

"Narayana Health Q4 FY '20 Earnings Conference Call"

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Moderator:

Ladies and gentlemen, good day, and welcome to Narayana Health Q4 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Debangshu Sarkar. Thank you, and over to you, sir.

Debangshu Sarkar:

Thank you, Stanford. Good afternoon, ladies and gentlemen. Myself Debangshu, and as you would know, I run the Investor Relations and Mergers & Acquisition practices at Narayana Hrudayalaya. On behalf of the company, I welcome you all to the FY20 Annual Earnings Call of the company. To discuss our performance and address all your queries, today we have with us Dr. Emmanuel Rupert - our CEO, Mr. Viren Shetty - our COO, Mr. Kesavan Venugopalan - our CFO, alongside Ashish Sukhija from the team.

I'm sure you have gone through our Investor Presentation along with our Result Release as well as the Audited Financial Statements 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 risks that they face. These uncertainties and risks are included, but not limited to, what we have already mentioned in our prospectus filed with SEBI during the time of our IPO and subsequent annual reports on our website. 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:

We are pleased to close FY 20 on a strong note with significant uptick in our operational profits as reflected by the Consolidated EBITDA growing by over 33% Year on Year (YoY) like-to-like (pre IND AS 116) basis with Consolidated PAT more than doubling at 136% YoY like-to-like basis (pre IND AS 116). It's important to note that we have been able to achieve this despite the material impact of Covid-19 pandemic on our operations in March which traditionally is the strongest month of the year.

As against 11.9% YoY growth for the period of 11 months ended Feb, 2020, our Consolidated Revenue for the month of March, 2020 registered a degrowth of INR 0.45 bn as compared to March, 2019. Notwithstanding the same, the momentum generated in the last few quarters ensured a healthy 10.3 % YoY growth in our Consolidated Revenue for FY 20, adjusted for the Whitefield facility for like-to-like comparison.



Strategic Focus on Consolidation of Operations Playing Out

- Our emphasis on consolidation of operations with portfolio rationalization through exit of operations at Whitefield and Durgapur (Heart centre and Managed Hospital operations) units during the year has ensured all-round growth across the network. This has resulted in Revenue of our Indian operations growing by 9.7% YoY in FY 20 with over 30% YoY growth in its EBITDA on like-to-like (pre-IND AS 116) basis, adjusted for the Whitefield unit. Continuing its impressive performance trajectory, our international operations at Cayman Islands registered over 45% YoY growth in its FY 20 EBITDA on like-to-like (pre IND-AS 116) basis with over 12% YoY Revenue growth for the same period.
- This comprehensive performance resulted in robust cash accrual from Operations of over INR 2.4 bn for the year post servicing of capital expenditure and financial expenses. This has helped us to deliver healthy return ratios for FY 20 of 23.0% ROCE excluding the impact of the 3 newer hospitals and 14.4% at the Consolidated level on cash deployed basis i.e. adjusted for accounting treatments of IND AS 116, Deferred Govt Grant etc.
- Our all-round showing has helped us maintain a strong balance sheet with very healthy capital gearing and liquidity profiles. Adjusted for cash and bank balance of INR 1.1 bn and a further INR 0.7 bn of liquid current investments, as on 31st March, 2020, our consolidated net debt is INR 5.3 bn with FY20 consolidated EBITDA of INR 4.1 bn on pre-IND AS 116 basis translating into Net Debt/EBITDA of 1.3x (on Trailing Twelve Month ie TTM basis). We believe, this does provide us a lot of competitive advantage especially in these testing times.

Operations: Non-Flagship facilities adding to profitability

- The continued industry leading profitability of our 3 flagship units complemented by operations steadily ramping up at the 3 new units and at Jammu facility helped this cohort to grow its EBITDA by over 12% YoY on like-to-like (pre IND AS 116) basis for FY 20. Amongst the newer units, in line with our expectations, our operations at Dharamshila hospital at Delhi, which had broken even at EBITDAR level in Q3 FY 20 has now broken even at EBITDA level in O4 FY 20.
- Continuing its strong growth momentum, for the fiscal year FY 20, the category of other Hospitals (non-flagship, 3 new hospitals and Jammu) delivered an impressive 58.9% EBITDA growth on like-to-like (pre IND AS 116) basis, resulting in an healthy EBITDAR margin of 14.7% when adjusted for Whitefield unit.
 - Our hospitals at Ahmedabad, Jamshedpur and Guwahati which had collectively broken even at EBITDAR level in FY19 continued its upswing in FY 20 while registering an EBITDAR margin of 9% with all the three hospitals being in the green on a standalone basis.



To further strengthen this category, we have planned investment across civil as well as medical infrastructure across centres. We are in process of adding capacity at select units while beefing up the service line with the Radiation Oncology program being already launched at our Raipur unit during the last fiscal.

Separately, we commenced Out-Patient consultations at our latest greenfield Heart centre at Imperial Hospital, Chittagong in February 2020 with plans to kickstart Inpatient procedures from March which subsequently got affected by the Covid 19 induced lockdown. We remain confident that this centre, being a strategic fit for NH, shall act as an extension of our Eastern cluster leveraging upon the operational synergies emerging out of the region.

Progressing Well towards Quaternary Multidisciplinary Care

- Evolving case mix centred around minimal invasive surgery program coupled with
 optimum usage of the existing medical infrastructure has helped to register a healthy
 growth in the number of our discharges of over 10% YoY for FY 20 along with ALOS
 coming down from 3.9 days in FY19 to 3.5 days in FY20 for India business.
- Our focus on performing high-end procedures such Bone Marrow Transplants, Heart
 and Liver transplants, etc along with changing specialty mix and increasing
 International patient base has ensured our ARPOB growing by around 8% in FY20.

With our continuous focus on cutting-edge advanced clinical care programs, some of the key clinical achievements of the last quarter are as follows:

- Narayana Superspeciality Hospital, Gurugram successfully operated a rare case of adenoid cystic carcinoma of trachea. It is very rare with incidence of 1-2 per million of population
- Narayana Institute of Cardiac Sciences, Bengaluru successfully performed a heart transplant on a 4-year-old patient, the youngest patient in the state to have undergone a heart transplant
- Narayana Superspeciality Hospital, Howrah successfully treated a rare case of baby suffering from ALCAPA (Anomalous Left Coronary Artery arising from Pulmonary Artery)
- Narayana Superspeciality Hospital, Gurugram successfully performed endovascular procedure of dural fistula embolization patient diagnosed with complex torcular dural fistula with severe intracranial venous hypertension



Digital Focus – On way to transforming every aspect of business

Recognizing the power of digitization, over the last couple of years, we have embarked upon a host of initiatives focusing upon driving patient safety, efficiencies, data security amongst other things. Few key landmarks of the last fiscal are as follows:

- We have started rolling out in-house custom-made cloud-based, fully scalable Athma Hospital Information System (HIS) across the network.
- Our data analytics product, called Medha has been a valuable tool in helping hospital administrators cut down costs, and doctors to make better clinical decisions.
- We have implemented a centralized data repository system to support online and offline data capture for clinical research studies and related operations

In the end, I would take this opportunity to express our gratitude to you all for the confidence reposed in us which has resulted in the well-diversified broad-based institutional shareholding of the company.

In the backdrop of the unprecedented crisis the world is facing at the moment, there is no denying the short-term challenges for our industry. With NH's preeminent position in the Indian healthcare landscape, we remain optimistic about our business prospects in the medium to long term. With our unflinching commitment towards ensuring safety for our patients and staff at all times, we remain confident in our ability to deliver quality care during these testing times.

Debangshu Sarkar:

Stanford, we can now open the floor for Q&A.

Moderator:

Sure sir. Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sajal Kapoor, an individual investor. Please go ahead.

Sajal Kapoor:

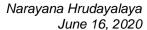
So first question is with reference to our Bangladesh cardiac centre, which is an asset-light model, do you think that the hospital's bed count as a lead indicator for future growth is kind of losing its relevance?

Viren Shetty:

Yes. We have indicated on several calls earlier as well that both bed growth as well as occupancy are losing their relevance. I think bed count will not be a leading indicator. We don't honestly have a very good leading indicator at the moment. So, we are using a combination of parameters - discharges, the average length of stay and the number of ICU bed days. But hopefully, in some time, maybe in a year or so, as the system gets more mature, we will have something that will give a better proxy for what growth in our company would look like.

Sajal Kapoor:

Sure, Viren. So, I'm, yes, of course, joining your call for the first time. I was looking at your Fy19 annual report where it says the bed count as 7,155, but the presentation says 6,597. So the bed count is lower. I mean have we decommissioned any facility or what has happened on a 12-month basis?



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Debangshu Sarkar:

Sajal, I can answer that. So what you are referring to is the capacity beds and not operational beds in the first instance. Separately, during the year, as we have previously mentioned, we have decommissioned our unit at Durgapur which was essentially a managed hospital as well as an associated heart center and also Chinmaya Heart centre (CNH). Along with that, we have also exited operations at our Whitefield unit. This adds to approximately the number of units that you see reduction from what you just described.

Saial Kapoor:

Understood. And secondly, looking at the improvement in the ALOS, the average length of stay, and is there a scope for further improvement? And I'm thinking along the lines of technology playing its role, so robotic surgery, faster turnaround. So is there a target that you guys have in mind? Or what's the trend looking like going forward? And I'm thinking more from a 3- to 5-year perspective here.

Viren Shetty:

Yes. It is very difficult to decrease it further. We are already at 3.5, it's almost an industry-leading number. Now as long as we have a healthy mix of very complicated procedures that are long-stay and more short-stay daycare procedures that are minimally invasive, robotics, cancer and so on, this number will not reduce in the same proportion the way it did in the past years, where we went from a number that was closer to 5 to where we are at 3.5 now. But you're right in that we are constantly making investments in robotics and daycare procedures as well as improving our skill and clinical care, and the number should come down. Furthermore, a lot of the activities we have focused on, which is online health care as well a lot of daycare procedures don't count towards the length of stay because the patients come in the morning, leave in the evening. So the number will go down, but I won't put any guesses on ALOS reduction. But in a 5-year timeframe, I would agree with you. I think the number could hit closer to 3 once all procedures start to become minimally invasive and the number of drugs that are available have a much faster recovery period.

Sajal Kapoor:

Sure, Viren. And finally, on the ARPOB, I see a 9% Y-o-Y improvement growth, that is. And we know what's happening in this fiscal because of Covid and everything. Assuming a more normal operating environment in the next fiscal, is there further improvement possible on that front as well, especially on the northern region, North and West?

Viren Shetty:

Yes, it's very hard to imagine what life would have been like without Covid. In the best case scenario, I would agree with you that we had done a lot of rate revisions and been able to turn a lot of contracts over. I would say half the number of payers we deal with are on a new price list. And in this year, we would have started negotiating with the other half and converted them to the new prices. But unfortunately, with whatever is happening now, a lot of those discussions have stalled. And a lot of the payers also are in no position to even have the discussion on the new rates, but it's something we'll keep pushing for. Independent of that, the quality of the clinical work we are doing has gone up in the sense that now, even though our total volumes are less right now given the pandemic, the few people who are coming are coming for cases that are much more serious. So by a natural sequence of just by case selection, the ARPOB of the kind





of patients we are seeing is higher. But then definitely, if given the choice between high ARPOB and more occupancy, our preference would be, at least for this year, to drive more occupancy.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please

go ahead.

Pritesh Chheda: My question is, was any of our hospital was a Covid hospital during the past 60, 70 days that we

have seen? And if you could help us with the occupancy and ARPOB changes that you would

have seen in the past 60, 70 days, that would be really helpful.

Dr Emmanuel Rupert: We have certain beds which have been allocated for Covid, as per the state government's policies

in various states. While our Children's unit at Mumbai has been designated as a Covid Hospital for children, given not a very rate of utilization, we have been able to do non-Covid work as well. But apart from that, one of the older units in the Howrah unit, the Narayana Multispecialty Hospital (NMH), has been taken up as level 2 Covid facility. That means they are very mild kind of cases. So we have our occupancy of around 30 patients there. And we have a similar occupancy of around 30 patients in Ahmedabad and in our Dharamshila hospital as well. And around 20 beds occupancies in the RTIICS flagship and in Jaipur unit each. The prevalence is

very low in South. So we are not seeing that kind of patient inflow into our southern units.

Pritesh Chheda: So which means barring Mumbai, which is a full-fledged Covid hospital, other places it's been

some amount of beds which have been allocated, right?

Dr. Emmanuel Rupert: Yes, that's right. Even in Mumbai, utilization rate has not yet breached more than 10 positive

patients at any point in time and we are indeed treating much many more non-Covid patients as

compared to Covid.

Viren Shetty: Roughly between 10% to 20% of the beds have been kept for Covid purposes.

Pritesh Chheda: And on the occupancy trend, if you could give some highlight, occupancy and the ARPOB

because we were hearing some industry calls and it seems to be suggesting that the occupancy drop would be more than half. And if it is a Covid hospital, then the ARPOB drop is more than 60%, 70%. So it would be really helpful if you could give some color because the cash loss calculation is really different if we tend to put some of these assumptions. And just to add here, did we incur a significant cash loss during the last 3 months of operations to give us a guess on

some debt figure, eventual debt.

Debangshu Sarkar: Thanks, Pritesh, this is Debangshu here. For the reasons that we have probably elaborated in

responded, we are not actively monitoring the occupancy metric that much as we are doing it through revenue terms. And I'm sure you get the impact of what you want to understand through the same analysis through revenue in probably better terms. As a result of which, actually, if you

detail in our previous calls and what Sajal's previous question also touched upon and Viren

refer to the Covid note that we came out sometime in late May, it gave you a sense of the impact that our business had, at least for the month of April, wherein we had mentioned that the revenue



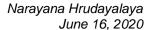
level that we registered was around 35% of what we did pre-Covid level. Just to avoid any doubts on the same, when we say pre-Covid level, we refer to the actual revenue that we achieved in the month of February at a consolidated level, which was around 260 crores. And this is factoring in that it was a 29-day month, unlike, let's say, a January or July which were in absolute terms higher than those numbers. So referring to a base of 260 crores, we have already given you the sense of our April number, which was around 35% in the revenue terms. There has been some bit of improvement in our May run rate from there, but not a very significant run rate to speak of as you would appreciate that the ease down of lockdown restrictions has been relatively slowly phased out and that too has not been very prominent, let's say, outside of Bangalore or for that matter, so to say. Having said that, as we speak in June, we have only the benefit of 15 days that have elapsed since the start of this month, the operational trends are better as far as the Indian business is concerned.

Just going back to your question on the profitability, again, because of the Covid impact, which Dr. Rupert also mentioned during his opening remarks, we did see a material impact in our March performance in itself, which traditionally is the strongest month of the year by far. So that resulted in a revenue impact of anywhere close to 65-70 crores at a consolidated level and resulted at an EBITDA loss of around 35 crores at a consolidated level. On the EBITDA front itself, obviously, there is no denying that given the higher fixed cost in general that the industry sees, and in particular, in our case, which in good times gives us the benefit of a higher operating leverage, has impacted us in terms of the profitability.

Without spelling out the actual numbers, what I can guide you towards is, when I said that the 35% revenue achievement of pre-Covid level was for April, the breakeven point with the revised cost structure that we have put in place from 1st of April with the host of measures in terms of graded salary cuts and few efficiencies in terms of the overhead utility cost and all, it appears prima facie that the breakeven point at a consolidated level is around 70% of our pre-Covid revenue. And as things stand right now, in June itself, we might be close to it while, obviously, I don't foresee us breaking even at an EBITDA level in June, as things stand right now.

Detailing it even further, our Cayman operations, because of the impact that we have previously disclosed with you in our last call sometime in March itself, got impacted and registered an EBITDA loss in the month of March and subsequently followed it up again in April. But with uptick in volumes, it has turned in the green as far as EBITDA is concerned in May and trend so far suggests that the similar trend of May is going to continue in June.

And coming back to your question on the gross debt and associated cash flow with that; as we have shared in our presentation, and if you have recognized from that, from our 31st December, 2019 there is an increase of around 40 crores in our gross debt as of 31st March 2020, which was borrowed in the late phase of March to finance some bit of our working capital requirements given the inflated costs at which we had to procure the PPEs and other stuff.





Having said that, as I speak at this moment, we have not borrowed a single penny beyond that. Our absolute debt today is actually lower than what we have disclosed on balance sheet as of 31st March. And this has been possible because of very efficient working capital management, aided by strong collections as well as effective creditor management, along with the ample liquidity that we had on books and we still continue to enjoy with the cash surpluses that we have been running for some time now in our books, particularly from the overseas operations.

Pritesh Chheda:

Just confirming your net debt is lower than what it was in March, right? That's how you're saying?

Debangshu Sarkar:

I'm not saying net debt, I'm saying our gross debt today is lower than what it was in March. Part of the funding that I utilized during the period of these last 2 months has been through the cash that we had on our books and part has been financed by working capital management. So net debt wise, I have increased a little bit, but gross debt is actually lower than what it was in 31st March.

Pritesh Chheda:

But you just said that gross debt taken is 40 crores between March and June. You started with that.

Debangshu Sarkar:

No. 40 crores is from 1st of January till 31st of March, 2020. On normal run rate basis, if you would have seen our financial trajectory over the last 3-4 quarters, quarter-on-quarter, our gross debt as well as my net debt was improving, which did not happen for the last quarter, but for the last 15 days impact of Covid for which we had to borrow that incremental 30-40 crores.

Pritesh Chheda:

In June, you said you're running at a breakeven level, right?

Debangshu Sarkar:

No, I didn't say that we are running at a breakeven level. I said that our breakeven appears to be around 70% of my February revenue at a consolidated level. It appears we would be close to breakeven in June given the current trends, please don't hold me on to that. You would appreciate that in normal times, we do not give this kind of detailed guidance. I understand where you guys are coming from, and these are unprecedented times and that's the reason, to help your cause, we are just telling you that it appears that we are running close, if not achieving breakeven, at EBITDA level with the revised cost structure.

Pritesh Chheda:

This is your India specific?

Debangshu Sarkar:

No, this is consolidated. Like I mentioned, our Cayman operations have already broken even on EBITDA level as of May itself.

Moderator:

Thank you. The next question is from the line of Shantanu Basu from SMIFS. Please go ahead.

Shantanu Basu:

So in your Covid release, it was mentioned that there would be a reduction in employee and overhead cost. So just want to know for FY '21, what percentage of FY '20 costs would be there?





I mean, how much percentage of FY '20 cost would actually be reflected in FY '21 for employees and overhead?

Debangshu Sarkar:

Shantanu, it's a little difficult for us to answer that at this stage. I'm sure you'll appreciate that a lot depends as to how this trajectory of the pandemic pans out. So as things stand today, we are not even sure if this revised cost structure will be there for the entirety of the 12 months or not or it will get elongated for even a higher period. So as it is, for the moment, it's probably better that we look at it on a monthly basis, so to say, practically speaking. So, we have given you enough guidance through our previous responses as to how the things have changed from March itself to April to May and as we speak on 16th of June today. Anything beyond that, it's a little difficult for us to comment at this stage. As and when we have clarity, possibly over the next call, which is due for Q1 earnings sometime in August, we might have more data to come back to you on that kind of detailing. I hope you will appreciate that.

Shantanu Basu:

Okay. And another thing is the CAPEX plan for FY '21 and FY '22 and how many beds addition?

Viren Shetty:

We have not planned any significant bed additions for this financial year other than some 100 odd beds that are in commission in places like Raipur and a bit of expansion in Delhi and so on. As for Capex, obviously, given the sort of situation that we're in now, we have curtailed it to almost the bare minimum that is required for maintaining the steady state operation. And this is something we had been curtailing also from the last financial year, during which we had deferred a lot of the capex. We cannot defer it forever, honestly. A lot of equipment is quite legacy equipment, and there are things that are on the verge of breakdown that will need to be taken up, but we'll be taking up on a case-to-case basis. But yes, one thing that at least as an organization we know for sure, whatever the Capex is spent will be only emergency type Capex and will be significantly less than the annual 150 - 200 crore Capex guidance what we normally have.

Shantanu Basu:

So would it be half of that?

Viren Shetty:

It's hard to say. It's unlikely that half of our equipment will just conk-off tomorrow. But the fact also is that if the situation improves, and if things get back to normal faster, then we definitely have to accelerate our CAPEX expansion because then the numbers of patients coming in will justify getting the newer generations of equipment. But in absence of that, it will be quite a low number.

Debangshu Sarkar:

Shantanu, just to add on what Viren said, just to give you a sense, during the last quarter of fiscal year FY '20, like Viren mentioned, we have deferred out certain Capex that was planned last year. And with that, for the full year FY 20, we have incurred a CAPEX of 116 crores as against the plan of 140 to 150 crores.

Moderator:

Thank you. The next question is from the line of Rishabh Lahoti. Please go ahead.

Rishabh Lahoti:

Sir, looking at these trends, when do you think your business will be back to normal? When do you think international patients will be coming back to your hospitals?



Viren Shetty:

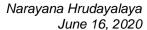
So, there are 2 different questions you asked, right? When do things come back to normal and when will international patients start coming. I'll answer the international part first. There are some positive indications that the land borders from Bangladesh will open up soon. So that will go some way towards addressing that part of it, given that Bangladesh is a significant contributor towards international patient flow. But fact is, it's really unclear right now because a lot of the Middle East Africa traffic goes through hubs and we are not yet sure of what the requirements are. See, the thing is medical tourists are in the highest risk bracket of patients who should not be traveling. Even though they are the ones who most need to travel, they are also the ones that are the most vulnerable to succumbing to Covid-19, if they catch it during a flight. So we are on a lot of these government advisory boards, are telling them how to plan for these things. But on the sort of conservative side, I don't see it opening up for another 6 months, but I could be wrong also. There's just simply too much pressure to allow international flights to reopen, considering all the cost. Considering that you may face an outbreak, but still it may happen. But conservatively, I would say, 6 months for international flights, given the current trajectory. As for when things go back to normal, it is not a sort of binary thing. You see April was the worst month we've had since I can possibly remember, May improved from April, June improved from that, July will get better while the case counts which in April was few hundred is now close to 3 lakhs. So what's happening not so much is that Coronavirus is going away. I think it's worse now than it was then, but people are learning to accept it as part of life. And so there are certain behaviors that will be permanently altered, which means people will necessarily just delay getting the procedure done for as long as possible. But a lot of the backlog of cases that get delayed will have to come, no matter what. Patients we've seen are not coming so much for the physical OPD. They are preferring the online. And that is the behavior that may be forever with us. A lot of patients are coming to our clinics rather than the hospital. So we are pushing more doctors towards the clinic. So in that sense, things will never really go back to normal in the way that it was in Jan, Feb. In 6 months from now, this will all seem like a bad dream.

Rishabh Lahoti:

One last question from my side. Is it possible that some sort of domestic patients might not go to other countries to do their hospital work. They might come to Narayana. So in a way that can offset the revenue you are losing due to international patients not coming?

Viren Shetty:

Yes, absolutely. See, one thing that it forced us to do is to start looking at more domestic sources of patients. So Central India, which never used to be a place from where we thought we would get large number of patients, during the lockdown, we had 2 chartered planes come and bring these patients who could afford to pay, got very complicated surgeries done in our Health City in Bangalore and flew back. So the definite need is there, and these people paid more than any medical tourist would have paid. It's not in the same numbers. So we will spend the next couple of months or even years building up better channels for treating patients within the neighboring states as well as offering very high-end care towards patients in other parts of India who would normally have gone towards, let's say, Delhi for treatment and we will offer them NH as a very good alternative for that from the cost as well as a quality perspective. But it takes time. I am not going to say we can immediately substitute the 10% of revenue or whatever you used to get





from international with domestic patients tomorrow itself. It will take time, and we are working very hard to achieve that.

Moderator: Thank you. The next question is from the line of Ashi Anand from Allegro Capital. Please go

ahead.

Ashi Anand: I just had a quick clarification on the Ind AS impact. For the first 3 quarters, it was about 8 crores

per quarter. And this quarter it has kind of risen to 18 crores. Just trying to understand why such

a sharp jump in Q4?

Debangshu Sarkar: Yes, Ashi, this is Debangshu again. This is on account of a late recognition at our end of around

9-10 crores of Ind AS 116 rental impact at our overseas HCCI location, which got completely

recognized in this last quarter.

Ashi Anand: Okay. So going forward, about 40 crores per year is the number we should be going with, right?

Debangshu Sarkar: Basis the current run rate, yes.

Ashi Anand: Okay, perfect. And would we possibly share how much of this kind of comes under depreciation

and how much under interest and then what's the Ind AS impact on those 2 line items?

Debangshu Sarkar: Already shared as a part of our Investor Presentation. Everything is addressed in detail providing

separate impact for Q4 as well as FY '20 in the Investor deck as well as the Result release.

Moderator: Thank you. The next question is from the line of Akhand from YES Securities. Please go ahead.

Akhand: Sir, my query is related to Cayman Island. So in fourth quarter, the facility was like closed

actually. So for how many days it was closed and when it will become operational, sir?

Viren Shetty: The Cayman facility was closed for 2 weeks in March, and we had a tentative opening for the

next week after that. And it became fully operational since mid of April.

Akhand: And sir, in terms of the financial, what was the impact on the financial revenue front in the

March month actually?

Debangshu Sarkar: Akhand, I have already addressed that as a part of my response, which I detailed out to Pritesh.

So from a run rate of over \$5 million of topline translating to around \$1-1.2 million in EBITDA, pre-Covid, we went down to negative EBITDA for the month of March in Cayman Islands, and the same continued for our April operations as well. Since April, i.e. starting May, there has been slight improvement over there in terms of the operational performance, which has resulted in the particular operations over there turning again in the green as far as EBITDA is concerned from May onwards. And June, as we speak, the similar trend as of May is continuing for the

moment, which is around a run rate of around \$3.5 million per month in revenues.





Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha.

Please go ahead.

Charulata Gaidhani: Yes. My question pertains to the ARPOB. Can you give me the ARPOB for Q4 in India and in

Cayman?

Debangshu Sarkar: Q4 for India is 99 lakhs.

Viren Shetty: It's \$1.5 million in Cayman.

Charulata Gaidhani: My second question pertains to the Dharamshila, the exceptional loss that you have taken. Can

you throw some more light on it?

Venugopalan Kesavan: We entered into an agreement for this unit effective April 2017. And possibly, the forecast which

we made for that arrangement, based on which we recognized the contract financials, I think, we are not holding good, in terms of the last couple of years, on losses and the future projections. So to that extent, to possibly consider that or factor that as a part of our valuation of the goodwill and the intangibles what we took as a part of the contract, so we recognized that part in the exceptional item as a write-off of goodwill and the intangibles. This actually has happened majorly because of the Covid situation, which has resulted in substantial business not coming through for the next few months as well as having forecast which will be less than what was

forecasted before.

Debangshu Sarkar: Charu, just to add on to what Kesavan said and highlight, we never made any cash investment

in the capex initially while we did the transaction with Dharamshila, as you are aware, that was an asset-light transaction. This was recognized as a non-cash financial lease entry towards accounting in the books. Towards that extent, even the exceptional loss that we have booked is again a non-cash entry. So we never paid for this in the first instance that we need to write-off anything in cash. So this is purely an accounting treatment that has happened, whereby we have impaired a noncash impact that we have recognized on our books, purely on account of what

Kesavan just explained in terms of the business valuation impact.

Charulata Gaidhani: Just a last one to squeeze in. In case of Cayman, in the current quarter, do you think the ARPOB

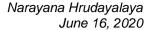
will be around the Q4 levels or it would have gone down?

Debangshu Sarkar: Difficult to hazard a guess, Charu, but sense is given that occupancies across the board, be it

Cayman or otherwise, is muted, while the average realization per patient is definitely seeing a pressure given that a lot of elective surgeries are getting deferred. But equally enough, the occupancies also are muted as people are not visiting in as many number as before. Thus, at an ARPOB level, you may not actually see much of a difference. If at all, ARPOB may actually see

an upward bias.

Charulata Gaidhani: But occupancies will be like you had 40 beds occupied in Q4. In Q1, how would it be?





Debangshu Sarkar: As we speak, it is around 25.

Moderator: Thank you. The next question is from the line of Manish Poddar from Nippon AIF. Please go

ahead.

Manish Poddar: So I was just trying to understand in the Cayman facility, despite the 2 weeks lockdown which

was there in the month of March, our margins or you look at the absolute EBITDA is actually higher than what you did in Q3. So just want to understand what is the reason for that? And let's say, whenever things stabilize, 6 or 12 months, 18 months out, would this be the trajectory going

ahead?

Debangshu Sarkar: Manish, there are 2 elements to that. One is there is, like we mentioned in probably one of the

responses previously, we have recognized full impact of Ind AS 116 treatment in this quarter itself. So the numbers (post IND AS 116) that you are seeing for HCCI for Q4 and thereby FY '20 appears higher than what it was for till the 9 months' period (pre IND AS 116) that we had previously shared . Because we recognized around \$1.2 million worth of Ind AS impact in Q4 itself; it led to increase in post IND AS 116 EBITDA in Q4. Having said that, even adjusted for that, the unit did see normal operations for the entire months of January and February and they

were real strong months operationally speaking.

Manish Poddar: These cost measures, which you have taken, roughly 20% cost reduction, if I believe, after Covid

stabilized, would this cost levels remain at similar levels? Or after 12 months out or 18 months,

there will be again a cost bump up and one should expect similar margins during that time?

Viren Shetty: See, a lot of the things that we've done, there's 2 parts of it. One is for the doctors, they have

these high retainers which were converted to a variable pay. That is as per the terms of the contract. So will be revised on a sort of ongoing basis. So we will not see an immediate bump in the cost there, but it will happen as and when the operation stabilizes. The second part is on the non-medical costing, where everyone has taken between 10-20% pay cuts. That is not practical to keep going once things are stabilized. So as and when things improve, we will have

to sort of get back to a normalcy in the payout. So that will see a bump in the cost.

Manish Poddar: And just 1 more, if I can, Viren. There has been pricing regulation which has happened in

Maharashtra. I'm not sure if other states or, let's say, key state, Karnataka, has done anything. And I understand you don't have any material operations in Maharashtra. But given the price log

which has come across, do you see any sort of risk due to that for your operations?

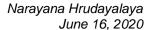
Viren Shetty: I think what you're talking about is when they released a list of charges on the GIPSA rate for

all the cash-paying patients also in Maharashtra.

Manish Poddar: Yes, which is applicable from August of this year.

Viren Shetty: Yes. I mean, anyway, our rates are more or less within 5% of that. So even in that situation, it

wouldn't have really mattered too much. And since all the work we do in Maharashtra is on the





paediatric side, a lot of these are long-stay procedures that are usually not covered by insurers and aren't part of this price capping. But our prices are quite comparative. So at least from whatever they announced on the Maharashtra side, we are really quite comfortable with the rates that they decided, but we didn't take a strong stand whether to support or argue against it.

Manish Poddar:

But if these similar, let's say, rack rates come across for, let's say, Karnataka?

Viren Shetty:

No, it hasn't come about in most of the other states. And even in Maharashtra, it's still a thing that's being fought over. The fact is that why this became contentious is the government wanted to fix the prices for non-government scheme patients, noninsured, the cash-paying patients. And the fundamental business model that all hospitals in India follow is cross subsidy, which is someone pays less, and so that means someone else has to pay more. To unilaterally fix it for everyone coming to the hospital meant that everyone's entire base will need to be revised. It's very unlikely to happen in most other places. What we predict will happen is they will fix the Covid charges. How much you can charge for Covid treatment, like it's happened in Telangana, and 1 or 2 other states. So in that, what we've done is, we've made our entire pricing system more transparent. We have gone for fixed packages for Covid daycare treatment as well as Covid ICU treatment. And we have made sure with very clear signs and transparency what the inclusions and exclusions are. And it is quite competitive than most of the other prices in the market. So we got appreciation for that. In case should it happen that they fix, I would say it would only be restricted to Covid scenario.

Moderator:

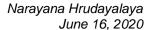
Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala:

So first, is doctor availability and paramedical staff, is that some sort of a constraint?

Viren Shetty:

I mean, of course, Sameer. More so now because what happened is when the lockdown was announced, a lot of people were in either in another city or in the native place and so on. So the travel back and forth was difficult. The other one is, particularly in Delhi, is that our hospital in Dharamshila, which is East Delhi, a lot of doctors were staying in Noida. So they were not able to cross the border. Similarly, for hospital in Gurgaon, a lot of our doctors are staying in Delhi, and they can't cross the border there either. So it's a lot of logistical challenges that have happened. Similarly, a lot of doctors' burnout has been there. A lot of doctors have been very stressed, and they can't be as productive as they were earlier. Nursing, what happened is that we are not able to replenish the number of nurses that have gone through the natural state of attrition right now. That is a very serious problem, which until things stabilize and flights resume and so on, it won't be easy for us to replenish on the nursing side, which is more of an issue for dealing with the day-to-day work than on the doctor side. But yes, it is something we are dealing with on a day-to-day basis.



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Sameer Baisiwala:

And, Viren, just to think about how and when the business will normalize, what is the biggest bottleneck as of now? In the sense that, is it intercity travel of the patients or is that they are just too scared to come? Or is there some other bottleneck before you get back to normal business?

Viren Shetty:

I mean, everything that you said. So I'll tell you based on which number I'm trying to achieve. If I am talking about patient footfall, the biggest bottleneck is lockdowns, interstate transport and confidence. If I am talking about on the manpower side, biggest bottleneck is what I mentioned earlier about the doctor availability. If I'm talking about on my profitability side, the biggest bottleneck is the fact that all the hospitals are mixed, doing Covid and non-Covid work. So Covid cases tend to drive away non-Covid cases, and it takes up a disproportionate amount of attention with a very low reimbursement, in the sense that there's very little that you can do for Covid patients. A lot of them are just regular fever patients. And it's not ideal for them to be in our sort of hospitals. But anyway, we have to take care of them, and we are taking care of them, but this is not the intended purpose of the hospitals that we've built. So as long as we have hospitals in states where there is a large number of Covid patients and those Covid patients are getting treated in private hospitals, this will continue. In places where things have normalized, where the numbers are less, there we're starting to see a gradual pickup in the elective activity. But yes, now there's one study that's saying this will go on till November.

Sameer Baisiwala:

And when you say lockdown is one of the first reasons patients cannot go from their homes to hospitals. I mean, lockdown is not applicable to them. So what exactly was different there?

Viren Shetty:

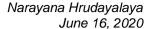
No, I'll tell you what happened in one city I wouldn't name. Yes, you can go if it's an emergency, but at every checkpoint our patients were stopped, and they were made to roll down the window and policemen would ask them, where are you going? Why are you going? What is this for? Show me the medical report? Give me proof? And so this acts as a huge deterrent.

Sameer Baisiwala:

Okay. Got it. The second question is regarding Cayman Islands. What are the local conditions there like? Is it like India, which is like under lockdown and etc. Or is it more easier conditions there? And second, your plans of Onco addition over there?

Viren Shetty:

Yes. So Cayman, they had a case very early, and we overreacted a little bit and we closed down the hospital and took all the precautions. And of all the 40 people that came in contact with that Italian patient, only 2 ended up positive and both of those had a fever and they finished the thing. There were very few cases on the island to start with. But what happened is they also overreacted and shut down all the borders and chased away all the expats and it went in that way. They don't have as many cases as India, not as a percentage, obviously not in the total number. And things have improved. Now we are actually perversely benefiting also through the lockdown because historically a lot of patients who would have normally flown to the U.S. for getting the regular treatment and that's not an option for them anymore. So they're coming to us even for the very standard procedures that we never used to get patients coming. The second part, you asked about the oncology. We're still going ahead with that. But we're just waiting until there's some positive signs that the flights are allowed to go and it is easy for us to get the equipment in and out.





Oncology is still a very solid addition to Cayman. And regardless of the financial situation, that is something we are 100% behind, and we believe it needs to be done. But there are some practical considerations why we would delay it by a few months because we simply won't be able to get people in and out to do the work.

Sameer Baisiwala:

One final question from my side. And that is, for the India network, your slide showing higher discharges for fiscal '20 and higher ARPOB, is it all driven by lower ALOS or should we see them independent?

Viren Shetty:

Low ALOS has been one of the key drivers of that.

Moderator:

Thank you. The next question is from the line of Siddhant Bhandari from Highwest Global Management. Please go ahead.

Siddhant Bhandari:

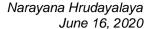
My question mostly is centered around viability of nursing homes and standalone hospitals. It sounds like there's a fair bit of operational complexity that Covid brought on and financial stress. So do you see sort of this vacuum in terms of the number of standalone operators reducing over the coming years? Or do you think that there won't be any material sort of market share?

Viren Shetty:

These sorts of crises situations generally trend towards consolidation, just anecdotally. I mean, there's no sort of study I can quote, but from people that we know in the industry, a lot of the mom and pop shops have simply closed business. So for them, the cost base is very less. It's just 1 or 2 proprietors who manage the whole show. And so for them, they've just not been able to pay salaries to their assistants and have closed down. It is quite hard for the single standalone hospitals because they don't have a very large diversified group that's able to manage things. So a lot of these single standalone hospitals will only have 1 or 2 very key specialties, and that's about it. So it is tough. It is extremely challenging time for them. We see what's happening because of that, patients choose opting not to go for places where the hospitals are operating at such thin margins that they cannot afford to take the kind of precautions that we have. So in our hospitals, the entire place is zoned. We have all the staff in full PPE. We have reduced the shifts, we are willingly cutting down on the volume of work we're doing so that the few that we do we do very well, whereas those guys had single-digit margins to start with and they simply don't have the ability to invest upfront nor do they have the ability to pass on those costs to their patients.

Siddhant Bhandari:

Got it. And just one final question from me. So assuming that the lockdown sort of gradually is lifted, you will have a bunch of pent-up demand whose needs have to be fulfilled. You'd probably have sort of this stigma associated with going to a non-branded sort of hospital chain just because of hygiene concerns. Maybe that's unfounded, that's just a story that we have. So I guess coming out of this, on the domestic side, is it possible to believe that if lockdown restrictions ease out, you may actually see a higher sort of patient footfall than before? Or is that sort of not the right way to think about it?





Viren Shetty:

No, it's not the right way to think about it because what the unorganized players have that larger hospitals don't is very low cost. Given that now people have been struggling economically, financially and so on, they may find that it's just simply too expensive for certain class of procedures to get it done in the larger, more-standardized organized hospitals. So they will still prefer going to these other places to get the treatment done. While I would count on definitely some amount of this flow being moved into our bucket, it's not something that will immediately translate to success.

Moderator:

Thank you. The next question is from the line of Jason Soans from Monarch Networth. Please go ahead.

Jason Soans:

You did mention that it will take 3 to 4 months as per your estimates to for the situation to normalize. Just wanted to ask you. I mean, in a post-Covid scenario, how do you look at demand panning out? And from an overall perspective, how do you look at demand post this crisis?

Viren Shetty:

When you say demand, you mean demand for surgeries?

Jason Soans:

Yes, demand for surgeries, yes.

Viren Shetty:

I think what will happen is that, yes, people who've been postponing will end up having to get it done. But 1 or 2 things will happen. Number one is what I just described, which is a lot of this pent-up demand, and that will get taken care of. But number two, the more unfortunate thing will be those who have postponed it for too long will present themselves with very advanced cases. So in all this time, all the cancer screening that should have been done would not have been done. And when you come 6 months later, your case is much more advanced than what it would have been or a heart blockage or any sort of kidney failure. So patients who are presenting with much more advanced diseases than they would have had pre-lockdown, those people, it will be a lot more expensive and complicated to take care of them. In which case, either it counts as procedures that are done or it counts as people just deciding to give up and not get anything done post that. And also the other one is, we are not really sure how the overall financial situation for the country will look like when this lockdown lifts. Will people still have jobs, will they still have health insurance, whether the health insurance companies or the government will still be able to make payments and all of that. So the cash business may be unaffected relatively, but it's the insurance and the scheme business that we worry about.

Jason Soans:

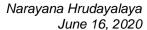
And just one last thing. Any long-term outlook on your ARPOB or ALOS for both the Cayman Islands Hospital as well as the India business?

Viren Shetty:

I mean the outlook we are talking about here does not even last a week. It's difficult for us to forecast.

Moderator:

Thank you. The next question is from the line of Pranav Jain from IDEN. Please go ahead.





Pranav Jain: I want to get a sense on the customer profile as in how much of our paying customers are

insurance customers, cash customers?

Ashish Sukhija: That we have mentioned in our presentation, so it'll give you a split of the payer profile.

Pranav Jain: Okay. And also, sir, on the asset-light model, how many of our current facilities would you say

are asset light? And what is the outlook going forward for that?

Debangshu Sarkar: We have detailed out which assets are asset-light previously. And what specifically do you want

to understand? In terms of outlook, I mean, business outlook doesn't change basis whether it's

asset heavy or asset light. Anything specific that you want to understand on that?

Pranav Jain: No, I just wanted to get a general sense.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Birla Sun Life Mutual

Fund. Please go ahead.

Jayesh Gandhi: Most of the questions got answered. I guess, the only question that I was looking some view on

was on international patients. Of course, the international travel needs to come back, that is the important criterion. But apart from that, is there anything that the industry can do or needs to do

to rejuvenate the international flow of patients that was coming to India?

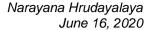
Viren Shetty: A couple of things we're doing right now is we have opened up online counseling to patients in

Bangladesh. And after doing that for 2 weeks, we started it in Africa and Middle East. So at least even though they may not physically come here, we can consult with them and give them the comfort that so they have more clarity on what they need to do whenever the flights start to reopen. The other thing is, we have to go to them. So one of the big reasons why we went to Chittagong is because Bangladesh is a massive market for us. It's a growing market, and we believe that it has place for several health care players. And a heart center was a way for us to, in a very low cost way, explore that market. Similarly, we have tried something in Africa earlier in a project with Abraaj Global Fund, but that didn't work out for other reasons. But we are still exploring those, again, with very minimal capital deployment and asset-light way to go into those geographies because, I mean, flights and international travel, these things are completely beyond our control. Other than petitioning the government and saying that it's a huge forex earner, there's very little we can do. And the government also recognizes that because the flights are not just filled with medical tourists, it's filled with businessmen, it's filled with investors. It's filled with all kinds of people that you want to come visit the country. So they are under a lot of pressure. I think reasonably, flights will open sooner than we think. It may not be 6 months as what I said earlier. But I want to be conservative on that, given what I know about the health and

frailty of international medical tourists.

Jayesh Gandhi: Fair enough. Just to double check, for us, the international patient flow was 10% of revenues. Is

that number correct?





Debangshu Sarkar: Yes, roughly

Jayesh Gandhi: And that is another bit of deficit that probably doesn't get filled up that quickly and probably

takes time?

Viren Shetty: Yes.

Viren Shetty: It can't immediately be replaced with something else that pays the same amount and pays in

foreign currency.

Jayesh Gandhi: Exactly. Understand. Fair enough. But a 3-year outlook for this would be good, you think?

Viren Shetty: Yes, of course. You have to be optimistic, no?

Participant: Sir, you highlighted that you have certain concerns on the insurance and the government scheme

patients. So are you witnessing some delayed payments or some stuck payments from the

governments or from the insurance companies?

Kesavan Venugopalan: From the insurance, not really so much. But from the government schemes, I think there has

been quite a lull in the last 45 to 60 days. We suspect that there is not much money to pay in the government schemes at the moment. I think all the funds, resources, I think, everything has been possibly diverted towards Covid. So we expect that, that situation might ease in the next couple of months and hopefully collections might be better. But we don't see any major concerns from

the insurance side.

Participant: So sir, out of this, your payee profile of 18%, what will be the government outstanding from

that, as of March?

Kesavan Venugopalan: See, government outstanding, out of the 200-odd crores of receivables, we would have around

65% of it from the government.

Participant: And will that amount be substantially changed in last 2 months given the Covid part of it or

something?

Kesavan Venugopalan: Not really because the billing also has not happened so much in the last couple of months.

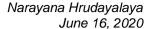
Participant: When you say the billings have also not happened, so in case of a government scheme, patient

comes in, so what is the typical turnaround period in terms of from the patient discharge to the

payment, all of the billing in this particular piece?

Kesavan Venugopalan: See, generally I think each one of them have a little different sort of cycle time. The CGHS

generally pay with no major processing problems, it pays within 4 to 5 months. ECHS, while the processing can be easy, but it's always subject to allocation of funds separately from the government. So as and when they get the money from the government as an allocation, they can





pay. So we have waited in many cases, even for a year to get our payment. And ESIC is one such thing where the collections happen within 4 to 5 months generally. But certain locations have chronic problems in terms of bottlenecks with regard to payment. So each one of them have a little bit of a variety with regard to payment cycles and processing times.

Participant:

Okay. Sir, lastly, just one small clarification. When you say that billing has not happened, so does that mean you book it in under unbilled revenue or something or...

Venugopalan Kesavan:

No. When I say billing didn't happen, I meant there were no referrals from the government agencies to our hospitals because maybe no one had very significant emergencies to get referred by the authorities to the hospitals. Of course, exception will be where, for example, our Delhi Dharamshila Hospital would have still had CGHS and ECHS business coming in, but many other hospitals didn't have the same type of volumes what we would have had initially during the pre-Covid period.

Moderator:

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

Charulata Gaidhani:

Yes. I just wanted a sense in terms of what proportion of the total business would be having normal operations currently?

Viren Shetty:

If you define normal by what we were doing in Jan, Feb, then nothing barring, I would say, some like Shimoga and Jamshedpur which are small hospitals in places where there are not that many cases over there, the footfalls have returned to normal levels. But in terms of the inpatient stuff, that really has not picked up to that extent. But yes, I would say, no significant part of our business has achieved normalcy yet.

Moderator:

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Debangshu Sarkar for closing comments.

Debangshu Sarkar:

Thank you all for your very active participation, as we can see from the sheer number of participants that participated in this call, which has seen overwhelming response. We understand that these are unusual times. And so to that extent, should you have further follow-up queries and clarifications to seek from us, please do feel free to reach us any point of time; we'll be more than happy to address it to the best of our ability. Thanks, once again.

Moderator:

Thank you very much, sir. Ladies and gentlemen, on behalf of Narayana Health, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.