



**“Narayana Hrudayalaya Limited
Q4 FY22 Earnings Conference Call”**

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MANAGEMENT:

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Debangshu Sarkar: Hello, everyone. Myself Debangshu and as most of you are aware, I run the Investor Relations and Mergers & Acquisition practices at NH. On behalf of the company, I welcome you all to the Q4 FY 22 and annual FY 22 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 & MD; Ms Sandhya – our CFO and Durga Prasad from the team.

I am 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: Thank you, Debangshu.

Having surpassed the pre-Covid highs of profitability for the 1st time post the onset of the pandemic in the previous quarter after the gradual recovery witnessed post the second wave, our Indian operations were significantly impacted during Q4 FY 22 due to the third wave induced disruptions. While this did result in a QoQ sequential decline in our Indian operations, we are pleased to have ended the year on a strong footing with the recovery witnessed in the month of March, 2022. On a consolidated basis, we delivered an EBITDA of INR 1,848 mn at margin of 19.6% growing at 23.3% on year-on-year (YoY) basis with PAT of INR 690 mn in Q4 FY 22. With this, for the fiscal 2022, we have reported consolidated EBITDA of INR 6,881 mn at margin of 18.6% with PAT of INR 3,421 mn at margin of 9.2%. Thus, we are pleased to have delivered our highest ever consolidated Revenue and EBITDA.

Overall, despite the severe challenges faced during the year gone by, we are pleased to have made a strong comeback post bearing the severe impact of COVID in the previous fiscal and have further fortified our balance sheet and continue to maintain a strong liquidity profile with INR 5.4 bn of gross borrowings as against consolidated cash & liquid investments of over INR 3.0 bn as on 31st March, 2022 along with a consolidated Return on Average Equity Employed (RoE) of over 26% for the period FY 22.

With Covid 19 business contribution increasing from 1.5% to 4.7% in Q4 over Q3 FY 22, our India business, adjusted for Vaccine revenues, grew at 6.1% on YoY basis though we registered a drop of 3.3% on QoQ basis for Q4 over Q3 period for the first time as Q4 is seasonally the strongest for the domestic operations. As expected, for the quarter Q4 FY 22, there was a sequential drop in the contribution of Cardiac Sciences' domain to 34.3% (30.7% for FY 22) and international patient group to 4.6% (3.7% for FY 22) of the Total Operating revenues.

The set of 3 flagship hospitals registered an EBITDAR margin (adjusted for vaccination business) of 26.9% in Q4 FY 22 thus closing the fiscal FY 22 at 23.1% despite the significant impact of the of the 2nd wave in the first quarter followed by the gradual recovery thereafter. Separately, the Other Hospitals excluding the 3 new hospitals and Jammu, closed the fiscal 2022 delivering an EBITDAR margin of 17.1% (adjusted for vaccination business) despite the sequential drop to 15.4% in the quarter Q4 FY 22 having anchored the business recovery and revival for most parts of the last couple of years having delivered an EBITDAR margin of 19.0% (adjusted for vaccination business) in Q2 FY 22 surpassing the pre-Covid highs of 18.0% in Q2 FY 20. Separately, despite the effects of the multiple disruptions witnessed during the last couple of years, progressing well on their growth trajectory, our 3 new hospitals' as a group reduced the EBITDA loss to INR 167 mn in FY 22 as compared to INR 424 mn in the previous year and INR 574 mn in the pre-Covid FY 20 period.

Our hospital in the Cayman Islands continued to deliver strong consistent performance and closed the year FY 22 at USD 91.9 mn in operating revenues with Q4 FY 22 being USD 24.4 mn and thereby USD 39.7 mn EBITDA for the fiscal 2022 having delivered USD 10.4 mn EBITDA in Q4 FY 22. Separately, our hospital management project at St. Lucia contributed INR 132 mn to the group's EBITDA during the quarter and thus for the fiscal 2022, reported an EBITDA of INR 374 mn thus reinforcing our confidence in this regional

business emerging as a strong pillar of our future growth with the ongoing expansion at Cayman Islands.

Keeping all our financial numbers aside, what we are also very proud of, is our continued dominance in advanced quaternary care in the country. In Our Cardiac Hospital in Bangalore, we performed 754 Cardiac Surgeries only in the month of March. Just to put this in perspective, even in developed countries like the US, a facility which performs 250 procedures in a year, is treated as a successful unit (In India also, successful units do around 500-600 cases per year). We have performed 63 Bone Marrow transplants in just Bangalore in the last quarter. Our Dharamshila unit is the first hospital globally to implement Total Body Irradiation (TBI) Technique on Halcyon LINAC for a case of Aplastic Anaemia. Our Hospitals in J&K performed the first ever Leadless pacemaker implant in the Union Territory. Our Rabindranath Tagore Insitute in Kolkata performed certain cutting-edge Guided Procedures in Procedures in Interventional Radiology & Interventional Neurology. Being able to successfully deliver on our promise of “Health for All” with superlative clinical outcomes, is what gives us immense satisfaction.

One area, where we have done a lot of work, but we have reported very little is on the ESG front during the quarter gone by, we achieved a net carbon reduction equivalent of 4,406 tonne through various energy optimization activities like using alternate energy, upgrade/replacement of equipment etc adopted across the network. This year, you will see us bringing to your attention all the work we are doing in the ESG Space.

Overall, as you are aware, the fiscal 2022 started out building upon the slow recovery of the business post the onset of the pandemic induced disruption in March, 2020, but the momentum generated in our Indian operations in the final quarter of FY 21 got significantly derailed with the second wave induced massive disruptions as was witnessed in Q1 FY 22. Subsequently, with effects of the second wave of the pandemic subsiding, there was again a gradual recovery of business over the next few months with our Indian operations reporting record profitability during the third quarter of the fiscal surpassing the pre-Covid highs for the first time, despite that being historically a seasonally moderate period. Unfortunately, the third wave of the pandemic again did impact our Indian operations during the fourth quarter. Though, having recovered in the month of March, 2022 post the third wave, we remain hopeful that our Indian operations is well-placed to sustain the business momentum notwithstanding further

Covid-19 related uncertainties.

To conclude, I would like to take this opportunity to acknowledge the hard work and sacrifices of our entire workforce during the particularly distressing period that all of us went through during the last two fiscals. A special word of appreciation for the frontline workers who demonstrated tremendous valour and selflessness by risking their lives to safeguard all of us. We shall forever be grateful for their commitment and support which is the cornerstone of the institution and its legacy at NH that we all are proud of.

At this stage, I would like to hand over to Viren Shetty, who was instrumental in leading our strong recovery post COVID as the Chief Operating Officer and now elevated to Vice Chairman. Viren, who has been a Whole-time Director on the Board and in addition, overseeing the operations as Group COO since 2019, has been leading the business operations, the business transformation agenda, service transformation, new business initiatives, international growth, and the technology agenda, is now transitioning to a larger and globally strategic role, while continuing to provide leadership direction and strategic guidance to the allied new businesses spanning across the healthcare ecosystem including all the technology initiatives of the company.

Over to you, Viren.

Viren Shetty: Thank You Dr. Rupert.

If I take a step back and talk about our core philosophy, which guides everything we have done, I would say is to build a socially responsible enterprise that makes a difference to the lives of millions of people. Everyone always tells us that in healthcare you should either do full charity or you should try to maximize your profits. We believe that neither option is sustainable over the long run. Narayana Hrudayalaya has so far proven that it is possible to simultaneously run a sustainable healthcare business while also contributing to society.

Our values guide our company. During a drought in 2004, Dr Shetty realized that farmers wouldn't be able to afford surgeries even at our low costs. He partnered with the Karnataka government to roll out the visionary Yeshaswini micro-health insurance program, which laid the foundations of private sector participation in public healthcare and was the precursor to the Ayushman program. When Dr Shetty realized that private

hospital participation in the covid vaccine rollout would lead to large-scale exploitation of desperate patients, we were the only private hospital to give vaccines at cost price. Going forward, we will build many avenues of healthcare delivery, but our values will remain constant.

We have spent the past twenty years in the relentless pursuit of making high quality healthcare accessible to patients from all walks of life. We have grown across the country, all while being laser focused on reducing costs and increasing efficiencies in every part of our system. Having survived the worst crisis in living memory has spurred us to do even more and one of our biggest lessons is the need to build a much larger and resilient business. We will try many different things, some will be more successful than others, but all are necessary for realizing our Chairman's vision of building an institution that transforms the way healthcare is delivered across the world.

First, we will be investing significant capex into our best-performing centers. Our largest hospitals don't have enough capacity to handle the surging patient volumes and need refurbishment and expansion. For a city like Kolkata where we don't have space to grow in the existing campus, we build a large greenfield hospital that can handle our massive patient volumes. For others like Bangalore and Raipur, we have space in the campus and nearby to expand our capacity to treat more patients. These hospitals will be massive health cities that have the best and latest equipment, conduct large number of training programs, and will be the sites for cutting edge clinical research.

Second, we have to be available for patients who can't physically visit our hospitals. Today, In-patient stay and complex surgeries are a very small fraction of a normal person's healthcare needs. For our domestic operations, we generated around 75% of our revenues from inpatient care but that percentage needs to come down to 50%. We will be investing in patient-facing facilities like clinics, daycare surgery centers, online consultations and eventually get into managed healthcare. The quantum of investment will initially be less but will quickly ramp up as we scale.

Third, we will be making larger investments in our software, analytics, and shared services. Without exaggeration, we can state that our hospital information system Athma is the best in the country. Our Aadi app allows our doctors and nurses to coordinate care and monitor our patients from anywhere 24x7. Our NH Care app is the single point of access for our patients to book appointments, view test results, store

medical records, speak to doctors, and get e-prescriptions. Our data analytics gives our managers and clinicians all the information they need at their fingertips. Our Shared Services Center will enable us to remotely manage nearly all non-clinical departments from a central location.

Finally, we will continue to invest in the international market. We run the best hospital in the Caribbean, and we'll build on our advantage by increasing the specialty mix in Cayman, as well as growing our presence across the Caribbean and North American region. Dr Shetty always said that Indian companies which become world-class multinationals combined the efficiencies of operating in India with a customer base in the western world.

This is the summary of the next phase of growth for NH. There are many moving parts and lots of money that need to be invested. I am blessed with a phenomenal team of people who are committed to carrying out Dr Shetty's vision. We will continue to build on our strengths as well as build new capabilities that create more value for our stakeholders, patients and their families.

22 years ago, NH started as a dream of a group of hungry and passionate doctors. 14 years ago, our first set of investors believed in that dream enough to give us \$100mn to scale. 6 years ago, we listed our company and allowed all of you to join us in the journey. Since listing, we have doubled our revenue, expanded our EBITDA 3.5 times and PAT by 17 times. We are grateful to the investor and the analyst community for standing with us through this difficult journey and we look forward to your continued support and encouragement as we begin the next phase.

Now, on to the questions.

Anju: So my question is broadly on the lines of the Cayman hospital that they are running. So if you can just break up the revenue into two paths, what is the international revenue that comes in? And what's the local revenue from Cayman Island?

Debangshu Sarkar: We have disclosed that information on slide 9, of our investor deck that we have uploaded. If you refer to that for FY'22, 98% of the revenues were domestic.

Anuj: No in general, like pre-Covid how was it? And how do you see it going forward?

Debangshu Sarkar: I think if you have noticed our annual decks on the same in the past, we provide this information so historically this went up to as high as 15% to 20% in international traffic which has obviously because of COVID come down to as low as it is now.

Anuj: and going forward what if you could just give guidance on Cayman?

Viren Shetty: Right now, its not only just the Cayman, but the whole Western world is also going through another fourth wave, a variant of Omicron. So again, it looks like the international travel will be severely impacted. So we're not very clear how long it will take to subside, but it's been quite impacted. So not just for international patients coming in, we are finding it is extremely important to bring our doctors and nurses into Cayman because they all need to transit to the West, and they are not able to get the Visas. There's a massive backlog of visa applications. I'm sure all of you that have tried to travel understand, how difficult it's to just do any international travel nowadays. So, for this next year also, we expect a certain set of disruption, which would mean it would be domestically focused in the near term. Here on, as the patients do come, and as and when people start to normalize this sort of behavior, the island will start opening up in natural fashion, and patients will grow, but it's going to take time.

Anju: Okay, sir. And given that the population of Cayman is about 70,000 odd people And in the recent years, in the last five years have already done about 4,000 surgeries. How do you see the local population and the local operations expanding? don't you think you're a little over dependent on the local population there?

Viren Shetty: We are dependent on the local population, that's right. Because when we started out this business, we had come up with the plan that this would expand to a 2000 bed Health City, dealing with patients from all over the Caribbean. Well, that never happened in the time frame that we had planned out. What we've realized that the current bed capacity that needs to be reconfigured to deal with domestic patients. While we are capturing a significant market share in a lot of the major procedures that we have, there are many specialties we don't have, specifically cancer, neonatal

care, obstetrics delivery, lot of the primary care specialties, ENT and so on. And those we will have to start adding to be able to capture the domestic market share on that. Yes, you are dependent on the domestic market, but they're on an island and this is the best option they have for getting treatment and now preferring us to any of their options previously, which were going to the US

Anju: So we will be expanding in all the multi-specialties going forward right?

Viren Shetty: Yeah, there's just the one expansion we announced, which is our expansion in the city, which is in Camana Bay. The rest of that will be more on the lines of clinics and primary healthcare centers.

Anju: Thanks Sir, Thank you.

Debangshu Sarkar: Thanks Anuj. I think we can take the next question from Ahemad; Ahemad you can go ahead.

Ahemad: Thank you for the opportunity sir, my question was with regards to our new hospital our impression was that will end this quarter with break even for the new hospitals, but I think it would have been impacted by the Omicron wave so do you see next quarter or next full- year a breaking even in the new hospitals?

Sandhya J: This is Sandhya here, so if you look at two out of our three hospitals, they're in fact had seen breakeven numbers in the March month in Q4. Only the third hospital is yet to break even, but we've significantly come down on our loss profile in those hospitals. So, therefore, we are optimistic that it is just a matter of few quarters that we will be able to break even in all of these hospitals. The other aspect that, I want to bring to your attention is that these hospitals are in markets that are high ARPOB markets, and therefore, it's just the volumes that have to pick up and come to that level, that we will be able to breakeven. So, we don't see a big challenge because in these hospitals it may take a few quarters, but we will get there.

Ahemad: Okay. Got it. Just one question on the tax rates. So, this quarter the tax was very high, but I understand the full year it will be 35% for the domestic presence and nil

for the Cayman business. So is this right understanding for the next year? We will have India business 35% tax rate.

Sandhya J: Yes. So this part of the tax rates was higher because we repatriated dividend from Cayman and therefore we paid tax on that dividend. Our tax rate is 35% but we also have carry forward losses, that we continue to set off. So therefore if you actually calculate the cash tax that we pay, our effective rates will be lower. We still have some carry forward losses to set off next year. Therefore we will continue on the 35% tax regime. Obviously, the effective number will be lower. But we will continue on the 35% of the regime at least for another year until all our losses are set off. And then after that, we have to move to new tax regime.

Ahemad: Just one thing on the exchange filing regarding results, doesn't include the detailed cash flow statement. So just wanted the number, what was the cash tax we paid this year?

Debangshu Sarkar: The number is around INR 67 crores on consolidated basis for the whole year.

Ahemad: Got it, Thank you!

Debangshu Sarkar: Thanks, Ahmad. I think we can take the next question from Sameer Baisiwala. Sameer, you can go ahead.

Baisiwala: Thank you, and good afternoon, everyone. Viren, just following up on your opening remarks. I think it was quite a hardening you highlighted for key focus areas. So, can you give us some more granularity some more details on item number one, which is greenfield, brownfield, large Capex expansion plan and item number four which is expansion into the international markets.

Viren Shetty: Yeah, the expansion right now, towards our best performing hospitals, which are also our oldest hospitals, oldest hospitals mainly Bangalore and Calcutta. And they have peaked out in ICU beds, capacity in OPD rooms. If you visit any of them, there's barely any space to breathe during peak hours. What we have been trying here and there are these little efficiencies that you can get by moving to online appointments by

reconfiguring the bed mix by making small minor changes here and there, but it's no longer enough to sustain the momentum of our revenue growth. We simply need to add more beds, to be able to capitalize on the existing patient days as well as build upon that momentum to keep increasing the number of patients who come, so that the simple math dictates that you need space there. Bangalore has space so in the health city, we would add new infrastructure to our cardiac building we are planning to add an expansion plan both for the OPD as well as for inpatient room areas. It may not add to many beds to this but it will be a lot more procedural rooms, on outpatient rooms; those sorts of areas, we're also looking at acquiring one space nearby, which we then use for getting into other multi-specialty work that's for Bangalore. For Calcutta, we've been trying for many years and we managed to buy tiny plots of land from shopkeepers and areas just around the hospital, but at best we're able to do certain OPD and radiology rooms there is simply not enough to contain our ambitions for a city like Calcutta where we are the market leader. So for that, we simply have to do what the normal course of business is buy land, and put up a large number of beds there. So, we've identified several parcels of land from the city, we're negotiating with them, we'll put it up and eventually, this will be built in phases, get to about a thousand beds in one of the up-and-coming areas of the city, but there again, is to solidify our position in that place as we have a huge number of patients to fill the hospital.

Right now, we're actually postponing cases and turning people away. In fact, there are hospitals around the periphery of our Rabindranath Tagore hospital, whose entire business model is predicated on dealing with the excess patients that we're not able to take care of. Raipur is the other one, where again, we are doing quite well running out of space, and they're in conjunction with the trustees getting some land next door and over there we would be expanding where the trust will put up a building and we will take over, we negotiate on the terms of that arrangement and we look for space nearby. The other smaller hospitals that we have all over the place Mysore, Shimoga and the other Calcutta hospital there, there's enough sufficient brownfield capacity over there and expect more along the lines of adding departments like oncology services adding a larger ER, changing the OPD, those will be on the normal things going on.

So that is how we are looking at the near-term. There are certain inorganic opportunities as well. We are just looking at certain hospitals under liquidation zone, but those come

with relatively low probability of success so I can speak about them with a lot less confidence.

Overseas, the one expansion in Cayman is already on, what we have indicated, what we are adding in addition to that, there are certain other countries in the Caribbean that not as good as Cayman but match Cayman in-terms of earning capacity and potential for us to go there and make a difference. We're in talks with all those countries; it obviously has taken a huge back step during the pandemic and those who we continue to engage, we did have surgical programs in 3 islands where our doctors were going there, conducting surgeries and so on. We do have a management contract for one Island in St. Lucia, where we're hoping we can discuss with the government about expanding that into a full-scale management agreement. Again, those are things in discussion and at some point in the future, we would look at North America as a region, the US as a market because its one of the largest market healthcare in the world, and we have a large number of capabilities in running hospital in that part of the world. It would be a shame if I retire and not have at least tried out to run a hospital there using our low cost, efficient techniques and be able to make a significant difference. The timeline for that are unclear at this point, we're focused a lot on the Caribbean, but it's something we always have the back of my mind.

Baisiwala: Thank you Viren. But if you were to summarize for India, say, next to three, four - three to four years, what's a sort of out lay in your bed count goes over by what 2,000 beds, any such brought framework, if you can provide for India?

Debangshu Sarkar: Sameer, its difficult to give you clear guidance on the number of beds or outlay over the longer time horizon. Given what Viren said, a lot of these things while it will be spread out over the next three or four years as you probably rightly estimated, but to give you a clear guidance, possibly for the year FY '23 we wouldn't be adding a lot many beds, when I say adding I mean a commissioning a lot many beds because as you have understood, a lot of it will be greenfield and thereby, will take its own time in coming up, in turn, being constructed and thereafter getting commissioned. So, for the fiscal year FY '23, there will be outlays towards the land parcel that Viren mentioned, across places that we will be doing. As well as the acquisitions that we are eyeing if they were to go through successfully, but they

may not be as meaningful and significant in terms of an overall bed accretion at the, you might think at this point of time.

A lot of it will be in terms of reorienting our service in terms of the offering that we are doing, and thereby, transforming the business in the lines of what Viren has been guiding for some time now. So, the outlay towards all these, including the other things that we mentioned were to all go through, possibly could be north of INR 1000 crores that we are looking at for a FY23, if you were to necessarily pin me down on number guidance for a FY23. And that includes the Capex guidance that we have already given for Cayman Islands for the expansion out here, in this fiscal, which would be around USD 50 million. So, for this year, if all the things go through that we are thinking on currently, the number would possibly have an upward bias north of INR 1000 crores in FY23.

Baisiwala: Okay Debangshu. That's very helpful. And I presume this would largely be funded by internal accruals and what is pillow is through the debt.

Debangshu Sarkar: Yes, a combination of both.

Baisiwala: One final question from my side. If I may, at that what we for India business. Whats Your outlook for fiscal '23 just your general sense what could be the growth in the margin outlook for this year?

Sandhya J: So Sameer, we don't guide numbers as you are aware so we are not in a position to share a revenue or a marginal outlook, but as we mentioned at the beginning of the call, there is the momentum and we are very sure that this momentum will translate into healthy numbers. We cannot give a guidance as such.

Baisiwala: Okay, that's fine. I've got a few more, I'll get back in the queue. Thank you so much.

Debangshu Sarkar: Thanks, Sameer I see someone called Krishna, Krishna if you can go ahead with your question.

Krishna: So thanks for the opportunity. Good afternoon to everyone, sir, can we expect your expansion to the AP Telangana region.

Viren Shetty: Not at this time. Our current focus is restricted to the areas where we currently operate and a lot of our capital is tied up in that, plus AP and Telangana is a very competitive market. We used to run a hospital in asset-like model in partnership with Medical College called Malla Reddy hospital at Hyderabad, but we exited that. But, at least for the next five years, I can say with confidence that the only path to this country will be looking at are the areas where we already are there.

Krishna: Yeah, thank you Sir.

Debangshu Sarkar: Thanks, Krishna. Anyone else? I still see only some hands being raised. Now I see Kapil Marwa. Yeah. If you could go ahead. Kapil?

Kapil: I would just like to make a brief comment before I come to my question. And that it was very gratifying to learn about the high volume of 750 surgeries done in a single month in your flagship hospital. Heartiest congratulations for that. Now, I will come to my question. Dr. Rupert had mentioned in the press release that you have ended the year on a strong footing with the recovery witnessed in the month of March '22. Can you please give us some indication on the trends in April and March '22?

Sandhya J: Hi, Kapil. Thank you for that acknowledgment. And regarding our numbers in April, we are trending positive, In March, there was a lot of pent-up demand and it was our highest ever number. Having said that, overall I think from a quarter point of view we are trending positive. We are hopeful that the quarter will be like the way we are expecting. However, since we do not guide, so therefore, I'm not able to give you a definitive number.

Kapil: Okay. I understand. Thanks.

Debangshu Sarkar: Any other questions are there, Kapil? No. Thank you. Thanks, Kapil. The next question is from Nitin Agarwal. Nitin you can go ahead.

Nitin Agarwal: Thanks. Sorry. I'm just repeating the question. on the three new hospitals are on Gurugram, Mumbai and Noida hospital, how are we looking at these where, are these are three hospitals individually in their sort of in the journey to becoming very

close, very closer to corporate profitability. And how do you see the see playing out from your own?

Viren Shetty: All at the verge of that, Dharamshila hospital was profitable except during Covid, the Gurugram hospital is in the near team, maybe a couple of months more. The Mumbai hospital though that's the one that has been taking a little longer given our focus only on children's surgery. They're doing a couple of things there to get into delivery, high-end birthing and that should help the numbers a little bit, but I think knowing more about the whole business of children's care, and the way in which we operate I don't believe that the performance of the children's hospital will be comparable to our best-performing flagship anytime soon. We are in discussion with the trust to raise more funding to expand the hospital building because there's a lot of interest for doing high-end work and for donors to build units of excellence when that happens, you will see again, even ramp up in our spend in advance of the surgery happening.

But again, it's not losing a ton of money for us it's something we do as a flagship paediatric business, and in something that a good hospital has, everyone wants to be the one to say we run the best children's hospital in the country. But in terms of the financial outlook, it's not a model that we would replicate or seek to replicate in any of our other setups. So somehow, they would say, Delhi on track a couple of months more, Mumbai will struggle for little bit longer.

Nitin Agarwal: You said Delhi is on track of how much to where you see these EBITDA margins so I mean they're getting to like So, what are the peak profitability steady-state probability possible, for these two hospitals. And by, when do you think we can get there?

Viren Shetty: Again, usual disclosure on guidance. Overall, they would be comparable within the terms of occupancy and the EBITDA numbers with the average hospital that we have. These are not the main flagship size hospital, not do they have that vintage it will take time for them to get there. So when the margin profitability is concerned, it will not be the same, but the thing is, these units in Delhi have a much higher ARPOB. The pricing is a lot higher, and the realization per patient is a lot higher given that these are in very key markets. So you will be able to achieve the

revenue target of the middle run of our hospital that we have with a much lower occupancy number, so that's what we can project at least for the near-term and of course, as and when these hospitals also perform and the hospital gets full, there is space in both hospitals and we will add more beds, we will get more clinicians and they will take it up to at least 400 to 500 beds for both of them. But the time frame for that will not be as a higher priority as it is for Bangalore and Calcutta, which we are pursuing right now and that is the highest priority for us.

Nitin Agarwal: Secondly on the new hospital that you're putting out of the investment that we're making typically what sort of the break-even period you are looking at or typically, what is the threshold are you working with? When you are starting new projects? What, how you are visualizing new Capex?

Viren: Yeah. Usually, when we started this company, we would break-even within the first year, but the more time goes and we noticed that, when you start new hospital in new city, it takes a lot of time for you to build up your market share, there's a lot of competition, your costs are extremely high, the patient base takes a while to materialize, though it keeps getting pushed out, one year became two became three became four. Some hospitals like Ahmedabad took, seven, or eight years to break even, but it doesn't matter so much for these expansions. We're not treating these as greenfield.

They will all be in the vicinity of an existing hospital with a very strong brand and their first batch of patients, the way you will phase it out, is that your first set of beds caters exclusively for the demand that already exists, which is demand that we're not able to fulfill right now. So, there would be a very much reduced break even though we may not take three years, may not take one year either, that will be too optimistic, but it won't take as long as the Delhi and Mumbai hospitals.

Nitin Agarwal: On the regional Jammu hospital, there's been a change in profitability sharp increase the number which is INR 5 crore number posted for EBITDA for the quarter, is there any change in the business? And how should we because going-forward?

Sandhya J: Yeah, as far as the Jammu hospital is concerned, we have indicated to the trust that

we would not want to take any profitability out of the hospital and we want to reinvest, we are still waiting for confirmation from the Shrine Board to allow us to reinvest. And therefore, you should treat that as a break-even hospital only. It is our intent to serve the community, and that is how we look at that hospital from our point of view. So you can regard this number (profit) as a one-timer for your purposes.

Nitin Agarwal: Shall we continue to assume this is a break-even hospital.

Sandhya J: Yes, It will continue to be a break even hospital.

Nitin Agarwal: Thank you.

Debangshu Sarkar: Thanks, Nitin. Sameer you can go on

Sameer: Thanks for the follow up. So the first question is on the payee mix we have about 22% coming from scheme patients. So I mean, what part of this is contractual that something that will stay and part is discretionary in the sense that if you're turning away business in a flagship hospitals, then why not have more of high paying patients and less of scheme patients?

Viren Shetty: Okay. Just very quickly clarifying. May have misspoken. We don't turn away anyone, in the end, these are all elective procedures. There's a question of scheduling. There are patients that we will schedule, which have higher priority, those who have much more pressing clinical needs and those are the things we used to prioritize whether a person needs to come or not but what happens is sometimes, if you don't schedule them right now you may lose them. And in that case, they get picked up by some other hospital. I will get to the thing you asked earlier, but in terms of the scheme mix and why things increased during the pandemic that is because there just wasn't enough volume to fill up the hospital. There were a lot of uncertainties from people.

We needed to keep the show going, and we have to keep the hospital busy. And so we as part of our commitment to society as well as that's a large number of patients,

who come from that category, take a large number of patients on the government program, but there is no sort of obligation or compulsion that you have to do, we do it because that's the kind of hospital we are. Now, the mix of patients, the way in which we reconfigure the infrastructure, the things that we do when we plan out new hospitals and the refurbishment that we do and the bed mix going through private and semi-private, that is all done keeping the business needs in mind, which is every hospital needs a certain level of profitability, be sustainable, and you need a certain kind of margin profile from the procedures to run very well-functioning departments, and those changes we make based on the realities of that place. So, place like Bangalore where you get a certain profile, you'll do that, Jamshedpur, where there is a very different profile of patients, you will be taking a much larger percentage of scheme case. So, what do you see is the average consolidated number. There's a lot of variance in between the multiple hospitals.

Sameer: Yes. Thanks for this Viren If I understood you correctly. So, therefore, the current 22% is not contractual be, but however, given the business mix is likely to continue in this manner.

Viren Shetty: We, I mean, these are when you average it out, roughly. Yes, but then, what we will do is, as the year goes by, our patients come from different payee categories as international thing opens up. We will start seeing more of those patients start to come in.

Sandhya J: Just to add to that Sameer, its not a number that we actively manage or that we have to restrict schemes to this number or we have to do schemes at this number. It's not a number that we manage. We believe that we have to deliver high quality health care to all patients who come to us and depending on, the mix is sometimes also variable of like Viren is saying, either location as well as that particular trend during COVID we're taking a lot of patients and all patients who are coming in we were taking in so it depends on the situation as well. So I believe it's not a number will guide on, and it's not a number we manage.

Sameer: Yeah. Thank you, Sandhya, very clear, the second question is on Cayman Islands. So I think you would actually made about \$40 million EBITDA in fiscal '22, so roughly,

how much was the free cash generation over here? And I think they mentioned earlier that there was some dividend repatriation. So this near-term, mid-term. How do we see this cash that's being generated in Cayman? What would be the usage? What would stay over there? What would we get back to back to India if you can just share some of some on that?

Sandhya J: I let Debangshu to answer the free cash flow, but I will take a minute on the strategy. We are expanding in Cayman as we have already indicated, and therefore, in the near-term, the free cash flows we will generate in Cayman will be reinvested in Cayman. Having said that, we brought a USD 10 million dividend to India this year. And at the end of every year, depending on the cash flows left, we will take the decision on how we want to repatriate. In the near-term, because Cayman is an investment priority for us so therefore in the order of priority will be to grow in Cayman, do investments in Cayman, and thereafter dividends to India. Debangshu, over to you on the cash flow.

Debangshu Sarkar: Sameer. From the USD 40 odd million of EBITDA that you rightly said, there is some amount of working capital that has accrued in that business in the period under consideration. Net of that, it's a good USD 25 odd million that has accrued to us over there before doing the Capex and the repayment of the borrowings at that particular entity level that we have done. So out of that over USD 25 odd million generated from Operations, they have transferred USD 10 million to India as dividends and repaid borrowings and interest of around USD 7 million and incurred a cash Capex of around USD 7 million during the year over there.

Sameer: Thank you. Very clear. And just one final question from my side. And what sort of inflationary trends are you seeing in the business and any thoughts on the price changes that you want to do or you have done? Both for cash patients and insurance patients, just your thoughts on that. Thank you.

Sandhya J: So there is some pressure, which we are seeing on the cost side. Having said that we've always looked at efficiencies first, when we have cost pressures, we look at internal efficiencies. So therefore, a significant part of our inflationary pressure, we will meet from our internal efficiencies, which are enabled by a couple of areas one

of course, is that with scale and with our efficiency in operations and buying, we are able to deliver certain level of efficiency. The second is that we have invested in technology in a big way and with the best in class technology enablement that we have helps us to manage our costs more effectively and in a more efficient manner, so that is our first go to port for conquering inflation and other cost hikes and we do take price increases but they're very small and at a local level. And we of course, want to keep that healthy mix of delivering a good margin and at the same time, be able to keep the costs affordable for our patients.

Viren Shetty: No point beating around the bush there is a lot of inflation has been, lot of the consumables, the salaries of all of that and as part of the price increases that we have to take will have to account for a lot of that. But more than price increase,s the larger way in which we would address this is for efficiencies and moving into higher end surgeries.

Sameer: Thank you Viren and also congratulations to you and all the very best in your new role.

Viren Shetty: Thank you Sameer.

Debangshu Sarkar: Thanks, Sameer. Anyone else, any questions? Yeah, Anuj you can go ahead.

Anuj: Thank you once again, so I have another question on ARPOB trends that have been recently. So recently for the last three four quarters ARPOB gone up. What's the management take on the sustainability of these ARPOBs and given that we are not seeing international business. Should we expect further increase in ARPOBs going forward.

Sandhya J: The one of the reasons why you're seeing ARPOBs trends changes because of the mix change between COVID revenues and now with more non-COVID revenues, and coming back to normalcy as well as pick up in some of our or newer hospitals, which have come in at a higher ARPOB. We can say that these numbers are sustainable and one fact, we have to be acknowledging of that ARPOB is not really a complete representation of the underlying price growth in the business. A lot of the volumes

may not be bed dependent. So average revenue per patient, which we report out in our investor deck is more representative of the underlying price trends that you can see.

Anuj: Thanks a lot. And secondly, on the Gurugram and the Delhi NCR cluster, what's the plan of action given that other players are expanding a lot in that segment?

Sandhya J: I think Viren have already answered that question earlier.

Anuj: Okay I'll just go to thank you.

Viren Shetty: And just to quickly recap, we won't expand to the same extent to the ones who have talked about adding 2,000 beds in Delhi, 1000 in Gurugram and so on. Our priority markets are Bangalore and Calcutta we will continue to grow this in a more moderated fashion to meet with the demands that the hospital currently have and will take it in a more moderation fashion.

Anuj: Thanks a lot. Thank you and All the best.

Debangshu Sarkar: Thanks Anuj. Anyone else with any query? I don't see any hands raised out here. Anyone? Yeah, Gagan you can go ahead.

Gagan: Yeah. Good evening. Apologies of this question has already been answered. I was very late in joining the call because of other calls. What's the reason behind the tax rate in the current quarter?

Sandhya J: We have repatriated the dividend from cayman, and because of this the tax rates come in slightly higher.

Gagan: And then how should we budget for tax rate going ahead in '23?

Sandhya J: So, our average rate of tax continues to be 35% because we still have brought forward losses, which we have to set off. By having said that our cash tax outgo is lower because of, obviously, we brought forward losses. So you can budget it 35%.

Gagan: Thanks

Debangshu Sarkar: Just to clarify that 35% tax rate is for the India business that Sandhya is referring to. A very good proportion of our PBT is now being contributed by our overseas business and obviously the Cayman profits are not taxable.

Gagan: Okay. The second question on Cayman. What's your take on the sustainability of the Cayman ARPOB and Occupancy that we saw this year. They would have been an element of COVID there. How should we think of Cayman going ahead?

Viren Shetty: Yeah. I will take this one. I had mentioned earlier this quarter. It will be a little challenged because for the past couple of months, Cayman has been going through the Omicron outbreak as well as in that entire region. So there's been a lot of difficulty for us. A lot of our doctors and nurses are falling sick. And the consulates are not processing Visa applications in time. It's been very difficult for us to get additional staff to augment the current capacity. So, in the near term, I would say challenge, but not dramatically low, but we would say that the next couple of months will be a little challenging from an operation perspective, but it will be made up by other departments that perform. So it will just average itself out. Again, once the oncology thing sets up, then we expect that there will be the short-term pressure because of getting all these new doctors in a new department, but over time it should pick up because we already have started enrolling people for the oncology services and as and when they rolled out, this department will take off. So again, once on onboarding first, there will be a short dip but followed by recovery over there.

Gagan: Yeah. In the year gone by apart from Q1, all three quarters your operating margin been north of 18% and on in improving trajectory the exit operating margin of Q4 probably north of 18.5%. Do you see this as a sustainable trend going ahead with operating leverage help you?

Sandhya J: So, I don't want to guide on the number, but that is the aspiration. There are we spoke earlier in the call about there, being some one-time effects in Q4. So Q4 is a

slightly inflated performance, but then we are looking to operate in that range as we move forward as well then.

Gagan: And the final question from my side. Occupancy for you I mean, if you could give me the figure for the year. And over a three, four year timeframe, how should we think of occupancy on your Indian and Cayman hospitals? What's optimal in India? And what's optimal in Cayman? And when can you see achieving that optimum number?

Sandhya J: Okay. Our occupancy for the year is around 50% to 55%, but I would like you to take that number with a little bit of color, which is that, occupancy is the way we measure is, midnight occupancy. It is not a true representative of the underlying volumes. A lot of procedures are daycare, as Viren was explaining earlier that how we would expand capacity without actually expanding the number of beds necessarily so therefore, we would look to create more value for patients whether with a midnight occupying bed or through a daycare procedure. So, while I'm not guiding on occupancy, we are at largely hitting our capacity in many of our flagship hospitals. So we have to bottleneck which is what we will work on and that will create, that will also reflect in the occupancy numbers.

Gagan: I'm still not very clear because, if you look at your peer group occupancies peak at around 75% to 80% I don't know how occupancy is have been calculated, is there any difference in how it's normally done in other hospitals? Because you're saying you're hitting your peak utilization at 50% to 55% occupancy?

Sandhya J: Viren, you want to take that?

Viren Shetty: There's no commonly accepted standard for what constitutes a bed. While all functionally looks the same way, but a bed in the dialysis area is different from bed in the chemotherapy area, and different from a bed in the regular ward areas. So over the years based on the way in which we calculate these based on NABH audit and all these things that keep coming up. We have ended up with a lot of that. They all treat patients, all of they are general treating patients, but whether they get occupied in the middle of the night, or whether it leads to a sort of peak time, confusion in the morning where people who are supposed to be discharged at 10:00

am in the morning, they get discharged at 4:00 pm in the evening and people who want to get admitted, come in and there are no beds available. Those are challenges we have. But I think all these points, we're just quibbling about just numbers. It points to a larger question that you are asking, which is what room is there to grow in your existing infrastructure. While I may have beds, if I just look at the space that is available. Not all beds are the same and not all beds are the one that I want. I have a large number of general ward beds, may not be as necessary if you're trying to cater to patients who want to pay for a much better experience in a private room. So now we have to refurbish the setup to cater to that. And so the bed count will go down. Similarly, a lot of the beds that we have will be in the large ICUs and so on which you would you need to keep adding and those again have the most amount of demand. So we're trying to move away from looking purely at occupancy as a metric, but the thing is, it's not easy to find something good enough because the hotel industry has trained all of us to think in terms of keys and occupancy and that's how it's easier to understand that but for our business is quite difficult.

So when you say other hospitals are at 85%, I would say that hospital like Bangalore which roughly would be around 65%, 70% is functionally like 85% occupied hospital because although there is space, there is no space in the sense that the bed is there, but there's no surgery capacity or the bed may be there, but there's no ability for the patient to see the doctor on time. So that's why we'll have to start doing a lot more things to add not bed capacity expansion, that's we're looking at over the next couple of years, will not all be bed driven; a lot of it will be procedure driven which will end up thus improving the percentage occupancy, what you see of going from 55 to 85 let's say, but it's not a costless sort of expansion; it doesn't mean that I have beds and I can have people in there without spending any money, we do need to spend money doing other things.

Gagan: Just a clarification on that any in which metrical line item will these efforts that you're making so apparently if not in occupancy if you could see for us the nuances or not

Viren Shetty: Yeah on realization, on the per person realization, on the absolute number of bed days, we call out the number of days people put in ICU, we give the IPD numbers,

OPD numbers. We give the realization increases and margins, but those are absolute numbers, which will give you a much better sense of how much growth has happened? Then you will have in the end we do disclose the number of beds that are there. So then you just get to see that based on that we're able to still with the same number of beds nearly since we listed, the same number of beds that we had, we've been able to grow our revenue by so many times.

Gagan: Thanks. Thanks. That's all for my side, thanks for answering my questions.

Debangshu Sarkar: Thanks Gagan. With that, I guess I would conclude our session today. Thanks once again all of you for your active participation just like all previous times. As mentioned at the outset, should you guys have any follow-up queries, do please feel free to reach out to us; we will try to address them to the best of our abilities. Thanks once again.