October 31, 2020

| | |
|---|---|
| The Secretary<br>Listing Department,<br>BSE Limited,<br>1st Floor, Phiroze Jeejeebhoy Towers<br>Dalal Street, Mumbai 400001<br>Scrip Code: 540975 | The Manager,<br>Listing Department,<br>The National Stock Exchange of India Ltd<br>Exchange Plaza, C-1, Block G<br>Bandra Kurla Complex<br>Bandra (East), Mumbai 400051<br>Scrip Symbol: ASTERDM |

Dear Sir/ Madam,

**Sub: Whitepaper on Impact of COVID-19 - Strategies on Business & Financial Management**

In furtherance to the announcement made by the Company on June 01, 2020 on impact of COVID-19 pandemic on the business and operations of the Company, please find attached Whitepaper on Impact of COVID-19- Strategies on Business & Financial Management.

We request you to kindly take the above information on record.

Thank You,

For **Aster DM Healthcare Limited**

Puja Aggarwal
Company Secretary and Compliance Officer

**Aster DM Healthcare Limited**
CIN- L85110KL2008PLC021703
IX/475L, Aster Medcity,Kuttisahib Road
Near Kothad Bridge, South Chittoor PO
Cheranalloor, Kochi- 682027, Kerala, India
Tel: +91 484 6699999, Fax: +91 484 6699862
Email:cs@asterdmhealthcare.com

ASTER DM HEALTHCARE

# IMPACT OF COVID 19

## STRATEGIES ON BUSINESS & FINANCIAL MANAGEMENT

# TABLE OF CONTENTS



# FOREWORD

The year 2020 has been a historic year for more reasons than one. The outbreak of the COVID-19 pandemic is a watershed moment in the history of mankind thus far. Having witnessed both, the failures & successes, and the learning opportunities from multilateral agencies, we at Aster had collectively put into place a governance mechanism to share best practices, both as top-down & bottom-up, as well as lateral transition of best practices from various geographies. Clearly, the operating environment for Aster DM Healthcare is as varied as the geographies we operate in – ranging from a major insurance driven markets in GCC to a significant share of out-of-pocket expenses from the India vertical. The cost optimization projects which were initiated in the past two fiscals with intentions to drive in more cost efficiencies at the levels of manpower, materials and other direct expenses has thankfully helped us to become more efficient than we ever were.

The course of the pandemic in the GCC countries, specifically in UAE where we have a significant exposure took place in April'20 itself and our hospitals, clinics and pharmacies were at the front line of the healthcare ecosystem. While the India operations was impacted by the mandatory country-wide lockdown since late March'20, it saw the first trickle of cases only towards the end of June'20. This whitepaper is an attempt to document all the strategies and policies that were incorporated to sustain revenues, control costs and maintain liquidity in the system.

In hindsight, we have seen that the measures adopted have significantly reduced the Year-on-Year gaps in performance, than it would otherwise have been. We are also looking forward to enhanced metrices in Q3 and Q4 which will help to stabilize the performances in comparison to the previous year.

This white paper has been prepared by the painstaking efforts of Group CFO Sreenath Reddy along with India CEO Dr. Harish Pillai with support from their teams. The proactive role and contributions of Asterians from the teams mentioned in this whitepaper – Senior Management, Medical Affairs, Hospital Operations, Human Resources, Finance, Supply Chain etc. will help set a benchmark in experiential learning opportunities for sustainable business operations during this pandemic.

'To the reader, I would request you to pause and reflect on the valuable lessons that will set a template for successful financial management for any future crisis that may result out of force majeure.'

**Dr. Azad Moopen, MD, FRCP**
Founder Chairman and Managing Director,
Aster DM Healthcare

# 1: INTRODUCTION

## 1.1 Overview of the scenario

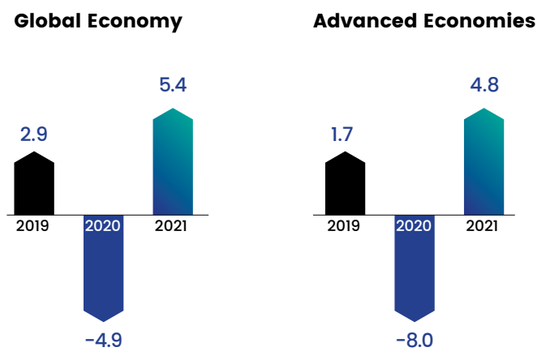
On 30 January 2020, the Director-General of WHO, Dr. Tedros Adhanom Ghebreyesus, declared the outbreak of novel coronavirus (2019-nCoV) a Public Health Emergency of International Concern (PHEIC), as per the advice of International Heath Regulations (IHR) Emergency Committee. Accordingly, on 11 March 2020, WHO declared Novel Coronavirus Disease (COVID-19) a pandemic and reiterated its call for countries to take immediate action and scale up efforts to detect, treat and control its transmission.

The impact of this pandemic on the world economy was unfathomable, to contain the pandemic, nations around the world have resorted to lockdowns to **"flatten the curve"**. As people remained confined to homes due to countrywide lockdowns, businesses shut and economic activity came to a halt. The International Monetary Fund (IMF) estimated the growth in global economy to shrink by 4.9% in 2020 – the steepest slowdown since the Great Depression of the 1930s.

The disruptions caused by the pandemic has spilled over to trading partners through trade and global value chain linkages, adding to the overall macroeconomic effects that resulted in economic shocks across the globe. However, the situation is expected to gradually stabilize by 2021, with the estimated GDP growth anticipated to touch 5.4% by the end of 2021.

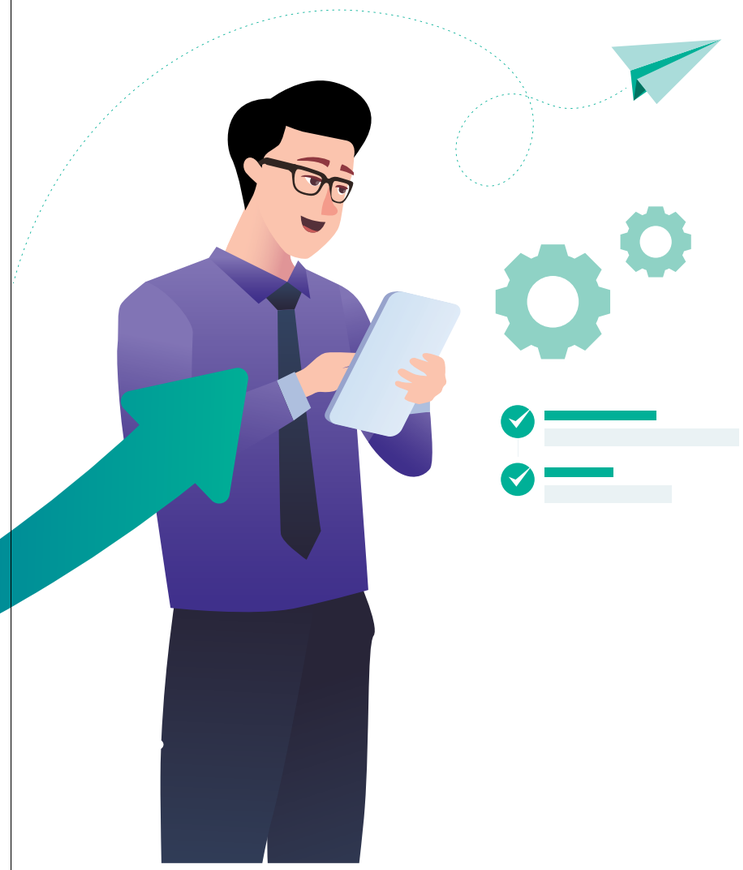
(Source: IMF World Economic Outlook Update, June 2020)

**GDP Growth Projections (%)**




## 1.2 Objective of the Whitepaper

Currently, the healthcare sector is witnessing a dual challenge. As footfalls and other operations reduced significantly, the need to continue operations and invest in additional equipment and manpower to ensure preparedness for treatment of COVID-19 patients during the lockdown remained a prime concern. Despite these challenges, Aster DM Healthcare strived to maintain its operations effectively amidst the pandemic while the focus remained on delivering superior care, the effective strategic interventions were made to protect the business and minimize the adverse impact.



Highlighting the Impact of **COVID-19** on the overall Business of Aster DM Healthcare.

**Aster DM Healthcare's ability to ensure financial sustainability** amidst a global pandemic while focusing on delivering superior care.

Highlight the **financial strategies and measures adopted by Aster DM Healthcare** to minimize the adverse business impact.

**Documenting the Key Learnings** during the strained period of Q1 FY21 to effectively deal with any future crisis.

# 2: IMPACT OF COVID-19 ON REGIONS WHERE WE OPERATE

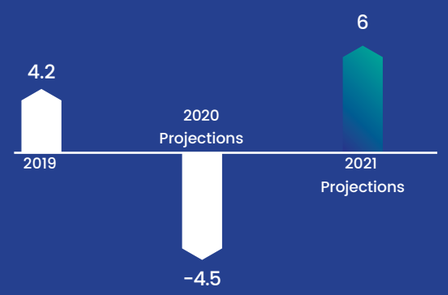
## 2.1 India

In India, the impact of **COVID-19** was felt from the 2nd week of March-2020.

- **Hon'ble PM Narendra Modi** made a public appeal to encourage public participation in a 'Janata curfew' on 22nd March from 7 AM-9 PM as a primary response to the COVID-19 outbreak.
- Post the 'Janata curfew' the Central & State Governments announced stringent lockdowns from 23rd Mar-2020 to 14th Apr-2020 to contain the spread of the virus.
- The Lockdown was extended to 3rd May-2020 as the cases continued to rise during the period.
- Post 4th May-2020, containment zones were created, and the lockdown was relaxed in green zones, while it continued in the red zones till 17th May-2020.
- On 30th May, the government announced that the countrywide lockdown will be lifted in phases and it will be further extended till 30th June for containment zones.
- Services resumed in a phased manner from 8th June under 'Unlock 1.0'.
- In the second phase, 'Unlock 2.0' was announced for the period between 1st July and 31st July. Further, restrictions continued to be lifted in August with 'Unlock 3.0'.
- As of September, the top five worst Covid-affected states in India included Maharashtra, Tamil Nadu, Andhra Pradesh, Uttar Pradesh and Karnataka.

India's economy is projected to pick up in **2021** registering an expected growth rate of **6%.**

**INDIA**

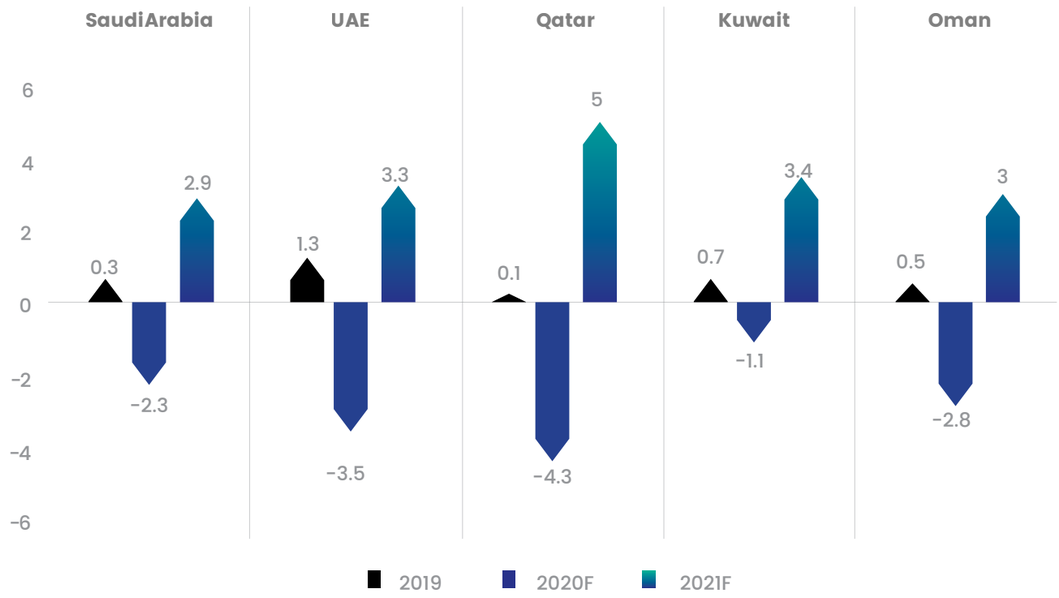



(Source: IMF World Economic Outlook Update, June 2020)

## 2.2 GCC

Like other countries, the GCC region also witnessed difficulties due to the COVID-19 pandemic. At the moment, the economic outlook for GCC countries is not exactly favourable, owing to the sudden outbreak of Coronavirus and the countrywide lockdowns that resulted in massive disruptions in the supply chain. Wholesale & retail trade, transportation, finance and insurance have been affected by the pandemic. Additionally, a continued decline in oil production and falling oil prices have had a major impact on these countries. Besides, the lockdown has halted manufacturing activity around the world, lowering the demand for oil and its substitutes. As per the IMF, the growth in economy of the Middle East and Central Asia is anticipated to shrink by 2.8% in 2020. However, the region is projected to recover and register a growth of 4% in 2021.

**The GDP Growth Rate of select GCC Countries (%)**




(Source: IMF World Economic Outlook April 2020)

# 3: CHALLENGES FACED

## 3.1 Impact on the healthcare industry

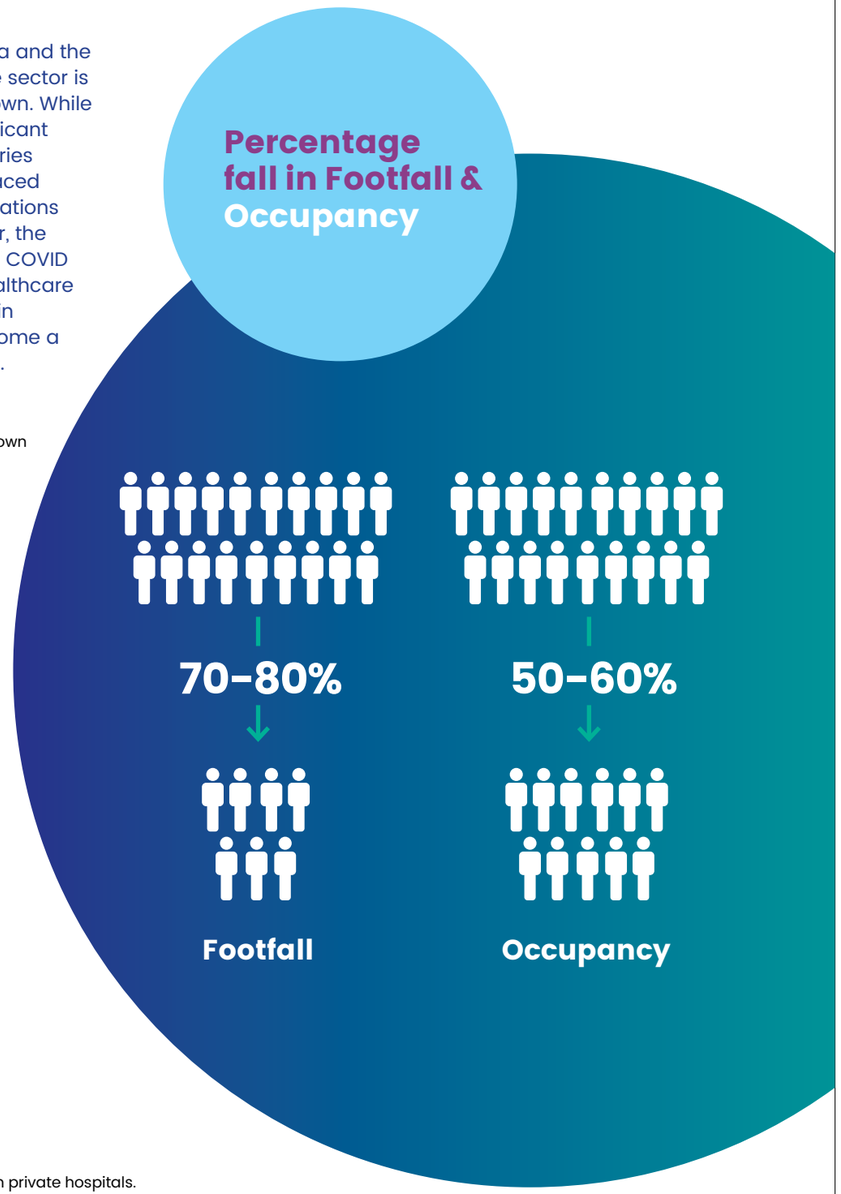
### 3.1.1 India

With the outbreak of COVID-19 in India and the subsequent lockdown, the healthcare sector is witnessing an unprecedented slowdown. While it continues to be affected by a significant drop in patient footfall, elective surgeries and international patients, it is also faced with the challenge of continuing operations despite operational hurdles. Moreover, the requirement to continue treatment of COVID patients remains a priority for the healthcare sector and accordingly, investments in equipment and manpower have become a necessity despite business disruption.

With the global COVID situation and strict lockdown measures to contain the virus outbreak, Indian hospitals have witnessed the following

**1. Decrease in domestic footfall**

**Drop** in Domestic footfalls and elective surgeries, resulting in a fall in occupancy levels to a mere **40%** by late March vis-à-vis Pre COVID occupancy levels of **~65-70%**.




Source: FICCI EY Impact assessment of COVID on private hospitals.

**2. Impact on International business**

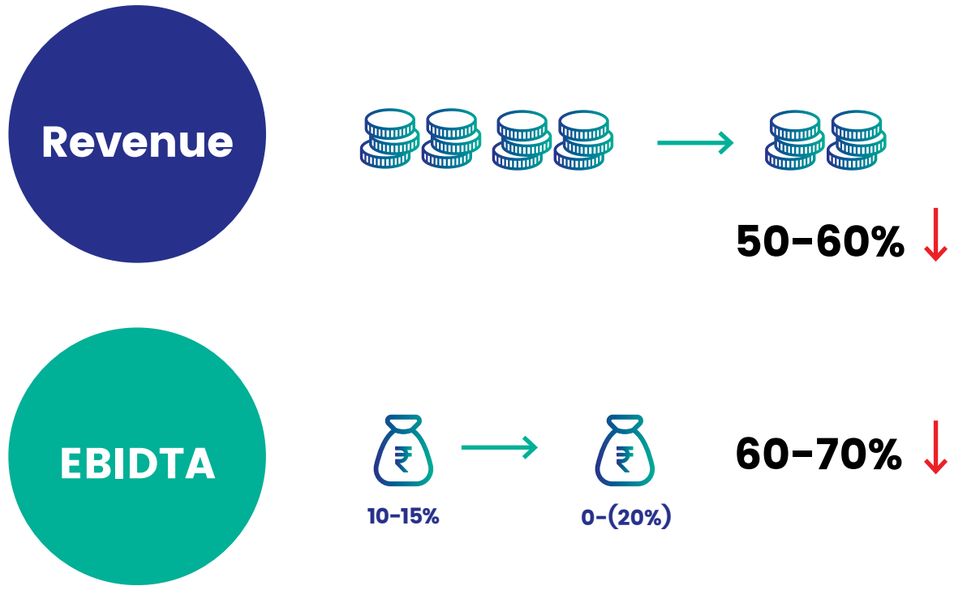
With the current travel restrictions, international patients inflow has reduced significantly. While the MVT revenues have dropped, the expenses remain the same. This has a significant impact on Indian hospitals that derive 5-10% of their revenue from foreign patients.

The fiscal damage to the MVT industry due to the novel Coronavirus is estimated at almost US$ 2.5 billion, if the pandemic continues to spread at its current pace for the next 6 months. This is equivalent to the revenue the sector had expected to generate from eight months of operation, without the unusual disruption caused by Covid-19.

(Source: Addendum - FICCI Report COVID19 - Part II)

Limited options for containing fixed costs as hospitals need to continue operations and remain focused on providing treatment to COVID-19 patients. This has resulted in a sharp **fall in EBITDA margins by end March/early April** due to a sharp decline in revenues.

**3. Decrease in Revenue and EBITDA**




Source: FICCI EY Impact assessment of COVID on private hospitals.

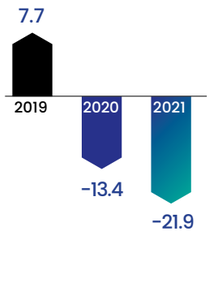
# 3: CHALLENGES FACED

### 4. Liquidity Issues:

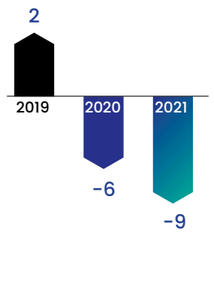
The lockdown caused significant operating losses for the quarter and resulted in a liquidity crunch. An industrywide analysis shows that there will be operating losses to the tune of Rs. 13,400 – Rs. 22,000 Cr for the quarter:

**Scenario** (Lock Down = 1 Quarter)

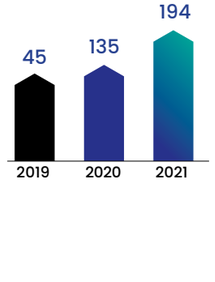
**EBITDA** (Rs '000s Cr.)



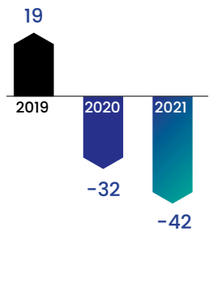

**Interest coverage ratio**




**Receivable days**




**Cash position in days**




Source: FICCI EY Impact assessment of COVID on private hospitals.
Receivables days are TPA receivable days.

### 5. Full year Impact:

The sector's performance in FY21 is estimated to be muted with 20-25% lower revenue and single digit to negative EBITDA.

Occupancy levels are expected to gradually ramp-up from **40 –50%** in Q1 to **65 –70%** in Q4 FY21

| | Pre-covid | Estimated FY21 |
|---|---|---|
| Revenue | 100 | 75-80 |
| Occupancy (%) | 70 | 55-60 |
| EBIDTA (%) | 13 | (5)-5 |
| ROCE (%) | 7 | (10)-(5) |



### 3.1.2 GCC

Due to social distancing measures, lockdowns, and fear of infection in hospitals, the healthcare sector is facing several challenges. As patients continue to cancel appointments, a sharp decline in Outpatient services have been noticed. In-patient Admissions have also reduced, surgeries have been cancelled and Visits to the Emergency Department has also reduced. The healthcare sector in the GCC is expected to experience a short-term revenue decline of about 15%-20% in 2020, primarily due to the prevailing uncertainties.

Estimated drop per segments :

Mental Health - **45%** Allied Health - **65%**

Secondary Care - **50%** Dental - **95%**

Primary care - **70%**

[Source:INFOMINEO]

**Challenges faced by the Healthcare industry**

- Supply shortage – Due to temporary ban on imports from India and China, the world's biggest suppliers of generic drugs (like Paracetamol, one of the world's most widely-used pain relievers), formulations in GCC labs can be affected. Most drug manufacturers in the GCC use base ingredients from China and an import ban may result in severe shortage of raw material. Additionally, the sudden demand for devices like ventilators and patient monitoring kits have also affected the regional healthcare industry.
- Lack of access to healthcare – Although the Gulf countries have a developed healthcare system, a large proportion of its population comprises of migrant workers who lack access to quality care.
- Market Penetration – Patients in some parts of the GCC still do not have access to online healthcare services and diagnostic facilities. Amidst a pandemic, this can be an effective tool for patient support.
- Elective Surgeries (non-emergency surgeries) have decreased, leading to a decline in the demand for implants and surgical consumables

# 3: CHALLENGES FACED

## 3.2 Impact on Aster DM healthcare

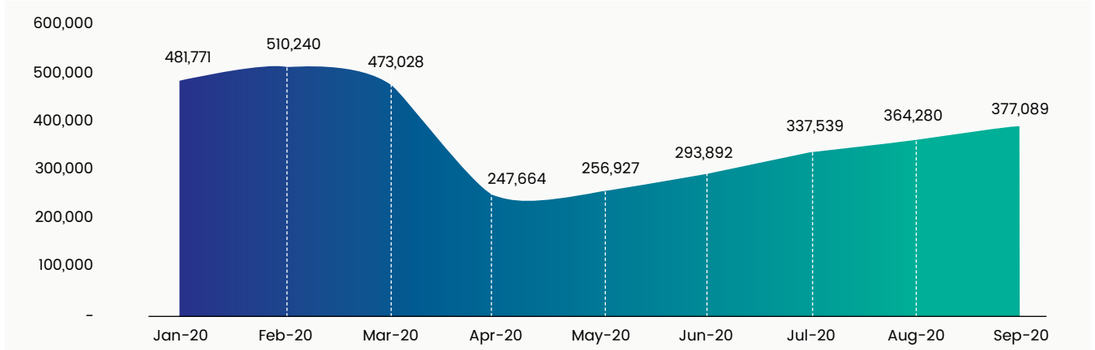
The COVID-19 pandemic has completely changed the way we do business. Since March'20, we have witnessed an unprecedented situation, which aggravated with every passing day. The business outlook and revenue projections for FY20-21, seemed irrelevant overnight. When the lockdown was announced in countries where we operate, our OPDs remained empty, elective surgeries were cancelled and emergency cases also reduced. The fear of the unknown was so acute, people found it extremely difficult to cope with the situation. Amidst such uncertainty, even WHO was not sure about the extent of the pandemic.

Since the lockdown, there has been a gradual decline in the volumes/occupancy rate and other key operating parameters in GCC and India.

### GCC

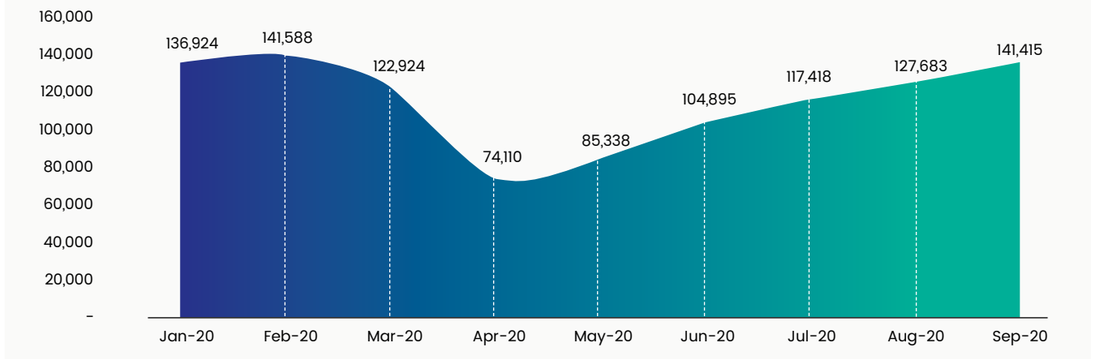
#### Clinics

Clinics OPD Footfalls

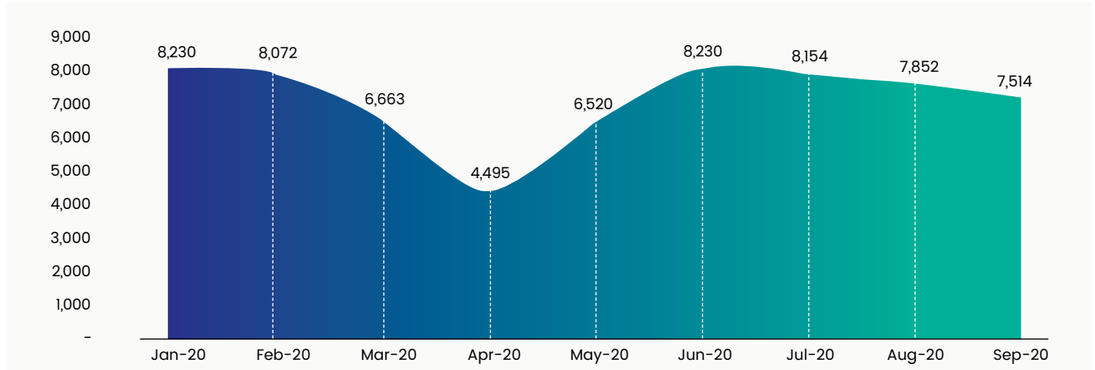



#### Hospitals

Hospitals OPD Footfalls

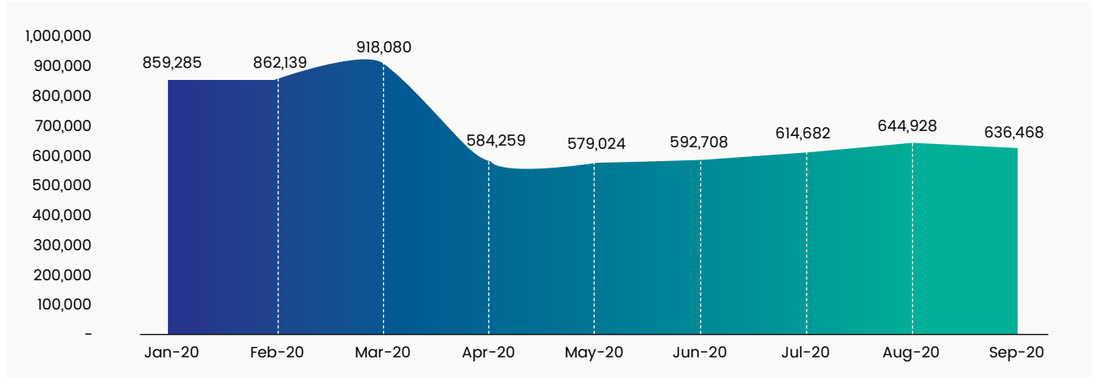



Hospitals IPD Footfalls




#### Pharmacies

Pharmacies Footfalls

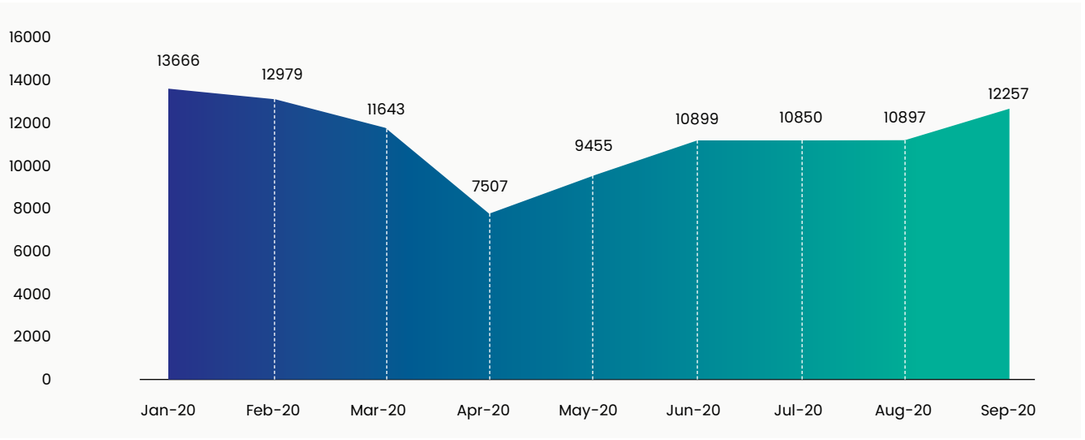


# 3: CHALLENGES FACED

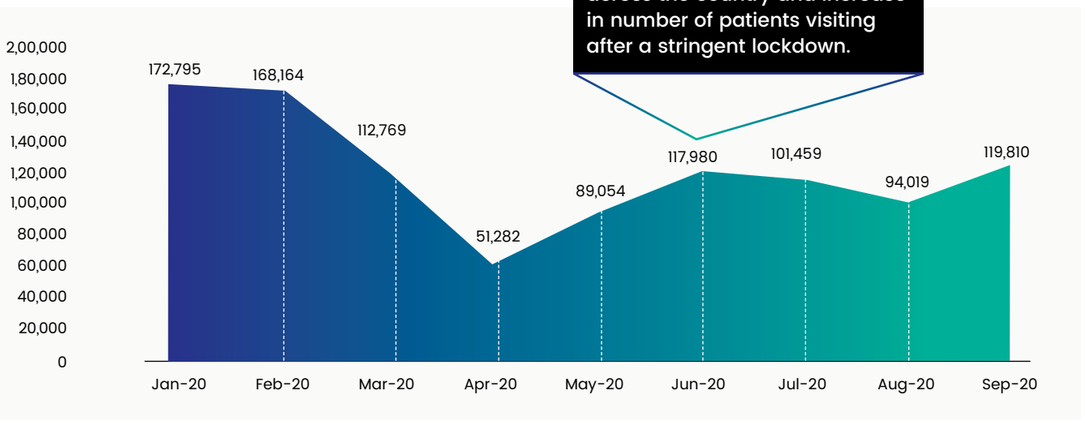
## India

### Hospitals

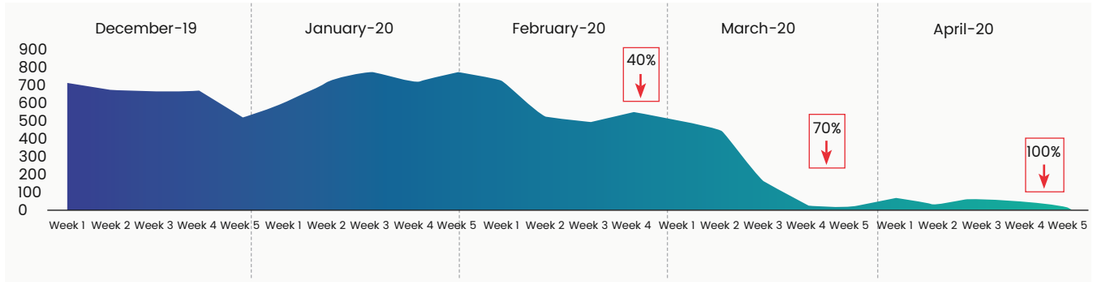
#### IP Numbers




#### OP Numbers




#### Fall in International Footfalls




# 4: STRATEGICALLY MANOEUVRING CHALLENGES

To get business during the lockdown and bring it back on track to pre-covid era post lockdown was the primary focus. Due to our extensive geographical reach across Karnataka, Kerala, Andhra, Telangana and Maharashtra, we implemented a phased approach to overcome the imminent challenges faced by the organization. We started with scenario planning and rallied across units to identify worst, moderate and best case scenarios for the first and second quarter of FY21. Accordingly, we monitored operations regularly, on a month-on-month basis, to assess the impact of COVID-19 on our business and to slowly normalize operations. The geographical spread also helped to mitigate the impact as Kerala was least impacted due to Covid whereas Bangalore or AP & Telangana was impacted more.

In GCC, all non-essential and elective surgeries were suspended by the government. Since 70% of the revenue for GCC is credit revenue, this was monitored strictly by the insurance companies and the approvals were not received from the insurance companies. The countries went into lockdown and hence the outpatient clinics and pharmacies saw a significant dip in footfalls resulting in reduction of the Revenue

Thereby, across our operations, we started tracking key metrics related to OPD/ IP / Emergency / OT numbers daily and shared information with concerned units to efficiently manage the situation. Besides, to ensure steady revenue generation, we launched the teleconsultation app (app and web version) and aligned doctors on this platform to reach out to patients in different parts of the country. Although we had to overcome technological challenges in terms of connectivity / app optimization and bandwidth at hospitals, and had to educate the masses about the advantages of eConsult through SMS, it was easily adopted.

To reduce the impact of the Coronavirus pandemic on the Company's financial position, we strategically relied on the three pillars - Revenue, Cost and Liquidity.

1. **Revenue** – Explored avenues to generate revenue and reduce the impact on our topline, caused due to a sudden dip in numbers.

2. **Cost** – Ensured effective ways to manage critical costs pertaining to material, HR & overheads. We also addressed the issues of increased drug prices and consumables, owing to a supply-demand gap. Besides, we devised strategies to efficiently implement pay cuts across the organization along with i dentifying non-critical expenses that could be curtailed temporarily to prevent its impact on cashflow.

3. **Liquidity** – Devised measures to keep a balance between cash inflow and outflow, negotiated terms with bankers to provide various reliefs, identified the projects requiring immediate cash outflows and strategically deferred them.



# 5: PRUDENT FINANCIAL PLANNING

## 5.1 Revenue Management

Taking into consideration the challenging circumstances that we faced, it was vital for us to gain the confidence of our patients. To enable a steady stream of revenue from our hospitals, we implemented measures to earn the trust of our patients. We introduced fever clinics, separate entries to OPDs and lifts, ensuring complete adherence to social distancing norms. With a strong focus on maintaining personal hygiene, we made the use of masks and sanitizers compulsory, focused on sanitizing the hospital at regular intervals throughout the day. All OPD patients were also thoroughly checked with strict emphasis on temperature checking and recording of personal information like contact number, travel history etc.

We had also taken care to create separate areas for the treatment of COVID and non-COVID patients. Accordingly, clinical teams were divided and patients were moved to separate floors to ensure maximum safety and well-being of our staff as well as our patients. Throughout the process, we tried to live up to our brand promise of "We'll Treat You Well".

In GCC, we bifurcated our COVID 19 facilities from other patient's facilities. Medcare Women and Child was kept free from admitting any patients with COVID 19 positive cases. Sections and Floors were separated out in other Hospitals for COVID 19 positive patients and other patients. We also undertook special promotional activates for home deliveries of Pharma and Non Pharma products by pharmacies.

Our patients expressed immense satisfaction with our services. It was one of the biggest factors that helped us to win over the confidence and trust of the community. Patient footfalls also increased due to the positive experiences at our hospitals and OPD footfalls reached near normal figures from July. Patients also opted for elective surgeries during this period. Our teams also launched social media campaigns to spread a word about the safety precautions taken at Aster.

Further, considering the drop in numbers from existing sources of revenue, alternative sources like Teleconsulting, Homecare and Diagnostics were explored across our operations.

**Diverse care portfolio:**

### 1. Quarantine Facility care

- As the Coronavirus infection continued to increase, we rented Hotels to keep patients with a relatively mild infection. We also helped doctors and nursing staff to provide special home care packages to monitor asymptomatic patients remotely. This helped us to improve business significantly in our GCC regions. In GCC, Tie up with External facilities like Hotels were undertaken by the company for managing COVID 19 patients. This resulted in a total Revenue of AED ~31 Mn during Q1 FY21. In India this proved to be a successful model at Andhra/Telangana Clusters and in Kolhapur region.

### 2. Teleconsulting:

- The existing pandemic is a challenge as well as an opportunity for the Indian healthcare industry. More and more people are now turning to online consultations and medicine delivery.
- The higher risk of contracting coronavirus infection from hospitals and clinics that see a large number of patient footfalls is driving people to opt for telemedicine as an alternative. Additionally, lockdown and quarantines have restricted movement in many places.
- With the new policies and guidelines in place, medical professionals are now less apprehensive about online medical practices and are enthusiastic about exploring this space.

**Benefits**

- Safety of Patients and Healthcare workers
- Easy access to doctors from anywhere, at a time convenient to the patient

# 5: PRUDENT FINANCIAL PLANNING

- Convenient access to expert medical care by audio and video consultations
- A simple solution that can be implemented on a mobile phone or on a desktop, using regular network connection
- Patient can also upload old records as a reference for doctors.
- Patient can maintain PHR and access records, consultation notes, prescriptions and reports, anytime and anywhere
- Reliable, Easy and Secure gateway for payment
- Facilities for continuous care with lab services, home care and drug delivery

**Actions taken by Aster**

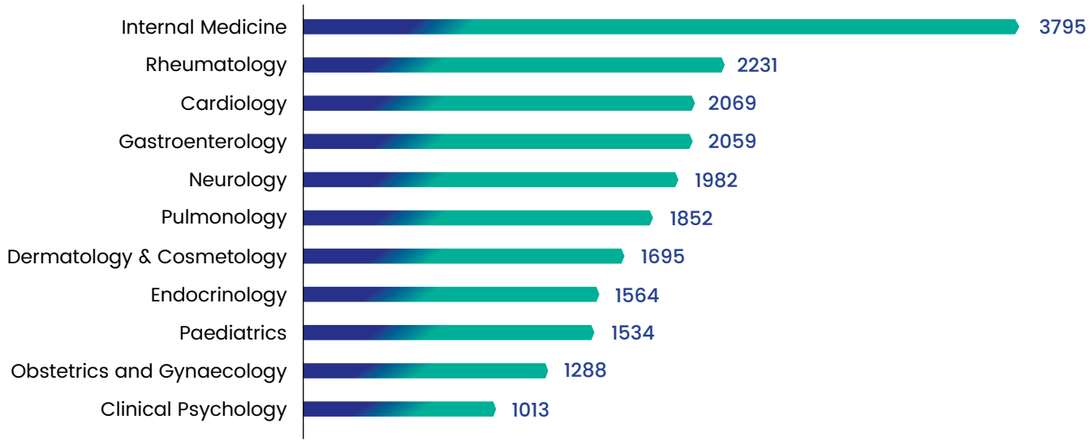
- We started "Aster Covid-19 Tele triage" in March 2020, across the group, with a 24*7 dedicated hotline.
- "Aster COVID Self-assessment tool" was built within 48 hrs. to assess the risk profile & monitor patients during quarantine.
- Initiated "Virtual OPD" for patients who seek non-emergency and follow-up care in mid-March 2020. Around 850 doctors, across specializations, were made available for remote consultation.
- "Aster eConsult"- Mobile App launched within 15 days of starting the "Virtual OPD" services.
- Provided continuous care through Aster Labs & other services available under 'Aster@Home'
- Augmented delivery of drugs & consumables through our chain of Aster Pharmacies and Hospitals.
- This was widely accepted by patients and doctors as it is easily accessible by doctors from anywhere, at a time convenient to the patients and convenient access to expert medical care by audio and video consultations.

**Impact:**

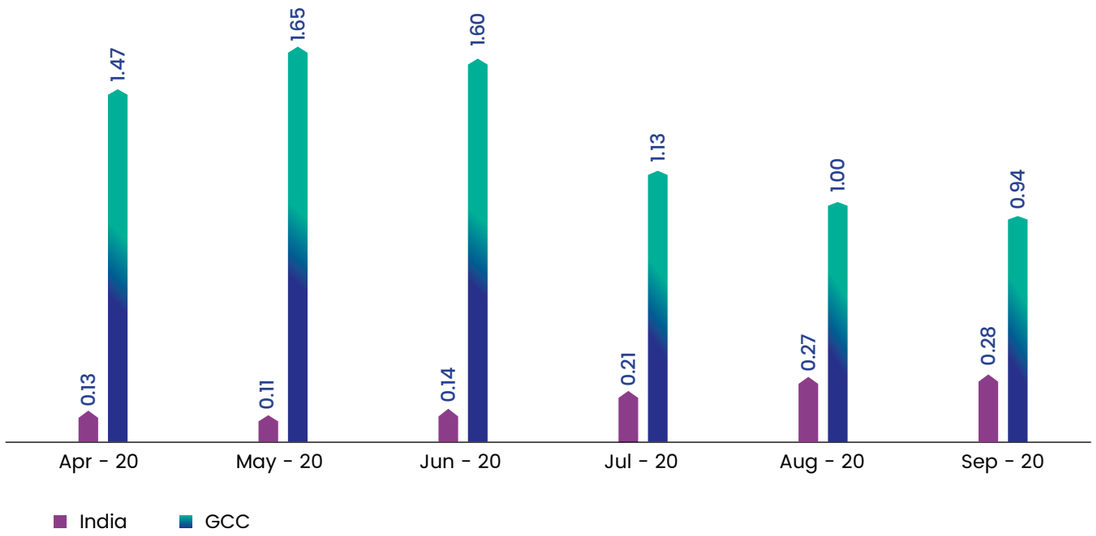
- Aster has attended nearly 50,000 cases, from the time the pandemic started in India and treated nearly 80,000 cases across the group.
- For nearly **45% of the cases, patients were treated free of cost.**
- The **Free Covid-19 Teletriaging** was provided to nearly **3,400 patients in India**
- Revenue of nearly **Four Million AED** has been generated during this period across the group.
- For Teleconsult, the most popular specialties consisted of Cardiology, Dermatology, Neurology and General Medicine
- In Bangalore cluster, service orders for labs and pharmacies were tracked. The following was the conversion rate for the same.
  - **21%** of Teleconsult patients ordered lab services and **42%** of such patients' samples were collected from Home
  - **80%** of Teleconsult patients placed pharma orders and the medicines were efficiently delivered to patients with our logistic services.
- In Andhra Cluster, the Teleconsultation resulted in **100 Inpatient admission** every month
- In India, 80% of the doctors who used the Teleconsult platform expressed a satisfaction level of **91%**
- In India, about 10,000 Patients offered a feedback on Teleconsult services and the satisfaction level was **90%**

Source: https://www.lexology.com/library/detail.aspx?g=a1d76ffa-1853-4c7a-84e8-f8ef37d44525

**Total E-consults in India (YTD Sep-20)**

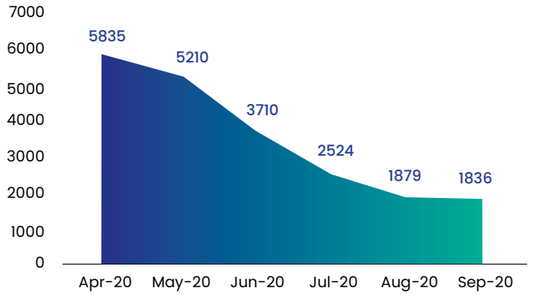



**Geography wise revenue break up (Rs. In Crore)**

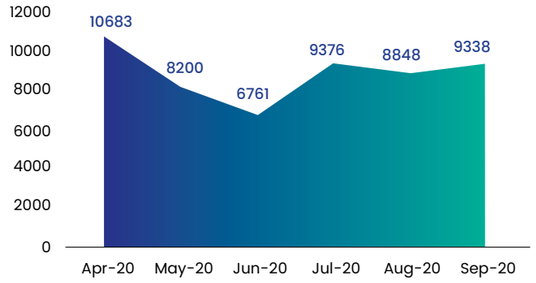


# 5: PRUDENT FINANCIAL PLANNING

**Total E-consults - GCC**




**Total E-consults India**




**App Downloads (Aster India)**

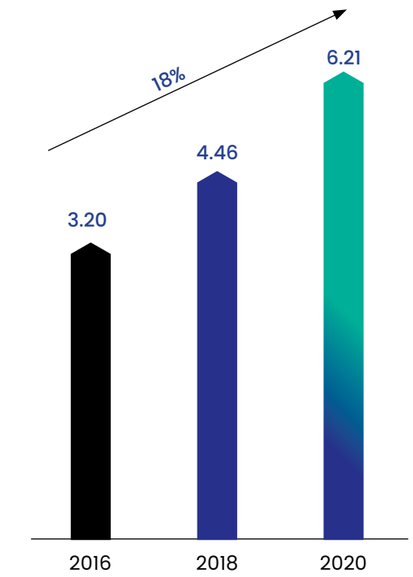



## 3. Homecare

- Today, the home healthcare market in India is fragmented and comprises of exciting start-ups such as Portea Medical, Pramati Care, India Home Healthcare (HCaH), Unique Home Healthcare, Nightingales, among others.
- Presently, the Indian home healthcare companies are primarily focused on elderly care, rehabilitation and diabetes management. Although, elderly care still contributes a substantial portion of the revenues, there are new market segments within home healthcare that are opening up, including neo natal care.
- Home healthcare has the potential to replace upto 65% of unnecessary hospital visits in India, and costs incurred on hospital visits can be reduced up to <20%.

**India Market Forecast**

(In US $/Billion)




Source: Research report by CMR

**Benefits**

- Home healthcare professionals are easily accessible from anywhere.
- Home care can be easily accommodated in daily life
- Access to skilled nurses at home.
- Dietary and nutritional support.
- Efficient management of medication
- Home healthcare professionals provide companionship
- Home healthcare treatment outcomes are at par with conventional treatment.
- Patient-centric care and support.
- Affordable alternative to hospital care.

**Actions taken by Aster**

For many families, home healthcare is a safe and affordable solution. It allows patients to avail superior quality care from the comfort of their homes.

Home Healthcare Business: As part of Aster's strategy to enter less capital intensive business, we have acquired Wahat Al Aman Home Health Care LLC, Abu Dhabi which offers home care services wherein nurses are deputed at residence of the patients to provide healthcare services. We have seen an uptake in India where nursing, pharmacy lab service and Home ICU being the top generating revenue services. The present focus is on extending care for the discharge patients through home care.

# 5: PRUDENT FINANCIAL PLANNING

## USP of Aster@home

Building **Visibility & Awareness** across strategic locations in India.

Introduction of **Home ICU** with remote monitoring – First of its kind in India which will enable long term care of patients.

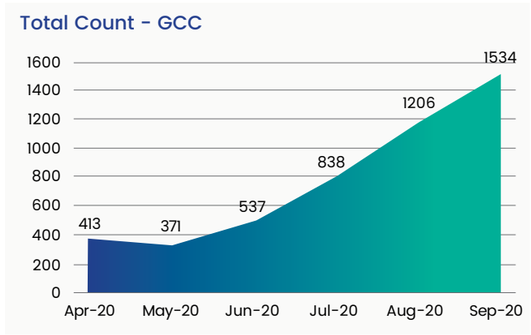
Introduction of **Uber model Home Care Services** which is also first-of-its-kind in India.

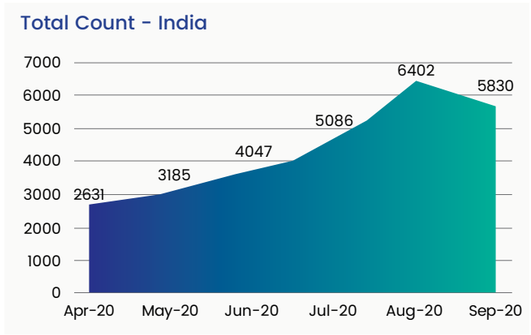
## Products Offered

- Doctor on call
- Physio on call
- Nurse on call
- Phelbotomy & Pharmacy on call

## How are we different:

- **Aster@Home backed up by Aster Hospital**
- **Staffs trained of handling In patients and Out patients**
- **Medication reminders and prescription pick up**
- **24/7 assistance or supervision for safety and comfort**
- **Offers Plenty of choices**
- **Individualised needs**
- **Cost effectiveness**




## Service offerings by Aster

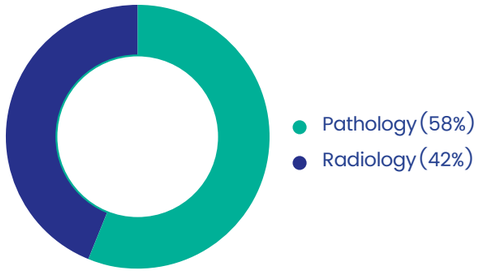
- Elderly Care
- Physiotherapy
- Rehabilitation
- Diabetes Management
- Children with special needs
- Remote Monitoring

# 5: PRUDENT FINANCIAL PLANNING

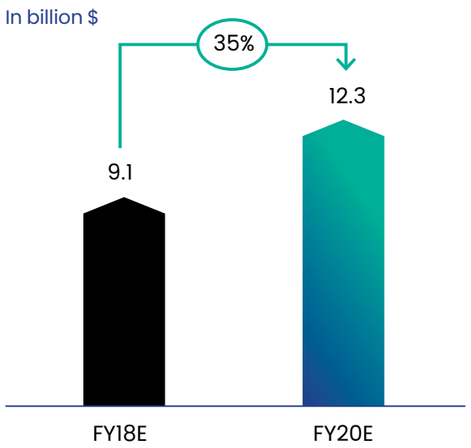
## 4. Diagnostics:

The size of the diagnostics business in Indian Healthcare is 6%. The Diagnostics business has the potential to reach 12.3 Billion $ by the end of 2020 and with the increase in epidemics & Pandemics, the pathology business has a significant potential to scale up.

### Size of Indian Diagnostics Industry




### Size of Indian Diagnostics market

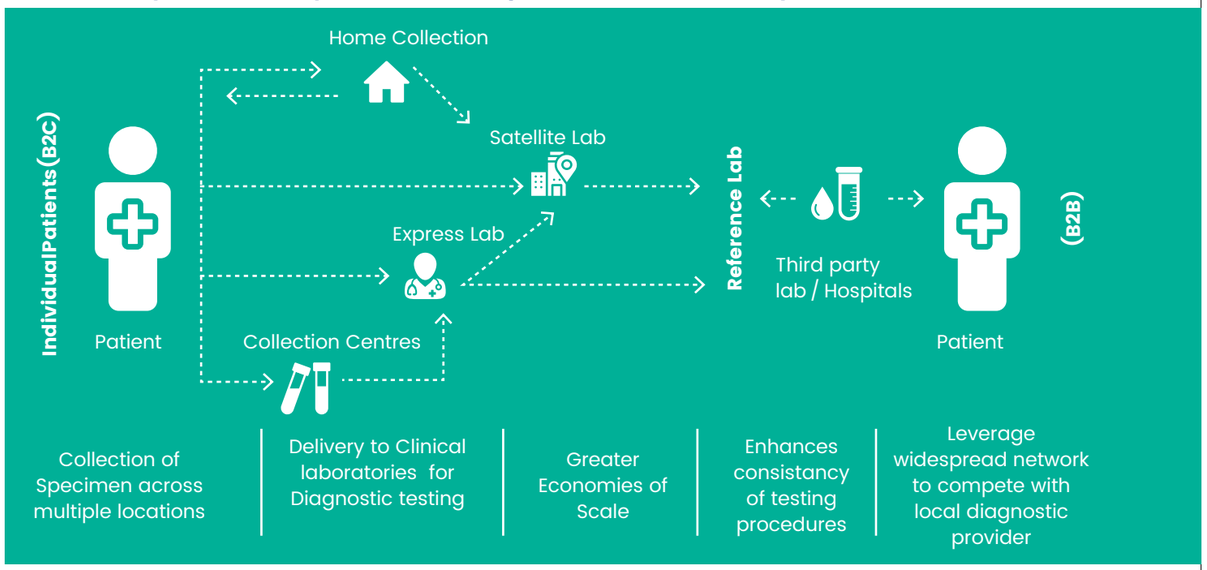



Source: ibef.org/industry/healthcareindia

Source: expresshealthcare.in/the-alchemy-of-growth-in-diagnostics

The Diagnostic chains comprise of 48% of the total share of the industry, with the participation of limited number of players. This provides an opportunity for new players to step into this field.

**The hub and spoke model helps to scale the diagnostic business effectively.**




The Diagnostic Industry has higher ROCEs compared to Hospitals as the business model is Asset Light and does not require huge capital infusion.

## Actions taken by Aster

We started Aster Labs as a separate vertical providing pathology services at the doorstep of patients in Apr-20, after the country wise lockdown was implemented in India. Currently we have 1 fully operational reference lab, 2 Hospital Lab Management (HLM) centres and 184 B2B pickup points.

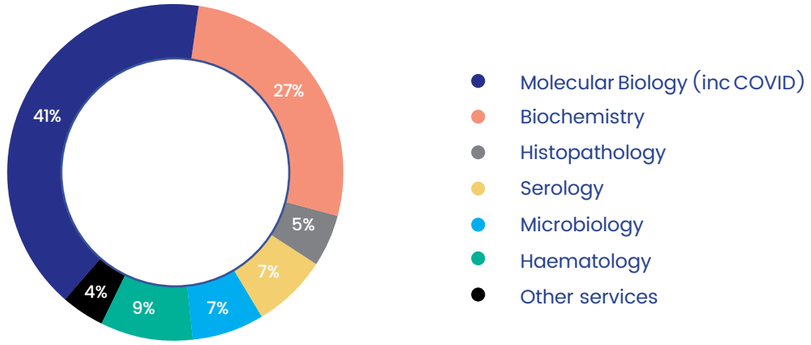
Our labs are NABL Certified and accredited centres for COVID-19 testing. We started providing confirmatory test service for Covid-19 in Bengaluru. Till Aug- 20, we have conducted more than 20,000 COVID-19 tests including government & private hospitals samples.

Aster Labs has also established HLM services to bring in productivity & efficiency through focused approach on hospital lab management. The HLM Model will help hospitals free up the space and resources for in-house labs and optimize the costs and increase margins. We have implemented HLM currently in our Bangalore hospitals.

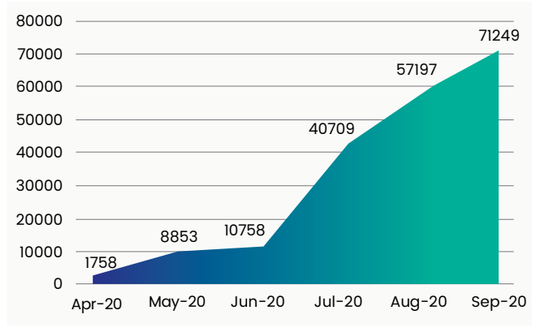
Presently, the Aster Labs team is focusing on strengthening B2B business by entering MOUs with other hospitals and corporates, Scaling up the satellite labs across the regions and taking over HLM for remaining hospitals.

### Key statistics

**Department wise revenue break-up**




**No.of tests**




# 5: PRUDENT FINANCIAL PLANNING

## 5.2 Cost Management

At Aster DM, we have adopted different approaches for cost containment and cash management in order to respond to the muted business performance as we believe that there is no 'one size fits all' approach. We followed the below listed approach to ensure cost optimization.

**Mar-20 cost was considered as baseline cost.**

Estimated Savings from the cost optimization measures undertaken to reduce the impact of COVID.

- Likely Cost estimates based on the cost containment measures.
- Further to which, P&L was drawn up to understand the operating losses.

### 5.2.1 MATERIAL COSTS

On operational front, following strategies were adopted:

- To ensure faster and easy decision making and procurement of material, we categorised our responses into three main types i.e.
  - Immediate response – enabling us to provide immediate relief to critical events that have a direct impact on life or public safety, the threat is of a catastrophic nature and where if a response was delayed it would result in increased harm to individuals or community
  - Sustained emergency relief - it was required to urgently sustain our hospital infrastructure and other core services once immediate criticality was addressed. These procurements were made appropriate where there were no direct impact on human life, no threat to significant environments or infrastructure but we still had a need to respond urgently to sustain and maintain business continuity.
  - Recovery response – This was enabled when the emergency situation has been contained and activities are returning to a normal procurement process. This was appropriate when there is no longer an urgent need to respond but there was a need to rapidly activate business as usual and non-essential procurement activities to establish a pipeline for the way forward.
- We made sure decisions made in this rapidly moving environment withstand audit scrutiny
- We made every effort possible to be aware of any attempts at profiteering, including price gouging and anti-competitive behaviour such as price fixing
- Due to trade restriction imposed during the lockdown, suppliers faced difficulties in supplying the goods within stipulated timeframes. It impacted our pricing, delivery timeframes and ability to meet contractual or project obligations. However, we continued to stay in touch with critical suppliers to get regular updates about the supply status.
- We looked at alternative sources and connected with local suppliers across the market to create new and innovative opportunities for meeting customer demands. We also continuously monitored their business recovery to ensure resumption of supplies.
- Active contract management and supplier communication with key service providers and partners helped us to overcome several challenges. It enabled us to avail payment waivers/deferment of payments through mutual negotiation.
- The orders were placed mainly in this categories viz. (i) Price sensitive products like surgical gloves and surgical masks were ordered on incremental basis based on price movements in the market, (ii) Products like N95 mask were ordered irrespective of the prices, not compromising on the quality & (iii) Other PPE's like foot cover or body gown were procured based on the cheapest pricing.

On financial front, we strived to optimize our material cost and following were the measures taken and impact.

- All material costs have been reduced due to lower number of elective surgeries
- Focus on spending on essential requirements
- 3 tier payment mechanism implemented. It involved:
  1. Purchases directly related to Covid 19.
  2. Other Essential items.
  3. Non-critical /other items.
- Non-Essential, Non Moving, Ageing items of > 90 days/60 days, returned in exchange of essentials or for cash. Extended credit periods were also availed.
- With significant demand increase and resulting acute shortage in the market, unreasonable price increase across the board for all items, except Boot covers, Safety glasses & Hand Sanitizers impacted our material cost further

# 5: PRUDENT FINANCIAL PLANNING

### 5.2.2 HR COSTS

Apart from focusing on business continuity plans and strategies to maintain operations during the COVID-19 pandemic, we also focused on employee well-being and employees' emotions related to the pandemic to restore productivity and deliver on employee experience and overall objective of the organization.

During the initial days of the COVID-19 outbreak it had huge impact on employees' personal and work lives leading to employee anxiety, frustration and burnout.

We focused on scenario planning and necessary operational responses to ensure business continuity," by doing a manpower forecasting and planning. Infact Aster's core team rejigged the revenue and manpower budgets accordingly in order to ensure we minimize the impact on bottomline.

HR cost containments was designed in such a manner that it does not have any impact on low income staff and the nursing team and have a minimal impact on middle income staff. High income groups, on the other hand, contributed significantly to the pay cuts. Finance department in consultation with HR department have developed a comprehensive paycut model which was implemented across the organization. The following is the adopted paycut model.

The following additional measures were undertaken to further optimize HR cost and ensure employee safety:

- Staggered shift was allocated to teams
- In order to ensure physical distancing one person per seat was allowed in the staff transport
- Instead of bunker accommodation, employees who were treating covid patients were provided with Individual accommodation
- In order to ensure better control on the cost during the difficult times we had frozen all recruitments till further notice. This ensured better control on the cost and people
- Whenever people exited the organization we revisited our manpower numbers across units and did not replace any positions unless completely necessary, this critical analysis helped us save the cost substantially
- Similar measures were adopted for the outsourced expenses as well because we had less occupancy and whichever floor we were not using we have asked the outsource partners to reduce the outsource manpower number
- Based on the scenario that prevailed employees had come forward to donate the carry forward and leave encashment that helped the organization in terms of saving cost
- PF, ESI, TDS, GST and other statutory liabilities were paid on time, subject to regulatory changes by the government
- All Outstanding payments were evaluated and negotiated
- Service charges paid to contractors were evaluated and negotiated, and request to defer completely/partially was made.
- To further optimize our HR cost, we explored the option of shared services and outsourcing of GCC workforce to India to work at Indian salary structures.

Overall, our GCC operations was able to optimize 15% cost compared to last year in absolute terms and India was able to optimize approximately around 15% - 20%

To safeguard the health and well-being of the employees, we also adopted the work from home concept (WFH). We laid down robustWFH Policies and trained people on what is expected by the organization when working from home. Some of the crucial processes like joining, on-boarding, blended learning, engagement, performance management etc. were conducted online. We also supported our employees to set up infrastructure at home with one-time and /or a monthly pay out.

### 5.2.3 OVERHEADS

**The Corporate and Unit Finance teams has diligently driven the cost containment by proactively engaging in discussions with vendors/ landlords and other multiple business partners on real time basis.**

**Following methodologies were adopted in containing the overhead costs.**

#### Marketing expenses

- All Marketing Contracts with monthly retainers terminated (temporarily) for 1 - 2 Quarters. 90% cost reduction, with limited spending primarily on digital marketing.
- All Outstanding HCF Fees deferred completely/ partially post discussions with HCFs.

#### Power & Fuel

- 20%-30% cost reduction due to reduced occupancy/Patient volumes.
- Based on our request majority of the state boards agreed to defer the payments

#### Rental Expenses

- We have revisited all our Rental Contracts for our healthcare facilities and negotiated for a rental waiver for the lockdown period with the landlords.
- All the mall based clinics and pharmacies were temporarily closed and operations were suspended
- We have received complete rental waivers wherever possible and partial waivers upto 50% of the rental amount at our other healthcare facilities. we have also sought and secured deferment of the rental amounts for 1-2 quarters.
- Also where ever possible, we have negotiated the rental terms to be changed from Fixed rentals to revenue share models

#### AMC/CMC (Biomedical/Engg/IT)/R&M

- Procurement teams re-negotiated the terms, with partial/complete waiver, for 1-2 Quarters.
- We negotiated for 2-3 month AMC/CMC waiver, with major medical and non-medical equipment vendors. In some cases, we renewed AMC/CMC without cost escalation
- However, some vendors could not offer a full waiver for the lockdown period but provided discounts in the range of 25%-50%
- Unless Essential, all Repair & Maintenance works were postponed.

#### Quality Improvement

- Waste management, Infection Control & Other essential activities continued
- Accreditation Expenses - All Accreditation activities were postponed unless essential.

#### Food & Beverage

- Revisited the fixed charges contracts, considering the drop in volume. Due to the Low OP & Occupancy numbers, cost was reduced

#### IT Overheads

- Back office functions were mainly carried out with a work from home arrangement and due to lesser number of people at the office, bandwidth allocation were reduced to save monthly rentals

#### Other Overheads

- All non-essential retainers were discontinued
- Due to travel restriction imposed during lockdown period, we saved a significant amount of travel and conveyance cost
- Due to reduction in profitability the initial provisions on tax stood at either nil or less.
- We have analysed all the equipment rental contracts and non-essential/minimally used equipments on minimum rental clauses are discontinued/Partially waived off.
- All the non-essential periodicals & Subscriptions across the hospitals were discontinued and the contracts were terminated.
- There was a drastic reduction in usage of printing & stationery due to adopting digital practices.
- All the professional & Legal contracts which were on minimum retainers were negotiated for a waiver. We managed to defer considerable portion of professional expenses for Q1

# 5: PRUDENT FINANCIAL PLANNING

**5.3.1 Effective Strategic Intervention by Finance teams in managing the Liquidity**

In order to maintain its liquidity, various initiatives were undertaken to improve the situation. We had also formed a working committee and all expenses were reviewed and approved before incurring the same.

## 1. CAPEX

**Project CAPEX**

We have identified all the ongoing projects and the various stages of implementation they are currently in. We decided to go ahead with the projects in the final stages of implementation and evaluated and put on hold projects which are still in planning stages.

The following are the projects we decided to move forward with

- Aster Labs
- Aster Whitefield
- Aster Aadhar
- Aster Hospital, Sonapur [operational from May-2020]
- Aster Hospital, Sharjah.

Rest all projects were put temporarily on hold and no new orders for CAPEX was issued. This way we ensured a balance between the growth of the organization as well as minimizing the CAPEX spending.

**CAPEX on existing units**

- No new orders for CAPEX were issued and all outstanding orders were postponed by 1-2 Quarters.
- All current POs, for which advance was released, was kept on hold and no new POs were issued, unless deemed essential.

## 2. Receivables

- In GCC considering our major business segment is Insurance we have formed an internal committee to regularly monitor the collections from receivables. We have received a substantial portion of receivables from the insurance companies which has greatly improved our liquidity position.
- Approached insurance companies for early realization of receivables.
- We have received a significant portion of State Govt. & Central Govt. receivables in India by constant dialogues via chambers of commerce and government officials. We have recovered close to 35 Cr from Feb-20 which helped increase our cash reserves.
- Personal follow-up and meetings with top 5 outstanding debtors to ensure timely recovery. Recovery letters with necessary details have been submitted to concerned parties.
- The Outstanding on MVT Receivables is being followed closely by the international marketing team. Further, we have set up reconciliation personnel for MVT Receivables in our Dubai office to recover the amount at the earliest.
- Active involvement of unit RCM to recover receivables from customers and to speed up the collection process.

## 3. Payables

- 90 days credit availed from all vendors, for material supplies and indirect purchases during Q1 FY 21.
- For payables pertaining to Q4 FY 20, payment released for all dues.

## 4. Intervention with Banks/Financial Institution

- Initially RBI in a press conference dated March 27, 2020 announced that all banks, housing finance companies (HFCs) and NBFCs have been permitted to allow a moratorium of 3 months on repayment of term loans outstanding on March 1, 2020. The three-month moratorium on the loan EMIs was ending on May 31, 2020 provided relief to the organizations and to preserve cash for operations.
- RBI further extended the moratorium on term loans till 31st August 2020 in a subsequent press release giving opportunities for companies to avail a 6 months moratorium period.
- Aster DM Healthcare has availed the 6 months moratorium offered by Reserve Bank of India (RBI) which resulted in cash savings of 23 Cr . This moratorium played a significant role in containing our cash flows and helped us maintain our working capital requirement within the sanctioned limits.
- In our GCC counterpart, considering major portion of our business is credit, we have requested the government with their support in expediting the receivables collection which in turn helped us with sufficient liquidity to continue service our debt obligations.

## 5. Income Tax Reliefs in India

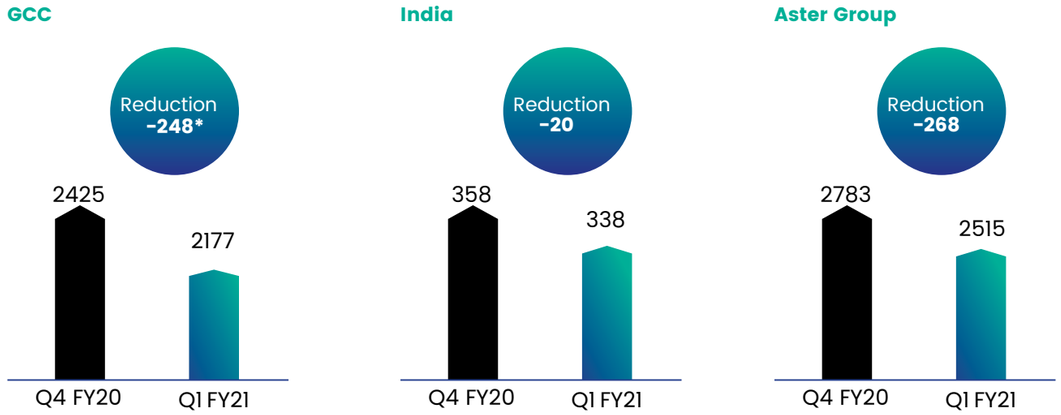
- We received Income Tax refunds from Government of India close to Rs 13 Cr during the month of June-20 which helped ease our operational cash flow.
- The Finance Minister of India has announced a relief measure to deduct the TDS & TCS by 25% for all the Non salaried payments which resulted in increased cash flows.
- Lower Deduction Certificate(LDC) is issued to Aster DM Healthcare Limited and MIMS Limited effective from 1st Apr'20 and 5th August 2020 respectively. The Certificate has granted a lower TDS rate of 2.5% (where tax is deductible under sections 194J, 194-I, 194A) and 1% (where tax is deductible under section 194C) for Aster DM and 0% TDS deduction for MIMS Ltd.

  With the help of LDC, the tax paid to the government on the amounts received from customers will be reduced and will result in increased operational cash flow. The Interest costs on short term finance (OD) will also be saved because of additional cash inflows.

**Debt was considerably reduced due to effective financial managment**

The measures have helped us to save our cash flows significantly and helped us retain sufficient unutilised working capital limits. While we availed moratorium in our India counterpart, we continued to serve all our debt obligations in GCC without any moratorium. The movement in our debt outstanding is illustrated below.

**Net Debt (Rs. in Cr.)**




The reduction showcased above for GCC includes the effect of foreign currency conversion. The actual reduction of debt for GCC is USD ~35 Mn from March 2020 to June 2020.

# 6: EVALUATING OUTCOMES

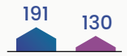
Considering the current situation, revenues, costs and cash flow was monitored on a weekly basis and the performance reported at the end of the month was compared and evaluated. While monitoring the performance, the reasons for variances from assumptions was analyzed and understood.

Impact on key financial metrics of Revenue, EBITDA & PAT have been highlighted and a peer to peer comparison is made to better understand the effective outcome of strategies implemented

## 6.1 GCC

**REVENUE & EBITDA (Rs in Cr)**


**-12%**
Y-o-Y Growth




**-32%**
Y-o-Y Growth

| Revenue | |
|---|---|
| Q1 FY20 | 1,658 |
| Q1 FY21 | 1,462 |

| EBITDA | |
|---|---|
| Q1 FY20 | 191 |
| Q1 FY21 | 130 |

## 6.2 India

**REVENUE & EBITDA (Rs in Cr)**


**-19%**
Y-o-Y Growth


**-61%**
Y-o-Y Growth

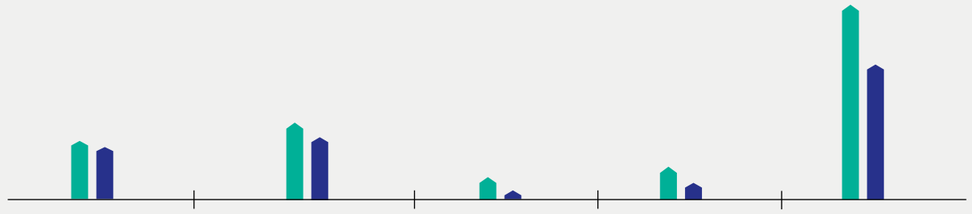
| Revenue | |
|---|---|
| Q1 FY20 | 370 |
| Q1 FY21 | 299 |

| EBITDA | |
|---|---|
| Q1 FY20 | 33 |
| Q1 FY21 | 13 |



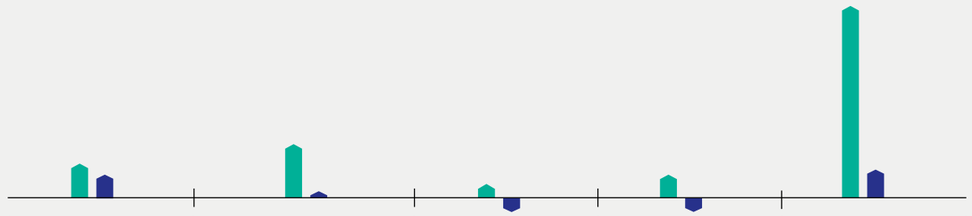
## 6.3 Peer Comparison

**REVENUE (Rs in Cr)**



| | Aster DM - Group | Apollo Hospitals - Group | Narayana Health | Fortis Healthcare | IHH Healthcare |
|---|---|---|---|---|---|
| Q1 FY20 | 2,029 | 2,572 | 777 | 1,138 | 6,427 |
| Q1 FY21 | 1,761 | 2,172 | 394 | 606 | 4,523 |
| YoY Growth | **-13%** | **-16%** | **-49%** | **-47%** | **-30%** |

**EBITDA (Rs in Cr)**



| | Aster DM - Group | Apollo Hospitals - Group | Narayana Health | Fortis Healthcare | IHH Healthcare |
|---|---|---|---|---|---|
| Q1 FY20 | 224 | 364 | 108 | 162 | 1,364 |
| Q1 FY21 | 143 | 36 | -86 | -99 | 472 |
| YoY Growth | **-36%** | **-90%** | **-180%** | **-161%** | **-65%** |

**Source:**

| | |
|---|---|
| Apollo Hospitals - Group | Published earnings update for Q1 FY21 |
| Narayana Health | Published Investor presentation for Q1 FY21 |
| Fortis Healthcare | Published earnings presentation for Q1 FY21 |
| IHH Healthcare | Results briefing analyst presentation for Q2 2020 |

Note: The financial numbers for IHH are converted to indian currency at an exchange rate of 17.632 INR/RM.
The published Revenue for QTD Jun 2020 and QTD Jun 2019 is 2,565.1 RM'mil and 3,645.3 RM'mil respectively.
The Published EBITDA for QTD Jun 2020 and QTD Jun 2019 is 267.6 RM'mil and 773.7 RM'mil respectively.

# 7: NEW OPPORTUNITIES ARISING DUE TO PANDEMIC

- A prolonged pandemic and the unavailability of a vaccine will ensure that telehealth services, and telemedicine in particular, will be a preferred mode of treatment for the foreseeable future. Additionally, the telehealth market is growing significantly due to its potential to offer increased access, lower costs, better patient outcomes, greater patient engagement and improved safety
- A great potential for the growth of the medical devices and equipment industry. The healthcare industry is one of the fastest-growing sectors. The sector is expected to experience increased investments, particularly in high-end diagnostic services
- Online health services and virtual care solutions are expected to grow in double digits in 2020, with an increased number of virtual doctors and virtual consultations
- Due to the lockdown, online pharmacies have witnessed a spike in orders
- Exponential growth in the application of technologies such as AI, Big Data, blockchain and IoMT expected over the next decade.
- Work from home has emerged as a new normal for companies across the globe enabling them to save on various overhead costs such as electricity cost, traveling and rent
- The industry has witness a shift from fixed cost model to variable and revenue sharing model thereby reducing the pressure on the liquidity position of the compaines and enabling them explore more options for treating their patients better
- The pandemic has strengthen the dialogue between the hospitals, insurance companies and the government. This has resulted in faster release of insurance payments and insurance receivables that were due with the government for a long time.
- Governments across the globe have been significantly investing in strengthening the country's healthcare infrastructure. These investment will help the company in further expanding their business and provide better care facilities.



# 8: CONCLUSION

- Pandemics like COVID-19 are unprecedented events and can overwhelm organizations that are unable to respond to changes. This whitepaper highlights the effective financial management and strategic interventions adopted by the company at the right time that helped it to not only cope and stay afloat amidst uncertainty but also enabled it to effectively manage its financial position and sustain its growth.
- Aster's ability to plan and prepare for the future allows it to delve deeper into novel healthcare practices. Its constant endeavor to provide the best care empowers it to open better care facilities and promote itself as a healthcare provider that is attuned to the needs of the **'new normal'.**


UAE | INDIA | OMAN | SAUDI ARABIA | QATAR | BAHRAIN | JORDAN