Max India Limited
Conference Call Transcript
August 14, 2017

Moderator

Ladies and gentlemen, good day and welcome to the Max India Limited Q1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

I now hand the conference over to Mr. Jatin Khanna – Chief Financial Officer of Max India. Thank you and over to you, sir.

Jatin Khanna

Thank you. Good afternoon everyone and good morning to the participant who joined us from US and Europe and good evening to our colleagues from the East. I like to thank you all for being part of Max India's earnings call. My name is Jatin Khanna and I am the CFO for Max India. Before proceeding with the performance highlights, I would like to introduce my colleague who is with me on this call. I have Mr. Yogesh Sareen who is the CFO for Max Healthcare.

I would like to begin with the significant developments that have taken place in the last quarter. Max India is at the last leg of consolidating its shareholding in Max Healthcare to about 50% by acquiring 3.75% stake from IFC Washington for about ~Rs.212 crore. Warrants of about Rs.300 crore have been allotted to sponsors to finance this stake acquisition and to meet the other funding requirements. We have also finalized a funding facility of about Rs.484 crore through a non-convertible debenture in Max Healthcare again from IFC to acquire the balance 49% stake in Saket City which will most likely happen in Q4 FY18.

Let me now move on to the key highlights for our businesses for Q1 FY18. Max Healthcare had a modest revenue growth of about 10% to Rs.702 crore which was largely driven by the reasons that we discussed in Q4 FY17 call. The slower growth is due to Pitampura IPD closure wherein we closed down the inpatient beds, the impact of stent pricing, there is a cap on stent prices as you all know, the initiatives to drive more profitable channel mix over the medium term including dis-empaneling some of the ESI & PSU accounts and also driving a very strong focus on some of the preferred channels.. Our preferred channels have outpaced the overall growth and our walk-in revenues have grown by about 12%. The upcountry channel through which we are going direct to market, as in direct to where patients

are, has grown by about 45% and our international business has grown by about 24%. So we plan to accelerate some of these initiatives in the upcountry as well as international channels to drive a sharper revenue growth going forward.

The significant portion of revenue growth is driven by Max Healthcare Tower Specialties with Oncology leading the revenue growth by growing about 24%. The EBITDA has also grown by about 8% to Rs. 64 crore where the moderation in the growth is again attributable to the similar reasons which I just mentioned about, which is the regulatory headwinds, the impact of stent pricing, minimum wage revision and all of what we discussed in the last call. The cumulative impact of all the regulatory actions is about Rs.65 crore on the earnings. Because of which, our margin has remained more or less flat in the quarter. However, we have been sort of taking lot of initiatives to overcome that regulatory impact and the biggest of them is the cost savings. So as we speak, we have identified about Rs.70 crore of cost saving for FY18, out of which we have realized about Rs.15 crore during this quarter. These savings have come out from all the cost lines, but half of this is from the personnel cost and then the other half is divided between material cost and the indirect cost.

The technology led cost rationalization and mix improvement journey will continue for another 3-4 years as we achieve the desired level of margins. Saket Complex posted strong revenue growth of 14% and EBITDA margin also improved by about 150 bps versus Q1 last year to about 12.7%. New growth bets are ramping up ahead of our expectation. So the liver transplant program which we launched in February 2017 has already achieved about 100 transplants within 5 months of launch. We performed about 55 surgeries in Q1 and it contributed about Rs.16 crore to revenue. Max Healthcare is now one of the select few entities which has a liver transplant program.The pathology bet, which we have been seeding for now almost 12 months, in that, our B2B business which was launched in May 2016 has already done more than 400 tie ups. The B2C business has also been now launched in last quarter. The geographic expansion has been started in the geographies outside of NCR, which is the state of Punjab. Now the pathology revenue has already sort of given us a 2.5 times growth of its monthly run rate and is currently getting closer to about Rs.1 crore a month run rate. We intend to scale up this business quite fast.

Immigration, so as part of our branching out various components of healthcare delivery, we started a daycare center on the cancer centre site, which is doing very well. It has already achieved EBITDA breakeven in 12 months of operation. Similarly, like I said we are converting Pitampura into a daycare clinic model, same like we have in Panchsheel. Similarly, we took out our immigration facilities outside the Panchsheel clinic and shifted to a new location, which is where our cancer center is and that also has delivered a 70% growth year-on-year for us. So pretty much all our new initiatives are firing very well.

The patient experience is also continuously improving. The IMRB scores have moved up from 63% in Q1 FY17 to about 74% in Q1FY18. The two landmark acquisitions which we did in 2015 are providing a catalyst to step up our growth to encouraging levels. We expect the growth trajectory to continue for many more years as we double our bed capacity to about 5,000 beds, all of which is brown field and we have land in place for the same. Also the line of sight to internal accrual and leverage capacity to internally finance this growth is very visible. As the margin expands further, and our unmatured hospitals start to mature, Max

Healthcare continues to outpace growth of most of the other corporate hospital chains, something which if you see this quarter's performance of most of the other larger healthcare chain in the country, we have out-beaten their performance on the profit expansion.

On the Max Bupa front, business continues its fast pace growth and has grown its gross written premium by about 30% to Rs.159 crore. The new sales of Banca channel has grown by 121% and digital by 38%. Improvement in growth trend across bank partners, high growth rate across Banca channel, primarily driven by Bank of Baroda is clearly visible. Now, there has been a great turnaround in our other bank partners like Ratnakar and Federal Bank and we have recently now also tied up with South Indian Bank and the tie-up go live in August 17. This alliance provides another 850 branches access to Max Bupa in a geography wherein we are already doing very well with the Federal Bank tie-up. So, we remain very bullish on the prospects of this new distribution as well.

Business performance in our chosen B2C segment continues to remain strong with the premiums growing at about 32% and the good customer experience is driving healthy renewal growth of about 31%, as is also visible from our conservation ratio. I must highlight that this conservation ratio of 82%, which is a tad below last year, has been achieved despite of 15% to 40% price increase across product categories. So, our differentiated product offering as well as customer service experience continued to drive stickiness in the business. We have also done well on cost in this business like our healthcare business and the OPEX ratio has improved from 60% to 50%. The business is marginally profitable, but I do not want to read too much into it because the Q4 is the biggest quarter, which is where we could see a little bit of red again; however, our overall sort of guidance in terms of directionally business getting into a breakeven in FY19 continues.

We are launching lot of new initiatives which will delight the customer by giving them an option to get the policy issued within 2 minutes. We are test piloting some of these initiatives, but if they turn out well, I think it can create significant amount of sales and leads generation for us. We have set up a first point-of-care desk in our Saket Hospital which is also getting a very good favorable response wherein the preauthorization for customer happening within 30 minutes, the historical trend and experience, we have been able to deliver that in 15 minutes in the Saket Center and which is also contributing to our sales.

Similarly, our digitally enabled wellness product Go Active has been filed with the regulator and we are expecting the launch of this product in another 6 to 9 months from now. This product will be fully digitally enabled. The preauthorization time of TAT of 30 minutes would have sort of improved from 88% cases to 96% cases and we have seen our claim repudiation also sort of coming down from 13% to 9% which also reflects on our good underwriting practices.

The Senior Living business launched its maiden community in Dehradun in April 2017 and the possession to the residents has been completed. Around 30 residents have already moved into the community and more than half of the units are already sold. We believe that our businesses will continue to sustain their growth and profitability trend in the current year.

So to sum it up, Max India is on a robust growth trajectory with healthcare business charting out of profitable growth within next 5 to 7 years and is all set to double its capacity to more than 5,000 beds. The revenues are growing at a healthy 12% to 15% and EBITDA is expected to grow at a 20% to 25% CAGR over medium to long-term. Max Bupa growth has also got further accelerated at 30% and should be getting to its breakeven in FY19. Antara has also fulfilled its on time delivery promise and has now reworked its strategy to drive capital lite growth in the future. We will talk about this strategy more in the next quarter call and we will be happy to share more details about it.

On that note, we will hand over the call to the moderator to open this floor for Q&A.

Moderator Thank you.. We take the first question from the line of Nishant Chandra from Temasek..

Nishant Chandra Quick check, what is the capital invested in Antara today?

Jatin Khanna Capital invested in Antara today is about Rs.250 crore. Part of it has gone up with bridge finance, but part of it is equity, so about Rs.200 crore equity and the balance is bridge finance.

Nishant Chandra When you say bridge finance, it is debt extended by the Holdco to the subsidiary or external bridge?

Jatin Khanna Debt extended by the Holdco to the subsidiary. Then, they have outstanding loan of about another Rs.230-odd crore which is getting paid.

Nishant Chandra Understood. And for the quarter ending June, can you give some of the headline balance sheet figures for the Holdco, so total debt at Holdco and total debt at the hospitals entity as well?

Jatin Khanna So, we do not borrow at the Holdco level. So clearly, Holdco is debt free, but we have the cash reserve at the Holdco level , which net off what we pay out for IFC stake acquisition is currently about Rs.150 crore and since we have allotted warrants to the promoters, there is another Rs.225 crore which will come as we need it. At the healthcare business level, we have a net debt of about Rs.1,100 crore as of June end.

Nishant Chandra And the potential acquisition of that 49% in Saket, this one, that is basically the deal, right?

Jatin Khanna The potential acquisition of 49% in Saket and 21% in Pushpanjali Crosslay are the two outstanding items. Pushpanjali Crosslay is 2.5 years out, but Saket City is something which we are going to do by close of this year.

Moderator The next question is from the line of Piyush Maheshwari from Ward Ferry Management.

Piyush Maheshwari Two things I wanted to check. One is if you could clarify if there is any change in how you are reporting clinician payout this quarter. Because it seems like the number has gone up substantially as compared to last few quarters?

Jatin Khanna So, we have actually reclassified the fixed clinician cost which we normally used to report in the personnel to the direct cost and therefore our contribution margin is now net off with total clinician cost as opposed to the variable clinician cost.

Piyush Maheshwari Got it, and the other question I had was, so now that the merger with HDFC has been called off for Max Financial, there was that cash that was to be transferred to Max India as part of that merger, right? So that would not be happening anymore. Is that correct understanding?

Jatin Khanna Yes, you are right.

Moderator The next question is from the line of Hardik Doshi from First Voyager.

Hardik Doshi Just a few questions, One is on the cost savings front. You said there is Rs.70 crore, half of it is in personnel and then rest material and indirect. Can you just talk a bit more about what these cost takeout potentials are may be give a few examples or something, so we get a better context on that?

Yogesh Sareen Basically, on the material cost side, we obviously looking at each surgery, we are trying to see how can we optimize the material cost. Then obviously, there is lot that we do on procurement side and we are also trying to develop new sources. To give you an example, we just changed the vendor for pace maker and that has saved us Rs. 1.3 crore. So, we are doing all those things on the negotiation side and on the usage side and on the material consumption. Today, we have a system where for every patient we try and get to the contribution level, because we want to see what is the material cost used in each procedure. So that is one way we are actually monitoring this. Obviously, the other thing is on the personnel cost side. With this new wage increase that we have of Rs.27-28 crore, we are trying to optimize the manpower, we are trying to rationalize the cost. On the doctor side, we are trying to change some of the models so that they are more aligned and they can be more variable. And on the other indirect costs, obviously for example power cost, we trying to buy Green Powers through captive route, which can save us Rs. 7 crore in a year. So, I cannot get into too much detail, but there is lot that we are doing. There are obviously line items on the travel side and conveyance side we are doing, Uber has been added to taxis. So this is a big program which has been managed centrally and there are 75 plus items in that which go into this Rs. 70 crore number that we mentioned.

Hardik Doshi And then to clear, I think we took out about Rs.50 crore last year right and then I think you are targeting another Rs.70 crore this year, is that correct?

Jatin Khanna We took out Rs.100 crore in FY16 and 17 put together. This year the target is 70 crore, but as we can smell the Rs.70 crore in our bag, we have already started thinking about the next Rs.50. It may not happen this year, but at least effort is on for next year.

Yogesh Sareen These numbers some of them when we talked to the units for their budgeting plan., then they come up with some increases that they should have and we asked them to absorb that in the original cost only, so some of the savings you may not see that in the P&L because people ask for some increase in the cost and we said we will not give it to you, please manage it within the cost which is not I would say compromising on the programs or on the initiatives, but still not giving them the

cost increases. So you may not be able to see Rs.70 crore straight away coming into P&L, but I would say Rs.50-55 of this will be P&L, Rs.15 crore would be some initiatives which going to cost extra, but we have not given their cost to the units.

Hardik Doshi And the other question I had was in terms of the regulations, can you just talk a bit about what would be the potential impact related to knee cap if that pricing cap were to come through and how do you estimate that and maybe I think there is another longer list of I think 20 odd other consumables which might come through. So what can be the impact of the rest of them?

Yogesh Sareen On the knee cap side, I do not think the impact would be more than Rs. 4 – Rs. 5 crore. I am assuming that the price drop will be 25%. Today, we do not even bill it at the MRP. Our system of billing today is a markup**.** So which still make the price 20%-25% less than the MRP. So to that extent if the MRP drops, we may not have major impact, but I am seeing probably Rs.4-Rs.5 crore is what the number if I have to hazard a guess that we will have the impact on. On the other item, there are obviously around 22 items which will get affected. Now that will depend on how much price cut. So the rest can be Rs.30 crore to Rs. 100 crore it can be that wild a guess**.** Obviously till such time, we know what is the level of price cut they are looking at, we would not be able to tell you what these numbers can be. But I would say if they cut the prices at 20%-25%, then probably Rs.25 crore kind of number is what I can see.

Hardik Doshi How are we hedging ourselves before these things kind of happened?

Yogesh Sareen I think we have a strategy in place. So basically what we are trying to do is that we are trying to bundle the prices. So for example we did that with the stent also but then there is a regulation which says that stent has to be billed separately. So that is one that we are doing, now obviously we are trying to, basically realign the whole business model. The fact is that we do make money from drugs and consumables, while we do not make money from services. So we have to realign our prices and our whole mechanism of billing to ensure that we charge for service and so less and less of trading margin, more and more of service margin. So I think we have a strategy in place and even on some of this, I think you see for example there can be a nebulization kit, so if we price that stuff, we trying to bundle this service with the nebulization service and say that one item which is nebulization service including kit, so that we do not have a price cut impact. But then the pricing is not for the consumable but for the whole service. We also getting some help from consultants and we have strategy which will also be polished as we speak. In the next call, we can probably talk more about it, but eventually it means that revamp the whole business model.

Jatin Khanna Hardik, one more thing which is important and which you have alluded to is that we are proactively looking at, one is the pricing strategy and what we do there, and the other is on the cost side. So, we have again, like I said, started looking at the next Rs.50 crore and where does that come from if some of these things were to hit us.

Hardik Doshi Yeah. But I guess, I mean that cost take out strategy would have been part of that margin expansion expectation over the long term anyway, right? So if this comes and that delays that margin expansion, right?

Jatin Khanna Yes and no, I mean, in the sense that urgency with which one is looking at it because of some of the other headwinds, I think is the only difference.

Yogesh Sareen In case of stent, so most of the industry what they did is they increased the procedure charge. So obviously prices is another lever which end of the day the patient is concerned with total amount billed to him and that is what even we look at when we price a procedure or price a particular therapy, we look at the total cost. So I would say as the prices come down here, we have the leverage to set the price right.

Hardik Doshi Got it. The other question I have is that, we will be looking to kind of almost double our inpatient bed over the next long term. I just want to get an understanding of how were you looking at the Delhi, NCR region, in terms of the number of beds and any way that we can see what the total bed addition plans are for in that region for the industry as a whole?

Jatin Khanna So currently other than us nobody has a land bank to add any beds in Delhi clearly because there could only be some addition in Noida and Gurgaon. What we know is that there is a Jaypee Hospital which has currently 500 beds that has a capacity to go to 1,200. There is land bank available with Medanta to add another 500 bed there in Noida. There is a land bank available with I think the Rockland Hospital which is another 200 beds. I don't know how much land bank is there in Gurgaon at this stage. But Delhi clearly, other than us nobody has the land availability.

Hardik Doshi And what would be the bed count in Delhi and Gurgaon, Noida for the industry, I mean would you have that statistics?

Yogesh Sareen We have that number we can send it to you separately. When we were planning to set up this hospital in Saket, we did a demand analysis. And so our take was that we will have enough demand to really absorb these beds that we are creating. So we don't see any problem. We also have demand in terms of specialty etc. So that is how the whole model has been built. So what is going to be put in to that hospital is depending on what we are seeing from the demand and in terms of capacity been created, etc. So I have that somewhere I will try and send it to you.

Hardik Doshi Okay, I will get that offline. And the last question from me is you mentioned that you want to go more direct versus using the referral channel in upcountry, International, can you give a rough estimate of what percentage of revenues would come from upcountry patients and international currently and out of that what is the break up between direct, how much of it comes from the direct channel?

Yogesh Sareen So today in International we have 10.5% of my revenue coming from international. Of this, 70% would be indirect and 30% will be direct. And we want to obviously in next three years' time we want to convert this the other way around. We want 30% indirect and 70% direct. We are opening offices, we obviously tying up with people, there is a new model where we are going to do surgery in the hospitals, we are also trying to do O&Ms in the international arena. So all of this is part of the strategy and that is how we see going forward. On the upcountry side, typically we find that 20% of my TPA as well as the walk-in revenue is coming from the upcountry channel. Now here what we want to do is, we want to set up offices. We have already set up 5 more offices, which is in Lucknow and those kind of places and the endeavor is that we should be able to get this 20% to 25% kind of level. It

won't really change materially over next 2-3 years because we will grow the walk-ins also, so there will be lot of activity happening on that side. The other we are also trying to work on the digital channel. That is also very promising. There is lot potential there and that is one of the channel that have been looking for direct.

Hardik Doshi And in terms of the cost that go into setting this up, I mean can you just talk a bit about what kind of investment?

Yogesh Sareen So first of all in the international arena obviously there is a cost, which are of the offices which takes really 5-6 months for us to get that patient footfall. So, we are trying to set it up in the places where we have some brand equity so that the ramp up is faster. So, I would say for example we opened an office in Kenya, the cost would be Rs.1.5 crore per annum, so yes there will be cost, , I am saying 4-5 offices, so that will be the kind of cost we perceive. But we do think that after 6 months there will be a breakeven and then you have all the gains from it. On the upcountry side, not much of a cost I would say, probably Rs. 20 lakhs a year at best because there are two model in upcountry that, one is that we have a model where we do the OPD at that upcountry center. Other is purely a patient assistance center and a sales office model. So in a sales office and patient assistance center, obviously this place is smaller the cost is lower and that will be Rs.20 lakhs kind of a cost. And when we go and set up OPDs and we obviously have pathology, try and put in radiology, and that is probably Rs.50 lakh kind of a cost that we incur per annum and the doctors over there that is not the cost that I am taking in. So now Meerut is a center where doctors will do OPD, Ambala is a center that we are trying to set up where the doctors will do OPD. But at the same time, Lucknow is a center where we don't do OPD, it is a sales office center. So that is how these are being considered.

Moderator The next question is from the line of Hitesh Gulati from Haitong Securities.

Hitesh Gulati Sir my first question is what percentage of our premium is actually coming from Bank of Baroda. And if you could also highlight what percentages coming from Bancaassurance in total. Second is what is proportion of online sales right now? And lastly sir you have highlighted that you have done a price increase, so what sort of price increase as a blended average can you assume. Is it around close to 15% that we are calculating after dividing by increasing number of policy? That is it from my side.

Jatin Khanna Let me first take on the price increase. So the price increase across product categories is about 15%-40%. So, on an average you can assume like a 20% price increase. And on the Bank of Baroda, I will not talk about a specific bank at this stage but I would rather talk about the overall contribution from the bank channel, that has gone up to 20%. It used to be about 15% last year.

Hitesh Gulati And sir just lastly my question was on digital sales. How much are we doing through digital channel?

Jatin Khanna The digital contribution towards sales is now about between 15%-20%.

Hitesh Gulati And it is included in the direct sales that we do?

Jatin Khanna It is included in the direct sales, absolutely.

Moderator The next question is from Hitesh Mahida from HDFC Life Insurance.

Hitesh Mahida Sir, just wanted to, I am going through the presentation. There you have mentioned there has been a good improvement in average length of stay, as well as ARPOB so just wanted to know what are the factors driving this growth?

Yogesh Sareen So I think one is obviously on the ALOS side is that the case mix as well the channel mix, so as I mentioned a short while ago that we try and watch what is the contribution coming per each patient per hospital bed per day basis. So that obviously helps us focus on what is the right specialty to promote and so that eventually brings down the ALOS. The other is that we also have shut down some of the non-profitable, I would say and low revenue, high ALOS businesses on the institution side. So we closed down the ESI in July 2016 actually. So when we see comparatively that is the gain which is coming there. We also shut down some of the other empanelments for example DGHS, we shut down in two of the hospitals, we had empanelments in four hospitals. So I would say it is basically case mix, channel mix and real focus on the, you know that we don't have capacities in lot of our hospitals. So we are really focusing on this side of the productivity to ensure that we have spare beds to cater to higher footfalls. So I mean I can get into details of each thing, but I think it is not worth while doing that on the call. So if you want to meet one-on-one and we can tell you what things we are doing.

Hitesh Mahida And sir, this Max Bupa profit which you have done of Rs.20 lakhs this quarter, so just wanted to know how sustainable this is?

Jatin Khanna See, the business is slated for a breakeven next year. So obviously you will see some signs of that happening as we move towards the breakeven. So to that extent this quarter has been more or less a breakeven and maybe Q2, Q3 may also be something similar, but Q4 is where it could again go back into bit of red because 40% of sales come in the Q4. So broadly directionally we are headed to a FY19 breakeven but having said that are we on a hockey stick from here on? Answer is no. Will we be in a hockey stick after FY19, answer is yes.

Hitesh Mahida And sir lastly, what all are the CAPEX plan for this year?

Yogesh Sareen So I would say CAPEX plan can be seen in two elements, one is as Jatin mentioned that we have to do some stake purchase that is a Rs. 470 crore and other than that we have routine and project CAPEX where we are spending money on. So that cash flow would be Rs.350 crore.

Hitesh Mahida And sir on the stent pricing thing, of course we will be trying various things to offset this impact, so when do you see things normalizing or the impact neutralizing. Is it fair to say from second half?

Yogesh Sareen No. so I think if you think that we will be able to recover the full loss, that we won't be able to, unless the institutional prices go up. You know that CGHS has changed their price, but the margin has come down. So to that sense we may not be able to recover anything, but in our case by end of Q4, because we have some TPA prices to be raised in the Q3 of this year. So I think by Q4 we should be kind of be able to recover whatever we can. I do think that we should be able to recover at least 70% of the loss through the price increase.

Moderator The next question is from the line of Raphael Foo from Target Asset Management..

Raphael Foo I just wanted to ask a couple of questions, the first one is, I notice that the number of Bupa agents has come down by about 35% Q-on-Q. I just wanted to understand because agents are paid on commission, so there is no cost savings to remove the agents, so I am just wondering why did you cut down unproductive agents? That is my first question.

Jatin Khanna This is something which we have been doing for last 17 years even in a life insurance business. While the commission which you pay to the agents is variable compensation, however, what happens is there are two costs which you incur, one is the supervision cost and the other is the training cost. So we don't want to be unnecessarily carrying on the burden of supervising and training these agents when we know they are not productive and in fact now because even the regulator is very mindful of this wasteful costs, so now it is also a regulatory requirement to terminate your inactive agents. So, to that extent one needs to do that.

Raphael Foo Usually one agent, can they sell multiple products, can they sell for multiple brands, like can they sell Bupa, then they sell another brand, is that allowed or usually only one brand?

Jatin Khanna Insurance agents are supposed to be exclusive to health insurance products. The only thing is that the general insurance agents are also allowed to become health insurance agents. So to that extent if they are selling health insurance product of one general insurer then they could be selling two products, that is one thing. Secondly is that while legally there is an exclusivity, however practically what happens also is that your family member could be an agent of another insurance. So typically what we have seen is that any agent must normally distribute at least 2 to 3 products.

Raphael Foo Okay. My other question is, I just wanted to understand for the B2C segment that Max is in, what is the growth of the industry for health insurance?

Jatin Khanna Most of the newer players are focusing on the B2C segment. Now it obviously varies across players. But if you really look at it, if you look at the standalone health insurers growth, they have grown a tad above 40% and if you compare their growth with our growth we have grown at about 30%. Now, what has also happened is in some of these players, they have been doing few things. So for example if we take example of Star Health, they have been adding branches and agents left, right and center because they are in a sell out mode. Therefore, they are pushing more and more sales so that they could ether do an IPO or they could sell it to some financial/ strategic investor. Now some of these sales while you can continue to add branches and create sales, but some of this sale is really not profitable and similarly the other two standalone health insurance companies which is Religare and Cigna, they have been again expanding capacity. Religare have been pushing B2B quite significantly and when you look at Cigna they are tied up with two banks which are Andhra Bank and Bank of Maharashtra. So therefore their growth largely is through distribution expansion lead growth, whereas we always believe in a calibrated growth which is more profitable which is why, even on the agency side, we are today experimenting on the variable agency model and if we variable agency model works then, it actually doubles the profitability of the agency channel. So we are doing some pilots and trying to fine tune those pilots and all of

that. It is kind of first opening some 20 offices and then trying to figure how to make them profitable because the revenue growth is what gives the value today, our approach is to do first the pilot test run, perfect the variable agency model and then roll it out at a rapid pace. So, to that extent I think it is a choice of growth, how you want to create that growth is what drives your headline numbers. I think it is important to see, despite the large scale which Star Health has today, they sell almost sell about Rs.675 crore a quarter. So they should be finishing this year by some Rs.3,000 crore gross premium. That scale also they are also not profitable. Whereas when we get to double of where we are, we will be making some healthy profits. So, to that extent, even at half of where Star Health is, we will be making very healthy profits. So, I think it is a choice of sustainable profitable growth versus growth and this is what we have decided to do across our businesses.

Moderator The next question is from the line of Neha Manpuria from J.P. Morgan.

Neha Manpuria Just on the ARPOB question, that was asked earlier, we earlier a 7% increase. Now historically we have seen the increase has come mostly from our new hospitals. So just wanted to know how much of this is actually increase in prices or is this a specialty mix improvement that we are seeing in ARPOB.

Yogesh Sareen So the element would be roughly 3% in the price increase and the balance would be the ALOS improvement.

Neha Manpuria And these would be in which specialties?

Yogesh Sareen So it is more channel than specialties because when we did some analysis we found that in the PSU institutional channel, the patient tend to pay us 30% less but they tend to stay 20% more under the ALOS**.** So that is where we started to work on.

Neha Manpuria So is there more to that we can see there from the change in the channel mix or do you think that these number is like…?

Yogesh Sareen No, I don't think. Now this tier II hospital that we have, we actually put the medical program which are high end tertiary care programs, so that will eventually if you ask me take this ALOS a bit higher. For example, it could be liver transplant program, where ALOS is 21 days or actually 29 days including the donor. So we will obviously, you know when we grow up the programs you will see that this actually goes up a bit.

Neha Manpuria And in terms of a doctor model, you mentioned previously the changed doctor model which is part of the cost saving. Just wanted to get a sense of how much of doctors are currently on a fixed model versus let us say free for service.

Yogesh Sareen So I would say it will be probably, most of the doctors will have their minimum guarantee**,** so I would say only probably 15% of the doctors will not have a minimum guarantee but those are the doctors of where we don't need them full-time service, but otherwise if it is a tertiary care specialty you will find we have the doctors on minimum guarantee. So the model changes when we find that we have hired a doctor and some of his practice has not picked up etc. So we obviously have to realign what we pay to him. We also try and talk to doctors if they can make a group, there by the pressure on hiring more manpower comes down,

because typically you will find that if the model is fixed then doctors tend to ask for more manpower when specialties grows. So in a group practice model that they try and manage amongst themselves, it also means they collaborate more. So, these are the things that we do

Jatin Khanna We have 2,800 plus doctors, out of which about 65% are on rolls and about 35% are visiting consultants.

Yogesh Sareen I have more on the cost side of bit, I would say 85% of my cost will be fixed doctors in the clinician payout line you are seeing.

Neha Manpuria Okay. So the cost saving that you were talking about is more change in term of how you adjust the doctor comp payouts with the patients that they are getting?

Yogesh Sareen The cost saving you are talking that is not on doctors, it is the total personnel cost, you know that there is a 37% increase in minimum wages in Delhi and we are obviously struggling to make sure so that our manpower cost increase remains within a reasonable level. So we are optimizing and trying to see what is that, which job can be automated, job which can be eliminated, what can be bumped out, bumped up, so all those things are being done. We also hired a consultant for doing this and I would say we are very active on this. Because manpower is the only cost which I think will always go up as we see in future years. So we have to work on this cost to ensure that the growth is actually 70% of what the revenue growth is. So today our costs have been growing in the same proportion as the revenue growth, which is not ideal condition, but we want to make sure that this curtails.

Neha Manpuria So in that case then should this get reflected in our margin of existing hospital because that has been trending in the 13.5% to 14% for our existing hospitals. I understand that this obviously ramp up and new hospitals will improve margins for our existing hospitals. When can we see that improvement actually get reflected in that margin?

Yogesh Sareen I think if you really ask me, it is probably a wrong way to compare hospitals. Because we think that the best way to compare hospital is EBITDA per bed because you will find Narayana Hrudalaya margin is higher than us. But their yield from per bed is half of what we do in terms of EBITDA. So I think the best thing to do, so we really focus on the EBITDA per bed or EBITDAR per bed, rather than percentage margin, because you can manage it,. But as in the absolute amount of EBITDA that you generate per bed is what is relevant. Alright. So our focus is not on percentage, our focus is to make sure that the actual amount that we generate per bed is optimized and that number would be, if you see the mature hospitals, that number would be Rs.25 - Rs.26 lakhs per bed today.

Neha Manpuria And how much can that improve in your view?

Yogesh Sareen We have been saying that we are going to add 1.2% to 1.5% EBITDA percentage every year. A large part of this is obviously coming from maturing hospitals. But mature hospitals also have to generate more EBITDA per bed. So I do think that this Rs.25 lakhs number that is said can go by at least 10%-12% in the foreseeable future.

Moderator The next question is from the line of Akshay R from Temasek.

Akshay R Jatin, the conservation ratio for Max Bupa, what I wanted to check was, a) this indicates the number of policies that are renewed?

Jatin Khanna So this 82% is the value of the premium which you renew from what you sell a year before.

Akshay R Okay. But it doesn't include the price increase?

Jatin Khanna It does include the price increase also.

Akshay R Yeah. That will be helpful. And second, guidance on that, right now you said about 82, right, where do you think this will go over the next 3-5 years?

Jatin Khanna We brought it up to 84. I think the target in this business unlike the Life business where in we targeted 85, is to get to 90% and if you are really looking at long-term, I think some bit of it has come under pressure this year because of the price increase and the price increase we could get after 3 years because there is the management team change and therefore this time we have done it after 3 year period. Ordinarily we would do it in annual basis in which case this should not impact and then directionally we want to push it up to 90%.

Akshay R And just one more question on your group business, In Q1 you grew about 70%, although of a very small base, it is about 1/10th the size of your retail business. But I just wanted to understand what kind of business you are doing in the Group segment at Bupa?

Jatin Khanna We do not do any Group business. This could be some, like SME or this is like some embassies and stuff like that where in people want to pay for the service. See, what happens in B2B business or Group business is that people put it up for auction, there is a price war and who quotes the lowest gets the business**.** So we don't want to be in that space at all. I think the only limited group business which you might be seeing is that of offices which have 20-30, 40-50 people. Who don't care as much for how much they are paying, but cares more for the service quality. So that is the kind of business we do, which is therefore a very small part of our overall business. So, I think it is about 1% and 1.5% something like that.

Akshay R 1%-1.5% as in?

Jatin Khanna Of my total GWP

Akshay R No, I was just looking at the disclosure, it was about Rs.17 crore in Q1 of your total business which is classified as group. I am just looking at the disclosure online, not the company disclosure but this is from the general insurance council, so…

Jatin Khanna It may be sum assured.

Akshay R No. This is premium. But we can connect offline on this, that his fine.

Jatin Khanna Yeah sure but we don't have that big a Group business.

Akshay R Another question on South Indian Bank. How soon you expect this bank to scale up and versus where, and also where BOB is at right now in terms of the different**?**

Jatin Khanna The launch expected in August. So really I think the bigger contribution in South Indian Bank will mostly come in the next fiscal. The good thing is that we have another one added, which can then become sizeable contributor to our business as we get to FY19. Historically, we have been growing at about 25%. Now to out beat that 25% growth you have to have distribution expansion. But like I said earlier in the call that we want to do a meaningful distribution expansion and not a loss leading distribution expansion, so to that extent if we have to push up the 25% to 30% growth, we have to continue to add more and more profitable channels. So South Indian is one such channel. The good thing about PSU banks is that they do not want anything beyond the regulatory maximum commission, which therefore helps quite significantly in terms of improving the profitability from the bancassurance model. Lot of the other banks push for lot of other reward and recognition programs, which you are not too worried about when you tie-up with PSU banks and therefore the profitability tends to be higher.

Akshay R Okay and just in terms of Bank of Baroda's network, how much of it have we already penetrated and how much is yet to come?

Jatin Khanna I think last, I saw we were about 35% penetrated. But within that 35% penetration we are taking a 50% of the overall sales which is coming from the Bank of Baroda network. So, to that extent we are doing well on that count. And Star is the other insurer which they have tied up with which is getting the other half despite being fully penetrated.

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

Charulata Gaidhani My question is pertaining to the healthcare. Can you give me the specialty mix for healthcare?

Jatin Khanna Wait for couple of days. I think it will come back as part of our investor presentation, we do not disclose on quarterly basis otherwise, but broadly this specialty mix other than liver transplant contribution of about Rs.16 crore and Oncology outperforming growth of the other channel, I think it is more or less in-line with the last year.

Charulata Gaidhani Okay. My second question pertains to the, you said stent pricing impact is around Rs.68 crore?

Jatin Khanna Not stent pricing, the total regulatory changes impact is Rs.68 crore.

Charulata Gaidhani But that is pertaining to whatever regulatory actions have come in so far. Do you anticipate some more actions during the year?

Jatin Khanna I think Yogesh answered this question little while ago to say that about Rs.20 crore-Rs.25 crore could be cumulative impact of some of the other actions which may happen over next few years. But the immediate one which is looking like, is most in the news is on the implant side, which could impact profitability to about Rs.4 -Rs.5 crore.

Yogesh Sareen So basically this regulatory impact that we are saying is 4-5 items. One is the minimum wages in Delhi. So minimum wages have gone up from 3rd of March by 37%. So obviously we have a large set up in Delhi that is impacted. There is obviously a stent impact. There has also been some small drug price order which have been issued now, so that Rs.2 crore and also there is some ESI limit increases, some maternity requirement, etc. So major element is stent and the minimum wages and others are smaller parts, but that is what it constitutes.

Moderator The next question is from the line of Anil Desai from Spark Capital.

Anil Desai Couple of questions on the health insurance side - Just wanted to understand the business economics, how it works, once they let us say will break even in FY19, does it mean that significant portion of the top-line will flow to the bottom-line that involves mentioning regarding the hockey stick effect. Is that understanding correct on the business economics side, that is the first question. Second one on the health insurance side is we have seen a significant decline in the number of agents around 15% or so. So with the increased Bancassurance channel that we are focusing on, do we see this trend likely to continue going forward and how do we see the Bancassurance part moving up from 20% and what would be the steady state that we see is out there, if you can help me with this?

Jatin Khanna Sure. So I think first I will take your first question which is the hockey stick effect. So what I was trying to say is that since we will be breakeven in FY19. So the hockey stick effect will essentially start to show up from FY20 and onwards, because FY19 is more or less a full year breakeven year. So therefore you will have to wait for another year for profits to emerge and start becoming meaningful and therefore grow from there on. So that was on the hockey stick bit. Now the second one, your question was around the number of agents which we have dropped by and its impact on the channel mix. So clearly you know the channel mix strategy and explanation is to really maintain this channel mix of about half coming from agency and the other half coming from third party channels and I think somewhere between agency and digital there could be a split of 65:35 is how we could look at going forward in terms of the mix. The reduction in agents by about 15% is to basically clean up the unproductive agent. The only other thing is that we intend to grow our Agency business as well, for which we are experimenting with the variable agency model and if that variable agency model fires, then the idea will be to scale up the agency distribution network also, quite rapidly through that model.

Anil Desai Okay and one more question on the Healthcare side of it. So we are operating at around 70% to 72% of capacity utilization. So now what is the optimum capacity utilization for a hospital like specialty focus and service level is very important in terms of maintaining the quality perception. So what is it beyond which it will be very difficult for us to increase capacity utilization?

Yogesh Sareen So first of all, the capacity utilization that we report is the night occupancy, that means 12 O'clock in the night and this is the minimal occupancy at any point of time in the day. And also these occupancy you know that on Sundays generally the occupancy will drop because doctors won't admit patients on Sundays, the OPD is just closed and typically on Thursdays our occupancies will touch on an average of 74. Then the occupancy on Thursday would be 4% to 5% higher than the numbers. So that means if I am saying that occupancy is 74% that means actually if I take peaks of the occupancies that will be probably 79%-80%. This is a Sunday effect

and there is also a night effect because what happens is that you have to keep some beds open because in the morning the patients come for the surgeries and they have to wheeled in. So typically on a like to like basis I think we can go up to 81%-82% we have seen hospitals going up to 85% also. But I would say 82%-83% is what we should assume is the comfortable and right things to do.

Anil Desai Okay. So 10% will be from here on in terms of whatever that we are saying is possible, right?

Yogesh Sareen Yes. I would say 7%-8% case because also it depends on hospital to hospitals. Some hospitals can go up to 82%-83%. Some will be only tapered up to 80%. It depends on how the speciality is. If the hospital is tertiary care then you can't miss the patients. For example, in our Saket Hospital we will find that the occupancy doesn't go up beyond 80% at any point of time because of the fact that we have a Neuro ICU, then we have a Neo Natal ICU, you have a Pulmonology ICU. So the more sub-specialty that you have, the more beds we will keep empty in one of the ICUs, etc. So I would say it depends on hospital. But I am saying a generic number is 82%.

Moderator Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta Just one thing I wanted a breakup on the matured hospitals and the new one, I couldn't see in the presentation.

Jatin Khanna See, we have moved away from the disclosure of matured versus unmatured and I will tell you the reason for it. The reason for that is that we have been shifting services from Saket existing to Saket city. We shifted services from Patparganj to Max Vaishali, which is the acquisition we did. So what keeps on happening is that we keep shifting business from one to the other in terms of what you think is most optimal for the business, because of which, when we look at the performance outcome the matured hospital performance comes down and the unmatured performance goes up. So numbers get distorted and then people try and make meaning out of it and try and understand what the trends are and all of that which sometimes become a very misleading trend. So we thought instead the better disclosure is that 70% of contribution in the business is coming from East Delhi Complex and the Saket Complex. So we thought if we cover these two hospitals separately as opposed to matured and unmatured, it would be a better disclosure because almost 70% is coming from these two complex which is visible and then rest of it is in the overall. And it is in-line with our growth plan also going forward wherein the most aggressive growth will happen either in the East Delhi Complex or in the Saket Complex, Saket will obviously be much bigger than East Delhi, but broadly the mix is unlikely to change going forward. So we thought this is a better disclosure than the earlier disclosure and we moved away from that.

Ravi Mehta And most of the bed increases what we would see would be in these complexes?

Jatin Khanna Yeah.

Ravi Mehta So just broadly what could be your CAPEX over 2-3 years when we see some meaningful bed additions?

Jatin Khanna We have 800 beds coming up. Broadly if you take about crore a bed, then it is about Rs.800 crore CAPEX and then on top it, I don't know whether you want to call it a CAPEX or whatever, but then residual is 49% and the 21% in Saket city and Pushpanjali Crosslay which we have to acquire will pretty much add another Rs.650 odd crore to be overall outlay.

Ravi Mehta So that would be largely debt-driven?

Jatin Khanna Largely debt-driven because of two reasons. Firstly, there is capacity to leverage in the balance sheet. So we will obviously want to use that capacity. Secondly is that when we did these two acquisitions we knew there will be leverage which will get added to the balance sheet and to mitigate that leverage we converted all our loans to 15 year loans with 2 year clear moratorium and 3 year of very small repayment. So there is no debt burden per se on the company while there could be a leverage on the balance sheet, so when we really start repaying this debt, the debt-to-EBITDA looks more like 2.5x to 3x. So that is on the debt side. Then obviously there are internal accruals as we grow our earnings by 20-25% CAGR, that earning CAGR will also take care of the large part of the internal accrual led growth which is required.

Yogesh Sareen Just to give you a perspective here. I mean the numbers that we see is probably 70% of what the CAPEX and including the acquisition cost would be funded through the internal accruals. So that means that my cash from operations would be able to fund this 70% of the CAPEX over a horizon of 4 to 5 years. Now obviously in the interim you may have a situation where you have to take the debt and then we generate the cash from operation in the next year. So there can be mismatches in a year but over a horizon of 4-5 years this is how we see.

Ravi Mehta And this 800 beds you are talking is over 4-5 years?

Yogesh Sareen Yeah. That is also over 4 years.

Moderator Thank you. The next question is from the line of Rakesh Nayudu from Haitong Securities. Please go ahead

Rakesh Nayudu I wanted to understand your cost employed, especially the indirect cost line items where we have been seeing some leverage over last Q3 and Q4 but now there is this incremental spike of around Rs.20 crore on an absolute basis in Q1. How do I understand this cost increase and how should I be looking at these line items going forward?

Yogesh Sareen So the indirect cost there is no increase. It is Rs.115 crore in Q1 FY17 and Rs. 116 crore in Q1 FY18. So there is no increase in indirect cost as I see it.

Rakesh Nayudu So in Q3 it was 98 and Q4 it was around Rs. 100 crore. Similarly, the HO cost around Rs.30 crore.

Yogesh Sareen So HO cost has one time elements, which is that we will have to register some long term leases so we have to pay stamp duty and these are operating lease so we spend Rs. 2 crore on that. There is also, if you compare with Q1, we shifted our corporate office, there is a Rs.1-1.5 crore of lease at the cost of HO which is coming on that side and balance is obviously on the manpower side. This

manpower, which we need annual increase, so as you see the manpower line increase on the other one there is Rs. 3 crore increase in the manpower in the HO cost. Now, in terms of the Q4 numbers, I do not see any major increase in the numbers. There is obviously some increase on the SBUs side. You know that we are incubating 3 new SBUs which is the homecare, ambulance and the pathology lab. So, obviously those businesses are not making the EBITDA as yet. They are kind of EBITDA losses. So there is a Rs. 6-7 crore of cost which have come up there per quarter. Otherwise I do not see major cost increase in indirect side. There is always be some seasonal cost but also you will find that always in quarter three and quarter four the power cost comes down because the temperature is low and then in the quarter one, cost will go up. So there will be Rs.4 to Rs.5 crore delta which comes up only in the power cost because of the seasonality. But there is no systematic increase in the indirect cost. In fact, the only increase that you see in indirect cost is basically linked to revenue which is the marketing cost and the promotional cost. Other than that, our endeavor is to hold the cost line intact. Obviously there is some impact of minimum wages comes in that because as we mentioned that there is Rs.25- Rs.27 crore impact of the outsourced manpower cost which will come in this, that is not HR cost, but that is a cost we pay to the outsourced vendors and since some of the people are on minimum wage for example housekeeping guys or security guys or even the GDAs, etc. so that cost element comes in indirect. But that is a regulatory cost. Besides the regulatory cost and some of the promotional cost, our endeavor is to hold the cost and that is what it has been for last 2-3 quarters.

Rakesh Nayudu So Rs.28 crore is per annum incremental cost, right?

Yogesh Sareen Of what?

Rakesh Nayudu This incremental cost because of this regulator hike which you have today?

Yogesh Sareen Yeah. So Rs.27 crore is the impact for the minimum wages, some of it comes up where we have people on our rolls and there will be lot of people who will be indirect cost because of the fact that we outsourced those jobs. Housekeeping will come in indirect, the security will come in indirect so whatever is outsourced, so I would say it will be 80:20. So 80% of this Rs.27 crore will come in the indirect cost and 20% will be in the direct cost, which is the direct HR cost line.

Rakesh Nayudu These will be the per annum cost?

Yogesh Sareen I am talking of the per annum cost, that is right.

Rakesh Nayudu So now to get a greater clarity on the direct line items which you have rearranged this quarter, if you adjust this Rs.70-odd crore which you had to take because of the regulatory, the direct cost in clinician up by around Rs.30 odd crore. It looks bit steep. What could be the reason for this?

Yogesh Sareen Can you come again because I do not see, because the material cost line is not changed much. We find that although revenues have grown by 9%, the material cost is going up by 4%. So that is okay.

Rakesh Nayudu The clinical payout is at 117.

Yogesh Sareen I am coming to that. So clinical payout increase is roughly 12% and while the revenue has gone by 9%. As Jatin also mentioned, we have launched the liver transplant program in Saket and this will be first quarter full quarter of the team, the team came in February and there will be some cost as it is a big team, we have brought (+160) people from Apollo and so there is a cost element there which has increased the cost. So I would say although they are not making loss at the EBITDA level, they are contributing to the EBITDA, but as a proportion to the cost, the cost would have gone up.

Rakesh Nayudu So earlier you had alluded to 100-120 bps improvement in EBITDA margin, so from where we are standing at this quarter around 9.5%, you think this should evolve to that range by the fiscal end?

Yogesh Sareen I think if you take the last year EBITDA and restate that EBITDA then the EBITDA would be 9%. So I am taking last year EBITDA of Rs. 280 crore and then saying please put in the regulatory impact of whatever has happened in Q4, so both these, the stent impact as well as the impact of minimum wages revision in Q4. So then the EBITDA comes to 9% as a base. Now we are saying that we have a growth from 9% and I do think that this year given what we have done on the pricing side and all the endeavors and all the cost saving initiatives under way, we should be able to add, around 2% and thereafter we should able to expand margin by 1.2% to 1.5%.

Moderator Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra Just a couple of clarifications relating to the CAPEX on Healthcare side. So when you are referring to the Rs.350 crore of CAPEX, what would be the maintenance CAPEX and what would be like the Brownfield CAPEX here?

Yogesh Sareen So typically 3% of the top-line would be the maintenance CAPEX. So 3%-3.5%, that will be Rs.110-Rs.120 crore kind of a number for this year, and the balance will be growth CAPEX.

Nishant Chandra So Rs.120 odd crore will be towards…

Yogesh Sareen Rs.110-Rs.120 range yes.

Nishant Chandra Okay. So if I were to just understand that unit economics right, so what would this translate in terms of a number of beds this is going towards, because there is an element of, I was actually referring to your earlier investor presentation and that laid out the year-on-year bed addition plan but I suppose this Rs.250 crore or let us say Rs.220 crore would be applying towards let us say about 200 odd beds just from a number of beds perspective. Is my number right, probably?

Yogesh Sareen So basically this Rs.230 crore will obviously have a lot of elements. So what you see on the sheet is the beds, when they get added, but you have to incur the CAPEX before that. So it typically take 18 to 24 months to add the bed. So the CAPEX is obviously scheduled based on that. So today we are spending money on Vaishali 106 bed that we said, we are obviously spending money on the Smart which is the 45 bed which is going to get added, so we are also spending some money on the beds that will get added on the **Saket** in FY20. So that is how the

capex has been incurred. So I don't think you can relate the number of beds to that year's CAPEX. But overall, as Jatin mentioned, we want to add roughly 900 plus beds by FY21 and it should take Rs.1 crore – Rs.1.1. crore kind of a number for the CAPEX. That is the number we are going to incur overall cumulative.

Moderator Thank you. We will move on to the next question that is from the line of Saurabh Kumar, an Individual Investor. Please go ahead.

Saurabh Kumar I had a couple of questions on Max India and then coming to Max Healthcare. But first I will come on Max India. As per your initial statements in the Max India presentation, it says that Max India is a holding company for healthcare and allied activities. How come Antara is being bought into this?

Jatin Khanna You need to understand the model of Antara. Antara model is actually two-fold. So the one part of the Antara's model is to take care of the life's requirement for the seniors and all of that, but the other big part of the Antara model is the life care part of it, which is that there will be a life care center on the other side. We will have dementia and Alzheimer patients who will be coming into the site. The idea of Antara is also to take it at home to take care of the entire geriatric care space, etc. So which is why because Antara had element of both life care and life style and we don't have the life style per se business, so we decided to keep Antara in Max India because of its affiliation and close proximity to the healthcare business.

Saurabh Kumar Okay. I take that argument. Well, in that case, instead of Antara you could have got into Chemist Shops as Apollo and Fortis has done, you could have got into Pathological Labs which is more direct than Antara.

Jatin Khanna We are doing pathology labs also. The reason we haven't done pharmacy so far is because pharmacy is more of a retail business than a healthcare business wherein you open shops and therefore depending on where you open and what the rental is, and you get the throughput and sell the drugs. So setting of pharmacy is not at all, at least how we see healthcare as. We see healthcare as the delivery of service whereas pharmacy like I said is more of retailing of products.

Moderator Thank you. We have the next question from the line of Sachin Jain, an Individual Investor. Please go ahead.

Sachin Jain I have one question. How scalable you see Pathology as a business in next 2 or 3 years, Jatin?

Jatin Khanna I think this business can be scaled up as much as you invest in the business. We are in the process of sorting out the backend in terms of the seamless delivery and technology and stuff like that**.** When that is fully sorted out then we can push the accelerator. So at this stage, one, is clearly looking at this business can be as big as our in-house pathology business over the next 4-5 years and which is currently to the tune of about Rs.350 odd crore. So next 3-4 years we can get to that level if you scale it up faster and this assume presence in the locations where we already are, which is the state of Punjab and NCR and all of that and when we decide to make this business pan India then we can obviously ramp it up even faster. You know this business really can be ramped up fairly quickly once you have all your backend sorted out in terms of delivery of care.

Sachin Jain And do you intent to do in a separate company or you will be part of Max Healthcare?

Jatin Khanna This will be part of Max Healthcare. As our joint venture partner Life Healthcare is also into diagnostics. So it is very much part of Max Healthcare.

Moderator Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to Mr. Jatin Khanna for his closing comments.

Jatin Khanna Thank you ladies and gentlemen for dialing into Max India's call. I wish we could take all your questions and we really appreciate you are taking out time to be part of our call. In case you have any additional questions and follow up questions from the investors which we have said we will respond separately we will come back to you on that and please do not hesitate to contact us for any follow up questions. If you have missed anything on the call, the recording of this call will be available and the transcript will be put up on our website. We look forward to more such interactions in the future. Thank you once again and good bye.