Date of submission: 14th November 2022

To,	To,
The Secretary Listing Department **BSE Limited** Department of Corporate Services Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Scrip Code – 539551	The Secretary Listing Department **National Stock Exchange of India Limited** Exchange Plaza, Bandra Kurla Complex Mumbai – 400 051 Scrip Code- NH

Dear Sir/Madam,

Sub: Transcript of Earnings Call for the quarter ended 30th September 2022

This is further to our earlier letter dated 11th November 2022 regarding audio recording of Earnings Call of the Company for the quarter and half year ended 30th September 2022, held on 11th November 2022.

Please find enclosed herewith the transcript of the said Earnings Call. The same is also available on the website of the Company at https://www.narayanahealth.org/stakeholder-relations/earning-call-transcripts.

This is for your information and record.

Thanking you.

Yours faithfully
For **Narayana Hrudayalaya Limited**

Sridhar S
Group Company Secretary, Legal & Compliance Officer

Encl: as above

Narayana Hrudayalaya Limited
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Appointments
186-0208-0208

"Narayana Hrudayalaya Limited Q2 FY23 Earnings Conference Call"

November 11, 2022

MANAGEMENT: **MR. VIREN SHETTY – VICE CHAIRMAN**

DR. EMMANUEL RUPERT – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

MS. SANDHYA J – CHIEF FINANCIAL OFFICER

MR. R. VENKATESH – CHIEF OPERATING OFFICER, EAST AND SOUTH REGIONS

DR. ANESH SHETTY – MANAGING DIRECTOR, OVERSEAS SUBSIDIARY HCCI

MR. DEBANGSHU SARKAR – HEAD, MERGERS & ACQUISITIONS & INVESTOR RELATIONS

MR. DURGA PRASAD – SENIOR MANAGER, MERGERS & ACQUISITIONS & INVESTOR RELATIONS

Debangshu Sarkar: Good afternoon, everyone. On behalf of Narayana Hrudayalaya, I welcome you all to the Q2 and H1 FY 23 earnings call of the company. To discuss our performance and address all your queries today, we also have with us Mr. Viren Shetty, our Vice Chairman, Dr. Emmanuel Rupert, our CEO and MD, Ms. Sandhya, our CFO, Mr. Venkatesh - COO of our Eastern and Southern domestic operations, Dr. Anesh Shetty, MD of our overseas subsidiary HCCI and Durga Prasad from the team.

I am sure you have gone through the investor collaterals which have been uploaded on the stock exchanges as well as on our website. As usual, before we proceed with this call, I would like to remind everyone that the call is being recorded and the transcript of the same shall be made available on our website as well as on the stock exchange at a later date. I would also like to remind you that everything that is being said on this call that reflects any outlook for the future or which can be construed as a forward looking statement, must be viewed in conjunction with the uncertainties and the risks that they face. These uncertainties and risks are included but not limited to what we have already mentioned in our prospectus filed with SEBI before our initial public offer in late 2015 and subsequent annual reports on our website. Post the call, should you have any further query, please do not hesitant to get in touch with us. We would like to address it to the best of our ability.

With that now, I would like to hand over the call to Dr. Rupert.

Dr. Emmanuel Rupert: Good afternoon to everyone. I cordially welcome you all to the Q2 FY23 earnings call conference of Narayana Hrudayalaya Limited.

The second quarter of fiscal year exhibited robust performance and maintained the momentum set by the first quarter due to an improvement in patient footfalls, case mix and payer mix. Consolidated revenue for the current quarter stood at INR 11,416 mn a quarter-on-quarter growth of 21.4% aided by steady performance of India business and strong performance of Cayman business.

NHL generated consolidated EBITDA of INR 2,749 mn in Q2 FY23 at a margin of 24.1% which when adjusted for one-time other income stood at 22.3% as against a margin of 19.4% in Q1 FY23. This margin improvement was attributed to improving payor mix and procedure mix.

Our Cayman business demonstrated continued growth due to lifting of restrictions and HCCI revenue increased by 28% to USD 29.1 mn.

Our overall balance sheet and liquidity profile remains strong with INR 7.2 billion of gross borrowings against a consolidated cash and liquid investments of over INR 4.6 billion as of 30th September 2022. Our debt-to-equity ratio remains comfortably low at 0.14, giving us room to fund our expansions through borrowing and internal accruals. Including a recent acquisition at Bangalore, we have incurred capital outlay of close to INR 5.5 billion for the 6 months ending 30th September 2022. We will continue to invest as per our strategic priorities, and we believe that our capex should be north of INR 10 billion in FY24 as well.

What gives us immense pride is bringing access to advanced quaternary care to patients from all sectors of society. In line with our vision to continue to invest in state of the art medical equipment, our unit in Howrah commissioned the latest model of linear accelerator, which is the Varian True Beam in Q2 FY23. With this strong momentum in high-end cardiac sciences work, in both congenital and adult segments and also in oncology work in robotic procedures and also in the fields of transplantation, which is both solid organs as well as bone marrow transplants. we are proud to share that Narayana Institute of Cardiac Sciences in Health City, Bangalore has consistently performed more than 750 cardiac surgeries since March of 2022 and did the highest ever procedures in the cath lab of more than 1850 procedures. The unit was also successfully conducted more than 28 percutaneous valve implantations of the Aortic valve in this Quarter. Mazumdar Shaw Hospital in Heath City Bangalore also successfully performed more than 74 robotic procedures for very complex oncology procedures. It is very heartening for me to share with you that we have been able to perform 2000 bone marrow transplants to date across our network hospitals.

We are increasing our investments in digital engagement channels to improve operational efficiencies and patient experience. The digital traffic grew by 49% to 2.75 million users in the current quarter as against Q1 FY23. As India's leading cardiac and oncology provider we have been able to meaningfully contribute to cutting-edge medical research. We have already published more than 192 scientific papers in this current year and for the last two decades, we have published over 1640 scientific papers.

One of the interesting research activities that is currently undergoing along with the University of Arizona is the multimodal intraoral imaging system which is used for only detection of oral cancer with a smartphone and a specialized app that comes along with that.

Another area of cutting-edge research is in the field of bone marrow transplants, specifically the rejection of transplanted cells. The body can sometimes reject the transplanted cells as they come from a different person. This is known as Graft-versus-host disease (GVHD). At NH we are currently studying the potential of Itolizumab in treating patients who suffer from Graft-versus-host-disease. If successful, this will help thousands of patients across the globe.

We have previously spoken about our collaboration with Immuneel which is a Biocon start-up. It is a GMP certified processing centre which is in-house in the Health City campus for making what is called the CAR T therapy. CAR T stands for Chimeric Antigen Receptor. These are nothing but receptive proteins that are present on the cells, on the T-cells and they are re-engineered in the GMP certified process. The blood is removed through an apheresis machine and separates out the T-cells from the patients. And it is re-engineered by ingesting a gene for Chimeric Antigen Receptors and then we grow millions of these CAR T cells in the artificial lab, and this is reinfused into the patient, and you have a specific targeted destruction of the cancer cells. This is a major new dimension of therapy for refractory cancers across the world, which costs up to half a million to 1 million cost in the Western world. We are participating in the trial with Immuneel and following the regulatory approvals, which will take some time. We should be in a position to be able to provide this form of therapy to many patients in the Health City campus.

Our Health for all is our guiding beacon, and it has always been an integral part of everything that we do. We are proud to have contributed to discounts, and subsidies of greater than INR 300 million towards providing subsidized or free treatment for indigent patients in H1 FY23. Our CSR team continues to focus on providing scholarships for underprivileged children to pursue medical education.

While the results do bear about our focus on execution, as articulated, we are looking to also pursue strategic growth opportunities as reflected in recent acquisitions across our flagship region as well as Cayman Islands. We remain confident about the demand

for health care and our ability to deliver high quality solutions to all sections of society. Thank you.

Debangshu Sarkar: I would request everyone to now use the 'raise hand' feature to start posing their questions, and we would try to address them in this forum.

Dheeresh Pathak: What was the EBITDA in the Cayman Hospital asset for the quarter?

Debangshu Sarkar: USD 12.7 million.

Dheeresh Pathak: Okay. This is post-Ind AS, right? And what is the adjustment needed between post to pre?

Debangshu Sarkar: Yes, it is USD 0.5 million, pre-Ind AS EBITDA is USD 12.2 million.

Dheeresh Pathak: For the year FY23, INR 1000 crore capex, I think about 100 million is in Cayman. what would be the breakup of 1000 crore capex which projects it is going into in FY23?

Debangshu Sarkar: We have already incurred around INR 300 odd crores towards our complete acquisition, including the primary investment or subscription of the OCD that we have done over there. Alongside that, while we had initially expected capex outlay of more than 16 odd million dollars for Cayman, but given the run rate and some supply chain issues, we now foresee that number to be hovering a little shy of $40 million. So around $30 million of capex is possibly pending in over the H2 period in Cayman itself. Other than these, all the capex that you see would be routine maintenance, up gradation and brownfield expansions that we are incurring at multiple locations of ours.

Dheeresh Pathak: Okay. So just to summarize, 300 crores in the acquisition that you did and $30 to $40 million for the full year in Cayman and balance on maintenance and de-bottlenecking, right?

Debangshu Sarkar: Yeah. And additionally, that $5 million of upfront consideration that we need to pay for that acquisition that we have announced at Cayman also, and that's the transaction pending to be closed yet.

Dheeresh Pathak: Okay. And in FY 24 you will do the balance, $60 million of Cayman and you also said that INR 1000 crore capex we will have in FY24 as well, so what would be the balance in FY 24? What I want to understand is in Indian assets, is there meaningful capex? Because

you talked about in the last few calls in terms of the legacy flagship locations of Bangalore and Kolkata, wanting to expand more there. So I just want to know if you can give some more details in terms of how much capex you are doing in those two locations.

Debangshu Sarkar: Viren, you would want to elaborate on that? Other than the normal maintenance and the Cayman thing, which we have already elaborated or Brownfield capex anything else?

Viren Shetty: Yeah, it's more of the same as we described. In Bangalore, we'll be adding additional infrastructure to the Health City and expansion to the heart hospital. One in partnership with the landlord, one we will be doing Greenfield. Kolkata, we are looking to acquire some land and add new infrastructure close to our existing hospital. These are all work-in-progress. We budgeted about INR 1000 crores, which includes work-in-progress as well as some expansion works. But in the time it takes for us to find nice contractors and start doing this work. So conservatively, we can say about INR 1000 crore for FY24 also, and these projects are 2 to 3 year duration builds. The exact details, we will start detailing about from the next quarter onwards. But for now, it's looking like there will be significant capex investment in Bangalore and Kolkata as well.

Dheeresh Pathak: Okay, last question from my side. On the three assets, which earlier we used to disclose separately the revenue and the EBITDA, so SRCC, Dharmsala and Gurugram. If you can just highlight either individually or collectively, what has been the EBITDA and revenue in those assets?

Sandhya J: The three hospitals have generated highest ever revenue of INR 1078 million in Q2 FY23 compared to 944 million in the previous year. So it's a 14% Y-o-Y growth. We have registered a positive EBITDAR margin of about 8.3%. Dharamsala has broke even. Gurugram has almost break even. Mumbai is on the verge of break even. So all of them are going in a very positive direction.

Dheeresh Pathak: Okay. So when you say break even, this would be after the rental and after the various other cost overheads. This would be like at the EBITDA level for the asset because EBITDAR, you are showing positive of 8.3%?

Sandhya J: Exactly you are correct about it. Broke even for the EBITDA level as well as for the cash

flow level.

Dhara Patwa: So I had a question regarding the CAR T therapy, which you were talking about with Immuneel Pharma. So I understand currently there are only few drugs like Kymriah, Yescarta from BMS, which they are in the market. So what exactly were you talking about the Immuneel Pharma because that's a generic company, right?

Viren Shetty: No, it's a new GMP production facility within the Health City campus. It is still in a trial phase. We need to give the results of the detailed trials to the regulatory authorities before any kind of commercialization of this entire thing will be taking place. And currently there is no other GMP certified CAR T therapy production centre in India, which is made in India. Even if something is being done, they are procuring it, which is processed by some labs outside of the country.

Dhara Patwa: When can we expect our Ahmedabad and Mumbai cluster to deliver positive EBITDA margin? Like the one we have seen in Gurugram, one year back, it was around negative EBITDA and now currently it is contributing around 12%. So can we see some improvements for this cluster, Ahmedabad and Mumbai to be particular?

Sandhya J: Sure. Ahmedabad is already cash and EBITDA positive. Mumbai has almost turned around because of declining losses over a period of time, In H1 it was a negative EBITDA of about INR 3.3 crore. Mumbai hospital may break even in another 6 to 9 months

Ashish: Congratulations for a good set of numbers. I just wanted to try and understand that we are doing a INR 2000 crore capex over this year and next year. And what would it imply in terms of the balance sheet and return ratios? So currently we have INR 300 odd crores of debt. What's your estimate of the peak debt for the company let's say, over the next couple of years?

Sandhya J: So, as you're aware, we are cautious in terms of borrowing. Our desired level of debt equity is less than 1 or around 1; that is the desired level. Debt EBITDA maybe for a short period may be in the range of 2.5 to 3 and then come back. Having said that, we are hyper focused on cash flows. You would have seen that there is a tremendous amount of cash outflow that has happened in the current quarter, but that kind of borrowing has not happened because we've been very tight on our cash management. So we would like to see as much as possible that we can fund our expansion from our internal accruals

and that we have to borrow only as much as required. So we will aspire to keep our borrowings at that level.

Ashish: Sandhya sorry, I didn't get the numbers right. Because our EBITDA run rate is roughly a INR 1000 crore run rate and our equity is around 1800-1900 crores. So what you are saying is that, you are talking about a 2x debt to EBITDA or a 2.5x times means the peak debt of 2.5 thousand crores as compared to less than 300 crores today net debt, right?

Sandhya J: Yes.

Ashish: So we are saying that we are going to borrow 1800 crores more in an environment of rising interest rates. Is that what we are looking at? Because when I look at it from a 6 quarter perspective based on the cash flows, we should be generating at least a 1000 crore of cash flows and our capex is around 79 crores, which means they don't seem to tie from my perspective.

Sandhya J: Currently our gross borrowing is about 750 crores

Ashish: I am looking at the net debt number.

Sandhya J: I understand. Net debt is the matter of the cash flows that we are retaining and the cash flows that we are investing. So the way we've looked at it, I'm giving a gross number because that's a better representative, right now our borrowing is at 750 crores, our equity is currently 1800 crores. So we do want to keep our debt equity at less than 1, So, even though we would be incurring, say more than 1000 crores of capex, we don't want to keep debt equity at that level. That's a desire of where we want to be. Some of it would come from this cash flow. That's why you are seeing the benefit in the net debt because there are accruals that we would use and some of it will come from better management of cash on the ongoing basis.

As far as the debt to EBITDA is concerned, what I gave you was an outer-outer limit because this is a cap that we want to work with over the next 2-3 years and depending on how our cash flows and EBITDA turns out. So that is an outer limit. I think these numbers give you enough guidance on where we are headed.

Ashish: Yeah. The second question on the cash flow again, because my understanding is the reason why we had a large cash balance was because money had got trapped in Cayman

and they would have been a tax incidence. Now that we are doing a large capex in Cayman, hopefully our cash balances which are running at 400 crores would kind of come down. Where I'm coming from is, if I put in a 2000 crore debt number and I project the numbers forward, our RoCEs will fall significantly from where we are seeing today, at least in the short term before these new projects start turning around the RoCEs.

Viren Shetty: Yes you are right, in the short term. But we can't sit on the existing capacity forever. So we have to grow

Ashish: Absolutely Viren! I'm completely with you in terms of the growth. When we ran our numbers, we were looking at a net debt of less than a 1000 crores, even assuming 1000 crore net debt. So the question is, if you are saying that instead of 1000 it is going to be 2000, there is a larger capex that is kind of missing though, which might not be frozen, but it's something which you are thinking about?

Viren Shetty: Yeah. Capex planned is always prior to construction and spread over a duration, depends on the situation we can always take a call on increasing or decreasing the capex spend to match the cash flows and revisit the plans depends on cash flows situation..

Ashish: How much is the cash which is trapped in Cayman as of date?

Sandhya J: We have about USD20 million of cash in addition to mutual fund investment of USD 20 million. I just want to clarify that, I don't know if it is right to see the cash strapped in Cayman. We can always bring it back. We just have to pay tax and bring it back.

Ashish: That's what I meant Sandhya that there is a tax incidence.

Sandhya J: Yeah. Every income has a tax incidence. So that is a decision we will take. If we need the cash, we will bring the cash. It's not locked there.

Ashish: No, I think Sandhya, the fact is that you're doing a large capex, so you might as well use the cash. Why do you pay extra dividend tax?

Sandhya J: Yeah which we intend to do here. We intend to use for our capex and if there is need in India, we will bring back the Cayman cash.

Ashish: Okay. Thanks a lot.

Debangshu Sarkar: Thank you. Anyone else? Any question? Dheeresh, do you want to ask any follow up question?

Dheeresh Pathak: Yes, I do. So I'm just trying to better understand the capex that we've outlined for Cayman. So if I understand correctly, please correct me if my understand is wrong, so $100 million for a 50 bed asset and then there are a few clinics and other things that we want to do. So I'm just trying to understand like, what is the revenue potential of this capex that we have in mind? Because this is not just going into hospitals it might go into a few other clinics and other off hospital kind of assets as well. So what kind of an asset turn and margin profiling do we have in mind at maturity for this incremental $100 million?

Anesh Shetty: So just for clarity, the $ 100 million will be invested as we previously outlined over a period of 2 years, some of which will be incurred in the current year. it's about 40 million or so, we project to incur in the current year and the balance in the next year. As you rightly said, most of it will be towards a single cancer focused hospital with an attached radio therapy block.

The hospital will be commissioned in two phases. The first phase is the radiotherapy facility, which we hope to commission in the fourth quarter of this year. So that's within the January to March of 2023. So that's the standalone radiotherapy block, which is part of this facility and part of the capex number you mentioned, That will start treating patients immediately, from January to March of 2023. Thereafter, we hope to commission the rest of the hospital, which will have the in-patient facility, the operating rooms and the other ancillary services with the cath lab and things like that. Over the next, 12 months subsequent to that commissioning of the radiotherapy facility.

In terms of margin expectation, in the short term, obviously, because the hospital will have an initial ramp up period, it's not going to be anything in several years what we saw when we first entered Cayman because this is now unknown markets to us. There will be some amount of dilution of margin simply because there will be some amount of business shifting from the existing facility to two facilities. But in the long run, we absolutely intend this facility to be on the whole, Our margin should not be diluted to where they are currently. So we currently are in the range of 40% to 45%, and that is our long-term target as well to preserve that, of course, on a much larger base, given both the hospitals and given the dedicated cancer focus, which is an offering we

currently do not offer.

Dheeresh Pathak: Okay. So this is very useful. But given that it's a cancer hospital, even otherwise, you have told us not to look at ARPOB and bed occupancy and all that, because that might not be a right metric, especially since it is a cancer hospital, because a lot of it would be day care procedures as well. So what is also important apart from the margin number that you share, to understand the revenue potential that whatever cancer block that you are putting, the radio block as well as the other assets that you're putting, how much revenue potential? Because the current asset, I think if it is properly utilized, is generating about $120 mn annualized. So will this $100 million have similar potential or will have much higher potential of the absolute revenue that it can generate at stability?

Anesh Shetty: Sure. So you are right about approximately in the ballpark of the current asset, give or take, plus or minus $10 million here and there. We have refrained from committing on an exact revenue guidance number for the new hospital. But what I can share is, from a margin perspective, after the initial ramp up period, we do not expect it to dilute our existing margins.

Dheeresh Pathak: Okay, thank you so much.

Debangshu Sarkar: Anybody else any questions? Yes Kapil, can go ahead.

Kapil Marwaha: Yes. Congrats on robust performance, as Dr. Rupert mentioned. Can you give us some broad indication on whether this robust performance has continued till date?

Sandhya J: As you are aware, Q3 is normally a seasonally weak quarter. In the month of October there was Diwali, there was also Durga Puja/Dusshera across the country. So there would be some moderation that would happen like it happens every year in Q3 in the numbers, and we have seen that moderation happening through October numbers. But, I think some of the underlying work that we have done, which has created the traction that we have achieved, those are here to stay. And therefore, to that extent, I think the momentum you would be able to see, but Q3 is normally a weak quarter in general for healthcare.

Ahmed Madha: I wanted to understand a little better on our matured hospitals, or rather our flagship hospitals in Bangalore and Kolkata. So, even if I see from Q1 to Q2, there is some margin expansion. So, from here on, from the current base, is there further scope for volume

expansion and margin expansion in those hospitals?

Viren Shetty: Volume expansion may not be much because the buildings are quite full. The margin expansion would come through a lot of the efficiency work that we are doing – reducing length of stay, changing the payor profile of the patients focusing on high-end surgeries, But, it won't swing that much over each individual quarter. So, for example, as Sandhya mentioned, this quarter now, because we have less patients coming from east because of Durga Puja, less patients coming for checkups because of Diwali, there would be some moderation there, But, it picks up after that; in December time again it starts to pick up. But ultimately, for these, the next level of growth will ultimately only be driven by addition of capacity. There's only so much tweaking that can be done, that will give the single digit increments here and there. If you're looking at the big numbers, we'll have to do full-scale capacity expansion, which is what our plans have taken into account for the next 2-3 years.

Prashant Nair: Good afternoon. Thanks for the opportunity. I have two questions. Firstly, If you compare to pre-COVID levels, where are we now on out-patient flow and on international patients?

Sandhya J: So, on international patients, we are around 7.5%. We have already given commentary earlier saying there have been changes in the way we our business model for international patients is. And therefore, recovering back to the pre-COVID levels, we'd have to see how it goes. I think we are reaching a good improvement quarter on quarter in our international patient volumes.

Now, as far as IP-OP is concerned, I think we have largely returned to our pre-COVID volumes. In fact, we have been able to exceed them as well.

Prashant Nair: Thanks. My second question is on, in earlier calls you had mentioned that you would be looking at opportunities outside India other than Cayman. If you can just elaborate what form these could take in terms of capital deployment, what kind of assets you're looking for, that would be useful?

Anesh Shetty: We've been in the Caribbean region for about close to 8 to 10 years now, and through this time aside from Cayman, we've naturally developed an interest in the other islands to look for a similar market elsewhere. For the past 2 years we have been engaged with

the government of Sr. Lucia for the management contract for an asset for them, that has recently concluded. It is challenging to find another market like Cayman in terms of revenue potential, stability, geopolitical risk and other associated factors. So, our choice, our preferred method of expansion, I would say, Cayman would be initially in an exploratory fashion, then maybe a consultancy fashion, followed by very very capital light model, if at all we do get there. In the foreseeable future, we do not have any clear visibility in deploying anything in the range of $50 plus million or large sums of money outside Cayman for now. And, we already have significant amount of outlay within Cayman itself.

Having said that, there are multiple early opportunities that we are pursuing, but these would have a long gestation period for us to learn more about the market, to develop the relationships and have the confidence to essentially pull the trigger over there.

Prashant Nair: Thanks a lot. That's it from me.

Debangshu Sarkar: Thanks Prashant. Gagan, you can go ahead with your question.

Gagan Thareja: Thanks for taking my question, and apologies if this is a repetition as there was another call to join. So, the first one is on gross margins. Your gross margins for the quarter end for the 1st half are up by a reasonable amount. Is that sustainable, and what is behind it?

Sandhya J: So, a lot of the improvement in gross margin, after you eliminate the one time we spoke about, is coming from underlying improvement in the cost structures. We've also got a favourable impact of the mix which is playing there. So, from what we have done in terms of sustained level of costs from an efficiency point of view, I think it is sustainable. But what I want to definitely call out is that the cost situation is exceptionally volatile for us. One is, currency is playing a big role in terms of both medical imports as well as biomedical equipment. So, that is one aspect which is playing out. The second also is, the stability in the supply chain has not been achieved at all. So, there is tremendous disruption that we are seeing in the supply chain in terms of various input material. And so, while we are holding on to what best we can do in terms of cost and efficiency, the situation is a little volatile for us, and I think it's true for all other healthcare organizations as well. So, it's a little difficult to give a very strong forecast that, yes, these cost levels we can maintain. These efficiency levels, yes, I think we can maintain.

Gagan Thareja: And, your cash flow from operations has also jumped significantly. There's release of working capital. Can you elaborate a bit on that? And from a net working capital base standpoint, what we've seen for the 1st half via your cash flow, is that representative of a sustainable future?

Sandhya J: Yeah okay. As I've mentioned earlier in our commentary, one is that we've been hyper focused on being able to manage our investments within our cashflows. But, I think one of the reasons why we have the release of working capital, is because we were able to improve on some of the collections from the government payers. So, a lot of the backlog that had got accumulated with some of the government payers got released in the current quarter, and that helped us with cash flows and working capital. But, like it is with every government payer, it depends on when the government releases funds to them, that's when they pay us. So, the underlying operating cash flow is sustainable. The timing of some of the government collections coming exactly as on 31st December and therefore being able to maintain the same number on 31st December, that is a little difficult to pull us.

Gagan Thareja: Right. And, on the India part for your capex program, your total is around INR 2,000 crores, INR 800 crores goes to Cayman. Can you just explain what's the part of capex that comes in this year, what comes in next year, and how does it commission, over what timeframe does it commission or what timeframe do you see that getting utilized optimally?

Sandhya J: Like we'd explained earlier, about north of 1,000 crores is what we think we will spend this year, of which around 300 crores was the Sparsh asset itself and Cayman expansion is about upwards $30 million. The rest of it is on both, brownfield, replacement maintenance, capacity expansion, etc. Next year also, I think, Cayman will be about $60 million, and then we would have the expansion, as Viren explained, we would like to do expansion within Health City, as well, in Kolkata, These are all construction linked. So, while we are saying we will spend that money, it depends on how we do the project and build up and availability of input material and stuff like that. So, we believe that, including Cayman, we'll spend upwards of 1,000 crores over next year. Some of the greenfield construction will go into FY25 also. over this duration, because the equipment ordering and all of these long-dated thing would be matched to cash flows and the requirement on site.

Gagan Thareja: So, when do you see the new greenfield assets coming on board, operationallyfor you?

Viren Shetty: It will be around 30 months plus. A new construction takes about 24 months. Add another 6 months to commission and any kind of contingency.

Gagan Thareja: Right. And in the interim, with addition of machinery on your existing assets in Kolkata and Bangalore, what sort of ramp up is possible from the same hospitals?

Viren Shetty: There is some minor work that is going on on room refurbishment, adding one extra OT in the heart hospital Kolkata, adding a few OPD rooms. So, those things are marginal at best. They will have a minor contribution, but it won't swing the needle too much.

Sandhya J: Just to add, there is expansion work happening in specialities across. So, we are setting, for example, oncology capability in many of our hospitals, key hospitals. So, there will be some of the routine capex which we are talking about, is not just room addition, but also specialty, capability addition. So, that will give us the volume uplift and flow through, even though we may not be increasing the number of beds.

Gagan Thareja: Okay. So on the India assets, would it then be reasonable to assume that the first half margin trajectory can only little better? I understand, you talked of some volatility in your gross COGS line. But ceteris paribus, should margins improve atleast for the India piece? I understand, when new assets come in, there's a period where they consolidate before you come back to your optimal margin. And, I'm talking about India till the time the new assets come in?

Sandhya J: You can assume that, subject to of course, what we have said that there's a lot of volatility on the costs side which we are not able to forecast.

Viren Shetty: Yeah, that's an important disclaimer you added there – all things being the same. Things that we project could happen. One is, obviously the macroeconomic situation, interest rates, things we don't control, government receivables stretching beyond, any kind of margin capping, adding more drugs to the price control list, salaries going up by quite a bit. There is a huge amount of demand, for example, for nurses and doctors in US and Canada. And usually, when that happens, a lot of senior nurses and doctors tend to leave the Indian system, and we need to pay a lot higher to either retain or to get more people there. But, these are part and parcel of any business, and ours is a business that does have as many external shots as the others. But, the thing that we are working towards,

that we will strive for, is to deliver a sustainable growth to be able to increase our utilization, to be able to treat more patients and go into very high end surgeries, and that we'll continue to drive. And, if it so happens that these things have an impact, the impact will be there, it will be limited, and we will be able to find a way to get around it in the next quarter or after.

Gagan Thareja: And finally, what's the headroom for improving you're ALOS and ARPOB. I think, in the last call you did indicate that the aspiration is to take ALOS to the level where it's benchmarked to your peers over a period of 2 to 3 years, if I recall correctly. Do you stand by that? Do you feel in the coming 2-3 years you have room to reduce ALOS, and with your case mix, what should be a possible trajectory for your ARPOB?

Dr. Emmanuel Rupert: There will be only a marginal improvement, because we will be mainly working on efficiencies in reducing the ALOS and working towards the kind of procedures that can be moved in. And, lot of things are changing in the way the clinical pathways can be worked on, and that is something which we are working with the clinical teams and we are working in tandem with them to get this done. We will be seeing, on a quarter on quarter, marginal improvements, and whatever guidance we'd given in the last earnings call, I think that could be achievable. We are working towards our ARPOB improvements, but the fact is, ours is a brand that's more targeting the affordable class, and our room configuration and our payor mix is skewed more towards middle and low-middle class. We will always be at a ARPOB disadvantage compared to our peers, but how we seek to improve the gap is through the efficiencies, addressing the ALOS, increasing the throughput utilization which will get there. But, we are looking at changing the payor mix. Like we said, in the capacity expansion or the investments we are making on our infrastructure, adding new service lines, adding new capacity to Bangalore and Kolkata, is built at addressing a lot of those structural differences that exist between our hospitals and the rest. But, it will take time.

Gagan Thareja: And, for the asset that you acquired in Bangalore, if you could give us some idea, both from an operational standpoint, from a business mix standpoint, and from key financial numbers on that one? And, what are your plans for that?

Viren Shetty: So, this is an orthopedic only hospital that is adjacent to our Bangalore Health City. Under the terms of agreement, they would only do orthopedics, and we would do everything but orthopedics. So, the biggest advantage this brought to us was that it

unlocked the ability to do orthopedic procedures. This would be added to our Mazumdar Shaw numbers, because the unit by itself, we didn't want to report it independently because it's not as big as the Mazumdar Shaw, and it would integrate very closely with that, so that would operate as a specialty. The building itself is about 110 bed infrastructure, it can go up by another 100 beds over there, but that we won't be taking up right now, we would be taking it up in time. But essentially, this is something that was an add on. It immediately decongests a lot of the beds that we need. It immediately adds more capacity for us, which can be used in the run of the mill business. But over time, because of the additional orthopedics, we'll add a new service line to our Bangalore numbers, and orthopedics in most hospitals is the 2nd or 3rd largest department for them. So, to give us that platform to be able to build and grow this as well.

Gagan Thareja: How much capacity does it release for you if you shift the entire orthopedic payload to this one? The one that you're handling right now, when you transfer it to Sparsh?

Viren Shetty: I mean, in theory 110, but that's not practically how it's going to work out, because you'll have to build up a specialty from ground up when we acquired it. We have to get new doctors, we have to equip and get all the latest equipment, get a new clinical team, because we acquired it from an existing Bangalore orthopedic group, and so it didn't come with any doctors, and the patients also left with the business, for us, we'll be taking it because of its strategic proximity to our Health City, and would allow us to build that up. So over time, it would get full very quickly and will get expanded. But for right now, it was more about adding orthopedic and the trauma specialty to all our offerings.

Gagan Thareja: And, how does the margin profile or ALOS and ARPOB compare to your metrics?

Sandhya J: Sparsh, last year they had done about INR 49 crores of revenue, but that was COVID impacted. If you analyze the period for Sparsh for this year before we acquired, it would be about 55 crores of revenue. They were having a margin profile upward of 20%. I think, we will be able to maintain their margin profile. I also think we will be able to reach the revenue thresholds, in fact, grow from where Sparsh was. ALOS, because this would be part of MSMC, in the overall volumes that MSMC does what comes from Sparsh, I don't think it will significantly move the ALOS number for MSMC or for Health City.

Gagan Thareja: Thanks. That's all from my side. Thanks for taking my questions.

Dheeresh Pathak: Yes, on bookkeeping, this Cayman asset in the preceding June quarter of this year, was how much EBITDA? If you have it handy.

Anesh Shetty: EBITDA of USD 8 million on 22.7 million revenue.

Dheeresh Pathak: Okay, for Q1 FY23. There were 3 assets that we were disclosing earlier. So, SRCC and Ahamadabed you had explained in the last call the reasons for delay in the maturity timeline. For Gurugrama as well as Dharamshala, if I look at the way you have disclosed the western block numbers, maybe for Gurugram and for Dharamshala, if I understand correctly, they were started in FY18 and it's been few years, So, I would have expected them to have reasonably good margin profile by now. So, is there a specific reason for each of those assets and why they've been delayed. You explained for SRCC, can you explain for these two assets also as to why they have been slow to ramp up to maturity?

Dr. Emmanuel Rupert: Yeah, one of the reasons is, Dharamshala is heavily focused on only the oncology specialities and we were trying to grow completely new specialities into that. The growth has happened in steps and stages in other things, but for more than 2 ½ decades they were known only as a cancer hospital. So, we are starting the other specialities as welland we are reaching there gradually and the growth we will see in all the specialities, including oncology, and that will bring us into the next phase of growth for Dharamshala.

As far as the Gurugram hospital is concerned, it's a smaller facility compared to many of the other major facilities which are present in Gurugram. And it's a little smaller facility, so we are picking and choosing the specialities that will fit into this profile and the kind of ALOSs and mix that needs to be there, and we're trying to sort that out.

Dheeresh Pathak: You said it's a smaller facility. How many bed hospital is Gurugram?

Dr. Emmanuel Rupert: Gurugram has 223 capacity beds and around 159 census bed

Dheeresh Pathak: It's not that small, so there must be some other reason I'm sure, for the delay in the maturity profile.

Viren Shetty: Yeah. If we talk about all the reasons, one is, we are a completely new brand coming into Delhi, and Delhi is not exactly a virgin market. And, Gurugram especially is one of the most competitive markets for healthcare in the whole country. We came in cancer

focused, yes, but a little bit niche in that. It was little smaller compared to, let's say, Medanta and Mr NRI. We had a very different set of clinical mix. We didn't have too many superstar doctors; we had 1 or 2, but we didn't have the best of breed of consultants that we were going up against. Our hospital was not very strategically located compared to the others. There are lot of lessons that we had to learn. Not to say we're justifying the performance in any way, they definitely did perform below our expectation of what we had, and we did learn our lessons and had to recalibrate our approach for the Delhi market. Having learnt that and understanding what we need to do going forward, that will be more on optimizing the infrastructure that we have, and looking at some capacity addition and some reconfiguration of the clinicians, looking at departments that do best fit well with things that perform well to our strengths. But yes, it's definitely something that we are far behind compared to all the other hospitals that are there, there's a lot more that we could've done, that we were not able to do. We have to consider Gurugram was started as the most important attraction to us even though it's not on the main road, the most important attraction to us because its closest JCI hospital to the Delhi International Airport. And, it started and one year later, we had COVID. So, the international traffic had gone into a halt, and even before that, given the market for referral kickbacks is quite atrocious. We just had to get out of that business and rebuild the whole thing with a domestic focus. So that meant, whatever we built for, we have learnt from our experiences in that market, we'll keep expanding and based on the cash flow we generate, we'll be able to take it to a more sustainable future.

Dheeresh Pathak: This is very useful and thank you for that detailed explanation. While you were explaining the SRCC loss, if I understand correctly, in the western cluster, apart from the SRCC, there was the Ahmedabad asset. So, if I adjust for the SRCC loss, the Ahmedabad asset also doesn't seem to be making a mature kind of a profitability. Like you explained for Gurugram, if you could also explain… if I understand correctly… is that the right understanding? And, what is the reason for Ahmedabad also?**Viren Shetty:** Ahmedabad also we came in with one set of assumptions. Ahmedabad shares a lot of similar dynamics as Mumbai, in that consultants don't get themselves empanelled by hospitals. They are visiting consultants and they take a percentage of the patient revenue. So when we came in, we didn't want to adopt that model revenue sharing on part time basis, so we brought consultants from outside who would work with us on a full time empanelment, only to learn later on that one of the worst things you can do for a market like Ahmedabad, is to bring outsiders. It was too late by then, we had the

team, so we built it up. The other thing was that, coming from outside, we had no idea about the particular dynamics of the Ahmedabad market. There is a river that separates two parts of the city, and we coming as outsiders, had no idea of the inter-communal dynamics that exists between those two, and chose the one which we thought was a lot more densely populated and gave us a much larger land parcel and was more central, but it turned out to be not a place for at least people with money want to go.

So, it still does well. It attracts a large number of patients, but it's heavily dependent on poorer patients who are under a government scheme. Now, the government scheme pays on time, it doesn't pay well. And, to they extent that they keep paying, we're able to keep the show going, but, we have to take that hospital up to that next level. So, to reach that breakeven level it's got a decent number base, and now we can just build on that.

We are adding oncology over there, so that will change the mix of departments a little bit. We are adding a couple more beds that are little more high-end private rooms, semi-private rooms, and it will gradually build up from there. There again, lessons learnt on location, as well as coming in with the wrong consultant engagement mix. Again, we're passed that, and now we can just add to our strengths, but it won't deliver outsized returns to the kind that we had expected. So that's why, even in terms of the capex spend, the bulk of it we'll be spending on the hospitals the demonstrate the strongest numbers and the strongest potential for growth.

Dheeresh Pathak: I understand, thank you for that explanation as well. So now in Ahmedabad and Gurugram, instead of the fulltime consultant, do you have visiting consultants in those two assets?

Dr. Emmanuel Rupert: We have a combination of both. We do have in specialities, which has got larger footfalls and the potential we do have full-timers. But, we also have lot of part-timers who have the ability to bring their patients and provide services.

Debangshu Sarkar: Thanks Dheeresh. I think with that, we will conclude our session as I don't see anybody with the raised hand feature out here. Thanks everyone for your active participation, as always. Please do feel free to reach out to us in case of any follow-on queries that you might have. Thank you once again.