February 6, 2025

Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, Plot C-1, Block G,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051

Symbol: MAXHEALTH

Listing Department,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

Scrip Code: 543220

Sub.: Transcript of Earnings Call held on January 31, 2025

Ref.: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir / Madam,

Please find enclosed copy of transcript of earnings conference call, organised on January 31, 2025, on financial results of the Company for the quarter and nine months ended December 31, 2024.

The said transcript is also available on the website of the Company at www.maxhealthcare.in/financials#earnings-call.

Kindly take the same on record.

Thanking you

Yours truly,
For **Max Healthcare Institute Limited**

Dhiraj Aroraa
Digitally signed by Dhiraj Aroraa
Date: 2025.02.06 22:08:47 +05'30'

Dhiraj Aroraa
SVP - Company Secretary and Compliance Officer

Encl.: As above

Max Healthcare Institute Limited

Q3 FY25 Earnings Conference Call Transcript
January 31, 2025

Moderator: Ladies and gentlemen, good morning, and welcome to the Max Healthcare Institute Limited's earnings conference call.

Please note that this conference is being recorded.

I now hand the conference over to Mr. Suraj Digawalekar from CDR India. Thank you, and over to you, sir.

Suraj Digawalekar: Thank you, Ryan. Good morning, everyone, and thank you for joining us on Max Healthcare Q3 and 9M FY '25 Earnings Conference Call.

We have with us Mr. Abhay Soi – Chairman and Managing Director, Mr. Yogesh Sareen – Senior Director and Chief Financial Officer and Mr. Keshav Gupta – Senior Director, Growth, M&A and Business Planning.

We will begin the call with opening remarks from the management, following which we will have the forum open for an interactive Q&A session.

Before we begin, I would like to point out that some statements made in today's call may be looking forward in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Abhay to make his opening remarks. Thank you, and over to you Abhay.

Abhay Soi: A very good morning to everyone and warm welcome to Max Healthcare's Q3 FY25 Earnings Call.

We are considerably pleased by our performance this quarter with over 30% year-on-year growth across parameters such as revenue, EBITDA and occupied bed days, notably supplemented by the growth momentum of our recent acquisitions.

We are happy to share that we achieved EBITDA breakeven in December 2024, within a record period of 6 months from the launch of our greenfield hospital in Dwarka. This hospital reported a revenue of Rs. 59 crores and an EBITDA loss of Rs. 5 crores in Q3.

Max Lucknow demonstrated year-on-year growth of 58% in revenue and 94% in EBITDA, while Max Nagpur reported year-on-year growth of 22% in revenue and 50% in EBITDA in the third quarter.

Additionally, Jaypee Healthcare Limited became a wholly-owned subsidiary of the Company during the quarter. Jaypee Noida is presently being integrated into our Network and reported a gross revenue of Rs. 112 crores with an operating EBITDA of Rs. 23 crores at a margin of 21% in the third quarter.

We have now been able to demonstrate remarkable operating efficiencies across all formats of inorganic growth, namely greenfields, acquisitions and brownfields. This fortifies our confidence for the upcoming phase of accelerated growth driven by significant brownfield additions within the next six months.

Consequently, we continue to strategically pursue inorganic opportunities. We are expanding our footprint in the Mumbai Metropolitan Region through a foray into the attractive Thane micro-market, given its rapid urban growth and proximity to Mumbai. Our Board has accorded its approval to enter into an asset-light 'built-to-suit' agreement for a 500-bed hospital at a prime location in Thane, to be set up by the partner as per our specifications on a built-up area of approximately 6 lakh square feet. The hospital is expected to be commissioned in 2028. This marks our third asset-light transaction, designed to drive future growth and maximize potential return on capital employed (ROCE) with minimal investment.

The Board has also provided its approval for enhancing the capacity of our upcoming asset-light 'built-to-suit' hospital in Mohali (Zirakpur) to 400 beds from 250 beds planned previously.

Now, coming to the Q3 performance highlights, which is our 17th consecutive quarter of year-on-year growth.

1) Our average occupancy for the Network stood at 75% versus 73% in Q3 last year and 79% in the trailing quarter, while the occupied bed days (OBDs) grew by 36% year-on-year and 8% quarter-on-quarter.

2) Average revenue per occupied bed (ARPOB) for the quarter stood at Rs. 75,900, remaining relatively flat both year-on-year and quarter-on-quarter. Like-for-like ARPOB for Existing Units, however, grew by 7% year-on-year and 3% quarter-on-quarter.

3) Network gross revenue was Rs. 2,381 crores compared to Rs. 1,779 crores in Q3 last year and Rs. 2,228 crores in the previous quarter. This reflects an increase of 34% year-on-year and 7% versus the trailing quarter.

   New Units reported a gross revenue of Rs. 323 crores. While Existing Units registered a year-on-year growth of 16% in revenue, driven by 8% growth in OBDs and 7% growth in ARPOB.

4) The international patient revenue stood at Rs. 201 crores, registering a growth of 28% year-on-year and 8% quarter-on-quarter, despite contraction in patient footfalls from Bangladesh and Yemen due to political unrest.

5) Network operating EBITDA stood at Rs. 622 crores, reflecting a growth of 32% year-on-year and 10% quarter-on-quarter. This includes Rs. 60 crore EBITDA contribution from New Units.

6) Network operating EBITDA margins stood at 27.3% for the quarter. Existing Units improved their EBITDA margin by 70 basis points to 28.6%.

7) Annualized EBITDA per bed for the network stood at Rs. 73 lakhs. Like-for-like EBITDA per bed for Existing Units stood at Rs. 82.6 lakhs, reflecting a growth of 9% year-on-year.

8) Profit after tax before exceptional item was Rs. 390 crores versus Rs.338 crores in Q3 last year and Rs.349 crore in the previous quarter, reflecting a growth of 15% year-on-year. The exceptional item of Rs. 74 crore was towards charges paid to Yamuna Expressway Industrial Development Authority (YEIDA) for securing permission for a change in shareholding of Jaypee Healthcare Limited prior to acquisition.

9) Overall free cash flow from operations was Rs. 303 crores. During the quarter, Rs. 362 crore was deployed towards ongoing capacity expansion projects and upgradation of facilities at acquired hospitals, while Rs. 146 crore was distributed as dividend and Rs. 1,716 crore (net of cash at Jaypee Healthcare Limited) was used for Jaypee acquisition. Consequently, net debt for the Network stood at Rs. 1,608 crores at the end of December 2024.

10) Continuing our effort to support the local communities, we treated approximately 37,500 outpatients and 1,300 inpatients from economically weaker sections of society entirely free of charge (worth Rs. 52 crores at hospital tariff).

11) Both our strategic business units continued to report significant growth in revenue and profitability.

- Max@Home reported a top line of Rs. 55 crores, reflecting a robust growth of 24% year-on-year. It now offers 15 specialized service lines across 14 cities, with over 50% repeat transactions.

- Max Lab reported a gross revenue of Rs. 41 crores, reflecting a strong growth of 22% year-on-year. It provides services in 48 cities through its network of more than 1,200 collection centres and active partners.

12) Now, coming to the status of our expansion projects:

- 128 beds at Max Lucknow – 64 beds have been commissioned in January 2025, and the balance 64 beds will be added in February 2025. Further, we are awaiting in-principal approval for the existing 13th to 17th floors for hospital use, which will add another 140 beds almost immediately.

- 127 beds at Max Nagpur – 12 beds have been added in October 2024. For the balance beds on additional floors, we are expecting the environmental clearance (EC) to come by March 2025. Project completion should take another 24 months thereafter.

- 268 beds at Nanavati in Phase 1 – Interior fit-out works are in progress currently. The project continues to be on schedule and we expect completion within the next 3 to 4 months.

- 400 beds at Max Smart (Saket Complex) – Majority of the structural work is complete. The project is on track and we expect its completion within Q1 FY '26.

- 155 beds at Mohali – Interior work is in progress and we expect its completion again by Q1 FY '26.

- 500 beds at Sector-56 Gurgaon – Structural work is in progress. We expect completion of the first phase of 300 beds by the end of Q3 FY '26.

All of these are on schedule, and we will see a significant ramp up in our capacity over the next 12 months, a large part of which is coming through Nanavati, Mohali and Max Smart within 6 months.

- Thereafter, 367 beds at Patparganj – Post receipt of environmental clearance (EC), tendering work is in progress currently. This project is largely on schedule.

- 550 beds at Max Vikrant (Saket Complex) – Forest approval is delayed due to Supreme Court proceedings in relation to tree felling involving DDA and the Lieutenant Governor of Delhi for the past 6 months. They have not permitted anybody to remove any trees in Delhi, but we think that this should get fairly resolved soon. All other statutory approvals are in place.

- 400 beds at Zirakpur, Mohali – No objection certificate (NOC) from fire department has been received. Project is expected to be completed within 30 months.

And finally, moving on to the overview of company's performance for nine months ending December 2024:

13) Network gross revenues stood at Rs. 6,636 crores, reflecting a growth of 25% year-on-year. New Units contributed Rs. 585 crores to the gross revenue.

14) Overall network operating EBITDA grew by 20% year-on-year to Rs. 1,687 crores, reflecting a margin of 26.6%, while EBITDA per bed stood at Rs. 71.5 lakhs. Existing Units reported an EBITDA margin of 27.7% and EBITDA per bed of Rs. 78.5 lakhs.

15) Max Lucknow demonstrated year-on-year growth of 41% in revenue and 67% in EBITDA, while Max Nagpur reported a year-on-year growth of 26% in revenue and 118% in EBITDA within 9 months of acquisition.

16) Since becoming operational in July, Max Dwarka clocked a revenue of Rs. 92 crores and EBITDA loss of Rs. 29 crores. This greenfield hospital achieved EBITDA breakeven in December 2024, a record 6 months from its launch as highlighted previously.

17) During the 9 months, we generated Rs. 1,025 crores of free cash flow from operations after interest, tax, working capital changes and routine CAPEX. Rs. 793 crore was deployed towards ongoing expansion projects and upgradation of facilities at acquired hospitals, Rs. 146 crore was distributed as dividend and Rs. 1,716 crore was used for Jaypee acquisition.

With this, we open the floor for any Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Q&A session. The first question comes from the line of Amey Chalke from JM Financial Institutional Securities Limited. Please go ahead.

Amey Chalke: Hello, thank you so much and congrats to the management on good set of numbers. So, the first question I have is on the revenue from the existing units. It seems that quarter-on-quarter from Q2 to Q3 the revenue has remained largely flat despite being the weak quarter of Quarter 3. Is it possible to give an explanation on the front where we have seen the improvement or performance improvement during this quarter for the existing units?

Yogesh Sareen: Amey, as you would know, Q3 is typically a weak quarter because you have festivals in this quarter, and if you see the history, you will find that typically the revenues come down by 2-3% and EBITDA also drops by 3-4% in this quarter. Despite the history, this time it is flat and in fact the overall EBITDA has improved over Q2.

That way, the performance has been much better and it is mainly because of the fact that in the Diwali month, typically you will see the occupancy drop to around 65-70% range, but this time we had very healthy occupancy even during Diwali, and that is what has made all the difference in this quarter.

Abhay Soi: You must look at it on a year-on-year basis because of seasonality. Every quarter must be seen on a year-on-year basis rather than sequentially quarter-on-quarter.

Amey Chalke: So, no, because I was expecting a drop this quarter considering it is a seasonally weak quarter. That's why the question was.

Yogesh Sareen: Occupancy levels in the Diwali month made a lot of difference. Typically, the occupancies do drop, but this time it did not happen. It is also because of the fact that Diwali was at the very end of the month, which also helped in a way. If it is in the middle of the month, then you will have more impact.

Amey Chalke: Sure, and second question I have, we were expecting a price increase for some of the insurance schemes. So, have that been taken place or do you expect in the next one year any price increase to happen on the insurance side?

Abhay Soi: We are not expecting a price increase on the insurance side, we were looking at a price increase on the institutional side. We are still expecting that as it is long overdue. Our belief is that it should come within a month or two. But let's see what happens on that.

On the insurance side, it happens on a rolling basis. That means whichever insurance contracts come offline every two years, you get the new rates over there. So, that's happening as course of hygiene.

Amey Chalke: Sure. And if you see our therapy mix, it is continuing to improve. The oncology mix has also improved from Quarter 3 of last year to this year. Considering the new bed additions which have happened would have a little bit lower oncology proportion, I believe for existing hospital, the mix would have moved up sharply. So, where should we see the optimized mix for the oncology revenues going ahead?

Abhay Soi: In the new hospitals, it should be increasing considerably in fact. In Lucknow, for example, the new bunker is yet to get ready and is expected to be operational by July. Thereafter, oncology revenue should increase. What happens is that without radiation oncology, even the other programs suffer in as far as oncology is concerned. So, you will see a major uptick over there.

We are looking at a new bunker coming on stream even in Dwarka. The facility is without a bunker right now, so there is no radiation oncology there. It needs to kick

in over there as well. Besides that, even for Jaypee and others, we are going to see further increase in oncology.

You are absolutely right. The current pie although takes into account improvement or increase in oncology business, but that number is kind of subdued or pulled down by the new hospitals, new acquisitions where we are looking at perhaps significant increase in oncology business.

Amey Chalke: Right. Just to add more, like, which would be the hospital which would have highest oncology mix and what would be that number so that we would know the upper limit for the oncology?

Yogesh Sareen: We can't give you hospital-wise numbers, but the very fact that we have 25%+ as percentage share of oncology in the overall setup, obviously there will be hospitals that will be in the range of 29-30% as well. The new hospitals will be lower. For example, Dwarka would be around 12%. These are the kind of ranges that we have.

Abhay Soi: Even Lucknow will be in single digits again?

Yogesh Sareen: Yes, Lucknow will also be around 10-11%, so it is half the network average.

Amey Chalke: Just last question. The PHF profitability has pulled down a bit this quarter. Any reason for the same?

Yogesh Sareen: No, you will have to see it in the overall aspect. If you read the notes given, some of them have donated money to the other trusts. Also, we have revised the fee structure for two of the PHFs, which means that there is more upstreaming happening in the first column, that is we are getting more fees into MHIL, especially from Balaji and DDF.

Amey Chalke: Thank you so much. I will join back the queue.

Moderator: Thank you. The next question comes from the line of Sumit Gupta from Centrum Broking Limited. Please go ahead.

Sumit Gupta: Sir, on the Lucknow performance specifically, I just want to understand how the market is panning out and what kind of trends to expect in the overall profitability going forward?

Abhay Soi: We are not going to give any forward-looking guidance, but the market is panning out very well. Like we said, we are launching another 140 beds. The reason we are doing that is because the occupancy requires that. 64 beds have already been commissioned in the month of January. These are new beds and another 64 beds will be commissioned in February, that is in the current month. Thereafter, we are looking forward to another 140 beds, which can immediately come online post approval.

We have the requirement for these beds and, that is what we are anticipating. Therefore, we are getting these beds online.

We are also looking at the new bunker to come on stream over there. So, with the new bunker, the radiation oncology business, the day care business, etc. increases. And we are seeing very good traction with clinicians, bringing in new clinicians and so on. So, I think, Lucknow has a significant amount of meat over there.

Sumit Gupta: Okay. So, what are the competitive scenarios there on the additional intensity being panning out like it is going up. What is the trend of the intensity?

Keshav Gupta: It's the same as earlier, so there is an Apollo and there is a Medanta. The same hospitals are still there.

Abhay Soi: And there are some other smaller nursing homes and hospitals.

Sumit Gupta: Okay. And sir, of the Nagpur facility, the Q-o-Q, there is a decline in the overall profitability. What has led to that decline in the growth?

Abhay Soi: Quarter-on-quarter, like we said, is a seasonal business. You must look at it on year-on-year basis.

Sumit Gupta: Okay, understood. Thank you, sir.

Moderator: Thank you. The next question comes from the line of Damayanti Kerai from HSBC Securities and Capital Markets (India) Private Limited. Please go ahead.

Damayanti Kerai: Hi, thank you for the opportunity. My first question is on your debt side, so Rs.1,600 crore net debt after payment to the Jaypee etc. So, now in view of multiple projects coming in like coming quarters or years, how should we look at the funding side? And then maybe you can just like give your upper limit for net debt to EBITDA, like what will be your upper tolerance level there?

Abhay Soi: So, our upper limit is 2.5x net debt-to-EBITDA, but we are far from that. The new ones that we have announced such as Mohali (Zirakpur) as well as Thane, they are both asset-light models. The developer incurs the cost and we are essentially leasing these spaces from them thereafter. Dwarka expansion again is on a similar line, which is an asset-light model. As you are aware that Dwarka itself is an asset-light model.

Now other than that, we are looking at Rs. 500-600 crore over the next 3-4 months of CAPEX towards the brownfields and then thereafter. But yes, our overall cap is 2.5x net debt-to-EBITDA. This would include not only current CAPEX but also any further inorganic growth or whatever else we may do, including on and off-balance sheet debt.

Yogesh Sareen: We are at 0.65x at this point in time after the Jaypee acquisition.

Damayanti Kerai: Okay, so comfortable headroom.

Abhay Soi: Yes, and we are very conservative on the debt side.

Damayanti Kerai: Okay, and just if you can remind us like what kind of cash is currently generated from the existing business.

Abhay Soi: This quarter we generated Rs. 303 crores of free cash flows. This is after tax, working capital increase, maintenance CAPEX and any interest.

Damayanti Kerai: So, on an average, we can assume like Rs.1,200 crore of cash per year is getting generated against your all growth needs.

Abhay Soi: Hopefully more, given the year-on-year growth that we have.

Damayanti Kerai: Okay. My second question is on price increase which you mentioned on the institutional channels. Can you bit elaborate, are you expecting something to come up on the CGHS rate or what is it regarding?

Abhay Soi: That's right. We are expecting some revisions to come up in CGHS rates that will also impact the other PSU business. The gap earlier used to be 44% between our cash rates and our institutional, and now it has come down to 36%. The delta has reduced. On top of that, we are expecting better rates coming through on CGHS now. But we have been expecting this for some time. Our hope is that this comes in this quarter.

Damayanti Kerai: Have you heard any announcement from the Government? You mentioned next two to three months, right? You are hoping to hear something?

Abhay Soi: We will just have to wait until it comes through.

Damayanti Kerai: Okay, great. And then my last question will be on institutional bed share, which is around 30% for the quarter. So, how should we look at, because earlier you mentioned your endeavour is to bring it down, right? But eventually, I understand you will take up scheme patients even when you have beds to ramp up. But any like guidance or any target in your mind for this part of the business?

Abhay Soi: See, what happens is that as we add new hospitals or new capacities, your institutional business is going to go up with that. Our endeavour is not to reduce institutional business. Our endeavour is to accommodate growth in our preferred channels of business. But if we can do both, we do not have a problem doing it.

You distil it when you have a capacity constraint. If you are able to add more and more capacity to it, then it is not a problem because even the institutional business is contributing towards your fixed costs. The idea is not to, unless it was a loss-making business, then you wouldn't be doing it in the first place. The first choice is to create more capacity to accommodate that business as well as any growth in your preferred channel business. And wherever you cannot do that, you start distilling that business.

Damayanti Kerai: Okay. So, you have the flexibility to play around with this mix, right, to optimize the asset utilization?

Abhay Soi: We have done that previously. You see plenty of facilities where we have brought it down to zero, but you will see that some facilities that we open up now, let's say Mumbai, we will start institutional business because we are coming up with new capacity. The first idea is to fill the beds, because this business contributes towards fixed costs.

You have seen it in the Shalimar Bagh brownfield as well. But having said that, even with the lower rates, your EBITDA per bed is higher simply because you have got operating leverage when you are adding brownfield capacity on existing hospitals.

So, if you take an example of Nagpur, it used to operate at 55-60% occupancy. But we have been able to ramp up the occupancy by taking in institutional business. The hospital never used to do so before our acquisition. And the immediate fallout of that is that it all percolates down to your EBITDA. So, you are better off taking where you have idle capacity. So, if we can create idle capacity, then it is great. You take institutional business, it percolates down to EBITDA and you have higher EBITDA per bed from the incremental institutional business.

Damayanti Kerai: Okay, thank you. That's very clear.

Moderator: Thank you. The next question comes from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: So, my first question was on the Mumbai project and the additional beds that you intend to add in Mohali. As both are built-to-suit projects, what would your investment outlay be for these two assets?

Abhay Soi: Essentially, it's going to be medical equipment, which will be let's say about Rs. 150-200 crores. But that only happens at the end when it's constructed – the last 3-6 months or whatever.

Abhay Soi: Yes, it's about Rs. 30 lakh per bed, but it's all back-ended. Medical equipment comes after the entire project is almost complete.

Prashant Nair: And Mumbai you intend to operationalize in fiscal '28, is that right?

Abhay Soi: End of '28, that is right. So, it takes about 3-3.5 years to build, including permissions.

Prashant Nair: And Yogesh, for your business, would say 65% cash conversion be kind of a reasonable number to work with, assumption to work with, or can this change, say, at any point over the next few years?

Yogesh Sareen: Yes, I think 65% is the right number. I mean, we only hope that the tax numbers will come down going forward in terms of cash outflow. So, this should be okay.

Prashant Nair: All right, great. That's it from me. Thank you.

Moderator: Thank you. The next question comes from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Thanks for the opportunity. Sir, first one on the hospitals which are coming up over the, say, next six months. So, with respect to those, what kind of operational cost addition can be factored for FY '26?

Abhay Soi: Is this for the brownfields?

Tushar Manudhane: Yes sir, the ones which are coming up in say Q1 FY '26, Mohali, Max Smart, Saket?

Abhay Soi: Marginal operational cost increase because these are all brownfields. We already are incurring all the major costs in the existing hospitals.

Tushar Manudhane: So, secondly, with respect to this build-to-suit where the investment is lower, but accordingly, I mean, subsequently as and when let us say the steady-state occupancy of say 55-60% as and when that happens, what kind of margins, you know, we are sort of assuming this build-to-suit because there would be rent share or there could be some revenue share with the partner unlike, you know, own green field, brownfield expansion? So, you know, basically trying to understand what kind of margin dilution happens?

Abhay Soi: You have to look at what we get vis-à-vis what we invest. So, you have to look at it on a ROCE basis. Now, if 80% of the capital cost, which is land and building in this case, is incurred by the partner and you are locking it at 8-9% yield, and we enjoy a

35% ROCE in a stable state on the whole hospital, so you can imagine what it does to our 20% contribution. Our ROCE goes beyond 100% effectively. And most importantly, you are insulated against any cost and time overruns because that is to the partner's account and not to your account.

Tushar Manudhane: Understood. And what kind of ARPOBs, you know, do you think this location can drive it compared to say metros or tier 1s where currently MHIL is at Rs.75,000-76,000? What sort of assumption for this location?

Abhay Soi: I don't think there is any difference between Thane and what any of the Mumbai hospitals will be operating. And you have some listed players like Jupiter, which are operating in Thane.

Rs. 75-80,000 is the ARPOB at present. Three years later, hopefully, it will be more. In Mohali, it should be no different from our existing hospital in Mohali, which is at an ARPOB of about Rs. 55,000 at this point of time. Three years later, it should be more, as you are aware that ARPOB is growing by 7-8% every year.

Tushar Manudhane: Got it, sir. And just one more on Lucknow. Given the current occupancy and current profitability at least at the existing centres, so the growth will be more driven only by beds now, given that the operational efficiency is largely in place or you think there is still some more efficiency which can drive the profitability while beds will drive the volume growth?

Abhay Soi: So, when you have higher occupancy, the cost also defrays over a larger number of beds. So, automatically, you have operational efficiency coming through. Other than that, like we mentioned, that there is no bunker over there right now, which should come on stream shortly and improve day care, radiation, etc.

It is coming on stream in July. And thereafter, you will have a higher amount of ARPOB emanating from that particular facility. There are other clinical programs' equipment which are online and coming onstream. We have ordered the equipment, but it takes time for it to come. All of this will contribute to higher ARPOB, better operating efficiencies, etc.

Yogesh Sareen: Also, some of the doctors have joined during Q3. So, there will be a full quarter impact going forward.

Tushar Manudhane: Understood. And just one more, if I may, on Nagpur, given the kind of size of revenue, in fact, it's relatively smaller in the overall scheme of things, but just to understand here, in terms of, you know, the current, the occupancy, which is sort of dragging down and subsequently having an impact on profitability, even if I leave aside its seasonal impact, still, just to understand, you know, the potential to add another 115 beds here.

Abhay Soi: The occupancy on a year-on-year basis has increased.

Yogesh Sareen: Q2 was 91%, and this quarter is 79%. They had higher incidence of vector borne diseases last quarter. This does happen seasonally.

Abhay Soi: 79% is by no means a low occupancy in a slow season. 79% is midnight occupancy and like we said, it's going to take us 24 months to build the additional beds. We have no doubt that even if you take a 5% increase in occupancy over the next two years, we are going to be fully occupied out. And do keep in mind that you create

infrastructure for your peaks, not for your troughs. So, our peak occupancy was 91% last quarter.

Tushar Manudhane: No, I meant to say that at 79% occupancy, we are at say Rs. 54 crore revenue, Rs.11 crore EBITDA, which is like roughly 20%. So, from a profitability point of view, we are more or less there and then given the kind of profitability here, we intend to still add 150 beds is what I am trying to ask. Or is the EBITDA margin still possible to get better at this site?

Abhay Soi: No, of course, it is possible to get higher EBITDA margins. Also, if you say occupancy is not an issue, then as far as the higher occupancy is concerned, you also get huge amount of operating leverage, because of the brownfield. EBITDA per bed is significantly higher then. You also have to visualize this basis the entire ROCE that we are shooting for, which is 20-25% within 4 years.

Yogesh Sareen: The other important aspect is that we still have to get to the respectable ROCE there. Our target is 20-25% range, and we are at 10-11% range as of now. So, we have to add those additional beds to get to that ROCE level. And that's how it was all planned when we acquired the hospital.

Abhay Soi: Keep in mind that this is only the 9th month, right?

Tushar Manudhane: Got it. Thanks. That's it from my side.

Moderator: Thank you. The next question comes from the line of Rishi Mody from Marcellus Investment Managers. Please go ahead.

Rishi Mody: Yes, so Abhay, just wanted to understand this partner healthcare facility (PHF). So, we have used the profitability there to fund the new Vikrant and the other which is again a PHF facility. So, wanted to understand like do we just control the cash flow, or do we have ownership over that free cash flow that these Balaji Society and all of these guys create? Like can you give out that money as dividends to the shareholders or you are not allowed to do that?

Yogesh Sareen: No, there is no dividend that can be declared for any society. But one society can contribute to the other society if their objectives are same. For example, Balaji Society and Modi Society objectives are the same. So, if they have ample cash, they can donate to other societies to use it for their construction and other purposes and that's what they did. But what can be given as dividend is basically you have to upstream to the main company. But the moment you mainstream it to the main company, then you get only 75% of it because you have to pay tax on it.

So, our endeavour is always to, if you need cash in a society, you move it from one society to the other society. But you can upstream it, you have the ability to upstream.

Abhay Soi: We have the ability. Your question is can it be dividend? Yes, it can be up streamed and then given as dividend, but of course we will be paying a 25% tax.

Rishi Mody: Okay, got it. And second, you mentioned on the PHF the fee has been revised. What's the change like today, I am guessing we are getting around 25% to 28% of that revenue out as a fee which gets recognized in our Max Healthcare revenue books. So, just what's the change?

Yogesh Sareen: Every two years the fees get revised for each of these PHFs. There is a method to the madness. We review the cost and their cash flow, and based on that the fees are

revised. For Balaji, annual impact will be around Rs. 25 crores for the fee revision. Now I don't know the percentage, but that's the absolute amount of PBT, which will be up streamed into MHIL through the MSAs that we have.

Rishi Mody: Okay, so we will get an extra Rs. 25 crores going forward from Balaji.

Yogesh Sareen: Yes.

Rishi Mody: Okay. Second on the Thane Hospital. So, I read that the lease is only for five years, the initial lease, and then you have two renewals versus when I look at the Zirakpur one, we have around a 20-year lease with some 20-year renewal. So, just wanted to understand like is there a risk of that property post, you know, we getting it being taken away by the developer and being given to someone else for a higher rental? Or like why did we get into only a five-year lease? And secondly, the two renewals post those five years, how many years are they for and who has the right for that renewal?

Abhay Soi: There are two things. It's not five years or three years. It's actually 15 years.

Keshav Gupta: 5 + 5 + 5, so 15 years lease.

Abhay Soi: Second is that after 12 months of operations, we have a call option on it. We can acquire it at any point of time. We can acquire it and sell it down to a REIT. We can acquire it and nominate somebody else or whatever else it is.

Yogesh Sareen: Otherwise, you have to understand the commercial logic of it, because if we do a 15-year lease in that state, then we have to pay higher stamp duty. Since we have the option to buy, we said we will take a call later and then renew it. It's at our option.

Rishi Mody: Okay, so like five plus five plus five. Okay. All right, just fine. Second, the last question from my end is the IRDAI regulations for the guidelines that have come through.

Abhay Soi: Sorry, I just want to go back to that point. It's 15 years with a call option at our choice.

Rishi Mody: Yes, to buy the property within 12 months. I heard that. Yes.

Abhay Soi: Yes. So, don't look at it is only 15 years. We can always, if the 15 years is not extended, buy it or we can actually nominate somebody else to buy it on the same lease.

Rishi Mody: And what would be that amount if you exercise the call option, like how much do you have to end up paying to the developer?

Abhay Soi: It's at cost.

Keshav Gupta: It's at cost and a very nominal yield on the real money spent on the project.

Rishi Mody: Okay, all right. So, 1 crore per bed would, effectively Rs.1, Rs.1.5 crore per bed would become the cost if you end up acquiring it.

Keshav Gupta: Yes, that's the broad range. The real cost for putting a project up is about Rs.1.9-2 crore per bed for a greenfield.

Rishi Mody: Okay. Last on the IRDAI guidance that's come out today or yesterday where they decided to cap the increment on senior citizen's insurance policy price hikes and they have asked these insurance companies to get back together and negotiate with hospitals and bring it closer to the PM-JAY rates. So, just wanted your view on, firstly, how much of our revenue within the insurance pool comes from senior citizen. And secondly, do you see any rate negotiation impact from this instruction?

Abhay Soi: No, there is no rate negotiation impact. In fact, we see a benefit from it because the number of people who may be going out of the insurance net because their premium goes up, there is a step jump in that premium, now won't go out of the insurance net because of this. It's more palatable. As far as premium is concerned, there is no rate negotiation for different age groups. It's not cut that way. I mean, the cost is cost right, whether it's for a senior citizen or a junior citizen from our standpoint.

Keshav Gupta: And they are giving a price hike of 10% per year. What we negotiate with insurance companies is around 10-12% every two years. If the underlying logic was to continue through and through, the reflective increase that the hospital seeks and most of the hospitals seek is lesser than what they are allowing anyway.

Abhay Soi: The price change on insurance every two years is about 12-13% at best. So, that comes to a medical inflation of about 6% per year effectively, at best, 5.5-6% a year.

Rishi Mody: Right, yes, I got that. So, that's the secure part just like these guys collectively, the insurance companies collectively come in and bargaining, does that impact?

Abhay Soi: That would be a Competition Commission issue, right? I don't think you can cartelise. But no, if that was to happen, then they should be kind of getting together and negotiating overall current rates? Why would they take only one segment? Like Keshav said, if our increase is 6% per year and they are being permitted 10% per year, so where is the problem?

Rishi Mody: Okay. All right. Understood. Yes, that's it from my end. Thank you for taking my questions.

Moderator: Thank you. The next question comes from the line of Andrey Purushottam from Cogito Advisors. Please go ahead.

Andrey Purushottam: Hello, this is Andrey. I had one question regarding the payor mix. How much of the payor mix is in your control? And to the extent that is in your control, what are the steps that you are taking next year or so to hopefully in favour of higher profitability?

Abhay Soi: No, it is not. It's the burden of disease, right? Effectively, we start adopting and align ourselves with what the market demand is. You move towards higher technology and perhaps more robotics and higher end programs. That is what drives the clinical mix.

Andrey Purushottam: No, I am talking about the payor mix.

Abhay Soi: Sorry, as far as the payor mix is concerned, we have seen there is an increase of 28% in international business. So, this is because we have engaged deeper with various geographies that we get patients from as far as the domestic patients are concerned. Upcountry is 40% of our NCR business. All of that is growing at a faster pace and so we want to have deeper engagements with upcountry. And other activities that we do to engage with the communities that should enhance the preferred channels for us.

Andrey Purushottam: Okay, thank you.

Moderator: Thank you. The next question comes from the line of Vaibhav Saboo from Nippon AIF. Please go ahead.

Vaibhav Saboo: Yes, thanks for giving me the opportunity and congrats for a good set of numbers. It was asked previously also, but just want to understand, you know, that on a consolidated basis, for example, our EBITDA margin is somewhere around, like, 20-25 percent, but you told to assume for mature hospitals, it would be around 29-30%. I just wanted to understand for the asset-light model, while I understand completely that ROCE would be very much attractive, I just wanted to understand what would be a similar, what would be the EBITDA number for the mature business for asset-light models. It could be around 20-25%, just wanted to understand that range.

Abhay Soi: This is post Ind AS, so the rental line comes below EBITDA.

Vaibhav Saboo: But for pre Ind AS basis, what would be the EBITDA margin?

Yogesh Sareen: It should depend on what the maturity of the hospital is, but I think it should be lesser by 5-6%.

Vaibhav Saboo: That's it from my end. Thanks, and all the best.

Moderator: Thank you. The next question comes from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Yes, thanks for taking my question. Abhay, just one clarification on the Mumbai expansion. I think once the new tower is commissioned, we are planning to phase out some of the older ones and rebuild that. So, would the net addition still be the 268 beds that we have talked about or should I also adjust the beds that will be going off for some time till we get it back? How should that phasing happen?

Abhay Soi: No, so it is going to be a net reduction there. When we start Phase 2, which should be almost immediately, you will have a reduction of 160 beds.

Keshav Gupta: Yes, we are currently adding 268 beds. After that is commissioned, we have to tear down 160 beds. Then next we will be adding 271 beds. That's a phase of about 1.5-2 years period. So, net reduction eventually will be 111 beds in Phase 2.

Yogesh Sareen: So, for the time being, you should take 268 beds. There is no reduction there. We have to take a call on reduction. Once we do the Phase 2, then the reduction will happen.

Neha Manpuria: So, the Phase 2 is not happening immediately?

Abhay Soi: Yes, at that stage you will bring down about 160 beds.

Neha Manpuria: Okay, and this is over the next two years. This entire process will get completed in the next two years.

Abhay Soi: That's right. But the beds which are being pulled down are more ward style. One of the things we have been able to do through this expansion is right-size the type of beds. Because the type of beds that we have a demand for and occupancy for are single beds, deluxe beds and so on. Whilst the present facility, one of the reasons that the occupancy levels typically have been lower at Nanavati compared to the rest

of the network, is because a lot of the beds were old style, ward style, nightingale ward beds. Those are the beds that are getting pulled down.

So, we are right sizing the beds. So, the net impact shouldn't be that much. You know, you are getting what is required where we have almost a 90% occupancy on single beds, ICUs, etc. Those will continue. While the ward style, nightingale wards, etc., come down, which in any case weren't in demand.

Neha Manpuria: Okay. So, there won't necessarily be a financial impact from it because of the right sizing beds, but then how should I think about the improvement because I think one of the areas that we wanted to improve was also the margin of the Nanavati Hospital. So, does that start happening once we have commissioned all of the when you completed Phase 2 fully?

Abhay Soi: Absolutely, and it happens on two counts, because one is your number of beds increases. Let's say if your operational beds are 280, and even if you take an increase of about 140-150 beds on top of that, net increase, you are looking at 50-60% more capacity addition. So, you will have the same cost structure defrayed over more number of beds and even the higher cost structure defrayed over the more beds and the right size beds. So, you will get the operating leverage, and your margins will certainly go up.

Neha Manpuria: Understood. Okay, that's helpful. My second question is just an extension of the previous question. I think there has been some chatter among insurance companies about getting together and trying to negotiate pricing, even using IRDAI as one of the agencies that does that. I know you mentioned Competition Commission, but do you see that as a risk when we are thinking about pricing with insurance? Could that 10% over two years be much lower as we think about the next, let's say, three to four years depending on how this process progresses?

Abhay Soi: Not at all. We haven't seen any approaches, any discussions, anything other than that. IRDAI is actually the regulator for insurance companies. So, I don't think insurance companies can get into the umbrella and have IRDAI negotiate that or get into the discussion. Because I think it is far beyond their mandate, right? Other than a conversation like this, where you are mentioning a rumour, and that also far and few that have come our way, there has never been any approach on that. Secondly, and most importantly, the moot point is that medical inflation is 6-7%. That's the increase we get every year. You just get it every two years, so it shows up at a 12% increase every two years. But the fact is, it's for two years. On an annual basis, it's still 5-6%. Any increment that you see is on real growth, which is new technology, robotics coming in. Of course, in terms of percentage margins, you get less margins. But in terms of value, you get more.

Because do understand, eventually all the innovation that happens in the healthcare sector eventually has to pass through the doors of hospitals. The same hospitals 30 years back who used to do conventional surgeries are now doing robotics. The same hospitals which used to do CABGs at best are doing transplants now. We used to have general surgery surgeons working on oncology. Now you have organ specific oncology. You have got radiation, chemo, etc. You have got other robotics doing those surgeries. When you do all of that you go up the value chain as well. So, there is real growth.

Yogesh Sareen: Neha, Also, if the insurance companies get organized, on the other side, the hospitals can also get organized, right? There can also be a collective bargaining on the hospitals side. That's easier to do in fact. Hospitals are far lesser in number if you take organized chains.

Neha Manpuria: Yes, the demand supply equation, I guess, is in your favour.

Abhay Soi: Not only that, also the density of beds, right? We are dominant players in Delhi NCR. And similarly, some of our peers are in their own markets. If you are kind of dissipated across the country, then it's a different matter. Today, we have 15 facilities in Delhi NCR, which are twice the number of facilities of the next three listed players put together. So, literally three players put together and the next 20 players are not even the same size. Your bargaining power is slightly different in that case. But it's not even a question of bargaining power. I think it's a question of what is right and what isn't. 5-6% growth in pricing every two years is not something that you can dispute, right? How much lower do you want to be is the question.

Neha Manpuria: Yes, fair enough. Thanks so much, Abhay.

Moderator: Thank you. We take the next question from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: Hi, thank you for the opportunity. The first one on the Dwarka. While we have done a very good job of breaking even, based on our reported number, if I look at the indirect cost in the Dwarka Hospital for the 140 beds, it seems to be roughly around Rs.150-Rs.160 crore a year, assuming that our direct costs are similar in line with the network average. So, my question is given that we are going to add almost around 1,400-1,500 beds next year, how should we think about the indirect cost related to that? I know there are some brownfields etc as well, but again these brownfields are separate towers versus the current towers and all that, so there might still be higher kind of indirect cost there. So, let's say, all in all these 1,500 beds, what is the indirect cost that we should assume whether it's Rs.1,000 crore or Rs.800 crore or how should we think about that?

Abhay Soi: No, I think the way you need to think about is that indirect cost is not linear. Right?

Kunal Dhamesha: It would come primarily in the first year?

Abhay Soi: It's already there. Whatever indirect cost you have been incurring up till breakeven, we have incurred the indirect cost. It is that indirect cost on 140 beds that we have broken even on. Thereafter, every bed that you add, your indirect cost is not going to be linear. It's only the direct cost which is going to be linear. Now indirect cost will be just some nurses and some resident doctors etc., which is a marginal cost.

What is going to happen is that every bed that you add, the revenue from that bed will give you a lot more leverage onto your EBITDA. A lot more which means almost your entire contribution margin. Let's say if you are operating at a 60% contribution margin, 50% of your top line, or that means almost your entire contribution margin will flow to your EBITDA, because your indirect cost is not linear. And that is the basic principle of any brownfield or opening any hospital. And frankly, over the next few quarters, you are going to see that being demonstrated.

Keshav Gupta: And those beds are not coming in new tower. The existing structure already has 300 beds.

Abhay Soi: It already has the beds. The beds need to be fitted out.

Keshav Gupta: We only opened 140 beds.

Kunal Dhamesha: Correct. So, once you operationalize another 160 beds, there would still be some incremental cost related to it, right?

Abhay Soi: If you have a hospital which has 8 floors, and you have operationalized 4 floors. Now you need to operationalize another 4 floors. All your costs of your clinicians, management, utilities or common areas, all the support functions, kitchens, everything is already incurred.

When you open up another floor, what do you do? You get nurses and resident doctors, which don't cost us much. Effectively, you are looking at maybe 8-9% of your revenues attributed to this cost. If your contribution is 60%, you take out 8% from that. So, 52% of your top line is going straight to your bottom line.

Kunal Dhamesha: When you ramp up.

Abhay Soi: Obviously when you ramp up, right? So, every incremental bed will give you more and more.

Yogesh Sareen: Post the breakeven stage.

Abhay Soi: Post the breakeven stage. And that's not only a hospital, any other venture works like that. That's basic economics.

Kunal Dhamesha: Sure. Another one on the institutional mix and the payor mix or bed share and the payor mix, if I look at the nine-months payor revenue from the institutional patients have grown at roughly around 34% year-on-year, and the bed share has only grown at around 20%. So, my view is that there is a decent amount of kind of rebasing of the pricing of some sort was happened, and I also see there was some order passed in February '24 from the Delhi Government advising the CGHS rate. So, what are we looking forward in the next one or two months incrementally?

Abhay Soi: Delhi government has nothing to do with CGHS rates. CGHS rates are under Central Government.

Yogesh Sareen: Yes, and Kunal, Abhay already mentioned that the gap between the cash, the self-pay and the institutional segment has come down in terms of ARPOB, right? Earlier, it used to be 44%, now it's only 36%. That means there is an 8% improvement in terms of the ARPOB. Basically, we are doing more oncology. So, as a result, you find that the bed growth is not there, but there is a revenue growth. That obviously means that there is an ARPOB growth which is happening, and it's not because of rates. There is nothing happening on the rates. It's only because of the change in the mix of the patients.

Kunal Dhamesha: Sure, I have some document. Probably I will share it in more detail on that. I have just one more question, if I can.

Yogesh Sareen: Yes.

Kunal Dhamesha: Sure. So, sir, this Rs.40 crore donation that we have done from Balaji and Devki Devi Society, and that kind of, you know we have taken it pre-EBITDA, which kind of reduces our profitability. So, does this kind of help with maintaining the tax-exempt status for this trust hospital?

Yogesh Sareen: Kunal, first of all, it's not before EBITDA, after EBITDA. It's in EBITDA only. It's basically from one society to the other society. The other societies are not having

operating income, so we don't show them as a separate column, right? We put that under the elimination column. Then you see that the overall number matches. So, it's not a major movement. It's the only movement of one society donating to the other one, and it has nothing to do with tax status.

It is basically, under tax status, you are supposed to use the money that you have for the objectives of the society and that part of the objective is also to help other societies. If one society has surplus cash, then it can obviously donate to the other societies. It's within the ambit of their 'objective' clause and within the ambit of the approvals that they have in terms of exemptions from the Income Tax department to donate money to other societies for furthering the objectives of the society.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Abhay Soi: Thank you everyone, for taking time out to join us for third quarter results. We look forward to interacting with you again next quarter.

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