



## Max India Limited Q3 FY20 Earnings Conference Call February 07, 2020

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Max India Limited Q3 FY '20 Earnings Conference Call. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jatin Khanna, Head - Investor Relations at Max India Limited. Thank you, and over to you, sir.

**Jatin Khanna:** Thank you. Good afternoon, ladies and gentlemen. Thank you all for being part of Max India's earnings call. My name is Jatin Khanna and I manage Investor Relations for Max Group.

Before proceeding with the performance highlights, I would like to introduce my colleague who is with me on this call from Max Healthcare. We have Mr. Yogesh Sareen, who is the CFO. I'd like to begin with the key matters update, first and then get on to the performance.

So Max India and Radiant merger with Max Healthcare is progressing on track. NCLT hearing process has been concluded, and final order is awaited. Listing of Max Healthcare & Advaita, which is new Max India, shares is expected by April or May depending on whether we receive the final order in Feb or March.

Now on Max Bupa divestment. The divestment of 51% stake in Max Bupa to True North has been concluded as of December. As a consequence of that divestment, Max India has strong cash reserves of over Rs.500 crore. And thank you all for your support for both the transactions.

Now you may recollect that while seeking approval for Max Bupa divestment, we had offered shareholders who choose not to be a part of new Max India growth journey, an option to exit by taking proportionate receipt from Max Bupa divestment. So we will shortly commence preparatory work on that, and we intend to launch the capital reduction process around the listing time. And if share price of Max India is higher than Rs. 17 – Rs. 17.5, on an unconsolidated basis, then, obviously, the investors can exit through the market. But if it is lower, then they can participate in the capital reduction process and exit if they wish to.

On the other side, I'm very pleased to share that the other balance part of the proceeds will be used for the proposed foray into the assisted living and home care, and the steps in that direction are being taken.



So now I'll come to Antara growth plans in a while, but let me first talk about stupendous performance of Max Healthcare. Max Healthcare had a 12% net revenue growth to Rs.749 crore. Its average revenue per occupied bed has crossed Rs.50,000 mark with the highest ever growth of 11%. This is fifth quarter in a row of sharp growth in revenue, EBITDA, coupled with margin expansion. Oncology and orthopaedic specialties have outpaced the overall growth by growing 19% and 15%, respectively. We hired seasoned physicians this quarter to spruce up our ortho business, cardiac business and endocrinology specialty. There has been a sharp recovery in EBITDA margin from Q2FY19. And the sequential expansion trend in EBITDA margin continues with the margin touching an all-time high of over 16% in Q3 FY20 as per IND-AS of around 15% on a like-to-like basis. EBITDA for Q3 at Rs.121 crore has grown by a notable 92%, driven by higher revenue and strict cost actions. Saket Complex margins improved to 16.6% and East Delhi margin improved to 17.7%.

Profit after tax for Q3 FY20 was about Rs.52 crore versus a net loss of Rs.7 crore last year. So there has been a significant turnaround in terms of profitability, and Max Healthcare is on record-high margins.

Now on Antara growth plans. Antara launched its second community in Noida on Jan 15, 2020, with an emphasis on an urban lifestyle for seniors. Located just off the Noida Expressway as a part of an upcoming golfing community in Sector 150, the first phase of Antara Noida is spread across approximately 4 acres with 340 units. The second community is an integral part of Antara's strategic shift towards creating an integrated ecosystem to address lifecare and lifestyle needs of seniors.

I'm very happy to share that we have, again, here had an encouraging initial response. And within 22 days of launch, we already have 15 bookings and 12 hot pipeline. Antara intends to create a holistic senior care platform through various asset-light models. As part of that strategy, Antara forays into Care Homes, which is assisted living, with 2 pilots with different offerings at different price points in Gurgaon and Delhi over the next 3 to 6 months. Assisted living is a white space in the Indian markets with the market size estimated at about \$1 billion.

The 2 pilots would be at different price points and, therefore, would differentiate on the offerings. There will be a value version and there will be a premium version. These centers would attract long-term stay residents in need of lifetime of care and assistance in daily living, and also short-term stay residents in need of respite care or short-term care. So both long-stay patients or customer residents as well as short-stay residents. Depending on the success of these pilots, we could grow this up to 40 centers in the next 5 to 7 years pan India but to obviously to start with NCR and the strategy will be to deepen first and then widen.

Our funding requirement for our pilot is Rs.6 crore with a revenue potential of Rs.6 to Rs.9 crore per center, whereas the usual Care Home will have a Rs.6 crore revenue, but a Dementia Care Home will have more like a Rs.9 crore revenue. The operational breakeven should happen in the second year. And the peak EBITDA margins could be in the range of 19% to 23% in steady state.

Antara is to also launch a Care@Home vertical for seniors or Home Care for seniors by Q1 FY21. So this is a new initiative which the Board has approved this quarter. Last quarter, we had approved Care Homes, and this quarter we have approved Care@Home as well.



The Care@Home is meant to address the need for home-based assistance and care for elderly, who may not be willing to relocate to our Care Homes. Offer to seniors around 15-20-kilometer radius of an anchor Care Home center, key services would include critical care, physio, rehab, nursing, GDA, diagnostics to begin with, and we'll keep adding more and more as the time progresses. Leveraging common resources example: nurses, physios as well as driving synergies and customer acquisition example through hospital tie-ups or word-of-mouth or lifelong support for customers, we intend to sort of build this business.

Across Residencies for Senior Cares, Care Homes and Care@Home and ancillary costs, we propose to invest over Rs.300 crore in Antara in the next 3 to 4 years, of which around Rs.100 crore will be invested from now till FY21, so we would be investing about Rs.100 crore over the next 12-15 months in Antara.

Now coming on to our Dehradun project, the Dehradun sales trajectory is looking upwards. We were averaging about 1.5 units a month ever since we launched it, but now the average sales velocity is going up to about 2 a month. And it's all word-of-mouth referral. I mean, so much so that one of the residents have gotten so many customers for us that we are very encouraged with the word-of-mouth growth of our Dehradun project. However, as we paint the new horizon of Antara on a canvas in an asset-light approach, from an asset-heavy approach in Dehradun, we felt, it was important to start with a clean slate. And recognize the cost of learnings at Doon and interest cost because of prolonged sales period, which were caused by slow real estate demand for last few years caused by various factors, partly market-led and partly policy intervention by the Government. So we have taken an impairment of Rs.150 crore in our Doon project in Antara Senior Living books.

Now as I am wear my business hat and I think about Antara growing in different directions in terms of Asset-Light model and Senior Residencies, Care Home and Care@Home, I feel that the investment we have made in Antara is sort of far more promising and, therefore, we shouldn't be impairing, but as I wear my chartered accountant hat then the prudence and conservatism in some sense, sort of, come in the forefront. So therefore, in light of that conservative accounting, we have decided to take this Rs.150 crore impairment even in Max India's books. This was particularly considered important as this will in a way clarify to the investors at large the underlying value of Antara platform as it stands in line with its future growth plans. And in some sense, clean up the history in Dehradun.

And on a separate note, now moving on away from Antara, of the 3 floors we own in Max Towers, we finalized the lease of one of these floors and expect the other 2 to be leased out as well in the coming years. This could accrue as a rental income of Rs. 6 crore a year till we see the need to monetize this asset for release of around Rs.100 crore cash, which can potentially be redeployed for Antara's growth in the longer term.

To sum up, Max India will reinvigorate growth story by seeding new businesses over the course of next few months. Max Healthcare merged and New Max India is expected to list separately by April or May of 2020. Antara is all set to pursue its vision of creating an unparalleled growth path for new Max India through a holistic Senior Care platform in an asset-light way. And should there be a need, we remain committed to offer an exit opportunity through a capital reduction process to those shareholders who may not be keen to participate in new Max India's growth story. We have adequate liquidity to support these plans and more, if required by monetization of noncore real estate assets.



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

**Moderator:** Thank you very much. The first question is from the line of Pritesh Chheda from Lucky Investment Managers.

**Pritesh Chheda:** What will be the balance sheet for Max Healthcare, if you could give the capital employed for Max Healthcare for FY20, debt and the number of the equity capital of it?

**Jatin Khanna:** If you look at slide #6 of the Investor Presentation, snapshot of the balance sheet, so the networth of Max Healthcare as of December '19 is about Rs.771 crore. And then there is a shareholder loan from Radiant of about Rs.439 crore. The net debt is about Rs.1,019 crore. And the tangible fixed asset, which is a gross block is about Rs.2,400 crore. Now I must say that the net debt does not include the loan, which we will draw from IFC Washington over the course of next few weeks for buying out the residual 49% stake in Saket City Hospital as well as it does not include a little bit more debt, which we will build up to acquire the 22% residual ownership in the Pushpanjali Crosslay entity, which is the Max Vaishali hospital. So both put together will increase our net debt, say, about by another Rs.650 crore to Rs.700 crore at a Max Healthcare level.

**Pritesh Chheda:** So net debt will become Rs.1,700 crore and the shareholder loan of Rs.439 crore should be converted to debt or...?

**Jatin Khanna:** See, the idea was that the shareholder loan would have, a failing of merger would have been replaced by equity by both the shareholders, which is Max India and Radiant. But now that NCLT approval for Radiant is done, and now we're just awaiting the final orders, so there is that much more certainty to the merger. So this shareholder loan in a way is today sitting as a debt in Radiant's book. So when the merger happens, the loan in a way flow to the merged entity via the merger of Radiant.

**Pritesh Chheda:** So the debt will become Rs.2,100 crore?

**Jatin Khanna:** So you have to then look at the consolidated picture, in which case, the debt of the consolidated entity will be more like Rs.2,500 - Rs.2,600 crore. But at the same time, the earnings of Radiant will also come. I think our net debt-to-EBITDA will be more like 4.5-5x range after the merger.

**Yogesh Sareen:** So I this number also has the lease liability. So there is a Rs.226 crore of leasing liability under IND AS that we've recognized, which stands in net debt today. So if you take the external, and we also have today some FDRs on our balance sheet. So if we take the external debt today and add to what we're going to borrow in MHC, the net debt would be roughly around, I would say, Rs.1,750 to Rs.1,800 crore number by the end of the year.

**Pritesh Chheda:** Then what is the Rs.2,500 - Rs.2,600 crore, that is after Radiant...?

**Yogesh Sareen:** That is after we merge the Radiant into MHC. So then the Radiant debt also comes into this. So Radiant has the external debt, the loan that they've given to us, they have raised some loan from SCB for that. And so there is Rs.1,800 crore debt which MHC has, that becomes the Rs.2,500 Cr post merger.



**Pritesh Chheda:** And the process here will be Max Healthcare comes out of Max India after May 2020 and gets merged with Radiant and eventually gets listed, or it comes out, and then Radiant gets merged with it. How is it?

**Jatin Khanna:** Let me clarify the process from sort of here on. The first step is that we get the order from NCLT, which we are all hoping it will be favorable because frankly, there was no adverse comment by NCLT. But as soon as we get the order, within 30 days of getting that order, we have to file that order with ROC. So the day we file that order with ROC, the merger becomes effective. Now once the merger is effective, then you fix a record date, after which the shares will be suspended for trading, till such time they relist. And a few days after the record date, you sort of reissue the shares of the 2 new entities. And then the shares will relist. So when I said that by April-May, we expect the relisting, so for example, if we get the order in February and, hypothetically, we implement the order by February end, then this delisting and relisting, let's say, give or take, a little bit here and there, give it a 45-day period could be little lesser, could be little higher than that. We should list in April. But if for some reason, the order we received sometime in March, then either we do this effectiveness in middle of March or we wait for 31st March for the balance sheet reason, and implement the order then. So then the listing could possibly happen sometime in May.

**Pritesh Chheda:** Okay. And when you get listed, it will be merged Radiant listed entity, right?

**Jatin Khanna:** There will be 2 listing. One listing will be of merged Radiant and Max Healthcare, and there will be one listing of New Max India, which is essentially, Senior Living Residences, Care Home and Care@Home. Plus we have another, say, Rs.100 crore worth of real estate assets and also cash in Max India.

**Pritesh Chheda:** Yes. So what will be the eventual capital employed of Max Healthcare? And what will be the number of shares?

**Jatin Khanna:** The number of shares of Max Healthcare will be around 90 crore shares.

**Pritesh Chheda:** And what will be the merged capital employed?

**Yogesh Sareen:** So I think that number we'll have to work out because you know that this is a reverse merger, so the whole thing has to be revalued. So the revaluation will happen, the share price will be determined, so I don't think we can give you a number, at this point of time, till such time we have a consolidated balance sheet. But this needs valuation. Under Ind AS, we'll have to value all the assets of MHIL, create goodwill and then recognize the shareholders' worth. And that's how the ROCE will be determined.

**Pritesh Chheda:** And lastly, sir, on new Max India, you mentioned that it is Rs. 18 per share, right, value? How was that?

**Jatin Khanna:** That will be somewhere around Rs. 17 to Rs. 18. We have to fully fine-tune the number. But for now, I think, it's looking closer to Rs. 17.30. This number, we'll announce when we do the merger-demerger. Now just one more sort of clarity, I just want to sort of give that when I say Rs. 17.30, it's today Rs. 2 share. But what we are also doing is the consolidation of shares, when the Rs. 2 share will become a Rs. 10 share, and number of shares will become 1/5. So therefore, the corresponding numbers from Rs. 17.30 will become Rs. 86.50.



**Sangeeta P.:** I had a couple of questions on the hospital business. Basically, when you look at Slide #7 in your presentation, it seems to me that the growth that has come through at the topline has been driven largely by price increase. So average revenue has gone up by 10% price or usage increase, whatever. The number of average inpatient operational beds has not increased, and there's been some increase in occupancy. And obviously, there's also been some increase in your OPD services. So a lot of the EBITDA improvement really has, therefore, come from the price increase as well as cost control. Now going forward, how do you see volume growth happening? Is there a constraint on the number of beds? And what would be the drivers for revenue and margin for FY21? So that's one question. My second question was on the loss that you've taken in Antara, it is a little stunning that more than 50% of your investment, you're writing off. Could you just spend a little bit of time explaining why such a large write-off?

**Jatin Khanna:** I will let Yogesh respond to the Max Healthcare query, and then I will take on the Antara query.

**Yogesh Sareen:** Yes, you are right, I think, the ARPOB growth has come in partially pricing and partially because the OPD has grown faster than IP. OPD and Daycare both have grown faster than the IP. And in addition to that, we also have the surgical mix growing. So the specialties, you know we didn't have vector-borne diseases in this year, and that results in specialties like internal medicine, pulmonology etc., they have degrown. And the other specialties have grown. So as a result, you find that there's a mix change, which has happened, and that leads to higher ARPOB, alright? So the pricing is 2.5-3%, which is generally what we see every quarter. And 4-4.5% is basically coming out of this mix that I'm saying because the specialty with low ARPOB are degrowing, and the one with higher ARPOB are growing. So that leads to higher ARPOB. And also, as I mentioned, the Daycare and OP have grown faster than IP. And you know that we compute the ARPOB based on the IP beds, so there is a delta of 3.5%, which is coming that side, alright? So that's what explains the growth in ARPOB. Now coming to the drivers of revenue growth, there's no reason to believe that we will not be able to grow at the pace that we're growing today. I think my understanding from our sales and marketing team is that, they have taken significant measures to really increase the level of activity on the ground. I'm told that every month, there are 90 to 100 activities being performed. There's a lot of focus on conversion, on service excellence, and there are digital initiatives underway. There's upcountry offices that we opened, which are performing well. So beds is not constraint for us. I think we've seen that when there is a pressure on the hospital, the ALOS improves. And also we have hospitals who work at 85-86% occupancy. And we are at, on an average, 74% as of now. So I don't think the bed will be a constraint immediately for FY21 growth. I think what we need to watch out is basically the mix of the business and also the consistency in the performance.

**Sangeeta P.:** So that's good to know. And none of these are really new hospitals, right? These are all established hospitals that we have right now. So is there a sort of stable margin that we could get to, so the 16% that you achieved in Q3, how much more scope is there for this to improve to in, say, next year?

**Yogesh Sareen:** Yes. So I don't want to give you an estimate on that. So a lot of this, as we also mentioned, is driven by cost savings, alright? So the current rate of cost savings that we have and since this rate has gone up during the course of the year, I do think that even the benefit of that around Rs.60 crore delta which should come next year from what all we have done in this year, alright? So that itself will give you enough room to grow EBITDA. And thereafter, if the revenue tends to grow, you know that after beyond a 6% revenue growth, that revenue growth then improves



EBITDA margin. So I would say, I don't want to give you an estimate, but since the performance is what it is and the cost saving plan that we already have in place, I think we should be able to see some improvement in EBITDA next year.

**Sangeeta P.:** And you're confident that your revenue, you should be able to maintain this 12% odd growth in revenues next year also?

**Yogesh Sareen:** 10-11% growth, yes.

**Sangeeta P.:** 10% to 11%. Okay, fine. And yes, and my question on Antara, please?

**Jatin Khanna:** Sure. So there are actually multiplicity of factors. Now when we started Antara, Antara was meant to be 3 projects. Now when we launched our Dehradun project, and we started it in a very asset-heavy model.

**Sangeeta P.:** What does that mean? What does that mean that you started in an asset-heavy model?

**Jatin Khanna:** I'll clarify that. So what is asset-heavy model means is that firstly, we bought the land. Secondly, we started building in from the word go, in which case we kept investing behind that project. Because of which the balance sheet of Antara Dehradun was a very heavy balance sheet. Now there was a plan to set up actually 3 projects then versus 1 project, so the cost which will be absorbed across 3 projects, all got absorbed in the Dehradun project. And the reason we didn't do it in that fashion is because: a) we realized that asset-heavy will be too much of a balance sheet to sort of pull across; and b) we kept pushing back the team, challenging ourselves, the team to say there has to be a way to do the same thing in a very asset-light way. When I say asset-light way, firstly, we don't buy land. So now we do a joint development model, so that's point number one. Point number two is we don't put brick on the ground till such time, we've sold the first 100 units. In which case, the customer receipts finance the project. So therefore, you're not putting your money before you receive that money. The shareholder capital going in there is the customer's receipts, which are financing that project. Now what changed between that asset-heavy model and an asset-light model is a very important thing, because in asset-heavy model, you buy land in a company and, therefore, you launch a project in the company, wherein all your costs were getting absorbed in that company, which is a subsidiary of Antara Senior Living called Antara Purukul Senior Living. Purukul is a place in Dehradun where our project is. So now when we decided to go into an asset-light model then, practically, what this means is that Antara Purukul will not buy any more land assets, will not make those huge amount of investments. And when you do a joint development model, then the expansion of Antara Senior Living will happen in those entities and not in Antara Purukul. So therefore, the investment which went into Dehradun to create an asset-light model, in a way, was not justifying the cash flows which will come in that entity. So we had to take an impairment of that entity in Antara Senior Living. This is an accounting thing, really. But the value effectively will get created in the other entities, and not in that entity.

**Sangeeta P.:** Okay. But the investments would primarily have been land, right? So when you're writing off or you're taking an impairment of Rs.150 crore, is this because the land values have dropped? And whatever you invested in building your unsold units, you will now have to sell them at a price less than that? And you have built-in, you borrowed some money or you put in some investments, which are like marketing investments or whatever. And there is, therefore, a P&L loss sitting there. Is that the combination that is leading to this Rs.150 crore?



- Jatin Khanna:** Two things are leading to this. So firstly, like I made a comment saying we started with a 3-project plan and more to be added and all. And through this period, we decided that this is not the way to go. We have to grow in an asset-light fashion and we crafted 2 new opportunities, which is Care Homes and Care@Home to grow Antara in the future. However, when all these opportunities were being nurtured, there was a Rs.25 - Rs.30 crore corporate cost being incurred on the sidelines, which would have ordinarily been absorbed across projects and across multiple projects, but it all got loaded onto the Doon project. So which in a way is the wrong cost sitting in that entity, which now because an entity is not growing, so you got to impair it. The second reason is that, the Antara Dehradun sales trajectory because of demonetization and GST, then a lot of real estate sales are fueled by black economy, so all that sort of disappeared. Practically, Antara was also set up in a very different model, which led to a slowdown in real estate industry. While we have nothing to do with the black economy, but when the real estate industry slowed down, then it was very difficult for new sales to happen at the trajectory at which it was originally planned at. So for example, we know of the fact that the marquee project of DLF, in Gurgaon, called Camellias. For 6 months, they had zero sales, and Antara was selling 1.5 to 2 units a month, even in that period. So it's done very well, but the problem is that the sales trajectory got prolonged because of the downturn in real estate industry, which in a way led to interest costs being higher than what it should ordinarily have been. And so that second part of impairment is because of that. So now when I take a Antara Senior Living view, they have to, therefore, impair their investment in Antara Purukul Senior Living, but they have other growth vectors like this whole asset-light communities, which is the first of which is in Noida, wherein we are selling almost 1 unit a day. In Dehradun, we sell 1.5-2 unit a month, here we are selling almost 1 a day, so we have a stupendous success in this project so far.
- Sangeeta P.:** No. I'm just still trying to understand this Rs.150 crore impairment. Are these costs that you capitalized? And therefore, now that you're no longer going to be following that model, these are the capitalized costs, which were built into the assets, which are being written off?
- Jatin Khanna:** So these costs were, , were already costs which were being incurred in Antara Purukul, which is the Dehradun entity. But these costs because now Dehradun entity is not growing and the growth is now happening in other parallel entities. Therefore, you have to now take a markdown of those costs because your investment in Dehradun entity in a way is not justifying the value, which Dehradun entity can realize for you.
- Sangeeta P.:** So I'm still confused as to what is leading to this thing?
- Yogesh Sareen:** This is basically an impairment of the investment, so once you have investment on your balance sheet, you have to see what are the cash flows from the properties that you have built, so the properties that...
- Sangeeta P.:** So the investment in the balance sheet, did that happen, you could have either bought land at Rs. 100 and today, the value is Rs. 50. So you're taking an impairment? Or you bought the land, you incurred development costs, like interest cost as well as other admin costs, which you are referring to, you capitalized it. And now that you're closing of that business, so you're changing that model, you are writing off all of these. Because if you're writing off costs, then those costs would have gone through your P&L in any case. So the only reason you would need to write them off now is you didn't take them through your P&L in the past.

- Jatin Khanna:** No, you've made a very valid comment. So these costs have been taken in the P&L historically, but in the Antara Purukul P&L, as well as the Max India consolidated P&L. But when we talk about entity level concept and this is more of an accounting thing; for example, Antara Senior Living, these costs were not in Antara Senior Living, these were in the subsidiary called Antara Purukul Senior Living. Now how did Antara Purukul incur these costs, it incurred those costs by Antara Senior Living putting equity into Antara Purukul. So therefore, now that you have decided not to grow Antara Purukul, so Antara Senior Living has to impair that investment in its books. So in the consolidated books, these losses have flown in the past.
- Sangeeta P.:** Okay. So in your consolidated accounts, in the past, these losses were there. But in your standalone entity because they were through-putting in money as an investment, that's what's being written off right now?
- Jatin Khanna:** Correct. When I wear a Max India hat, there is so much growth happening in Antara. So if I wear a business hat, I wouldn't want to impair anything. But when I wear my chartered accountant hat, I'd rather be on the side of conservatism and take that impairment all the way up to Max India.
- Sangeeta P.:** Right. So let me just summarize so that I'm clear that I've understood what you're saying. At a consolidated level, all these costs that you incurred did flow through your P&L. But because the parent entity was putting this money into the subsidiary by way of investments, it's that investment, which you are writing off now. Have I understood it right?
- Jatin Khanna:** Precisely.
- Deepak Malhotra:** Yogesh, this is, again, a follow-up on the previous question on the EBITDA sustainability. Last time, you had mentioned about the Rs.140 crore program on cost cutting, out of which about half was already implemented and the half was to flow through in H2. And now you mentioned also about a Rs.60 crore delta for the next year. So could you kindly elaborate on that, please?
- Yogesh Sareen:** So obviously, this is an ongoing cost program. It's not stopping at this stage. So we, in a way, started a program, which if I have to really see the annualized impact of that. That will be probably a Rs.180 crore impact of annualized of the program. And now this is gross. Obviously, there are some regulatory hits that we have taken, but I'm talking gross cost saving program. Some of it also is into the pricing action, and some of it is also into the discount reduction etc. So I would say, most of it will flow into cost, but some part may also come into the net revenue route. Of that Rs.183 crore, we have been able to deliver or what we think we'll be able to deliver in this year would be around Rs.116 -117 crore total by the end of the year and Rs.60 - Rs.65 Cr would be actually then go into the next year because this Rs.183 Cr happened during the course of the year, so balance part will have to get delivered. So that means that delta will be over and above the run rate of this year, which will flow into next year. So is that clear?
- Deepak Malhotra:** Yes. How much of that will really flow into the bottomline?
- Yogesh Sareen:** So in this year, out of the Rs.118 Cr, I'm saying till now what has been has flown into is around Rs.70 crore till Q3. Another Rs.47 Cr will flow by the end of the year, which means that the run rate and the cost saving is going up. And then of this Rs.183 crore program, balance amount, which would be another Rs. 67 crore, which then flow into next year.

- Deepak Malhotra:** Okay. Fair enough. Now the other question is, while obviously, for the past few quarters, over the last year or so, we have seen tremendous improvement, great show there. Now the question is, once Radiant comes in and becomes a merged entity, what kind of EBITDA margin are we really looking at a sustainable level? I mean 3 years down the line...
- Yogesh Sareen:** I don't think I'll be able to talk about Radiant numbers, merged numbers at this point of time. But I think I did comment upon the MHC margins a short while ago. I'm sure you would have heard it. So I said that since we have some overflow of the cost program into the MHC, also we see no reason that the growth of revenues should taper down. And beyond 6% of revenue growth, the EBITDA margin expansion happens. So now I can't give you exact guidance, but I'm saying we do think that the EBITDA margin should expand next year too.
- Deepak Malhotra:** But would you say that would you basically move towards 18% to 20% or a higher rate of EBITDA margin as we see some of the other mature hospitals do?
- Yogesh Sareen:** So I would say, over a period of time, yes. But I'm not talking about, it may not happen in FY21, but still in December '19, we are at 14.4%. But I'm sure when I talk EBITDA, I stated before the Ind AS adjustment, so I'm saying, at the end of December, we are at 13.2%. So 13.2% cannot go to 18% in a year. Directionally, yes, more towards 18% to start with.
- Deepak Malhotra:** So what is the target?
- Yogesh Sareen:** I would say, we want to touch 18% sooner. So once we touch 18%, then we'll talk about 20%.
- Deepak Malhotra:** Now the other question is a post the NCLT. Last time you alluded also with the new management team of, I remember, Mirdul, Vandana, Umesh, and I think tremendous work, things have been done. So what additional measures you will take post integration to basically improve the operations further, to reach towards this target, as time passes by?
- Yogesh Sareen:** Yes, I think it's business as usual for us. As I said, one is that, obviously, we have to grow the right channel mix. We have large dependence on institutional business. So we want to reduce that dependence. That's one lever that we have. We want to improve ALOS. So that's another lever that we want to work on. Then obviously, there is a lever on these specialty mix. There are some specialty, which had higher margin. That's the other lever that we want to use. And then obviously, the cost program that we have that will work in tandem. And in addition to that, we want to grow the revenues to 10-11%. So I think that's what will really bring it to the level that we want to reach sooner.
- Deepak Malhotra:** Okay. Great. Just to add on to this, so in terms of your overall inpatient occupancy, there is a slight drop. Any particular reason?
- Yogesh Sareen:** Yes. So you will find that every year, the quarter 3 generally occupancy drops a bit. The revenue also drops a bit from quarter 2 to quarter 3. So it's not unusual. And you'll even find that most of the health care player, even if you take Max Healthcare history, the quarter 3 EBITDA used to be lower than quarter 2. But this year, because of all the actions that were underway, we have been able to improve the EBITDA. And also the revenues, like it's 1.5% drop only. Earlier it used to be 4.5%-5%. Even if you see the NH result, which has been published, if you did that, they have de-grown revenues by 4.5% from quarter 2. So this kind of occupancy drop is

quite usual because of the Diwali month in there in this quarter, also the Christmas days at the end of the year. So you find that these are the days when the occupancy drops, and then that makes the average comes down.

**Deepak Malhotra:** Okay. Now you mentioned about the revenue growth of 10% to 11%. Again I mean what gives you the confidence that it will continue on the same? I mean has something really changed in terms of the business environment of the underlying trend what we have seen?

**Yogesh Sareen:** Yes. I think I mentioned this a short while ago that whatever actions that we've taken in terms of the digital initiatives, upcountry offices, the setups in international market, the level of activity at the ground, I think I'm quite confident. And now you know healthcare, there can be those issues, which we've not been able to anticipate. But from where we stand today, I think this should be possible, and we are quite comfortable.

**Deepak Malhotra:** You had mentioned last time about the international operations kind of lagging behind a bit. Has there been any improvement over the same?

**Yogesh Sareen:** No, because in quarter 3, we had an impact of Iraq going down. And so our quarter 3 revenues were lower from Iraq by Rs.7 - Rs.8 crore. But otherwise, I think the other markets, the new markets that we opened, they are doing very good. I do think that Iraq should come back now since we have a new Government out there. So with Iraq coming back and with the investment in new markets already signed up, we should be able to do better than what we did already in quarter 3 overall from international market. So international market channel share has dropped from 9.8% to 9% in quarter 3, but it was mainly because of the Iraq situation. And with what we see today, I think we should be able to bounce back and be able to grow these revenues to, again, 10%.

**Deepak Malhotra:** And one last question for Jatin, this is basically, you were mentioning about the value of the Max India share price at Rs. 17.30 and then some of the line got disconnected. You were mentioning something about Rs. 2 and that has been converted to Rs. 10 or something...

**Jatin Khanna:** What we're doing as part of the merger/demerger on non-healthcare part of the scheme we are consolidating the Rs. 2 share to a Rs. 10 share. So number of shares will become 1/5 accordingly. So therefore, you do Rs. 17.30 equivalent when it lists should be Rs. 86.50. So you have to multiply that by five.

**Deepak Malhotra:** And you think that both of these, as you mentioned, will more or less, list by the end of May, hopefully...

**Jatin Khanna:** Yes, either April or May, depending on when we get the final order from NCLT.

**Tapan Karnik:** Could you just throw some light on this forum aviation, the joint venture that you all exited? Like what was the main business for that?

**Jatin Khanna:** We have sold our investment, in Pharmax, which was our office in Okhla. This was an investment made by Pharmax in the past. So as we have sold Pharmax, this investment has got sold automatically. So there's no exit and all. We are monetizing our noncore assets to grow our businesses. So like I said, we have another noncore asset, which is worth Rs.100 crore, we own top 3 floors in Max Towers, Noida. So as and when the need arises for the future growth of senior care



verticals, then we will be open to monetize that asset as well till such time it could give us up to Rs.6 crore revenue in the form of rentals.

**Tapan Karnik:** And you also bought into Contend Builders. So could you also throw some light on that?

**Jatin Khanna:** Yes. So it's not we bought into Contend Builders, I was talking about this whole asset-light growth of Antara, which is through a joint development model. So the way we have crafted our joint development arrangement is wherein we have full control of the entity and which is owned by another developer. But since the control is with us, so by virtue of control and not ownership, we need to consolidate this asset and this asset comes in our books.

**Tapan Karnik:** Sir, and also you have a subsidiary called Max UK. So could you also tell us a bit about that?

**Jatin Khanna:** Yes. Max UK is a admin office in U.K. Because our Chairman, Mr. Singh, he operates sometimes out of India, sometimes out of U.K. So it's an office for him in U.K.

**Pritesh Chheda:** Sir, just a clarification. One, I understood that for every Max India share that I own, I have 5 shares of the new Max India because of the par value increase. How much of the shares of Max Healthcare will I own?

**Jatin Khanna:** For every 100 shares you own in Max India today, you will own 99 shares of Max Healthcare.

**Pritesh Chheda:** So that's as good as equal. And lastly, sir, how is this Rs. 18 per share arise, whatever, Rs. 17.30 – Rs. 18 per share value of Max India?

**Jatin Khanna:** Yes, we took approval to divest Max Bupa at about Rs.516.5 crore. Then we had 2 events, which were beyond our control, which is the impairment of IL&FS as well as DHFL, on which we have agreed to indemnify. So that leads to a Rs.40 crore impairment indemnity being kicked off, which we had recognized in Max India's P&L in the past. And then there is an arranger fee, which has been paid off about another Rs.9.5 crore, plus there are associated costs like legal costs and stuff like that of another Rs.1 crore. So if you net everything, it works to about Rs. 17.30 to Rs. 17.35 range. We have to still fine-tune the numbers, but that's the broad ballpark.

**Pritesh Chheda:** So this is basically the cash figure of...

**Jatin Khanna:** Yes. This is the cash we've realized from the Max Bupa sale.

**Pritesh Chheda:** Actually. There is no debt on Max India books after the demerger, in the new Max India, there will be no debt, right?

**Jatin Khanna:** No. There's no debt. There's debt in the books of Antara Purukul, but that debt, they have unsold inventory, which take care of that debt actually.

**Pritesh Chheda:** So basically, you arrive at Rs. 17 per share as cash in the books of new Max India and not consider the asset value of the real estate, which incrementally whatever is the value?



- Jatin Khanna:** Correct. As well as the asset value of Antara. So there is a little bit of a background and a context to this. And that background in the context is that when we were divesting Max Bupa, so the shareholders said that we will only approve divestment if you give us a proportionate share of cash because we invested in Max India for 2 reasons. One was Max Hospitals, which anyway we are giving a share through merger/demerger. And second is for Max Bupa, which we are now divesting. So if you give us a proportionate share of cash, we would like to seek an exit option by getting that proportionate share of cash. So therefore, that's how the capital reduction maths was worked out. However, if you look at Page #10 of the investor presentation, which we have issued on results, the value of Max India, of course, is more because Antara is debatable whether we should impair or not. But even post impairment, there's an investment of about Rs.250 crore in Antara, and there is Rs.100 crore real estate. So that Rs.350 crore value is over and above this cash value, which obviously does not accrue to the shareholders if they were to choose to exit. However, given the fact that this is the fair value and by all probability the stock should list at, at least this value, if not more, depending on what view one takes on the impairment. So therefore, shareholders should be able to exit through the listed price itself. But we are giving a backstop, saying that for whatever reason if the share was to trade below the cash value, then we are committing to you that you will get your proportionate share of cash. So if you're getting a higher number from the market because the value is higher of the underlying asset, please seek your exit through market. We would love for you to continue and participate in the next growth phase of Antara, which we have clarified as asset-light Senior Residencies, Care Homes as well as Care@Home. There is a lot of work which has happened to craft out this growth strategy for Antara. We had McKinsey advising us for almost last 4 months or so to craft out these growth plans. We'll be happy to share more details about these growth plans as the time sort of progresses as we get closer to the listing. So investors really have a choice, either you continue, either you exit through market if the price is reflecting the fair value if you want to exit as an investor. If for whatever reason you choose to exit and the price is lower than the fair value of new Max India, then there is a capital reduction program to really set a floor price for you.
- Pritesh Chheda:** This Rs.343-350 crore that you referred to in Slide 10 as Rs.134 crore to Antara; plus Antara 2, Rs110 crore; plus Rs. 93 crore for Max Towers, that is how you arrive at this 343.
- Jatin Khanna:** Rs.134 Cr of Antara plus Rs.110 crore of Antara 2.
- Pritesh Chheda:** Yes. Antara 2.
- Jatin Khanna:** Antara 2 plus Rs.100 Cr of real estate, plus Rs.516 Cr of cash.
- Pritesh Chheda:** And there is no other debt except that some debt, which you're referring to, which is on Antara?
- Jatin Khanna:** Yes, which is on Antara Dehradun project. But then the inventory value itself, if you look at Page #11, they have an unsold inventory of Rs.270 crore, which can more than take care of the Rs.176 crore debt.
- Pritesh Chheda:** And the cash on the book is at Rs.516 crore minus the impairment value minus whatever transaction value on Max India?
- Jatin Khanna:** No, cash on the book is gross Rs.516 crore. Impairment is a book entry. It does not have any impact on the cash.

- Pritesh Chheda:** So Rs.516 crore is the cash in the book?
- Jatin Khanna:** Correct, of which Rs.200 crore is reserved for capital reduction. Rest of it, we will deploy in Antara, which will take care of its growth plan for the future. And I said in the opening remarks that Rs.100 crore of the Rs. 300 Cr will get invested by FY '21. The balance Rs.200 Cr should get invested over the next 2 to 3 years. And should we need to deploy more to grow more sharply, then we have this Rs.100 crore asset, which we can monetize till such time this asset will keep giving us Rs.6 crore rental.
- Pritesh Chheda:** So I didn't understand, in Rs.516 crore, Rs.200 crore for capital reduction, what is this Rs.200 crore usage?
- Jatin Khanna:** This Rs.200 crore capital reduction in a way corollary to the buyback option of Rs. 17.30. Because we do not have free reserves, we couldn't have done a buyback. So we are doing a capital reduction, because we have no free reserves in Max India.
- Pritesh Chheda:** This capital reduction will happen after listing, option after listing, right?
- Jatin Khanna:** Correct. So we'll be ready with this program. We'll do all the background work and the work will now start as we get into the next week and the weeks after. So we'll be ready to announce this capital reduction around listing. Now if the price list is much higher and investors who wish to exit are getting exit through the market, then we really don't need to even have a capital reduction. But we'll be fully ready to announce it like on the day zero. We'll see how the price settles and how people are getting an exit who want to exit. But our request will be that the investors who've been with us for all this while should continue to sort of stay invested and reap the benefits of growth of Antara. Because Antara is creating a holistic senior care proposition, which will not just stop at these 3 verticals, which actually will get into other senior care verticals, like products and a bunch of other things also through partnership model. So products in a very different business, we want to get into services business. But all the other ancillaries, which we don't want to get into on our own, we will be doing through platform tie-ups and things like that. So that, from a senior standpoint, it's a holistic offering. And as you know, that there are about 12 crore seniors in India, senior citizens in India. And if I was to size the opportunity in the senior care space, which Antara on its own is getting into that opportunity itself, the market size is about \$2 billion. So it's not a small market. And through partnerships and alliances, it's a \$10 billion market, which Antara will be participating into. So we are very excited about the Antara's growth prospects and which is why I said, when I wear my business hat, I think I should just do zero impairment. But when I wear my chartered accountant hat, I thought it was prudent and conservative to just impair.
- Pritesh Chheda:** Okay. Perfect. All the best, and sorry for bothering you with basic questions, since I am new to the company. It was slightly a difficult demerger to understand.
- Jatin Khanna:** See, demergers are generally difficult, but I think they create a lot of value. I mean the Max India demerger, which we did 4 years back, we tripled the value for our shareholders. At some stage, that value had quadrupled also. So to that extent, obviously, demergers create value, and therefore, it's important to understand that value.
- Sangeeta P.:** Yes. I just want to go back to the question on the net debt in the books of Max India and just the hospital business. So right now, it's approximately Rs.1,100 crore or

Rs.1,000 crore plus. And what you're saying is that there would be an additional debt coming in, which would be in the range of Rs.600 to Rs.700 Cr. So Max India will have a net debt of Rs.1,700 Cr. And post the merger, there would be an additional about Rs.800-odd crore coming in from Radiant. So the combined entity will have a net debt of about Rs.2,500 crore. Is my understanding right?

**Yogesh Sareen:** Yes, that's right.

**Utkarsh Somaya:** I just wanted to ask you about, you had mentioned that you have a target of achieving 5,000 beds in the next 3 to 5 years. I just wanted to ask you what would be the CAPEX you'll entail on that? And by when? And are we confident of achieving this number?

**Yogesh Sareen:** I think I'll not be able to answer this question at this point of time. I think it's only post-merger that we'll come out with our plans on the bed addition.

**Utkarsh Somaya:** Sir, our topline growth, you said, would be around 12% going forward. So I just wanted to ask you, the Indian health care industry is growing at approximately 22%. And the medical tourism sector, which is what Radiant brings in, is growing at 25%. So I just wanted to clarify, like compared to the industry growth, why is our growth lower than that?

**Yogesh Sareen:** Yes. I think the industry growth means it's total health care. There's also a segment like Ayushman Bharat etc. where we are not present. But I don't think any listed health care player, the segment that we play in, is growing at a 22% range? No. And I think you know this already that this health care is a very large unorganized market. So you'll get somebody telling you a 22% growth number and somebody telling you 14% growth number and somebody telling you 12% growth numbers. So I think you have to take it with a pinch of salt. So I don't think this 22% growth number is a very serious number.

**Utkarsh Somaya:** Understood. And sir, also you mentioned that we are estimating our revenue of Rs.5 to Rs.7 crore per center going forward for our Assisted living business. So can you help me with what the cost will be, per center cost to make...

**Jatin Khanna:** See the per center cost will be about Rs.2 to Rs.3 crore. And that's why our 2 pilots are about Rs.6 crore. And the revenue which we can generate per center is about Rs.6 to Rs.9 crore, depending on whether it's a Normal Care Home or is it a Dementia Care Home. Because in a Dementia Care Home, you realize a little bit more. And the margin per center could be anywhere between 19% to 23%, again, depending on whether it's a normal or it's a dementia care home. And therefore, the ROCEs can be very promising in this business. I'm just going by my memory, I think this can deliver ROCEs of about 35%-40%.

**Utkarsh Somaya:** Alright. So sir, on one center, we generate around Rs.6 crore of revenue on which we spend Rs.3 crore of CAPEX. On a 20% margin, we should recover our CAPEX in 5 years, give or take?

**Jatin Khanna:** Yes. Very comfortably. I think you're right on that. In fact, we are still testing the water, but you could do this in a deposit model, in which case, depending on the quantum of deposits, which you collect upfront, you could really fund this CAPEX through the deposits.

**Utkarsh Somaya:** So you may not need to take debt going forward?



**Jatin Khanna:** We may not need to put that much equity. I mean for now, our plans are totally 100% predicated on equity investment. There is no debt built in our assumption at this stage. For the Care Home and Care@Home, there was a debt assumption in the Senior Residencies model. But in Care home and Care@Home, there is no debt assumption. And this investment per center is only a Care Home investment. Care@Home will be a bolt-on to this, which will be same service for seniors delivered at their home, which is not part of the center CAPEX or etc. But the total investment, if I was to put, say, in both these verticals over the next 3 years will be of the order of about Rs.150 crore.

**Utkarsh Somaya:** And will we be diluting our equity anytime in the foreseeable future?

**Jatin Khanna:** I don't see this happening, although again, early days to say this. The interest of both venture capital investors as well as seasoned private equity investors is very high in this space. Their suggestion is to set up 3 centers, deliver them profitably, and they will give capital to multiply these center at lightning speed. But our sort of endeavor, we on the side of caution, sort of build it brick-by-brick, because you've seen how businesses which are built at lightning speed also go the other way around. So we'd rather do it more methodically and take it one center at a time. And then as we see success, keep adding centers, at no point in time, we'll be setting up more than 5 to 10 centers in a year.

**Utkarsh Somaya:** Interesting. So if at all we do ever require the need to raise capital rises, the management prefers going via the equity route and not via the debt route, if at all it comes up?

**Jatin Khanna:** No, we can raise debt also. I mean firstly, we have Rs.100 crore real estate asset, which we can monetize. And after monetizing that asset, we could leverage also. So it's not that we can't leverage. But we did a little bit of a sort of work around this. I mean these centers in U.S., they trade at about some 30x EBITDA. So we saw 2 type of players. There were players who have heavy debt over balance sheet. The player with heavy-debt balance sheet stays at some 12x EBITDA, whereas the players with lighter balance sheet trade at some 30x EBITDA. So let me say that they have leverage, but they have light leverage. They don't have heavy leverage. So we'll see how it goes there. It's too early days to talk about of what long-term capital plan for these 2 verticals will be because we are in the pilot stage for Care Homes. And then the bolt-on of Care@Home will start from quarter 1 of FY21. So it's early days to really talk about the long-term capital plan for the business. But needless to say, whatever plans we have at this stage, we have more than enough capital to support those plans. If investors like the Antara story and therefore maybe we don't need to do capital reduction or if we do need to do capital reduction, the participation is lukewarm, in which case we'll have more capital getting saved to deploy to grow Antara. So to that extent, I don't see a capital problem to grow Antara.

**Utkarsh Somaya:** Right. Understood. So I just have one last question, and you may have already explained this, so I apologize for asking again. So you mentioned about Rs. 17.3 valuation, which is the cash the company holds, right? So that would be on the 26.95 crore outstanding shares the company currently has. So in the new entity, when our face value increases, this will be into Rs. 5, right, around Rs. 80-odd? Is that the correct?

**Jatin Khanna:** Rs. 86.50.



- Utkarsh Somaya:** Right. And also, can you please give a quick explanation of the other assets Antara is holding?
- Jatin Khanna:** You have to go to Slide #10 of the investor presentation, which describes you what the new Max India will hold as assets. It will have the Dehradun asset, which has a value of about Rs.134 crore. It then has investments in incubating some of these new asset-light models, about Rs.110 crore. It has Rs.100 crore asset in the form of the 3 floors we own in Max Towers. And it has cash of about Rs.516 crore.
- Utkarsh Somaya:** Okay. So Rs.110 crore is the pilot project, the residences for seniors in Noida, is that the one you are talking about?
- Jatin Khanna:** It includes the residencies for seniors in Noida. It includes the pilot, which is happening in Gurgaon and will happen in Delhi. And the Care@Home pilot, which will be launched next quarter.
- Utkarsh Somaya:** And Rs.100 crore you own in Max?
- Jatin Khanna:** Max Towers.
- Utkarsh Somaya:** Max Towers and Rs.500 crore of cash, which amounts to Rs. 86 a share?
- Jatin Khanna:** Correct. Rs. 86.
- Moderator:** I would now like to hand the conference back to the management team for closing comments.
- Jatin Khanna:** Thank you. Thank you, ladies and gentlemen, for being on Max India's earnings call. We will look forward to more such interaction in the future. Thank you once again, and good bye, and have a nice weekend.