Max India Limited

Q2 and H1 FY 2017 Conference Call Transcript
November 10, 2016

Moderator Good day, ladies and gentlemen and welcome to the Q2 and H1 FY 2017 Earnings Conference Call of Max India Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation.. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jatin Khanna -- CFO of Max India Limited. Thank you and over to you, Mr. Khanna.

Jatin Khanna Thank you, Margreth. Good morning ladies and gentlemen, I would like to thank you all for being a part of Max India's earnings call. My name is Jatin Khanna I am the CFO for Max India. Before proceeding with the performance highlights, I would like to introduce my colleagues who are with me on this call, I have with me Mr. Yogesh Sareen -- who is the CFO for Max Healthcare and Mr. Vishal Garg -- who is the Senior Vice President - Finance for Max Bupa.

So, I will begin with brief update on the merger and then we will have the Q2 results which have been very encouraging across businesses.

As we all know, that the Residual Max Financial Services after demerger of the Life Insurance Business would merge in Max India. So, an update on that process, so that you all are aware that we have filed all the regulatory applications for the approval of the merger with SEBI, CCI and IRDA and the in - principal approval for this currently are expected by November. Post which we will be filing the application with the High Court and in all we expects the merger to take it on a nine to twelve months to conclude.

Now, let me now move on the key highlights for first-half of FY 2017, very happy to share that Max Healthcare had a robust revenue of about 26% to about Rs. 1,300 crore, its EBITDA has grown at a strong 44% to Rs. 140 crore and the margins are improved by 140 bps to 11.2%, something we have been taking about around a 100 bps to 150 bps improvement in a year in margins.

Two landmark acquisitions by Max Healthcare last year provided it the catalyst to step up the growth to encouraging level. We expect the strong growth trajectory to continue for many more years as we double our bed capacity to over 5,000 beds, most of which is brown field and we already have the land bank in place to deliver that expansion and also line of sight on internal accruals as well as the leverage capacity it internally finance this growth. And as the margins expands further and unmatured hospitals starts to mature Max Healthcare is expected to continue to outpace growth of most of the other corporate hospital chains in the country.

Also happy to report that Max Bupa gross revenue have grown by 23% to about Rs. 260 crore. The tie-up with Bank of Baroda has gone live and the sales has commenced and out IT systems are being integrated with bank's core system. The alliance will provide Max Bupa in access to 5,400 branches in 60 million customers who will be very good for the long-term growth of the business.

Now briefly, few other notable highlights for the quarter. Max Healthcare significantly improved its profit despite two large acquisitions last year with a profit before-tax of Rs. 15 crore in Q2 which is again a Rs. 10 crore profit for entire last year so, there will be significant uptick in profitability. The business as a part of continuous improvement in EBITDA margins with margins for mature hospital expanding to 14. 7% in Q4 and for unmature hospitals to 10. 1% in this quarter.

Investors have consistently asked this question, will we every see an 18% return on this business. I am pleased to share that our mature hospital have delivered a return on capital employed of 22% in this quarter and as the margin expand see the return is improving further as well as for our newer hospital which are less than five years old. This encouraging performance has been driven by key levers for margin improvement and continuous improvement in channel mix, service mix and cost rationalization. Happy to report that we have taken out around Rs. 22 crore in the first-half which follows a Rs. 40 crore cost take out last year and expect the similar cost take out in the second-half. The other good thing is that these costs have come out from across the line while the savings are equally spread across, the material cost, personal cost and indirect costs. Technology led cost rationalization and mix improvement journey will continue for another 3-4 years as we reach the desired margin levels.

Now I will give update on our growth bets for Max Healthcare. Firstly, on Pathology, B2B business has been launched in May 2016 and we only done more than 200 tie-ups there. The B2C pathology business is also expected to be launched in FY 2017. We are currently running this as a service separate standalone business unit and will then see what we do this with every year.

We also launched our first standalone Onco Day Care Centre in Delhi in June 2016 which is also along with the pathology business giving very encouraging results and the results have been better than our initial estimates.

Our Health Insurance business performance in its chosen B2C segment continues to remain strong with 23% growth, and the good customer experience drives renewals growth at 28% as evident by a conservation ratio improving to 84%.

Strong focus on cost has resulted in reduction of losses to Rs. 11 crore vis-à-vis Rs. 18 crore in the corresponding quarter last year. Now, including one-off because we had some one-off this quarter, we did a profit of about Rs. 23 crore. But really, once you look at the loss improving from Rs. 18 crore to Rs. 11 crore.

The development in our senior living business is also very encouraging and it has received the occupancy certificate which is rarity in Dehradun where 95% developers do not have that.

And of first set of possessions have also been issued. We expect the residents to start shifting before close of this year nearly half the units have already been sold before commencement of operation itself. We believe that all our businesses will continue to sustain their growth and profitability trends current year and we are encouraged further by the positive market economic trend.

In summary, just to sum up, Max India in their robust growth trajectory where Max Healthcare charting out a profitable path for next five years to seven years to double its bed capacity to 5,000 beds. Its revenue is growing at 25% and EBITDA is growing 35% to 40%. Max Bupa is also growing at around 25% and the breakeven is expected within the next two years and two and half years. Antara has fulfilled it on-time delivery promise within this fiscal something which is rarely seen in residential developments.

On that note, I will hand it back to the moderator to open the floor for Q&A.

Moderator Thank you very much.. The first question is from the line of Hardik Doshi from First Voyager. Please go ahead.

Hardik Doshi My first question was it seems that the margin leverage is to very large extent obviously driven by the improvement in performance in the new hospitals which has gone from about 3% to 10%. So, can you just talk a bit about just on the new hospitals are there any one-offs or is this the sustainable kind of improvement that you can expect and the trajectory going forward for new hospitals in terms of margin?

Yogesh Sareen Yeah, this is Yogeshhere, So, this is no one-off in these new hospitals, I think we have put a lot of efforts behind these hospitals to really build and improve the levels they are and as the matured hospital EBITDA margin stabilize to be margin of 15% to 16% now and this year we will have to drive these overall EBITDAs to the new hospitals and new acquisitions. So, I would say there is no one-off, there is a lot of effort behind this. The occupancies have gone up. There are lot of focus on the cost side, there is a lot of synergies are coming up with the new admissions now. So, that is driving the results.

Hardik Doshi Okay. And sir, I think this kind of improvement should continue into the future quarters as well on the sequential basis.

Yogesh Sareen Yeah, very much.

Jatin Khanna I here just like to add one thing that this is a seasonal business so, Q2 and Q4 are strongest quarter and Q3 and Q1 are slowest quarter so, you could see on a quarter-on-quarter basis deviation in margin but Yogesh’s point that the secular trend of margin improvement will continue that is fair comment

Hardik Doshi Okay. And Jatin, I think you also mention that you expect these in cost improvement and from technology and procurement, etc., to continue for the next three years to four years. So, I mean any kind of steady state margins that you think you will like to get to in this three-year timeframe?

Yogesh Sareen So, I would say if I look at the mature hospital today and I do get the HO cost for a minute the hospitals are averaging 20% margin in the H1 of this year so, I do think that and this is after a big cost of EWS is there, we have a lot of hospital in the matured hospitals where have to meet the obligation. So, I would say and this is not the case in most of the new hospitals. Now so, it is 20% what we have today, I would say we are looking at a unit level margin of 22% - 23%.

Jatin Khanna More respectively, the head office cost or central cost overtime should be sub 4% so, if you look at the blended margin over the next three years to four years to be about say in the ballpark of 18%, (+/-1%).

Hardik Doshi 18% from this current levels of 12.4% that you were at.

Yogesh Sareen Absolutely, so, I think Jatin mentioned that we do expect improvement in margin of 1.5% to 2% a year.

Hardik Doshi 1.5% to 2% a year, okay.

Jatin Khanna 1%-1.5%

Hardik Doshi Got it. I wanted to just on the top-line I think the overall growth is 24% year on year but I think part of it is that you got half quarter of Saket City in this quarter. So, if you had to take that out what is the organic kind of revenue growth rate?

Yogesh Sareen Organic would be roughly 12%.

Hardik Doshi Sorry, how much.

Yogesh Sareen 12%.

Hardik Doshi So, 12% is being driven by Saket City and that organic is 12%.

Yogesh Sareen No, Saket City as well the Pushpanjali, which got acquired July last year..

Hardik Doshi Okay. So, I guess from next quarter onwards it should be more on a more like-to-like base on an organic basis?

Yogesh Sareen Q4, Saket City happened in December..

Hardik Doshi Okay. Then just on this before you had the slide which showed the pace of bed addition over the next four years to five years, I mean is that still same or has there been any change in terms of the expansion plans?

Yogesh Sareen So, I would say the expansion plans are underway, we would add 1,300 beds by FY 2021 and we are all geared for that we have all the sanctions that are from board for this, we have we biggest expansion obviously in Saket City and that expansion will largely be the building plans with the authorities by the end of this month so, that is on way I would say.

Jatin Khanna The only change to specific question is that in Saket City you earlier thinking of 300 beds first phase now, as we finalize the building plans and as we know what program we would want to set up to start the expansion, I think Saket City in the first phase will have 650 beds. Now, how much of that will be operationalized and before and after is a separate question but there will be a little of acceleration in Saket City.

Hardik Doshi Okay. And then that is still I think it move four years out right, when you were looking to make that expansion or is it going to be more near-term now?

Jatin Khanna More like it would be towards FY 2020 or beginning of FY 2021.

Yogesh Sareen So, by FY 2021 we have 1,300 beds so, what Jatin is saying is that of these 900 beds that is adding the plan to do 300, 300 and 300 type and now we are going to actually prepone some of it and we have more that comes up….

Hardik Doshi Okay. So, in FY 2021 you will add 650 beds instead of adding 300 and then 300 and then 22 basically it is preponing it bit.

Yogesh Sareen That is right.

Hardik Doshi Yeah, okay, got it. And just the last question I had was if I look at your average revenue per occupied bed, I mean that is up just about 1% year-on-year on a blended basis and if I have to look even between the mature and new hospitals it is still a growth of about 3% to 4%. I think in the past the growth has been like more in the 6% - 7% kind of range. So, is there any particular reason for this?

Yogesh Sareen So, I think one is that in this quarter or even in H1 we had a lot of medical patients so, if I see the ratio of the medical to surgical business the medical business had gone up in the quarter two and for all the reasons that you know this Chikungunya epidemic that we had in NCR. So, as a result we obviously had the surgical business to be at the back seat and you know the surgical business generally have higher ARR, I would say this will set itself right in quarter three as we today we already seen that happening in October but on the overall side I would say our price increase is only 2.5% - 3% on the top-line because that is what we can influence because there are a lot of drugs and consumables where the prices are determined by the vendors, MRP, etc., so, I would say most of the ARR that we see is mainly because of the price and we also have not rejig any major new program introduction of new program in the hospitals which we are planning in quarter four of this year where do want to start the liver transplant program**.** So, I would say we couldn't modulate much on the ARR side because of this epidemic we had, but I do think that quarter three onwards we should some better improvement in the ARR. But having said that I do not think we will have an very dramatic increase in the ARR we are one of the best ARPOB in the industry.

Hardik Doshi Okay. Sorry, what did you say in 4Q what will you be introducing?

Jatin Khanna Liver transplant, If you may recollect as part of our strategy, we said that there will be four focus specialties for us which was oncology, transplant, cardiac and neuro. So, we are enacting and strengthening the specialties which are there. There is a liver transplant program which is starting in Q.4 As part of the Saket City Tower, of the 650 beds almost half will pretty much be dedicated to oncology.

Moderator Thank you. The next question is from the line of Avinash Prasad from Deutsche Bank. Please go ahead.

Avinash Prasad Just a question around the expansion plans and the balance sheet, you guys said that you should be able to internally fund the doubling of capacity, could you just give us an indication of where net debt is at this time what are some of the covenants on the debt and what you feel comfortable moving that up to?

Jatin Khanna So, today we have 1,100 of net debt. The debt will peak to about Rs. 1,800 crore - 1,900 crore as we have expanded fully, but the good thing is that the debt build up will not outpace the earnings growth so, to that extent the level will not get into uncomfortable territory. The other thing which we have done because we wanted to internally finance the expansion plan given the robust earning growth expectation is, that to de-risk the balance sheet, we have re-financed the entire debt which now has a five year moratorium, I mean actually it is a two year moratorium but three years of very small repayment and it is a 15 year debt. So, the bulk of the expansion can be internally financed with the combination of the debt peaking at Rs. 1,800 crore - Rs. 1,900 crore and these internal accruals which we generate from the business. So, before we start servicing this debt, our leverage ratios will come down to a comfortable level of Debt / EBITDA of about 2.5 times. So, to that extent there is no worry on the leverage side.

Yogesh Sareen Yeah. And also, I think the CAPEX plan that we have on the project side for new capacity addition of beds, we do think by 2021 we will be spending roughly Rs. 1,000 crore on that. A large part of it as jatin also mentioned will come out of the operating cash so, just 60%-65% of the financing will happen from the operating cash and we are obviously generating cash even today so, that is what we are planning

Avinash Prasad Okay. So, you are sitting at Rs. 900 crore moving up peaking at Rs. 1,800 crore to Rs. 1,900 crore moratorium on your current, sorry.

Jatin Khanna We are at Rs. 1,100.

So reason why it will go Rs. 1,800 crore - Rs. 1,900 crore has got more to do with the residual ownership which we have to buy in the two hospitals we acquired last year and less to do with CAPEX. There is a ball park of about Rs. 550 crore - Rs. 600 crore which will be required to make the residual acquisition. So, in principle we have got now money tied up even for the Saket City 49% acquisition which is again a 15-year money, with a 5-year moratorium with a multilateral and have got very good terms so, pretty much done and dusted so far as now our CAPEX plans are concerned because the current refinance also includes a line on tap to draw whenever we need to incur the CAPEX. Essentially our financials plan are pretty much closed to deliver these growth.

Moderator Thank you. The next question is from the line of Sean Ungerer from Arqaam Capital. Please go ahead.

Sean Ungerer Couple of questions, So, in terms of head office cost, I mean I can understand why employee cost are seeing double-digit growth in terms of expansion may be you can just touch a little bit on the head office cost please.

Yogesh Sareen Yeah, so the HO cost has grown over these periods and this is by design, we are trying to have shared services center, etc. in HO. We are going to suck out the cost from the units and bring it to the center and that is where we see growth in HO cost. Money that we are spending on the branding is also coming in the center and at the same time we are trying to create some interest from new markets and that is very significant in terms of cost coming in the center for the time being and that cost will vanish once the markets are open and they go and reside in the unit. So, we do think that the current HO Cost of 5% will be 3.5% over a period of next two years and we do have a plan for that. So, if you really ask me as CFO, I do not want the HO cost to be more than 3% over a period of time but I think that will happen by probably FY 2021.

Sean Ungerer: And then just in terms of your ownership in Max Healthcare it is going to an option to increase that further or is there any chance that you are happy to dilute that?

Jatin Khanna: No, the current ownership in Max Healthcare for Max India is 46% and it is same as our joint venture partner Life Healthcare. There is 7.5% ownership with other shareholder IFC Washington on which both us have a joint right to buy them equally whenever they would want to exit.

Sean Ungerer: Sorry, I did not catch it, are you happy with your percentage ownership or you prepare to dilute that?

Jatin Khanna: We think that the ownership will remain at these levels unless and until both the shareholders decide to acquire IFC shareholding and IFC decides to exit their shareholding. Until such time I think the ownership will remain at the same level.

Sean Ungerer: And then just furthermore, your sort of outlook for cash taxes obviously it does not like you will be paying much in the short-term to medium-term how long do you think that will be the case?

Yogesh Sareen: Yeah, by the end of FY 2018 - FY 2019 we will have to pay regular tax.

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

Charulata Gaidhani: My query was one relating to ARPOB in H1 FY 2017 there is a decline of 7%, I presume it would be because of unfavorable product mix.

Yogesh Sareen: So, first of all, I think these ARPOBs are not comparable because of the fact that we have the new acquisitions and these acquisitions obviously have lower ARPOBs The growth ARPOB I think it is 1% as compared to September 15 in the quarter two,

Jatin Khanna: So, it is more of transition issue, we are in the midst of a change. Because of some acquisition, which were 30%-40% below our ARPOB so, we are correcting that and then it will improve over time.

Yogesh Sareen: Yeah, quarter four will be a correct reflection of ARPOB movements between the two quarters.

Charulata Gaidhani: My second question is pertaining to CAPEX how much is the CAPEX spend that you are planning for the expansion of 1,300 beds?

Yogesh Sareen: It is 1,300 bed addition till FY 2021 and the total CAPEX spend for this 1,300 beds is Rs. 1,000 crore.

Charulata Gaidhani Rs. 1,000 crore. And the third question is pertaining to Antara, what is the progress on Antara?

Jatin Khanna So, like I initially said that half the units of Antara have been sold. The occupancy certificate has already been received, so the possession letters have gone. Now as the residents start to move in, which will happen by the close of this year, I think we will see a significant traction in the business both in terms of collection as well as sale.

Charulata Gaidhani Okay. How are you collecting revenue for Antara?

Jatin Khanna So, it is 60-year lease, but because it is currently not fully developed and the possession letters are not issued so, the collection obviously are much lower than the amount of sale we have done. Like I said, we have sold half the community so ordinarily we would have collected about Rs. 350 crore to Rs. 400 crore, but it is currently still under development and the possession letters have just gone out, so the collections are at about Rs. 120 crore. I think it is early days for Antara as we speak, but I think we will see more traction coming in say three months to six months from now.

Charulata Gaidhani So, currently what you have with you is the deposit money.

Jatin Khanna Absolutely

Charulata Gaidhani And once the occupants take possession you will start receiving rentals every month?

Jatin Khanna We will start having our operating income from the residents which is through the monthly charges and that is how it will happen.

Charulata Gaidhani So, monthly charges are the rentals or that is a service charge?

Jatin Khanna No, that is a service charge.

Charulata Gaidhani Okay. So, there will be a service charge plus a rental income?

Jatin Khanna From a P&L perspective, we have collected the entire lease upfront because while technically it is a lease, though practically it is akin to a sale. The reason why this has been structured like that is for two reasons; firstly, residents wanted comfort that tomorrow you will run the community, else what ends up happening in India is that, even when you will buy thinking that somebody will run the community for you, and then clutch of individuals collect together and form an RWA and replace the operator. So, that was one reason because of which we have to structure it like that and the second reason why we have to structure it like that is because it is meant for seniors. Today, if you transfer the title, the title gets transferred without any restrictions and you cannot prevent let us say a 60-year-old to sell this to a 30-year-old, so that will be the other thing which was very precious to the residents. So, because of those reasons we have structured it like this.

Charulata Gaidhani Okay. So, the lease or it is like a sale of property.

Jatin Khanna It is akin to a sale but it is not legally a sale because there are some restrictions.

Charulata Gaidhani Right. And what are the monthly charges that you would be imposing?

Jatin Khanna So, for example, its about Rs. 20 a square feet which includes host of services which pretty much include from taking care of your daily needs like housekeeping, maintenance, laundry, food, to taking care of your electricity bills, telephone bills, tax returns, so, it is a community which is meant to deliver hassle free living experience and a very different experience on the life style and life care. So, there will be nurse on site, there will be health support on site, there will be doctor consultation which will happen. It is for people who had done well in their life and who now want to relax and enjoy their life. So, we will take care of everything from daily needs, to their entertainment needs, to travel needs, and any heath need, etc.

Charulata Gaidhani Okay. And you would charge a service fee of a Rs. 20 a square feet per month?

Jatin Khanna Yes.

Charulata Gaidhani And how may apartments would you be having at this place?

Jatin Khanna 200 apartments.

Moderator Thank you. The next question is from the line of Shailendra Mundra from VEBA Financials. Please go ahead.

Shailendra Mundra I have a couple of questions and before those questions, I just wanted to know, I was looking for consolidated financials and I could not find it either on your site or on the BSE website. I can see only standalone numbers, so, I would request you to publish consolidated number as well every quarter if you have not done so. The two questions are – one is regarding the residual business which you are proposing to transfer from Max Financial to Max India so, could you please give me the size of the business and the nature of the business? And the second question, is about the synergy between Antara Living business versus your hospital business if any? And what are your future plans because as of now Dehradun the business seems to be quite a small business so, what is the future potential of this business and how do you propose to expand across the country?

Jatin Khanna Okay, sure. So, let me take the first question first, the reason you the consolidate financials have not been put up is because they are very confusing for a reader and the reason why it becomes very confusing for the reader is because Max Healthcare is a joint venture so, you consolidate 46% of the P&L of Max Healthcare whereas Max Bupa is a majority ownership of 51% ,so we consolidate 100% of Max Bupa. So now, as a reader, one will be thoroughly confused and not be able to read and make out anything from the numbers because the bigger business of the two, we are consolidating at only 46% and consolidating Antara and Max Bupa which are relatively smaller vis-à-vis health care business at 100%. So, we thought it will not give any credible information to the investors and end up confusing them. That is why we decided not to put it up. If you think you need it, we will be happy to accommodate that request. It is not that we do not work out the numbers the numbers are worked out, it is just that, we have not put out because they do not convey anything so, that is the first question.

Shailendra Mundra Can I respond to that please before we go on to the other areas?

Jatin Khanna Sure.

Shailendra Mundra So, what I request, I take your point, because your holding company hardly have any, there is no activity and it is just a holding company. I agree that it may not convey much if we see consolidated number, could you give us the key numbers of the various business separately so, apart from the what is regulatory requirement to publish, if you could in the form of a presentation on your website give us whatever you are discussing on this conference call if that can be given as key figures for each of the business so, that we could track the progress of those businesses as investors.

Jatin Khanna No, absolutely there is an Investor Release which has gone out, maybe you are not in the mailing list because we have not met before. We would request you to send your contacts. We will send you the presentation on results which has all the business numbers. As well as we will add you to the mailing list so that you get it on a periodic basis.

Shailendra Mundra Yeah, I think also as an investor I would request that these kind of numbers should ultimately be put on the website and also I have seen many companies in India they hold conference calls or analyst meets where the information is shared with only a few investors and various other investors lose out to this kind of information. So, it is fair to request that as soon as you share this kind of material information with any set of investor it should be put out on your website as well as sent to the Stock Exchanges.

Jatin Khanna So, just to respond to that, we have done both. It is on our website and it has been informed to Stock Exchange yesterday. Would request you to share your contact details so that we could add you to our mailing list.

Yogesh Sareen Yeah, on your other question on synergy between hospitals business, and Antara Dehradun Complex I would say yes, there is some synergy which we run a pharmacy there, we provide some kind of OPD services to the patients in the complex but to really assign a value to that synergy it will be a very small amount, so it would not be a big business, it is more of a help to Antara and the residents there in terms of providing health care services in the complex.

Jatin Khanna So, I think let me just sort of drill down a little bit on what Yogesh has said. When we started Antara, the idea of starting was two-fold, the first rationale for starting Antara was that you know it will be lifestyle and which is the thing which I spoke about earlier. The second part of Antara was the life care. So the life care is where Max Healthcare plays a role, we will have a life center on site and all of that as we move forward, will be operated by Max Healthcare and like Yogesh said, to begin with there will be pharmacies and there will doctors who will visit and there will be health support, etc., which will be provided. So, that is so far as the Dehradun Community is concerned. I think you also asked another question what is the way forward for Antara?

Shailendra Mundra Yeah.

Jatin Khanna Now the way forward for Antara. Antara was not started to be akin to a real estate developer, which mean you keep building communities and keep selling communities. The whole idea of Antara was that as we have the learning curve there, in terms of how to sort of do the entire technology piece of senior living. In terms of, how to design the community, how to build the community, how to provide these life style and life care services, what is the good blend of those services, the idea was to extend that to many things which is essentially through an asset-light model, wherein somebody else is a developer and you become an operator. That was one idea. The second idea was to essentially take Antara at home wherein we do what we exactly do in Dehradun at your home and at your doorstep. So, some of those idea is where Antara's way forward will be crafted upon. But I would just put a word of caution to say that these are some of the things which we have now started work on and there is no credible development, which I have to report at this point in time. But the thinking is in those lines and the work has already started in those lines and not to say that there will not be any more development, if at all there are more developments they will be more in partnership wherein we could be an operator or a technology provider and somebody else could do the hardware in terms of the real estate so, the idea is to slowly and gradually take this model to an asset-light model wherein it is a more service play which is what Max India does versus a real estate play.

Shailendra Mundra Do you outsource construction or do you do it yourself the construction work?

Jatin Khanna We have outsourced it to Shapoorji Pallonji.

Shailendra Mundra Okay. So, I just want to for you to study the idea which is I have seen, I use to work for a fund and we were looking at senior active living part and we had some foreign collaborators. So, what they told us was that it is ideal to locate such centers close to hospitals and you are right in mentioning that you want to do an asset-light model and already we have REIT regulation so, if you built a substantial asset base you can always flip the assets into REIT so, you can become asset-light by listing the assets in a REIT and you can if you really look at those close to the hospital, it becomes very attractive for the senior residents to live in those kind of communities and there is no competitor or no player in this are as of now in India and it can be a huge opportunity.

Jatin Khanna Absolutely, and this is where we are excited about the opportunity. It is just that because we run a healthcare company, so we had feedback from investors such as yourself to see how we can better do it through asset-light models and all of that. So, we will do all this work over the next six months to nine months and more clarity will emerge and thank you so much for your feedback and please do share your contacts.

Moderator Thank you. The next question is from the line of Ulhas Paymaster, he is an individual investor. Please go ahead.

Ulhas Paymaster I have got three questions - four questions. The first is, what will be the mix of mature hospitals and new hospitals by the year 2021 in terms of percentage?

Jatin Khanna The percentage will be broadly half-half because you know on the existing 2,500 beds we can add another 2,500 beds so, at any point in time the mature versus unmature mix will be anywhere from 50-50 to 60-40 so mature being 60 and unmature being 40. The other good thing is that I think the bulk of the expansion is brownfield so to that extent, even if the expansion happens, it will not be dilutive to the earnings.

Ulhas Paymaster What will be the capital employed by 2021 and what will be the debt out of that, long-term debt?

Yogesh Sareen On your first question, I think Jatin mentioned it right, so, let me tell you the numbers, so, by the end of FY 2021 we will have 3,800 beds which will be the capacity of the enterprise and of this 3,800 beds roughly 1,300 beds would be less than five years and balance will be above five yearsIn terms of the capital employed we expect the capital employed to go up by roughly, it will increase by Rs. 700 crore from where we today, excluding the capital required for the acquisition of residual stake in the recently acquired hospitals.

Ulhas Paymaster And out of that about Rs. 500 will be debt long-term debt?

Yogesh Sareen Yeah, so, we will obviously repay a lot of loans and debts by the FY 2021. So, we will have the cash being generated in the FY 2021 and we are going to repay roughly Rs. 250 crore to Rs. 300 crore of debt in FY 2021

Ulhas Paymaster What is the present capital employed total both matured and new hospital combine?

Jatin Khanna About Rs. 2,300 crore.

Ulhas Paymaster Rs. 2,300 crore. Sorry, what is the capital employed in Antara Living and what is your target in terms of return on capital and when you are likely to reach that?

Jatin Khanna I think today the capital employed in Antara is about Rs. 200 crore but because it is very early days to say that what is the target return on capital employed. We do not do anything below threshold which runs into high-teens to 20, so we do not take a project. But like I said, we are now looking at how to take forward Antara and we will do all that work over the next six months to nine months and we will come back to you with proper way forward on Antara. . The other thing which I wanted to just add on to Yogesh's comment on the capital employed that this capital employed estimate is as we see things today. Now, while we do not have a strategy, which is an acquisition-led strategy. However, given the fact that we will be on a very strong position in another two years to three years from now, we are not averse to opportunistic acquisitions, which do either of the following. Either they bring a hospital, which is expandable, like we did the last two acquisitions, where we bought 200 bedders and 300 bedders which are expandable to 550 beds and 1,200 beds respectively, or something comes to us at a very-very attractive price. So, those things can change the view on capital employed.

Ulhas Paymaster You said you are going to charge Rs. 20 per square foot on the maintenance part. So, is it on cost basis or is it on cost plus basis? And what would be the recurring revenue stream for the Antara Living other than the service charge?

Jatin Khanna The recurring revenue stream as of today are meant to be service charges. However, like I said we are exploring all the asset-light models where in there would be multiple revenue streams. Like you know there could be a technology fee in terms to advisory to developers to develop senior living community, there could be again the service fee which we charge for managing the community, there could be a fee which we could charge for assisting in selling those units, etc. So, like I said, these are very early days for Antara give us another six months to nine months and we will come back to you with a proper way forward on Antara.

Ulhas Paymaster Okay. And the last question would be on your pathology business, what are your plans in terms of how many outlets or franchisees you are likely to have after two years? And what kind of revenue are you expecting from this business?

Yogesh Sareen To start with, we are just doing B2B, which means we are going to the nursing homes and to the hospitals, trying to take their pathology business and this also includes fees of the doctors. So, as of now, we have roughly 200 contracts a lot of which is with the individual doctors and we have put up only in NCR at this point of time. and of this 200, I would say, from some, we will have Rs. 10 000 per month or Rs. 15 000 per month type of values from each center. we think that by next two years we should be taking it back to roughly 350 kind of number. On the B2B side so, B2C we have not really thought about our strategy as yet, but that is where we are in terms of B2B.

Moderator Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Jatin Khanna for his closing comments.

Jatin Khanna Thank you, Margreth. Thank you, ladies and gentlemen for being a part of the Max India Earnings Call. I appreciate you taking time out to be a part on this call and I sincerely hope that we address most of your queries to your satisfaction. In case, if you still have any additional queries or you could not find answers to any questions to your satisfaction, please do not hesitate to contact us. If you have missed out anything on the call, the recording of this call will be available and the transcript will be put on our website. We look forward to many more such interactions in the future. Thank you once again. Good bye and have a great day.