Global Health Limited

August 16, 2024

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The General Manager
Dept. of Corporate Services
BSE Limited,
P J Towers, Dalal Street,
Mumbai - 400 001

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

Scrip Code: 543654

Symbol: MEDANTA

Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Earnings Conference Call Transcript

Dear Sir(s),

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Earnings Conference Call held on Friday, August 9, 2024, for the Quarter ended June 30, 2024 results.

The Transcript is also available at our website: https://www.medanta.org/investor-relation

This is for your information and record.

For Global Health Limited

RAHUL RANJAN
Digitally signed by RAHUL RANJAN
Date: 2024.08.16 17:50:41 +05'30'

Rahul Ranjan
Company Secretary & Compliance Officer
M. No. A17035

Encl: a/a

"Global Health Limited – Medanta Q1 FY2025 Earnings Conference Call"

August 09, 2024

MANAGEMENT:	**DR. NARESH TREHAN – CHAIRMAN AND MANAGING DIRECTOR, MEDANTA GLOBAL HEALTH LIMITED**
	MR. PANKAJ SAHNI – GROUP CHIEF EXECUTIVE OFFICER AND DIRECTOR, MEDANTA GLOBAL HEALTH LIMITED
	MR. YOGESH KUMAR GUPTA – CHIEF FINANCIAL OFFICER, MEDANTA GLOBAL HEALTH LIMITED
	MR. RAVI GOTHWAL – HEAD INVESTOR RELATIONS, MEDANTA GLOBAL HEALTH LIMITED
MODERATOR:	**MR. TUSHAR MANUDHANE - MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Medanta, Global Health Limited Q1 FY25 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited.

As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Tushar Manudhane from Motilal Oswal Financial Services Limited. Thank you and over to you, sir.

Tushar Manudhane: Thanks Sejal. Good afternoon and a very warm welcome to all the participants on Global Health Limited Q1 FY25 Earnings Call hosted by Motilal Oswal Financial Services.

Joining with us today from the management side, we have Dr. Naresh Trehan – Chairman and Managing Director, Mr. Pankaj Sahni – Group CEO and Director, Mr. Yogesh Kumar Gupta – CFO, and Mr. Ravi Gothwal – Head, Investor Relations.

Over to you, Dr. Naresh, sir for Opening Remarks.

Dr. Naresh Trehan: Good afternoon. Welcome to all of you. Thank you for joining us today for the Medanta Q1 FY25 Earnings Conference Call. Our Results were published yesterday, and we have already uploaded the Press Release and Earning Presentation on the website and the Stock Exchanges.

As you know, Medanta has always been at the forefront of providing world class healthcare services. This quarter has been no different, and we have continued to deliver exceptional patient care while introducing the latest technology and best treatments.

During the quarter, Medanta Lucknow has achieved a significant milestone in the field of Oncology. The team has successfully treated leukemia patient using Chimeric Antigen Receptor Therapy, better known as CAR T-cells, and this is the first time in this part of the country that this therapy has been administered. This is an advanced cancer treatment that will stimulate the power of the patient's own immune system to fight cancer. This was the first CAR T-cell therapy in Medanta Group, and also, as I said earlier, in this whole area.

Medanta Lucknow has also performed 50th successful liver transplant and became first hospital in Central and Eastern UP to achieve this milestone. We have also launched a new dedicated floor for Mother and Child in Gurugram. The department has state of the art infrastructure for 50 beds dedicated to mother and child, including 25 neonatal beds, where treatment and recovery of little babies can be actually brought to the best level anywhere in the world. We continue to strengthen our clinical capabilities and have on-boarded 35+ senior clinicians in Q1 FY25. We continue to grow, not only in numbers, but in quality and keeping the standards of health care that we maintain at the highest standard available anywhere in the world.

Now, I would like to share an important update with all of you:

We are extremely pleased to acquire 2.2 acres of prime land in Mumbai Oshiwara in an auction from Maharashtra Housing and Area Development Authority (MHADA). This is an important milestone in Medanta's growth journey, as we plan to establish a state of the art ~500 bed super specialty hospital in Oshiwara. We are delighted with the prospect to bring Medanta Model of Care to Mumbai and provide world class medical services to the residents of Mumbai and surrounding regions.

We are pleased with our progress, and our core desire to serve people better and better at the highest end of healthcare is now journey is continuing.

With this, I now hand over call to our Group CEO, Mr. Pankaj Sahni who will provide details, over view of our financial performance for the quarter. Thank you all for joining us.

Pankaj Sahni: Thank you, Dr. Trehan. Good afternoon and welcome everyone to our Q1 FY25 Earnings Call.

During the quarter, Medanta has delivered a total income of Rs. 8,830 million, registering a growth of 11.1% compared to the same period last year. The growth continues to be driven by higher patient volumes.

EBITDA for the quarter was Rs. 2,082 million, an increase of 4.5% year-on-year basis, with an EBITDA margin of 23.6%. Our margins have declined primarily due to increase in employee cost on account of annual increments and some sluggish growth in our Lucknow unit. Our profit after tax for the period was Rs. 1,063 million, registering a growth of 4.2% year-on-year.

Moving on to our Operational Performance during the quarter:

Our inpatient volumes increased by 10.3% year-on-year to 41,293 and our outpatient volumes increased by 10.1% year-on-year to 7,23,692. We have added 49 census beds in Gurugram in our mother and child department, as Dr. Trehan already mentioned. Furthermore, we have added 18 new dialysis beds at our Patna unit, as the demand for our nephrology services in the region continues to remain strong. On average, our occupied bed days for the quarter increased by 7.3% year-on-year, representing an occupancy of approximately 59%. Please note that this occupancy is based on increased bed capacity across the group.

Average revenue per occupied bed, or ARPOB for the quarter grew by 1.4% at Rs. 64,035 compared to Rs. 63,148 in the same quarter last year. During the quarter, revenue from international patients was Rs. 475 million, compared to Rs. 477 million in the same quarter last year. This accounts for approximately 6% of the total revenue. Our outpatient pharmacy business revenue increased by 25.6% from Rs. 266 million in Q1 FY24 to Rs. 334 million in Q1 FY25.

Now coming to our Matured Hospital Performance:

Our matured hospital performance, which consists of Gurugram, Indore and Ranchi, continues to deliver very strong volume led growth. Mature hospitals register a total income growth of 10.4% and an EBITDA growth of 11.6% amounting to Rs. 6,381 million and Rs. 1,590 million, respectively. Inpatient volumes grew by 10.2% in matured facilities, resulting in an average occupied bed days increase of 6.9%. Our occupancy was 63% on an increased bed capacity. ARPOB grew by 3.2% to Rs. 67,160 in Q1 FY25 due to a change in case mix.

Developing Hospitals

Developing hospital's contribution in terms of those, which includes Lucknow and Patna, the revenue from operations during the quarter was Rs. 2,369 million, compared to Rs. 2,297 million in the same quarter of last year, registering a growth of 3.1%. EBITDA was Rs. 581 million, contributing 27.9% of the total consolidated EBITDA. Average occupied bed days during the quarter increased by 8.2% year-on-year, representing an occupancy of 52% on increased bed capacity. ARPOB declined by 1.7% year-on-year due to a change in payer mix to Rs. 58,205.

Our Patna hospital continues its impressive growth trajectory with strong year-on-year growth, while the performance in the Lucknow unit was relatively subdued during the quarter. Lucknow performance was down compared to the same period last year. However, we have seen improvements in inpatient volumes and occupied bed days on a sequential basis. We have seen some improvements in our surgical procedures, interventional radiology and gastro procedures. However, some of the specialties continue to lag behind historical performance.

In Lucknow, the management has taken several initiatives, including on-boarding of additional clinical talent, and expansion of our existing specialties and services. During the quarter, we have on-boarded 14 senior clinicians, and we continue to strengthen our clinical capabilities as we move forward.

As you are aware, there has been an increased competitive intensity, not only in Lucknow, but across the country. And this is expected given the increased focus on the healthcare industry. We have taken steps to improve our connect with the communities we serve in Lucknow, as well as beyond in other districts of UP. As indicated in our earlier calls, with the increased bed capacity, we have already signed up and started treating patients in Ayushman Bharat Scheme. Furthermore, we have applied for empanelment with the CGHS and other government schemes. This is in line with our vision of building large format hospitals in underserved healthcare markets to be able to provide the highest standard of care to all sections of society.

Overall, we remain highly committed to serving the people of UP and Bihar and are continuing to make significant investments in equipment, infrastructure and human capital in both our units. We will be adding additional beds both in Lucknow and in Patna in the coming quarters, and will commission new operating rooms as well as add new equipment including a new Cath Lab and the Da Vinci Xi surgical robot in Lucknow.

As Dr. Trehan already highlighted, we are also delighted to announce the acquisition of a prime land parcel in Mumbai with a potential to construct an over 500 bed hospital subject to regulatory and customary approvals. We have paid the Rs. 125.11 crores to the authorities for this land.

This investment reflects our stated strategy of expanding our Medanta Model of Care to new communities.

We also remain committed to ensuring continuity of care for our patients, and have secured Board approval to construct the service apartment guest house on the Medanta Medicity GurugramGurugram campus. This project, with an investment of approximately Rs. 250 crores, will cater to the growing demand from international as well as out of town domestic patients for comprehensive healthcare and allied services. This facility will also help us to optimize our length of stay in our Gurugram hospital by providing continuity of care in a safe and secure out of hospital environment with seamless access to medical services of Medanta.

With this, I request the operator to open the line for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amey Chalke from JM Financial. Please go ahead.

Amey Chalke: The first question I have is on the matured hospital, here our growth is around 10% and ARPOB growth is around 3%, is it possible for the management to give some outlook for next two years how the performance would be for this for next two to three years, and what levers we have to tie the growth in the mature hospital. Thank you.

Pankaj Sahni: As we have stated multiple times, we don't give any future projections or any expectations with respect to the specific numbers on either of our developing or matured hospitals. However, what I can share with you is some of the thoughts around how we think about our matured facilities growth. So, first of all, just to reiterate, some of the numbers I mentioned, we have seen now over the last several periods, in fact, over the last several years, very strong volume led growth in our matured hospitals. And just to give you a sense, these are hospitals like our GurugramGurugram facility is approximately 14 - 15 years old. Normally, I don't see too many institutions showing a 10% or thereabouts, IPD volume led growth. Many of the institutions seem to get a lot of the revenue growth from the tariffs and case mix change. As we have stated multiple times in the past, Medanta has always tried to be reasonably conservative in its annual tariff increases, and therefore we are very happy with the growth that is coming in the mature facilities, which is largely driven through volume.

We have added in some clinical talent and capabilities in our mature facilities over the last several quarters, I would say, over maybe the last 18 to 24 months. This includes bringing in senior talent in new departments, like starting the Mother and Child services, which we did last year, and adding in infrastructure for the mother and child services, which we did this quarter, as Dr. Trehan also mentioned. But not only that, we have added depth in the existing facilities. You may recall several quarters ago we had talked about the addition of additional teams in our robotic surgery program. We will be making additional investments in equipment, which you will hear about in the coming quarters, both on the surgical side as well as on the cancer side. There is a lot of work being done, to continue to remain at the cutting edge of technology and medical care in our Medanta Gurugram and our matured facilities. We are also making additional equipment investments in our facilities in Indore and Ranchi, some of which have already undergone post the quarter end, and some of which you will hear about as we roll out in the coming months. So, there is a lot of work happening in growing these services across the matured facilities and we do expect this focus on continuing to make sure we are always at the cutting edge and delivering the highest technology, bringing in the best clinical talent into our mature facilities. And, I again take you back to our stated strategy in very early on, when we first went public, which very clearly talked about that the first aspect of our strategy was to continue to invest in the exceptional clinical talent and high end clinical capabilities we have in our mature facilities.

We believe that if we continue to do this, we should continue to see growth coming into these facilities, and we hope that we will be able to continue to serve the patients with the highest care. So, that is the answer for our mature facilities.

As, I also mentioned in my opening remarks, that we have initiated the activity of building out the service apartment and guest house, and this should give us some amount of opportunity to further streamline and improve the efficiencies with respect to the length of stay, with respect to being able to manage, especially patients who come from out of town, like international patients, and provide them with a seamless experience. We do believe that this is something that is been missing in the sense that people come from out of town, because we have a lot of destination care patients, and they have to stay in all different places in and around our hospital, it may not necessarily be the easiest thing. We believe that providing them with this kind of a seamless experience, both the international as well as out of town domestic patients, may give us some benefits, and then there are also opportunities to optimize length of stay for patients who may need to stay in GurugramGurugram for certain period of time before they travel back home, but are fit enough to be discharged from the hospital. So, these are kind of initiatives that we will continue to work on as we move forward.

Amey Chalke: So, just to summarize, so is it fair to say the improvement in the occupancy, some optimization on the ALOS and the improvement in the international patients going ahead would be the drivers for these segments?

Pankaj Sahni: Yes, these are definitely focus areas for us. And in addition to that, what I would also say is that, we are looking at beefing up our clinical talent pool, and obviously that clinical talent pool continues to go into deeper levels of expertise. So, we will be looking at doing more and more complex work, bringing in the latest technologies, whether it is for robotics or whether it is for cancer. So, what you articulated are the ways in which you see the outcomes on some of the financial metrics, but the inputs are also related to clinical talent acquisition, technology investments, etc. And then, as we roll out also our focus on research and academics in the coming years, we expect that also to add to the overall reputation, as well as situation of the unit.

Amey Chalke: Sure, thank you so much. And the second question I have is, in the developing hospitals, so here we have seen the occupancy as high as 70% in the last year in one of the quarters, which has gone down to 52% this quarter, I believe like you said, it must have been led by the Lucknow unit. So, how long do you think will it take for the occupancy to move up, if not 70%, but close to 60% in this segment of developing hospital?

Pankaj Sahni: Yes. So, let's first break this up into two categories. Let's first talk very quickly, just about Patna. Patna, our hospital continues to grow well. As you may recall, we have added in our PPP business only rally towards the end of last financial year maybe Q3 FY2024. So, that business continues to scale, we continue to add beds there and actually we see quite a strong demand there. Like I said, we continue to put in beds there, in fact, we are trying to get the beds live as fast as possible. So, you will see some amount of bed additions coming in in the next several quarters in Patna. We have been triggering more and more beds given such strong demand, both on the cash side as well as on the PPP business side, so that will of course be one of the drivers which should move in a positive direction. Obviously, the realizations in Patna are little bit lower than the realizations in GurugramGurugram and Lucknow. So, when you blend it all, it has somewhat of a dilutive effect on ARPOB but on a standalone basis, Patna this quarter actually delivering a first time PAT profit as well. So, we are very happy with the way Patna is proceeding.

Now, when it comes to your question on Lucknow, Lucknow has been a little bit disappointing for us for the last several months. Some of that has also of course been further exacerbated by what you exactly said, which was exceptionally strong performance in the first couple of quarters of last financial year, where you did see occupancy levels extremely high, you saw realizations extremely high. Some of that, of course was seasonal, with respect to dengue and some of the other occupancies in our ICU, as you said going as high up to 70% but also don't forget that we have added in a fair amount of capacity in our Lucknow facility. So, some of the occupancy percentages which you saw was when we were somewhere around 400 - 450 beds, today we are now at about 700 - 750 beds and so if you really look at the occupancy percentages on a standalone basis that may not necessarily be correct, because the denominator keeps changing. So, by the end of this quarter I believe, we will probably be somewhere around 700 - 750 beds. So, just one word of caution there, we should not look at absolute percentage.

That being said you are right, there has been a decline, especially with respect to the same quarter last year, on the absolute volumes as well as the absolute revenue. And some of that is as I mentioned, various aspects of competitive intensity, some of the challenges in that market, which we have been working through, as I mentioned earlier, to get back up to speed, get running, get refocused. The real important point here is to think about, when we talk about our Lucknow market, we are really committed in this market for the long run. So, we have been hiring in, just as I mentioned, ~13 - 14 senior doctors hired in the last quarter. You will see more hiring coming in in this quarter when we announce our Q2 Results as well. So, really driving in a lot of the longer term, sustainable business has been our focus. I have repeatedly mentioned on multiple calls that, we should not take the baseline business that we were seeing in Lucknow as a realistic number for the extremely long term. We do believe that we can do better than we are, and we are working towards that. So, we are by no means satisfied with this performance. But I would caution if we put a baseline of saying, you will be at 75% let's not forget that we have increased bed capacity and some of the performance, which you saw last year were really, really I would say above normal performance.

One last thing, just on the absolute financial numbers. As you are aware, a lot of the costs, especially with respect to the annual increments on manpower cost, they get booked in the new quarter when the new year starts vis-à-vis, let's say what was there earlier. So, some of the impact that you are seeing from an EBITDA point of view, rather than from a top line or a volume point of view, is the negative impact of the increments. And since Medanta operates on a largely fixed cost model, we are hopeful that as occupancies and as volumes grow like always, we will have the benefits of operating leverage as we scale up.

Amey Chalke: Sure. Just final question, is there any change of plans or delaying of plans because of the lower occupancy on the Lucknow side, or are we still on track with that timeline for the expansion on the Lucknow?

Pankaj Sahni: No, we are still on track, there's no delays. In fact, as I did mention we have added in, about a 100 beds towards the end of Q4 FY24. We have added in about 50 beds in this quarter as well and we are actually also adding in investments. So, if you look at some of the CAPEX investments that we have done, we will be putting in a new Cath Lab, we already have two Cath Labs, we will be adding in our third Cath Lab, in fact it's a biplane Cath Lab, so it's a pretty high end machine. We will be adding in a Da Vinci Xi surgical robot that should come onboard in next several weeks. So, absolutely no looking back as far as our investments and our plans in Lucknow go. And like I said, when we look at our facilities we have not gone into Lucknow with a 200 or 300 bed facility. We have gone with a very long term commitment to build an institution that will sustain that area for the longest period of time. In fact, it is not only Lucknow, we continue to remain extremely excited about the UP region in general, and this will continue to remain a focus region for us.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: As you mentioned you have started empaneling Ayushman patient in Lucknow and then you will proceed for CGHS scheme, etc. So, just want to understand how should we look at the payer mix change for this hospital, like how do you balance between your mix and then occupancy?

Pankaj Sahni: As you mentioned on the occupancy, if you look at our mature facility, and if you look at our GurugramGurugram facility specifically, we Gurugramare at1,400 beds. And if you put all the beds together, probably somewhere around 1,700 beds across all the mature facilities. We have been taking scheme patients in Ayushman, we have been taking scheme patients in CGHS, railways, etc, in these facilities for many years. And if you look at our payer mix across the board, we have had one of the healthiest payer mix in town. We continue to have in the ranges of around 80% of Cash and TPA, if you add in some of the private corporates maybe even little more. So we believe that it's our right, it's our duty to serve every segment of society. That is one of the reasons why we put up these big facilities, it goes very well with our fixed cost model, because the marginal cost to serve every incremental patient is of course significantly lower. So, in our particular philosophy, we are not opposed to serving the kinds of patients that may otherwise be considered to have a slightly lower realization. We believe that we should serve all of these.

We have been able to maintain, a fairly healthy payer mix in the mature facilities, and, of course across the group and we see no reason why we cannot continue this in Lucknow.

We had been asked many times that will you take Ayushman business, and will you take scheme business in Lucknow. And we had consistently maintained that as soon as we have the capacity to be able to sustain this volumes, we would like to sign up for these schemes. So, we have never said that we would not do it. We obviously, when you had 300 - 400 beds and we had a slight catch up which we were doing, vis-à-vis the bed availability, it was not possible for us to open up this business as well. But as soon as we have crossed into the financial year of FY25 which was always our plans, we did say that we would be applying for these schemes and treating these patients. So, we believe that as we have always said, 10% - 15% of patients said this, at these realizations is absolutely a good thing for us to do. And very interestingly, as you may be aware our Patna project, which is a PPP project with the government of Bihar, has an obligation of 25% of the patients at state CGHS rates. And we actually do find that realizations of those patients is in many cases even higher than some of the cash patients. So, I think that we are not averse to this business, it is maybe a lot more nuanced to go into understanding how the various payer mixes work. I don't think that any particular payer mix is a good or a bad business for us, that's at least how we think about it.

Damayanti Kerai: Sure. And just in Lucknow, do you have any obligation to reserve certain beds or it's at pure discretion?

Pankaj Sahni: No, it is a pure discretion. We have no obligation in Lucknow.

Damayanti Kerai: My second question is on Mumbai facility, so when you are likely going to start this unit?

Pankaj Sahni: So, Mumbai unit, as with any unit will take, I would say at least three to four years because right now we are just in the process of acquiring all the necessary approvals to close out on this complete transaction. And then, it will take a certain amount of time to construct the facility, because this will be a pure green field facility. So, I would say that if everything went really fast, I would say at least three years. But normally we say three to four years to build out a hospital, especially the size which we are talking about.

Damayanti Kerai: Sure. And last clarity, you mentioned you will continue to invest in critical talent and some equipment, etc, to maintain the growth momentum. So, should we assume current quarter level cost to continue on a broader basis?

Pankaj Sahni: Let's look at it into two categories. First of all, on the equipment side obviously this would be mostly, I would assume capital expenditure so that will have maybe more of a balance sheet impact than a P&L impact from the numbers point of view. But yes, of course we do expect to continue to invest in medical equipment. As far as the clinical talent goes yes, I do believe that we will be adding in clinical talent, and therefore there would be some impact on the manpower cost. And like I said, we do have fixed cost doctors who are full timers, so there would be some impact of that. Obviously, that gets offset depending on how quickly these teams ramp up with respect to revenue. So, in some cases we have seen very, very fast ramp ups for certain specialties. In some cases, it takes a little bit longer depending on either the region or the particular nature of the specialty, or the demand for that specialty, and also sometimes it is seasonal. So, I would say that we don't necessarily look at the manpower cost purely quarterly, but if you look at it across the year, I did mention this last quarter as well, we do anticipate and have budgeted a certain increase in the manpower cost on an overall basis, as well as some maybe on a percentage of revenue basis, just because we feel that there will be increasing intensity for high quality talent given all the various hospitals and all the excitement and investment going into hospitals and healthcare. So, we do believe that we are a very strong doctor employer, and we do believe that we have the ability to attract very high quality and high capability talent, and we will continue to invest in that. We are not overly worried about whether that pays off in one quarter or two, in the long run this is the right approach for us.

Moderator: Thank you. The next question is from the line of Madhav from Fidelity Investments. Please go ahead.

Madhav: In the opening remarks you did mention that there has been some impact of payer mix on the performance. Could you just help us understand that for Lucknow and for Patna, how does the payer mix look like in quarter one, if you would share some broad understanding, like how much of scheme patients now, cash and insurance?

Pankaj Sahni: Yes. I mentioned that, more specifically with reference to our developing hospitals. So, let me talk about Patna, because Patna does have a PPP business. So, if you look at our obligations in Patna, we have 25% of the beds have been reserved for patients at the state government PPP rates. And up until, it was maybe August or September of last year, we didn't actually see any patient movement on the PPP side, because we hadn't got all the systems ready, and the government wasn't able to actually get that entire system moving. So, while the hospital have been operational for, almost two years by then or a year and a half, we saw zero PPP patients from this entire project.

Towards the end of August- September, this number of patients started to move given all the systems were in place. And if I recall in our last earnings call, it was somewhere around maybe 500 patients or so had been discharged towards the full financial year of FY25. Now those patients continue to scale up as we move into this quarter. So, when you are looking at the Q1 of last year, where the numbers were probably almost zero to Q1 of this year, you do see the impact of the PPP business in Patna. Now, the realizations from an ARPP basis of some of these patients has been very good, but we do also find that sometimes these patients tend to stay a bit longer in the hospital. So, the length of stay of some of the PPP patients is typically for the same specialty, a little bit higher than the length of stay for the cash patients. And so that then ends up having a negative impact, impact on the ARPOB. But if you really want to look at this, maybe

ARPP would be a slightly better way to think about it, but the payer mix of PPP will of course have a dilutive impact on ARPOB, especially in Patna.

We have not seen too much of that with respect to Lucknow. In Lucknow, we have not seen the ARPOB being impacted that much. In fact, if you look at our ARPOB in Lucknow, they have actually increased from Q1 FY24 to Q1 FY25.

Madhav: And on the PPP business, what would the patient volume mix be for quarter one, broad number is fine like, it was almost zero last year, Q1 FY24, in Q1 FY25 how does that look like?

Pankaj Sahni: Yes, Patna PPP business is around 5% to 7%.

Madhav: This in terms of volume, right, patient volume mix?

Pankaj Sahni: Yes.

Madhav: Perfect. And you said to the ARPP here is quite good. Generally, my understanding has been that, the tariff is a lot for cash patient vs the scheme patient, is it better than cash, like what's the dynamic that is playing out at this facility?

Pankaj Sahni: So, just coming back to a little bit this model in Patna, the way it works is that the government has various medical colleges and various state authorities that will actually send referral patients to us for treatment under this scheme. So, many of the patients obviously are those patients who could not get treated in maybe a routine manner in some of the government or other facilities. So, probably these are sicker, maybe more complicated patients who require that kind of high-end treatment. So, this is my baseline assumption, that why the patients are having a pretty good ARPP because they are quite sick, so they are coming for complex procedures. So, we are not getting PPP patients for snake bites or for routine kind of medical management, it's far more patients who are coming for complex procedures in cardiac or in cancer, and those would therefore have a slightly higher realization.

Madhav: Got it. And just on the Lucknow facility as well, cash and TPA like you said was very high until last year because we didn't mean to take scheme patients, but in Q1 FY25, if you could give some sense in terms of how that has moved in terms of the payer mix for Lucknow?

Pankaj Sahni: I don't think the payer mix has changed very much in Lucknow at all, because we really only started our Ayushman business towards this quarter. So, a very insignificant change in payer mix in Lucknow currently. But, as we said, as that scales up you will see some of that business coming in. Also, we have not even obtained the empanelment for CGHS and railways, etc. It is only Ayushman that we are currently impaneled with. So, I would say that right now, no change really in terms of payer mix from what you have seen in the past, but we do anticipate that as we move forward that will come on board.

Madhav: And this last question was on the developing hospital, we did about 29% to 32% margin in FY23-24 some of it, my guess is that was helped by the very good payer mix that we had until now. So, as we move ahead, although our topline growth will remain quite healthy, should we expect that with the change in payer mix margins normalize a little bit lower? Don't want a specific numbers but just directionally was trying to understand this.

Pankaj Sahni: Well, like I said, I can't predict what the EBITDA margins will be as we move forward. What I can do is, articulate for you some of the levers that we operate on. So, the first thing actually to think about, specifically with respect to our developing hospitals is that we operate, as I said on a fixed cost model with respect to our doctors. So, our doctors are fully employed, they are largely on a fixed salary model. We have seen a dip in some of the volumes in the last few months, and as we do see some of those recoveries coming in, as we do see some of the improvement coming in, obviously the increased volumes and occupancies has a disproportionate impact on the marginal profit because of the operating leverage concept. So, as volumes grow, assuming the cost base doesn't increase too much, you should expect to see improvements in the EBITDA margins as you move forward.

When it comes to the case mix, again it is very relevant to understand what is the exact type of mix. So, if we see a scenario, let's say similar to Patna, where patients who are coming in for in these slightly lower paying categories are actually highly complex patients. If you see that the cost to serve them may not be that high. So, just to give you an example, the cost to serve patients in certain specialties may not be actually higher than the cash patients, vis-à-vis the margins that you get but in some cases, it is. So, it really depends on the specialty mix. It really depends on what is the complexity of the patients that come in.

Overall, our belief is that because the marginal cost to serve every incremental patient for us is significantly lower. We generally believe that increased volume, even at lower realizations is margin accretive, and we have seen that play out again and again, year-over-year in our GurugramGurugram facility, where we have been taking these scheme patients for many years. So, that is the reason we have always stated that there is no harm in shying away from this business. We do expect that with volume increases, you should see positive momentum on the margins.

Madhav: And one on the Mumbai expansion, which you all have spoken about. So, in the press release you have mentioned Rs. 1,200 crores investment for 500 beds so it's about, let's say Rs. 2.4 crores of CAPEX cost per bed. So, is the view that Mumbai is probably be a high paying market, the location is quite attractive. So, ARPOB here could be very good guys only, then probably justifies the Rs. 2.4 crore bed cost, is that the right way to think?

Pankaj Sahni: So, broadly your logic is right. Let me just make couple of clarificatory points, which are important for everybody to be aware of. The first point is that, we have not yet got a complete exact amount of project budget that we will have, because there is some amount of understanding of exactly how much amount of money needs to be paid for acquiring the additional FSI to construct. So, Bombay allows you to buy additional FSI. These are things which are being still finalized and still worked out.

The second thing is that the exact designing of the hospital is not been completed in terms of how many specific beds, so we had mentioned +500. So, whether it's going to be 500 or 550 or more, I am not sure that also depends on how we think about all the other supporting services, which are very important for us, in terms of operating rooms, etc. So, as this gets finalized, we will actually have a much more definitive idea on the exact project. But you can say that this is a reasonable number for us to estimate as we move forward that's why we put this number out there.

The second aspect which you said is very correct. In general, Bombay is more expensive to build. Unfortunately, we have been seeing that over last many years, maybe last five - six years, including pre COVID to post COVID, the cost of construction per bed has increased. It used to be below one crore per bed, even at the kind of quality and infrastructure that we put up. Now that number is much closer to Rs. 1.2 crores to Rs. 1.4 crores per bed, at the kind of investments and the kind of infrastructure that we do, and that is all cost, excluding land. Now, when you come to Mumbai, the numbers that you articulated include the cost of land, which is not normally how we look at it. So, if you take out the cost of land, that number would be a little bit lower. But yes, Mumbai does have a higher cost to construct. And you are very right, typically the ARPOB and the realizations in Mumbai are higher. Our estimations, as we think about building out these is in Mumbai will try to be as much in-line with our stated philosophy. So, we typically look at being competitive in the market when it comes to the tariffs and the pricing, as I mentioned earlier, we try to be as conservative as we can be relative to the kind of quality and infrastructure and medical services that we provide.

We feel that in light of all of those things, the investment is very much justified. And obviously you are aware getting a clean plot of land coming from a kind of a government option itself is a very big challenge in a city like Mumbai, and we have typically also mentioned in the past that we are very, very high on ensuring that whatever we do with respect to the investments in real estate. Or the structure is extremely clean from a governance point of view, and therefore we are very happy with this kind of a project, because state government auction so worked out well for us.

Moderator: Thank you. The next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

Alankar Garude: Sir in the fourth quarter, the issues highlighted by you in Lucknow were around seasonality, extreme winter, high, dengue base, etc. Can you help us understand what were the exact challenges this time around? You spoke about competitive intensity and some other challenges, possible to get into some details please?

Pankaj Sahni: So, Alankar there is no one specific thing that I can say that this is the reason, it's possibly a combination of factors that have been playing out. I do believe that some of the factors which you mentioned remain. The competitive intensity has also kind of played out not just with the branded institutions, but a lot more of the local institutions actually getting quite active, a lot more intensity you see from some of the local as well as some of the other institutions with respect to their sales and marketing, with respect to their branding, with respect to their various approaches, with respect to how they feel, they should be attracting patients.

Some of the things that Medanta is not willing to do in terms of compromising on our approaches and our philosophy, and it has also been something which we look at to say that, we do believe that there were certain areas where we were struggling with respect to being able to provide the supply. So, in certain cases, just to give you a very simple example, say in our nephrology department, we had a constraint on availability of clinicians. We had a constraint on availability of dialysis beds. We have hired in during the quarter a senior director in our nephrology department, and we see immediately that there is a increase in the patient volumes for that service. So, it's a combination of making sure that we bring in the right talent. It is a combination of making sure that we retain as much as possible the talent, given the increased competitive intensity, but also some reactions and some learning’s for us that maybe we needed to get a little bit closer to the community, both inside Lucknow as well as outside Lucknow. So, some of the efforts which we were doing in GurugramGurugram in terms of reaching out to the residents associations, various associations that activity has actually started now in Lucknow, and we are seeing a very positive response for that.

Also it was important for us to reiterate our commitment to the city and to the people, and also focus in on ensuring that we are continuing to add in talent. So, maybe you can say we got a little bit complacent with such high occupancies and volumes, some of the departments which we hadn't completed out. We hadn't really put as much effort in hiring doctors for those departments, now we are putting in a lot of focus on bringing those on board as well. Beefing up the talent pools in the existing department. So, it's been a good learning for us last couple of months, and that's allowed us to refocus and recommit all efforts to making sure that we are able to deliver for Lucknow what we promised.

Alankar Garude: That is helpful Pankaj. A quick follow up, have we seen any senior management churn in Lucknow, over the last few months, senior doctor churn I mean?

Pankaj Sahni: So, last couple of months we have not seen anything. We have had one or two doctors who have left us post June 30th, quarter end so as we speak today. But no real significant, I am trying to think now exactly maybe one or two doctors who have left us, some going into newer facilities, some going into existing facilities and also, like I said it's not only the branded players, some of the local players also getting more active. We have also hired in doctors from these facilities, as well as some of the doctors from the government facilities, both in the quarter which you see in the investor presentation, but also subsequent to quarter end. So, these are all obviously public announcements since the doctors are all on board. So, to give an example our senior radiation oncology director has joined us post quarter end. He's comes in from SGPGI, like I said, we have a senior nephrologist come in during the quarter. So not a very high churn, only two names that I can think of post quarter.

Alankar Garude: Okay, understood. The second question is, around Mumbai. Can you take us through the thought process behind entering Mumbai. The reason for asking that is, as one of the previous participants asked, in terms of CAPEX per bed, it's clearly higher in Mumbai. There are only a few corporate hospitals in the city. So, how should we look at the economics in the city and if you can help us understand the pros and cons of the market, that would be great.

Pankaj Sahni: If you think about, the Mumbai market first of all, it's a little bit misnomer to think of Mumbai as one market. I actually think that there are three or four markets in Mumbai. So, if you think of let's say, from Bandra towards South Mumbai, maybe you could group that into one market, although some people may say it's more than one. If you look at, let's say North of Mumbai, maybe going up past Andheri, and maybe all the way to Goregaon you may think of that as one market. And then, people do also consider the Western side moving into Navi Mumbai as a different market and then you can of course, subdivide that in many ways. So, there is no one market of Mumbai and if you really ask me, Mumbai remains an attractive opportunity of course subject to availability of land and the ability to build out these hospitals in each of these micro markets.

Now, obviously a city like Mumbai, one of the greatest challenges is getting access to land. And in our particular case, as I mentioned in the past also, the kind of infrastructure and space required to deliver the kind of care that Medanta is famous for requires a certain minimum amount of land. So, not much fun to put up 100 bed hospital with limited ability to do the kind of care that we deliver in a city like Mumbai. And then lastly, and very importantly as I also mentioned, there is a lot of challenges with getting access to land so Medanta has typically stayed away from questionable transactions where, not everything is 100% above board in terms of the accessibility to land and the kind of deals or the constructs that go into acquiring land or entering into contracts with the appropriate parties.

So, we have been highly conscious of the right ethics and governance. And since this was a plot of land that was available from the government authorities in a very clean auction, we thought it's an excellent opportunity. The land is exclusively for putting up a hospital. It met our requirements in terms of the location, which we believe in an excellent location, it will cover a very large part of the hardcore Mumbai area, but also some of the drainage from some of the suburbs of Mumbai into that area.

It gives us an opportunity to put up a fairly big facility. If you take out the cost of land, if you are able to actually squeeze in a few more beds than the 500 which we have quoted you may actually find the cost per bed numbers significantly lower, more or less coming into lines with what we see in other parts of the country. That, being said, Mumbai has always been a market where you assume that it's not going to be Rs. 1.4 crores - Rs. 1.5 crores per bed it's going to be a little bit higher, maybe closer to Rs. 2 crores. And again, these are without cost of land, but given that we got a clean plot of land, we thought it was a great opportunity so inclusive of cost of land, yes it comes to Rs. 2 crores a bed, our modeling actually shows that with the realizations and levels that are available in Mumbai, this still actually seems fairly attractive at approximately Rs. 2 crores a bed, 500 or 500 plus beds, if you can get a few more, say, 600 beds there. The economics seem to be very, very strong and more than that, Alankar, it's not a question of economics purely, it's a question of making sure that we are able to bring in our kind of care to the city.

Mumbai has historically been a city which has survived on a lot of older institutions, initially charitable trusts, etc, and people have tried to refurbish and rework some of those. There's been limited, brand new kind of investment in that city in the healthcare domain. And we feel that this is part of our duty as we have said always we want to deliver healthcare to the underserved healthcare markets, Mumbai in many ways, even though it's a high income and high per capita market it's quite underserved from a quality of healthcare point of view. And so it fits with our stated goal Mumbai of course is an attractive city in any case. So, absolutely in line with our approach we have been looking for locations in Mumbai for some time, and given that we found a good deal here, with respect to this government auction, we thought perfect opportunity and we were lucky to get it.

Alankar Garude: That's helpful Pankaj, and one final question if I may, any delays you are facing when it comes to Delhi, because construction activity is yet to start, what are the timelines we are looking at now for the Delhi hospital?

Pankaj Sahni: Yes, you are right Alankar, there has been a little bit of a delay in Delhi. We had mentioned in the past that we were waiting to get all the necessary regulatory approvals lined up to be able to move that construction in full force. That's taken a little bit longer than we would have liked. Also, some of those approvals are linked to not in our particular land, but in other associated cases which are going on the court. So, we have been waiting for some of those things to get cleared. What we have actually decided is to go ahead with some parts so the land is in kind of in two parts. So, we are actually going to start the construction very soon in one of the parts of the land, so that we should be able to see some of the construction activity that you articulated hopefully in this quarter itself. But ideally, one would argue that this could have been done, or we would have liked it to be done maybe six months in advance, so yes the answer is, it is a little bit delayed.

Alankar Garude: And similarly, on Indore the second hospital?

Pankaj Sahni: Indore, story is little different with respect to the construction activity. Indore as we had mentioned, got stuck into a little bit of litigation one or two prior owners back. So what we had done is, actually we had held off on signing the definitive agreement with our partner, although the partner remains committed. In our last update, I don't remember whether I said it in the last quarter, there was a judgment which was favorable for the landlord, where the High Court of Madhya Pradesh had dismissed the appeal which was being raised by one of the parties about the land, and the landlord that we intend to work with had won that case. I believe now it is at a revision level that appeal. So, we are just waiting for the legal part to be fully cleared, just to be doubly sure on the investments and the legalities although the partner is putting much of the Capex. So, we both remain committed to doing that, but I can't yet give you an answer on when the construction will start. It is very possible it may take another couple of quarters for that to close out before we move forward.

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

Pankaj Sahni: Thank you everyone for your questions and for joining today. As we move forward, our focus remains, as I said earlier on scaling our operations, enhancing our services and ensuring that we continue to deliver the highest standards of care that we have been come to be known for. We look forward to interacting with all of you as we move forward.

If there are any questions in the meanwhile, please feel free to reach out to our Investor Relations team, and we look forward to speaking with all of you soon and seeing many of you in the coming months. Thank you very much.

Notes:

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