"HealthCare Global Enterprises Limited Q3 FY '21 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the HealthCare Global Enterprises Limited Q3 FY '21 Earnings Conference Call. 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 call, please signal an operator by pressing '*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Niraj Didwania, Head of Corporate Development and Investor Relations. Thank you and over to you, Sir.

Niraj Didwania: Thank you. Good evening and a very warm welcome to all participants to HealthCare Global Enterprises Limited Q3 FY '21 Earnings Conference Call. Today, we have with us Dr. B. S. Ajai Kumar – Executive Chairman; Mr. Raj Gore – CEO; and Mr. Srinivasa Raghavan – CFO of HCG along with the Management team to share highlights of our business and financials for the quarter. We have uploaded an earnings update presentation to the stock exchanges and also shared the same through our mailers and on our website.

Without further ado, I hand over the call to Dr. B. S. Ajai Kumar.

B. S. Ajai Kumar: Thanks Niraj, a very warm welcome to all the participants. With great pleasure, I would like to introduce and welcome Mr. Raj Gore as CEO of HCG. Welcome Raj. We welcome initiatives by the Government to support COVID vaccination program and increase healthcare expenditure at the industry gains much deserved prominence in India's journey of becoming an economic superpower in the coming years. I know we have all been through a tough time in the last year, but sometimes tough time also gives us an insight what really this country needs. I think the importance what has been planned in the budget speech recently is very much welcome. Of course the devil is always in the details, we need to look at the details and come to a definite agreement on what really, how is it going to really impact the future of healthcare in India. Fortunately, we have actually seen easing up COVID cases during the last quarter, particularly towards the end of the year, hopefully, there will not be any new strains and no second wave and with the vaccination in full progress, we should certainly be looking at things coming to near normal in the very near future.

We are very pleased to report Q3 of YTD of FY '21 results with strong recovery in performance across the board. We are entering an exciting phase for HCG with our leadership team strengthened with joining of Mr. Raj Gore as CEO and several of our new centers already over their tipping point and moving towards profitability. With combined strength of HCG's presence, brand, and balance sheet, we are at an inflection point and will continue to be at the forefront in delivering high quality cancer care and outcomes to the patient at a scale on a pan-India basis. We appreciate the support of all our stakeholders, which includes our shareholders, our patients, public at large, and our employees who stood by us during the difficult period and without which this vision cannot be realized.

I would now request Mr. Raj Gore to share few 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. HCG's Oncology focus network of hospitals, uniquely positions us to address the growing cancer burden in India holistically. Not only have we demonstrated great resilience during the tough COVID times, but also we have now entered the full year of consolidation with completion of CAPEX and focus shifting to driving profitability and improving efficiencies. We are emerging as the largest private Oncology player in Maharashtra with Borivali, Mumbai, achieving breakeven and other centers ramping up towards profitability. With a majority of our other region delivering revenue growth year-on-year basis, we expect to see robust growth in EBITDA and operating cash flows in the coming quarters. HCG will continue to strengthen its 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 handover the call back to Dr. Ajai.

B. S. Ajai Kumar: Thank you very much Raj. Coming to business update for Q3 FY '21, resilience and increasing normalization with reduction of COVID cases, HCG operating EBITDA grew 26% with margin expansion of 170 BPS on QoQ basis. New HCG Centers delivered strong revenue growth of 24.8% YoY. HCG centers revenue recovered with 0.3% growth YOY driven by domestic business ramping up. Excluding revenue from international patients, all the top five regions delivered revenue growth on YoY basis. All round strong performance in Maharashtra region, revenue growth of 19.8% YoY and operating EBITDA margin at unit level of 15.6% as compared to 9.9% in corresponding quarter of previous year. Borivali center commenced offering bone marrow transplant procedures and I am very happy to report that at unit level operating EBITDA for Borivali is breakeven and continues to be so for the quarter. Revenue growth of 68.7% at Nagpur center and 179% at South Mumbai center on YoY basis on the verge of achieving operating EBITDA breakeven at this unit level also. Strand Life Sciences, a pioneer in bio-informatics and precision diagnostics in India where HCG owns 38.2% stake saw continued improvement in profitability and strong business traction.

In other updates, Board decided to discontinue Kochi project on the basis of commercial and strategic parameters as we all know Kochi project was delayed for various reasons in the past which we have talked and particularly with further delay due to COVID and some other developments happening in Kochi, it was felt clearly going forward it may take a long time to bring it to profitability. In view of this, at this point, Kochi project has been discontinued. Now, I request our CFO, Srinivasa Raghavan to share the financial highlights. Srini.

Srinivasa Raghavan: Thanks Dr. Ajai. Welcome to all investors and the analyst, effective April 1, 2019, the company has adopted Ind-AS 116 leases standards, apply to lease contracts existing on April 1, 2019, and all financials are as per Ind-AS 116. Highlights for quarter ended December 31, 2020, consolidated revenue was INR 2,740 million as compared to 2,779 million in the corresponding quarter of the previous year reflecting a very small decline of 1.4% and a quarter-on-quarter growth of 10.5%. Consolidated EBITDA was INR 437 million as compared to INR 482 million in the corresponding quarter of the previous year, a decline of 9.4% YoY and a growth of 28.3% quarter-on-quarter. Consolidated operating EBITDA was INR 378 million as compared to INR 457 million in the corresponding quarter of the previous year, a decline of 17.3% YoY and a growth of 26% quarter-on-quarter. Operating EBITDA for existing centers was INR 399 million a growth of 21.3% quarter-on-quarter reflecting an operating EBITDA margin of 18.2%. New center loss was INR 21 million as compared to a loss of INR 57 million in the corresponding quarter of the previous year, a reduction of 63.2% YoY and 27.6% quarter-on-quarter. Consolidated PAT with a loss of INR 293 million as compared to a loss of INR 228 million in the corresponding quarter of the previous year.

I now request your attention to Slide #9 please. Q3 ’21 revenue declined 1.4% YoY, HCG Centers by -0.3%, Milann Centers by 26%. Q3 ’21 operating EBITDA existing centers INR 399 million 18.2% margin versus 22.1% margin in Q3 FY ’20. New centers, loss of INR 21 million versus loss of INR 57 million in Q3 FY ’20.

I now move to Slide #10 of investor presentation. YTD ’21 revenue declined 13.3% YoY, HCG Centers by 11.2% and Milann Centers by 44%. YTD ’21 operating EBITDA existing centers INR 984 million, which is 17.6% margin which is 22.9% margin in YTD FY ’20. New centers loss of INR 111 million, this is loss of INR 148 million in YTD FY ’20. I now request Dr. Ajai Kumar to share the operating highlights.

B. S. Ajai Kumar: Thanks Srini. Now, I would like to draw your attention to Slide #11 of the presentation. Revenue split of our business is 95% contributed by HCG Centers and 5% by Milann Fertility Centers. Within HCG Centers, Karnataka’s contribution to revenue is at 34% followed by Western India comprising of Gujarat of 29% and Maharashtra at 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. Now, I would 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 Q3 FY ’21. South Mumbai showed 179% YoY, Nagpur 68.7% YoY, and Hubli 29.3 YoY. New centers contributed revenue of INR 509 million in Q3 FY ’21 versus INR 408 million in Q3 FY ’20. Revenue from existing HCG Centers declined by 4.3% in Q3 FY ’21 on YoY basis.

I would now like to draw your attention to Slide #13 of the presentation. ARPOB per existing center was INR 33,074 against INR 33,918 during Q3 FY ’20. ALOS at 2.31 days showed marginal increase. Operating EBITDA margin was impacted with scale up and losses of new centers. The existing centers operating margin declined by 260 bps to 22.7% in Q3 FY ’21 from 25.3% in Q3 FY ’20. In Karnataka region, the Center of Excellence showed revenue growth of 20% QoQ and decline of 6.8% YoY. The Center of Excellence ARPOB of INR 49.7 K and 19% operating EBITDA margin. Revenue from international patients as expected impacted on account of COVID restrictions. With respect to Gujarat region, Baroda commenced offering bone marrow transplant procedures. Revenue of Oncology centers grew by 0.5% year-on-year with operating EBITDA margin at 22.7%, 19.1% of the revenue from the region was contributed by COVID patient treatments in Gujarat.

With respect to Maharashtra region, leading revenue growth amongst all regions was 19.8% YoY basis. Borivali center has launched bone marrow transplant unit and achieved a break even at unit level. Nagpur and South Mumbai centers ramp up on verge of EBITDA breakeven at unit level. In Andhra Pradesh, centers across the region showed strong resilience with 3.5% revenue growth YoY. Focus on improving revenue mix through reduction of scheme business. In East India, existing centers across the region showed strong resilience with overall revenue growth of 4.9% despite COVID restrictions, existing centers were at 24.5% operating EBITDA margin. Coming to Slide #15 covering key initiatives from Milann Fertility business, strong recovery in registration and IVF cycles over the previous quarter, revenue grew 18% and IVF cycles grew 23% QoQ. We are looking to consolidate and focus Bangalore and North India regions in the near term. Now, at this point I would like to reemphasize what Srini said before I hand over to Srini. We would like to inform that from next year, we would be presenting all financials on Ind-AS basis only including EBITDA and debt. We are working with various stakeholders to redefine our financial metrics and we would be sharing some of these in the Q4 presentation. We thought it is a good time to give you heads up and you have to make this, requesting you to make appropriate notes as needed.

With this, I would now like to hand over to 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 capex for Q3 FY '21 was INR 110 million. With respect to net debt, as on December 30th, net debt was INR 2954 million, a reduction of INR 50 million quarter-on-quarter on account of improved operating cash flow with a substantial deleveraging of the balance sheet and a strong recovery towards the end of Q3 FY '21, we expect to maintain debt levels in this range or lower in near term and look forward to focusing on free cash flow generation. I would now like to draw your attention to Slide ##17, please. HCG Kochi project discontinued as per Board decision in Q3 FY '21; we are not expecting any new centers for next financial year. We do not have any committed new centers for Milann, with this I would now like to hand over the call back to Niraj.

Niraj Didwania: Thanks Srini and Dr. Ajai for sharing the financial and business highlights. Please note the comments from the Management team are intended to share qualitative perspective 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 Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Good Evening and thank you for taking my questions. My first question is on medical tourism, so could you let us know maybe at what level the medical tourism revenue is versus normalized in the quarter gone by because I think that is slightly higher margin business in our business case?

B. S. Ajai Kumar: Yes, Chandramouli, you are right that is at a higher margin, but as you know that as we reported last time also because of the airline restrictions and the foreign patients were not allowed to come to India initially. Now it is somewhat happening, but very restricted, so our international business now is about 35% of what is the normal, so that is where we are, but with decrease in the number of COVID cases and once the airspace is completely open, we expect that to happen very soon maybe end of March. We expect the flow to improve and reach over 50% hopefully by end of this quarter and post that, we are positive that there will be normalization happening if not in the first quarter at least in the second quarter.

Chandramouli Muthiah: Got it, that is helpful and just related to that I think in the previous quarter, we had mentioned towards the end of the quarter, the run rate was sort of 95% of the normalized level, understand medical tourism was probably a lower contributor at that point, but now that we have a little bit of medical tourism in this quarter maybe in the month of December if you could give us some colour on because I think the quarterly revenue is probably flat on an HCV basis and 1% on a consol basis, so in the month of December have we returned to sort of single digit growth on the overall basis?

B. S. Ajai Kumar: The domestic market is at about like what we said about 95% for domestic market, but international as I said is about 35%, so that is where we are and we expect domestic market to recover to almost 100% in the next few months, but this one I have to say with slight caveat I know in Oncology there will not be pent up like others, but still we have to be cautious for the next quarter or two to see whether some of the patient bump up is from the patient who waited in the first few quarters coming, so we are monitoring it carefully, so we will know the answer whether it is sustainable growth what is happening because we are seeing a significant footfall in most of our centers and with the addition of international we expect this to ramp up quite fast when the international ramps up happens, but the domestic side we are quite happy and very positive of what is happening with a slight caveat that this has to be monitored for the next two quarters.

Chandramouli Muthiah: Got it that is helpful, my second question is on the expense run rate, so we had some expense cutting plans, there was temporary sort of wage reductions in the June and the September quarters, so I think now revenue seems to be back to a normal run rate if I compare the expenses as well it seems to be almost the same as what it was this time last year, so our expense is fully back to the normalized run rate or is there some more room to run there on expenses?

B. S. Ajai Kumar: All the expenses are pretty much normalized now, normalization of salary everything has happened. Some of the shared services we did, some of the real estate cut down we did for the corporate offices and all they are sustainable, because we also learnt a lot from the COVID where we have now used shared services to cut down on the office usage, work from home all of this in the corporate office, so that will show some reduction in the non-hospital and the corporate office and other real estate, but otherwise everything has been normalized.

Chandramouli Muthiah: Got it and that is helpful, my last question is on the upcoming facilities, so I think it has now been clarified that there will be no new facilities coming up in FY '22 and focus is going to be on consolidation of the existing facilities, so now that Cochin has been abandoned, how are we thinking about the other facilities that was in the pipeline i.e. Delhi, is that being actively reviewed for viability or is that something that is likely to go ahead at some point in the future?

B. S. Ajai Kumar: Gurgaon, we have taken a decision to narrow the scope right now, so the work is going on, whether for example we are now moving towards radiation, medical oncology, and surgical decision will be taken after the second quarter, the entire real estate of course is there, so it is for us to take a decision at the right time, so we are monitoring it how the revenue for the entire HCG does, what will be the profitability based on that we are going to take a call after the second quarter whether to withhold for a while, but eventually our plan is to complete the Gurgaon project primarily because we know it is in a very prominent area and we know this will be a successful model, a dedicated Oncology there. Obviously there are other centers, but most of them are Multispecialty with Oncology, but we will be one of the few dedicated Oncology centers and our brand name is quite well known, so the only issue here is in the past as you know, Chandramouli, we had several new centers at the same time which caused the perception in the market with negative EBITDA of these centers which kind of eroded our overall profitability of the mature centers, so we want to be clear we are not in that position which we are not now particularly with the funding and various measures and particularly since Mumbai and all the centers breaking even, so we are closely monitoring even the Calcutta Center which we expect to breakeven in the coming year. With all that happening, our Gurgaon Center probably will be the only center, which will be new in the year '22-23, that gives us that cushion for us one more year, so with that in mind we have decided to go with a very narrow focus and if necessary depending on the macro-condition to decide on the expansion.

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

Nitin Agarwal: Thanks for taking my question, Raj if I can probably, when you look at HCG business when you start stepping into today, over the next couple of years what would your strategic priorities be for the business, what would be the key milestones for us to sort of watch out for from your perspective?

Raj Gore: As I mentioned earlier, we are in a consolidation phase right now. Our focus is to get the new centers to breakeven and get to a profitable level and then you know commission the remaining new centers that is in the pipeline. It is too early for me to comment on more than that. I would like to spend more time talking to our clinicians, our hospital operators before I can make more definitive comments on anything else, so that is the plan right now.

B. S. Ajai Kumar: Nitin, to be fair this is only the 11^{th} day for Raj.

Nitin Agarwal: Doctor, now when we look at the business with whatever traction that we are seeing and some normalization coming through post COVID, I mean what is your assessment these new centers, by when do you see bulk of these getting to a breakeven stage for us, where is the drive of these centers begin to ease out significantly for us at what point of time?

B. S. Ajai Kumar: As I described earlier Nitin, the major thing which was driving the negative was our Mumbai, now all the centers of near breakeven. As I said even our Nagpur as well as South Mumbai in the verge, and Borivali the bigger one has definitely broken even, so this is very positive and among all the centers at this point, Calcutta actually is doing better. We expect in the fourth quarter of this New Year, fiscal year they will breakeven and we expect somewhere around the second quarter, the Jaipur unit to breakeven. With that, we will not have any negative units at all and even the negativity in Calcutta and Jaipur are coming down significantly, so the impact as our revenue ramps up in our matured centers and ramp up of revenue happens in our Mumbai centers, our Mumbai centers are doing remarkably well as we said and particularly even our South Mumbai Center within a short period of time it has broken even and our Nagpur Center also has almost done significantly better in the revenue as we discussed, so all of these are positive factors with this and the fact we are not going to do any new projects, we want to consolidate, we will be positive and I just want to say our vision for the next few years is apart from Gurgaon is to really bring up to speed of the new centers, we have a very strategic Center in Mumbai, both the centers, one is the dedicated Oncology Center. In Mumbai, we are the only private dedicated Oncology center, so certainly there is large opportunity in fact our radiation load is near capacity in Borivali. We are also very soon once we assess, we may amount the second unit there, so we expect good ramp up in our Borivali Center particularly bone marrow transplant and other things we are doing there.

The surgical revenue has also increased, so also in South Mumbai, once the international market opens, we will see significant footfall of international patients in these areas, so all of these are positive. Even Kolkata, our radiation load has increased significantly in the last few months. Even in the COVID period we did extremely well. If that is a future indicator, definitely it is very positive, so we are looking at some of these and we want to consolidate and make sure these prime centers in premier locations have come to the capacity utilization and they have become the drivers with that and what actions we have taken even in our Center of Excellence is what we want to focus and then future you know at this point we are not looking at any new centers, that is why that will give us enough time to build these centers. For example, in Vijayawada we have already taken measures to make it like a Center of Excellence also with bone marrow transplant and other units and the new unit is being installed, so all of this will be positive for the existing centers and revenue drivers.

Nitin Agarwal: Thanks that was helpful, and Doctor just broadly speaking post COVID have you seen anything of a very from structural perspective, any fundamentally positive about structural changes in the landscape for our business, anything that you have seen has changed or changing in the post-COVID world?

B. S. Ajai Kumar: As I told you, we are seeing domestic footfall increasing very quickly and as I said jury is still out on that, but if it is a sustainable model, what it clearly indicates is people, A, people may prefer to go to some of our Tier-2 centers rather than travelling to, B, big cities, I think that reorganization will happen. Number two, people may prefer because of COVID access Center of Excellence like ours rather than going to other smaller centers for a disease like cancer and knowing the COVID infection and all, so this is what we are kind of analyzing the data, so for example even entire COVID period, why did our Mumbai Center actually have shown growth? Even Nagpur Center shown a growth, our Vizag, Oncology center has shown a growth whereas other centers there was dip down in across what they have reported, so these are all some positive signs for Oncology, so maybe consolidation of Oncology and people, patients may prefer to come to Onco centers in future, dedicated Onco centers and as you know, really we did not have any COVID patients at all in our Onco centers, we did not show. All of this will be positive and we also participated in plasma convalescent therapy, we did lot of research and HCG now today has been known not only as a service provider for also researcher, which adds value for a patient.

When a patient looks at what kind of center they should go, what is the main thing, four things they look at. One is proximity, two is if I can afford I want to go to Center of Excellence what is the Center of Excellence offering, is it offering only treatment technology, we are there, is it offering, does it do any research, we do cutting-edge research, does it do any academics, we do cutting-edge academics we publish, so all of these ingredients necessities are met for the patient, so that is what and particularly in the COVID period, we also learnt that we can do the videoconferencing. We have become now masters of videoconference, I myself on the Tuesday clinic I do lot of the videoconference and access patients across India and abroad and patients love it. They do not have to travel and one of other things, in five minutes suppose the patient comes with a complicated case let us say in the home or in our clinic, I can beam in the experts in radiation, medical oncology, pathologist, radiologist, every necessary doctor within minutes, discuss the case, and given an opinion in 15 to 20 minutes that happen and review the pathology, this was never happening before. How do you physically get all these people together, now we can beam with the Microsoft teams, it is phenomenal, so we have learnt this art of managing the patients even though they are away and the patients love it, suppose a patient in Kolkata or Angul wants an opinion from our main Center of Excellence, within minutes we can put together and make it happen, so this I believe is a game changer.

Niraj Didwania: Nitin like Dr. Ajai spoke about the structural benefits that our model could see because of the standalone cancer care and also because of the penetration in Tier-2, Tier-3 and the access that has been created, one of the other things at a macro point that we may see is also that because of the delays in Oncology cases either be diagnosed or treated this could also create a pent-up demand because of the lockdown lot of the cases that were supposed to be diagnosed would have not got diagnosed and would have got delayed, so that is another point but we have to see that happen going forward.

Nitin Agarwal: Doctor if I can squeeze in a last one when we now look at the business, the Oncology focus, core Oncology business remains pretty much the focus as a business going forward that leaves us broadly two- three pieces, outside of Oncology care, so there is obviously there is this Multispecialty hospital and then there is Milann, how are we looking at these three pieces now going forward?

B. S. Ajai Kumar: Regarding Milann I have made several announcements in the past that we are looking at area at some point divesting Milann. We have now got in Mr. Shailesh Guntur who was heading North Karnataka and Andhra, he is now also leading Milann as CEO. With that, we expect we are seeing some positive growth happening in the next year. After that we will take a call, our strategic committee will take a call on when to divest Milann, certainly that is in our cards to do that. Regarding Multispecialty as you know we have had Multispecialty hospitals in the beginning particularly in Ahmedabad our Multispecialty is doing very good and Bhavnagar we took a Center of Multispecialty and now it has been mostly Oncology, it is a Multispecialty hospital with a strong Oncology and we have really a hospital which was closed we turned it around and Rajkot also we have a very great opportunity of Multispecialty with Oncology, so our goal here is really not to go into Multispecialty in future and strategically we are discussing what to do with existing Multispecialty, which at the right time we will make announcement, but we want to focus and make sure we bring them up to the capacity utilization level and then decide what to do with those. Meanwhile, our future focus definitely will be on consolidating and growth of Oncology.

Nitin Agarwal: Okay Doctor, thank you, it was helpful. The last bit on Strand, you probably did not, how are you thinking about the Strand investment?

B. S. Ajai Kumar: Strand as I said you know it is, we are about 38.5% owners when we did our cashless we did that. It has been very successful, Strand also has an investor named Quadriaas a financial investor, at present Strand is positive in terms of EBITDA monthly. We did make small error in acquiring Quest, we have now disengaged with Quest, with that and the research, R&D work we do has been growing significantly 30%-35% year-on-year with a good EBITDA margin and our diagnostic CDX is also growing. Now as you know, Nitin, the future of Oncology care is genomic driven, it is very specific to the patient care and we are a leader, just to give you example there is 500 gene sequencing, we are the only ones in India doing collaboration with Illumina, so we are at the higher, like foundation medicine is better than foundation, so we have reached a point where HCG in collaboration with Strand can offer some of these platforms, so the growth for both research division and the diagnostic division for Strand is very good and we are also looking at it how we can use, work with Strand and create a strategic alliance in future and in our strategic committee we have been discussing, if any decision is made, definitely we will make sure it is intimated.

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

Shantanu Basu: Good Evening, thank you for the opportunity. Now, I understand that in the next three years, you would be on a consolidation mode both in India as well as in Africa, but beyond three years I just want to understand what are your plans for expansion in Africa, so if you could share that, that would be very helpful?

B. S. Ajai Kumar: Right now our plan in Africa is we have center in Nairobi and we are strategically working with CDC, we are redefining the roles particularly after the new investor has come. The clarity will be given possibly at the end when we do the fourth quarter results at that point, so I will not comment much on Africa, the three year plan. Certainly, I will come back to this at the time of the fourth quarter results all year talking about yearly results and what will be the direction for Africa in the future, so I will do that at that time if that is okay with you.

Shantanu Basu: Okay fine, and with regard to your expansion in India post three years would you be looking at more sort of tie-up with, expansion in Tier-2 and Tier-3 cities, would that continue?

B. S. Ajai Kumar: What we are looking at is really, we do not believe in the implant model. Our model is very clear, we want to be freestanding Oncology service, that is how we have grown and that is if you look what was our revenue in 2007-08 and now the significant growth has happened because we have started dedicated cancer centers and we have phenomenal assets like assets like what I talked about in premier areas in Mumbai and South Mumbai and Gurgaon, so all of this what we are looking at to build a capacity on this new centers, at some point these new centers will become mature centers, so we want to reach 60%-70% capacity and work hard on that instead of going for new centers. Also from the past experiences, we have a question about perception, about HCG that whether HCG will take more debt versus new centers, negative EBITDA all of that we have also learnt lesson from that. We want to make sure we are as they say cash is the king, we want to make sure we have significant free cash and use that free cash and whatever for future development so that will take us two to three years because we are definitely going to be cash positive next year and we have deleveraged significantly, so let us our team is now focused on working, bringing all the centers to capacity utilization and existing centers of course if there are some opportunities like O&M opportunities where not much CAPEX investment, we will certainly look at in a strategic way, not in an opportunistic way. With this, we will take a call in the next year. Of course this depending on our performance and the macro situation, year from now obviously we will look and see whether we are following the same strategy, but at this point, this is our strategy.

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

Kunal: Good Evening, Sir if I have to breakdown the recovery in your business, so has all the businesses recovered at almost a same pace or as per expectations like Medical Oncology, Surgery, Radiation or there are some which are still lagging and you expect it to improve in the coming quarters?

B. S. Ajai Kumar: Yeah, it is a good question, see in Oncology majority of the patients who were receiving chemotherapy pre-COVID that number would continue because chemotherapy is an ongoing for it could be for six months, eight months, one year, for metastatic cancer it takes longer, so that provides a continuation of the base. It may not add new patients, but that affect will not be know for several months, so Medical Oncology has taken a dip now because of the new people, new patients have to come on in, but it sustained itself during the COVID period because of the continuation of existing patients. Regarding surgery that is the first port of entry for majority of the cancer patients is surgery, so we are seeing now surgical numbers as I mentioned are returning to normal, so even in cities where we have Center of Excellence that is a good indicator that following this, the radiation and medical oncology will come. The laggard if at all has been radiation because the radiation is not an ongoing treatment, it is done for let us say four weeks or six weeks and treatment is done, they do not have to come back repeatedly, so whatever patients were there on radiation in the COVID period, they completed treatment and done so new patients coming on got delayed because they did not come for surgery and other things, so because of the delay, we saw a downward trend in the radiation patient as expected, but surprising thing was in our Tier-3, Tier-2 cities we did not see that much drop because people started coming for radiation near their home town, so that was one thing we observed whereas in city like Bangalore or Ahmedabad certainly there was a drop, but now the catch-up is happening and as we said in the December certainly and January certainly it happened, our revenue when we do at last quarter you will see that showed a good improvement, so all of that I think is indicator that all the factors on, all the different verticals are coming together as pre-COVID period except as I mentioned the international patients contribution is only one third and we expect that to improve in the last quarter and particularly first quarter of next year.

Kunal: Sure Sir, if I were to put a rough number to it so it would be fair to say that by the end of December around 100% of Medical Oncology, it is at 100% of pre-COVID levels, maybe radiation is at about 60%-70%?

B. S. Ajai Kumar: You are asking about December '21?

Kunal: No, actually I am speaking about December this quarter?

B. S. Ajai Kumar: No, last year certainly the Medical Oncology was not back to normal because the new patients coming in were not there and whereas surgery was coming back to normal as I said about 80% to 85% surgery. Radiation was about 85, but Medical Oncology was about 70%-75% because the new patients who started Medical Oncology still not ramped up who was diagnosed with cancer, they have not ramped up and one of the other things could be the Medical Oncology patients because of the travel restrictions they are going to the nearby places whereas in our Tier-3 yes, they have all done well, but particularly our main centers, the Medical Oncology has been little bit of a laggard, but picking up rapidly and international patients are not there, so that is another. Domestic is definitely better, but international has to pickup.

Kunal: And maybe if you can share some guidance on how we should look at FY '21 for each of these businesses?

B. S. Ajai Kumar: FY '21 I think going forward, we will be on a quarter as you know we do not give actual numbers, but we think certainly there will be a significant growth compared to FY '19 and '20, and of course '21 we have to little bit discount, we are not going to talk about it because of the COVID and lot of situation as you all aware what happened, so our whole comparison will be to the previous year to that and we do think a significant growth will happen both in terms of revenue as well as our EBITDA and we are going to obviously look at the international as one of our things which we are concerned, but we see definitely significant improvement going forward.

Kunal: Sir in one of the slides you have given a breakdown by centers, Andhra has shown a quarterly decline both in ARPOB as well as operating EBITDA, so I know Q2 was very strong for Andhra but any particular reason or this is more like a ongoing kind of a margin that we should expect?

Ashutosh: This is primarily due to some structural changes by Government, so earlier there was no committee formed by Government to give pre-authorization to the Government patients, now they have put up on committee which is taking about two to three days longer and it is coupled with the higher chemo therapy in these regions which is resulting into higher occupancy and resultant lower ARPOB.

Kunal: Okay, so this is more like normalized kind of a number?

B. S. Ajai Kumar: I think this should normalize going forward.

Kunal: Just one more question if I can squeeze in, Sir you did say that you will aggressively pay down debt once we get cash flow positive, so any sort of maybe guidance you would like to give for FY '23 or so where we should see the debt levels?

Srinivasa Raghavan: As we generate cash flow, we continue to kind of trying to bring down the debt, we are looking at deleveraging to a point where we are at a debt to EBITDA of about 1.5-1.75, I think that is the kind of range we are looking at.

Moderator: Thank you. The next question is from the line of Joe Samuel from Geojit Financial Services. Please go ahead.

Joe Samuel: Good Afternoon Doctor, my question is regarding the discontinuation of the Kochi project, could you just elaborate as to what was the reasons for that, I think you briefly mentioned that at the start of the call, but if you can just may be a little more elaborate as to the reasons for that?

B. S. Ajai Kumar: Kochi has a long history and years ago we were very positive based on the location. We worked with the owner who is also a contractor who said who will complete. Unfortunately, after the first year, he ran into some issues and he could not complete. Then he came to us and then we said we will try to complete, but the last year as you know with the Pharma issues we had and then came the COVID, a lot of things happened by which we could also not and he said he will do it himself, but again it got delayed, so with all these things happening, significant delay and with the new investor coming, we did a deep analysis of Kochi. We felt if you do and also the macro situation environment has changed in Kochi with more centers and we looked at all that, we did a business analysis and we thought for us to become positive with the investment required and when to expect the return and what all will be the issues we will face including hiring the right doctors, what was planned four or five years ago and now obviously changes a lot and doctors and some of the hospitals on their own which were not there in Oncology starting, at that time because the HCG was coming, they were not going to, now with the delay they started oncology, so we felt for us to capture the market as what we had originally planned and going to maybe difficult and so we thought we had better opportunities to consolidate like I said and do other things, so that is the reason we decided to abandon at this time.

Joe Samuel: Thank you Sir for that and just another question, sort of pre-COVID regarding your international patient, so from where did most of these patients sort of come from before?

B. S. Ajai Kumar: In our model East Africa and West Africa have been the major contributors along with some contribution from Middle East and as you know we have a center in Nairobi, a cancer center which we acquired, so with that base we cover Kenya, Tanzania, most of the areas around it including of course Nigeria and West Africa, so most of the patients are coming from this area and some from Middle Eastern countries like Oman, so now we will be beginning to see significant flow once the airlines open up. As I said, definitely it has improved compared to three months ago and our team feels this improvement will continue to be there and show an upward trend.

Moderator: Thank you. As there are no further questions, I would like to hand the conference back to Mr. Niraj Didwania for closing comments.

Niraj Didwania: Thank you everyone for the active participation on call. We are available to have discussions offline if required. With this we conclude Q3 FY '21 earnings conference call. Thank you.

Moderator: Thank you very much. On behalf of Healthcare Global Enterprises Limited, that concludes the conference. Thank you for joining us, Ladies and Gentlemen, you may now disconnect your lines.