



## Max India Limited Q2 & H1 FY18 Conference Call Transcript November 02, 2017

---

**Moderator** Good day ladies and gentlemen, and welcome to the Q2 FY18 Earnings Conference Call of Max India Limited. 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, CFO, Max India. Thank you and over to you, Mr. Khanna.

**Jatin Khanna** Thank you. Good afternoon ladies and gentlemen. Good morning to all participants who have joined us from US and Europe and Good evening to all the callers from the East. I would like to thank you all for being part of Max India Earnings Call. My name is Jatin Khanna and I am the Chief Financial Officer for Max India.

Before proceeding with the performance highlights, I like to introduce my colleague who is with me on this call. I have Mr. Yogesh Sareen who is the CFO for Hospitals Business and Mr. Rahul Ahuja who is the Chief Financial Officer for our Health Insurance Business.

Let me now talk about the key highlights for our businesses for H1FY18. Max Healthcare had a modest revenue growth of about 9% to Rs.1,414 crore essentially impacted by regulatory intervention and some temporary factors. Temporary factors have costed us about 6% revenue growth in the first half and some of those are continuing from what we discussed earlier, which is we closed in-patient facility at Pitampura which costed us ~ 2% revenue growth regulatory impact costing us ~ 1% revenue growth and then in between there was a negotiation with the PSU insurers because of which there was a temporary suspension of cashless business, which costed us ~ 1.5% and other temporary issues which costed us another 2%. So, since most of those are behind us as we get into Q3 and Q4, we expect our growth to come back to the same 12%-15% growth trajectory, which we have been expecting this business to deliver.

There has been significant growth in our Tower specialties. While the headline growth might have moderated a little bit, but our focused specialty which is oncology has grown by 28%, the renal has grown by 13%, the newly launched liver transplant program has already done ~ 150 plus surgeries, it is showing very good traction. Our preferred channel growth has significantly outpaced our overall growth. The walk-in channel has grown by about 20%. International channel has grown by about 16%. And all of this is because of us going directly into the international markets and increasing our focus much more sharply, including opening up new location, in the upcountry channel across India wherein we are



deriving a 34% growth. We plan to accelerate these investments in upcountry and international channel so that we can continue to drive a sharper and far more profitable growth than some of the other channels contribute.

Led by the revenue shortfall, EBITDA has declined by 5% y-o-y for the H1FY18. This has been largely on account of either temporary issues or the regulatory impact. If we adjust for the regulatory impact, our EBITDA has grown by 37%. So really the performance has been in line with our historical performance. As you know, for the last 6 years, the business has been growing at about 35% CAGR including in FY17 we had a 35% growth. Similarly, if we adjust our margin for the regulatory impact, we expanded our margin by about 215 basis points, which is much sharper than the 100 to 150 basis points expansion in margins we have been delivering for last few years. So, really the green shoots are visible.

The business performance is robust. To mitigate the regulatory impact, we have been focusing significantly on the cost side of the business. We have already identified Rs.93 crore of cost takeout for FY18, of which Rs.34 crore it has already been realized in the P&L. 40% of the savings has come from the personal cost, ~ 35% from the material cost and ~ 25% from the indirect cost. The technology led cost rationalization we think will drive the next wave of cost reduction, as well as the improvement in channel and service mix, which I spoke about in the initial comments will drive the margin expansion along with the cost rationalization.

Our new growth bets are ramping up very well. In fact all of them are ahead of expectation. We are very happy to share that the Pathology business which we started about a year back, we have already done some 450 B2B tie-ups. We launched B2C in Q4FY17 and we are now expanding it in Punjab and Faridabad. So we are now getting into new geographies wherein we don't have hospitals. The run rate of that business is about 2.5 times same time last year with monthly run rate is about Rs.1.25 crore a month as we speak and it is improving month after month. We intend to scale up this business quite fast and quite sharply.

The other new initiative is DigiCare /Max@Home, delivered a 161% growth on revenue of Rs.12 crore in H1FY18. The third initiative on the growth side is Onco Daycare. First center opened about a year back in Lajpat Nagar, Delhi, has broken even within 12 months and now as we get into Q2, the business is generating 8% EBITDA margin and that's despite rentals in the business because it is a leased location.

Success of this center has encouraged us and it has paved the way for initiating work on the second center in Gurgaon. So, we are almost closing the location in Gurgaon and we have already initiated search for our third location for Onco Daycare center in Noida. So clearly that remains another big focus area for us. Then on the non-financial metrics on growth and essentially on the health of the business, the patient experience has improved quite substantially. IMRB scores which we have been reporting every year has moved up from 62% same time last year, to about 75% in the first half of this year and I must add that IMRB 75% patient satisfaction is global benchmark. Of course, one wants to improve it even further to enhance the customer experience and we really see that this will be the single largest differentiator which Max Healthcare will offer in addition to many other things which we are different for.

We expect the strong growth trajectory to continue going forward as well. Max Healthcare will continue to outpace growth of most of the other corporate hospital chains in the country like it has been doing for last many years. Also happy to



report that Max Bupa continues its fast pace growth. The gross written premiums are growing at about 26% Y-o-Y. The new sales from Banca channel has also been growing much sharply by about 92% Y-o-Y. The South Indian Bank has started to fire now so the first two months of performance are ahead of our expectation from the bank, so in line with overall bancassurance performance of the business which is giving us lot of good tailwinds. This alliance will provide Max Bupa an access to about 850+ branches and will be very good for the long term growth prospects of the business. The good customer experience is driving our renewals very sharply. Our renewal growth continues to be at 30% as is also evident from our conservation ratio being maintained at ~ 83%.

I must highlight that we managed the impeccable retention despite a significant price increase across product categories which is a testimony of customer trust we enjoy. We have done well on cost like in our healthcare business. The Opex ratio here has improved from 57% to 51% and the business performance has been improving. Normalized profit has improved to ~ Rs.9 crore, relative to a loss of Rs.16 crore in the last year. We have launched a new initiative called Health ATMs which is the first innovation in the country, wherein there will be a kiosk which will be placed in lot of locations wherein you could essentially do a quick policy issuance by doing an instant small blood test and all of that wherein we could issue up to Rs one million policies without any manual intervention in less than 2 minutes. So 20 ATMs will be installed in the pilot phase across the Bank of Baroda branches and we want to expand this to about 100 locations by close of this year.

Our Point of Care Desk at Max Hospitals is another initiative which is yielding very good results. We see improvement in turnaround time, 40% increase in sales, 50% increase in footfalls and policy processing time has also been reduced quite substantially through this point of care desk. So we will enhance the customer experience at least so far as we go to Max Hospitals and we look forward to expand this initiatives in other hospitals as well as we move forward.

Our digitally enabled wellness product GoActive is pending regulatory approvals, this we expect to be launched by beginning of next fiscal. There is continuous improvement in claim repudiation rate which has reduced from 13% in FY16, to now about as low as 7% in H1FY18. And this has been possible because of strong underwriting practices wherein we are managing our health risk very well at the point of sale rather than at point of claim.

Briefly Q2 highlights, our gross revenue has grown by about 7% to about Rs.712 crore. The factor we discussed about for the H1 performance has really resulted in an 8% revenue loss for this quarter. So therefore on normalized basis we expect to deliver the same trend of 12-15% growth trajectory as we move forward into the quarter 3 and quarter 4. Consequently, EBITDA also recorded Rs.69 crore, it has grown 8% q-o-q and if you adjusted for regulatory intervention, it is growing 43% Y-o-Y vis-à-vis our normalized margins have expanded by 267 basis points and on the Max Bupa front, our premiums have grown by 22%, the growth in the renewal have been 29%, overall the growth in new sales has been 8%.

Now some of you may think that new sales growth is slowing, but this is very natural when you take a steep price increase. By the close of Q1, we did a significant price increase which is what caused a slowdown in the new sales growth in Q2. But as we get into the Q3, the sales momentum is already building up with the new sales growth of 15% in October itself. The normalized profits for Q2 was pretty much a breakeven versus Rs.10 crore loss in the previous year.



On the Senior Living front, our community which has been launched in April '17 is now seeing customer footfalls of about 37 residents that have moved into the community. More than 100 units have already been sold. With this, we believe that all our businesses will continue to sustain a growth momentum and the profitability trend in the current year will continue to only improve from here on.

To sum up, Max India is on a robust growth trajectory with Max Healthcare charting out with profitable growth in the next 5 to 7 years and also to double the capacity to about 5,500 beds purely on a Brownfield basis on the existing parcels of land. We expect the growth momentum to recover in Q3 and Q4 in both businesses. The strategy is under works for mitigating the impact of regulatory intervention so we will see the impact of regulatory intervention being mitigated over the medium term. Max Healthcare revenue and EBITDA growth trajectory as we have been talking about will continue to be sharp and will continue to outpace most of the other corporate led healthcare chain in the country and Max Bupa is also on the course of a convincing breakeven in next year. Antara is in the process of reworking its strategy to drive the capital light growth in the future and when we finalise it, we will be happy to talk more about it.

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

**Moderator** Thank you very much. The first question is from the line of Aarsh Desai from Vallum Capital. Please go ahead.

**Aarsh Desai** I just wanted a little clarity on health insurance as such in the sense that I have been noticing that personal accident policy as a part of your book is a very small portion of your book but personal accident policy continues to be more profitable. So are you all planning aggressively market personal accident policy or planning to increase the share of personal accident policies in your book or how you are looking at personal accident policy going forward?

**Rahul Ahuja** I will not restrict this reply to personal accident policies per se, the product is fixed benefits product which covers different types of options available to a customer in case of an event arising. Yes, you are right that traditionally the claim ratio in this product is lower. Max Bupa as a company, we have refreshed this product of ours, enriched it about 8 to 10 months ago and there is huge focus on increasing the proportion of this product in our overall product suite and overall sales of the company. Till last year fixed benefit product contribution was less than 1%. Currently, it is around 3.5%-4% of our total topline and we intend to take this to around 10% over the course of next 12 months.

**Aarsh Desai** Okay. Thank you. And sir one other thing. Are we noticing that, lot of these general insurers reinsure a large portion of their health insurance book. Someone like a Lombard or an Ergo probably was reinsuring 10% and 20% of the book, they are reinsured in 30%-40% of their book. Is there a reason they are reinsuring such a large portion of their book they see it has not been profitable as such or what is it like because we reinsure only the mandatory 5% of our book, if I suppose.

**Rahul Ahuja** So there are different kinds of reinsurance available in the market and depending on your balance sheet and different needs as a business, you could take the structures which are available and for us at Max Bupa till last year, we were only doing the obligatory 5%. Starting this year April 1<sup>st</sup> we have increased our reinsurance as well. We have done a treaty with a large reinsurer up to 20%. So this year onwards you will see that our reinsurance would be close to 24%-25%.



- Aarsh Desai** Are you all increasing this portion of reinsurance because is there like a specific reason because as in the near term it is not as profitable because I have been noticing that the reason Lombard and Ergo and all these other general insurers, their health book turns profitable is because the number being commissioned on reinsurance ceded with that, which actually changes their negative number to positive. So is it somewhere in those lines or is it some other reason that you are planning to raise the reinsured to 20% of your book now?
- Rahul Ahuja** So as I said there could be different reasons for different players. Your understanding is right that as far as the whole structure works, it results in the reinsurance commission being slightly upfront vis-à-vis the normal tenure of the products that you sell. It could also help you scale up faster because it helps you release some of your reserves. Hence it is slightly more efficient as far as capital is concerned. So maybe if you want a detailed discussion on this front, we could take it offline but different players will be for different reasons.
- Aarsh Desai** Correct and couple of other things. Are we just noticing your claim ratios in the industry are one of the best as in they are only low, but comparatively expense ratios are high. So what is different in your underwriting skills as compared to others that you all have been able to maintain such a low claim ratio as compared to the other players?
- Rahul Ahuja** So, claim ratio is a large function of the product suite that you have. It is a large function of what kind of segments you play in. So Max Bupa is largely a B2C player. Lot of our competitors have a pretty sizeable proportion of the sales coming from B2B where traditionally the claim ratios are upwards of 90%. So entirely depends, our claim ratios look lower than maybe some of the more mature players or players who have been in existence much stronger than us are primarily on account of two reasons. We are into our 8<sup>th</sup> year of operations and as the business matures, it has an impact on this number and secondly we have a very miniscule proportion of B2B which is employer-employee business in our portfolio. It is barely 1% as compared to anywhere between 20%-40% of our competitors.
- Aarsh Desai** Correct. And just one last question. I just want to ask you all about pricing in health insurance. Is it that pricing has gone up across the industry because I think even in new India we have been telling us that they have revised the price for health insurance, but what they have to say is that that hasn't really affected their new business premium sales in the sense that increase in price has offset the decrease in sale of policy. So the number more or less will remain constant. So why is this revision in pricing happening across the industry?
- Rahul Ahuja** The inflation in healthcare cost, is anywhere in early double digits. So I think there is lot of awareness in the market now. Most of the players are revising their pricing at a much more regular interval than what was traditionally the practice when it was a PSU dominated market. In this year itself, 4 -5 players including PSUs have revised their prices between 15%-25%. So I guess this will be the norm going forward as far as health insurance is concerned.
- Moderator** Thank you. The next question is from the line of Raphael Foo from Target Asset Management. Please go ahead.
- Raphael Foo** Jatin, just a few quick questions. Could you say when will the Pitampura renovation be complete?

**Jatin Khanna** No. it is not a renovation. We essentially downsized the unit to daycare unit as the unit was in the middle of a shopping mall wherein the structural inefficiencies were so high that it was very difficult to run a profitable hospital out of Pitampura. So we are expanding our facility in Shalimar Bagh which is about 5 minutes from Pitampura and we downsized Pitampura to now a daycare center and the economics of daycare center are very encouraging, as we have been experiencing in our Panchsheel center, which is South Delhi. There, the margin is in the range of about 20%-25% at any point in time. So therefore the idea was that if we downsize Pitampura to a daycare center and convert it like Panchsheel model, then as opposed to running it at a breakeven level, which one has been for many years, we could really maximize the profitability of that center and can take it up to the level of the Panchsheel clinic.

**Raphael Foo** Okay. When is the Panchsheel relocation opening?

**Jatin Khanna** Pitampura has being downsized to a daycare clinic. It is already open, but the reason it is contributing 2% revenue loss is because the IPD business has been closed. So that's the 2% swing in revenue which is causing.

**Yogesh Sareen** Basically this is one of the earliest hospitals that we started. Thereafter some rules have changed in the building code and we didn't want to take any risk for our IPD patients because you have ICU, OT etc. there and the staircase width was lower than what is desired. So we closed the IPD business there from Jan'17. So that means there is no more admission happening in the hospital. We have given up 2 floors already to the landlords. The other two floors will be given up by the end of December. So what we are doing is that we are just keeping the ground plus three with us. It is a 10 floor building and we will just keep G plus 3 and we are revamping the whole facility. And that should be up and running by end of December. But there will be only daycare, there will be no IPD business there. So we used to have 70 IPD beds here and these beds have been closed down at the end of 15<sup>th</sup> of January.

**Raphael Foo** Okay. And the second thing I wanted to ask was, I noticed that your personnel cost is up a lot. Is that because of the minimum wage increase?

**Yogesh Sareen** That is right. So we have provided for the minimum wage. We haven't yet paid it because the matter is subjudice. But on a conservative basis, we have accrued the 37% increase in the minimum wage.

**Jatin Khanna** And to add to Yogesh's point, we hired full team of about 130 people for the liver transplant program which has also led to this sharp increase. Now as you start a new practice, it takes about 9 months for that practice to start contributing to your profitability in a meaningful way. So the costs have come but the profit is yet to come. I think it is just a matter of time and that is where when I say that we see Q3 and Q4 being more robust than the Q1 and Q2. These are some of the factors because of the new physician we have invested in, new practices we started, Pitampura normalization, some of the temporary factors disappearing is why the growth trajectory will be back at the level it was expected to be.

**Raphael Foo** Maybe I can just ask one last question and then I will join the queue again. I just wanted to understand, I notice that the occupancy is down. Can I just understand what happened?

**Yogesh Sareen** Basically in the quarter two there are two three things which happened. One was some temporary drop in the vector borne diseases, like Dengue and Chikungunya,

which were quite lower in the quarter two as compared to what it used to be. So we even hired extra nurses to see if there is any surge happens on that side and then we should be prepared to handle it. Second is that we had a stalemate on negotiation with the GIPSA which represent the four insurance companies. The prices were getting revised after 6-7 years for the packages and after 3 years for the non-packages items and these people have not given us the kind of price increase that we wanted. So there was stalemate and as a result of that we had to stop the cashless services for GIPSA insurance patients. You will know 64% of the total insured patients are through GIPSA. So we had some effect of that. We negotiated the deal back by 15<sup>th</sup> Sep, so there were some shortfall in revenue and also that led to lower occupancy. The third item was that we have built this liver transplant business, a lot of business comes via Pakistan and we had visa issues in Pakistan which have been resolved now. But so we had Rs.4- Rs.5 crore of revenue and occupancy loss because these beds are very specific beds, you cannot use it for other specialties. So that's what led to I would say lower occupancies. But you will note that although the occupancies are lower, but the ARR has gone up by 11% which also mean that we could actually turn around the bed faster and we also got the price increases which actually helped us report the revenue that we reported.

**Moderator** Thank you. The next question is from the line of Dhwani Desai from Tortola Capital. Please go ahead.

**Dhwani Desai** What I am asking is that the regulatory impacts that we are seeing for last two-three quarters, how structural it is and do you see that more such regulatory actions can be anticipated in other treatment across the areas that we have present in. If you have any view on that?

**Yogesh Sareen** So basically you know that in hospitals in India the way the pay structures are in terms of doctor payouts etc., the hospitals do make money from the pharmacies and the consumables and I think this has come under a lot of scanner by the government where we have up to 30%-40% margin on drugs and on consumables and since we do not add much of value to this consumable when we use them, so I think fundamentally the shift has to happen from the margin from the trading in a way to the services. So this is I would say is structural shift which is happening and you would have seen that there was a stent price increase which happened, after that we increased the prices of procedures. We also in 14<sup>th</sup> of August had this price cut of ortho joints and then we also have to increase the prices of procedure. I would say the whole game is shifting that the hospital have to really focus and charge right for the services and not try and make money on the consumables or the drugs that they use. So by the way we have partner who is Life Healthcare and in South Africa the hospitals are not allowed to make any money on drugs. So it is in a way I would say shift of the model which will happen over a period of time. I have seen that all the players have started to now charge more on the services side and that also means that we have to do the doctor payout right because earlier whatever you used to charge to the patient, a large part of it will go to the doctors. This whole structuring of the compensation to doctors as how you priced the whole stuff needs to be re-christened and rejiged. This year you would have seen that the ARR has gone up by 11%. A large part of it is because of price increase. Generally, we used to have Rs.61 crore of price increase. This year it will be Rs.85-Rs.90 crore kind of a number. So I think we are going to set the equation right over a period of time. This has to move as industry. No one person can take lead. But I would say for sure we see that the regulatory headwinds coming on hospital, not making margins on the drugs and consumables and charging right on the services side.

**Dhwanil Desai** Okay. So as a corollary to that or a follow up on that is I mean pre this regulatory impact our margin profile was somewhere around 11.5%-12%. And in spite of cost saving that we have done about last few quarters, we have kind of inched back to the 10% margin profile. So I am sure that in spite of whatever steps that we are taking, it will take some time to reach back to that level. So any kind of a view on the timeframe as to by which...

**Yogesh Sareen** So basically if I take all the regulatory impact as of now, it will be 3%-3.5% on the EBITDA margin. So, we have partially recouped it already. You don't see that kind of a change in the EBITDA margins, when you see our numbers. The thought is that we had 11.5% kind of a margin last year as the full year numbers. I think we will be very close to that by the end of this year. So in the way we want to come down or I would say Quarter 4 numbers should be what we had for the full year last year.

**Dhwanil Desai** And after that we can again expect to sort of grow by 100-150 basis points?

**Yogesh Sareen** That is right. Then it will be the same thing that we will be doing earlier. We are growing the EBITDA by 1.1%-1.5% every year and we do think that will come back to that same situation, unless there is any other big regulatory thing happening. Now we obviously geared up for that already because we trying to bundle the services, not charge consumables separately, see if we can do more thing to packages and see if we can do some customized packages. So all those things we are taking into account to see if there is anything come now from the regulatory side we are able to handle it more proactively, rather than reactively.

**Dhwanil Desai** Okay. Jatin, my second question is if you can throw a bit more light on the diagnostic business that we are ramping up and if there is any substantial progress there and where we are in that journey?

**Jatin Khanna** The progress in terms of the journey, I think is quite substantial, like I said in my opening remarks. Firstly, that business is obviously growing very sharply, of course of a small base, but we are at a run rate of about Rs.1.25 crore a month. I think by the time we close this year, we expect it to be at a Rs.3- Rs.3.5 crore a month type of run rate. So we should already be on an annualized basis like a Rs.35- Rs.40 crore kind of revenue at close of the year. So the growth trajectory and the improvement in that business is very sharp. We are already looking at geographies wherein we don't have a direct presence. We want to take this business to a multiple locations in Punjab. We are already getting into another city in NCR, which is Faridabad, where we were not present. So, we think that this business can be scaled up very sharply at a very minimal investment. Actually, its not just pathology, even in DigiCare & Onco Daycare we are seeing lot of traction. So in all the new growth models, all we have invested is a marginal investment of Rs.10 crore and on an aggregated basis, we are already seeing a more than 50 lakhs EBITDA contribution coming from them. So while the numbers are small currently, but really in no time, we are scaling these initiatives pretty sharply and as we move forward in the long term, we will carve this business out into a separate vehicle and sort of make it separately visible, which will hopefully help into a proper value discovery of the business. But at this stage, it is being run in-house because we are in the process of fine tuning our backend completely. I think the journey should be over by the time we close this year. I think the backend should be full sorted and we should be ready to scale this business very sharply.

- Dhwanil Desai** And my last question is on Antara, I think if I recollect correctly, we were working on strategy to scale up that model in an asset light way and I think there was an internal deliberations going on that. So any updates on that?
- Jatin Khanna** I will only briefly talk about it. You know how the real estate scenario in India is, I mean most of the projects are done, but there are no takers for those projects. So there is a great opportunity wherein we can partner the developer. The developer will essentially develop that community, whereas we will essentially help them do it in a senior friendly manner, help them market that community and be the operator of that community. So it will become a purely asset light model to that extent. It is sort of one way of looking at Antara into the future which is the operator model. The second asset-light model, where one is looking at is Antara at home, wherein we could take the senior care to homes of many people who really don't want to relocate to a new location. Third one is which is not asset light, but I would call it more like investment light model wherein you look at projects wherein there is a low rise development, which can be essentially developed on a sell to build model. You sell these units first, customer pay because it is low rise, and you use that cash to really build that up which is where your investment will be there, but it will be much lighter than the asset heavy model which we started from. So those are the three growth areas one is looking at this stage. As you know how these things are, it will take some time for things to sort of shape up, some projects to become tangible and live. And therefore I would at this stage restrict it to what we just spoke about. But as we have more tangible development, one would be very happy to talk about it more in detail.
- Moderator** Thank you. The next question is from the line of Hitesh Mahida from HDFC Standard Life Insurance. Please go ahead.
- Hitesh Mahida** One thing sir, did not understand this, you had some gaps in clinician hiring in the neurology side. What is that regarding, which had an impact during the quarter?
- Yogesh Sareen** So basically there are 2-3 hospitals of ours where we wanted to grow Neuro and we had some one or two places where the doctor had left and we were to hire another set of clinicians. So the clinician hiring got delayed at our end and so there were 6-7 vacancies in Neuro itself and 5 of them have been closed as we speak. So this is one of the reasons why we find that Neuro we could not grow over the last year. So Neuro in a way is a flat in terms of specialty, although there was some impact of this because we closed some institutional business. But the Neuro was a specialty which has not grown to the size that we wanted it to and it actually degrew by 1%-1.5% over last year. That is the reason why we mentioned specially about Neuro.
- Hitesh Mahida** Okay. So it is not just a quarter specific event, it has been happening since last 3-4 quarters?
- Yogesh Sareen** No. So these are the 3 sets of clinicians who left over a period of time. We couldn't fill the position up because obviously it takes 3-4 months to really hire the clinician. Now the clinicians are hired, 3 of them joined in Q2 and two more have joined in October. So we have still two more to find and that is what is being said there.
- Hitesh Mahida** And sir regarding this suspension of cashless due to this issue with some insurer, so can you explain that in detail actually because is this something like a loss sales for us, or it is just a deferred sale?

**Yogesh Sareen**

So basically I would say this is a loss sale because what happens is that there is a cashless patient who walks into our hospital. We could not offer cashless. So if it is an elective he might wait, but if it is not elective, he will do and get it ready at other place. I mean 65% of the insured market is with the GIPSA insurance companies. Now we had prices with them which were decided in 2010 for the packages which is ~ 30% of the total GIPSA business and 70% were non-packages which were on 2014 rates. So we have been offered 15%-20% increase on the 30% of the business and on the balance business, we have been asked to 10% discount while we did not have any discount on 2014 tariff. So it wasn't making sense for us to go for half a percent price increase after 7 or 4 years. So we obviously took a call and we stopped the cashless business and now the trigger was from their side. Thereafter, we converted 65% of the business. That means typically we have Rs.30-Rs.32 crore of business from GIPSA every month. We could convert up to Rs.20 crore of business, Rs.10 crore is what we lost by month. So this happens for 1.5 months, so we lost Rs.19-Rs.20 crore of business. I would say it is a loss of sale. But in the ballpark, what we could negotiate in terms of prices, we will be able to compensate on whatever loss we had. So the price then would be Rs.20-Rs.22 crore a year now, with whatever we have done with them now. So we should be able to compensate on the EBITDA side for whatever loss happened in the balance part of the year. So I would say it was a battle well fought because these prices will only revise after three years. We will have a continuous gain of Rs. 20 crore that I mentioned and we have one-time sales loss of Rs.19-Rs.20 crore.

**Hitesh Mahida**

Okay and sir what are the wage we are mitigating with stent pricing? Are there other ways we can reduce the damage?

**Yogesh Sareen**

So I think stent pricing we are not able to mitigate the price impact. We have to generally increase prices to mitigate it. For example in our case, the stent price impact was roughly Rs.35- Rs.36 crore. So with whatever we could do, we still have Rs.22- Rs.25 crore kind of impact, that is the range of impact still being carried specifically on stent after all the price increase that we did. Then you know, we have generally taken a call to increase all prices. So that is how we are trying to mitigate that particular this thing. But we can't do it in Cardiology. So if you think that this stent price impact can be compensated by increase in Cardiology prices that means that I have to increase the Cardiology prices by Rs. 68,000 on the procedure side, which nobody did, which we didn't think was the right thing to do. So we passed on, large part of the margin saving to the consumers. But then we took a call to increase the prices all over and that is how we trying to mitigate it.

**Hitesh Mahida**

Okay sir. And we are guiding for a very good second half. So first half we did roughly Rs.133 crore EBITDA. We are guiding for almost Rs.190 crore EBITDA for the second half. So what are the reasons behind it?

**Yogesh Sareen**

So I don't know this Rs.190 crore number where it came from, but I will just tell you what we are trying to do in quarter two. One is obviously this GIPSA price impact will come in. The sale loss of GIPSA will actually we will recoup in a way that we had this loss and H2 won't have that loss. The other is that we also have 45 beds which we were creating in the new hospital in Saket. Those beds got operational on 25<sup>th</sup> of September. So this 45 beds plus 4 OTs that is a big capacity increase or I would say largest capacity increase that we had planned for this year. Also there is a radiation therapy. We were to start in our Shalimar hospital. So the radiation machine is up and running. So we put the first patient on 24<sup>th</sup> of October. So that is also on. The other is that we have in the quarter two we have set up some offices overseas for international market. Those have started to give us some play. So we do see some increase, Rs.1- Rs.1.5 crore per month, every month in last 2-3 months. There are also upcountry offices that we are opening. So we are opening



5 more offices in the close of this quarter which is Guwahati, Ghaziabad, Agra etc. We do think and we have seen that once we open an office in upcountry and you have in a way a patient assistance center that really helps in channelise patient to the hospital. So these are the things that we are doing, which and also this hiring that we mentioned to you on Neurology side. I think these are the steps that we have taken should help us on the revenue side and also as we get into this lean season on the power sector, we do think that power cost will come down. We have some projects on cost save which are flowing and more of that will flow in the balance part of the year. I think that is what basically we doing to really improve the margins in the business.

**Hitesh Mahida** And sir our Saket and East Delhi cluster is operating at roughly 80% capacity occupancy, but they are still at around 12 odd percent margins. So should we assume that these are the sort of peak margins for them?

**Yogesh Sareen** No. As we mentioned, I think when we talked of the impact of all that happened in the regulatory side and also on specifically on the temporary side, for example East Delhi got badly impacted with this TPA thing because there is large business of TPA in that side. We have added 9 more ICU beds in Patparganj and opened 20 more beds in Vaishali in quarter two. And also you know that the surgical business gives more profitability, we are infusing more talent into the hospitals. I do think this 12% number should actually come to because this also has some fixed cost of H2. I do think if we are able to grow the number that we want to, it should be a 14.5%-15% margin. And you see that was the number in last year. I mean East Delhi number was 15.5% last year.

**Hitesh Mahida** Okay. And sir this Rs.93 crore cost which you had mentioned, I think Rs.34 odd crore you have already done that in the first half.

**Yogesh Sareen** Yes. I am not talking specific numbers, but I would say that is what you can take. So I would say 40% of that we already kind of done.

**Hitesh Mahida** So another 60% savings can come in the second half?

**Yogesh Sareen** Yes, correct.

**Hitesh Mahida** And sir when do you think Max Bupa will become sustainable EBITDA positive company?

**Rahul Ahuja** So in Max Bupa P&L, there is no interest cost because insurance companies as you know cannot borrow. We should have a breakeven by next year.

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

**Charulata Gaidhani** I have 3 questions. Number one, when you see adjusted EBITDA, how have you adjusted the EBITDA for the previous years?

**Jatin Khanna** Essentially this is basically if you subtract the impact of regulatory action which is what is impacting the EBITDA. So if you subtract that and then look at the growth, that is the adjustment.

**Charulata Gaidhani** Okay. Then my second question pertains to how much growth do you expect in FY18. You have been saying that in healthcare you will be revising the prices. So



revision of prices will come from FY19 and what is the extent of price revision that you expect?

**Yogesh Sareen**

I would say this year we have increased prices by 3.5% on an overall basis. You know that there is some part of the business where you cannot revise prices at will. But we have some business which is the PSU business where the prices are determined by the government, CGHS authorities and then there is some business which is a TPA business which is insurance business which can be typically 22%-23% in our case. There also the prices are negotiated. So price gets negotiated. We obviously provide the tariff to TPAs, then we sit across the table, negotiate, and kind of close the prices, especially since large part of this business is packages. Now this 3.5% as we said generally used to be 2%-2.5% in earlier years. So this year we have taken a larger plunge on the pricing side with the GIPSA pricing, I would say this 3.5% will come to probably 4% by the end of the year, I am saying on a run rate basis. Now over a period of time, we want to rejig the model. So, we may have a procedure price being billed to the patient and we may have a consumable where we have a margin. So what we are trying to do is, we are trying to bundle the two things. Make more packages and other is try and reduce the margin on the consumables or on the drugs and try and increase the procedure price, so that tomorrow if there is an impact of some action on pricing side, we don't get impacted. Generally as I mentioned, we have 2.5%-3% increase. This will obviously continue and we will have to see that if we can add half a percent to that so that we are able to recoup all the losses that we have on the regulatory side.

**Charulata Gaidhani**

Right. Now with all these adjustments also you think you will be able to earn 14.5%-15% EBITDA margin?

**Yogesh Sareen**

I mentioned last year our EBITDA margin was 11.4% on an overall basis. There are obviously HO cost, etc., which costs don't go up if the business revenues goes up. So before this, we have been adding 1%-1.5% EBITDA margin every year. Now you know with one stroke of regulatory actions, the EBITDA margins dropped by 3%-3.5% and we have recouped a part of it already. You don't see the 3.5% impact on the overall EBITDA that we reported. The balance part of it will get recouped as I said by end of this year. That means on a run rate basis, we should be back on what we were at the end of FY17. Here on we should be able to grow the EBITDA the way we were growing earlier which means that 1.5% increase every year. So I would say FY19 should be 1.5% more than FY18 and that type.

**Charulata Gaidhani**

Okay, fine. Then my next question pertains to insurance. How much is the market share of Max Bupa?

**Rahul Ahuja**

So among Private Players in health industry, it's about 4%.

**Charulata Gaidhani**

And is there, are you seeing lower sales or loss of market share because see first year premium sales are around 8%?

**Rahul Ahuja**

Not really. As was explained by Jatin at the start of the call, our new sales are a bit subdued or were a bit subdued in the last quarter largely on account of the repricing that we have done for both our products. These products put together constitute almost 98% of our business. As we speak, we are seeing a good uptake in our new business or first year sales. And we expect to end the year with our new sales growing by anyway around 25%-26% over the last year.

**Jatin Khanna**

Also to add to what Rahul just said. I think it is very important to also get a little bit of a context here. See, different types of players are doing different things. I think it



is very important to understand there are people who are planning IPOs or exits. They are growing this business at a significant cost because obviously at this stage the only way you can do valuation triangulation for them is on a sales multiple. So I think that is one category of players. Now in Max Bupa, we are clear that we want to grow on a sustainable profitable way. So every rupee of OPEX has to create a disproportionate amount of sales relative to costs, is how we monitor the business, Therefore, I think the capital efficiency and the other operating parameters, so far as those are tracking as per our expectations, we are not at this stage wanting to get into the market share chasing story, we would rather prefer to grow this business sustainably and profitably. That is one point. I think the second point is that as you compare market shares, the market shares essentially includes a big part of sale, which happens through B2B channel and as you know Max Bupa is not in the B2B space, we are only in B2C space. So if you look at our market share, we are very relevant player in the B2C segment. Third is that there are lot of players who are wanting to chase growth by taking significant underwriting risks and without naming anyone, we know that there are players in the industry who are essentially not even underwriting their policies beyond a particular sum assured to make sure that they get enough volumes. Now like I said, we want to grow this business profitably, so we are not into that game at all. In the capacity of a shareholder of Max Bupa, our steer to the business is to grow this business sustainably and profitably. We have to maintain the differentiation. We want to be product leaders in the market, products which I talked about initially, like GoActive product once it comes, it will be pretty much the best digital product available in the market. Today, we are in the process of developing many new ideas which differentially positions Max Bupa as well as grows the business profitably. So we don't think that it is the right strategy to chase market share, because we could get it horribly wrong, and the underwriting margin in this business as you know are not very high. So, we rather sort of grow this business cautiously and I think a 25%-30% growth rate to our mind is strong enough growth if you can deliver that profitably as opposed to trying to grow at 40% by doing some of the things which are not necessarily profitable.

**Charulata Gaidhani** I also see that there is a marginal increase in the claims in the first half?

**Rahul Ahuja** The claims are pretty much in line with what the industry is witnessing. The incidence of infectious diseases in the first quarter which includes the monsoon season has been pretty high. This is witnessed across the industry. That has impacted us marginally as well. It is also on account of our repricing. There is a slight shift in the product mix which is adding to our claims mix as well. But I think as the year progresses, we will see an improvement in these in the next few quarters.

**Charulata Gaidhani** And there has been a decline in the number of agents?

**Rahul Ahuja** As I said earlier, we have repriced two out of our three main products. And whenever you do a repricing, it is a trend that which has been noticed in the past historically that the number of agents were active with you witnessing the dip because for that first or second month, selling the policy become that much more expensive. But in October, we have seen our activation numbers as far as agents are concerned has gone up. We have also launched a slew of measures including engagement or awareness levels as far as the agent community is concerned to ensure that we grow our agent base even higher than last year.

**Moderator** Thank you. We will take one last question from the line of Shweta Karia from B&K Securities. Please go ahead.



**Shweta Karia** Sir just two questions. One on the price cap on consultation fees to doctors as we see in Karnataka today there is a strike by private hospitals for the same due to the amendment in the act. So your take on that over the implementation of it across the Board, I mean across India?

**Yogesh Sareen** Obviously, there is a risk and fear. But I don't think there is any activity on that side in the Northern India. So we have our hospitals mainly in Delhi, UP, Punjab and Uttarakhand. So I think in none of these four states, we have seen any activism. But as such a large part of consult fee goes to doctors, so now 80% of that consult fees is actually paid to the doctors in a way directly or indirectly. So I would say even if that happens, I don't see many major impact on the margins of the hospital, but I think you must know is that in Delhi there is no clinical establishment act. In Delhi where we have most of our hospitals, it is Delhi Nursing Home Act. So Nursing Home Act doesn't empower the government to fix prices while the clinical establishment act does. So they have to first pass the clinical establishment act, so it is a big task, I would say in Delhi to do it. So I don't see any of it happening anytime in near future.

**Shweta Karia** And sir one last on the insurance front, where earlier they were thinking of price cap of the package as a whole, but now we hear from this private players, you know about ceiling or putting a price cap on the segregated cost of the surgery that is an ex amount for consumable and an ex amount for consultation fees to doctors etc. So your comments on that and the likeliness of its implementation, does it act as a major threat factor going ahead?

**Yogesh Sareen** I personally don't think this is happening because you have to leave it to patients to make choices. I think what should happen, and I am sure the government is considering that, is to bring the various types of products in the market, also improve transparency of the hospitals, give options to patients, I think that is the way you actually bring down prices, not by just mandating anything, we have done a study with the other hospitals and also AIMS and some other government hospitals. We tried to prove to them that the cost of doing surgery is almost same as what happens in the private sector. It so happens that in these hospitals like AIIMS, they don't pay to the doctors, the cost is borne by the exchequer, but otherwise real cost of doing surgery is almost the same where probably a 10% difference that we could see. So we actually went to the Health Secretary and try and prove them that what you think that private hospitals charge more money is not true and we did two or three case of surgeries to put data from the government hospitals and also some hospitals in the Southern India. So 5 to 6 hospital data was presented to the Health Secretary and they actually see the point in what we are saying. So I think there is lot of noise about private hospitals. I do think part of it is because of the elections and those kind of stuff. But I actually think that this will kill the industry, if we really go any longer. I know there is lot of pressure on the government from US government also now because of this stent pricing and joint prices etc. So, I personally don't think they would go in that direction knowing that India is already one of the least healthcare cost country and we know that we have patients coming from 100 countries into India for treatment. So, the point I am making is that there is lot of noise, I don't think it is happening so soon and also if it happens, I assume there will be some way out in terms of litigation, etc. and for that the healthcare industry has to come together. So that is what my take is. But I mean obviously West Bengal, Karnataka etc., there has been some moves which are not good for the industry. I think we also did a study on the pricing side and what the government is thinking. We do find that the government is thinking about the Universal Healthcare, which means that for certain diseases or up to certain levels, the government wants to provide basic healthcare to the countrymen and if

that happens, I think it is a good thing and that will actually expand the industry, but specifically on pricing say in this ratio, that ratio, I don't think that will work.

**Moderator**

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

**Jatin Khanna**

Thank you, ladies and gentlemen for being on Max India's earnings call. I appreciate you are taking out time to be a part of this call and I sincerely hope that we addressed most of your queries to your satisfaction. In case you still have additional queries or you could not find answers to any questions to your satisfaction, please do not hesitate to contact us. If you 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 more such interaction in the future. Thank you once again and good bye.