"Narayana Hrudayalaya Limited Q3 FY21 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen. Thank you for standing by. Welcome to NH Q3 FY '21 earnings call. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, click on the Q&A icon and click submit request button. I now hand the conference over to Mr. Debangshu Sarkar. Thank you, and over to you, sir.

Debangshu Sarkar: Thanks, Aman. Good afternoon, All. Myself, Debangshu, and as most of you would be aware, I run the Investor Relations and Mergers & Acquisition practices at NH. On behalf of the company, I welcome you all to the Q3 FY '21 Earnings Call of the company. To discuss our performance and address all your queries, today, we have with us Dr. 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 the investor collaterals, which have been uploaded on the stock exchanges as well as on our website.

Before we proceed with this call, I would like to remind everyone that the call is being recorded, and the transcript of the same shall be made available on our website at a subsequent date. I would also like to remind you that everything that is being said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and the 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 before our initial public offer in late 2015, and subsequent annual reports on our website. Post the call, in case you have any further queries, 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: With a steady decline in new covid-19 cases across the country, we are encouraged by the business revival across the network as reflected in the India business growing sequentially (Quarter-on-Quarter) by over 33%. While Covid 19 business contributed 14.2% of the India operations during Q3 (as against 15.1% in Q2), for the month of December, it has come down to 10.3%. Recovery in Indian operations backed by the robust consistent performance of our overseas Cayman Islands facility ensured that we returned to reporting Year-on-Year (YoY) EBITDA growth for the quarter gone by after the pandemic induced aberration over the previous 2 quarters.

For the month of December, India business has almost fully recovered having registered 79% of pre-Covid revenues (Feb, 20 levels) in the month of September. This has been possible due to the sustained momentum generated across units led by the Delhi NCR and hinterland regions as underscored in our previous Call as well. In a very heartening development, you may have noticed in our latest Investor Presentation, our 2 Delhi NCR units have generated a positive EBITDAR for the last quarter as compared to -9.6% reported in the previous quarter despite the significant impact in international business. Going forward, this definitely augurs well for us as

these newer units have significant growth runway and holds us in good stead by starting to contribute to the Group profitability.

As highlighted in our last Earnings Call, the 3 flagship centres do continue to lag the other units in terms of the business revival while still growing from 65% of pre-Covid revenues (Feb,20 level) as reported in September to 89% for the month of December. As a result, the profitability of the India business remains impacted given the significant erosion in higher-yield international patient mix (11.2% of India business in Q3 FY 20 to 2.9% in Q3 FY 21) as well as high-end cardiac sciences (40.6% of India business in Q3 FY 20 to 30.3% in Q3 FY 21) based elective work. With the operating leverage ingrained in the system, specifically the flagship centres, we remain hopeful about the profitability tracing back to normalcy over a period of time with the sentiments improving all around.

Our overseas unit at Cayman Islands, having fully recovered its pre-Covid revenues (Feb, 20 levels) in the month of June last year itself, continuing its strong growth trajectory delivered a 24.8% Year-on-Year (YoY) growth in operating revenues at USD 19.1 million resulting in more than doubling its EBITDA for the period to USD 8.1 million. Buoyed by the performance of our maiden international venture and with the know-how gained through our experience on the ground, we remain keen to explore such value-accretive opportunities in the Island as well as neighboring regions.

Moving on, with our focus on improving clinical outcomes through digital initiatives, we are pleased with the response to our in-house developed AADI application (Athma Application for Doctors Insights) that it has received from the doctors at our Health City, Bengaluru campus and have rolled out further product updates on the same. This application allows doctors to access detailed patient records such as medical reports, real-time data, etc from any location seamlessly thus ensuring better patients care.

On the clinical front, our focus on providing highest degree of quaternary care is reflected in some of the highlights of this quarter which are amongst the first such cases in our part of the world.

- Mazumdar Shaw Medical Centre, Bengaluru (MSMC) operated on a case of bifurcation aneurysm using endovascular contour device, first such case in India and third in Asia
- Narayana Superspeciality Hospital, Howrah successfully treated the case of d-transposition of great arteries, ventricular septal defect and pulmonary stenosis (dTGA, VSD, PS) through Pulmonary Root Translocation
- Narayana SRCC Children's Hospital, Mumbai successfully performed a complex procedure, fetal intra uterine PU valve fulguration on a 20-week pregnant woman
- Narayana Multispeciality Hospital, Jaipur treated a patient with a rare condition, Dextrocardia (reverse position of body organs) with Tetralogy of Fallot (TOF) which led to heart pumping oxygen poor blood to the rest of the body

- Narayana SRCC Children's Hospital, Mumbai started liver transplant program in December
- Narayana Superspeciality Hospital, Raipur performed a complex surgery, excision of retroperitoneal liposarcoma with R Nephrectomy after guarded dissection along IVC, C loop of duodenum and ascending colon

On the policy front, starting 1st Dec, 2020, West Bengal government has extended the State Govt sponsored "Swasthya Sathi" health insurance scheme (Rs 5 lakh/annum cover per family for secondary and tertiary related In patient treatments) to cover the entire population of the State. Given our meaningful share of business from that region, we continue to follow the developments and thus try to assess the impact of the same on the region's profitability with recalibration measures, if needed.

Separately, with the Union budget being presented last week, we are pleased by the Central Government's emphasis on health and well-being as reflected in the increased allocation towards the sector with total proposed outlay of INR 2.23 lakh Crs (over USD 30 billion dollars), an increase of 137% over the budget spending last year. The enhanced allocation, along with the plan to look at healthcare holistically – including nutrition, sanitation, clean drinking water and pollution control, certainly augur well for the country. This initiative is aimed at developing capacities of the primary, secondary, and tertiary care health systems and we hope that the government will partner with private healthcare operators to drive efficiencies in the system and strengthen delivery of healthcare services across the country.

Looking ahead, we believe that the healthcare sector is at an inflexion point with the effective implementation of the vaccine rollout program holding the key for expediting the business revival. At the same time, we remain vigilant over the developments taking place in other nations with respect to new strains of the virus to prepare ourselves accordingly.

Debangshu Sarkar: Aman, we can now open up the question-answer floor.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Divyansh Kalra. Please go ahead.

Divyansh Kalra: Sir, can you repeat the EBITDA from Cayman business, there was some break in Dr. Rupert's voice?

Debangshu Sarkar: The reported post IND-AS 116 EBITDA was US$ 8.13 million for the quarter and adjusting for US$ 450,000 Ind AS impact, on a pre-Ind AS basis, it's US$ 7.68 million.

Divyansh Kalra: Sir, just one more suggestion. So if you could add the EBITDA of Cayman in the presentation next time that would be very helpful. Thank you.

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

Charulata Gaidhani: My question pertains to Cayman Islands. Cayman Islands, you said has an EBITDA of $8.1 million, which translates to a 42% EBITDA margin. So even in the last quarter, it was above 40%. So is this a new profitability norm that will continue going forward?

Viren Shetty: Yes. Charu, this is Viren here. I think maybe you or someone else had asked pretty much the same question last quarter and the quarter before. Cayman right now is under lockdown, which means they aren't allowing international patients coming in nor are they allowing the local patients to go out. So what happened is that we had unprecedented inflow of high net worth Caymanian patients into our facility who historically were going to Miami, Houston, New York for medical care. When the lockdown lifts and when flights start to resume, definitely we can expect some percentage, maybe not all, but some percentage of them will definitely go back to the U.S. because that's where their families are and patients are more confident getting treated there. But a significant number will continue to get treated at ours. In recognition of that, we are making investments in the primary care and have started opening up a clinic closer to the city, getting more into these departments that we've seen inflows from patients. So we will be able to retain some of that.

Charulata Gaidhani: Right. Yes, I do recall this response. The second query is on the Delhi NCR. Delhi NCR has seen a major improvement in the current quarter. What would be the factors driving this? And do you think this will continue going forward?

Viren Shetty: So there are 2 different things. For Dharamshila, it is a very strong Onco hospital. Oncology was one of the departments what we saw, even here in COVID, it was pretty unrestricted. Patients did come and they did not postpone their treatment. Gurugram is also a very strong oncology hospital. I think during this time, awareness increased about the hospital because of the COVID volume and patients started coming to us. So that led to quite a turnaround for the Gurugram hospital as well and the unit was able to achieve the breakeven volumes much sooner than we had anticipated. Definitely, we've seen the volumes being affected from patients who are not from Delhi, because we used to get a lot of patients internationally as well as from the neighboring states. As the situation improves, we will see more patients coming in. But I wouldn't say that it would go remarkably much better than where we are right now.

Moderator: Thank you. We will move to the next question that is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: I think there has been some development in West Bengal regarding compulsory health provision by the government or health insurance by the government. Can you just help us understand a little bit more on the development and 2) what implications does it have on our business and plus our capacity expansion plans in the region now?

Emmanuel Rupert: The Chief Minister has announced the scheme, Swasthya Sathi scheme i.e. irrespective of whether patient is below the poverty line or above the poverty line, it is for the entire population of the state. So this is in line with the run-up to the elections, and they are in the process of issuing cards and things like that. But we have not seen any dramatic increase in the number of patients with these kinds of cardholders seeking care across our facilities. But considering that this is an announcement by the government, we are keeping you informed, and we are closely seeing how this will pan out.

Viren Shetty: The impact, I would say, if it gets executed exactly in the way they have described it, which is technically every person of West Bengal has access of this scheme, the short term will be quite painful because at least from an operations perspective, we simply don't have that many beds allocated to the scheme if everyone would want to occupy that. So I would say short-term challenges, definitely. But long term, it will be the same thing that we saw in other states, in Karnataka, for example, which did roll out an APL scheme and we were initially very terrified, but then people started realizing that it doesn't pay enough, you don't get access to the best beds and timely treatment and there are long waiting lists. The government also realized they didn't have enough money to pay everyone, so they also started going slow. So, I would say that this may have a short-term impact, but long-term, it will get normalized.

Nitin Agarwal: And Viren, the attached point was Calcutta region, because of our capacity constraint, has been a target area of acquisition for us. So does this put developments on a hold with respect to some of those plans until clarity emerges, I presume this will have impact on the asset valuation in the region, right? Or how does it work now in your assessment?

Viren Shetty: Well, I wish it would impact the asset valuation, but it has not really translated on the ground. See, our commitment to West Bengal has been for the past 20 years and for the next 20 years as well and even longer than that. So it doesn't change our appetite for expansion over there. We're looking at multiple opportunities, both greenfield and brownfield, as we've indicated earlier. This decision does not impact our interest in the region.

Nitin Agarwal: And secondly, you did mention in your opening comments about exploring other opportunities similar to the Cayman. So can you just elaborate a little bit on that?

Viren Shetty: We were looking at clinics. See, the thing is our facility is located in the east end of the island, which is around 40-45 minutes' drive from where people live and a lot of them have expressed that for every little thing, they hate driving so far. So we took up space in one of the most prominent shopping malls of the country, and we are setting up clinic over there. We'll be running one more clinic in a small island called Cayman Brac (part of the 3 islands which constitute the Cayman Islands territory), which has a very small population, but that is also on primary care side. So on those sorts of things, we will be exploring opening up on the retail healthcare side. As and when the demand presents itself, we would also explore that.

Nitin Agarwal: And if I can squeeze in one last one. On your flagship hospitals, has there been improvement in the footfalls in January and February versus the previous quarter especially in Bangalore, the 2 main hospitals in Bangalore?

Dr. Emmanuel Rupert: Yes. See OPD footfalls have gradually returned back to almost normal and we've seen good growth in almost all the specialties, including the cardiac sciences in our flagships.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum India. Please go ahead.

Kunal Mehta: So I wanted to understand the status as it stands as on today with respect to medical tourism? Because I think we derive a good portion of our business from patients coming from Bangladesh to our units in Kolkata and international patients flying down to Delhi and Mumbai.

Viren Shetty: The recovery has not been great. Even though some flights have opened, the frequency of the flying has not really increased. International patients mostly come to India on elective cases. It's very rare that emergency cases get pushed to India. Bulk of our patients do come from Bangladesh and there, again, the frequency of the flights hasn't increased a lot. But as the borders have opened and there are very few flights coming, so we're seeing some traction building up. We're hoping that if the government starts some air bubble concept and starts increasing the frequency of flights that will help quite a lot. In the meantime, we're trying more on-the-ground efforts. Obviously, a lot of that is hampered by the fact that our people also cannot get there easily. So this is just one thing that continues to be challenging, that in the short term, we are compensating it through enhanced domestic activities.

Kunal Mehta: Understood. That's really helpful. The second thing I wanted to understand what was with respect to the onco block at Cayman. So we were in the process of setting up this onco block and we have pretty good expectations from this investment. So could you please give us the status on the onco block for Cayman?

Viren Shetty: Yes, being a lot more regulated country, the things such as planning permission and so on does take a bit longer. The other one is, we definitely did take a pause. We were supposed to start the construction last year, but because the COVID pandemic and the travel shutdown, we had paused it for around 6, 7 months. Once we restart, the whole thing has to start again from scratch with us getting the permission and so on. So we're pretty confident that it should happen in the next 2 to 3 months. We've identified the contractor, we finalized the drawings and the pricing and negotiated with the equipment manufacturers. So again, it will come up sooner than we hope.

Kunal Mehta: Sure. So sir, from now on, I think, are we looking for a timeline of around, let's say, 18 months to commercialize this onco block?

Viren Shetty: It will be much sooner than that. It's just a cancer block, just a bunker and a few things. So it won't take 18 months or about a year. But yes, once you include associated delays and, god

forbid, any kind of issue happens with the shutdown tomorrow again, so I think it can give us a good buffer for 18 months.

Kunal Mehta: Got it. Just one last question from my end. I wanted to understand the status on the capacity expansion in your 3 flagship units at Kolkata because I think of course, presently, I think capacity, we were anyway short of capacity and we were trying to use an adjacent building for adding a few operational beds. I just wanted to understand what is the status there? Because I think 8-9 months down the line, I think that capacity would be valuable to us. Just wanted to understand the strategy there.

Viren Shetty: Yes. This, again, is still very much in discussion. We've spoken with a lot of the building owners and chai shop owners around the place to allow us to buy the land, demolish it and turn it into a block for us. We have to admit, like in this part, it's been quite slow. And we're frustrated that we're not able to get it done sooner. But as far as capacity addition in Kolkata goes, we have another hospital (Westbank unit at Howrah) that has space, and we will be expanding over there. But yes, it doesn't solve the capacity issue of our flagship unit (RTIICS) and even there, we have been frustrated by how difficult it is to acquire land in that area.

Moderator: Thank you. The next question is from the line of Milind Karmarkar from Dalal & Broacha. Please go ahead.

Milind Karmarkar: So my question was basically if you could elaborate more on what we are doing on the digital side? Because especially after COVID, a lot of things are moving to digital. I wouldn't say competitor, but another hospital which basically focuses on oncology. And they are doing a lot, they have a centralized sort of center where all the CT scans and other things are sent, which are then digitally where the experts sort of view them. So I just wanted to understand because we were doing something similar, I think, in MP or Chhattisgarh. So I just wanted to know what we are doing on the digital front because my belief is that going forward, especially for expansion, digital could be a big tool.

Viren Shetty: Thank you for asking me my favorite question of all. See, 100%, you're right. I think COVID time has really taught us that, so for example, we built in 2 weeks, an app that allows the patient to see the doctor virtually and for us to collect money. And that is simply because for the past 2 years, we have invested in a very strong team, which is able to very quickly iterate on the ground and be able to build tools that allow us to improve revenues, reduce our cost and improve the throughput. I mean, this is a huge investment that touches upon multiple aspects. So the thing what you're describing, we think about centralizing radiology as a relatively old technology. There is something called PACS and we've had that for years now. But it's not so much that you have the digital tools, it's what you're able to do with it. By centralizing, we are able to run a very central radiology team. But that's just the first level. We spoke earlier about creating an app called AADI (Athma Application for Doctors Insights). It is, if I have to use a fancy term, it's like a slack for doctors. So now because of COVID, doctors are very hesitant about getting into the ICUs. Now what is the doctor's job in the ICU? You go, you evaluate the patient, you look

at a lot of the monitors and you make a decision, okay, increase some medicine or you make some changes or you prescribe a scan. Now what we did, we spent a large amount of money getting all their information digitized. So what that does is it can real-time push all the information to their homes. So that means the doctor can be on the other side of the glass. He doesn't need to be in front of the patient. If he does not need to be in front of the patient, he can be at home, he can be in a different town, he can be a different country also. So now, we have created these coordinated care teams for managing patients. It's initially a little slow to roll out because doctors still have to get used to the way they work, but it will change the way how our patients are being managed and the potential that's available. Now we don't have too many apps yet that patients can use and the things that a lot of the start-ups focus on, on wellness and weight loss and book appointments. We have all that, but it's not as grand-looking. Like for us, we're focusing on money on the table. And that is all the efficiencies that are there in the hospital that can be addressed with digitization. Those are the ones we're addressing because that we see this as the final lever that we can have when we run out of capacity, when there's a lot of difficulty in growing the topline and getting more beds, so these are the efficiencies that we'll be addressing to drive further performance.

Milind Karmarkar: So basically, we are investing in technology, especially the digital technology, so that we are future-ready, let me put it that way. And it definitely would be extremely cost-effective over a longer period of time. Am I right in assuming that?

Viren Shetty: Yes, absolutely. So our IT opex spending right now is 3% of our topline. This is coming from at the time when we were spending only 1%. But IT is an enabler and we expect this number will easily go up to 5% in the near future.

Moderator: Thank you. The next question is from the line of Chirag Kachhadiya who is an individual investor. Please go ahead.

Chirag Kachhadiya: Sir, I have a few questions. The first is on the cost front. Like is there any room to reduce the cost on fixed or on variable basis going forward from the lessons we learned in last 2 or 3 quarters post pandemic that going forward that this cost will not more required or ?

Viren Shetty: Yes, that's a very good question. One of the first things that we did in the pandemic was cost cutting through salary cuts, but that was a very limited exercise we were able to do only because the patient flow simply was not there. Now that the patient volume has come back to normal, the corresponding spending on the salaries and the manpower has gone up. But one of the things we realize because of this work from home, we realized we can run shared services in a lot of the support functions like HR, finance, IT in a better manner. So what that means is we can run centralized teams. So every unit may not necessarily have to have a duplicate team, we can start sharing resources. But that is something more long term. We will start moving towards the system of being able to do more activities with fewer and fewer people, and they'll all be able to work remotely. So that is something on manpower side what savings we can get. Unfortunately, there are some activities on the cost side, which will permanently be high and that is precisely

on the supply chain (consumption) side. Because of the supply chain disruptions because of the rising import duties because the government changed duties and structures there, it will take a very long time for us to go back in terms of the supply chain and the purchasing spend for the same amount of revenue than what we had earlier. Because there's too much ambiguity right now about supply chain disruption, we don't want to be too lean on inventory and tomorrow face any kind of stock-out situation. So, until the overall macro situation normalizes, I would say, our cost base on medicines and consumables and all the supplies will be a little higher than normal.

Chirag Kachhadiya: Sir, just one more clarification on the supply chain side. We are restricting China import and we require to source from other places, does it increase cost or it is something different you're talking?

Viren Shetty: Yes. I mean it's part of it. See, the fact is you have to realize China is integral to the world supply chain, even Indian companies which provide the finished product depend on a lot on China. As the things become more difficult, it doesn't mean it's impossible, it just means more friction into the system and the friction translates to a little higher cost for us. So a lot of the parts, a lot of the accessories, material, those prices start to go up. Flights are so expensive now because domestic airlines are not operating at full capacity. So all kinds of air freight, price has gone up. Because the world economy is slowing down a little bit, there are not that much cargo containers going back and forth. So things like that, generally in a slowdown, you expect the supply chain cost to go up.

Chirag Kachhadiya: Sir, can you quantify, like, on the cost front, as you mentioned, several initiatives which you've taken will benefit us in the long run. Currently, what proportion of our cost structure are those costs?

Viren Shetty: Probably, we can come back to you on that. It's very difficult for us to come with the exact answer. So I'm not talking we have moved the needle 5%, 10%, 15% here or there. These are not big numbers. There are many things that can be addressed. I think can come with a more granular number.

Chirag Kachhadiya: Sir, my second question, like government allocation in budget for health care and pharma is continuously in increasing trend since last couple of years. So from next 3 to 5 years' point of view, as an entrepreneur, what opportunity and threat would you feel that will come in our journey?

Viren Shetty: See, any allocation the government does for health care is always a good thing because you're increasing the overall demand for a service. If government builds more medical colleges, it is good because more doctors are there in the system. If the government builds more hospitals, that is also good because more people start accessing health care. If government starts spending money on providing treatment for the poor people, that is also good because some of that money can come directly to us. So I would say that any time the government increases spending, it is always a good thing for the sector that it is spending money on. That goes without question. But

if you ask me, quantum-wise, if you say 1 lakh crore increase in spending, how much of that will come to NH. That I don't know because a lot will depend on what programs exactly they are targeting and which areas they're looking at. But it's definitely a positive thing. I will definitely say this is not something that just because government is spending more on government hospitals that it crowds out private investments. No, that is a very short-term way of thinking about it. The most spending there is in health care, in India, the better it is for all of us because then it means you're growing the overall market. So, the number of doctors in India are increased, the number of companies that are supplying to Indian hospitals start to do more business and that improves our own cost of procurement and so on. So I'll say, yes, the long-term effects are good. Whether it goes to private sector or not is not that different.

Moderator: Thank you. The next question is a follow-up question from the line of Divyansh Kalra from Perpetuity Ventures. Please go ahead.

Divyansh Kalra: Sir, I wanted to understand what proportion of our revenues from hospitals are outpatient revenue, that would include dedicated facilities or oncology, right?

Debangshu Sarkar: Divyansh, we don't have that figure readily available at this stage.

Divyansh Kalra: Rough estimate.

Debangshu Sarkar: I mean, let us get back to you with the exact details rather than just giving you a number out of thin air. So while we might have some rough estimate, but we would want to be absolutely sure about it and come back to you or if you can touch base with us offline on this.

Divyansh Kalra: So last one more thing. Sir, so when we calculate the ARPOB numbers, so the outpatient revenue would be included in that, right?

Debangshu Sarkar: Yes, it is total operating revenue divided by the inpatient (census) occupied beds.

Moderator: Thank you. The next question is from the line of Chinmaya Vadali from Singular Capital. Please go ahead.

Chinmaya Vadali: I mean in addition to some of the behavioral changes that have been outlined in the previous questions, how do you see the whole hospital-patient relationship evolving in the post-COVID scenario? What are other fundamental changes that you anticipate? And how are you prepared for that?

Viren Shetty: The one biggest difference what we noticed is that now patients are willing to pay for being served online. Previously, that really was not the case. We've been running telemedicine for nearly a decade before COVID happened. But we were doing it for free, and the uptick really was not there. But with COVID, the biggest behavioral shift we saw people willing to pay for health care online. The start-ups had been doing it in a very limited way. But most of the services they offered were free or of extremely low quality. But this was the first time, patients were

willing to pay and hospitals of all sizes embraced it in wholeheartedly. So I'd say, yes, the biggest shift for us is a lot of the outpatient-type services, a lot of the consultations were moved online.. We believe that this will continue to sustain and will grow from here because once you let the genie out of the bottle, it opens up the opportunity for you to start looking at many more services that can be delivered. Not just outpatient, most of the post-op follow-up, physiotherapy, wellness, chronic care management, even diabetes management, which right now operate mostly at the fringes, even in advanced countries, not just in India. See, in India, we always have a digital literacy gap. What will happen with digital literacy gap is that people will not be so comfortable dealing with these transactions online. But directionally, this is the way that our organization as well as most large health care organization are looking, i.e. moving a lot more services direct to the patient and not going through intermediaries and that's why our investment in a lot of digital infrastructure was done with the idea that we'll be able to start offering more and more of these ourselves rather than being reliant on third-party developers to give us solutions that we'll have to go through and they'll charge us on that. So yes, that, I would say, is one of the biggest behavioral shifts of this post-COVID situation.

Chinmaya Vadali: Sir, corollary, would you expect more marketing costs to access or convert this larger footprint into new revenues?

Viren Shetty: On paper, you would be right, provided I was building up a separate digital health care vertical. We still have a lot of a ways to build up a robust platform that will be able to push digital business. Unfortunately, there are 2 problems with that. Problem number one, what I said earlier about the digital literacy, people are still not fully comfortable and see, there are always the people like you and me who are happy transacting online. But you and I don't represent more than 1% to 3% of the whole country. 97% of the people, who are old, who just bought their first smartphone in the past couple of months, they will always be hesitant about transacting in that way. So we don't believe the market is right. Two is a lot of the market on digital advertising has been spoiled by a lot of overfunded, highly valued startups that have really pushed up the prices of the Facebook impressions and Google Clicks and so on. So there's a classic thing, right, the CAC (Customer Acquisition Cost) versus LTV (Lifetime Value) of a patient, which talks about how much it cost to acquire this business versus how much value it provides. It is unfortunately, still extremely skewed towards acquisition costs. So if I want to make the managers at Google and Facebook very happy, I could launch a very big advertising campaign. But as a responsible company that's dealing with public funding, I'd very much wait until a scenario where either acquisition cost comes down or we build up organic impressions in such a way that it doesn't cost us too much, and I don't need to spend too much money acquiring every incremental patients. That is still, I'd say, a couple of months to an year away when that behavioral thing starts to tilt in our favor.

Chinmaya Vadali: Do you also see change in payor profile with more patients going for insurance, really?

Viren Shetty: I mean we haven't seen it where we are. But definitely goes without saying, more people with insurance means more people are ready to access. But I don't think it has changed in such large numbers that it is swinging the demographic profile of our hospitals here.

Chinmaya Vadali: That's helpful.

Viren Shetty: But it will happen.

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

Sameer Baisiwala: A quick question on Cayman, Viren. What's our market share over there? And what's our current capacity utilization?

Viren Shetty: So Sameer, there are 2 ways to think about the market share. One is, if you look at market share, so market share of procedures done in Cayman, it will be massive. I mean depending on the kind of departments you're looking at, so for cardiac, oncology, a lot of advanced GI procedures, it's easily 80-90% and orthopedics, emergency, obstetrics share is much less. I would say anywhere from 30% to 40%. Given that we are among 3 providers on the island, one of them being the government, 2 being private healthcare setups. But the overall market, if you say, if you have to compare the overall spend on the island of health care and if you look at money spent by Caymanians on health, we're still relatively small and that is something we're looking at much more aggressively.

Sameer Baisiwala: And the difference between the 2, Viren, is getting exported out, is it?

Viren Shetty: Yes.

Sameer Baisiwala: So Viren, the question was that it looks like your capacity utilization on the overall capacity, I think it is still very low, maybe sub-50%. And for the last 6-9 months, I would imagine that people were not obviously into traveling. So you're utilization has not gone up at all, no?

Viren Shetty: Yes. I'll give you an example, Sameer. See, in India, we are so pegged down to beds, bed utilization occupancy, and it could be because we're too stuck on a number that's easy to understand. I mean, for a hotel, occupancy is one of the best things that you can use. But as we've been saying for many years now, our business is different. We shouldn't just purely be looking at occupancy. But unfortunately, we haven't found out what that perfect metric is and that's why we try to do different combinations of things to tell you what utilization in hospitals looks like. I'll give you an example, Massachusetts General Hospital, MGH, one of the biggest health providers in Boston, that is a 100-plus-year-old hospital, one of the best-known brands in the area. This is a hospital with tremendous pedigree and I've been there. If you walk past the side of the building, you'll be walking for 10 minutes and you still won't reach the other end of it. It is huge and occupies a city block. My brother was based in Boston, he asked them how many beds does MGH have. It took a while for them to figure it out what the question was because

they don't measure it on the number of beds. So, they did some research, and they came back and said, yes, this hospital, which is the size of a city block, has 800 beds, which just completely blew our minds because they're not focused on the number of beds and occupancy. For them, it's just throughput, outpatient procedure rooms, linear accelerators, cath labs, just things that get patients in and out extremely quickly and huge number of clinics that can process those kind of procedures. So someone asked earlier, what percentage of your revenue comes from outpatient. It is over 25% during normal times and that's true for all Indian hospitals. This is a number that we want to keep increasing because the one thing we noticed with Cayman was that our inpatient numbers may not grow that much, but outpatient really did incredibly well over this time. So the capacity utilization, we want to start looking at more in terms of attracting more of the dollars that they spend on these daycare kind of procedures or on medicines or on these basic checkups that we've historically never really looked at because that also is a significant amount of spend in the western world and will soon be in India also.

Sameer Baisiwala: Viren, this is very helpful. This is indeed a different view of how we should be thinking about your business, so thanks for this. But coming back to the Cayman question that you are now looking at the topline, which has moved from $10 million to $15 million to more like from $19 million to $20 million per quarter. So where does this number go over the next 4, 8, 12 quarters as we go forward?

Viren Shetty: It goes up. But how long it takes to go up? I would say, right now, with the business being as it is with no foreign patients coming in, we don't think the revenue number is going to grow appreciably in next quarter that's there. It will go up a little bit because what happens over there during Christmas, December time, people generally don't spend. So, there's a bit of a lag, which gets recovered in Jan-Feb, so it'll go up a little bit. But until our oncology department comes up, revenue will stagnate a bit. Once the oncology comes, it will grow again. We're doing a lot more stuff in clinics. So as the footfalls increase, the revenue will grow as well. But ultimately, it's waiting on us to make that next big jump in investment, which we hope to do at some point.

Sameer Baisiwala: But Viren, if I were just to persist on just one last one. When do you think you can double this revenue, rough cut? Is it 4 years? 6 years? How do we see that?

Viren Shetty: I mean, Sameer, as much as I'd like to give you the answer right now and make your work easier to do, we can't make your job that much easy.

Sameer Baisiwala: Fair enough. I'll let it be. So Viren, the second question here is, how do we think about the cash flows, both for Cayman and for India operations? And consequently, how do we see the net debt as we go forward?

Kesavan Venugopalan: I would say, in the last couple of quarters, we had done not so good periods with regard to the government as a payor. But with regard to insurance and other payors, I think we had quite a decent collection profile both in terms of the domestic operations and the overseas operations. So, I think this will hold good for the future, for at least another 12 to 18 months' time, I think

this sort of a situation will continue. Beyond which, we need to see whether there will be any acceleration in the payouts from the government. Otherwise, from a cash flow perspective, I think we will be able to manage positive cash flows, until we embark on any major inorganic initiatives. So the cash flow is quite healthy at this particular point of time.

Sameer Baisiwala: So we expect net debt to remain more or less flat for next, whatever, 3, 4 quarters?

Kesavan Venugopalan: See, in the last 6 to 9 months, our capital expenditure has been quite low, considering our normal run rate of CAPEX. So, considering the normal CAPEX, what we used to have, I think debt will be in this range.

Sameer Baisiwala: And one final question with your permission. So for the flagship Calcutta facilities, how do we see the momentum build up there on? Is this a natural progression that over the next quarter or 2, they go back to pre-COVID levels? And what can help accelerate this?

Viren Shetty: A bit of both. One is a complete focus on the domestic business - checkups, getting vaccinated, we're doing a lot of those awareness campaigns, working on corporate type engagements. A lot of that will drive these daily footfalls. The other is that as the economy unlocks even more as COVID cases keep coming down, people start to get those sort of regular elective postponable procedures done now. That requires a little bit of a mindset shift, and we've seen that happen a lot. But still, there are certain departments like orthopedics, for example, that really have not picked up in a big way for us, precisely because that is one thing that you can postpone indefinitely as long as you're willing not to travel anywhere, which most people are not doing anyway. So yes, I would say that will take the normal course of recovery and a full recovery would take some time. Post that, a lot of the drivers of the growth will come from our planned capacity expansion, which we've been putting off. As Kesavan said, we've really restricted the amount of new medical equipment and upgrades that we were doing, which we will do now. Plus, a lot of our hospitals are due for a bit of a refresh and we'll be changing the bed configuration, adding more private/semi-private rooms, executive suites, creating a more a nicer experience for patients who can pay a little bit more. Those are kind of activities that will drive up the yield per bed for a lot of the hospitals.

Moderator: Thank you. The next question is a follow-up question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: I had 2 questions. One on the doctor fees. Our doctor fees as a percentage to sales have come down over the last 3 quarters. Where do you see it bottoming out? And where do you see it, say, a year from now?

Viren Shetty: We had made a lot of structural changes as soon as the pandemic hit, wherever large minimum guarantees were given to doctors. But over a period of time, we've had multiple discussions and we have been constantly reworking on the professional fee structures and wherever possible, we have made changes to that structure. So in line with that, we see some changes will have to be

made, considering that a lot of units have started to do well. But overall, these structures will be changed to make it more appropriate for the given condition. So we'll see that it will be going up marginally, but we won't see a major spike in it.

Charulata Gaidhani: So as a percentage of revenues, what should be ideal no for manpower cost?

Kesavan Venugopalan: For your model, I think you can consider the pre-COVID levels, whatever percentage you had, I think that would be a relevant number to consider.

Charulata Gaidhani: That is around 21% average.

Debangshu Sarkar: No. If you look at it, the Q3 previous year number, this was like 24%. So what Kesavan means by reverting back to that is not 21%, but more like 24%.

Charulata Gaidhani: And second, also the progress on Western India, especially the Mumbai hospital, how is it faring? And how do you see it going forward?

Debangshu Sarkar: Charu, continuing your point on the doctor cost, as Kesavan was mentioning, for a normalized business plan perspective, you can assume reverting to what it was in the pre-COVID times, which was more at an aggregate level, like 24% for the India business. One of the reasons why it had come down was there was, as Viren mentioned previously, there has been some impact in terms of actions that we took on salary cuts and all. With the business now getting back to its original recovery and all, a lot of those are being phased-out in terms of getting back to what it used to be previously. So as much as we had taken some initiatives, as Dr. Rupert was mentioning, plus as a base case premise, you should assume that there will be, if at all, an upward bias from the Q3 numbers as a steady state run-rate for the doctor cost as a percentage of revenues.

Charulata Gaidhani: And my question on the progress of the Mumbai hospital and where you see it going forward, the oncology block in Mumbai?

Viren Shetty: We don't have any oncology plan in Mumbai. This is a children's hospital and as such, we're doing BMT in a pretty big way.

Emmanuel Rupert: Yes, children are generally not subjected to radiation. So we will not have a comprehensive care in that context. But we will be doing the high-end hemato-oncology with the bone marrow transplant along with the major surgical oncology program as far as the oncology services are concerned. While a lot of work has begun in the field of perinatology and higher-risk birthing, which we had been planning because very high-risk pregnancies need a comprehensive group of pediatric specialists to take care of them, rather than being born somewhere else and then transport. So we've started the high-risk birthing as well in this hospital.

Charulata Gaidhani: And by when do you expect breakeven?

Viren Shetty: I think we have been consistently maintaining that it will take some time, being the children only hospital. For this hospital to breakeven, I think we don't see this coming in the next few quarters at least.

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

Debangshu Sarkar: Thank you, ladies and gentlemen, for your active participation. As mentioned previously, in case you have any further queries, please do get in touch with us and we shall try to address that to the best of our abilities. Thanks once again for your active participation on the call today and look forward to such interactions in the future as well. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of NH, we thank you for joining us. That concludes this session. You may now disconnect your lines. Thank you.