Narayana Health
Health for all. All for health.

Date of submission: 11th August 2023

To, The Secretary Listing Department **BSE Limited** Department of Corporate Services Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Scrip Code – 539551	To, 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 June 2023

This is further to our earlier letter dated 7th August 2023 regarding audio recording of Earnings Call of the Company for the quarter ended 30th June 2023, held on 7th August 2023.

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
Digitally signed by SRIDHAR S
Date: 2023.08.11 17:23:17 +05'30'

Sridhar S.
Group Company Secretary, Legal & Compliance Officer

Encl: as above

“Narayana Hrudayalaya Limited
Q1 FY24 Earnings Conference Call”

August 7th, 2023

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 HEALTH CITY CAYMAN ISLANDS LIMITED

MR. RAVI VISHWANATH – CHIEF EXECUTIVE OFFICER, NARAYANA HEALTH INTEGRATED CARE (P) LTD

MR. NISHANT SINGH – VICE PRESIDENT, FINANCE, MERGERS & ACQUISITIONS & INVESTOR RELATIONS

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

Nishant Singh: My name is Nishant Singh. I head the investor relations function at Narayana Hrudayalaya Ltd. I welcome you all to the Q1 FY24 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 Jayaraman - our Group CFO, Mr. Venkatesh - our Group COO, Dr. Anesh Shetty - MD of our overseas subsidiary HCCI and Durga Prasad, Senior manager in the IR function. I would also like to take the opportunity to introduce Mr. Ravi Vishwanath who is the CEO of our newly incorporated company NHIC.

We hope 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, we 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 exchanges 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. Post the call, should you have any further queries, please do not hesitate to get in touch with us. With that, now I would like to hand over the call to Dr. Rupert.

Dr. Emmanuel Rupert: Good evening everyone. I warmly welcome you all to the Q1 FY24 earnings call conference of Narayana Hrudayalaya Limited. The first quarter of the fiscal year delivered steady performance supported by growth in the business across our flagship units and newer hospitals. Consolidated revenue for the current quarter stood at INR 12,334 million, reflecting a year-on-year growth of 19.4% and a marginal increase of 1% compared to the previous quarter. NHL generated consolidated EBITDA of INR 2,858 million in Q1 FY24 at a margin of 23.2% against 22.8% of Q4 FY23. This margin improvement is attributed to improvement in cost efficiencies and improved realizations across all our units including Cayman.

HCCI Cayman continues to contribute significantly to the overall performance with revenue marginally increasing by 2% to $ 29.92 million. The newly commissioned radiation oncology block in the Camana Bay Hospital has seen good traction in its first quarter and is on track to meaningfully contribute to our growth in the future. We remain confident that our Caribbean business will continue to grow further through strategic initiatives and investments.

Our overall balance sheet and liquidity profile remains strong with a group cash and liquid investments of over INR 8.2 billion against gross borrowings of INR 8.4 billion, Net debt of INR 0.19 billion as of 30th June 2023. Our net-debt to equity ratio has further improved to 0.01 against 0.06 in Q4 FY23 giving us sufficient room to fund our expansion through a judicious mix of borrowing and internal accruals. Off the guided Capex of INR 11 billion for FY24, we have incurred a capital outlay of close to INR 1.1 billion for Q1, and we expect to spend the balance amount in the remaining quarters of the fiscal year.

The first quarter of FY24 witnessed strong momentum in high-end Cardiac Sciences work in Congenital and Adult segments, Oncology, Gastro Sciences, Orthopedics, Image Guided Therapies, and other Quaternary work across all our centres.

- Our Leadership in Cardiac Care grew from strength to strength with NICS in Bangalore performing 2,263 Cardiac Surgeries in this quarter, thereby achieving the highest ever quarterly volume.
- Our Ahmedabad unit, in a first ever for Gujarat, successfully performed PDA Device Closure on a 30-day old child weighing 900 grams, using 4/2 Amplatzer Occluder device.
- Mazumdar Shaw Cancer Center successfully conducted India's first Robotic Ampullectomy Surgery for malignancy of ampulla of Vater.
- RTIICS performed complex Robot Assisted Thoracic Surgery (RATS) for decortication and excision of posterior mediastinal mass.
- I am delighted to share with you that we have successfully started the Radiation Oncology services at our hospital in Jaipur, where over 70 patients have already been registered in this quarter. This hospital successfully performed Prostrate Artery Embolization, which is the first ever in Rajasthan.

Our focus on digitization and business transformation has led to significant improvements throughout the NH system. With the implementation of athmâ across our labs, we have experienced a 36% improvement in TAT of our top 5 tests. We have been able to reduce our paper consumption 34% this quarter. Our AADI aap for doctors has led to 50% improvement in Discharge TAT over 2021 numbers.

Our recently incorporated company Narayana Health Integrated Care (NHIC) has seen good traction with the retail health segment. With Bangalore as our focus, we have reached 6 points of presence as of June end. NHIC Revenue for the quarter has crossed

Rs 45 Mn, with the patient transaction numbers crossing 29,000. We are confident in growing this business and serving our customers with a clear focus on building India's leading Integrated Care program.

We continue to invest in our clinical and non-clinical operations across the Group, transform the patient service levels, increase our throughput capacity, invest in more digital patient outreach channels, and improve our operational efficiency. We are simultaneously pursuing organic and inorganic growth opportunities both in India and overseas that will derive synergies from our existing operations, maximize value for all our stakeholders and keep a close watch on return on capital.

Nishant Singh: Thank you, sir. I would request everyone to now use the 'raise hand' feature to start posing the questions and we would try to address them in this forum.

Yes Prithvi, please go ahead with your question.

Prithviraj: Anesh, this question is regarding Cayman business. So could you give us some numbers? From the new oncology block what has been the revenue contribution in this quarter? What kind of procedures are we offering here and how has been the patient flows?

Anesh Shetty: Hi Prithvi. Thank you for your question. So the radiotherapy block, as we've discussed earlier, is one part of the larger Camana Bay development for us. So there are block A and block B. Block A is the radiotherapy, block B is a much larger hospital that will be a multi service similar to our hospital in East End that will cover everything else. We offer the entire spectrum of radiotherapy services up to stereotactic radiosurgery, which is a very high-end kind of radiotherapy. The machine is a true beam, which is a state of the art latest generation machine and the most modern machine in the region. For your question, on the specific revenues, given that it really is a service line for us, like a specialty department, we won't be able to disclose service line level revenues. But we're confident and comfortable to say that it has met our expectations and we hope to continue on the growth trajectory we are on.

Prithviraj: Just a follow up on this. Despite the oncology block getting commissioned, the margins in Cayman remain high. So can we expect the same to sustain even for the coming quarters?

Anesh Shetty: Prithvi actually, the radiotherapy block is a very small block. While in terms of investment, it is high because radiotherapy is very capital intensive, from a P&L

perspective, the costs were never a concern. So it was never planned to be margin dilutive. Whereas the bigger hospital, which we will hope to commission in Q1 of FY25, will come with a lot of fixed costs because we'll be essentially doubling our capacity in the region. So there we will expect to see margin dilution, and it won't happen when the hospital commissions. As we build towards that date, we have to start accumulating a lot of costs in manpower, nurses, doctors etc. preparing for the commissioning of the larger building. So we will see some margin dilution as we have discussed before. But radiotherapy was always meant to be neutral, it was not expected to be margin dilutive.

Prithviraj: And on the India business, can you give me the breakup between the new hospital's revenue and profits in the quarter.

R Venkatesh: So, when it comes to the performance of India business, quarter-on-quarter we have actually shown a jump of around INR 5.5 crores from the previous quarter. Generally, Q1 is weak for the hospitals as per historical data. But what is heartening to see is that we have shown a 14.4% growth in revenues over Q1 of FY23, which is actually considered to be a good performance. Though first quarter of the year is generally weak in the hospitals because of the summer vacations, family members delaying treatment, doctors not available at times, considering all these, our performance in Q1 has been very strong. The business should pick up in the coming quarters as per the plans.

Prithviraj: My question is more on the actual numbers. So, what has been the revenue from the new hospital?

R Venkatesh: In terms of the newer hospitals, what we have seen is we have been more or less on track in terms of what we have done. Our new hospitals continue to perform in the expected lines. There is a little dip in Q1 due to seasonality, but however, we will be able to recover and perform well in the succeeding quarters. Mumbai is also on track. We continue to target breakeven by the end of this year or even slightly EBITDA positive by the end of this year. What is more important for us to see is that we are currently prioritizing investments in our Bangalore, Kolkata and Cayman. Once we are exhausted with these, we will also look at bringing about more investments in these new hospitals, which will accelerate the growth in these hospitals. But overall, we are on track and the performances are on expected lines for the new hospitals.

Sandhya J: Just to add to that. From a specific number point of view, it's flat to last quarter, about slightly above last quarter. We came in at 115 crores for the cohort. That's near to

9.1% growth year-on-year. Our EBITDA margins came in at about upwards of 5% for the cohort. This is the new hospital cohort.

Prithviraj: Viren, the final question to you on the gross margins. See, there had been a sequential decline in the gross margins and are we seeing any further inflation headwinds on the gross margin side?

Viren Shetty: What happens when you start a new year is that you incur a lot of manpower cost increases with the salary revisions. There is price revision, but that doesn't happen all at once. These are things that have to happen over the year as you renegotiate your contracts, and you are able to transmit any price increases. But these will all be moderated. The headwinds that we expect over the near term for the gross margin, these are all in the realm of probability. One would be further medicines being added to the NPPA, which as it is quite a lot of drugs have been added there. Some indication of trade margin capping on all the drugs and consumables. Whether it happens or not, we are not sure what time frame it will have, but these are headwinds that are there. Not all of it is instantly able to pass on to patients. It's not easy to do so, nor would you want to. So there'll be some hit that the business would take which we would recover not through just raising prices, but through some process efficiency, increasing our volume and increasing the throughput, and that should be able to bring us back on track. But it will take this quarter for us to take the hit, that is Q1 and Q2, Q3 and Q4 to recover.

Prithviraj: Understood. Thank you.

Nishant Singh: Thanks, Prithvi. Can we have the next question from Dhara?

Dhara: Just two questions on the India business. The employee cost in the quarter has somewhat increased to 14% year-over-year and 5% quarter-on-quarter. So is it only the element of price increase, annual increment, or is there any one-off item apart from that increment?

Sandhya J: Dhara, we normally have our annual increment cycles coming in from April. So that is causing the increase from an employee cost point of view. There is no significant one timer in that number.

Dhara: So ma'am, how much would be the annual increment in the quarter and will it normalize going ahead? Like, what could be the cost for employees going ahead?

Sandhya J: So, the baseline that we have set in Q1, I think that will be the normalized baseline. Obviously, as we improve our revenue and improve our throughput on the same cost,

we are able to deliver more output. So that will help us bring the cost as a percentage of revenue. But that will be over a period of time. We have to constantly work on the efficiencies like we have kept doing in the past. And as Viren explained earlier, over the quarters we'll neutralize the cost impact of the manpower cost increase that comes in the first quarter.

Dhara: One more question regarding the EBITDA. So, in Western Region, we have two hospitals, Ahmedabad and Mumbai. You said Mumbai has already been turned somewhat positive. So, should we assume the same for Ahmedabad also or is it negative EBITDA? Both these hospitals in this belt are negative EBITDA currently.

Sandhya J: So, Ahmedabad has never been negative EBITDA. It has not been a high number like the flagships. But Ahmedabad has always been positive EBITDA and positive cash flow. It continues to be.

Dhara: So if we assume that Mumbai will be turned positive EBITDA in the Q4 of this year, the overall margins of that entire group would come around 3-5%. Should we assume that EBITDA margins for the western belt?

Viren Shetty: These are not significant drag on the EBITDA, nor a significant contributors. So the revenue base being a very small percentage of the overall, more of the EBITDA increase that would happen over there, which is more attributable to the performance of Bangalore and Kolkata hospitals and Delhi, which is much larger.

Dhara: That's it from my side.

Viren Shetty: Thank you.

Nishant Singh: Can we have the next question, please? Vijay, please go ahead.

Vijay: Thank you for the opportunity. So, my question is on a little bit broadside on the industry. So I was going through some reports, like where there was mentioned that 1.5 beds per thousand people in India. So in your opinion, like, what the number of beds should be there in ideal condition, or is there any guideline per thousand people? And let's say, if we have to grow from the current bed capacity at the industry level, so how many beds would we require let's say in one, two, three decades of the time to reach that ideal benchmark, it can be five beds per thousand people or something like that? So if you can highlight the broad industry landscape that will be quite helpful.

Viren Shetty: So, the statistic in India is 0.7 per thousand people. The WHO recommends anywhere from 1.7 to 2, as you highlighted. But that is a very fluid number. The truth is, in India, because we have so many people, you can't really expect that we will ever achieve the

2 per thousand norms that is there in Western Europe. Because what we're seeing with time, length of stay keeps coming down, the nature of the bed, what you needed to get admitted for in one point of time, you don't really need to get admitted, a lot of daycare things are happening. So the nature of the business is changing. But I'll take your larger point in that the market size is enormous and not just in terms of the number of private hospitals you're seeing. All the listed PE backed, all the organized hospitals that you see, the ones which declare results and borrow money and grow and expand and run in organized fashion don't even account for 10% of the total bed capacity in the whole country. Another 40% is in the public sector, which means 50% of all the current bed capacity that is available in India is completely unorganized. And all of that will get organized slowly, either through them becoming more professional or market share, they are slowly seeding market share to more organized players. So there is tremendous headroom for growth. But there are a lot of challenges. The biggest one in India being availability of manpower, the second one being making the numbers work. Because the minute you start organizing a lot of facilities, you start to grow, then you have to comply with all kinds of regulatory norms, you have to start declaring the income, which a lot of single clinics don't necessarily have to do because the practice of an individual and the practice of a clinic is indistinguishable. So these things start to come in, and there is a cost, and those overheads that you have to be borne with which the patient won't always pay. But over time, with growing insurance penetration with all these things starting to come in, we see a huge scope for expansion for all players across the country.

Mr. Vijay Chauhan Right. So, is it safe to assume that even if we let's say triple the organized CapEx, so still we will have a far headroom to go ahead for maybe 2-3-4 decades?

Viren Shetty: Easily, but there will be some concentration risk. If, for example, everyone concentrates on adding too many beds in just one. So, let's say you overbuild in Gurugram, then maybe for the Gurugram population you're a bit over served but then you're tapping into a much larger population growth, which is people from Haryana, people from Uzbekistan and all that will come to Gurugram for treatment. And, so, there is for the next easily three decades, there's enough growth that the sector will see but it will follow more closely to the underlying trends of where the doctors are most available, where the supply chains are most prevalent and more important than any of that where the ability to pay exists if we're talking about private healthcare.

Mr. Vijay Chauhan Right, Sir. And in your opinion, like if the organized sector has to capture the larger pie of the market, so what are the challenges that any organized player would face like

even our business or the general mistakes we should avoid in terms of doubling the market share of the organized players? It will be quite helpful if you can highlight some like the risk parameters or some guidelines which can help the business to be successful.

Viren Shetty: One is, we have to change the cost structure of this business radically. What's happening right now is that the cost of construction is extremely high, the cost of setting up a new bed is very high, salary cost is extremely high. We can't change any of that. But there are a lot of these noncore costs that have to be lowered by a lot and a lot of efficiencies in the way the hospitals work, in the sort of the waiting time patients have in the hospital, the number of people you need to take care of the nonmedical work all of that has to be addressed through some kind of process automation and digitization. So, unless you address that on a war footing, the more you expand the more the cost will also keep growing and then you'll face a situation where you will be completely outpriced for the services you're offering. So, someone who's building a hospital in, let's say in Gurugram, you'll pay the top dollar for everything, and people will be able to pay for the services, but you try and replicate the same thing in Sonipat, it does not work. The market of people who can pay very high prices for surgery is much less. It doesn't mean there's no demand in Sonipat. 100% is demand there but at a very different price point. So, you have to build a very different kind of hospital and you have to still use the same equipment, still have to hire the same doctors still pay the same salary, still use the same construction cost but you have to be able to break even at a much lower realization. So, for that, all the companies that are trying to expand have to be very careful about what their return on capital looks like, how much they're spending, and whether there's enough of a market that can cater to at that price point.

Mr. Vijay Chauhan Right. And is there any internal capital efficiency guideline that we keep for any matured asset?

Viren Shetty: Sorry, could you repeat that? Internal what?

Mr. Vijay Chauhan ROC mark? Like this should be the ROC at the mature hospital, some guidelines if you are keeping or maintaining at an older hospital?

Sandhya J: So, currently, as you are aware, we are running at a high RoCE of over 26% but RoCE is a cycle. So, when a lot of capacity comes up then till the capacity catches the revenue in the EBITDA cycle, you will see some dilution in the RoCE and then we will catch back. So, we are targeting a healthy RoCE on a constant basis for each of our hospitals.

So, that's the target with which we are working. But it will be to some extent cyclical as and when we create capacity.

Mr. Vijay Chauhan Right. And in terms of like geography expansion, if we have to go by Tier 1, Tier 2 or Tier 3 cities so, again, my question is on the very long or long term point like maybe a decade kind of horizon. So, in your humble opinion are you focusing more on let's say metro cities or are you focusing on the Tier 2 or Tier 3 towns? And what will be your geographical expansion in terms of even the foreign land and also on the domestic landscape? If you can throw some light, it will be, again, very helpful. Yeah.

Viren Shetty: In India, the demand is pretty uniform wherever you go; small town, big town does not matter. There are still people needing heart surgery, Onco surgery but the ability to cater to that demand at the current set of price points, unfortunately, is best met in Tier 1 towns. Having said that, our priorities in the short run, it's not so much about Tier 1, Tier 2. For us, our priorities are the existing network. We have existing patient flow, we have incredible demand, we have a lot of need, and we have a lot of waitlist for people who want surgery and we don't have enough beds and OTs to cater to them. So, our immediate expansion priority is the existing network. Once we've exhausted the opportunity set in the existing network then we look at expanding in a little bit of a radius around those hospitals so that we build very strong overlapping capabilities where smaller hospitals in small towns refer to the larger hospitals in the same State. So, that's the strategy we would go. There is a much larger macro play where there's demand all over India but at this point, we can only think about what we currently have.

Mr. Vijay Chauhan Right. That was quite helpful. I will step out of the queue because other participants are also waiting, In case there is more follow up, so I would rejoin the queue.

Nishant Singh: Thank you, Vijay, for the questions. Can we please have Gagan to pose the questions?

Gagan Thareja: Yeah. Good evening. Sir, the first question is about the tax rate. For the first quarter it was fairly low at 10.6%, can you elaborate on that?

Sandhya J: Yeah. Hi, Gagan. Thank you for that question. Good, you asked. So, we were in the earlier tax regime till last year because we had some brought forward losses and MAT credits that needed to be set off. So, we have completed that, and we have opted for the new tax regime. But what has also happened is that we had deferred tax asset which we were carrying, which came in as a deferred tax credit because the tax rate has gone down. So, effectively, our India tax has come down to around 18%. That's because around 26%-27% is the parent tax rate and then there is about a 9% deferred

tax credit which has come, which is a one timer for the current year only. And that's why you've seen that you know, significantly low tax rate. We will still be lower than FY23 when we go into the next year FY 25, we will not have this about 9% deferred tax credit, which we are enjoying in the current year.

Gagan Thareja: Okay. So, for the whole of this year you will have the benefit of the deferred tax credit and then starting FY25 it'll be effectively 26% tax rate for your India business. Is that correct?

Sandhya J: Correct. Some small point to keep in mind is, some subsidiaries will still have some brought forward losses to set off and we may not move to the lower rate of tax but it will not have a significant impact from an overall ETR point of view.

Gagan Thareja: Right. And if I recall correctly, last year you had some pending receivables from the government which came through because of which your cashflow was sort of saw some benefit and, I think, that would also have in some way helped to retain a healthy leverage on the Balance Sheet. This year, again, you have a sizable Capex, would the current gross rate need to rise further to fund this Capex and by how much, if so?

Sandhya J: Sure. So, I will just answer the receivable piece and then I will hand over to Nishant on the debt piece. So, two parts to the receivable. We had sovereign receivables from Saint Lucia, that came in in the last quarter of the last year. That, yes, gave us a cashflow as well as EBITDA benefit. And if you see, we normalized for that one timer impact in our disclosures also. Separately to that, as far as India receivables are concerned, I think it will follow a certain pattern this year being the election year. I think elections will be cyclical, but we will have some slowness towards the later part of the year as the elections start coming through. So, there will be some Working Capital impact that we are anticipating in the current year. It will not be as good as it was last year.

I'll just hand over to Nishant to explain the borrowing strategy.

Nishant Singh: Yeah. Thanks, Sandhya. See, as we have guided Capex for this year, if we add up both Cayman and India, it's going to be around 1130 crores-1140 crores. At this juncture, we are very comfortably placed, even better than the Q4 of last year. Our Net Debt is only 19 crores. So, if we have this spend done for the entire year, furthermore we have mentioned we'll be boarding around say 60%-70% of the entire Capex through debt, both India and Cayman put together, which would essentially mean that our Gross Debt and Net Debt both will go up, but the Net Debt amount will

go up by only say 550-600 crores, which will still keep our Net Debt and EBITDA ratio at a very comfortable number of less than 0.60 or 0.65.

Gagan Thareja: Right. And for your Sparsh acquisition which you did last year, if you could give us some idea of where things stand as of today and, you know, for the whole year of FY24? As you exit it out, how should we think of this piece?

R. Venkatesh: Yeah, I'll take that. See, when it comes to Sparsh, for this quarter our revenues are very well in line with the plan and with a very healthy EBITDA margin of around 34%. The unit when we took it up in Q3 of the last year, the entire team of the erstwhile setup was taken up by us. We had actually worked a lot on cost controls and our projected overheads were around 23% of the revenue. We could leverage a lot of benefits from the existing hospital operation because it's a part and parcel of the Health City and thereby we could work out better EBITDA margins much more than the projections. But what has happened is though it started very well with higher projections than the budgeted figures, it has grown in strength quarter-on-quarter and from a 30% to 31% EBITDA, we've grown up to 34% in Q1. We expect the trend to continue in the coming quarters. But, of course, there are certain headwinds which we need to work around. But having said that, we are positive and confident that we'll be able to deliver a good percentages EBITDA percentages by the end of this financial year, consistent to what we have done in the last financial year for Sparsh.

Gagan Thareja: Okay. The final question, I mean, last year's Capex breakdown, if I look at your presentation, apart from Sparsh there are Daycare Beds and Radiology Equipment, Documentation, and Surgical Robots. So, these are equipment, you know, as and when they commission, they in a way give you additional capacity, you can increase your throughput, you've indicated it in the past as well. So, I would, you know, sort of infer that or surmise that this Capex gives you sort of a lower payback than simply adding bed capacity. You already have the demand but you are unable to meet it for the lack of equipment. Is that now taken care of? And if so, effectively how much additional capacity do you get by these increments on the Radiation Oncology, on the Surgical Robot and Radiology Equipment?

Viren Shetty: I'll take this one. The last priority for us for expanding is through adding new beds. Why? Because for every bed you add, you need four walls to encompass it, you need a lot of people to hire to be able to treat the patients who occupy those beds. So, the fastest payback for us comes with incremental capacity expansion or things that reduce the throughput. So, lot of technologies such as faster MRIs, more Cath Labs, ICU beds increase the throughput of our existing infrastructure. So, through bed

reallocation or through changing the interiors, we're able to have patients get discharged faster with the same manpower or sometimes with even lesser manpower. So, those are the opportunities we pursue at the highest priority but in parallel also going with beds because beds deliver on topline and, ultimately, that's the one that we would most want to pursue.

Gagan Thareja: So, you know, if the bed count were to remain what it is, ceteris paribus, I mean the bed count doesn't change, with all of this additional investment how much can you move the revenue line or the profit line? I'm not asking for exact figures but if you could give us some quantification of what you get out of in terms of Return On Investment or Fixed Asset Turn from this sizable investment that you make? And over what timeframe does that happen? I presume it will happen quickly.

Viren Shetty: Yeah. So, the investment itself, some of it is to improve the throughput but some of it is inevitable. There are some things that are just about replacing aging MRIs and changing the interiors and so on. So, those are things you would have to incur but all of this is meant to sustain the current pace of revenue and EBITDA growth under the same current capacity of beds that we have until the new capacity comes in line, which will be 3.5 years from now. So, that comes in then the new capacity will lead to further topline growth. But, of course, certain margin dilution would be expected when that day comes. But right now a lot of this is to continue the current pace of growth what we're doing without necessarily having to add more hospitals to achieve that.

Sandhya J: So, I may just want to add that, you know, we had almost 20% growth last year coming in without adding any beds actually. So, a lot of it came out of the work that got done on the throughput side. So, there is a lot of juice in that to extract and that's a key focus area for us.

Viren Shetty: And that delivers the highest ROCE because it's just that one time investment that you make on this and it's immediately accretive.

R. Venkatesh: Just adding to that one more line. We continue to work on these efficiencies, we have discussed about this earlier also. So, this will actually create those additional space and that we will address the bottlenecks through adding more OTs, ICUs, the Lab, the Diagnostic, all these equipment which you've mentioned to make sure that we increase on the revenues at the same cost levels. So, with this, still we get into the capacity expansions. We'll be able to maintain the margins till such time where we are able to get the capacity expansion going in the next 2-3 years' time.

Gagan Thareja: Right. So, when you say that the current Capex '23 and '24 can risk 3.5 years of growth

requirements barring the greenfield at Cayamn, are you sort of referring to the FY23 growth number as being a sustainable one?

Sandhya J: We really can't guide like that, Gagan. We are aspiring to maintain a healthy growth momentum and we believe that we have enough ability to expand our throughput and capacity may not become a bottleneck for us to grow. So, that is the that's the aspiration.

Gagan Thareja: I get it. So, just my final question, which is that it would seem to me that none of the Capex that you've so far commissioned is going to be EBITDA dilutive. And is it also a reasonable assumption that even at the PBT level this is not going to be dilutive even post the additional depreciation and interest cost?

Sandhya J: There will be a little bit cyclicality there because when we capitalize immediately, especially Cayman capitalization will happen back end of the year and early next year, the improvement in the EBITDA is not going to come, upfront. So, while Anesh spoke about some of the costs coming online, depreciation will also be a cost that will start coming online. So, that will cause some dilution but other than that, yes, a lot of the Capex that we are doing may not cause a significant EBITDA dilution. But one point we have to keep in mind is that, you know, there is a cost headwind that all hospitals are facing including us, both on the material side and on the other costs side.

Viren Shetty: Those are the macro things. It's not caused by adding these beds and Cath Labs and so on. The things outside of our control could have the potential dilute margins as and when they happen, mostly around the price control from the government.

Gagan Thareja: Right. Thanks. I'll get back in the queue. Thanks for taking my questions.

Nishant Singh: Thanks, Gagan, for your questions. Harith, can we please have the question from you?

Harith Ahamed: Hi. Thanks for the opportunity. So, can you provide an update on Narayana Health Integrated Care? So, you had announced this initiative last quarter and I see a ₹ 6 crores EBITDA loss for this quarter. So, you know, these are actually coming from new clinics that we have set up during the quarter or, you know, these were existing clinics? And any updates on your targets here and your strategy here?

Viren Shetty: Yeah. Some of the updates are on the slide towards the end but I'll ask Ravi to give the overview.

Ravi Vishwanath: Sure. Thanks, Viren. Thanks for the question. So, yeah, we've been piloting our Integrated Care offering from six locations in Bangalore. It's still early days and, I think, we're kind of building that we've got pretty good traction at the moment as we've

noted in the tech as well, about close to 30,000 transactions and about 45 million in revenue so far. And, as I said, we'll focus on Bangalore and then learn and adjust the model and expand subsequently.

Harith Ahamed: So, my question was do we have any targets in terms of number of centers or clinics that we aim to have in the next couple of years?

Ravi Vishwanath: So, at the moment it's you know it's in beta mode and our focus is really on building an integrated model and solving the customer's requirements and as we build that model and as we get more learnings. We will figure out the base and phase in which we want to expand, but at this point, we don't really have numbers that we are ready to share in terms of the number of clinics or expansion plans. We're very much in learning mode right now.

Viren Shetty: What if I can put it in another way. We want to provide coverage for our the current target market in Bangalore with as many clinics as is required to achieve that coverage, coverage meaning all the customers were going after where they were able to give them medicine in their house, whether we're able to you know take care of their kids when they're sick at 2:00 in the morning, those sorts of services we keep adding if that requires 10 clinics, 50 clinics, or 100 clinics is the iterative process we would take to get there, but this is entirely oriented around building capacity to serve the needs of the subscribers to our integrated plan not about adding a bunch of clinics and then running around and trying to get more people to walk in through the doors.

Harith Ahamed: Okay, got it. My second question is on the ARPOB growth. I see that ARPOB has grown at around 11% at the network level and this is in line with what we have seen in the last few years as well. So, you have guided a bit cautiously during the last conference call on ARPOB growth that we will not be able to sustain the rate that we've seen in the last few years, so how should we think about ARPOB growth going forward, not exactly looking for a number, but just qualitatively the levers we've had in the last few years are they still there and any color would be helpful?

Viren Shetty: You can just write down somewhere that the guidance from this company will always be cautious. See, ARPOB growth is essentially like we said a function of efficiencies as well as whatever realization increases that can happen, efficiencies are how much faster the discharges happen, realization through not much price increase, but in terms of the complexity of the procedure that we do, but more so increasing the number of discharges, daycare procedures, and that's what we're doing. So, the more these hospitals mature, more we invest in things like robotics and daycare procedures

and getting now more into orthopedics which has very quick discharges. This ARPOB number should improve marginally over, but yes we are cautious because we don't really use price increase as the leverage to try this.

Harith Ahamed: Thanks, Viren. That's all from my side.

Nishant Singh: Thanks, Harith. Asif, can you please have your question? Hi Asif? Okay. So, we can move to Hrishit.

Hrishit Jhaveri: Hi Sir. Can you throw some light on the insurance segment, where are we and where do we see ourselves in the next two years?

Ravi Vishwanath: Yeah. So, at the moment we have applied to the IRDAI for as a standalone health insurance company and we are working with them to get approval for setting up the company.

Hrishit Jhaveri: Okay and can we expect in this FY that the business can be up and running or the next year?

Ravi Vishwanath: I think you know the difficult to exactly commit to that because as you know it's a really long process, but we are engaging closely with the regulator to make sure that we have all the approvals in place, but it's not just the approvals, there are a number of other things that also need to follow in place in terms of our systems and other things that have to be ready so that we can start serving our customers well from day one, but the key thing of course is the regulation. So, I would say we would like to get going as soon as we can, but at this point in time, I don't want to give you know end of this year or early next year time frame either.

Hrishit Jhaveri: Okay and one more question regarding the Samyat Healthcare, can you throw some light there?

Sandhya J: It's just a more tax efficient distribution model because we have a lot of subsidiaries coming through, so to avoid GST leakages, we are finding a more efficient way of keeping our inventory and being able to dispatch them to our subsidiaries. So, at the moment there isn't too much to read into that.

Hrishit Jhaveri: Okay. So, it is right to assume that it will be restricted to our subsidiaries and not any outside hospitals or it is open for that too?

Sandhya J: Yeah, it will be restricted to our subsidiaries at the moment

Hrishit Jhaveri: Okay, can this improve a bit of margins because of cutting down the middle people?

Viren Shetty: So, what's happening is, because of the price control we faced a lot of margin pressure

on the medicine sales, so at best this would claw back a little bit of some of the losses, but it may not improve our consumer margin from where we are.

Hrishit Jhaveri: Okay Sir. Thank you, Sir and all the best for the coming year.

Nishant Singh: Thank you, Hrishit. Asif, if you are ready can we have the question from you please?

Asif Ali: Yeah, thank you for the opportunity. So, my question is regarding the Cayman Islands business. As we can see here the average revenue per patient is declining sequentially from USD 39.3 thousand in September 22 to currently it's USD 30.9 thousand, so could you please put some light what's the reason behind this, what's happening?

Anesh Shetty: Hi Asif. Thank you for your question. So, just to clarify were you asking about the average realization per patient?

Asif Ali: Yeah, I'm asking about the average revenue per patient?

Anesh Shetty: Sure. So, if you look at the trend over a longer time horizon given that it's a relatively small asset in volume terms, we see these swings from time-to-time, but if you look at say the past six or seven quarters, there was an anomalous quarter where we were around close to $40,000 to $41,000 for patient, but more or less we have been hovering in the range of $30,000 to the $35,000 per patient and that's been pretty consistent for some time. The challenge is with looking at just a few quarters one or two quarters is it gets significantly skewed either which way sometimes up when we have one or two you know large very long stay patients who have a very high discharge value etc., that tends to skew it because the base is small. So, my suggestion would be to look at these trends over at least 6-7 quarters or so and they're more or less in a narrow range.

Asif Ali: Okay. Thank you very much.

Nishant Singh: Thanks, Asif. Can we have the question from Vallinayagam M please?

Vallinayagam M: Yeah. Thank you for the opportunity. Am I audible?

Nishant Singh: Yeah.

Vallinayagam M: Yeah. Sir, my question is about the trade payable days in our annual report 2023. So, as per the annual report, our trade payable turnover is 1.9 to 2 range and so it means we are paying our vendors at 172 or 180 days, but if you look over our sales, here majority we are getting a cash in hand. So, in this context why do we need to pay the vendors at very long period like six months at all, whether my understanding is correct or not is all the first thing and the second one is whether it is an industry wide

phenomenon that is my second question and third one is suppose if you are able to release the payment bit early, is there any possibility to get discount from the vendors and the same may flow to our margins? So, this is what is my overall questions. Thank you.

Sandhya J: Yeah. See, actually, Vallinayagam if you look at the trade payable days it encompasses various - it's a calculation, it has provisions and other non vendor line items there. As regards the underlying payable days, we pay between 60 to 90 days to all vendors and MSMEs much faster, that's the industry norm. Most of the companies pay between 60 to 90 days and I don't think paying faster than that has a significant cost benefit. We do assess from time-to-time if an early payment is more efficient and therefore whether it is able to give us any leverage in terms of our landed cost, then we do take those opportunities with the vendors. So, we are in line with the industry on this.

Viren Shetty: But I would add these conversations have been had with the companies, but since we have such a fragmented supplier base, no one vendor has such an outsized impact on the purchasing volumes. The early payment-based discounting, like what DMart and the rest of them do, does not apply to our business.

Vallinayagam M: Okay. Thank you so much.

Nishant Singh: Thank you. Can we have the question from Lohit please?

Lohit S: Hey, thank you for the opportunity. Just wanted to understand that strategically is there any thought process on adding complementary specialties you know other hospitals currently are also gearing up heavily on specialties like mother and child care, some are scaling up their diagnostic practices, so is there any thought process on that from the management?

Viren Shetty: We have all the specialties, but standalone businesses like mother and child care that is something that we'll be doing as part of the NHIC Program. So, Ravi's team is building out these different format of small clinics, medium sized clinics, polyclinics that will cater to a range of requirements. So, we won't be building like you know what Apollo Cradle or Nephro Plus have done where it's dedicated to just one specialty. For us, these are called Narayana Clinic and the idea behind Narayana Clinic is that everything is available to you and the range of offerings will modify based on what the needs are. So, if we are in a location that let's say the demographic skew slightly older than there may be geriatric specialist over there. Whereas if the same Narayana Clinic is in a place where a lot of new apartments and young families, that may have a more robust Pediatrics, but complementary specialties that is we create a

referral pipeline in primary care through NHIC, which will cater to the entire primary needs or primary care needs of the patient, which is medicines, diagnostic, lab test, and consultations.

Lohit S: Understood and the plan will be to keep them co-located with the existing setup or go independently also?

Dr. Emmanuel Rupert: It will serve the larger hospital setup. So, like Viren explained, there's no point in children and antenatal mothers to come to the major hospitals for a routine checkup. So, they'll all be done in the clinics and give a better patient experience for that. You only need to come to the larger hospital setup for something which is more complicated and you need a higher imaging or a more complicated investigations to be done. Otherwise, everything else will be sufficient to be handled because many these things can be handled on an outpatient basis. So, these will be handled at the clinic level and when it is necessary, they will coordinate with the necessary subspecialist at the hospital for them to visit and take the necessary help.

Viren Shetty: So, in Bangalore for example, our health city is in Bommasandra, which is in the extreme southern tip of Bangalore. So, the places currently where we're building the clinics are in the areas in the southern part of Bangalore. So, in Electronic City, in HSR, in Sarjapur, Whitefield these places we'll slowly start adding clinics and then start to cover the rest. So, it won't be the departments, we'll still be - there is a mother and child department in the Health City in Bangalore, but smaller OPD based clinics will be all over the place, so that you can see the doctor there, but when it comes time for the delivery that's when you come to the hospital.

Dr. Emmanuel Rupert: Even the chronic ailments like hypertension, diabetes, and things like that we can handle on a video consultation, but wherever they do need to come for a routine once in three months or kind of a checkout, they'll all go to the clinics where our doctors will also be available as and when required.

Lohit S: Understood. Sir, essentially more like primary, secondary care?

Ravi Vishwanath: Yes, yeah.

Lohit S: Understood. Thanks a lot for the time. Thank you so much.

Nishant Singh: Thank you, Lohit. Can you move to the Damayanti for her questions?

Damayanti Kerai: Hi, thanks for the opportunity. I have two questions. First wanted to understand your India operation. So, you recorded growth of around 14% year-on-year, so can you explain like of this growth how much might be contributed by volume or how much be

driven by mix improvement etc., so like broader understanding on some drivers here?

Viren Shetty: The drivers are the footfalls, occupancy, throughput. The business mix remains more or less the same. We did have some slight uplift in certain departments like Orthopedics and Oncology which we've spent a lot of time focusing on, but a lot more of it has just been the overall volume of patients we've been able to serve in our hospitals has gone up, as well as our ability to discharge them faster and treat them and take them in the daycare mode has gone up. So, a lot of that is driven by the ability to service more patients. Some realization increase has also come up that is there as well both through pricing and efficiencies, but I would say volumes have increased. There's also been a slight change in the payer mix as well, the number of patients that we treat under the insurance programs have gone up as a percentage of the total slightly. International is more or less the same and cash segment has gone down a bit.

Damayanti Kerai: Okay. So, primarily volume-driven and then process efficiency then you think that the business mix broadly remains unchanged?

Viren Shetty: More or less, yeah.

Damayanti Kerai: Okay and in terms of annual price hike, what's the general range which you take, like I understand it's smaller part, but nonetheless by like what percentage you generally increase your tariffs while revising it?

Sandhya J: We take low single digit price hikes every year like we've always said, we don't pass on the entire burden of the cost increase to the price, we work through with our efficiencies and throughput improvement to offset some of the cost and only some of it we pass on price. So, that's the same philosophy we followed this year also. Our price hikes were in the range of low single digits.

Damayanti Kerai: And it's already taken for this fiscal year?

Sandhya J: Yes. Our price hikes are taken on the 1st of January every year. So, we make our price list available on our website at that point in time, so that there is transparency to the patients. The impact of the price hikes are already flowing in, it flows in with a slight lag into the realization profile,

Damayanti Kerai: Okay. My second question is on your international business. So, what are your thoughts here like say over the next three to five years, how much do you want to scale it up from the current level?

R. Venkatesh: International patient volumes have actually grown quarter-on-quarter. Even in this

quarter it is grown much more than what it was in FY23, but that's not all I mean, we are basically focusing on the core market of Bangladesh. When it comes to the numbers, we are not purely relying on these numbers and I don't think we'll be able to reach the numbers which we had pre-COVID because we have cut off all the arrangements with any type of an intermediary, we're also trying to restrict our activities to key markets on a direct engagement model plus what we are doing is, we're trying to shift more into the marketing spends on digital and domestic activities, which actually are much less impacted if there is any travel disruption due course of time. What happens is, the international medical travel will keep reducing as our neighboring countries keep developing in terms of the healthcare sector and eventually, they match us. So, a lot of new hospitals are also coming up in Dhaka, Chittagong, and other important cities. So, it's time that we try to focus more on our digital and domestic activities as an alternative. So, the core focus will be only on this, but the entire alliance will not be on international marketing though the trend shows positive fractions for the quarter on quarter even including this quarter.

Damayanti Kerai: Okay. Thanks. Thanks for your answers. All the best.

Nishant Singh: Thanks, Damayanti. Can we have this question from Alankar?

Alankar Garude: Hi, Thank you for the opportunity. The first question is, given that we are not going to expand bed capacity for the next three to three and half years and the focus is on sweating existing assets, would it be fair to assume a pretty decent margin expansion in the domestic business over the next few years?

Viren Shetty: Not that we're not expanding over the next three years. It just takes three years for all the significant capacity to come online. Meantime, certain smaller projects are happening in Ahmedabad, in Howrah Hospital, and here and there sometimes realignment in Bangalore and Kolkata. It's not that we're actively avoiding it, so that's one thing to note that we are investing, the construction projects take much longer than they used to. In terms of margin expansion, we'll do our best, but it won't be as much as when the new capacity becomes fully operational and break even and so on. We'll do the best that we can to counteract a lot of the margin pressures through salary increases, the trade margin capping, you know NPPA and those sorts of things so, whatever efficiencies that we get.

Alankar Garude: My second question is, is there any update on the second leg of CGHS price hikes, which was expected to come through in July?

Viren Shetty: We haven't heard anything yet so far. Whatever they announce before about changing

the OPD fees from ₹100 to ₹150, that has an impact of about ₹2 crores for the whole year.

Alankar Garude: Understood. Great. Thank you and all the best.

Nishant Singh: Thank you Alankar. Any further questions from any anyone? So, as we don't see any further raise of hands, we would like to close this Q&A session. Thanks everyone. Thanks for your active participation as always. Please do feel free to reach out to us in case of any following questions. Thank you once again.

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