



## Max India Limited

### Q3 FY18 Earnings Conference Call Transcript

#### February 14, 2018

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**Moderator** Ladies and Gentlemen, Good Day. And Welcome to the Max India Ltd.'s Q3 and 9M FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. I would now like to hand the conference over to Mr. Mohit Talwar – Managing Director from Max India. Thank you and over to you, sir.

**Mohit Talwar** Welcome everybody on this call. I am joined here with my colleagues Mr. Rajit Mehta, Managing Director for Max Healthcare and Jatin Khanna CFO for Max India.

I am going to talk about our three main businesses, starting with Max Healthcare which is the dominant business in Max India. So, it has been somewhat of a lackluster nine months for us. We have shown a modest growth of about 9% in revenues at Rs. 2,116 crore. There has been a fair amount of regulatory interventions and some adverse conditions which happened during the quarter. One of which was a temporary suspension of license for our Shalimar Bagh Hospital for about 12 days or so and that also had a kind of a rub off effect on the rest of the network. So, there is widespread impact across the sector.

There were some more events, suspension of cash less insurance by the PSU insurers . And of course, there was price control which had come in and that impacts all hospitals not just us. These were regulatory interventions in the form of price cap on stents and knee implants. So as a result of which we kind of had somewhat of a lukewarm quarter and nine months. But if you were to adjust for some of these one-offs, I would call them one-off because most of these are not going to be recurring.

If you would adjust for the impact of these events, the revenue growth was driven by our tower specialties, with oncology leading the revenue growth at about 25%. The liver transplant program is also showing good traction with about 200 surgeries we do. Preferred channels outpace overall growth, walk-in has grown 15% and International revenue growth is at 22% with expansion of upcountry channel and a sharper focus has been there on the International markets.

We plan to accelerate investments in upcountry and International channels to drive more profitable growth going forward.

EBITDA stood at Rs 189 crore, so there has been a decline of about 7% or so, and that is on account of the reasons I mentioned earlier. If you were to look at EBITDA on adjusted basis there has actually been a growth of about 37% year-on-year.



Now, in order to mitigate this regulatory impact, the cost savings of about Rs. 56 crore have already been realized in the P&L. And this has come on account of almost 45% savings in personal cost, 30% in material cost and about 25% in indirect cost.

On new bets, there are three alternate businesses which we had started, these have done fairly well in the short-term. So if you take pathology, we are seeing almost 2.7x increase in monthly revenue run-rate which is currently running at about Rs. 1.2 crore a month. Max@Home, which is our other initiative, we have seen 2.9x increase in revenue from about Rs. 7 crore in 9M FY17 is now Rs. 19 crore in 9M FY18. 11 product lines have been launched during the last 15 months and this is now integrated together with our digital platform.

The third initiative has been the oncology daycare center, this has done exceedingly well for us where the revenues have grown 3x and there are plans to start a second one which will be in Gurgaon and we have initiated the search for a third daycare center which will be in Noida.

So, I have talked about these regulatory headwinds but for now I will just leave it at this, because I am sure there will be questions which will arise. I have Rajit here who is the best person to actually address all the questions relating to regulations, because that has really made a lot of news in the healthcare space right now.

I would like to move on to Max Bupa. I am happy to report that business continues its growth. GWP has been growing at 26%, it is now about Rs. 505 crore. New sales for banca channel has grown 100% in nine months. Customer experience has been fantastic I would say, despite price increases we have seen a 30% increase in renewals and our conservation ratio is at about 82%. So, the business has reported a net loss of Rs. 10 crore and it is near its breakeven at the EBITDA level.

There have been some innovations in Max Bupa as well, we have launched what is called the Health ATMs, we have got Point of Care desks which have been positioned in some of the hospitals, we have gone pretty well on digital, there is a wellness product which is being launched it is called Go-Active. So there is a lot of good things happening in terms of innovations in the health insurance space.

Moving on to Antara. We currently have the Dehradun Complex and that is a Greenfield for us. Going forward we have taken a decision that our growth would be moderate, and it would be led through asset light models. And we are basically not going for Greenfield expansions.

So, at this point in time we are looking at an opportunity where the capital outlay over a considerable period of about two to three years would be in the region of about only Rs. 39 crore for a project which is going to be in the Rs. 700 crore range. The land and the building outlay is that of a developer and software will be provided by us which is really the expertise and knowledge around senior living. So that is the model that we are intending to follow going forward.

Some brief highlights for the quarter. MHC's gross revenue for Q3 grew 10% to Rs. 703 crore. The factors I have discussed already, so I would not repeat that. EBITDA at Rs. 56 crore have declined about 11% or so year-on-year in this quarter. Max Bupa, the GWP for the quarter has grown 27% to Rs. 178 crore, driven by 29% growth in renewals and 23% growth in new sales.



Net loss for quarter three was contained at about Rs. 5 crore versus net loss of Rs. 9 crore in the previous year. And on Antara, the Dehradun project, 109 units have been sold and 50 residents have moved into the community which is operating very well.

So in summary if I were to sum up, Max India will continue its robust growth trajectory, with Max Healthcare charting out a profitable growth path for the next five to seven years. You will see a period of flat growth for the next 12 months or so, and that is on account of the regulatory pressures which are being seen in the healthcare sector. But then thereafter we will be on our path towards increasing our bed capacities to 5,500 beds. Max Bupa, growth acceleration from 25% we conclude that long-term strategy for the business is robust. And as far as Antara is concerned we would be pursuing or exploring possibility of a growth plan which would largely be on an asset light model.

So, with that I will just hand you back to the moderator and I am sure there will be quite a few questions. Thank you.

**Moderator** Thank you very much, sir. We have the first question from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

**Anand Bhavnani** Sir, my first question is about revision in stent prices which has come in during the week, how much do you think our EBITDA guidance changes by this fresh downward revision of 5.8% in the stent prices? And given that these stent prices have been downward revised, could knee caps be downward revised? So if you can give a broad sense.

**Rajit Mehta** This is about the recent thing that came a few days back?

**Anand Bhavnani** Yes.

**Rajit Mehta** Well, the impact on revenue for us is about Rs. 80 lakhs to Rs. 1 crore. The margins are already zero so not much impact on the EBITDA, but revenue will come down by Rs. 80 lakhs to Rs. 1 crore.

**Anand Bhavnani** This is quarterly run-rate, correct?

**Rajit Mehta** This is monthly run-rate.

**Anand Bhavnani** Okay. And sir in case of Bupa our claims ratio has risen, and this is despite the fact that we had price hikes. So what is the reason for this sharp jump in claims ratio? And if you can help us understand what would have been the claims ratio had there been no price hike?

**Jatin Khanna** So, I think it is not to do as much with the price hike. While price hike helps you on one side, but there are other compensating factors which come with a price hike. For example the new sales growth slows down and if that slows down, then your claim ratio starts to inch up. So I think that is one compensating factor. And the second is that, we had a little bit of adverse experience around the incidences and severity of those incidence on vector borne type diseases or more seasonal diseases, than surgical diseases. So therefore because of that also there has been a little bit of claim ratio increase, but broadly it will be ballpark of where it was last

year, so it has not materially changed but it has not improved either because of those two compensating factors.

**Anand Bhavnani** Okay. So, after these price hikes and the growth business is seeing, how do you see the claim ratio for FY19 and beyond?

**Jatin Khanna** So we expect the claim ratio to be in the same ballpark, though again as the new sales growth comes back, it has already come back as we speak. So as we see new sales growth coming back, there will be obviously a bit of a tailwind around the claim ratio because of that. I think they will remain in the same ballpark, because we will obviously not take a price increase again this year in FY19.

**Anand Bhavnani** Okay. And sir for Antara you mentioned about the project size in Noida being Rs. 700 crore and Rs. 39 crore would be the outlay for us. If you can help us understand the timeline of this project? And would there be any further commitments than this initial Rs. 39 crore?

**Jatin Khanna** Not really. See, this is under an operator model wherein there is somebody else who is developing the project as well as bringing in the requisite funds for construction. Our investment is more towards initial contribution from our side, which will go behind bringing that project to a particular level, wherein it starts generating its own cash flows and the fee starts taking care of our expenses etc. And then there is a very little initial upfront investment. So, Rs. 39 crore is half-half split between a little bit of an upfront investment which is required, and a little bit of expenses, which is till such time that the cash flows are sufficient enough to take care of those expenses. So really it is not an ask on us to invest in the project now, and the risk is on the developer. And we have spoken about this on the earlier calls as well that we will want to now grow Antara in an asset light manner as opposed to an asset heavy model, which we started with, and those learnings we will now try and capitalize upon, which we got from Dehradun.

**Anand Bhavnani** Okay. So the timeline for this project and when could it start contributing to profitability and what kind of profitability, if you can share some guidance on that?

**Jatin Khanna** I mean the profitability is robust in the sense that we have done various scenarios, unless and until we really do a bad job out of it it still will be a 20% - 25% IRR project. The other good thing is that it is very attractively priced for the customer, as in it is at a place wherein we actually are at 5% to 10% premium relative to the next best project which is happening in that vicinity. So, to that extent the pricing is also in line with the market, and given the differentiated products and offerings which Antara has been able to create through Dehradun, a customer will be more than happy to actually pay more than that, possibly a higher premium. But we wanted to test, as it is a new model, so we wanted to look as close to the market as possible when it comes to prices. And the timelines of the project will pretty much be like any other real estate project, so it will get delivered by sometime in 2021, so it will take about three years to deliver the project, after which the customers will start to move in. And it will be done in three phases, it is total 500 units, it will be done in three phases of 170 to 180 units each so that it is fully RERA compliant and there are no risks around not being able to deliver the project, etc. There are also milestones before we start constructing the project to get to at least 50 sales. There is enough and more risk mitigation built around the whole project, so that it is much smoother and there are no capital outages as far as this project is concerned.

**Moderator** Thank you. We have the next question from the line of Arun Malhotra from Santalum Capital. Please go ahead.

**Arun Malhotra** So, wanted to know about how Modicare would benefit the business?

**Jatin Khanna** While I must say that it is too early, I think we need to do a little bit detailed work on it over the next one, one and half month before we can really come out with a strategy around Modicare, but we are excited about it and we really want to play in this opportunity at a high level and then I will let Rajit speak more about it.

**Rajit Mehta** So, as Jatin said, the details of the scheme are pretty unclear. And also let us remember that the states have to individually implement the scheme as well in conjunction with the Clinical Establishment Act. We are seeing it as a very bold move to give access to lots of people who do not have access to quality healthcare. Of course, what it will mean for us is to be able to look at the entire model depending on the pricing they opt for and see that the way in which we can capitalize on the volumes. When I say model, it means entire delivery model from infrastructure to kind of doctors to the doctor compensation models to generics to consumables. We really have to think through the entire model, but we do see it as a very bold move and a great opportunity to leverage volumes.

**Arun Malhotra** And second part is that the EBITDA margins let's say two years back before the price cap came has been 10% - 11%. What would be capital efficiency 10% - 11% EBITDA margin is not a business which could give you a high capital efficiency

**Jatin Khanna** So clearly this is not where we are looking at obviously from a medium-term to long-term standpoint. The business is currently going through a difficult environment overall and also it is a sector which is getting a lot of attention even from the government. So, I think there is a little bit of sort of regulatory uncertainty which is causing this performance. We certainly do not think that over the medium-term or the long-term the margins are here to stay. We have been expanding our margins and improving our performance about 100 bps and 150 bps every year, so as some of this dust settles around regulatory environment which I think may settle in the next 12 to 15 months, I think we will be back on track in terms of 100 bps - 150 bps margin expansion and we will get to mid to high teen margins over sort of long-term.

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

**Charulata Gaidhani** I wanted an update on the stay order for Shalimar Bagh, is everything resolved at Shalimar Bagh?

**Rajit Mehta** So the stay order is till April 12, it is going from date-to-date. And this may take a while for it to get over. We are very confident, we are very clear in terms of our legal position and therefore the hospital has been operating, only shut for 12 days, it is already up to 80% plus occupancy. So it is likely to take a few months before it settles.

**Charulata Gaidhani** Okay. My second question pertains to the suspension of cash less insurance by public sector insurance, can you throw some light on how this works and how do they stop issuing cash less?

**Rajit Mehta** This was the PSU insurance, GIPSA body as we call it, and they have been going through some tough negotiations all over the country. So it was more a negotiation stance and we had actually suspended saying we are not able to do a business on rates which were three years old. It is only a temporary suspension, after that business has resumed, we are back on track to the volumes we used to get at much better rates prior to when the shutdown took place. So a temporary two months suspension based on our desire, not that they said so. It is a negotiation stance for us to get reasonable prices and they have been revised upwards and therefore we are back in business now.

**Charulata Gaidhani** Okay. And one last if I may, you have mentioned comparable EBITDA adjusting for a one-off, how much will this amount to?

**Jatin Khanna** So, what we have said is that last year we had certain regulatory actions, so really if we were to adjust our EBITDA for those regulatory actions we have actually grown year-on-year while at a headline level it looks like we have de-grown. But really as opposed to whatever 11% headline de-growth, we have actually grown the EBITDA by 37% after factoring in those regulatory impacts.

**Moderator** Thank you. We have the next question from the line of Harsh Desai from Vallum Capital. Please go ahead.

**Harsh Desai** My question is related to the stent pricing, you said that the regulatory order of stent pricing and knee cap have put pressure on your margins. But to the best of my knowledge most hospitals have increased the procedure price to compensate for the cap on the stent prices, haven't you all done the same in those terms?

**Rajit Mehta** So, the hospitals did not do it in a uniform manner, some people did and some people didn't, so we also did a partial increase because there was a strong diktat from the government as well to look at the prices of the angioplasty prior to and after stent control. So while we have done some bit here and there, the entire loss we have not been able to recoup.

**Harsh Desai** Okay, got it. But over what timeline do you see your margins getting covered, in the sense do you gradually see increasing the procedure prices and keeping the total package cost to what it was say a year and a half back in like say a six months timeline or a one-year timeline, in that sense?

**Rajit Mehta** No, this is a reset of the entire pricing, unlikely to come back to previous levels. Of course, inflatory increases happen every year, in that sense it might catch up in a few years' time, but if you are asking the question can we recoup the entire amount loss, no. Partially we have already done, some bit we will do, but some is just a reset.

**Harsh Desai** And in terms of your deal with the stent supplier, I mean, has there been pressure on the stent supplier, are you looking for better terms, in the sense cheaper stent from them in those terms or are you getting a better cost in that sense or the stent is being supplied to you at the same cost as it was being supplied earlier?

**Rajit Mehta** Well, the government has pretty much fixed the trade margin as well, so while we have looked for some substitution but also it is a patient safety area and the clinician therefore chooses what they think from patient perspective is safe. So we have done some bit of that, but since the government has also gone ahead and pretty much dictated the trade margins, it is quite difficult.

**Jatin Khanna** See, in some of these situations, you have to instead look at your cost and your processes clinically and examine if there is opportunity to fine tune in some of those areas and take out costs rather than playing around with the price, because that really defeats the objective of what government is trying to achieve. So, we have looked at that and we have taken out about Rs. 56 crore costs over the last nine months. So, I think we will look at some of those process refinement type actions to protect our EBITDA margins rather than trying to play around with increasing the prices back and making headlines that nothing has changed despite the cost of consumable coming down. So that is not what the intent is.

**Harsh Desai** And just one question, who would be your major supplier for these stents?

**Rajit Mehta** There are a variety of suppliers and vendors, just not one.

**Harsh Desai** If you can give me some names?

**Rajit Mehta** There is Abbot, Medtronic.

**Harsh Desai** And the pricing is similar from all these suppliers?

**Rajit Mehta** Yes, it is pretty much determined by the NPPA.

**Moderator** Thank you. We have the next question from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

**Gautam Bahal** I just wanted to get back on this question or normalized margin for Max Healthcare. You mentioned that a margin of mid to high teens should be possible in the long-term, but the question is in the current environment has the long-term been pushed back by quite a few years or you reckon in FY20-21 you could get back to sort of, or you could get to a sort of mid sort of teens margins?

**Jatin Khanna** So, I would say that the long-term has been pushed out by a couple of years and we are expecting the performance to be in the similar ballpark for another 12 months. Now it is really this whole reset, which industry has gone through and is going through that has costed the industry 24 months. 12 months are already behind us, and another 12 months it will take before the reset happens and the industry comes back to its old margin expansion story and a growth story as we have been seeing Max Healthcare also delivering for over the last six years till FY17. So really to answer your question I think it has pushed back, the growth story by about 24 months, 12 has gone by and 12 will go by sort of over a period of time.

**Gautam Bahal** Sir, do we expect to see sort of a past catch-up in the margin in FY21 I guess, or do you think it is....

**Jatin Khanna** like I said a short while ago that we have been delivering 100 bps to 150 bps margin expansion which we are confident of continuing to deliver after a reset of another one year.

**Gautam Bahal** Okay. Because in the last conference call you had mentioned, I think you had implied about 13.5% margin in FY19, does that stand or is that also a bit...

**Jatin Khanna** I do not know if I would have, but clearly next year is a year of reset like we said, so there is a voluntary recalibration which one is doing. So, in situations such as this you have two choices, one is you just keep waiting for a new regulation to keep hitting you and therefore you keep course correcting as they come and hit you. The other option is to really reset and then start from there. It is something similar we have seen in on our life insurance business as we started preparing for it and gearing up for it six months in advance of when the regulations came. Because you know what is happening and what is coming and how things are panning out, so we know how the environment is changing and we can see the signs of environment changing. So it is better to course correct proactively, reset the whole thing, and then start from there and lot of green shoots which one is seeing in terms of plugging revenue leakages, for example today a patient comes to us, but it goes somewhere else for a follow-up treatment, there are leakages as you know around trade margins in some of the devices, etc. So you have got to reset the whole system and plug all of that and then take on from there. So that is something which we are doing proactively over the next 12 months, and in fact not 12 months, we have started as we speak, it is like here and now. And then clean it up over 12 - 15 months and then grow from there.

**Gautam Bahal** And sir this quarter obviously there was lot of headwinds but you still managed to grow 8% - 9% right. So, the underlying growth is still pretty strong once these headwinds subside, I would think?

**Jatin Khanna** Yes, absolutely. I mean we expect sort of revenue growth of early to mid-teens which we have been sort of talking about, again, but after a year of reset.

**Gautam Bahal** And a couple of data questions for me, what is the cash level at the holding company at the moment?

**Jatin Khanna** We have about Rs. 150-odd crore cash, plus there is another Rs. 225 crore which will come from warrants, so we have about Rs. 375 crore cash available.

**Gautam Bahal** Okay. And the 3.75% that you were to acquire has not been done I assume, right?

**Jatin Khanna** No, that has been done. So, Rs. 150 crore cash is after that. So when we spent the Rs. 200 crore and whatever the 3.75% acquisition costed, we replenished the cash by giving warrants to these sponsors. Now we have enough liquidity available to take care of our future capital needs.

**Gautam Bahal** Okay. And what is the net debt at Max Healthcare level?

**Jatin Khanna** The net debt at Max healthcare level is about Rs. 1,200 crore.

**Gautam Bahal** And sir just more sort of strategically looking ahead, when can we see some value unlocking corporate actions, because I am sure you agree that the current structure is not really conducive or proper value reflection, any thoughts on timing philosophically for this?

**Jatin Khanna** Sure, I think there are two schools of thought around that, I think one school of thought is that what you just expressed. The other school of thought is to say that everyone in the world, now if you look at payers they are becoming providers, the providers are becoming payers. Now we already are both and to really disturb that mix if you are seeing a trend emerging globally, wherein both are housed under the



same ship or people are jumping from one to the other, so one does not even know whether that is the right thing to do. But needless to say that we always remain open to ideas which create enough value for our shareholders and which helps in discovering appropriate value. But at this stage, I do not want to put a timeline around that.

**Moderator** Thank you. We have the next question from the line of Swapnil Desai from Turtle Capital. Please go ahead.

**Swapnil Desai** I have three to four questions. So, first question is, I think you mentioned about some rub-off impact of suspension of Shalimar Bagh on the entire network. So, if you can give some color as to whether the normalization has happened or is happening and what is your estimated reasonable timeline for its normalization?

**Rajit Mehta** Yes, so I think while we spoke about Shalimar Bagh, as you are aware that the incident had rub-off effect all over the sector, particularly North India. Therefore, we saw the rub-off effect on many network hospitals, including competition. My sense is it will take a few months while the occupancy is back, the mix has changed. And currently as we speak as of now, unfortunately Delhi is experiencing a viral outbreak quite late, normally in the month of February and March orthopedic and cardiac picks up but we are seeing a lot more medical cases come through. So while the impact of temporary suspension is behind us, the hospital is at eighty plus occupancy the mix has changed in other network hospitals as well. So there are a few months or so, at least the revenue growth should be back on track.

**Swapnil Desai** My second question is, just wanted to understand and may be relatively a very basic stuff but when I look at your Saket and East Delhi complex the margins are at around 12% or slightly more than 12% for East Delhi. But when I look at the network level at nine months basis the margins are at 9.5%. So what explains for this divergence in margins?

**Jatin Khanna** So, part of the hospitals are matured hospitals and part of the hospitals are unmatured hospitals. So, clearly there are differences in margins between the two. And when the rub off effect because of the smaller scale up was visible more on the unmatured hospitals because they are currently at a ramp-up phase than the relatively matured hospitals, which is Saket and East Delhi complex. And linking it back to one of the previous question to say our margin outlook, I think the biggest thing is also the biggest margin expansion lever clearly fits in our growth plans as well because most of the growth is coming up in our Saket complex and East Delhi complex and Shalimar Bagh hospital, where really our margins are more robust and we have relatively higher margins. So as the mix improves in these hospitals plus the growth and expansion which gets added on top of the existing Saket and East Delhi complex, I think the margin trajectory to us is very sort of visible in terms of how we can get to better margins over time. And this is to just sort of link back the earlier question to this one.

**Swapnil Desai** And two questions on the slightly more macro side of it, so one is, at least from the outside perspective when we look at the whole environment evolving around the industry it is a bit of a disconnect that at least that comes to my mind that on one hand there is a business which is very capital intensive and it is hardly earning 12% - 13% EBITDA margins. On the other hand, other two stakeholders, the patient and the Government is feeling that that there is disproportionate profit being charged. So, actually very difficult to reconcile this and put up a realistic picture. So, I think I am sure that you must be connecting on it with the government on and off, so any



input from where the system has pegged this or any response from Government on this?

**Jatin Khanna**

So, let me just clarify the question. What he is basically saying is that one the one side the Government is saying there are super normal profits being made on stents, etc,. And on the other side if they look at hospital performance they are doing 11% margin. After reconciling the two what is the government thinking?

**Rajit Mehta**

Essentially there is a flaw in what the media or the government is saying, we are trying to reason out that they look at things selectively. We look at it as a holistic package, so depending on the competition, customer appetite, doctor compensation, you structured packages. Therefore, we choose where will margins come from, so we might make a loss on the room because you can't price a room at a five star level, but you get the margin on drugs and consumables. Now in isolation if you pick-up drugs and consumables you can say it is extra normal margin, but if you look at the holistic picture, you are right, the EBITDA margins are in low-teens and ROCEs for some hospitals sub-10% and that is the point that we have been trying to make, look at the actual cost of delivery of quality healthcare, you cannot have a first world infrastructure and expect third world costs than you cannot deliver quality healthcare. The second point that we have been trying to make to them is, if you look at the cost of delivery in Government institutions it is far more than private institutions, because the costs are hidden because land and equipment is subsidized. And it is simple logic, the wages of nurses are multiple of what we give, the beds to staff ratio is much adverse compared to private sector, therefore it is common sense that the prices are more. However, it has been a difficult conversation, there will be some movement from NITI Ayog to constitute a joint team to appreciate actual cost of delivery with the help of ICWA or Institute of Chartered Accountant, let us see how far that initiative goes.

**Swapnil Desai**

And my last question is on Antara, I think if I understand this correctly we are putting up this new business model around Antara in an asset light manner. So the project that we are doing currently is more of a pilot project and we want to kind of test the waters. And based on that the scale up will only happen after the first project how it pans out, is that understanding correct?

**Jatin Khanna**

You are absolutely right.

**Swapnil Desai**

Okay. So basically till FY20-21 except for this one there is nothing much which would happen on the Antara side?

**Jatin Khanna**

I think in piloting of this model, which is we have priced in line with the market, there is a sales threshold which has been put to say that even before a rupee is spent you got to at least get to about 50 sales or thereabouts. I think those are really the two critical milestones from our perspective, I mean one is the milestone and the other is to say that if we get to a market aligned product, if this was to succeed then we would like do one project a year, but obviously the investments magnitude will be much smaller because this is the first one, and obviously the entire cost is on the first project. But given its asset light strategy than your investments will start coming down as you get to project number two and three and four and five, and then you breakeven and then it becomes self-sustaining, etc. But if we are going to achieve this critical milestone and experience of it turns out to be positive, then of course we would like to do more projects in Antara.



**Mohit Talwar** To put it simplistic to you, what we did in Dehradun was a brick-and-mortar kind of a project in which substantial amounts of capital have gone in. And whilst the product has come out very well initial signs seem to suggest that from a senior living business point of view it is something which works in the country. Now the question is do we go and create some more Dehradun? The answer to that is probably a yes, but can you do it in the same way as we have done in Dehradun, the answer is absolute emphatic no, we will not, and I am repeating we will not be spending on Greenfield opportunities for trying to create another Dehradun in places like Gurgaon and Noida or wherever else. These will be asset light, if you people are familiar with how the hotel industry works wherein the land and building belongs to somebody else and then an operator comes in, gives brand and runs the place and gets a x percentage of the top-line and a year percentage of GOP, this is something very similar to that. So here the risks are mitigated to a very large extent, other than the initial capital which we have to put in, and that is more to demonstrate skin in the game together with the developer who is really putting in most of the money himself and doing heavy lifting on bringing up the projects. So that is where we are. As far as project number three, four, five, six, we do not know, it is too early, it is premature, we do not want to make any statement which would seem to suggest that we are on an ambitious growth path when it comes to the Antara senior living project. I hope I have made that very clear?

**Moderator** Thank you. We will take the follow-up from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

**Anand Bhavnani** In one of the earlier calls you had mentioned that maintenance CAPEX for hospital business could be around 2.5% to 3% of the top-line. If you could help me understand whether this maintenance CAPEX is completely capitalized or is part of it is covered in stores and spares line item of the P&L statement?

**Jatin Khanna** These are essentially capitalized.

**Rajit Mehta** It is basically equipment replenishment.

**Anand Bhavnani** Okay. And given any guidance on how this number can evolve, because this number is much lower for other hospitals, it is almost 50% of what you have guided. So can this number come down in the future or is it likely to stay at these two levels?

**Rajit Mehta** It really depends on models of delivery and tertiary and secondary mix, really to the more tertiary you are and the more you invest in equipment like robotics for example or PET Scan or Linac therefore the number is large. So, I am not too sure if you are comparing against tertiary care hospital. So we have a very robust process of where we need to replenish and why, and any new technology we need to bring in in line with our clinical specialty growth. And it is recommendation that comes through the radiology and finance from units into a center and that is how we process. So it is a ballpark number, could vary up and down depending on the nature of our clinical specialty growth in that year. Or any new equipment, for example two years back we brought robotics, that is \$3 million to \$4 million investment which we did. So really it is subjective.

**Anand Bhavnani** Okay. And in Antara we have decided clearly that the growth will be asset light, in Hospitals we have guided for asset heavy kind of growth we already acquired all the land. But is there a possibility that additional growth even in Hospitals outside of NCR can happen through service level agreements, the way we have for

Greater Noida Four Seasons, is that model even being thought off at the hospital level business?

**Rajat Mehta**

Very much. So, there are a few cities where we want to deepen our presence which are more an hub-and-spoke to our base units. And somewhere we are choosing to operate through OPD center model, somewhere through sales model, but we are looking at an O&M model as well. Let us see what we come up in the next few months.

**Anand Bhavnani**

Okay. And sir lastly, Clinical Establishment Act in Delhi is something which Delhi government had guided they will be coming up that act soon. So any understanding you have about how it can impact us or how would it pan out given the experience of hospitals in West Bengal and other states, like Karnataka where Clinical Establishment Act has already come. If you can share us your understanding of how this act can impact us?

**Rajit Mehta**

Yes, it has been a mix bag. So, while the West Bengal is almost a little more stringent, the Karnataka one wasn't quite alright. So, this could impact the consumable margins, however unlikely to see procedure price capping, but some kind of assured packages could be asked for. More on the cost of diagnostics or drug consumables, they are likely to talk about some margin controls.

**Anand Bhavnani**

Okay. And sir in Bupa you mentioned that due to one-off there was loss otherwise we have made like Rs. 5 crore, what is one off that you referred to, the higher income claim ratio due to the seasonal impact or was there some other one-off?

**Mohit Talwar**

We talked about the adverse claim ratio which has jumped up, and that is the reason why you have seen the numbers the way it is. Now the follow-up question to that was is this going to come down, is it going to remain where it is, what is the outlook going to be. Now it all depends in terms of what sort of growth numbers you show from a new business perspective as well as renewals. So, there is a business plan which is being worked out and we are all awaiting that. So we will know going forward as to what would be kind of a steady state claim ratio number for our kind of business. Mind you, you have got to realize one thing that claim ratios in the 50s is a fantastic number, in this business and you could very well check with others, claim ratios are normally higher. And in our case we also have another unique situation where we do not play in the B2B space, so we do not have the good fortune of having max volumes coming our way, we play in B2C segment. So to achieve claim ratios where we are I think it is quite stupendous and hopefully we will kind of manage that.

**Anand Bhavnani**

Sir, on that our business qualitatively being better due to we not competing in the group health segment and Government mass insurance schemes, but if I were to compare with other standalone health insurers they too have been able to maintain claim ratio below 60% despite competing in those very segments which we avoid. So, how is it that these guys are able to maintain?

**Mohit Talwar**

No, 60% - 65% is a good claim ratio, it is a very good claim ratio. I can talk about companies whose claim ratios in the 90s, if not more. All I am saying is that the level where we are it is a good claim ratio, it is just that earlier we were at a lower number it has gone up, and that is because of certain seasonal variances or adversities which came our way in terms of these infectious diseases, and hopefully this is not going to be a recurring item, that is what we were trying to say.



- Anand Bhavnani** Yes, fairly agree, I see a lot of general insurance companies with claim ratios of above 100%. But for standalone health insurers, some of the players like Star Health and Apollo Munich...
- Mohit Talwar** They also have longevity of time, don't forget.
- Anand Bhavnani** Yes, they do have. But since now we also are seven years into the business and we might touch profitability coming FY19, any possibility that we might change strategy and try getting some part of group health pie as well?
- Mohit Talwar** So, we might have given some earlier guidance in terms of breakeven happening in 2019, now there are some incidences like this claim ratio which has come our way. If this was not to go down then you might see a little bit of shift in terms of breakeven.
- Also, I think we have a strategic work which is currently underway, so may be in next call we have we will be in a better position to tell you more about breakeven and capitalize that.
- Jatin Khanna** And also it is a growth versus breakeven trade off in some ways because we have been growing at about 25% - 30% but if you look at really the standalone health insurer are growing at more than 40%. Even the smaller GI players are growing at 35%. So in some sense it is also the fact that we are thinking of sort of accelerating the growth pattern a little bit, which also could have some impact on the breakeven. So I think all that work is happening and give us another quarter and we will come back with more visibility around our growth and profitability and breakeven and capital and everything else.
- Moderator** Thank you. We have the follow-up question from the line of Swapnil Desai from Turtle Capital. Please go ahead.
- Swapnil Desai** Sir, a follow-up on the earlier discussion that we had in line with other participant's question. So, first is in terms of asset light possibility of having asset light model around hospitals, and if you look at some developed markets there are the real-estate trusts is a good way to do an asset light model around hospitals and hotels. So, is there such possibility at this time, have we opened anything around that because REITs are something which are now allowed in India. So is that possible?
- Jatin Khanna** You are seeing one example already wherein somebody is unwinding their real-estate trust. But at this stage one would not want to plunge into a similar situation because we are not at a stage wherein the business has matured at some 18%-20% margin and therefore you have significant amount of cash flows and you could take a plunge to really get into monetizing your assets and taking risk of paying rentals. Also you are seeing regulatory headwinds happening in the business. So, I think at this stage one would rather stay away from it. I think over the medium-term to long-term when the earnings profile of the business change and all, at that stage you could think about some of these real-estate trust type opportunities, but not at this stage clearly.
- Swapnil Desai** Sure, I understand. This is not right stage to monetize as you are in the middle of so many things, I am saying more from a longer-term perspective is there a plausible scenario or that is something which...

- Jatin Khanna** I think we will have to really look at trade off of what is the arbitrage between the cost of debt and let us say a rental which you pay on the asset. So we have to be mindful of the fact that there is no clear GST leakage which happens if you get to rentals. And that was the reason we did not venture in these real-estate trust type structures when one of our competitors did. And second is that obviously you have to think about valuation versus cost of buying land arbitrage also because in some sense you are sacrificing your EBITDA and value is driven by EBITDA. And so I do not think so firstly it is right time to look at it now, and secondly how this whole things evolves over long-term one does not know at this stage. So I do not want to hazard a guess on that one.
- Swapnil Desai** Fair enough. Sir, just one clarification I think in the earlier response to one question you mentioned that in next 12 to 15 months the trajectory is going to be flat because we would want to preempt certain regulatory changes that keep coming, and hence may be some changes in the business strategy around how we price and how we structure packages. So, I mean what I get is that it is a deliberate option that you have chosen, had we decided to go ahead with the current way we are doing business we would have grown, is that a fair statement to make?
- Jatin Khanna** It is a fair statement to make that it is a voluntary recalibration and a reset. And I must say that it is not just us who resolve to do this, this is at an industry level where everyone has now resolved to do this. The question is whether who takes the plunge first, so we have decided to go ahead and do it. Now some other people may follow suit may be six months from now, may be 12 months from now, may be because of regulatory intervention which forces them to get to this path, that answer we do not know. But at an industry body everyone agrees that we got to do this. Now, very difficult for me to say which player will do at what stage.
- Swapnil Desai** Right, but it is industry wide decision taken at an industry body who will follow or not is a different matter altogether. So this will happen across the industry whoever chooses to follow, right?
- Jatin Khanna** You are right.
- Moderator** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to Mr. Mohit Talwar for his closing comments.
- Mohit Talwar** Thank you very much for taking time out. And hopefully we will have more conferences, more questions. Thank you.