



**“Narayana Hrudayalaya Limited  
Q3 FY23 Earnings Conference Call”**

**February 10, 2023**

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**Nishant Singh:**

Good afternoon everyone. My name is Nishant Singh. I head the IR Function at Narayana Hrudayalaya. I welcome you all to the Q3 FY23 earnings call of the company. To discuss our performance and address all your queries today, we also have with us Mr. Viren Shetty - our Vice Chairman, Dr. Emmanuel Rupert - our CEO and MD, Ms. Sandhya - our CFO, Mr. Venkatesh - COO of our Eastern and Southern domestic operations, Dr. Anesh Shetty - MD of our overseas subsidiary HCCI, better known as Cayman and Durga Prasad - Sr. Manager from the team. We hope you have gone through the investor collaterals which have been uploaded on the stock exchanges as well as on our website. As usual, 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 as well as on the stock exchange at a later 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. Post the call, should you have any further query, please do not hesitate to get in touch with us. We would like to address it to the best of our ability.

With that now, I would like to hand over the call to Dr. Rupert.

**Dr. Emmanuel Rupert:**

Good afternoon everyone. I warmly welcome you all to the Q3 FY23 Earnings call conference of Narayana Hrudayalaya Ltd(NHL). The third quarter of fiscal year delivered steady performance supported by the growth in business across our flagship units, newer hospitals and improvement in payor mix. Consolidated revenue for the quarter stood at INR 11,282 million reflecting a Year-on-Year growth of 17.5%, and a marginal decline of 1.2% compared to the previous quarter due to the seasonal nature of the business which affect patient footfalls. However, contribution from international patient footfalls remain unaffected.

Narayana Hrudayalaya generated consolidated EBITDA of INR 2,660 million in Q3 FY23 at a margin of 23.6% against 22.3% of Q2 FY23, when adjusted for the one-time other income. This margin improvement is attributed to improvement in payor mix and cost efficiency.

Our Cayman unit managed to contribute to the overall performance despite holiday season, and HCCI revenue marginally declined by 3.2% to USD 28.2 million. We remain optimistic on the robust growth prospects of overseas business in Cayman and continue

to explore the investments in surrounding islands on opportunistic basis.

Our overall balance sheet and liquidity profile remains strong with group cash and liquid investments of over INR 5.6 billion against gross borrowings of INR 7.8 billion (Net debt of INR 2.1 billion) as of 31<sup>st</sup> December, 2022. Our debt-to-equity ratio has further improved to 0.11 against 0.14 in Q2 FY23, giving us sufficient room to fund our expansion through our mix of borrowings and internal accruals. We have incurred capital outlay of close to INR 6.8 billion (includes the Sparsh acquisition) for 9 months ending 31<sup>st</sup> December, 2022, and in the fourth quarter we expect to spend the balance amount of guided capex of INR 10 billion for FY23. We have also provided further disclosures in slide 12 of our investor presentations on capex spends for FY22 and expected spend for FY23 and FY24.

During the pandemic, we partnered with YouTube on digital awareness program to provide reliable healthcare information on a daily basis. We created more than 600 videos to provide evidence-based answers to questions of YouTube users across India in 6 different regional languages. This initiative which received 45 million consolidated views and more than 7,000 likes, allowed people to understand their affliction in a very difficult period. We are proud to share that this was featured in Google's Impact Report on 2021 which was released in December 2022. We're strengthening this partnership with channels like YouTube.

Our total investments in digital engagements channels grew online traffic by 97.5% to 5.4 million users in the current quarter as against Q2 FY23.

We're also pleased to inform you about the soft launch of Athma SaaS version specifically designed for small healthcare facilities such as diagnostic labs, nursing homes and standalone hospitals. Athma SaaS offers a streamlined integrated solution for an underserved segment of the market scattered across tier 2 and tier 3 cities. The team is onboarding foundational customers to gather valuable usage data and feedback to further enhance and refine the platform.

Aligned with our vision to provide integrated healthcare to wide sections of the society, we have piloted a subscription program in Bangalore to cover individuals and family members. We have recently crossed a landmark milestone of 1,000 subscription plans and are witnessing continuous traction. These results are encouraging us and give us

confidence to rollout a comprehensive personalized seamless healthcare service at the doorstep through digitally integrated patient touchpoints. We will keep providing more information in the coming quarters.

We continue to strengthen our current position and grow our brand through several various strategic initiatives that will drive our vision to offer a gamut of integrated quality healthcare services to people across geographies at an affordable cost.

Thank you.

**Nishant Singh:** I would request everyone to now use the 'raise hand' feature to start posing their questions.

**Prithviraj:** Sir, could you give us the revenue and EBITDA of the new hospitals for this quarter?

**Sandhya J:** Okay. So, we have been able to continue to improve our performance on the 3 new hospitals. We have, from a revenue growth point of view, the revenue was about INR 110 crores for this quarter for the new hospitals – SRCC, Gurugram and Dharamshila. This was a 17% growth compared to last year. And the EBITDA which we were able to deliver was 7.3%\*. In this the Mumbai hospital has almost broken even, and Gurugram and Dharamshila are positive. So, that is the number for the new hospitals.

**Prithviraj:** Thanks for that. See, this 7.3%\* EBITDA margin is actually quite a good improvement compared to what we have seen over the last few quarters. So, how long will it take for this to reach a sustainable EBITDA margin of say 15-17% from now on?

**Sandhya J:** I think for Gurugram and Dharamshila we are almost there. So, I think as we see the next few quarters, we should be able to reach a reasonably sustainable margin for Gurugram and Dharamshila. Mumbai, we have broken even actually in January. So, Mumbai will take us maybe more than a year, but we are in that direction. But, Gurugram and Dharamshila we are almost there.

**Prithviraj:** And, my next question is on the Cayman business. I guess in an interview you mentioned that the oncology department will commence from Q1. So, how much is the capex that went for this particular block and what kind of revenue potential are you looking at?

**Anesh:** Hi Prithviraj, thank you for the question. The last slide of the investor relation presentation talks about the capex that we've incurred, and we project to incur. I would

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\*Inadvertently mentioned as 9.3%

say about 80-90% of that is for the new oncology block which includes not just the oncology block, but the new hospital as well. The new oncology block, yes you are right, we are on track to treat our first patients from early Q1 of the next year. So, in april hopefully we'll be starting radiotherapy services. Since it is a department, essentially a service line for us, we won't be in a position to share specific revenue projections for a particular department.

**Prithviraj:** That's helpful, thanks.

**Dhara:** Thanks for the opportunity. I had 2 sets of questions for Cayman. So, despite the declining number of discharges from last 4 quarters, our average revenue per patient has actually increased for Cayman. So, what is the driving factor for this?

**Anesh Shetty:** Hi Dhara, thank you for your question. So, there are few reasons for that. So, the first is essentially an increase in the complexity of patients that we continue to treat. As we commission more service lines which are catered towards our oncology offering and getting ready to ramp up the linear accelerator and the comprehensive oncology program, we are going to be doing more and more complex patients.

The second reason is the discharges, which is the denominator for the ratio you are referring, as well as the discharge as an absolute number, we had a migration of our core EMR system from the legacy system to Athma a couple of quarters ago. So, Athma is more sophisticated in that. We are able to breakdown discharges into more granular details of daycare, emergency and regular IP discharges. So, we are working on reconciling the pre-Athma and post Athma discharge numbers for this maybe in a quarter or two.

**Dhara:** Sir, if we're saying the new oncology block will be operational from Q1 FY24, should we expect the number of discharges will also grow from here on?

**Anesh Shetty:** So, the oncology block which will be ready from April will be only offering radiotherapy. We continue to offer medical oncology. I mean, we have been offering medical oncology for a while and that will continue. Surgical oncology will build up as well. So, radiotherapy, the number of discharges, these are predominantly day-care patients, so they will not be in-patient discharges. And, although the realization is high and we expect the margins to be commensurate with what we are earning, the number of patients will not be very significant to move the needle in the early days, that will take

some time.

**Nishant Singh:** Thank you Dhara. The next in line is Arsh.

**Arsh:** The question is on EBITDAR margin that was given in the previous investor presentations. From what I have from the previous quarter, Bangalore was around 35%, East was around 40%. So, could you possibly provide me the breakup for this quarter?

**Sandhya J:** Actually, we are kind of aligning to industry here. I think also, our units are getting matured. So, we are now stopping that. Earlier we were providing that distinction because different stages of maturity were there for different geographies. Now, more and more we want to align with how industry represents data. But what we will continue to do, like we did at the beginning of the call is, we will provide information on our new hospitals, revenue, and EBITDA, until they come to a state where they are steady and are able to make run rate returns. Until then we will provide that data in the investor call. But, we believe that the time has come that we don't need this distinction between regions. They are more or less consistent in terms of performance.

**Arsh:** Sure. And just one follow up question. So, the ALOS (Average Length of Stay) has been consistent over the last few quarters, but there was a lot of talk about robotic surgeries and other things. So, is this expected to reduce the ALOS going forward?

**Dr. Emmanuel Rupert:** The robotic surgeries, when you compared to the overall number of discharges across the group, the number is small to make a major difference. While however, we are continuously working on operational efficiencies and trying to reduce the pre and post procedure length of stays. And that's what, when we had given some kind of a guidance level, we said that over 6 quarters we'll try and bring it down to around 4.1 - 4.2 kind of a thing.

**Nishant Singh:** Thank you Arsh. The next question is from Mr. Ashish.

**Ashish:** Hi! Thank you and congrats for a good set of numbers. I had a question from a medium-term perspective. Given the fact that we are spending 2,000 crores capex between this year and next year, which is basically doubling our current net block, how long do you think the new capex will need and lot of it is brownfield. So, how long do you think it will need to get to, let's say, a 20% plus ROC on the incremental capex? Would it be a couple of years or faster? What's your thought process around that?

**Viren Shetty:** Ashish, it will take couple of years. Construction itself, given that some of this is in running hospitals, means that the work goes half as quickly as it would in a greenfield setup. So 2 ½ years on construction. Breakeven time should be faster because you're leveraging... I mean, they may not be breakeven time because you're using it within the existing manpower and so on. But definitely in terms of returning positive EBITDA, that would take couple of more years after that.

**Ashish:** So FY26 would be fair to look at it?

**Viren Shetty:** It's a good ambition, but it could extend beyond that.

**Ashish:** Okay. When you said return, it means a 20% kind of ROC on incremental investment?

**Viren Shetty:** Yeah.

**Ashish:** Would Cayman be faster, because the fact that it's an oncology block and the construction is getting over for radiotherapy block very soon?

**Anesh Shetty:** Hi Ashish. So, the Cayman capex, like you said, is phased. So, oncology which is a small portion relatively, about 10-15% of the total capex we'll be incurring. That will be ready from March onwards. It's the only radiotherapy facility in the country, so we don't expect any ramp-up phase for that; it will be active from day 0 and we expect that to be just like any other service line from the beginning. The larger hospital which will be ready, it's a separate campus, it's a separate location, we're not spending this within the same campus. Having said that, it is the same island and it's a small island. We don't have a specific number to share as to how many months it will take us to breakeven. But as I mentioned, it should be quicker than going to a new location and starting from scratch.

**Ashish:** Sure. And secondly Anesh, in terms of Cayman, in the past we've talked about business from new islands. What is happening to that now that we are post COVID, or do you think that's something which will still take some time?

**Anesh Shetty:** Oh no, definitely! Since the travel restrictions were removed post COVID, the other was the island opening up completely. So, as we discussed during the last few calls as well, there's no longer any restrictions and it's been that way for some time. So, we are seeing a lot of the Caribbean channels that we were working on for many years, open up. We

are seeing a steady growth and return to normalcy in the overseas patients we're getting from the other Caribbean islands, and that's going to be very helpful as we ramp up the radiotherapy facility as well, because there aren't too many equivalent facilities in the region.

Having said that, as of now, the local patients constitute the bulk of our business, but we're seeing very positive signs with some of the overseas markets. These are patients that come to us, just to us soliciting them, whereas others are activities where we go to other islands for different levels of engagement to try and attract patients back to Cayman.

**Ashish:** And in terms of capacity utilization, where are we currently on the current facility, on the IP side?

**Anesh Shetty:** Sure. So the facility has 110 beds, and as we've said in the investor presentation, I think this quarter we're a little over 50-55 beds in occupancy. We have adequate capacity to treat whoever needs to come. There are days when we have shortages in certain critical infrastructure, but on the whole, we are very comfortable with getting incremental business. And this will line up well with the new hospital which will be commissioned according to our previous guidance, which will significantly increase our capacity across all classes.

**Ashish:** Sure. You're not expecting a step-up jump as the islands completely become open in terms of the other islands? 70% plus kind of a utilization on the existing capacity?

**Anesh Shetty:** It will happen, but it will not happen suddenly, because like we discussed a couple of calls ago, when Cayman had to shut down, essentially people in other markets didn't have anywhere to go. They had to diverge and go to other markets that were willing to take them. So, swinging those channels back to us is a gradual process. All islands are open completely right now, nobody has any restrictions. So, it's not going to be a sudden jump up. As you had guessed, it will be a gradual movement that will take time. And that works perfectly fine for us because it helps with phasing out towards the new building.

**Ashish:** Sure. Thanks, and wish you all the best.

**Nishant Singh:** Thank you Ashish. Do we have any further raise of hands? Yeah Gagan, please go ahead.



**Gagan:** Good afternoon. The first question is on the gross margins. From Q1, Q2 and Q3, gross margins have consistently improved. What is the sustainable number for gross margins as we go ahead?

**Sandhya J:** I think the current number is sustainable, we believe. The reason you are seeing the improvement is also because we have been able to do more with the current capacity.

**Venkatesh:** I'll answer your question Gagan, this is Venkatesh here. Yes, you have seen correctly, the gross margins have been improving quarter on quarter. What we can say is, we can sustain these margins. Primarily what we have seen last year, we had COVID on the base lines, so the consumable cost was always high. But now that COVID is not there, we have been able to work our savings relating to that part of consumption, and plus we work very hard with the supply chain to bring out further improvements in the consumption area. More than that, we've also worked very hard in terms of improving our throughput so that we could utilize our existing capacity to the optimal. So, what we have done is, we have focused more on doing daycare cardiac procedures and robotic procedures which have better throughput, with a morning admission, evening discharge. We are also working on adding operation theatres, ICUs, diagnostic and lab setups so that we can process more and add more volumes within the existing capacity. We've also invested significantly in technologies to improve our throughput, say faster discharges, faster lab results and so on. And, it has actually shown results in terms of 17% reduction in the turnaround time for lab investigations so far, and even 36% of the top 5 investigations. If you see, 25% of all our consultations are all through appointment channels, and 80% of all our appointments are done through NH Care app and the portal. We also worked on increasing throughput through process transformations, improved on our discharge efficiencies, and are also working on reducing ALOS, which you will see the results in the next quarters to come. So, what has happened is, all these throughputs have helped us increase the revenues in the same capacity with the same cost in terms of overheads and manpower, and that's where we have been able to squeeze higher margins quarter on quarter. Unless there is any unforeseen headwind, this is reasonably sustainable.

**Viren Shetty:** But couple of the headwinds which we'll have to also keep in mind is that consumables could also come under price control, lot of the high-end implants, there is talk that the government may reduce the price of stent more than what it currently is, and add items to this. We're in a very competitive field. Doctors and nurses always have good job

opportunities in other centres and in other countries. So, we consistently face a lot of challenges on the payouts. We're doing what we can, and we believe where we are is sustainable, and we're working towards improving this. But that also gets tempered against the other massive challenges this industry faces.

**Gagan:** Thanks for that. My second question is around simply trying to understand, before all of the capex that you're doing, which is fruition, how much headroom do your existing Indian facilities give you to grow? I'm not looking at what growth you can get, I'm looking at the theoretical limit of what can be the potential maximum outcome of whatever you have basis tweaking and creating efficiencies.

**Viren Shetty:** For some of the larger format hospitals that we have, as long as we're able to put in smaller investments in just realigning the rooms, doing up the interiors, adding new machines, there will be no theoretical upper limit; you can keep growing at high single-digit revenue line, because there's enough space to tweak around. But, that is true only for 3, maybe 4 of our large hospitals. The rest of them which are smaller, they're not as well built, you may not have enough room to upgrade. So, they will reach a point of stagnation, beyond which you'll either have to invest or you'll have to just add or upgrade more capacity or go somewhere else. So, the largest flagship units have no theoretical upper limit for how much you can keep tweaking to improve the performance and that's true for most large hospitals across all the other groups.

**Gagan:** The reason I asked is given that there is adequate demand next year and thereafter, would your capacity suffice to grow at a double-digit rate?

**Viren Shetty:** With the exception of our RTIICS unit in Kolkata, which is extremely capacity constrained, double digit growth we don't want to get into the forecasting game. We will do our best to sustain this growth momentum and there are other avenues that we would try. But until the new capacity comes it will be a little challenging.

**Gagan:** Right, since you mentioned the two capacities, two questions there. One in terms of bed strength what does it add for India, and second in terms of funding, year to date, you managed to keep your gross debt very stable in spite of almost 700 crores capex. How should we think of the funding part of the capex as you go into the second tranche of that capex?

**Viren Shetty:** The bed capacity part I will answer quickly, and then hand it over to Sandhya for the

capex spend. See, we haven't finalized the drawings for the new expansion that's there. And the bed capacity once we do it will come modestly, But like I said we can't keep measuring the performance and our utilization just purely the beds and occupancy. There is a lot more of investment that we will be adding on procedure rooms, on OTs, on patient areas, patient amenities that will be a spend, can approve realization but not necessary count towards the total bed strength of Health City, Kolkata. Having said that but once we start finalizing these things and we have indicated the amount of spends over this year and next and as and when the drawings will get finalized, we will indicate that, okay, at this particular time these will get operational and how many beds will get added to the total capacity.

**Sandhya J:**

On the net debt situation, currently our net debt is about INR 214 crores, gross debt by the end of the year we will be around INR 850-900 crores. Next year another 1,000 crores we are planning to invest. I think another 500 crores we will invest from internal accruals, 500 crores we will borrow. So, we will keep our liquidity profile constant between the years. So, our net debt will be around 500 crores by next year end, so that's the aspiration with which we are working. Of course, the situation depends on what choices we make and how it progresses. But this is the broad direction.

**Gagan:**

Thanks, I will get back in the queue. Thank you for answering my questions.

**Nishant Singh:**

Thanks. Next in line is Mr. Sameer.

**Sameer:**

Hi, thanks for this, and good afternoon, everyone. The first question is on the payor mix for the India business. The scheme has been coming down steadily now at 20%, so what's the outlook over here.

**Sandhya J:**

So, we don't have a specific outlook per se on the scheme. We do want to keep of balance of scheme and other payors. The larger philosophy with which we have been working is that if there is an ability, if the patient does not have an alternative place to be served, we are serving those patients and we will not moderate schemes in those hospitals at all. I know where we are right now will be consistent with where we believe to be between 20 to 22%, that will be the range in which I think we will continue to be. It also depends on how the government looks at these schemes, we have been making continued representations both in terms of the collection issues that we constantly face, as well as in terms of the rates which have not been revised for a long time and they are

not very economically very viable. So, we have been making a lot of representations, so if there are some outcomes that come out of those representations then we will be able to work better with these schemes.

**Sameer:** Okay, got it. But what you are saying is bottom line that as things stand you would maintain it at current levels 20-22%.

**Sandhya J:** Broadly, yes.

**Sameer:** Okay. That's what gets me to my next question that what are the drivers for ARPOB for India business going forward. I can see that it has been INR 12 to 12.8 million rupees for the last 4 quarters. So, where does it go and what are the key drivers for this?

**Sandhya J:** So, ARPOB like you are aware that price is not a significant lever that we exercise. We exercise cost levers to drive efficiency. To that extent pricing will not drive ARPOB, ARPOB will come because of mix of great going to higher quaternary procedures, as well as improvement on the payor mix. So, you will only see, and throughput, like what Venkatesh explained that we are continuously working on the throughput. So, you will see a gradual improvement in our ARPOB, you will not see significant jump in the ARPOB. But I think we will be able to manage the overall P&L even with a gradual improvement in the ARPOB, that's how we look at it.

**Sameer:** Okay, that's very clear. And one final question from my side and that's for the Cayman Island, just thinking about it, is there a demand issue over there as in what would take your discharges and the in-patient volumes up with the current facility. Or it is also about the mix issue that what you can do, which specialties which you can do and which you can't and that will get addressed when you come up with the new block and we can talk about that.

**Anesh Shetty:** Hi, Sameer. For now, for the foreseeable future, the reason there is scope to improve our number of discharges and procedures by adding services we don't currently offer, or we offer in a very minimal capacity. So, as you are aware we recently announced an acquisition of a very niche ENT practice which is one of the highest volume practices in the Island. So, there are certain niche areas like this along with the broad specialty of oncology which we do not offer, that will definitely help us see some improvement in the volumes of discharges that you mentioned. Having said that, there are also certain specialties which we do offer which there are other players on Island where we do have

a lot of market share to gain. A lot of this will be driven primarily by location. Our location is, we are disadvantaged by location although we have a massive campus, it is very far away from where most of the people live and work, whereas some of the other players have more central locations. So, this will be neutralized with the new hospital in Caymana bay. So, that will lead to further, we expect that it will lead to a further volume gain in specialties we currently offer but where we do not have dominant market shares simply because there are other players. And of course, eventually it is not a very large market, we will reach a stage where which is your first guess where at a time there will be a demand issue. And our hope and our aim is by that time for the overseas patients to start kicking in a significant level to move the needle to drive the next level of growth. I hope that answers the question.

**Sameer:** Sure, Anesh, that's very clear and just on a new facility what would be the tax rate, I know I am jumping the gun but just to understand that. I think for the current business the tax rate is probably minimal, right. Will that continue for the new facility as well.

**Anesh Shetty:** Yes, Sameer, not just for us, for anybody, the Cayman Islands is a zero tax jurisdiction for business tax, so there is no applicable taxes. The tax concession is not time bound, that's for everyone operating there.

**Nishant Singh:** Thanks, Sameer. Any further raise of hands, any further questions. Yeah, Gagan, go ahead.

**Gagan:** Thanks for the follow up. The Bangalore new orthopedics facility that you acquired last quarter, if you could update us on what's the status there. I think last quarter you indicated that it gives you headroom to transfer the orthopaedics cases from your current Bangalore facility out and therefore that creates that much space for you in terms of bed capacity. I mean are we going to see that sort of playing out in the coming year, or is that something that can happen later, and what's the status in evolution of that one.

**Venkatesh:** This Sparsh which we started in October, and we merged into our current operations of Health City in Bangalore. We have been able to have a smooth transition in terms of the operations in Sparsh in terms of least hiccups, most of the doctors working there have been taken into our rolls, and they are working with the same energy and vigor which they were doing when they were a part of Sparsh. To start with we are continuing to

work with these doctors and also trying to aggressively source clinicians into the system. We have already got in 3 surgeons and an anesthetist on board including the clinical lead for orthopedics trauma. As of now we have done reasonable numbers in terms of joints and other procedures in this quarter. And this quarter in fact has generated a very good EBITDA of around 30% in this quarter which is much higher than what we had forecasted. Of course, the first objective is to maintain the same performances in the next quarter and to make sure that we have got aggressive plans for growth of this particular unit in the subsequent year with higher topline volumes and more EBITDA.

**Gagan:** And on the margins that you used to give upto the prior quarter segmentally or at least city wise, I think cluster wise margins is standard reporting for most hospitals, be it Apollo, be it KIMS, everybody reports cluster wise operating margins. When you say when you want to align your practices to how the industry does it, the industry does report it in that way. are we discontinuing the practice? If you could give us some idea in terms of understanding the margin evolution by cluster.

**Sandhya J:** From how we have looked at competition and what disclosures, I think most of the focus is on the overall margins and the various levers that enable to judge performance better. So, we are aligning to that. As we go into future quarters, we will try to publish more data points which gives, like this time we have put a separate slide on the capex across different types of capex that we will incur so we can give more visibility to how our future spends are. We will try and create more data points that helps you understand the underlying strength of the business. We will also share some of the new hospitals where the margin profiles are low, we will share that information in investor calls so that the clarity is there on the improvement plan. But otherwise, we believe that as a Group if we are able to share overall margins that is a reasonable well indication of where we are heading as a Group and this cluster-wise margin information is not enabling any better decision making than the data that we are already sharing. So, I think we would like to align to that model.

**Gagan:** Right. In between Sparsh, Mumbai and Dharamshila is there I mean you indicated there still is room to increase efficiencies with scale which could mean as you head into FY24 there is still room to improve operating margins. Any assessment of first of all the viability of this assumption into a ballpark scale of what could be possible margin improvements because of this.

**Sandhya J:**

Sure. Sparsh I think is already around our ballpark margins like Venkatesh had shared. So, we were talking about Gurugram, Dharamshila and Mumbai which are the new hospitals. Like I had mentioned earlier, Gurugram and Dharamshila are almost there, I think they will get to reasonable margins, double digits. Dharamshila is already in double digits. So, we will get to double digit margins for Gurugram as well, in next couple quarters we should be able to get there. Mumbai will take a year. We will turn EBITDA breakeven positive also in the next quarter or so. But it will take time maybe more than a year to get to a double digit type margin profile.

**Gagan:**

And on Cayman how should we think in terms of growth for the coming year with the addition of the radiology department. And also, when does the new hospital become operational, any timelines of when it becomes operational and when do you see a reasonable sort of occupancy in that one.

**Anesh Shetty:**

Hi, Gagan. To your first question, I think for the past few years we have been able to demonstrate adequate double digit revenue growth from the existing facility and the existing service line. Even without the radio therapy facility being taken into consideration, we don't see that stopping at least for the next year. Having said that, adding the radio therapy facility does add a comprehensive oncology offering which will definitely help a lot. To your second question on the new hospital being commissioned, currently it is well under progress. Our timelines are dependent on a lot of externalities. We currently estimate and I think this was shared a while ago as well, it won't be commissioned in the coming financial year, I think the time we will be looking to complete the facility and get all the licenses and accreditations in place will be somewhere in the range of about 14 to 16 months from today, that's still given how far away we are from that, that is subject to change, and we will keep you posted every quarter but we expect that to happen in that timeframe. And adding onto even Sameer's question, we think that will be a big, big positive win for us simply because it neutralizes the location disadvantage that currently hampers all specialties that we offer.

**Gagan:**

Thanks for that. Just one final question and this is more to get your opinion on observations around cataract surgeries, just a case in point to drive home a bigger point which is that if I look at the cataract surgeries done, the data that is put out for this year and if I look at what used to be pre-Covid trend, my assessment is that from pre-Covid it went down very sharply less than half maybe even worse and then this year it came to more than double of the pre-Covid levels which is basically a lot of pent-up cases

getting done. And if you look at the monthly data it seems to be normalizing. If that is the case with a lot of elective procedures, as you get into the next year, and not necessarily only NH but for the entire industry per se, case mix would normalize which I would think put pressure on ARPOBs because this has been a year of exceptional case mix, if that observation can be extrapolated to other elective surgeries. So, what's your thought on that?

**Dr. Emmanuel Rupert:** It might be very difficult to extrapolate from an ophthal practice because ophthalmology in general especially the cataract surgery is well covered and with Covid definitely it was considered as an elective non-emergency case, so most of them were postponed. And that is bound to jump up and then normalize over a period of time. But if you look at almost every other specialty in the country, we are still significantly underserved in terms of number of procedures that needs to be done vis-à-vis the population and the patient mix. And what has Covid has done is, it has brought significant awareness of health to the public irrespective across the entire socio economic zones. We are quite positive that the awareness will keep pushing the relevant specialties to do certain numbers and even if you look at the kind of need that is required in the population for cardiac procedures or onco procedures we are way-way behind schedule what needs to be done. Looking at that I am sure we may not be able to draw parallels between ophthalmology and the rest of the specialties, but certain specialties may catch up at some point of time but we, from whatever 12 months data we are seeing, we have seen fairly good inflow of patients to most of these specialties.

**Viren Shetty:** I will put it in another way, of the people that have health problems in our country, most of them don't know they have a problem and will suffer from it for years and then eventually it will end them. For the people who know they have a health problem, very few of them will actually get help for it. Of all the people who try to get help for the problem, very few of them will go to the right place for the kind of help. And of all the people who go to the right place for help very few of them will come to us. So, in terms of the opportunity set, we are talking of many orders of magnitude between what startups like to call it a total addressable market versus the number of people that we are currently treating. So, Covid or no Covid the growth of patients with health problems into tertiary and quaternary care super specialty health care facilities like ours and comparative hospitals to ours has huge opportunity. Those generally form the first one or two decks that every hospital likes to put out. Now how we get there is through all



the activities that we are doing on improving our efficiencies, improving our reach, going all over the place, increasing awareness, investing in digital branding to tell them that you know a heart problem needs to be taken seriously, get a checkup and so on. So, that's how you build the awareness and reach out to patients who otherwise are not consumers of health care which is not the case of ophthal because we are very well served, and most people understand.

**Gagan:** Thanks for the detailed answer. I will get back in the queue, thank you.

**Nishant Singh:** Thanks, Gagan. Now we have Nitin next in line, Nitin, please go ahead.

**Nitin:** Thanks for taking my question. I have some questions on the capex, two things one is for the current year how much capex has we done so far for the 9 months.

**Sandhya J:** 6.8 billion.

**Nitin:** And in terms of the depending capex about 300 odd crores which is there for Q4, what are the areas where we will be spending money?

**Sandhya J:** Like we have indicated in the slide that we have shared, there are four chunks in which the capex is getting spent. There is the part on the Sparsh, etc., are done. There is certain, we had a lot of pent-up demand on our replacement of the biomedical equipment, etc. Also, there was a lot of civil upgrades that we are working on. We have spoken about it in our previous investor call. So, almost 35% of the investments that we have made and are going to make through the balance remaining part of the year is going into replacements and maintenance and upgrade. In addition, about 13% of the investments that we are making are going into new capabilities, setting up say new cath labs, new oncology blocks, those kinds of items. So, that's about 13% in the current year. And also, you are aware of the Cayman piece which is about 30% in the current year of our spends going into Cayman and about 20% into the Sparsh acquisition that we did. So, that's how the INR 1,000^ crores is split and this data is also there I think in the slide 12 of the investor deck. In that range only it will get spent, mostly towards the biomedical equipment and the work that we are doing on the civil side in the balance remaining 3 months.

**Nitin:** And 355 odd crores which is outlined for capex for the next year towards upgradation, are there are any specific facilities where this investment is being done?

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<sup>^</sup>Inadvertently mentioned as INR 10,000 crore

**Viren Shetty:** It is very spread out across all our hospitals, the bulk of it will be spent towards Bangalore the large hospitals but the rest towards all of them, Jaipur, Ahmedabad, Jamshedpur, Delhi, those places.

**Nitin:** And where in Calcutta as you mentioned, how are we now looking at the capacity constraints there.

**Viren Shetty:** We have no choice but to look for land to buy something and set it up. The only other option otherwise was to demolish one of our old towers and rebuild it but that would cost too much disruption of the operation, so we don't want to consider that right now. We found a few land parcels and we are trying to acquire them but buying land in West Bengal is always difficult. So, it is taking time, but we are hopeful that it should happen sometime next year and we will start construction immediately.

**Nitin:** But there is still going to be another 2-3 years before this new facility comes up. How are we looking to handle our Kolkata capacity constraints in the meantime?

**Viren Shetty:** The Howrah Hospital construction is ongoing and that should get operational when that is complete it will take some of the load, RTICs will still have some challenges. We will do a little bit more realignment there and try to take over some buildings nearby on rent. We have taken over some of the apartments nearby to convert them into our purposes, move admin, redo the parking areas and so on, little things that we can do but won't change the needle too much.

**Nitin:** Okay. And one to Anesh sir, what is the total capex you are looking at in Cayman for this new expansion and, Is it still sticking to the USD 90-100 million we talked about earlier or is it going to be lower or higher than the previous estimate?

**Anesh Shetty:** Nitin, I wish it was lower. No, we are still on track for that. And the exact values have been broken in think in one of the last slides of the investor presentation converted USD into the INR, I think. So, that's the detail there, but we are still on track for the earlier guidance.

**Nitin:** Okay, thank you.

**Anesh Shetty:** There may be some slight upward revision but nothing significant.

**Nitin:** Thanks very much.

**Nishant Singh:** Thanks, Nitin. Next in line we have Mr. Prithviraj, please go ahead.

**Prithviraj:** Anesh, just one question on Cayman. See, given that the oncology department will be operational from Q1, do we expect margins to take a dip initially or can we sustain this 40% + EBITDA margin in Cayman?

**Anesh Shetty:** No, we don't expect any margin dilution because oncology so what we are adding incrementally is radio therapy which is capital intensive but from an EBITDA margin perspective very healthy and definitely accretive to what we are doing. So, we don't expect any margin dilution.

**Prithviraj:** Okay, thanks.

**Viren Shetty:** For this phase.

**Anesh Shetty:** Yeah, for this phase, I am talking about only the radio therapy which will be ready in a few weeks only for that phase. When a new hospital is commissioned that is essentially commissioning a new building, we will be duplicating a lot of our fixed costs unfortunately in completely new locations, etc. And as we have guided before there most definitely will be margin dilution at that time.

**Prithviraj:** Yeah, that's helpful.

**Nishant Singh:** Do you have any further questions, anyone? Alright, if we have no further questions, we would like to conclude our session. Thanks everyone for your active participation as always. Please do feel free to reach out to us in case of any further questions. Thank you, once again from all of us.