"Healthcare Global Enterprises' Q1 FY'18 Earnings Conference Call"

August 11, 2017

MANAGEMENT: MR. BS AJAI KUMAR- CHAIRMAN & CEO, HEALTHCARE GLOBAL ENTERPRISES LIMITED
MR. YOGESH PATEL- CFO, HEALTHCARE GLOBAL ENTERPRISES LIMITED
MR. NIRAJ DIDWANIA- HEAD INVESTOR RELATION, HEALTHCARE GLOBAL ENTERPRISES LIMITED

Moderator: Good day ladies and gentlemen and welcome to the Healthcare Global Enterprises Q1 FY18 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. I now hand the conference to Mr. Niraj Didwania – Head Investor Relations from Healthcare Global Enterprises. Thank you and over to you sir.

Niraj Didwania: Good evening and very warm welcome to all participants Healthcare Global Enterprises Limited Q1 FY18 Earnings Conference Call. Today we have with us Dr. BS Ajai Kumar – Chairman and CEO of HCG along with the management to share highlights of our business and financials. We have uploaded an earnings presentation to the stock exchanges and also shared the same through our mailers as well as on our website. Without further ado, I hand over the call to Dr. BS Ajai Kumar.

Dr.BS Ajai Kumar: Thank you Niraj and a very warm welcome to all the participants. We are pleased to report continuing strong operating and financial results in Q1 of FY18. We are particularly pleased with the performance of our new cancer centers which have broken even and reported positive EBITDA in the current quarter.

We continue to strengthen our operations in Gujarat which now contributes 30% of our revenue and improving margin profile. Maharashtra is an important region of our focus with expansion in Nasik and new centers in Nagpur and Borivali area of Mumbai, we expect to see significant growth in that state. We feel our focused approach in cancer care and fertility and in particular emphasis on quality of revenue and sustainable margins position us very well in today's environment.

Our business update for Q1; strong revenue growth continues in Gujarat at the new centers in Vadodara and following the launch of Tomotherapy H Advanced Radiation Systems, our first in Ahmadabad. Expansion of Nasik centre and growth pursuant to consolidation of the partnership arrangement. Comprehensive Cancer Center at Nagpur launched.Received approval from competitive authority of Kenya for acquisition of Cancer Care Kenya, a leading dedicated Cancer Center in East Africa located in the Nairobi. At this point I would request our CFO Yogesh Patel to share the financial highlights.

Yogesh Patel: Thank you Dr. Ajai, greetings to everybody on the call. I will give you highlights on the financial performance for the quarter ended June 30th. Our consolidated income from operations stood at Rs. 1911 million as compared to Rs. 1675 million in the same quarter of previous year reflecting an increase of 14.1% year-on-year. From a center perspective, HCG centers grew at 13.6% whereas our Milann centers grew at 18.8% year-on-year. Our EBITDA, i.e. consolidated profit before other income, depreciation, finance cost and exceptional items and taxes was Rs. 295 million as compared to Rs. 236 million in the same quarter of last year, reflecting a year-on-year increase of approx 25%. Our EBITDA margins hence stood at 15.4% for the quarter, versus 14.1% in the same quarter of previous year. Our consolidated profit before tax and exceptional items was Rs. 97 million as compared to 79 million in the same quarter of previous year, reflecting a year-on-year increase of 23%. Consolidated profit after taxes and minority interest basically PAT was 47 million as compared to 50 million in the same quarter of last year. I will request Dr. Ajai Kumar to share the operational highlights.

Dr. BS. Ajai Kumar: Thank you Yogesh. I would like to draw your attention to the slide #5 of the presentation. HCG centers contributed 91% of our revenues and balance was contributed by Milann. Within HCG centers, we are growing on pan India basis with Gujarat now contributing 30% of our revenue, East India, Maharashtra, North India expected to grow in contribution as well.

I would like to draw your attention to slide #6 of the presentation; continuing strong growth at several existing centers in Q1 FY18; Vijayawada 37%, Ranchi 20%, Hubli 20% YoY. Expansion in Nashik pursuant to consolidation of partnership arrangement, new centers contributed to revenues of Rs. 22.7 crores in Q1 of FY18. Delhi center successfully restructured, Trichi center in process of being restructured. Revenue from existing HCG centers, excluding centers being restructured grew 10% in Q1 FY18 on a YOY basis.

I would like to draw your attention to slide #8 of the presentation. Nagpur Center launched in June 17, beds to be operationalized in Q2 FY18. 5.4% increase in occupied bed days on account of new centers off-set partly by continuous reduction in average lengths of stay in the hospital. 7.8% increase in ARPOB driven by adoption of new technologies across the network offset by lower ARPOB at new centers. Continuing reduction in ALOS to 2.48 on account of trend towards day-care centers and changing patient profile.

From focus on quality of business leading to reduction of losses at new centers and EBITDA margin improvement of 200 basis points. Looking at key geographies in slide #9, in Karnataka the centers of excellence maintains 26% EBITDA margin with ARPOB of 45,000, 9% growth year-on-year and continuing drive towards improving quality of business and patient and service mix. In Gujarat EBITDA margin of existing centers at 15.7% for Q1 FY18 up from 15.1 of Q1 FY 17. Ahmadabad Center launched Gujarat's first Tomotherapy H Radiation Technology. In East India strong continuing performance at Cuttack, planned service enhancement in expansion and Ranchi center ramps up.

Moving over to slide #12, our fertility business under our brand name of Milann had a good growth across the board with 17.7% growth in IVF cycle and revenue growth of 19% on YoY basis. At this time I would also like you to move to slide #14 which talks about the projects. As you can see our update on the projects one new HCG center operational during Q1 FY18, additional 5 new HCG centers in FY18, so when FY18 is done we will have centers which are completed Kanpur, Nagpur, Borivali, already Kanpur and Nagpur are there, Borivali, Nasik, Jaipur and Kolkata and South Mumbai will be in FY18.

Also 3 new Milann centers launched during FY17 and one new Milann center planned by launch by Q2 of FY18, Delhi started in Q1 FY17, Chandigarh Q3 FY17, Mumbai Q4 FY17, Ahmadabad Q2 FY18. At this time and would like to hand over to Yogesh to talk about the further finances.

Yogesh Patel: Thank you Dr. Ajai. Just giving you update on our capital expenditure and debt position, capital expenditure incurred in the current quarter was 72.4 crores and compared to 38.2 crores in the previous quarter. Of the total spend of 72.4 crores, 70.8 crores was spent towards HCG centers, rest 1.6crores was spent on Milann centers. In HCG centers, of the amount spent on HCG centers, 52 crores was spent on new centers, the balance going towards existing centers expansion as well as maintenance CAPEX.

In terms of our net debt position, the net debt for the quarter stood at Rs. 363.7 crores versus Rs. 306.6 crores in this quarter. The major components of this net debt is **Bank Debt** at 191 crores and vendor finance at 196 crores. The split of 363 crores of our net debt between existing and new centers, the debt for new centers was 253 crores approx. against 110.7 for existing centers. With this I hand it back to Niraj.

Niraj Didwania: Thanks Yogesh and Dr. Ajai for sharing the financial and business highlights for the quarter. We would now like to open the call for questions and answers from the participants.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Balthazar Florentin-Lee from Slaone Robinson. Please go ahead.

Balthazar Florentin-Lee: If you could just take a moment and explain why was there an year-on-year increase in minority interest going so rapidly, I see was there in the previous three months accounts but could you just add a bit more color around that figure?

Yogesh Patel: In terms of minority interest increase, it's primarily because of new centers which have now turned profitable. So we had losses at the centers when launched last year which were not profitable and hence higher minority interest happening. Secondly there also is expansion which we have done, restructuring of our Nasik operations which was earlier through direct operations only which is now expanded with the joint-venture structure that also takes the minority interest number high.

Balthazar Florentin-Lee: Could you give us some update on current payback breakeven period as last time you were quoting figures of 6 to 9 months in new centers, how does the round figure stand at the moment?

Yogesh Patel: As we have planned the financial and economics of our centers as we launched them, our business plans are drawn up from a perspective of a center breaking even at EBITDA level in about 18 months. We have had a positive trend versus last 2 or 3 centers got launched, is being earlier and that number in around a year or so but our model should have that within 18 months we should achieve EBITDA breakeven.

Balthazar Florentin-Lee: So is that thing that the previous faster than expected breakeven periods isn't being experienced across new centers now?

Dr. BS Ajai Kumar: No, I think certainly now depending on the…like some of our centers in the past what we have said is they have broken even within nine months to year and we will continue to see that for example centers like Kanpur and all. But what we are seeing is it depends on each center like you look at for example centers like Borivali we expect it to break even more like 18 months to 2 years because of the real estate cost involved in others. So average normally we are trying to break even below year, that is been our stand all the time.

Yogesh Patel: So it's been encouraging in the last centers which we have opened, however at 18 months if it would do it would still meet the economics which the projects have to set up…

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

Chandramouli Muthiah: Just some housekeeping questions from me, so as you keep doing these acquisitions I think you announced one in Africa, is there any change to your debt targets in the near term?

Dr. BS Ajai Kumar: No, guidance but no change as well because what we have announced has been in our pipeline for quite some time now. Because our Africa venture and all has been in the pipeline for a while, it is not changed because we are working with CDC, this was planned and executed well in advance of what we planned so its within our debt structure.

Chandramouli Muthiah: Just one more on the minority interest that was asked earlier as well. Is this the current run rate you expect for rest of the year?

Yogesh Patel: Like from a project plan what you have seen we have new projects coming up. New projects would have initial ramp up of and they are coming to break even from the losses initially, so it would ready compare to the mix of stabilized and newer centers coming in.

Niraj Didwania: So the Borivali center is in LLP arrangement, so there is obviously going to be some impact on that. Apart from that the new centers as they are turning profitable we will see the minority interest also go in that proportion.

Chandramouli Muthiah: Could you just clarify what LLP is in this context?

Niraj Didwania: LLP.

Chandramouli Muthiah: The final one I had was on the bed count; there is lot of new projects planned for this year. What operating bed account are you planning to end up with at the end of this year?

Dr. BS Ajai Kumar: It will be in the range of 1800 to 2000. As you know very well we have discussed this matter before, for us being on oncology focused approach even fertility we are more beds not only way, we look at the footfall out-patient lot of the care now going towards outpatient but having said that we expect the bed account to go up to 1800 this year.

Chandramouli Muthiah: The tax rate is this new normal, the 36% to 37% range?

Yogesh Patel: The tax applicability remains the same. This year some of our traditional deferred tax assets which we carry that needs little bit change with the new tax rate for a smaller entity being reduced to 25%, so whatever deferred tax assets we had carried at 30% tax rate earlier would change to 25% and hence from accounting angle we will have to add little bit more taxes. So from that perspective in the books we would see in the range of 36.5.

Moderator: The next question is from the line of Kashyap Jhaveri, who is an individual investor. Please go ahead.

Kashyap Jhaveri: Just wanted to check in Slide #5 and you have given the breakup in terms of trajectory of HCG centers revenues, any comment that you would want and the decline in North India and Tamil Nadu centers which have been very sharp and in fact in Karnataka also where we have the biggest center also there the revenues are plateauing out there, any comments?

Niraj Didwania: Kashyap just to capture your question correctly, you are asking the reason for decline in the North India and the Tamil Nadu clusters?

Kashyap Jhaveri: And plateauing out of Karnataka.

Dr. BS Ajai Kumar: Regarding the North India as you know we have restructured Delhi so the revenues is not being shown and that is the reason we had taken a decision while we are building a new center in Delhi we have decided not to be in the old center, so that is a reason drop in the revenue in the Delhi structure. Now regarding Tamil Nadu, we have also decided to do the same thing in Trichy which is a small center and so the revenue is not being factored in now. So these are the two main reasons for the changes which have happened in the store. Now Karnataka as you see the Karnataka number and also as explained about the center of excellence and the margin, we are focused this time on more of the revenue mix and the margin and the quality as you see the

ARPOB is also increased. So our goal has been with lot of regulatory things coming in Karnataka particularly, there has been an issue in the Karnataka private medical act they are trying to pass, so where there is some issue in recovery of the funds from the scheme patients. So, wherever we are participating in the schemes, whatever we have decided to also not be there at least temporarily till situation and the recovery is good that is one. And the second is the improving the mix particularly in the Bangalore center where there will be focus on the sustainable business model we are looking at where we want the EBITDA margin as you see at sustained 25%-26% which is what we are focused on and as we improve the mix of the remakes I think that will sustain. So we are taken a decision for the quality of service and less number of ALOS as well as improved ARPOB, so that is why you see some changes. But having said that we are seeing as of now but then which is moving towards betterment of these numbers as we move forward.

Kashyap Jhaveri: Just wanted to check on the Delhi restructuring, when does the center come on stream now?

Niraj Didwania: Kashyap just to give you a clarity we had a center in Delhi which was an implant model which has been operational for almost more than five years and on March 31st that contract was up for renewal and given the situation and we have also announced a new center in Gurgaon. We decided not to renew this contract but we continue to provide services to the hospital. So there are two separate things, we are restructuring the center which we are now actively managing and in fact that is also taken out of our HCG center count and Gurgaon is a new center which we've announced and which will come on stream in the next calendar year.

Moderator: The next question is from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: My first question is more from a slightly longer-term perspective given our balance sheet is kind of in a fairly healthy shape, is there kind of a number in your mind in terms of growth rate either in terms of the hospitals that we have or in terms of topline or an EBITDA that you're more comfortable with and is there a reason that we can't grew at something around 25% CAGR is there a kind of thought through strategy behind that?

Dr. BS Ajai Kumar: Normally we do not give any guidance in terms of numbers. All I can say is we do expect our growth to be good and we are well-positioned particularly with our new centers coming in the premier areas like Mumbai and Delhi in the long-term we do see growth happening. As you know very well number of centers have opened, they are in different stages of growth including from Baroda to Vizag to Kanpur to Borivali and Nagpur. We expect all these things will take as we said a year or so to break even and then to mature to a level it is 3 to 4 years, so we expect good growth in all these areas and initial indications for this will happen.

Inderjeet Singh: Is that safe assumption or if you have any comments on that over a period of time hospitals irrespective of their locations for example Mumbai would be much more expensive real estate, oil should move towards the EBITDA margins which are enjoyed by the mature locations like

East India or Karnataka which you have been present for much longer, is that a safe longer-term assumption to make?

Yogesh Patel: From a maturity cycle of a hospital profitability that would be correct. Mature hospitals would want to and should make those profit numbers, so from that perspective yes.

Dr. BS Ajai Kumar: I think it also depends on whether it is Maharashtra or in Bangalore. It depends on how we structure the thing how we are working for example you are right in Mumbai the real estate will be high. We expect a little bit time but a long-term I think it will do very well. As we attract there becomes a center of excellence and attracts not only talent but good number of patients in that area. Mumbai we are one of the only private dedicated cancer centers, so this is how we kind of looked at a strategy and as well as real estate. Obviously if we do well but going to Tier II, Tier III cities of course they have the plus and minus too, so we have to factor all that in each centers who are we partnering, how are we doing.

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

Niraj Didwania: Thank you everyone for participation on the call. We are available off-line to have a discussion if required. Thank you so much for attending this call.

Dr. BS Ajai Kumar: Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Healthcare Global Enterprises that concludes this conference call. Thank you for joining us and you may now disconnect your lines.