"HealthCare Global Enterprises Limited Q4 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HealthCare Global Enterprises Q4 FY21 Earnings Conference Call. As a reminder, all participant 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 and Investor Relations from HealthCare Global Enterprises. Thank you and over to you Mr. Didwania.

Niraj Didwania: Thank you. Good evening and a very warm welcome to all participants to HealthCare Global Enterprises Limited Q4 and FY21 Earnings Conference Call. Today, we have with us Dr. B. S. Ajai Kumar – Executive Chairman; Mr. Raj Gore – CEO; Mr. Srinivasa Raghavan – CFO along with the management team to share highlights of our business and financials. We have uploaded an earnings update presentation to the stock exchanges and also shared the same through our mailers. Without further ado, I hand over the call to Dr. B. S. Ajai Kumar.

Dr. B. S. Ajai Kumar: Thank you Niraj, and a warm welcome to all the participants. We hope all of you are doing good in this pandemic year and families are safe, taking the necessary precautions including the vaccination. I know it has been a difficult year and a challenging environment for our Q4 FY21 performance gives us a lot of confidence as we enter the new financial year on a positive note. This has been a remarkable year for all of us, including HCG which has not only weathered multiple storms, internal debt issues, backhoe environmental challenges, but also emerged as a stronger, focused and sustainable leader is the oncology domain.

We are actively contributing to India's fight against COVID with several initiatives and also conducting vaccination drives across our hospitals as well as third party onsite programs on a massive scale and look forward to normalization in the coming month. With CDC as long-term financial partners, a highly competent dedicated management team and strength of HCG brand and balance sheet, we are dedicated to the vision of delivering advanced and high quality cancer care and outcomes to our patients at scale on pan India basis. We also continue to drive several initiatives across the organization in areas of social and environmental responsibility towards all stakeholders and society at large. I will now request Raj Gore – our CEO to share comments from his side. Raj?

Raj Gore: Thank you Dr. Ajai. A very warm welcome to all the participants and I look forward to interacting with all of you in the near future. We are pleased to report Q4 and FY21 Results in line with our operational plan. While the quarter ended cautiously in some regions, due to the spike in cases in March, as India entered second wave of COVID, we were much better prepared, and we're actually able to deliver growth across all regions, both on sequential as well as year-on-year basis. This is primarily due to HCG's pan India network, focused model and regional leadership in oncology, which we have established over the past several years that provides a downside protection during challenging time while leaving significant core benefit from upside opportunities.

Most of our new centers have demonstrated strong ramp up and several existing centers as delivered robust performance simultaneously. While clocking all time high numbers across multiple segments is in itself a significant achievement, we believe with focus on improving efficiencies, margin, and driving free cash flow generation, our best is yet to come. We are determined to continue our focus on dominant leadership in oncology, fertility and precision diagnostics and we remain committed to driving long term value creation for all our stakeholders.

I would now like to hand over the call back to Dr. Ajai. Thank you.

Dr. B. S. Ajai Kumar: Thank you Raj. Business updates for Q4 FY21:

HCG centers revenue grew 11.7% Y-o-Y with a good momentum across existing centers. Revenue grew 5.9% Y-o-Y for existing centers in spite of de-growth in international patients. Bengaluru center by itself delivered a revenue growth of 21.5% Q-o-Q and 6.6% Y-o-Y. Revenue at HCG Cancer Center in Ahmedabad grew by 24.5% Y-o-Y. Nashik center delivered revenue growth of 13.8% on Y-o-Y basis.

HCG new centers demonstrated consistent ramp up across the regions in spite of COVID-led disruption. Revenue grew 46% Y-o-Y per quarter and 22% Y-o-Y on full year basis. Operating EBITDA loss from new centers reduced by 36% Y-o-Y on full year basis. Milann delivered positive growth on Q-o-Q basis across new registrations, revenue and IVF cycle of 20.1%, 8.1% and 2.8% respectively, and achieved operational breakeven for the quarter. Strand Life Sciences, a pioneer in bioinformatics and genomics precision diagnostics in India where HCG owns 38.2% stake turn profitable at EBITDA and PAT level for the quarter on a full year basis.

I now request our CFO – Mr. Srinivasa Raghavan to share the financial highlights. Srini.

Srinivasa Raghavan: Thank you, Dr. Ajai and good evening to everybody. From 1st April 2019, the company has adopted IndAS 116 lease standards, apply to lease contracts existing on 1st April 2019 and all financials are as per IndAS 116.

Highlights for quarter ended March 31, 2021:

Consolidated revenue was INR 2,981 million as compared to INR 2,704 million in the corresponding quarter of the previous year reflecting a Y-o-Y growth of 10.2%. Consolidated EBITDA was INR 438 million as compared to INR 377 million in the corresponding quarter of the previous year, a growth of 16% Y-o-Y.

Consolidated operating EBITDA was INR 394 million as compared to INR 360 million in the corresponding quarter of the previous year, a growth of 9.2% Y-o-Y.

Highlights for year ended March 31st, 2021:

Consolidated revenue was INR 10,134 million as compared to INR 10,956 million in the previous year reflecting a Y-o-Y, decline of 7.5%. Operating EBITDA for existing centers was INR 1,423 million, a decline of 6% Y-o-Y reflecting an operating EBITDA margin of 17.4%. Operating EBITDA loss for new center was INR 157 million as compared to a loss of INR 247 million in the previous year. Consolidated PAT had a loss of INR 1,947 million as compared to a loss of INR 1,067 million in the previous including current year exceptional items of INR 847 million.

With respect to impairment, we would like to highlight the following for the benefit of everyone:

As part of annual investment evaluation process, the company has been consistently doing testing of all its investments and has followed a conservative approach to represent financials correctly. Fundamentally, majority of our business has weathered the COVID impact well. But there are some parts of our business, which has seen significant challenges. And broadly they are Gurgaon which was a work-in-process project and Milann due to IVF being an elective procedure. Since a large part of the impact was COVID year, we have prudently taken the impairments in current year to be more conservative, although the inherent value in some of these may not be completely impaired, and could be recoverable over a period of time.

I now request your attention to Slide #9 please. Q4 21 revenue grew by 10.2% Y-o-Y, HCG Centers by 11.7%, and Milann Centers grew by 12.4%. Q4 21 operating EBITDA existing centers INR 440 million, 18.3% margin versus 20% margin in Q4 FY20. New centers, loss of INR 46 million versus loss of INR 99 million in Q4 FY20.

I now request your attention to Slide #10 please. FY21 revenue declined 7.5% Y-o-Y, HCG Centers degrew by 5.5% and Milann Centers by 36.7%. FY21 operating EBITDA existing centers INR 1,423 million, 17.4% margin which is 21.2% margin in FY20. New centers loss of INR 157 million versus loss of INR 247 million in FY20.

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

Dr. B. S. Ajai Kumar: Thank you Srini, thank you very much. I would like to draw your attention to Slide #11 of our presentation. The revenue split is 95% contributed by HCG Centers and 5% by Milann Fertility Centers. Within HCG Centers, Karnataka's contribution to revenue is 34% followed by Western India comprising of Gujarat 29%, Maharashtra 16% jointly contributing a total of 45% of the total revenues followed by East India and Andhra Pradesh at 9% and 8% respectively. Tamil Nadu and North India contributing 2% each.

I would now like to draw your attention to Slide #12 of the presentation:

Strong resilience in revenue across centers located in Tier-2, Tier-3 towns in Q4 FY21. Ongole (+50.3%) Y-o-Y, Suchirayu (+50.1%) Y-o-Y, Hubli (+44.6%) Y-o-Y, Vizag (+28%) Y-o-Y. New centers contributed revenue of INR 525 million in Q4 FY21 versus INR 367 million in Q4 FY20 and INR 1,831 million in FY21 versus 1,490 million in FY20. Revenue from existing HCG Centers grew by 5.9% in Q4 FY21 and declined by 10.3% in FY21 Y-o-Y.

I would like to draw your attention to Slide #13 of the presentation:

Increase in average occupancy rate in Q4 FY21 – 45.2% versus 41.1% consolidated, 50.7% versus 45.6% existing center.

Increase in ARPOB in Q4 FY21 Y-o-Y – INR 34,788 versus INR 32,805. ALOS at 2.28 days in Q4 FY21 showed marginal improvement.

Existing centers operating EBITDA margin declined by 60 bps to 23.8 % in Q4 FY21 from 24.5% in Q4 FY20. Looking at key geographical areas now. In Karnataka region, the Center of Excellence performance in Q4 FY21, revenue growth of 21.5% Q-o-Q versus 6.6% Y-o-Y. ARPOB of INR 54 K versus 57 K Q4 FY20. 23.8% operating EBITDA margin. Revenue from international patients impacted on account of COVID restrictions.

With respect to Gujarat region, HCG revenue grew by 24.1% in Q4 FY21 on Y-o-Y basis. Oncology revenues for the region grew by 17.5% in Q4 FY21 on Y-o-Y basis. Revenue from COVID treatment contributed to 13.1% for the region in FY21.

With respect to Maharashtra region, strong revenue growth across the region 37.3% in Q4 FY21 Y-o-Y, 15.6% in FY21 Y-o-Y, existing center in Nashik revenue grew by 13.8% in Q4 FY21 Y-o-Y. Mumbai revenue impacted by COVID onset. In Andhra Pradesh revenue growth of 18.1% in Q4 FY21 across the regions Y-o-Y basis. Regulatory delays for scheme patients led to higher occupancies and dilution of ARPOB. Focus on improving revenue mix through a reduction of scheme work. In East India, strong operating EBITDA margin for existing centers 25.7% in Q4 FY21 and 24.8 % in FY21. Improvement in quality of business in FY21. Reduction in schemes and occupancies, increase in high end procedures and ARPOB.

Coming to Slide #15 covering key highlights of Milann Fertility Center:

Good recovery demonstrated in Q4 FY21 in all metrics New Registrations grew by 20.1% Q-o-Q. Revenue grew by 8.1% Q-o-Q, IVF cycles grew by 2.8% Q-o-Q. Looking to consolidate and focus on Bangalore, North India regions in near future.

I want to conclude this part by highlighting few things, I would like to highlight that March '21 revenue was the highest ever in HCG history over Rs. 100 crores and also our fourth quarter revenue was the highest at Rs. 298 crores. We believe we are on the right path, the initial even though we do not give numbers, the initial indications are also good for the first quarter. And we are confident we will sustain and grow over the coming months in the coming year. Thank you.

Now, I would like to hand over to Srini to explain the CAPEX and the highlight, Srini.

Srinivasa Raghavan: Thanks Dr. Ajai. I would now like to draw your attention to Slide #16 please. With respect to the CAPEX table, we have implemented judicious control measures with respect to both routine and growth CAPEX with most of our expansion completed. Total capital expenditure for Q4 FY21 was INR 99 million which was largely with respect to HCG center. If you look at the yearly numbers also, the full year number on CAPEX was INR 353 million as compared to INR 1,200 million in the last year same time.

With respect to net debt, as on 31st March net debt was INR 2,882 million a reduction of 72 million quarter-on-quarter on account of improved operating cash flow. With a substantial deleveraging of the balance sheet and strong recovery towards the end of Q4 FY21. We expect to maintain debt level in this range or lower in the near terms and look forward to focusing on free cash flow generation. We reassessed our lease terms for certain leases and re-measured our lease liabilities and right to use asset with the reduction of INR 1,230 million on account of this adjustment as reflected in capital leases section in the net debt table.

I would now like to draw your attention to Slide #17 please. We are not expecting any new centers for FY22 financial year. We do not have any committed new centers for Milann. I would now like to hand over the call back to Niraj please.

Niraj Didwania: Thank you. Dr. Ajai, Raj and Srini for 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 Aditya Khemka from InCred AMC. Please go ahead.

Aditya Khemka: Question one for Raj, Raj I know you're new to the company, but still I would like to pick your brains on this strategy. You've worked for companies like Apollo, Fortis and you have worked in the NCR, you have worked in South India, and now you have been with HCG for last four, five months. What is the strategy going forward, we heard a very brief sort of opening remarks from you. But, what are the low hanging fruits that you are identifying in the company. How can you improve it on capital, free cash flow things that you spoke off, what do you need to do operationally or strategically to achieve the objective of better cash flows and better return on capital. What are the low hanging fruits and what are the more sort of distant dreams in that regard?

Raj Gore: Thank you Aditya for that question. Number one, we right now will focus on consolidation, we only have one new project in Gurgaon, which will be coming up in FY23. Right now, our focus will be on driving revenue growth, I feel that there are three main reasons for that. First, is better execution of our go to market strategy for our new center location. Second, there is a huge upside for us on digital performance marketing, which will help us to expand reach and better targeting. And third is, I truly believe after being in the multispecialty space for a long period, that we definitely have a superior clinical product in oncology space. And we would like to create more brand awareness about that clinical product. So, that's, number two driving revenue growth. Third is, general operational discipline to drive utilization, drive cost efficiencies to improve our profitability. And fourth would be improving cash flows and managing net debt for last couple of quarters we're doing a pretty good job on it. So, those are the four broad points in terms of strategy going forward.

Aditya Khemka: Great, thanks for that. So, that's one of my follow up question is like, answer of your first question, where you said, you have worked for multispecialty where HCG is a super specialty. So, now, the super specialty business in itself, joys the ability to be superior in terms of clinical product but then it has a disadvantage in terms of attracting the patients and the doctors also because you are restricted to certain therapy areas and not really generics. How do you tackle this challenge in an organization?

Raj Gore: Being focused actually gives us advantage in attracting talent. Most clinicians would like to get better at their art and science of medicine. And we provide them a comprehensive platform to practice that with a support system with all other specific verticals under the oncology. Second, we spend a lot of efforts in driving research and academics. And oncology of all the specialties is still evolving at a very rapid pace, being focused on oncology gives us ability to try new things, experiment with new things and therefore help our clinicians to be at the cutting edge of practicing oncology medicine. I feel that being focused actually is an advantage in oncology space.

Aditya Khemka: But that's what on the talent side.

Dr. B. S. Ajai Kumar: I just want to add that being an oncologist and doing this over a few decades, when you have a patient with cancer, ideally I trained in MD Anderson, ideally people would like to go to an oncology center. The diagnosis may happen in smaller hospital multispeciality, but every hospital cannot be expert in oncology. So, I always compare it to a multi cuisine restaurant, you go there, and you can't have somebody making pizza and making some North Indian dish and South Indian dish, Dhokla everything it can't be expert. So, we believe we are experts in this and that is what has been recognized with a number of patients we see, nearly 100,000 new patients and growing. So, what is happening is, we attract doctors because of this empowerment. And they are super specialized in oncology and where would anybody like to be in a super specialty which has over 400 oncologists, so we conduct this multidisciplinary clinic, tumor boards on Tuesdays where all the doctor join and brainstorm. So, we have become leaders not only in patient care, what is HCG differential when somebody looks at it, we are not only a service provided to the patient with multidisciplinary clinics, we also do like very precision medicine, we branch and do research and publications, highest in India we do today. So, these are the hallmarks of what attracts, the doctors, even the paramedical people of course the patients to come to us and it is only increasing. So, this is how we have sustained and we will continue to grow by being more and more focused in oncology only.

Aditya Khemka: Got it, now that answers my question. I have one more if you allow me, on the occupancy side so our existing center occupancy was 51% in FY20, and that has come down to 46% and that is obviously attributed to COVID. But at a unit level, which unit probably we have Bangalore unit, but what is the occupancy at your most mature unit?

Dr. B. S. Ajai Kumar: Occupancy is always been a discussion in our conference, because when we build in our Bangalore center in early 2000 we built it for 250 beds, but over the years the requirement has come down for inpatient, as you see the ALOS is around two days. So, we do most of the unlike in the past, where we do medical oncology, people were admitted to the hospital now we are all daycare centers. And also our radiation is entirely daycare, even surgery now has come, the ALOS has come down with targeted surgery, with robotic surgery, you can do a major liver surgery and send them home in four days. So, with all this happening the requirement were actually bed, overnight bed requirement has come down for multiple days. So, only critical patients come in and admitted so that is a reason in Bangalore, which is our major center you see occupancy remaining around 50% consistently. But one good thing is, as we get international patients come back to us and things got growing. We expect, we don't have to do any more brick and mortar work, there is already place of them, so we don't have to pay. So, that is how we will grow okay.

Aditya Khemka: Fair enough. Just one follow up on the answer that you gave Dr. Ajai. In the same breath if I ask you, your company's consolidated ARPOB is around Rs.30,000 to Rs.33,000 a day, whereas the Karnataka cluster ARPOB is about Rs.54,000 a day. The ARPOB for the other clusters which is Gujarat, Maharashtra, Andhra Pradesh, East India, they all must be around in the Rs.20,000 levels to bring the average to 34 right, around 20,000 to 30,000 range. So, what would it take to get the other clusters ARPOB to 54,000 and why are they today between 20,000 and 30,000?

Dr. B. S. Ajai Kumar: For new centers, I will also ask Srini to add to this, new centers will take time and we expect Mumbai, Kolkata centers and also Ahmedabad is already upgrade to grow up to that level, where we will face a challenges is obviously in Tier-2, Tier-3 cities where you're being a mixture of some skill bases within 20% or not. So, that is what is going to keep the ARPOB at a little bit lower level compared to what a center of excellence because the center of excellence obviously we do high end work, so as Mumbai and Kolkata and all start doing and as the revenue picks up we will see the ARPOB paying up there. But Tier-2, Tier-3 cities may sustain and remain there, so expect 34 to become 42, 45 as the center's mature, but it may not reach the level of Bangalore of 54 overall an average because of our way we have spread out in Tier-2, Tier-3 cities. Srini you want to add anything to that, Raj?

Srinivasa Raghavan: You said it rightly doctor, as far as care is concerned it is the technology and the CyberKnife therapy, those are the things which are very critical. Second aspect is multispeciality also play a role in overall numbers especially in places like Gujarat, but as Dr. Ajai rightly pointed out over a period of time it should kind of stabilize and we should see the increased levels in the future.

Dr. B. S. Ajai Kumar: Raj you want to add anything?

Raj Gore: No, doctor nothing from my side.

Niraj Didwania: Aditya this is Niraj. So, one other thing is we have been reporting our occupancies on total capacity beds. So, we are also relooking at whether we should move to the industry standard of operational beds, so we will be able to guide you on that in the coming quarters. So, optically the occupancy looks a little bit lower because we are on capacity beds.

Aditya Khemka: Correct. So, capacity is 2000 odd beds right, what is the number of operational beds today?

Niraj Didwania: It will be somewhere lower by about 10%, 15%. The newer centers are where we have a larger non-operational bed capacity. So, it could be about 10% to 15% lower.

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

Chandramouli Muthiah: First question is, on the extent of impact which we should expect from a business from wave two of COVID in India, South and West Indian has been disproportionately impacted with lockdown still NPA. So, how do you think about this dynamic giving us these two are fairly critical for our business any color that would be really helpful?

Srinivasa Raghavan: What is your question again, there was some double voice I couldn't hear well.

Dr. B. S. Ajai Kumar: It's Chennai and Kolkata is talked about Chandramouli am I right?

Raj Gore: Chandramouli can you repeat your question?

Chandramouli Muthiah: I can repeat the question it wasn't clear. It's just on the extent of impact that we should expect from business from wave two of COVID, the South and West India has been disproportionately impacted with strict lockdowns in place, both these regions are pretty critical for our business mix. So, just trying to understand how we think about the wave two of COVID and how to think about the impact on the business from this phenomenon going forward?

Srinivasa Raghavan: Okay. You're asking about South and East India is being critical and how is it going to look like in the future given the current COVID wave two impact did I hear you correctly Chandramouli?

Chandramouli Muthiah: Yes, South and West India, that's right.

Srinivasa Raghavan: Let's put it in two parts East India, while it did get affected due to COVID second wave, it also had an impact due to international patients not coming to, we were expecting originally from patients from Bangladesh and nearby locations. So, that was kind of impacted, but hopefully the COVID to was settling down, I'm not too sure on the international business, but it should kind of revised, as far as West is concerned the Nashik and Nagpur has been doing very well. The Mumbai centers have to pick up because the second wave impacted Mumbai first towards the end of February, early March and that kind of got impacted by kind of settling down. And we are already seeing signs of the business getting improved in the current quarter. So, subject to wave three the trajectory should be fine as far as West is concerned. So, overall the way we are looking at it, in current quarter the indications are good as Dr. Ajai said the momentum is good, we are able to sustain some of the momentum that we gained in March. But once the international business is back into business, and some of our radiation business if that picks up, things will settle. But, of course wave three, the uncertainty is always there. But as things stand today the trajectory is good.

Dr. B. S. Ajai Kumar: Just want to add that, as you very well know we have announced in the past our international revenue for our Bangalore Center is about 15% to 18%, it was going up significantly, but that has been severely impacted obviously because of the airline and travel and difficulties. But, once we have a lot of indications that would significantly come back to normal in the few months once the lockdown is over. So, even without the international one of the positive things we feel is we have delivered highest revenue, which is a clear indicator what can happen in the future. So, we do expect the year to be growing revenues and profitability because of the coming back of international and also, in the South the Bangalore center as you saw the revenue had a significant growth compared to last year in spite of the COVID. So, we are seeing some good positive signs for the growth for this coming year.

Chandramouli Muthiah: Correct, that's helpful. My second question is just on the sequential trend, so we have seen top line pick up in the March quarter by about 9% versus the December quarter but the EBITDA growth seems to be slightly lower. I would have thought that given the high fixed cost in the hospital business model, there will be some operating leverage and EBITDA would probably grow faster in a top line growth environment. So, just trying to understand is this because maybe some of the cost cuts that were taken earlier on FY21 sort of seeing a reverse now, are they fully reversed now just trying to understand, if the cost cuts that we took earlier in FY21 are fully reversed or is there still some cost that is yet to come back?

Srinivasa Raghavan: Can I take that Dr. Ajai. Q4 has passed and all our cost has come back. And one of the reason for decline in the EBITDA margin slightly in Q4 is due to the one time investment in marketing and business development. More from the point of view of future revenue. Given that the things have started to open up, so the answer to your question, yes it's a fully loaded cost in Q4. And two, we also did one time investment in marketing and business development in Q4.

Chandramouli Muthiah: Got it and my last question is on forward looking comment, so there were a few brief comments you made at the start of the call in the opening remarks on both debt as well as expectations for the first part of FY22, so if you could just elaborate on that, if you could just give us a little more color on how you see FY22 panning out for the company and company's view on whether we should expect wave three of COVID or not just based on data difference that you all seeing , thank you so much.

Srinivasa Raghavan: So, specifically on the debt or the overall company FY22?

Dr. B. S. Ajai Kumar: No, Srini I will first answer the first part and then I'll give you on back, Chandramouli, as I shared in my concluding remark we are seeing very good signs of good growth in the first quarter. Normally, we don't give the numbers, but what I can say here is, like I said without the international patients also we are beginning to do good, not only in our main centers, but also in Tier-2, Tier-3 cities. And one of the things we focus on as been in our new centers reaching up to profitability and beyond profitability and higher revenue, that is beginning to happen and there was a little bit setback for particularly Mumbai centers because of the severe COVID restrictions, the second wave but, once everything gets better obviously, there is the last time because the patient has to come for surgery, undergo surgery, then undergo radiation, one of the reasons we saw even the margin lower is possibly radiation being less, because the contribution from radiation is high. So, all of that is now correcting itself. Obviously, cancer patients or cancer patients they will come, they would have just postponed as we have reported in the past also the postponement is not good. But we have encouraged patients to come and they are beginning to come and we were actually before the second way beginning to see a good footfall and increase and that is why we have this high revenue in March without COVID, without any COVID contribution. So, this is going to give an increase and as we go forward, like what Raj said, we're looking at consolidation, bringing the existing centers to capacity utilization. With these things we will definitely see an uptick in the revenue and the profitability and EBITDA margins to improve, on top of that Srini will comment on how we have deleveraged and how we are become very cash flow positive. Srini, can you please comment on that?

Srinivasa Raghavan: Yes, Chandramouli our focus as I mentioned earlier, continues to be on reducing our debt while we don't give any forward-looking specific number, overall our outlook is to be in the range of debt to EBITDA of 2:1 at pre IndAS levels basically, that's the goal we have and that's the project we are moving towards.

Chandramouli Muthiah: So, is it 3:1 or 2:1?

Srinivasa Raghavan: 2:1.

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

Kunal Randeria: Sir last time you have discussed how different levels of business mainly medical oncology, surgery, radiation was picking up after the first wave, but now since we have a very serious second wave after the last quarter, can you share how these businesses are doing and you're your expectations are for the rest of the year, assuming there's no third wave?

Dr. B. S. Ajai Kumar: Yes, as I said just now, one of the things we have seen is a little bit of reorganization, the geographical approach. HCG is in a very unique position, because the fact that we are in Tier-2, Tier-3 cities, so maybe even though we don't have, we don't manage COVID cases except in our multi-specialty. The reason we have done much better and we are doing better I believe compared to the first wave is because people are now accessing our Tier-2, Tier-3 cities rather than traveling long distance and that has helped us to sustain and do good even last year in our report and our investment call we indicated that we never had any EBITDA negative quarter. So, that was primarily because we managed patients coming in accessing, but only question is for radiation coming every day and all this has been difficult but now it is correcting. So, going forward, we expect our mature centers to continue to grow at 10% to 12% as we have indicated, we don't see any issues once this COVID is over we hope it is coming to an end, particularly with a vaccination happening on a massive scale it should.

And the second thing is, the new centers who are like in Mumbai, and all for example Nagpur is doing extremely well so similarly we expect Mumbai centers, we have got some very good doctors who have come in now. And with those kind of star doctors coming, Dr. Shyam Shrivastava has joined us who was heading the Tata steel for radiation. So, all of this and international patients coming in because Mumbai is somewhat dependent on international, we do expect things to get back to normal and grow as per the original plans. So, this kind of growth will definitely happen during the period of consolidation and we should have a good. Definitely, post this our radiation revenue should return to normal, so also surgery and medical oncology along with that international. So, we should be back to the normal and we have the growth pattern which we have projected. Raj, would you like to add anything please?

Raj Gore: No, doctor as you mentioned earlier, we had our highest month in the month of May. The momentum continues and if revenue momentum continues the EBITDA and profitability will follow.

Dr. B. S. Ajai Kumar: Okay, thank you.

Kunal Randeria: That was helpful. Sir just one more question, in the last quarter results, it also shared Andhra margins were impacted because of some structural changes made by the government. So, I'm just wondering is there sort of a risk on the margins in other states could possibly be hit because of government intervention, or that was more like a one off kind of a case?

Dr. B. S. Ajai Kumar: It was definitely more of a one on kind and as of now we have not seen any government intervention. Also, all the issues of pharmacy, the drug issues, which we had in the past have settled to it, of course to a lower level, but we have now managed, in spite of that we are delivered a very good margin for the mature center. So, I don't think this will be an issue going forward, as far as we see it but of course our visibility is there, but we never know what the government can do, but during the COVID period, nothing has happened, they have been accommodative. So, we don't see this as an issue going forward at this point.

Moderator: Thank you. The next question is from the line of Shantanu Basu from Smifs Ltd. Please go ahead.

Shantanu Basu: My first question is with regard to your vaccines doses. So, what would be the number of doses that you are administering per month on an overall basis and what would be the administration charge per does that you charge from the customers?

Dr. B. S. Ajai Kumar: Raj, you want to take this question?

Raj Gore: Prime Minister of India has given a call to everyone to help, get vaccinated, get the entire population of India vaccinated. So, we are playing our role in that, at each of our center vaccine availability has been an issue, but hopefully that will get better towards the end of this month and starting next month. We have also additional interest that our oncology patients are immuno compromised and we want to make sure that all of them as well as their family members get vaccinated. Right now our focus is on them and our business partners, as a good partner we want to help their staff getting vaccinated. In terms of surcharges, we will be complying completely with whatever government regulations are there. And as they evolve, we will continue to comply with the government regulations.

Shantanu Basu: So, what would be the number of vaccine doses per month that you are administering, would it be in the range of six to seven lakhs or less than that three to four lakhs?

Dr. B. S. Ajai Kumar: What is important to know that in the entire month of May the availability was an issue, vaccines were only available towards the end, it's not still a consistent supply. So, I don't think we can use that information to forecast anything going forward. So, I'm not sure that, until the supply of vaccine gets consistent that would give any indication for future.

Shantanu Basu: Okay.

Raj Gore: Sir oncology focused, we are focused on vaccinating most of our employees, the patient's, relatives. So, our focus has been more on that, even some general hospital of ours multispeciality have done a bit more, but our focus will be more on this.

Shantanu Basu: Okay, fine. So, it wouldn't be the number of doses per month wouldn't be very high, that is what you're trying to say compared to other hospitals?

Dr. B. S. Ajai Kumar: No, number of doses. I don't know, other hospitals I don't think we can say. And we just need to at this point, I can't compare. It may not be that high also.

Shantanu Basu: Okay, fine sir. My second question is with regard to your Africa venture, so now that you have taken an impairment in your book how do you see the African operations shaking up in the future, what is your growth plan for the continent as a whole, how do you see the Africa things shaping up. CDC has also exercised a good option. So, what's your take on that?

Dr. B. S. Ajai Kumar: So, we are in the middle of closing the issue with CDC, we will have a lot of clarity because once the CDC exists, and all the work is done. When we become nearly 90%, 95%, owners of this, we are trying to re strategize Africa. The only thing is, we need to really do a few things to keep our Kenya center in order, first focus will be to consolidate our main center in Kenya, in the Nairobi in the CCK. Once we do that, and get to the capacity utilization we are looking at our small centers clinics in Kenya itself or outside but all of that we have not taken any strategic decision now. Because we want to see and close this issue with CDC before we proceed further, possibly by next quarter we may be able to in this investment give more details about it.

Shantanu Basu: Okay, so CDC is completely exiting from the partnership, right?

Dr. B. S. Ajai Kumar: At this point, it is not 100% done, they have exercised the put, work is in progress.

Shantanu Basu: Okay, sir. And sir another question is with regards to your outlook for Q1 per se maybe I have missed it, so just want to clarify would Q1 be another growth quarter, or would it suffer because of the second wave?

Dr. B. S. Ajai Kumar: No, we expect Q1 to be definitely a growth quarter at this point.

Shantanu Basu: Okay, sir. And what would be your consolidated?

Dr. B. S. Ajai Kumar: In spite of COVID and in spite of not having international patience.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from DAM capital. Please go ahead.

Nitin Agarwal: Doctor, just two questions in your experience with the sort of oncology care over the last five or six years in the time even longer, have you seen any notable changes in the way patients are approaching oncology care versus in the past which probably makes either positive or negative case for our business a standard alone business model, on a structural basis going forward?

Dr. B. S. Ajai Kumar: You are talking about with COVID or without COVID in general?

Nitin Agarwal: Without COVID doctor, COVID is something which has come and gone.

Dr. B. S. Ajai Kumar: In oncology as like I always say in my talks and all, oncology is a rapidly changing field and today we have oncology patients living for a long time it is a lifestyle disease. In my advance clinic I have patients with lung cancer, which has spread to liver, bones or brain living for 5, 7, 8 years. So, it is almost like a chronic disease, so we don't call the use that terms now like a terminal stage four and all, so definitely the changing pattern has happened. Has it had an impact on the new cancer patients yes it is beginning to have, because the dropout rates are definitely less and one of the reasons the dropout rates are less is because the side effects are less. We call it now the precision, I can go on for 24 hours talking on this but I am trying to limit it because this is a passion for me, how in my 45 years of oncology if somebody says are you expert now, I say I am not because every day we learn and every 75 days oncology is changing. So, that is the beauty of oncology. Today we talk about precision medicine. radiosurgery where we can deliver radiation without affecting the normal tissue, where we can give targeted therapy without killing the normal cells we treat the tumor cells only, where we can do the checkpoint inhibitors, where we can treat with immunotherapy make your own body fight. And that is a phenomenal growth happening within, without immunotherapy, RAD immune therapy, which is of great interest to us. We're publishing so many papers in the **–50:40** itself on that, I created protocols because this is a changing pattern and to take, for example, certain difficult cancer like a head and neck cancer, tongue cancer the work we have done and published and we are seeing globally so now it is 50% used to recover.

Now we think with this new protocols only 20% will recover. So, amazing changes are taking place. If we had a vision to look at future in oncology patients, yes, we'll be there for a longer period of time with you, the mortality rate from oncology will definitely decrease. But oncology patients will increase in the West it is one in four patients and sometimes one in three if you take out the skin cancer. So, in India also it is going to increase, India and China will be the leader, but we are at least in major cities, we are well prepared with the technology and the way we have done the IT, IT has been used extensively key is to use IT. So, that patients in distant, one other things we have done in COVID period is to do really tumor board visit the patient, last Tuesday I did the tumor board 18 patients have visited home and gave them the advice, they were sitting in all parts of the world. So, this is the beauty of how Teams, everything can really help we are working with Microsoft. And we are also excited about Microsoft augmented reality, mixed reality, Microsoft mesh, and all of this will come into play. So, the technology itself will play a major role in how we manage oncology and how the patients will come to us. Sorry, I went on a little bit longer.

Nitin Agarwal: Which is very helpful doctors. And secondly while we are undergoing for example a period of consolidation which is justifiable, two questions on that. One is impairment in the Gurgaon center, so does that have any implications on how we bring the opportunity for the Gurgaon center going forward?

Dr. B. S. Ajai Kumar: No, it will not have any major implications, we are looking at what should be the initial scope, phase one, phase two. So, we are working on that, that way the way we manage because of the impairment and the delay, we don't want this to delay like what Raj said, we want to get it going in 23. So, with that in mind, we have started in full swing, we hope we can deliver and we have some very good doctors who have shown interest and will be with us, all of this will I be only positive, we are very positive in Gurgaon, it is in a very prime area. So, unfortunately, the natural calamities have come in the way but hopefully we will overcome that.

Nitin Agarwal: And lastly, the group of newer hospital centers which are there for us, is it a fair expectation that assuming COVID sort of normalized during the year, that this entire group per se would be a EBITDA positive by the time we finish the year?

Dr. B. S. Ajai Kumar: Yes, we are expecting that, except only Kolkata is rather new with the COVID effect. And al we are reviewing it, probably by last quarter we should turn positive. I don't know, Ashutosh am I right in this?

Management: Doctor currently we are expecting either the last quarter or the first half or 23 to be net positive on the entire contribution from new centers.

Nitin Agarwal: Okay. And one last if I can squeeze in, doctor once we sort of look at our expansion while currently we are in a freeze mode rather consolidation mode which is extremely good. When you're looking at our opportunity, subsequently at whatever stage you are within to sort of grow all over again. Are there any specific areas that you would want to target, whenever we resume our expansion, are there any is there again probably do more work in metros Tier-1 or you see more opportunities in the smaller towns, how are we looking at maybe it's a medium term growth or possibilities which are there for us?

Dr. B. S. Ajai Kumar: I will say few words Raj can add to this. I just want to say strategically we have done a small group we have committed to working for the future after consolidation. But let me tell you one thing, we will not do any future growth by increasing our debt. Enough is enough for us. So, we are going to be cash positive and we are consolidating, and we will have a large chest of liquidity cash using that we will look at possible growth. And also we are internally discussing whether we should really not do any Greenfield but more of brown or a merger acquisition type. And these are all in the works, with the COVID period obviously, we were not focusing on that in the going forward, with Raj particularly coming on board as CEO and taking on a lot of these things, we are looking at how we can work on this and develop a model for the future. Opportunities are there, plenty of opportunities, but being in a strong financial position, will definitely put us in a leadership role. And we know oncology like nobody else so that is a model we'll take forward. But, I don't think we will do a lot more implant model more-and-more of standalone model like that we will look at. So, we have some other ideas as and when that evolves, we'll certainly share with you all. Raj, you want to add?

Raj Gore: Yes, thank you doctor. So, Nitin as pointed out earlier, we still have enough capacity in our existing centers to grow organically that's number one. Number two, we also have opportunities to grow vertical wise with diagnostics our high end surgeries or vertical. While we are focusing on consolidation, we are also refining our capital allocation strategy going forward because at some point, we do want to grow inorganically. And what has helped so far to us is within we have a deeper penetration in some of the mature markets that we exists whether it's Karnataka, Gujarat. And that's something that has helped us, but will, it really depends on opportunities if we get good opportunities which fits our business models. And there are synergies, and it's at a good valuation we'll consider it in future once we feel comfortable with the consolidation.

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

Harith Ahamed: So, I'm looking at the consolidated cash flow statement for the year. And I am seeing a line which is proceeds from bills discounting. And there is a line which follows that which is bills discounted settled. The net cash inflow of around 40 crores here. So, can explain what exactly this is about, because I don't see this for the previous years?

Dr. B. S. Ajai Kumar: Srini can you please.

Srinivasa Raghavan: Yes, talking about bill discounting that is part of our working capital limits that we have set which has come for the first time. So, I thought of our CC line, this has been carved out. So, that's the reason you're seeing it for the first time. It's basically done for interest arbitrage.

Harith Ahamed: But correspondingly there is what we would have expected a decrease in our debtor days or overall debtor position, but that hasn't happened. So, is it that our overall debtors went up during the year and we have the deep dish to kind of offset that?

Srinivasa Raghavan: Yes, I am coming to that. Let understand this, basically these are working capital allocations without recourse. So, it cannot be deducted from the debtors per se, that is point number one.

Harith Ahamed: Okay. Understood that, and the share of profits or losses from associates, this year, these kind of had almost a breakeven where versus a 12 crore loss last year. So, what is turned on this line item?

Srinivasa Raghavan: It's turned basically where you have this equity pick up so that return profitable in the current year, so that's why you see a positive movement there.

Moderator: Thank you. The next question is from the line of Ankit Agrawal from Yellowstone Equity. Please go ahead.

Ankit Agrawal: My question is on Strand. Can you provide some quantitative insights into like, what has been the growth and profitability over the last couple of years and second is, more long term, like what is your vision going forward for Strand, if the business on a standalone basis itself has a lot of potential, but right now it's more of an ancillary business with a lot of synergies of course. But like, how large is the ambition there, and if it is large what kinds of things are we doing to realize that potential?

Dr. B. S. Ajai Kumar: Yes, Ankit as far as Strand is concerned, as you know Strand we've been through quite a bit of ups and downs, like a roller coaster in the last few years. And when we decided to merge Triesta, our lab with Strands, it was a cashless merger and Quadria came as a partner there with the investing. So, with that, we resurrected Strand and Strand have mainly two divisions, which are somewhat related. One is the RIX division, which does work in software development, and also in bioinformatics which is very globally known for that. And second is the vet lab, the genomics and which we were also doing in a treaty we've merged with that to enhance that effect. So, essentially, combination of the two became a powerful tool in terms of precision medicine for patients, genomic sequencing. Obviously the cost has come down significantly the reagent costs and all, but not to the level where everybody can afford. So, that is the one question mark we have to park it aside for future discussion. The growth of this can happen overnight, significantly but the cost, how much is the cost, how can the patient support is the problem, right now the cost complete 50 year, so 500 genomic sequence maybe 1,30,000 whereas, how many can afford that and if you can do it at 25,000, 30,000 obviously. So, we expect at some point the cost to come down and that will give exponential growth.

Regarding the other aspects of it, as Srini know like we said we made a mistake acquiring Quest which we said in the last call. Now we are disengaged Quest to took it over. With that we have turned immediately profitable and it doesn't have really the significant debt on the books, with that we see with the cash flow we think we can internally generate grow this, there may be some primary equity required which we will see as on required. There are a lot of things we are looking at for the future of Strand how we can align and grow, how HCG can also grow because HCG partnering with Strands we have created bio repository lot of issues for the future in terms of genomic study research and which could be attractive data collection to the big companies all of this is in the works primarily we now got over the negative EBITDA, made it profitable, good growth of revenue and that, with this now we will be in a stronger position for go forward. And this is where the discussion is taking place. Obviously with CDC coming on board, new investor, they have to bring up the scale on up to date on what is happening with strand, it has also taken us few months to do that. So, all the things once they align we will definitely keep you informed.

Ankit Agrawal: Got it. Thank you for the detailed response. Just one quick follow up, you mentioned there are two divisions. So, I understand the second part the Med Lab is dependent on the cost for it to scale up. But the software and bioinformatics division and seems like a pretty capital-light business and with a lot of potential to scale up right so, probably it has global clients?

Dr. B. S. Ajai Kumar: That business is international business. Outside India most of it, for that we need to spend lot of on marketing business activity, developing it, source strategically and also acquiring acquisition of new clients is also expensive. That is where some of the primary money could come in. So, that is the plans we are looking at. We have actually hired in a group head for the international based out of U.S., a business head. So, all of these are happening in stages. So, what we need to do there is a price of big businesses so far we have multiple small businesses, and the sustainability issue can be sustained with us, and we have quite a few multiple for the long term contract will be the benefit for us. So, those are the things we're looking at.

Moderator: Thank you. As there are no further questions from the participants. I now hand the conference over to Mr. Niraj Didwania for closing comments.

Niraj Didwania: Thank you everyone for the active participation on the call. We are available to have discussions offline if required with this we conclude Q4 FY21 earnings conference call. Thank you.

Dr. B. S. Ajai Kumar: Thank you very much everyone.

Srinivasa Raghavan: Thank you very much everyone.

Dr. B. S. Ajai Kumar: Srini, Raj, Niraj.

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