on new marketing channels to grow this further, we don't believe we will reach our pre pandemic figures of around 10%-11% till international travel reverts to pre pandemic behaviour.

It is heartening to note that the strong India performance has been achieved through all round performance across the network while continuing to be led by our flagship centres which registered an EBITDAR margin of 30.0% in Q1 FY23 as against 28.9% in Q3 FY22. Our three new hospitals across NCR and Mumbai registered a revenue of over INR 1.05 billion and delivered a positive EBITDAR margin of 6.5%. The Non-Flagship Hospitals excluding Jammu achieved a healthy EBITDAR margin of 18.8% in Q1 FY23. We remain encouraged with the resilience of our business during these uncertain times and we shall continue to invest in brownfield expansion across these units over a period of time.

Moving onto Cayman, our hospital was affected by Covid restrictions and strict quarantine rules placed by the authorities for most of the quarter and managed to register an EBITDA of USD 8.0 million in Q1 FY23. As our expansion slowly continues, we plan to onboard key clinical talent ahead of

the anticipated patient volumes since there is a long lead time for getting visas and work permits. With Covid disruptions minimizing from Q2 and with our Camana Bay Clinic making us more accessible, we are confident of sustaining solid performance of this unit going forward.

We continue to focus on various technology initiatives to drive performance. During the quarter gone by, we implemented a cost estimation module in ATHMA HIS to provide accurate estimates for planned admissions and we also implemented a checklist tool for clinical staff to improve patient safety. Our software team also developed a new user interface for AADI Mobile App to improve user adoption and drive productivity of our doctors across the network. Our efforts in revamping the marketing team have paid off and digital marketing channels now contribute almost 1/4th of the overall India business.

On the ESG front, for the period Q1 FY23, we achieved a net carbon reduction equivalent of 3,705 tons along with savings worth 9.1 million through energy optimization and switching to green energy and another 3.6 million by upgrading to high efficiency equipment across the network. To improve our focus, we have also initiated the business responsibility and sustainability report ESG framework across the group.

On the clinical front, we have continued to differentiate our services by focusing on advanced quaternary work in cardiac, Oncology, and GI sciences across the network. Some of the key highlights for the quarter gone by are

- We added three additional operating rooms to the Narayana Institute of Cardiac Sciences at Bangalore in the Health City campus, thereby increasing the surgical throughput in this unit. This unit did 2,027 cardiac surgeries during the quarter and performed 1,687 Cathlab procedures in May 2022, which is the all-time highest monthly volume at this center.
- Our flagship RTIICS at Kolkata successfully bridged a patient with end stage heart failure to transplant with CentriMag biventricular assist device (BiVAD). The unit also successfully implanted a suture-less aortic valve, which is the first such procedure in the eastern India.

- Our focus on transplant programs generated strong momentum which resulted in 75 successful Bone Marrow Transplants, 20 Liver Transplants, 8 Heart Transplants, and 192 Renal Transplants across the group in Q1 FY23.
- We also managed to perform 30 TAVI procedures as well as 125 robotic surgeries across the group in the same period.

While continuing to consolidate our operations, we would pursue growth opportunities both in India and overseas to derive synergies from our robust existing operations and maximize value for all our stakeholders. We are confident about the prospects of the healthcare landscape across the world and are taking steps to transform our business to become more patient oriented digitally native and operationally efficient. We see our overall business being well poised to continue Dr. Shetty's mission of delivering affordable and high-quality healthcare to all sections of our society. Thank you.

Debangshu Sarkar: Thanks, Dr. Rupert. With that, we will now open the floor for Q&As.

Prithviraj: Mr. Viren I just have a couple of questions. First on your domestic business new hospitals, you mention they have done 6.5% EBITDAR margin this quarter, so how do we see this margin trajectory over the next couple of years and when can we expect them to touch that 18% or 20%, which currently your non-flagship hospitals are delivering?

Viren Shetty: These hospitals, two in Delhi, one in Mumbai are of different sizes and configurations. The Delhi ones we feel pretty confident that ultimately, they will reach the normal trajectory that the rest of the hospitals have given that these are multispecialty quarternary and tertiary care hospitals. So, as for the timeline, it's hard for us to give guidance. I would say normally for our hospital they take anywhere from 3-4 years to break even, post that another four 3-4 to reach a sort of maturity and then depending on how we expand them, it will take its time. So, both the hospitals will be due for expansion, not immediately, but some point over the next two years. In Gurugram, we want to add two more floors, we have the capacity to do so and Dharamshila also we're looking to talk to the hospital owner, the trustees to expand another

wing over there. So, what happens with expansion is that again you incur a lot of manpower to get the things done, but it does reach a very steady state EBITDA level, when you don't do anymore expansion, you're just going up the volume growth. So, long answer to your question, I would say to get to that 18%-20%, it would take the normal trajectory that all the other hospitals, which is usually from 5 to 8 years barring certain exceptions that come about. The exception will be our Bombay Children Hospital given that it is highly specialized around children's care and this has a very different earnings profile, which is quite high in cost and as it's trying to differentiate itself, it's taking much longer to break even, so there it's not easy for us to say whether it will match the performance of the other hospitals.

Prithviraj: And just one more question from my side, again on Cayman business, you mentioned that you know business is now coming back to normal, so can we expect again the margin and the volume trend to move to historical levels even here?

Viren Shetty: For this question, I'll pass it on to Anesh, who is based over there and will be better able to flesh this out. Anesh.

Anesh Shetty: Yeah. Thanks, Viren. Hi Prithviraj. So, to your question, yes during the first quarter of the financial year we were severely impacted by Covid. Lot of patients were not sick, but the government rules are very strict around quarantining and testing and even a single family member being tested positive and the whole family needs to isolate. So, lot of our doctors and nurses were unfortunately out of action. Fortunately, that is behind us and even in the first month that's July of the new quarter, we have seen both revenue and margins revert to normal.

Nitin: Anesh, if I can take it forward from the Cayman Island question. Cayman Island essentially has been a big success story for a turnaround story for NH over the last 2½-3 years especially post Covid, since you are closer to the ground can you just help us understand couple of things? One is, what change in Cayman Islands all of a sudden that our business performance really took off? And two there's always concerns that some of this may not sustain, so what would your thoughts to be on that account?

Anesh Shetty: Thanks, Nitin. So, there are two questions there. So, to the first one about what suddenly changed? –we don't think it's sudden, of course we've been operating the hospital for about eight years. For the first, I would say 2½ years or so we had a lot of problems finding our fit in the market. We were actually chasing a very aspirational target in terms of an expectation of medical tourists coming from overseas, which we realize is a is a game that will play out over years if not decades and we are getting there, but I think the initial insight we had was that we had to be built on the foundation of a very strong local and Caribbean presence and markets in the US Canada and North America would play out over a longer time frame. So, I would say from year 3 onwards that's when we really made that switch and focus in our efforts and things have like you said have been working out well for us so far. We don't see any sudden swing or we don't see any need for any sudden deterioration that would happen because of any external event in most situations. To your second question about how sustainable is it? We did have Covid restrictions like everybody else in the early half of 2020 that did mandate for a lot of people to remain on island and people here we're happy to be on the island because this was something like a paradise where there was negligible Covid and people couldn't come in, most people couldn't go out. So, a lot of patients especially the privately insured and mobile patients who traditionally would go to the US centers of excellence for their care had to try us out. These people would come to us for certain procedures, but in most cases would go overseas. So, for a good 1½ to 2-year period we had in a sense a group of privately insured local people who had to experience our services and travel restrictions have been rapidly going away in fact right now if you're fully vaccinated, there are almost no restrictions including testing requirements as long as you're fully vaccinated, which most of the population is. It's hard to say whether those people who used to go out will continue to stay with us, but so far, the trends look very encouraging and very positive. It appears that they've liked what they've seen, they enjoyed the experience and they are sticking with us, but we'll know in the next two or three quarters or so if that is a permanent shift to us or there may be some rebalancing, but so far we're very encouraged by what we're seeing.

Nitin: If I were to just probably take that little forward again, now we have Oncology

setup coming through in the Camana Bay units. I mean two things, one is – How does it change the proposition for NH's business in Cayman? And two does it do anything more for you from overall Cayman Island drop beyond Cayman Islands in the broader Caribbean? I mean does it do anything to enhance our proposition with broader Caribbean per say?

Anesh Shetty: Yeah Nitin, absolutely no. You are right on the mark over there. See when we've been working with other islands, other governments, other players to get them to move their patients towards us for the value proposition is very clear, we are a Joint Commission accredited hospital, we offer tertiary care at unbeatable price. The challenge that a lot of the client face or a lot of players face is that they have existing relationships, so it's difficult for them to move some business to us and maintain their relationships elsewhere. One of the biggest gaps we always had was radiotherapy and Oncology in general. This is a very big spend area, if not in volume, but big in spend for everyone. So, what we're seeing now is we're on track to have our radiotherapy center commissioned by Q4 of the current fiscal year that was what we had committed to do and things look to be on track, with that not only do we fill in perhaps the last reason for local people to go overseas for Oncology and radiotherapy, but we become that much more attractive as a full service, a truly full service option for other governments and peers in other jurisdictions where they can now say that alright I don't have to maintain relationships elsewhere, this is a one stop solution for me. So, that really is a very positive sign for us and that's why we've been pursuing this radiotherapy project for quite some time now.

Nitin: Thanks, Anesh. Again, associated point is for us, from our overseas expansion perspective Cayman obviously has turn out to be a significant success, so does now Cayman become an anchor for us to build a business around or just remain essentially one hospital story or one market story from an ex-India perspective?

Anesh Shetty: No, definitely not. As long as I can remember at least 5-6 years onwards we've been wooed by every head of state, every pair in most Caribbean islands, I mean I traveled to all of them, all the English-speaking Caribbean islands,

there's not a single market where people don't want us to replicate what we've done in Cayman, naturally, that's not possible. There are some very favorable dynamics in the market that allow us to do what he did. Having said that, Cayman is already on track and will very much to becoming a hub for what we're doing in the region. We for the past year and a half, we've been engaged with the government of Saint Lucia to help them operationalize their National Hospital. The intention of that project always was to learn more about the market and take that to the next level if we wanted to. We have similar early stage discussions going on in several other islands, but these are mostly arrangements where we would be a consultant, we would be an operator, we would not be coming to the table with capital initially, but we always have that option to do that and we still have a lot of unused capacity in our Cayman Hospital. It is still very much in our favor to use this as a hub and establish relationships etc. to better utilize our infrastructure, especially with the new hospital and the Oncology project coming in, but we are very well-known brand in the region and we have proven that this model of having a tertiary joint commission accredited hospital in a small island can work. So, there is opportunity to do something along the same lines elsewhere, but not with so much of an investment and not with such a big presence.

Harith Ahamed: Thanks for the opportunity. Will you be able to share the EBITDAR number for the new hospital cohort? I think I missed that in your opening remark?

Debangshu Sarkar: So, Dr. Rupert had mentioned in his opening remarks that the cohort has delivered a positive EBITDAR margin of 6.5% for the period under review.

Harith Ahamed: Okay, got it. And if I take a step back, I think, maybe the last couple of years or pre-COVID we had embarked on efforts to improve the case mix and our ARPOBs in India hospitals network and then we've seen some of that reflecting in much improved ARPOBs when I look at the numbers today. So, where are we in that journey? And, if you could give some color on whether we should expect the trajectory in terms of ARPOB improvement to continue?

Dr. Emmanuel Rupert: If you see the clinical work that is happening, apart from routine work, most of the work is happening on the high-end Tertiary and Quaternary work which is actually driving the ARPOBs and the margins as well. You would have seen

the transplants numbers which we have done across the group and also the kind of the Quaternary work that is routinely going and we are constantly working with clinical teams to improve throughput and the efficiencies and gradually trying to reduce the ALOS. Currently it is around 4.6 but we are in the journey where we will start reducing it closer to 4.2 to 4.3 and then once we stabilized, we will be further coming closer to 4. And despite of the Quaternary work we are able to maintain a very steady ALOS numbers but it's a combination of different things, We are working a lot on the oncology front – Daycare work, chemos and radiations. Some of our machines in Bangalore have just got upgraded. We were down to only one machine. Similar this story in Howrah. We will get that up by October and also we will be commissioning by closer to the end of this financial year the unit in Jaipur as well. So, all this will you know contribute to reductions of ALOS as well while contributing significantly to the high-end Tertiary and the Quaternary work which will continue to happen in this sector. That is what we are working on and then a lot of other efficiencies and a lot of digital initiatives are also bringing in the efficiencies and the throughput which we have started to work on and which will start bearing fruit in the coming quarters.

Harith Ahamed: Thanks Dr. Rupert and last one for my side on the M&A front. I think, last time you had mentioned that we're evaluating a couple of assets, so where are we in that process? And in terms of geographic priorities which are the key markets that we should expect on M&A front?

Viren Shetty: Priorities are our key markets which are Bangalore and Calcutta. There we are evaluating opportunities but those take a long time to come and it's not always that economics favor us. So, we'll be taking up Brownfield expansion for our Health city in Bangalore and in Calcutta we are not able to get land nearby. We bought a few small parcels that's adjacent to our property but that's a very crowded space. So, we have to buy land a little bit further away around 20-25 minutes driving distance and build a new campus over there. It won't operate traditionally like a Greenfield given that there's so much patient volume that would be shifted and certain clinical departments we will move there. So, it will function more or less like a Brownfield. So, that is our highest priority for expansion. Also adding floors to the existing building, adding Onco units to all

our hospitals, changing the bed configuration, and eventually Brownfield expansion for Delhi, Bombay, Mysore, Raipur. M&A wise, there are few things we're looking at that are two hospitals under liquidation. A few things that come up on asset-light basis with certain trusts, some people that we are talking to for management contracts at the hospital but those are still very slow burn, long late projects that will come as and when materlize but our growth numbers are not dependent on that. Those will be coming over and above everything we have planned.

Ahmed Madha: Thank you. So my question was related to the last participant's question, is it fair to assume that there is nothing M&A coming up in this financial year?

Viren Shetty: No, I mean there are a lot of things we're pursuing. It's just that our ability to close them and coming to an agreement on the right price means that it's hard for us to tell you exactly that, you know, exactly one is coming up next quarter, one after that, two beyond that. So, that's the kind of guidance we're not able to give. We are evaluating 3-4 opportunities. We don't know exactly when they'll come up but when they do they're all part of the plan, what we had said earlier, which is to strengthen our existing hospitals, have huge focus on Bangalore and Calcutta and look at the current geographies as areas for expansion and asset-light things in other places.

Ahmed Madha: Got it. And one more question related to ALOS where there's commentary that it will reduce from 4.6 to 4. Now we understand that it is a day in and day out process and you need to improve therapies gradually, but can you give broadly a guideline or how long does it take to improve this, a year, 2 years or longer than that?

Dr. Emmanuel Rupert: Closer to eight quarters to come to that 4.1 figure. But we are constantly working on that. It's a gradual process which we will see on a quarter-on-quarter basis; a step-by-step reduction.

Sameer Baisiwala: Thank you everyone and a very good afternoon. So, just on the previous question, you had a Capex target of Rs. 10 billion for the current year and have done Rs. 1 billion. So are we on track? And is it possible to break it up, especially for the Kolkata and the Bangalore expansions?

Sandhya J: We have guided that we are looking at Rs. 700 crores - Rs.1000 crores over the 3 to 5 years. So, there are a couple of aspects on Capex. One is, that it's a mix of Greenfield and Brownfield some of which could be inorganic. So, on the inorganic, Viren, has already given a commentary that depending on the timing it will materialize. As far as the Greenfield opportunities are concerned, like we had indicated, the big expansions will happen in Calcutta and in Bangalore. In addition, we are looking at, for example Oncology expansion in Jaipur, Ahmedabad and Mysore. So, there would be specialties and capabilities that we will be building across different units based on the demand and traction that we are seeing in those specialties. So, those are on track. The Greenfields are subject to land acquisition etc.., The one that Viren explained, those will be timed accordingly. And the inorganic, based on the timing, the Capex will be done. So, I am not able to guide a particular number but this is the trajectory in which we are on.

Sameer Baisiwala: Thanks for this. So, did you say 700-1000 crore over the next five-year period? Is that what you said?

Sandhya J: Yeah, 3 to 5 years.

Sameer Baisiwala: Okay. And can you quantify how much would be Bangalore and Kolkata? If you have something in mind?

Sandhya J: Other than the Cayman one, which we've already spoken about which is a big investment, a significant chunk of this is to be investing in Bangalore and Kolkata and in other high performing regions based on return that we will be able to do generate. I'm not able to quantify that number because, like I said, some of these are inorganic opportunities and they will have to materialize. So, therefore it is not fair to put a number to it at this time.

Viren Shetty: We can say the bulk of that amount will be for these two geographies.

Debangshu Sarkar: Sandhya, just to, I mean, probably get this right what Sameer was wanting to understand because the 7 -10 billion is actually 700-1000 crores. That's surely not over five-year period, that's what Sameer’s question was. Since we had guided a figure of north of 1000 crores for the current fiscal including all the

activities that we're pursuing across organic, inorganic, greenfield and everything (inclusive of Cayman). So, that remains on track albeit that we are running a little behind the schedule, in terms of what you have seen us incur in the first quarter. But if all the things were to go through in terms of what we have planned, for the current fiscal we should be looking at the kind of numbers that we have previously guided upon.

Sameer Baisiwala: Yeah exactly, Debangshu. That's what my understanding was given your guidance during last call.

Viren Shetty: No, sorry, we got confused because we forgot to add Cayman into that.

Sameer Baisiwala: Okay, got it. So, it is Rs. 1000 crores for the current fiscal.

Debangshu Sarkar: **T**here will be upward bias to the Rs. 1000 crores. So, don't hold us on that number, if at all

Sameer Baisiwala: Okay. Got it. And the other question was on the Mumbai hospital. Can you talk a bit more about, how is the asset utilization in whichever way you want to quantify and talk about? And is it really taking longer than what you had initially planned? And what really needs to be done to make it a very optimal usage?

Viren Shetty: We've seen a lot of growth in Cardiac Sciences Program and the Oncology Program in addition to the very sustained and a very steady run of our Pediatrics Surgical Program as well Pediatric Orthopedics and the other specialties which has been going on. So, we are focusing a lot on the high-risk pregnancies because that is a need which not many wanting to focus on our Level 3 NICUs and the high-risk pregnancies all in under one roof. That is something which we are running and, we're trying to focus on that and move that in that direction in addition to focusing significantly on the very high-end NICU and the Cardiac Sciences Program and various other things. So, for all these expansions with the good traction in the Bone Marrow as well as the Liver Transplant programs going, we do need additional capacity for which we have mentioned about that in the opening remarks and that is something which we are working on. But this is something which we are utilizing the

capacity over a period of time, if we do not expand over a period of time then an upper limit for running the services because Pediatric is something which we can't be, you know, unlike other Adult Program where a lot of efficiency and ALOS can be reduced significantly, we may not be in a position to do that when we are doing very high-end tertiary and quaternary care. So, we do need a little bit more of the capacity there. The capacity will be funded through fundraising from our trustees for that hospital.

Sameer Baisiwala: Sir, what's the utilization over there at the moment?

Dr. Emmanuel Rupert: The bed utilization is close to 70% of the beds commissioned and not capacity (we do have headroom to operationalize few more beds basis the uptick in occupancy). That is as per the midnight occupancy but if you look at the Daycare occupancies will be a little higher.

Sameer Baisiwala: With such high occupancy, I would say, it should be very profitable hospital or operations that you're running over there which is not. So, is there something that's holding you back?

Viren Shetty: Rich people don't have sick kids. This hospital was built with the idea that it could be a center of excellence for paediatric cases modeled on the lines of Children's Hospital of Philadelphia, Boston Children's and so on. But in a country like India, given that most of the patients who come with the worst symptoms tend to be from poorer backgrounds, we rely on a lot of government funding, charitable funding to support the hospital operations. So, in time, once it becomes known as this Number one Center of Excellence and people from all over the country come, the patient demographics of the hospital will change a lot, which will improve the finances. But until that time comes, it's going take some time.

Sameer Baisiwala: Yeah, thanks a lot, Viren. That's very helpful. And let me ask one more question and this is for the Cayman Island. So, not worrying about the quarter to quarter fluctuation if I say that you are doing roughly 25 million on the top line and 10 million dollars of say about on EBITDA line, how should now this trajectory be going forward excluding the new Onco block? Until that comes up, how much potential does it have?

Anesh Shetty: Thanks, Sameer. So, the numbers you referenced were, like you said they've already been achieved in say Q3 of the previous year and they're very much our current expectations, so excluding the Oncology block which will be starting soon, we have a lot of room to grow both in Cayman Islands as well as in the immediate vicinity that is for us the Caribbean and certain Latin American countries. There are a few service lines which we have yet to commission. You know, we don't do the bulk of primary and secondary care. We restrict ourselves to tertiary care in most instances. There are certain very high value niche areas such as Neonatology and Paediatric Intensive Care which we are planning on commissioning soon, hopefully in the next year or so, but those are currently not offered. These are services for which patients go overseas and locally they are frequently dubbed, the million-dollar fee because Neonatal care in the US is extremely expensive. So, there are a fair number of specialties which we have yet to commence and we have a clear path. We have the infrastructure, it is just putting the teams in place, getting the right approvals and getting started. Having said that, our entry into the retail high street location with our clinic has given us a good strong foothold into the privately insured market. In fact, in the past few quarters since that clinic has been active, we've seen a good improvement in our Market Share in the private insurance space as well. So, we don't have an exact figure to share at this time, we're comfortably seeing a good pathway to easily increasing revenues from the existing facility we have and with adding new service lines to the existing infrastructure. And this is not to mention that a lot of our recent growth over the last two years was achieved with, I would say, the negative performance of our international business because of COVID restrictions. So as the restrictions abate, those are all channels that we will slowly restart. We had to defer a lot of those relationships because of the COVID restrictions. We will be restarting a lot of those and that is a much larger pool, Of course, more challenges to that, but that's a much larger pool that we have to tap into.

Sameer Baisiwala: Okay, this is useful. And for the fully vaccinated, are there any travel restrictions now in Cayman inbound or it's still pretty much locked up?

Anesh Shetty: No , I mentioned this as well earlier that if you're fully vaccinated you can freely enter and exit but there's just an online portal and you have to fill up

some information. It's something like our Air Suvidha. So, that's the only requirement and that was as of a few weeks ago. So, if you're fully vaccinated you're good to go.

Damayanti Kerai: I'm looking at your presentation slide where you have given operational review for India. So, your ARPOB for the quarter was INR 12.2 million which is around 9% higher than the previous year. So, how should we look at growth on the ARPOB side and what will be key driver? And my other question will be, have you taken price hike for your healthcare services for the fiscal and by how much?

Viren Shetty: As Rupert was earlier saying, the ARPOB is driven by the mix change or the type of procedures that we've been performing and because of the faster turnaround operations and while overall the ALOS has remained the same but we have been able to turn around a lot of the segments of patients faster. So, as far as the price hike is concerned, as you are aware, price hike is not our first lever. We normally look at costs. However, to counterbalance the heavy inflationary pressures, we do take price hikes depending from unit to unit and that happens in January. So, our last price hike happened in January of this year and the next price hike will be scheduled in next January. It is very low single digits if the broad average of price hike which we have taken this year. Next year as we go through the cycle and we roll up our costs and we see how this all stacks up and the efficiencies that are coming in through the significant investments we've made in technology, we will then see what we have to do from a price point of view.

Damayanti Kerai: Also, key driver, as you said, is mainly the mix improvement from the current level and scale up of some new units and not much reliance on the pricing part?

Viren Shetty: Mix change, volumes and throughput drives the ARPOB.

Gagan Thareja: Thanks for taking my question. You did give a detailed response to what's the headroom for growth at Cayman. Likewise, if you could give some idea on what's the headroom for growth in India? And, if you could sort of segregate your northern and western markets and eastern and southern markets and

give your comments specifically for both the markets? What I'm trying to access is, till your capex plans come into effective, how much potential is there for the existing capacities to take you further ahead?

Viren Shetty: So, a lot of the capex what we are doing, Onco, for example is done to add a new service line. So, that is revenue that is additive which is not always already happening. Another kind of capex what we're doing is the room upgrades, the infrastructure refresh, lot of the equipment upgradation that is for increasing the yield per room, increasing the throughput, new service lines like adding new diagnostic therapies and faster scans. But, even without that, on a like to like basis, on the same infrastructure, simple things we're doing on the process side, on the service excellence side or on the digital side are done. So, I'll give an example. A big problem all our hospitals have is, whenever we deal with insurance companies or with government schemes, it takes a very long time to get a patient discharged, whereas everyone promptly shows up for admission at 9 am in the morning. So, there's a big mismatch where most of the admissions happen in the morning, but the discharge happens in the evening. So, that's leading to squeeze in beds. Now, lot of the process change what we were doing and on the coordination between doctors, labs and test results and so on, so that we can discharge patients faster, earlier in the morning. So, with the same number of beds, reducing the discharge time increase the admissions of more patients and increase the occupancy. Otherwise, when my crunch is happening in the day time and occupancy I'm measuring in the night, you may see it as 65-68%, but functionally it acts more like a 75-80%, which is full occupancy. That is one aspect of that. The other is, the clinical team that we bring in. Now, a lot of our clinicians are travelling across. we've done a large number of these procedures called TAVI, which is a very advanced cardiac procedure for valve defects. A lot of them are travelling for doing liver transplants and training our people also. Then, there are robotic surgeries where patients are coming from different cities to get it done. So that is happening on the same infrastructure. the levers for that are just again, landing up patients, lot of communication, some marketing effort and having doctors talk to one another and manage the patients well. The third one is, as Dr. Rupert mentioned, which is, the clinical teams working to reduce the ALOS, which increases the throughput, which in the same infrastructure, will allow

us to see more patients. So, on a like to like basis, these levers will always be there. That is something which is pursued independent of everything else we will do. But, over and above that, in Bangalore, in Kolkata, in Raipur, in a lot of places, even in our Delhi hospitals, we are really still chocked for space. So, our bone marrow transplant is usually always full because a lot of patients require that, and so they need more rooms for that. Or similarly, MRIs and CT scans are always chocked in the morning time, or in the OT you cannot get a slot in the daytime, our ICUs are always full. So, for that, you would have to also do a little capacity addition to address these minor things as well. Then of course, over and above that, we are looking at brownfield expansion, adding lots of beds to Bangalore and Kolkata because there's just a natural flow. At this stage of our company's life, lot of patients come because their family members got treated here. So, it's not that this is the first time they've ever heard of NH, so they've come. Some family members, maybe even their parents have come here, gotten treated, had a good experience and so these are repeat patients for us. And so, that thing just keeps growing the more mature you become as a hospital. So, we have to have enough capacity to take care of them.

Gagan Thareja: While I appreciate your very detailed answer, the issue is, all of these steps, as you say, to start with, in a way help you increase throughput and efficiency. I'm simply grappling with what effective sort of a number or even a ballpark number, in terms of additive capacity it can create or increase throughput by, If you could help us somewhat there? Otherwise, it's very qualitative and very difficult for us to assess a model. And secondly, as you increase throughput, I'm sure it also implies some sort of an efficiency, and therefore improvement in margins. So, would it be a right assessment that, as and when this moves up, there's also margin benefits to be had? If you could give us some idea on both additive capacity and throughput and also maybe enumerate the outcomes of these efforts, and second, the consequences of these on the margins?

Viren Shetty: Gagan, I'm sure you know we don't give guidance on that, and it's not something that we would be able to give with any kind of certainty either in terms of guidance on how much all these digitization activities are going to do. I think, the best just to help you, what I've seen other people do in the model

is, take where we are and take what is best in class. So, for hospitals in the certain region, best in class occupancy is, let's say 70-75% or best in class ALOS is that, whereas we are at 50% and the ALOS is where it is. And so, in the gap between the two, you would just need to make a reasonable assumption that this will happen organically over the next 2-3 years for you to reach that and then assign some kind of confidence interval on that. But, I don't think we'd be able to give you any guidance on just by putting a number.

Gagan Thareja: Yeah, thanks, I get what you're saying. Just one final one. The brownfield, if you could just help us understand both, the timeline over which it materializes and to what extent does it add to the existing bed capacity?

Viren Shetty: These are still in the planning stage. We're still talking with the contractors and architects and designers for doing all of that. These will be little, long laid time projects. This construction alone takes 2 to 2 ½ years, and getting the planning permission and so on would take another 6 months. The Capacity that it would be added in phases. So, ultimately, we want to double the capacity of both hospitals, but that will happen in phases. So, we may start with 200 beds and then keep adding that every couple of years as and when the occupancy reaches a certain level.

Gagan Thareja: So, it would be reasonable to assume that the significant capex budgeted for this year, ex of Cayman, a large part of the balance will actually bear fruit only 2 ½ to 3 years out? Or, am I completely wrong there?

Viren Shetty: No. The significant capex that is budgeted for this year, that will actually come online. It won't lead to any bed increase. This is mostly medical equipment and refurbishments; that's what we're able to spend. For bed capacity addition, those are long laid projects which will take 2-3 years. So, it won't show up in changing the overall beds. These things what we're spending now, apart from Cayman, are most quick wins like refurbishment of OT, adding MRIs, adding some robots, and adding Onco, which doesn't really change the bed mix much, but increases your realization; these are very high margin departments.

Gagan Thareja: Thanks a lot for taking my questions. I'll get back in the queue.

Alankar Garude: Thanks for the opportunity. 2-3 questions. So, one is a follow up to Sameer's question on the hospital in Mumbai. If you see, there's another paediatric hospital in Mumbai which is operating at more than 20% EBITDA margins. We also have the largest mother and child hospital chain in India which is operating at 25-28% EBITDA margins. So, it doesn't seem to be a city problem or maybe an acceptance issue for paediatric hospitals in general in India. So, can you help elaborate on what are the issues which you are facing? Is payor mix a larger issue for us compared to some of our other peers, or any other issue which you can highlight?

Viren Shetty: I'll start and Dr. Rupert can elaborate. The key issue what you have identified, and we are mentioning the hospitals which are going in for listing soon. Those are mother and child hospitals, they don't do really high-end paediatric work. Most of it is birthing and lot of birthing related. Since our birthing program has just started, we're yet to get those sorts of numbers. Whereas, we started from day 1 with a focus on very high-end work on newborns, neonates, young children with serious congenital disease. So, that is leading to the difference. The patient profile of our two businesses are very different.

Dr. Emmanuel Rupert: I think Viren has covered it all. But, that is one more area where we are focusing on the routine general paediatric work; we're putting lot of focus on that as well where there is reasonably larger margins compared to some of the higher quaternary work where there's a different payor mix which we are catering to as of now.

Alankar Garude: Understood. But, I'm just curious on that. If we look at say the largest chain in India, I mean, 70% of their business comes in from paediatrics, 30% only comes in from maternity. And, when I meant about the hospital in Mumbai, I didn't mention the one which is filed; there's another hospital which I was referring to, which I guess has a higher pediatric mix. So, can you help me understand if you just compare it to the largest chain in India, because the mix is broadly similar, 70% coming in from paediatrics. Is it just because of the mix issue, or is there something else?

Dr. Emmanuel Rupert: The clinical mix, because they have just started doing some super-specialty work, apart from doing the NICU work which they are very well known for.

They do lot of retrievals and things like that. But, they have just started to go towards the tertiary and the quaternary work, which we are already well established as a provider of those services in Mumbai. But, we need to have the right mix, and that is what we're working on; the right mix of proper birthing and the right mix of the routine paediatric work, and that is what we are focusing on and trying to get that thing done. the daycare surgeries and things like that.

Alankar Garude: Okay. So, say in a steady state kind of timeline, would these high-end procedures which we are currently doing would be profitable procedures for us?

Dr. Emmanuel Rupert: Yeah, these high-end procedures work well. But, it just occupies too much of your manpower as well, because the more tertiary and the more quaternary work you do, lot of support services also proportionately rises, while the basic secondary level care and the primary kind of care, you don't need that kind of a manpower support. And, that is where we are, and we need to get the right balance in there and that is what we're working towards.

Alankar Garude: Okay. The second question is on Delhi and the eastern peripheral. I guess, there's been some change in how we have reported our clusters in this quarter. So, can you provide some numbers on the margins of Delhi as well as the eastern cluster, ex of Jaipur and Raipur?

Sandhya J: If you look at the Delhi cluster, we have reported EBITDAR margin of about 10.4% including Jaipur. If you look at the Delhi cluster, we would be around the range of 10-11% only in terms of EBITDAR margin, because one of the hospitals is already at 15-16% margin and the other hospital is on track. So therefore, because Jaipur has got added to the Delhi cluster, we have not had a positive bias to our margin numbers. In fact, Delhi performance has been, the northern cluster has recorded one of the highest ever revenue, as well as highest ever margins this quarter. So, the performance has been positive even excluding Jaipur. As far as eastern cluster is concerned, again our commentary is similar. Raipur comes with a slightly higher margin profile, but there isn't a significant positive bias because of Raipur was in the eastern peripheral as well.

Alankar Garude: Understood. So, basically from almost 1% odd EBITDA margin for the Delhi cluster in FY22, we are now, as of this quarter around 19%, even excluding Jaipur.

Sandhya J: Not Delhi cluster, one of the hospitals in Delhi is at around 15% EBITDAR and the other hospital is recovering. As a northern cluster, we will be around 10%. And, there is positive bias that is coming because of Jaipur getting added to.

Alankar Garude: Fair enough. And one final question. Can you comment on capex plans beyond FY23, I mean, very broadly, given that we have not firmed up our exact plans? And also, is it possible to split the broad capex plan beyond FY23 between India, Cayman and US?

Sandhya J: So, Cayman the capex is pretty much done. We will finish the existing capex in Cayman and we will have adequate capacity that will run us for the next short to medium term. As far as India is concerned, like we said, there are various initiatives which are work in progress and they have to materialize. Like we guided, maybe we would invest 700-1,000 crores over the next 3-5 years in India. But, it is not possible to give a more detailed split of this profile right now because there are various moving parts, and some of it will convert. So, it's nor fair to put a number on that right now. We are intending to invest among all the options that we spoke about so far in the call, and as we go through further calls, we can give you more commentary when things fructify and we have greater clarity.

Alankar Garude: Basically, even though the exact number are not finalized as yet, but very broadly, the capex intensity is going to be higher over the next few years compared to what we have seen in the past. That would be a fair assumption, right?

Viren Shetty: That is. But, that's also because we didn't invest anything during the Covid time. So this is catch-up investment that had to happen. The growth capex is driven primarily by Bangalore and Calcutta expansions, but they would have happened regardless.

Gagan Thareja: Just one follow up on the capex, how would you be funding it? What

proportion do you intend to fund from internal accruals and how much pre cost to debt would you require here?

Sandhya J: It depends on certain types of capex. For eg. If we are acquiring land, we will be funding them from internal accruals. But say, if we're buying machinery or putting up a building, etc, that would have more skewness towards there. While we don't have an exact number of how much will be internal accruals v/s debt, but we do not intend to breach the debt equity of 1 at the outer limit; so we would stay in that range. As the propositions come up and we start building our plan, I think we'll be in a position to give better visibility on that number.

Gagan Thareja: Okay. So, would it be a reasonable to summarize that towards the end of FY23 our debt to equity would have changed significantly, or we would have levered up significantly from where we are?

Sandhya J: I don't think we would have levered up significantly. We are, like you are aware, not very aggressive in terms of debt equity. We will lever up in the short term, yes. But, I don't know if I will call it significantly, we will try to keep our debt equity under 1, that's the aspiration.

Debangshu Sarkar: So, I think there were some issues with my microphone out here. I was trying to say that, with that we will wrap up our session today. Thanks once again everyone for your active participation just like the previous calls. Like we mentioned at the outset, do feel free to reach out to us in case of any further queries or clarifications that you might need to address. Thanks once again for participating and being there with us on this forum.