"HealthCare Global Enterprises Limited Q2 & H1 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 Earnings Conference Call of HealthCare Global Enterprises. As a reminder, all participants' lines will be in the 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 your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Niraj Didwania – Head of Corporate Development & Investor Relations. Thank you and over to you, sir.

Niraj Didwania: Thank you. Good evening and a very warm welcome to all the participants to HealthCare Global Enterprises Limited's Q2 & H1 FY21 earnings conference call. Today we have with us Dr. B. S. Ajai Kumar - Chairman & CEO of HCG along with the management team to share highlights of our business and financials.

We have uploaded our earnings update presentation to the stock exchanges and shared the same through our mailers. Without further ado, I handover the call to Dr. B. S. Ajai Kumar.

Dr. B. S. Ajai Kumar: Thanks, Niraj and a warm welcome to all the participants. We report Q2 FY21 results with continued resilience amidst an environment stuck with economic and social uncertainty brought about by the COVID pandemic.

Strong performance of oncology centers in Tier 2 and Tier 3 towns, improvements across the board at our new centers in Mumbai, with Borivali almost at the verge of operational break-even at unit level, and bounce back of Kolkata center, demonstrates that we have not only adapted well to the challenges but also emerged stronger, particularly in our oncology domain. The depth of our operating systems and internal efficiencies have allowed us to uphold our mission of maintaining continuity and quality of care for oncology patients across the country, while minimizing revenue and cost disruptions to the extent possible.

This is a testament of sustainability of our business model fundamentals, which includes focused delivery of comprehensive cancer care, creating last-mile access on a pan-India basis, while being at the forefront of clinical, technological and digital innovations in the industry. With substantial deleveraging of our balance sheet, reduction in our losses across new centers, on YoY & QoQ basis, and with focus on free cash flow generation, we are excited to move closer to our inflexion point that augur's profitability and return accretive phase for the company.

HCG will continue to strengthen its dominant leadership in oncology, fertility and precision diagnostics, with a dedicated team and Pan-India presence. Itis committed towards value creation and social impact for all our stakeholders.

Business updates for Q2 FY21. Robust response to COVID lead disruptions across our business. Treatment of cancer patients continued even though there were lot of external interruptions across our oncology centers and inspite of COVID we were able to treat significant number of cancer patients. Multispecialty hospitals saw improvement in occupancy on account of ramp up in both COVID and non-COVID procedures.

Milann, our IVF business saw bounce back across new registrations. IVF cycle's revenue grew on a QoQ basis. Oncology centers demonstrated strong resilience and response across regions. Revenue of Hubli, Shimoga centers being Tier-2, Tier-3 cities in Karnataka grew 55% and 25.6% YoY respectively. New oncology centers across Mumbai namely Borivali and South Mumbai clocked revenue growth on YoY and QoQ basis with substantial reduction in losses.

Nasik oncology center established the highest quality and technology benchmark for Tier-2 towns and completed over 100 robotic surgeries in the current quarter. Entered unique collaboration agreement with Elekta, the global leader in radiation oncology towards introducing innovative Linear Accelerators, Oncology Information System in a very asset light model.

Center of Excellence in Bangalore in partnership with Karnataka Government and COVID India Campaign launched the state's first of its kind plasma bank to combat near term COVID and overall patient care across disease segments over long period. Milann, with focus on consolidation across geographies and operations of its IVF centers in Ahmadabad discontinued. Strand life science, our associate company focused on precision diagnostics completed disinvestment of Gurugram Lab in view of COVID challenges and reported a profitable quarter.

Now I request our CFO, Mr. Srinivasa Raghavan to share his financial highlights.

Srinivasa Raghavan: Thanks, Dr. Ajai and welcome to everybody. Effective from 1st April 2019, the company has adopted Ind-AS 116 leases standard which is applied to the leased contracts existing on 1st April 2019 and all financials are as per IND-AS 116.

The COVID uncertainty is continued in Q2 FY21. However, the business showed strong resilience which is reflected in the QoQ growth numbers. Highlights for quarter ended September 30, 2020.

Consolidated revenue was Rs. 2,479 million as compared to Rs. 2,785 million in the corresponding quarter of the previous year, reflecting a year-on-year decline of 11% and a quarter-on-quarter growth of 28%. Consolidated EBITDA was Rs. 340 million, as compared to Rs. 471 million in the corresponding quarter of the previous year, a decline of 28% year-on-year and a growth of 54% quarter-on-quarter. Consolidated operating EBITDA was Rs. 300 million, as compared to Rs. 456 million in the corresponding quarter of the previous year, a decline of 34% year-on-year and a growth of 55% quarter-on-quarter.

Operating EBITDA for existing centers was Rs. 329 million, a growth of 29% quarter-on-quarter, reflecting an Operating EBITDA margin of 17%. Loss from new centers was Rs. 29 million, as compared to loss of Rs. 48 million in the corresponding quarter of the previous year, a reduction of 40% year-on-year and 52% quarter-on-quarter. Consolidated PAT was a loss of Rs. 223 million, as compared to the same kind of a loss of Rs. 223 million in the corresponding quarter of the previous year.

I now request your attention to slide #9 of the presentation please. Q2 FY21 revenue declined 11% Year-on-Year. HCG centers declined by 8.8%, Milann declined centers by 41.1%. Q2 FY21 operating EBITDA for existing centers is Rs. 329 million which is 16.7% margins versus 21.5% margins in Q2 FY20. New centers recorded loss of Rs. 29 million versus loss of Rs. 53 million in Q2 FY20.

I now request your attention to slide #10 please. H1 FY21 revenue declined 19% Year-on-Year, HCG centers by 17%, Milann centers by 52.7%. H1 FY21 operating EBITDA for existing centers is Rs. 584 million which is 16.2% margin versus 21.3% margin in H1 FY20. New centers loss of Rs. 90 million versus loss of Rs. 91 million in H1 FY20.

I will now request Dr. Ajai Kumar to share the operating highlights, please.

Dr. B. S. Ajai Kumar: Thank you, Srini. I would now like to draw your attention to Slide 11 of the presentation. Revenue split for our business is 96% contribution by HCG centers and 4% by Milann Fertility Centers. Within HCG centers, Karnataka contribution to revenue is at 33%, followed by Western India comprising of Gujarat at 30% and Maharashtra at 17% jointly contributing a total of 47% of the total revenues, followed by East India and Andhra Pradesh at 9% and 8% respectively. Tamil Nadu and North India contribute 1% and 2% respectively as of Q2 FY '21.

I would now like to draw your attention to Slide 12 of the presentation. Strong resilience in revenue across centres located in Tier-2 and Tier-3 towns in Q2 FY21. Hubli grew by 54.6% YoY, Nagpur grew by 35.3% YoY and Shimoga grew by 25.6% YoY. New centres contributed revenue of Rs. 478 million in Q2 FY21 versus Rs. 373 million in Q2 FY20.

I would like to now draw your attention to slide #13 of the presentation. ARPOB for existing centres at Rs. 31,895 against Rs. 33,536 in Q2 FY20. ALOS at 2.42 days shows marginal increase. Operating EBITDA margin impacted due to scale-up and losses of new centres. Existing centres' operating EBITDA margin declined by 310 bps to 20.9% in Q2 FY21 from 24% in Q2 FY20.

Looking at key geographies in slide #14. In Karnataka region, the Centre of Excellence Revenue declined by 26.9% YoY. Centre of Excellence's ARPOB was Rs. 45.7K and 14.6% operating

EBITDA margin. Revenue from international patients impacted on account of travel restrictions because of COVID.

With respect to Gujarat region revenue on Multi-specialty centres declined by 6% YoY. 20.9% of the revenue for the region was contributed by COVID patients. EBITDA margin of Oncology centres was at 21.3% for Q2FY20. In Maharashtra leading revenue growth amongst all regions with a positive 11.8% on YoY basis. Nasik centre re-grew by 5.1% YoY with operating EBITDA margin of 23.9%. Borivali & Nagpur centres showing strong revenue growth and on a verge of breakeven. Nagpur has broken even.

In Andhra Pradesh Centres across the region showed strong resilience with overall revenue constant YoY despite COVID restrictions. Focus on improving revenue mix through reduction of scheme business.

In East India existing centres across the region showed strong resilience with overall revenue growth of 2.5% despite COVID restrictions. Existing centres' operating EBITDA margin was at 21.6% in Q2 FY21.

Coming to slide #15 covering the key highlights for Milann fertility business. Strong recovery in IVF registration cycles compared to previous quarter. Revenue grew 80% QoQ basis. Looking for consolidation and focus in Bangalore and North India regions in near terms. Discontinued operations in Ahmadabad centre.

Now I request Srini, our CFO to explain the CAPEX and debt highlights. Srini?

Srinivasa Raghavan: Thanks, Dr. Ajai. With respect to the CAPEX we have implemented judicious control measures for both routine and growth CAPEX with most of our expansion completed. Total CAPEX was Rs. 143 million for H1 which was largely with respect to the HCG centres. With respect to debt, the net debt was Rs. 3,004 million, a reduction of Rs. 346 crores in other words a reduction of 54% Quarter-on-Quarter which was out of the preferential equity infusion transaction. It is a substantial reduction compared to the previous quarter.

We have also separately earmarked Rs. 683 million towards payment of put option liability of Milann and Rs. 55 million towards Africa subsidiary. With a substantial deleveraging of the balance sheet and strong recovery towards the end of Q2 FY21 we expect to maintain debt levels in this range or lower in near term and look forward to focussing on free cash flow generation.

I would now like to draw your attention to slide #17. We are not expecting any new centres for next few quarters. We do not have any committed new centres for Milann. We have embarked on a stringent cost rationalization and CAPEX management towards focus on cash generation in current times. Some of these measures should have long term benefits as well.

I would now like to handover the call back to Niraj please.

Niraj Didwania: Thank you, Srini and Dr. Ajai for sharing the financial and business highlights. Please note the comments from the management are intended to share qualitative perspectives and insights. These should not be considered as financial or operating guidance regarding the business.

We would now like to open the call to take questions from the participants.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is if you can throw some clarity with respect to the net debt? While I understand that there has been a sharp drop of debt from Rs. 650 crores to Rs. 300 odd crores. I believe that the overall transaction gives us over Rs. 600 odd crores. I also understand that it is in transit. So if you can give us some color with respect to how much money we have is expected to come from this conversion over the next say 12 months or so?

And why is it that we are looking at debt remaining here because I understand that with over Rs. 600 crores of cash coming in and we will also be generating cash. Probably the debt should move southwards even from here.

Dr. B. S. Ajai Kumar: Yes Sudarshan, it will move because we have partner models i.e. JV models. I will ask Srini to answer your pointed question. Srini, can you take on this?

Srinivasa Raghavan: Yes. As mentioned we received about Rs. 513 crores of debt I mean preferential equity money in the first tranche and the remaining portion would come over in the next 12 months. That is point number one. And we have used some of that money to repay some of the debt amount at the parent level. So at the parent level we have reduced most of the debt barring a small portion basically which would also eventually come down in the coming quarters.

As far as the remaining portion of the debt is concerned it is in our subsidiary and as Dr. Ajai rightly pointed out those JVs and most of them are profitable JVs and they generate enough cash to kind of repay this debt and as you rightly pointed out the debt should start moving southwards from here on Quarter-over-Quarter.

Dr. B. S. Ajai Kumar: And the put option which took up Rs. 68 crores.

Srinivasa Raghavan: That has been kept separately. It is not considered in our debt number. Out of this Rs. 513 crores we have earmarked separately the Milann liability and the Africa liability which is not part of my debt calculation. That is a separate money which we have kept it separately.

Sudarshan Padmanabhan: The Africa money if I can hear again I mean how much would that? Milann is Rs. 58 crores?

Srinivasa Raghavan: Africa is about Rs. 5 crores.

Sudarshan Padmanabhan: So overall put together it is about Rs.63 - 64crores that is put together. So technically we should see another Rs. 100 crores reduction probably in the next couple of quarters?

Niraj Didwania: The total is Rs. 68.3 crores earmarked for put option liability of Milann and Rs. 5.5 crores so roughly Rs. 73 crores to Rs. 74 crores.

Srinivasa Raghavan: It set the good reduction from here around the number that you pointed out, Sudarshan.

Sudarshan Padmanabhan: And sir, with respect to the operations, I think there has been a very sharp improvement in the performance of the hospitals specifically the newer hospitals. But when I look at the costs specifically the medical consultation charges to the doctors, that has kind of shot up quite sharply on a Quarter-on-Quarter basis and the other expenses.

My broad belief is that if I look at the other hospitals who have been reporting numbers these costs have basically been benign. So if you can explain a bit more about these costs why are these costs higher on a Quarter-on-Quarter basis?

Srinivasa Raghavan: Which are the costs, Sudarshan? You are saying our costs, the operational costs have gone up or you are talking about?

Sudarshan Padmanabhan: I am talking about specifically if I look at the employee cost on a Quarter-on-Quarter basis is up from Rs. 42 crores to Rs. 49 crores.

Niraj Didwania: Sudarshan, the last quarter was an aberration so the last quarter cannot be used as a base.

Srinivasa Raghavan: Because there was salary cut and all that.

Niraj Didwania: Last quarter we had taken stringent cost measures to maintain liquidity and the transaction was still happening. So last quarter to this quarter you will obviously see a bump up. So last quarter is not the base you should look at.

Dr. B. S. Ajai Kumar: But the important thing is when you look at pre-COVID and now our actual cost of operations has come down significantly. May be Srini, you can explain that?

Srinivasa Raghavan: Sudarshan, in Q1 the COVID impact was high. We embarked on a major cost rationalization across all cost lines be it on salary, rentals, because the revenues were also lower. When we started seeing in Q2 the numbers moving up, we started releasing the cost in proportion to the increase in the revenue.

That is the reason when you compare Q1 versus Q2 the costs are higher. It is not because we have given a higher salary increase or something. We have given the right amount of cost to the people basically in terms of what otherwise they were drawing in Q4 of last year basis.

Dr. B. S. Ajai Kumar: So Sudarshan, just to add to that, you must remember that we took these measures, so we did not show any negative EBITDA. It was very important for us at that time that as our operating EBITDA was above zero. So that is why we took that step. Whereas taking a cue from your own statement most of the hospitals reported negative EBITDA in the Q1 and we were one of the few ones which reported positive and we have sailed through that and of course we got the funding afterwards.

But in September starting whatever the adjustments were there in the salary we normalized it because things started that is how we must think and that is the reason you can see some change in the cost.

Sudarshan Padmanabhan: And going forward this will be the base? There will not be further escalation to this base in terms of cost?

Dr. B. S. Ajai Kumar: No, there is no planned escalation, you are right.

Sudarshan Padmanabhan: And sir, with respect to the utilization about the existing hospitals and Milann. How has the progression been in the month of October? I am trying to understand that on a Quarter-on-Quarter basis where are the utilization that is standing in with respect to the existing hospitals? I think that is where we have seen a drop the new hospitals have doing well. Milann even though it has improved on a Quarter-on-Quarter basis, it is still down?

Dr. B. S. Ajai Kumar: But Milann you must take it in strides because Milann you know it was not an emergency, so the government had requested complete shutdown of non-emergency services. For several months Milann was nowhere because fertility was considered non-emergency. So that is why we suffered quite a bit. Impact was quite a bit starting in second part of March, April, May, June.

So the recovery is happening. As of last month October we are reaching a point of about 80% to 85%. So people are coming forward, travel restrictions have been improved. So this is an expected run.

Niraj Didwania: So on the Quarter-on-Quarter basis in terms of utilization like consolidated we had 28% growth Quarter-on-Quarter for the revenues. Even existing center is roughly around 28% growth.

Dr. B. S. Ajai Kumar: So I was just saying that Milann we expect to get back and ramp up to normal and be profitable EBITDA in the fourth quarter. And regarding the other centers, S the main thing is the ramp up of international. For us international produce quite a bit of revenue contribution factor. So internationally it is taking time, but the good news is that as of end of October the government has instructed embassies to give medical visa.

So we do expect the international patients to flow in provided there is smoother transportation. People now from Africa have to come through Dubai. So as and when the direct flights start coming to Mumbai, Delhi, Bangalore we expect better international patients. We are seeing some trend in the positive way. So this will improve the footfall and the revenue for centers like in Bangalore which is a Center of Excellence in Mumbai certainly and then Kolkata from Bangladesh. This is what we expect in the last quarter.

Sudarshan Padmanabhan: So if I understand correctly by fourth quarter as Milann cost and sales normalized we should be going to complete normal operation by fourth quarter. Is that the right assumption?

Dr. B. S. Ajai Kumar: We should Sudarshan, provided the second wave is not there but just to be clear that in United States now the second wave has hit so hard it is reporting almost 200,000 cases per day. So India reached to 95,000 cases per day and backtrack to 44,000 cases per day now but imagine if it goes back to 150,000 cases or 200,000 cases so that is the big concern we have. But on the positive side India is doing very good.

There has been lot of articles about why India is doing good and the vaccination is supposed to happen in the month of December by both Pfizer and Oxford. Indian Institute, the Serum Institute in Pune is working with Oxford. So I have some news that they are releasing the vaccine now for healthcare workers. If that happens certainly it will be very positive for the entire healthcare and certainly the COVID can become a history.

So the next few months we must monitor but I do believe the vaccination will come and it may not be answer for all strains but certainly it will be definitely more than partial answer to overcome this COVID pandemic.

Moderator: Thank you. The next question is from the line of Chandramouli from Goldman Sachs. Please go ahead.

Chandramouli: My first question is on the cost side. We do about Rs. 1,100 crores in topline so for the past three to six months from the initiatives we have taken on the cost side, is there any quantum of cost savings that you think are sustainable going forward? Just going back to the comment that you have made that there could be some long-term benefits from some of the cost initiatives that you are taking as a team.

Dr. B. S. Ajai Kumar: Yes, there is cost savings. Srini, you want to address that?

Srinivasa Raghavan: Yes, until March 2021 the journey towards cost rationalization would continue and as I said we are looking at each element of cost to kind of save it. For example in few cases we have managed the rental deferment or reduction in rentals. So those efforts would continue till March 2021. And some of these benefits would also flow into the next year when we make the budget for the next year.

It would be to a lot of consolidation exercise around people, around some of the equipment's and some of the assets etc. So through that methodology we would try to sustain some of the costs rationalization that we have done in the current year to spill over to the next year as well.

Dr. B. S. Ajai Kumar: I think the full impact of this cost containment will definitely be seen starting with the fourth quarter or the first quarter of next year particularly the shared services, HR and real estate use as you know very well now lot of our corporate office and others we have given away because now work from home and other alternatives have been established and these are all very positive going forward and even we are initiated lot of alternate energy.

So these will have a lasting impact in cost containment and we do believe this will substantially show improvement in our margins as we move forward and I think the impact of which will be definitely visible as the revenue increases in the third and the fourth quarter and particularly in the first quarter of next year. With the revenue increasing back to normal or above normal with the costs showing less than what it was a year or two years ago, the margins will expand.

We are also looking at improving the mix. For example how do we improve certain mix which has a better contribution factor. That also we are working very hard to do that. And with all that coming together and also international patients flowing which I think there is a great demand now. I think that will give a positive margin and obviously the EBITDA which goes with that will improve significantly. That is what internally we are working on. That is what we think we will achieve.

Chandramouli: Any ballpark number that we have in our mind as a target on the cost side?

Dr. B. S. Ajai Kumar: Right now I will put it this way instead of giving numbers. I would say that we would stretch our fixed costs to take more revenues in the system as we go along with the future quarter. I think that is the way I would put it.

Chandramouli: Second question is in the previous quarter's call you have indicated that in the month of August we were may be down 20% Year-on-Year on the cancer booking side and if I look at the entire quarter for September the revenues as a company had down about 11%. So clearly things are getting better sequentially.

So just wanted to understand the exit run rate for the September quarter what is the trajectory on topline for the company and are you seeing sequential improvement in the month of October and November?

Dr. B. S. Ajai Kumar: Srini, would you like to answer that?

Srinivasa Raghavan: Yes, are you asking about the projections for the future quarters?

Chandramouli: I am just trying to understand exit run rate for the month of September how much was the topline down or did it grow Year-on-Year?

Srinivasa Raghavan: We do not normally give the numbers projections but let me kind of articulate this way to give you our perspective. The point I want to make is we are nearing our pre-COVID numbers if you remove the international business part of it which is there to pick up, on the domestic business front we are pretty close to our pre-COVID numbers from September onwards. I think that is a good indication to demonstrate that my numbers are picking up and it will sustain in the coming months as well provided there is not second waive.

Dr. B. S. Ajai Kumar: So also I would say that our main concern as I said is the international but for the international we are close to 85%-90%. We should be reaching that as Srini said. So fourth quarter if there is not second waive and all that we should be reaching the pre-COVID level definitely.

Chandramouli: And just last follow up on this question. International if I remember right is between 10% and 15% of total revenue?

Dr. B. S. Ajai Kumar: International revenue overall at HCG level is about 5% but in the centers like Bangalore it is about 18% of the revenue. And so overall it is 5%-6% but in the main centers it is higher.

Chandramouli: So the understanding is that in the domestic business if we are normalizing are almost back to between 90%, 95% of what your pre-COVID run rate was?

Dr. B. S. Ajai Kumar: Yes, correct.

Moderator: Thank you. The next question is from the line of Sharan Pillay from Allegro Capital Advisors. Please go ahead.

Sharan Pillay: I had a couple of questions. My first question was related to the margins in our Karnataka cluster. I understand that it has been impacted by the Center of Excellence. I just wanted to understand what resulted in the Center of Excellence having such an impact on the Quarter-on-Quarter basis because the margins have fallen quite significantly Quarter-on-Quarter?

Dr. B. S. Ajai Kumar: I think the margin decline is primarily because of the international. When you look at the Q1 margin for Center of Excellence a Q2, Srini, you have that number?

Niraj Didwania:: The revenue declined itself in Center of Excellence is about 27% Year-on-Year. And as Dr. Ajai said about 18% odd is the international business revenue generally as a contribution which is probably down to 1% or 2% of the revenue now. So if you take that out the businesses are down in line with the region decline excluding international. Just 12%, 13% and obviously in all these hospitals businesses with revenue declines the cost do not go down immediately. So when there is a substantial revenue decline, they do dilute the margin because the cost structure remains the same.

Sharan Pillay: Okay so if I am understanding this right the region why our Centre of Excellence did not see any of the actual impact from the international patients last quarter was because of a slight delay that comes in terms of the cost, right?

Dr. B. S. Ajai Kumar: Yes.

Sharan Pillay: My second question was also in terms of the margins, largely in terms of Andhra Pradesh. We have seen a significant improvement in margins there as well. Could you just allude to what resulted in that?

Dr. B. S. Ajai Kumar: Yes, Andhra Pradesh it is a steady because of our centers maturing to some extent in Vijayawada, Ongole and Vizag. Also because of the COVID situation there was no movement of people going from Tier-2, Tier-3 cities to Tier-1 because of that we have seen substantial improvement which we believe is sustainable as we go forward. And that is the reason as we mentioned in my original presentation that we have seen significant changes in Tier-2 and Tier-3 cities.

And this has been a phenomenon because of the COVID and people are not able to go to big cities as previously maybe they were coming to Bangalore, Hyderabad and other cities. So, going forward some of the feedback we have got locally is that people will like to stay there only. So, this may become a permanent fixture as we go forward.

Sharan Pillay: And just one last question. In terms of our new centers if I heard you correctly did you say that Nagpur broke even in this quarter?

Dr. B. S. Ajai Kumar: Yes, Nagpur has broken even, and it is even profitable, and we think it is a sustainable model. Moving forward we are now putting a team together where there are organ specific doctors working as a team and good oncology's, medical oncology's, surgical radiation and we have Dr. Ajay Mehta, the well-known surgical oncologist as our partner. So it has broken even, and it is doing even better than break even at this point.

And even Borivali as I said has broken even and we think it will sustain in the next few quarters. Of course we will report in the next quarter about what is the level of sustainability. This is where we are. In South Mumbai because the COVID was very rampant the entire South Mumbai shut down. We are beginning to recover. So we will go to pre-COVID level in the next month or two.

So things look very bright for the Mumbai and Nagpur segments at this point and with lot of initiatives and with these initiatives we do see growth happening there.

Sharan Pillay: Just a follow up. In South Mumbai we had earlier guided to a Q2, Q3 sort of break even. Are we pushing that to a Q4 FY21 or Q1 FY22, is that range that we should be working?

Dr. B. S. Ajai Kumar: It all depends on the COVID situation. So pre-COVID we were supposed to breakeven in Q3, so we do believe that it has been postponed because anybody who lives in Mumbai knows the entire South Mumbai went into a complete shutdown. And whatever later the hospitals opened, and they became good because of the COVID patients. So now the transformation will happen between COVID to normal patients.

So South Mumbai is well positioned because we are very onco centric and we had also factored in the international patients there which was not happening. But once these things come on line possibly it will be Q4 we expect it to move forward and breakeven.

Moderator: Thank you. The next question is from the line of Dikshita Jain from Christensen IR. Please go ahead.

Dikshita Jain: Sir, can throw some light on the Elekta partnership and how it would benefit our company?

Dr. B. S. Ajai Kumar: See normally what happens is we always try to buy an equipment which is CAPEX heavy particularly HCG oncology is very CAPEX heavy. Look at linear accelerators putting in replacement, putting in new equipment, each equipment pay cost something like $1.5 million, $2 million. So, when we look at these, it is very CAPEX heavy. That has been the history as you know.

In the past we have done deferred payment scheme and all that but still there is debt on your books and still you have to service. So, we have worked out a unique model which we gave a press statement and we were probably the only one globally where Elekta is a major Swedish company, which is involved in manufacturing of linear accelerators. So we came up with an idea that why should we buy the equipment? We are in-service industry; we serve the patients. We are operators of the equipment. We should not be really buying but in the past no company would allow that because they said we need to sell it, make our profits and move on to manufacture. So Varian or Elekta or Accuray whichever company makes these equipment's or Siemens which makes pet scans and all, they were more interested in selling and the CAPEX comes on your books.

But we decided there is a pilot project we should try whereby we will be able to have a partner model with the group of Elekta. We worked very hard for over a year whereby the Elekta board decided that they will have a revenue share model. So without any minimum guarantees or anything we can get these equipment's and share with them in the revenue.

It may be per patient; it may be on the type of technology we deliver and all. So with this two things were happened. The positive thing is as we go forward as we start replacing there would not be additional CAPEX on our books. The somewhat little bit negative thing could be that our EBITDA can be little bit eroded, very minimally.

But we have done all these calculations, our return on capital everything will be much better. So taking that into consideration we are trying this model for few select centers to see how it works out and if it works out well. Obviously this could become a model for the future, or you can create hybrid model where you have certain equipment's in this under CAPEX. So you generate both and take the best of both.

So, this is a truly pilot study in progress model because we are not doing new centers, some of our Lennox and all are coming for replacement. So, this is what we thought we can do and not really look at further CAPEX to the company.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

Harith Ahamed: You gave an update on the expected CAPEX for FY21. I know we had a very modest CAPEX spending in the first half. So what should we be factoring for the full year FY21?

Dr. B. S. Ajai Kumar: We expect the similar pattern to continue. Most of it will be for functioning center as you know we have not planned any new centers in the coming few quarters. So we do not expect the CAPEX to change much from what it was follow through in the happening in the first two quarters of this year. I think Srini, you can add anything you feel. Anything addition you want to do.

Srinivasa Raghavan: Yes, I think you said it correctly doctor and as we said in the earlier part of the discussions that we are continuing to monitor CAPEX and ensure that we keep it at the right levels. So as Dr. Ajai rightly pointed out we expect it to be at the same level as H1 and H2 as well and that is going to be the focus in the future so that we are able generate cash internally.

Harith Ahamed: And from an FY22 perspectives are there any new projects that we should be looking at from the pipeline?

Dr. B. S. Ajai Kumar: No, FY22 also will be similar except we do have a project in Delhi as you know Gurugram which may come in towards the end of FY22 or FY23. So it all also to some extent depends on how we ramp up our revenue and profitability. So I do not want to comment on that but that is one center which will come up possibly in FY22 or towards the beginning of FY23.

Harith Ahamed: And post the recent equity infusion by the new investor and the new additions to the board, are there any changes at the operational level or strategy level or leadership levels that we should be looking at in the coming months?

Dr. B. S. Ajai Kumar: Right now nothing has happened, but we may be announcing some in this quarter. As and when it happens certainly we will make an announcement but nothing at levels but there may be some changes at one or two levels which we will convey.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, two parts to my question. One, you mentioned that we have lot of international business which we have kind of lost. So if you can give us some sense of whether it is started say from September, October onwards or it will be a bit distance and should we be looking at international flights in metros starting which probably can give us that number because I think you said 10%, 15% is the number that we have lost?

And part two question sir, we wanted to understand how long is this oncology treatment that we do? And say a loss of three months, does it mean that what was lost is lost permanently or is there some element of pent up and postpone demand that a cancer patient kind of come through? So both on the domestic and the international side, if you can give us some sense? Of course I know sir, phase 2 of COVID is live and ticking but some thoughts on that will be helpful.

Dr. B. S. Ajai Kumar: It is a good question and I will answer both. Let me take the international and include the cost of patients. For international patients certainly it is a loss because international patients who come to us are usually for second line, third line treatment because they would have undergone first line treatment failed on it and then they come. So when there is a delay of six months or four months they will not be surviving or they will probably go locally take the treatment whatever available. Take for example, countries like Nigeria, Tanzania or anybody. Right now I got a call saying a Nigeria patient wants to come immediately with advanced disease.

So, these kinds of things will not wait. So, a significant proportion of international patients suppose we were seeing 15 new patients a month in Bangalore, over a six month period let us say we see 300 patients. Certainly those 300 patients will not come. Who will come for you is the follow up patients and new patients and some people who were waiting? So roughly about you can say roughly about 30% to 40% may end up coming but rest of the 70% will not come. They are not going to come back. But on the first part of your question, when will the ramp up happen in international, as I said they end up October government relaxed the rules for medical visa and we are now working with various embassies like in Kenya, Uganda, Nigeria to see that there is a good flow of patients. We have already awaiting list of about 30, 40 patients who are coming from countries like Nigeria and about 30 patients from Uganda.

So the flow is waiting to get the visa. Obviously, the visa is not easy, that takes days particularly in the COVID, they must get COVID tests and all that will come. And then next comes the question of flights. We do know the flights are coming through Middle East so that must be smooth functioning and how long they must wait, what are the restrictions in Middle East. We are going through the process and we have a separate division to deal with it. We do expect Bangalore, Mumbai and Kolkata to really improve by end of last quarter I think it will reach like what Srini said.

We will reach about 30%, 40% or 50% of the normal flow and the first quarter of next year if there is no COVID waive again it should get back to normal.

In order the question about the domestic question you had about the ramp up happening, yes, it is a common feeling even among the investors that if you have cancer you wait three-four month and you come in and suddenly rush to the doors, COVID has improved. Unfortunately it is not so all the time. There are two reasons. One is the advanced cases again domestic are not going to wait and suppose somebody is coming from a town and he used to come to Bangalore or Mumbai from different towns they will not be able to come and there is a collateral damage. We have done a statistical analysis which shows about 28% of the patients are lost because of this collateral damage. They will not comeback because they would take advance disease, they will try to get local treatment which may not be available. Whatever they can but they will never end up coming for higher treatment. Now with the airlines opened and train services opened, we are beginning to see better footfall particularly in Bangalore and Mumbai. Mumbai particularly footfall is almost back to pre-COVID normal levels and Bangalore as we all are talking about the domestic level is reached about 90% in the month of October. So we do believe this is a good trend. If this year is not second waive I think we are going to see this, but will the previous patients come back and have a sudden rush through the doors of HCG, no we do not know and definitely 100% will not come. There may be an initial in the next few months bump up but certainly I do not think it will compensate for the loss of patient footfall we have incurred in the last six months.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Sir, just you offer various kinds of oncology services. So I am just wondering what parts of these businesses have recovered pre-COVID levels, which part you think will take a lot longer? So if can you just quantify a bit the proportion to revenue that will help us understand a bit better as the recovery is taking place?

Dr. B. S. Ajai Kumar: I could not hear the question. Niraj, can you repeat it for me?

Niraj Didwania: Doctor, the question is that within oncology there are multiple services like let us say surgical, medical, radiation so is there any variation in terms of what has recovered how and any number if you can throw light on? That is the question.

Dr. B. S. Ajai Kumar: I think all of them are to recover slowly. See we always look at surgery first and then medical oncology is one which kind of recovers because it is not non-intervention. Patients can come as a daycare chemo and get it. So medical oncology will be there. There are also patients who are already there on medical oncology recovers. But radiation is very depended to some extent on the surgery and the post op recovery in radiation.

So that recovers little bit later. But the issue with surgery has been because of the COVID as the people going in to the operating rooms fear about COVID. Initially even that medical staff having fear because as you know even in our HCG and elsewhere lot of the doctors, nursing, the paramedical staffs have been exposed to COVID. In our own center over 200 people have it. So these are frontline workers there is a risk. So in the beginning the fear was there and how do we take protection, what are the things, what is the exposure?

So we have to put lot of strict guidelines. If a patient comes for surgery, we must get a COVID test and essentially wait for about 15 days before they are taken up. They must be in isolation. So this is obviously normal as you can see from this protocol that delays are there in surgery. So even now the surgery is the lager and radiation are the second lager but picking up slowly.

Medical oncology has picked up better. Going forward we do believe surgery will pick up as the COVID decreases. So again in the fourth quarter as I said they are expecting surgery to return to near close to normal levels. And radiation will simultaneously come up.

Kunal Randeria: Any numbers you would like to share I mean what will be the proportion of sort of revenues of some of these parts?

Dr. B. S. Ajai Kumar: We have surgery is about 28% of the revenue

Niraj Didwania: Yes sir, broadly Kunal, these three modalities in a normal situation contribute about roughly 27% to 28% each and in the balance is consultations and diagnostics like CT technology all of that. So I would say that today may be surgery is probably little bit lower than the other two modalities and then it is location depended. For example if the patient is local and they are comfortable then they are going ahead with services. But if the patient is travelling then obviously they are reluctant to travel right now. So that impacts the procedure also.

Dr. B. S. Ajai Kumar: But the good news is I think starting October we saw definite improvement in the places like in Ahmadabad or even in Bangalore. The trend is up. In the beginning the complicate surgeries were not done because of this COVID and the team effort and the patient, the post op whether as what kind of infections they will be afford. But there are some other good things also may be not related entirely to your question.

Going forward what we are seeing is less infection of non-COVID infections. But this is something that HCG has taken a very prominent role in analyzing and we are going to be publishing some data. See what happens is because of the stringent measures we are all taking to protect our staff and also the patients are taking preventive measures, going forward based on some trends, I think there will be decrease to morbidity and mortality from infection. And as you can see the number of non-COVID infections have decreased. Bacterial infection or other viral infection because of the strict measures or even simple measures like strict hand washing, wearing a mask all the time.

Recently now the report came wearing a mask not only prevents you from spreading the disease to others, it also protects you. With all these happening and strictly now going forward I think every healthcare professional will follow this and I hope every individual will follow this mask wearing and hand washing certainly the number of flu types of infection, pneumonia will decrease. So the overall business for doctors may go down. That can happen but obviously cancer is cancer I do not think cancer will be affected. But we do see this trend happening. It may be sustainable trend.

Moderator: Thank you.

Dr. B. S. Ajai Kumar: So Niraj, if there are no questions, should we close this?

Niraj Didwania: Yes, we should wind up the call.

Moderator: Yes sir, we do not have anyone in queue. Would you like to add any closing comments?

Niraj Didwania: Thank you everyone for the active participation on the call. We are available to discuss offline if required. With this, we conclude Q2 & H1 FY21 earnings conference call.

Dr. B. S. Ajai Kumar: Thank you very much, everyone for participating. Thanks a lot.

Moderator: Thank you. On behalf of HealthCare Global Enterprises Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.