"Healthcare Global Enterprises Q2 FY-18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HealthCare Global Enterprises Q2 FY '18 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. In case 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 from HealthCare Global Enterprises. 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's Q2 FY18 Earnings Conference call. Today, we have with us Dr. B.S. Ajaikumar – Chairman and CEO of HCG 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. Ajaikumar.

B. S. Ajaikumar: Thank you, Niraj, and welcome to everyone, all the participants. We are pleased to report Q2 FY '18 Results, with continuing strong operating and financial performance. Our vision to expand and create a pan-India presence is being implemented as planned. While our new centers are being launched, several centers have already achieved operational breakeven and are now contributing positively. Our acquisition in Nairobi opens up several possibilities for HCG to establish presence and provide comprehensive and quality cancer care centers to the large underserved market across Africa.

With respect to Maharashtra, which is of strategic importance and an attractive market, we see substantial increase in the presence through centers launched in Nagpur and Borivali in Mumbai area as well as upcoming expansion in Nashik. We feel our focused approach in both cancer care and fertility, with emphasis on quality of revenue and substantial margins, position us well for sustained growth.

Some of the business updates for Q2. Consummated acquisition of Cancer Care Kenya, a leading dedicated cancer care center located in Nairobi towards establishing strong HCG foothold in East Africa region; increased penetration in Maharashtra, a region of focus for the company; the Nagpur center operationalized and commencement of Borivali center in the quarter. Karnataka region strategy to focus on procedure and payer mix enhancement, delivering strong growth while maintaining high operating margins. Baroda center, launched in Q1 FY '17, achieved operational breakeven and continues to scale up.

At this point, I would like to request our CFO – Yogesh Patel, to share the financial highlights.

Yogesh Patel: Thank you, Dr. Ajai. Good evening, everyone. Highlights of our quarter performance. Our consolidated income for the quarter ended September 2017 was INR 2,111 million compared to INR 1,740 million in the corresponding quarter of previous year, reflecting a year-on-year growth of 21%.

Our consolidated profit before other income, depreciation and amortization, finance cost, exceptional items and taxes or in other words, EBITDA, was at Rs. 311 million compared to 254 million in corresponding quarter of the previous year, reflecting year-on-year growth of 22%. Our EBITDA margin, thus, stood at 14.7% as compared to 14.6% in quarter 2 of last fiscal. This remained flat despite the 2 additional centers operationalized in the quarter as well.

Our existing centers EBITDA margin, thus grew to 18.8% this quarter as compared to 17.2% in Q2 '17, with demonstrated steady and stable growth. Our consolidated profit before taxes, PBT, was INR 118 million as compared to INR 76 million in the corresponding quarter of the previous year. Consolidated profit after tax with a minority interest was Rs. 100 million as compared to 49 million in the corresponding quarter of the previous year. The PBT and PAT number item includes an exceptional item gain, which is investment in HealthCare (Africa) Private Limited, which was accounted under equity method of accounting as required under IndAS, which resulted in a gain of Rs. 64 million shown as exceptional items.

If you all could turn your attention to Slide #4 of the earnings presentation, the revenue grew 21% year-on-year for Q2, and the split of that between HCG and new centers grew by 22% for Q2 and 18% in first half, whereas the Milann centers were 13.5% year-on-year growth in the quarter and 16% for the first half of the year. EBITDA increased by 22.3% year-on-year in the quarter 2 and 23.5% year-on-year in the first half of this year.

With this, I hand over to Dr. Ajaikumar to share the operating highlights.

B. S. Ajaikumar: Thank you very much, Yogesh. I would like to draw your attention now to Slide 5 of the presentation. HCG centers contributed 92% of our revenue, and balance was contributed by Milann. For our HCG centers, we are growing pan-India basis and Maharashtra now contributing 8%, up from 3% in the previous year on account of growth and expansion in this region, which has happened within the HCG centers.

I would like to draw your attention to Slide 6 of the presentation. Continuing strong growth at several existing centers in Q2 FY '18: Hubli, 32% year-on-year; Cuttack, 21% year-on-year; and our Bangalore KR &DR 20% year-on-year. Maharashtra is scaling up on account of growth across existing centers in Nashik and new centers in Nagpur and Mumbai Borivali. Delhi center successfully restructured. Trichy center is in the process of being restructured. New centers contributed revenue of INR 31.4 crores in Q2 FY '18. Revenue from existing HCG centers, excluding centers being restructured grew at 18% in Q2 FY '18 on a year-on-year basis.

I would like to draw your attention to Slide 8 of the presentation. Nagpur, Borivali center and Hubli multispecialty, operationalized in Q2 FY18. 19.3% increase in occupied beds on account of new centers, offset partly by reduction in the ALOS. 5.9% increase in ARPOB, driven by focus on quality of business across the network, offset by lower ARPOB at new centers as expected. Continuing reduction in ALOS to 2.49 on account of trend towards day care procedures and changing patient profile. EBITDA margin from existing centers increased to 23.7% at the unit level.

Looking at key geographies in Slide 9. In Karnataka, increasing presence within the region and seeing revenue growth of 21.6%. Center of excellence delivered EBITDA margin of 28% at unit level, with ARPOB of INR 48,000, a 16% growth year-on-year. We are contributing our drive towards improving quality of business, patient and service mix. We are continuing to do that.

In Gujarat, Baroda center launched in the Q1 last year achieved breakeven, and Bhavnagar center is ramping up well. EBITDA margin of existing center was 15.7% for Q2 FY '18. In Maharashtra, Nagpur center launched last quarter was operationalised, and we have commenced our Borivali center. Existing Nashik center operating at high capacity is delivering EBITDA margin of 38%. In East India, improved procedure mix and efficiencies in operation leading to optimal occupancy, strong growth across the region.

Moving over to Slide 12. Our fertility business under brand name Milann, delivered 18.5% growth in IVF cycles and revenue growth of 16.1% for half year of FY '18 on Y-o-Y basis. We continue to focus on Southern region with growing presence in North and Western markets.

Now, I will request our CFO Yogesh to go into details of CAPEX and debt highlights.

Yogesh Patel: Thank you. Just to draw on highlights on a few of the balance sheet items, just draw your attention to Slide #12.

Looking at the capital expenditure table in line with our plans for expansion, we had a total CAPEX incurred of INR 629 million in this quarter. About INR 23 million went towards Milann center; and balance in HCG center. The total CAPEX spent in HCG centers out of that, the majority portion of INR 504 million was for the new centers being planned and rolled out. Our investment of another INR 186 million in HCG Africa is obviously not part of this CAPEX table, but there is some the additional investment was made during the quarter.

Looking at the net debt table, our net debt increased in the quarter to INR 4,207 million from INR 3,636 million in the previous quarter. This is pursuant to the investments in the capital expenditure plans which we have, being operationalized too.

I would draw your attention next to Slide #14 with respect to expansion of network. So we continue to have strongly focused on our execution plan. We already operationalized Borivali and Nagpur as Dr. Ajai highlighted. Additional 4 new HCG centers are planned in FY '18, which are listed there.

I would now hand over the call back to Niraj.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Sir, just want to understand that your project costs for Kanpur is very high because, there, you are not going on the rental basis. You have acquired land as well as purchased building and everything. I just want to know as HCG is focused on asset-light model like on lease and rental basis and also through partnership, what is the rationale behind acquiring the land or constructing the building in Kanpur?

B. S. Ajaikumar: Yes. As you know, you're absolutely right. Majority of the time, we would like to always not be a real estate owner. But there are times when our options are not there because we have a partner, the Regency Hospital who, on the partnership model, felt that we have to acquire the land and build it. So this is one of those instances where we agreed with our partner and build according to the agreement we mutually agreed on. But you're absolutely right; our model is more technology-driven model. We always like to rent freeze the real estate for long term. There are always exceptions.

Rashmi Sancheti: So you mean to say that because of the partner, you have gone and bought this land or building as per the agreement?

B. S. Ajaikumar: The partnership, we developed and they already were in the process of acquiring that land. So we felt that we should not disturb that and they're a very valuable partner; so we decided to make some small change and do it this way.

Rashmi Sancheti: Okay. But then it means that, it will take a long time to breakeven, right, this particular center?

B. S. Ajaikumar: We breakeven quicker. In fact, it's a real estate, we achieve EBITDA breakeven very fast because the rental component is not there. But ROCE may be we have to look at long term, but we believe Kanpur center will do well. And as we say normally, we see the maturity of the center in the third and fourth year, it should happen in Kanpur.

Rashmi Sancheti: Okay. And my second question is related to Maharashtra. In the presentation, it is given that your existing Nashik center's EBITDA margin is at 38%, which is amazing. So why the other centers are still in the range of 20%, 22% and why Nashik has given this exceptional operating margins? I mean, it is showing strong growth also as well as the operating margins are also pretty high.

B. S. Ajaikumar: Because right now, we are, as I said in my statement, we are also expanding there. So as we expand and because the requirement is more, we are expanding. And right now, the occupancy is very high. The turnover output is very high, but that is not sustainable. And once we have the second, third unit, and also we do more beds, we expect the margin to level off, come down, in fact. So our normal margins, as we have repeatedly stated, at unit level is in the 20s, in the lower 20s. So that is where our comfort level is. But now Nashik is an aberration, as I explained, it is because of the high capacity right now happening, both in radiation, chemotherapy and surgery.

Rashmi Sancheti: Okay. So you mean to say that in Maharashtra also, you are looking at such kind of margins, which includes Nagpur, Nashik, Borivali, I mean, your South Mumbai centers? Overall, what is the guidance on Maharashtra?

B. S. Ajaikumar: Maharashtra, we don't normally give guidance, but we think Maharashtra centers are ramping up very well. With the model we have used, both Borivali and Nagpur are doing well. I can't say whether they will be like Nashik. But definitely, we feel in Maharashtra, Mumbai, for example, in the private setup, we're the only dedicated cancer center. And we are in a very prime location in Borivali, so we expect to do well. And also, our South Mumbai project later on will open. Meanwhile, our Nagpur project with the strong partner we have is doing already extremely well. So we expect all these centers to reach our target of reaching a maturity state at third or fourth year. That is our goal. At the first year, breaking the EBITDA positive.

Rashmi Sancheti: Okay. But don't you think that in Mumbai because of the Tata Memorial and all, do you think that you'll be able to ramp up in a big way?

B. S. Ajaikumar: For us, we don't consider Tata Memorial as a competitor. Tata Memorial is a renowned hospital. It serves a certain section of the society and has been there for a long time. We have a very focused-factory approach, and we are a value-based health care provider. We are known around, not just in India but globally, as a value-based health care provider, where what we look at is outcomes, which are very important for us. So for us, technology, right multidisciplinary clinic outcomes, those are the things we focus on. And I think definitely in a place like Mumbai with a large population base, there is certainly a definite place for a dedicated cancer center in private. Because there, I don't think it'll affect them, and I don't think Tata being there will affect us. Mutually, it is beneficial for both centers because people don't have to travel long distance now, wait in Tata. Whatever it is, it's a great institution. But this alternative dedicated cancer, certainly we feel it is welcomed by the local population there in their driving area.

Moderator: Thank you. We have the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, what I would like to understand is if you're looking at the current numbers while it's pretty good in terms of growth, the margins have been a little lower than probably what one would have expected in the first quarter largely because of the new Borivali facility coming in. If you can throw some light on how, now that you are looking at another 3 to 4 facilities coming in over the next 2 quarters, how the margins are expected to be? And also, we have the share of profits, losses have increased, primarily I would assume because of the newer centers that have started. And also on debt, what could be the debt levels increasing because if I look at the CAPEX, we are looking at something like around closer to about INR 170 odd crores of CAPEX, which would be required from Nashik to now South Mumbai. So some color on that should be helpful, sir.

B. S. Ajaikumar: I will just comment on the margin, and I'll ask Yogesh to comment on the CAPEX. The margin, as you know, what I said in the opening remarks, we have pretty much maintained our margin for the group at the group level including the corporate cost at 14.6%- 14.7%. And our track record has been to maintain that in spite of new centers coming. And in the future also, we expect the margin to be maintained. And of course, as center matures, the margin will increase. As you saw, that our mature center margin is over 17%. So that is what we will see reaching close to 17% to 20%. So we have a set course. Our goal this year in a very programmed way, we set the goal, how long will it take to breakeven, EBITDA breakeven; how long will it take for the margins; and how the margins will happen over the few years and how the growth of the existing centers will mitigate those margins for the new centers. That is how we are functioning very successfully. And I think unless we don't see any great deviations from it, so we are quite comfortable the way it's functioning. Regarding the CAPEX, Yogesh, can you comment on that?

Yogesh Patel: Sure. So on the CAPEX, like we have these additional 4 centers to complete and launch in the near future, so additional invest goes in and investment obviously will be a combination of internal cash accrual and the drawdown of debt. Given the amount of CAPEX spending to go, I would think that in second half of this fiscal, our debt numbers should increase in the ballpark of INR 100 crores, I mean, could be north of INR 80 crores to 100 crores kind of a number.

Sudarshan Padmanabhan: Okay. And we have not drawn down the debt for the newer centers already? So the ones that you're talking about, those INR 80 crores to 100 crores are in addition to this number?

Yogesh Patel: Yes. So I mean, obviously, the debt drawdown would happen as and when the investments are ongoing. So some parts for those centers which are supposed to come in have already been incurred. The balance to go is what we have to draw down and read out the fund accrual.

B. S. Ajaikumar: And also, I just want to comment on the nature of the debt also. As you know very well, HCG always has had a vendor finance debt where there is no payment of interest principal for a few years, and then there is the bank debt. So what we do is a hybrid method. So we are very clear what is the serviceable debt and not. Accordingly, it's what the plans have done.

Sudarshan Padmanabhan: Yes, sure. Sir, with respect to the African subsidiary, I think we have made an acquisition over here. And overall scheme of things, still Africa remains a subpar in terms of contribution. I mean, over the next 2 to 3 years, I mean what is the plan that we have for Africa? Do we think that at some point of time, this region would be meaningful to us?

Gans Ganapati: So Africa, we have mentioned last time also we are very cautiously and carefully going into Africa. So after some consideration, this investment was made; and it was done with CDC participation as well. So I think what we have deployed now is we have made investments so far INR 18.6 crores is our capital investment and CDC has also made some investment proportionately. So we had actually booked a little gain, which Yogesh mentioned because there was a premium that CDC came in that. So I will say that at this stage, we are going cautiously, and I think the first center is a very important one for HCG.

B. S. Ajaikumar: I would like to add to that, that I don't know why you feel that Africa has not performed. We have just acquired it and we also faced elections in Kenya. As you know very well, there was double whammy there where the re-election was done again. There is some dispute. But in spite of that, I think it's a very well-run center and we want to use this center to create certain things around in Africa where there is a tremendous need as I said, nearly 1.2 billion populations. And if you exclude South Africa and Egypt, still countries like certain, East African countries like Nigeria, which has pretty much nonexistent or very few cancer centers. So we feel that there is a phenomenal need, and we are well positioned with having acquired this center in Kenya. And also for our, as you know, Bangalore is a medical destination. We do see a significant number of patients coming from East Africa. And with this, we will continue to see the same or more. And certainly, we feel this will certainly add to the revenue of our Bangalore and possibly Ahmedabad and as we now open the center in Mumbai, it will contribute to that.

Moderator: Thank you. We have the next question from the line of Fiona Chan from Buena Vista Fund Management. Please go ahead.

Fiona Chan: My first question is can you please comment on why IVF EBITDA margin and IVF realization have fallen?

Niraj Didwania: Hi Fiona, we have launched some new centers in IVF namely Chandigarh and Mumbai. So at the start, generally, in these centers, we may not have the full services like additional endoscopy, laparoscopy and other services that we do. So we may just start with only IVF. So as the center matures, more and more additional high-end services get added and then the realization will be seen going up. So it is because of that.

Fiona Chan: So how long do you think it will take to reach maturity?

Niraj Didwania: So similar to our cancer model, roughly around 12 months to 24 months is the range in which IVF center will ramp up.

Fiona Chan: Got it. And my next question is, has there been any impact from GST implementation? And are there any adjustments you should make?

Yogesh Patel: So GST, since it's gone live, there has been an impact in terms of the tax rate for the services which we purchase, has gone up. There were certain offsetting elements also where certain products, which we could not earlier offset with service tax itself. Now you could do it in GST regime. So from that perspective, it had not been substantial. But whatever is the impact has already been included in this quarter's results item for the period. No additional adjustment need to require for GST.

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

Chandramouli Muthiah: So my first question is on an announcement I think the company made a few days back regarding a potential equity issuance. So I am just wondering if you could give us a little bit of perspective on the issuance and how or what it could be used for?

B. S. Ajaikumar: Yes, we did not solicit any potential preferred issuance. We got a letter requesting that thereafter we consider, and we did consider in the board. And at this point, we have informed the exchange that we have more information from the potential investor. So at this point, I cannot make any further comments on this.

Chandramouli Muthiah: The second question is just a slightly broader health care question in India. I think we've seen a lot of price capping for consumables in healthcare in India. So I'm just wondering as the leading cancer player in the country, what do you think about this?

B. S. Ajaikumar: As we all know, there has been certain moves by the government, socialistic moves, to bring some price control. We don't think price control has ever worked in any country. But in their own wisdom, they want to do. But at this point, all I can say is being an oncology player; the main issue has been with certain drugs, what they call as essential drugs where they have brought down the maximum retail price. But I think we have in our way managed, with centralized pharma purchasing and look at pricing, it has not affected us significantly. And maybe, Yogesh, would want to comment on that any further?

Yogesh Patel: So in terms of controls on prices, it's been for some time in our field per se. So we kind of have been taking impact on a year-on-year as gradually new molecules or new brands come under price control. Hence, thereby, standardizing the formulary or having better negotiation is what where we have our risk mitigations for these increases, which would come in.

B. S. Ajaikumar: And their idea is about stents and all. As you know, oncology is not much affected as of now. Our multispecialty hospitals have been minimally affected at this point. Bharat, you want to comment on that, any change? Bharat heads our multispecialty section.

Bharat Gadhavi: Overall, the stent, there is a cap on the price. So that has definitely impacted the top-line. And bottom-line, there has been some effect, but not much.

Chandramouli Muthiah: Okay. And just a couple of final ones before I get back into the queue, with your permission. It's on Borivali. I was just wondering what percentage of the total 105-bed capacity have you opened at this stage?

Bharat Gadhavi: It is about 60% to 65% of the total beds available.

Chandramouli Muthiah: And that goes for Kanpur and Nagpur as well, the other 2 facilities opened recently, around similar percentage?

Yogesh Patel: Nagpur is close to 60. Kanpur is...

Bharat Gadhavi: 60% of the Kanpur, right.

Yogesh Patel: All-in phased ones are almost of the same percentage.

Chandramouli Muthiah: And just the last one, related to debt. I think the question was asked earlier by Sudarshan. Just on interest expense. I think a few quarters back, you'd given us a comment that INR 22 crores is the rough annual run rate that you're looking at on interest expense. Just looking at first half of this year, it looks like at the moment we are tracking at about INR 17 crores. So I was just wondering if there's some upside to the interest expense outgo in FY '18?

Yogesh Patel: Sorry, but I don't think given our debt numbers you would have seen there, average cost of debt, even if it's on average 10%, I don't think that number which you mentioned could be, in our case, annual debt at least in this year or at least near future. Hence not able to relate to that point, but the interest what we have booked is what relates to the borrowing we have. And at the same rate, the interest will increase if the borrowing increases as well.

Chandramouli Muthiah: So I think this quarter we've booked about INR 10.5 crores in interest expense. Is that a good run rate to roll forward for the rest of the year on a quarterly basis?

B. S. Ajaikumar: Yes, this fiscal that will be right.

Moderator: Thank you. We have a follow up question from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: I just have one more housekeeping question on the tax rate. So we've seen tax rates between 35% and 38% in the recent past. This quarter, it looks like the absolute tax outgo is much less than the previous quarter. I think in the first quarter, we had about INR 36 million in tax outgo. This quarter, looks like INR 30 million. So I was just wondering how to think about that going forward?

Yogesh Patel: So the effective tax rate should be in 35%, 36% range. Last quarter, it was explained there were certain deferred tax assets, which had to be restated per se and hence, we had a higher percentage. It obviously changes with a mix of losses, which goes to minority interest partners. From that perspective, that number would be 1% or 2% difference, but it should be in the range of 36% in the year.

Moderator: Thank you. We have the next question from the line of Harith Ahamed from Spark Capital. Please go ahead.

Harith Ahamed: So the new HCG centers from where you have reported around 30 crores of revenues this quarter. So I'm just trying to understand what could be the potential annual revenues from these new centers at full maturity? Is there a ballpark figure that we're looking at, at maturity, let's say, 3 to 4 years of operations of each of these centers? What are the potential revenues that these centers put together could generate for us?

B. S. Ajaikumar: Normally, we don't give any guidance on the numbers. So all I could say is, like I said in the opening remark, they have done well and they are ramping up well as per our expectation. We normally breakeven in the first year. So we do see growth happening in the region of 20%, 25% annually, it can happen. That is the growth expected. So there is a potential and the maturity state reaches in the fourth year or so. That is what we expect.

Harith Ahamed: Okay. And is there an asset turn that we are targeting? Or as a general rule, is there an asset turn that we can look at a 3- to 4-year maturity cancer center?

Yogesh Patel: So once a center is mature, it would turn in 1.3x to 1.5x asset turn. And matured center, we usually term it around 5 years of operations.

Moderator: Thank you. We have the next question from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhary: One question on the Baroda hospital. Actually, when I look at your other hospitals, they have broke-even much quicker than Baroda. So was it in with your expected line? Or it is earlier or a bit delayed? How do you read in that?

B. S. Ajaikumar: The Baroda center actually ramped up good revenue as well as broke even the first year itself. So it is in line with our expectation and keeping. So I don't think there's any difference from what we expected on Baroda.

Bhagwan Chaudhary: Okay. And as of now and the next 2 quarters, we are having 3-4 more centers to come into play, there will be OpEx and further pressure on the margins and though you have explained very well that the mature center will take care of that. But after that, what do you think? Do we have more same kind of projects in the pipeline where every quarter there will be one project? Or do you think that, first you'll consolidate at this level and then you would like to expand it further?

B. S. Ajaikumar: At this point, whatever centers we have given out are the ones that are in the pipeline. And in future, of course, as you know very well, it takes quite a bit of time to envision a cancer center and do and we will have by the end of that nearly 24, 25 centers and also the fertility center. So we look at possibly some consolidation within us in taking all the things, see that the centers become fully mature, capacity utilization. But wherever we find that, that there is something we go along and find that some center we can do, depending on the partner and the location, we'll also keep an open mind. But at this point, I think we have ramped up very well. We certainly want to consolidate and look at bringing the centers to capacity utilization.

Moderator: Thank you. We have the next question from the line of Hitesh Mahida from HDFC Life. Please go ahead.

Hitesh Mahida: Sir, one thing, there has been recently a lot of adverse regulations by the Karnataka government in terms of doctor fee cap and all. There was also a strike a couple of days ago. So what do you think can be an impact on your business? And how do think these things will shape up?

B. S. Ajaikumar: Yes. We are all getting involved in this KPME Act, quite deeply, in fact. I am quite active in this and we know the Act very well. We have had several discussions with the government, with the standing committee and the entire IMA, Indian Medical Association, all the doctors' association, hospital association are unequivocal in that opposing this rule for 2 reasons. One is, they're saying that there will be criminal, some penalty that patient' grievances issue locally at local bodies. So all these are, we believe, are not right. And also, we feel that legally also, some of the price control they're talking loosely about will not stand legally. But meanwhile, we have had discussion with the Health Secretary, who is new, who is very much opposed to this. Unfortunately, he is new. And in our discussions, he has clearly indicated that these things will be not implementable for years to come because of the way it is worded in terms of looking at the price, the location and what is the cost for each procedure. So it requires years of work. So his feeling was very clear that it will be diluted so much, it may not be put into effect even though it is there. And also there is IMA is talking about legal challenge. So I don't think in the near future, it has any impact on us. But even in future, the way it is being structured and worded, possibly not much to us. So that is the feeling we have. But at the same time, we are all, in a united way, at least conveying the message that this will not is not be acceptable. It will hurt actually the patients who seek private health care. And being an election year, I think the party also has to be cautious. So we don't know which direction it's going to go, but doctors definitely are doing their job in terms of opposing this.

Moderator: Thank you. We have the next question from the line of Vatsal Gupta from PPFAS Mutual Fund. Please go ahead.

Vatsal Gupta: I have a bigger-picture question, as you're trying to understand the business operations better. So when you talk about precision medicine predictive analysis, what kind of tools or techniques are we using? And how confident are we in the success of those? I see that we have initiated the NGS lab and biorepositories, but is it like an IBM Watson like data crunching? Or what is it like?

B. S. Ajaikumar: Yes, IBM Watson, just to take a step back, is about analyzing the case histories of patients. For example, they used the #1 hospital in New York, Sloan Kettering, and based on the multiple charts and the outcome, they try to predict what could be the protocol to treat a particular patient. But it has not been accepted. As you know, MD Anderson recently, walked out of this IBM Watson because it didn't see any benefit. So what we are doing is, predictive analysis, NGS is if I can take a moment, sorry, I can take longer for this, but I'll try to compress it in few minutes, is when a patient with cancer comes, let us say 2 patients, and both of them have breast cancer, both of them have similar pathology, why is it somebody responds to the protocol, why is it certain patient doesn't? This is called evidence-based medicine. So certain percentage of them will not respond. So we are looking at collecting data on those. We're already working on the data of the non-responders and creating a biorepository whereby, as we do the gene analysis and look at the future new actionable genes come, we can go back and say, why is this patient not responded? And even today, by NGS, we can predict, which is the actionable gene which is making sure that they don't respond to this drug. And because of that, it's quite possible we maybe have to get a drug, which is not in the protocol, which may be highly effective. Recently, I saw a patient with extensive bone metastasis and regular protocol didn't work. We give him a very simple alternative, which is actually tablets, and he went into complete remission, based on the genomic analysis. So this is where I think precision medicine will come in working towards highly what we've been calling in the past as personalized medicine of precision. So the target will be treated. I think that will be the future of cancer care. As more and more we identify, like recently we had identified for pancreatic cancer genes, I don't know whether you saw in the news and those genes if they are expressing, we can target pancreas, we can even detect early that who is going to get pancreatic cancer and take lot of preventive measures. Similarly for lung cancer, we have got a number of genes. In future, for example, smokers, certain gene may be expressing, we can identify and treat. So they can stop smoking and they may not get cancer. So it is a field, which is obviously revolving, and we're all excited about this, and I think it's going to make a huge difference in the outcome of cancer patients even in advanced cases.

Moderator: Thank you. We have the next question from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.

Amit Kadam: Sir, my question is on like this particular GST part. Since we had to pay GST on most of the service providers, were we able to pass on the kind of impact in terms of pricing? I just wanted to understand how much we were able to pass on? Or was there a flexibility to pass it the entire impact to incorporate in our business model as such?

Yogesh Patel: No. So since GST was middle of this calendar, I mean, with GST getting implemented, there has been no impact on prices for GST per se. GST, however, the way it has to be looked at, is combination of the erstwhile service tax and VAT combined, which now comes together. So there was, obviously, some amount of hedge where you could get service tax and VAT component set off against each where we had an output on pharma where VAT comes in. So that's what the advantage or the set off was available. Other than that, price increase-wise, no price increase because of GST taken right now.

Amit Kadam: Okay. So will there be any impact as such in future when the entire thing gets rolled out across centers?

Yogesh Patel: I guess long term the GST itself has to play out to not be inflationary. So entire ecosystem if it gets implemented properly, we should see that the prices across the distribution channel gets evened out and the burden on end customer doesn't come. And if there's no burden, then we obviously will not have any price impact as well.

Amit Kadam: So once it gets properly, like, after a year or so, do we see for a business like us, actually going ahead and reducing prices because of the benefit of the GST?

B. S. Ajaikumar: Like I said, I mean, if there was a minor impact or any change, we've not taken an impact or price change because of GST. I mean, in long term, if you were to see, at any point in time you would look at total cost and cost of delivering a service. It's a pretty complex matrix the way health care pricing works. So if it gets decided, it would not again be because GST led change per se.

Amit Kadam: Okay. And my second question is on this, after we have another 4 centers getting commissioned in the next 6 months or so and then we try to consolidate the business in terms of number of beds and centers. Then what will be the next driver as such? Whether like taking a price hike and growing by only on the nominal term will be the key parameters?

Yogesh Patel: So I think the first step, obviously, will be to make sure that these centers scale up or operationalize more efficiently. So the whole cycle of the business model itself is we spent first 12 months to 18 months of this quarter in trying to get a center back to at least EBITDA neutrality, I mean, EBITDA breakeven. And from there, it scales up to as it gets to matured level. So the entire focus would be on operational efficiency. Ajai, if you want to add?

B.S. Ajaikumar: Yes, I just want to add one thing. See, as it is now, we see 55,000 new patients with the centers. And the centers ramping up and new centers opening, we expect in the next few years to see close to 90,000 to 100,000. So it's a very good growth for this and there's a need. So we feel that operationalizing it, the quality maintaining, and putting a lot of systems in place is what is going to happen. So there will be enough growth. But as we said, we used a partner model. If we find a right partner who is willing to work with the right place, we will certainly look at this and certainly explore these opportunities wherever comes across. And we will be also exploring good opportunities. So that is our mandate anyway, to continue to look at areas where there are needs for cancer care or fertility care.

Amit Kadam: Okay. And sir, my last question is that, once we complete this ongoing CAPEX, is there any plan tomorrow, the incremental capital will be more towards which kind of a geography? Are we still seeking more opportunity outside India?

B. S. Ajaikumar: No, opportunity is not just necessarily outside India. We also have a lot of opportunities, for example, in India itself. For example, we don't have presence in Punjab, in good part of North India and certain parts of northeast. So there are opportunities. At the same time, as I said before, we are anchoring that center we took in Nairobi to develop some centers with CDC as our partner. So certainly, we will be looking at these opportunities. Regarding the CAPEX, at this point, what we have looked at is the existing centers' CAPEX requirements. But as we expect our profitability to increase, our EBITDA to increase, obviously when we have free cash flow also, we'll be looking at where is the next opportunity for us.

Amit Kadam: But then the international operation or like is still on the cards, right?

B. S. Ajaikumar: Yes. That is, international operation, Africa, is still on the card, other areas. As we said, we are very cautious and we will need to deep dive into it, study, and make sure that, that is the right partner, right way of going, and where the need is. So we will be looking at those. Having established one center, it is giving us lot of first-hand information on this and understanding internationally how it works, which will be a great plus for us going forward.

Moderator: Thank you. We have the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: On the Milann platform, where are we in terms of stabilizing the platform versus the oncology set up? We've had a relatively muted growth in this business. Do you see acceleration in growth in this business? And how do you see this business actually playing through over the next 3 to 5 years?

Niraj Didwania: Yes. So where we stand in IVF business is, we were Bangalore region focused and we continue to see growth in that region per se. We have ventured out in other geographies recently, and so Delhi, Chandigarh and Mumbai where we have made inroads and these are early stage centers right now. There is a plan for an Ahmedabad center launch. There are few other centers that are currently in the works. And the right time, once we commit to them, we will also share that pipeline. So we remain positive. There is a huge opportunity in a region like Bangalore where we have 4 centers; we still continue to see more opportunity here. So apart from this quarter, really where we didn't have too many centers opening, I think we are on a good growth trajectory here.

Nitin Agarwal: And on the high-end diagnostic bid that you also referred to in the past. I mean, how should we look at that business as in terms of how we're looking at it going forward? What kind of opportunities do we see for that piece? And what capability sort of differentiates us versus other people in the landscape?

B. S. Ajaikumar: In high-end diagnostic, what we have right now is within our system. We really don't have, except one center; we don't have really a freestanding diagnostic center. We're looking at the molecular diagnostic division, the lab expanding. And those things we're working internally to see and including us. I spoke about the NGS. And of course, our PET scan is all associated mostly with hospitals, with our oncology centers, except one center in Mangalore, which is independent. So we are looking at high-end diagnostics related to oncology and we said like predictive analysis. We do see that possibility of expanding outside of HCG is there. And we are internally working on that to see how we can and also add fertility...

Bharat Gadhavi: The high-end diagnostics, NGS has applications across the spectrum. So we are very actively looking at various ways to expand the next-gen sequencing and molecular diagnostics, including fertility, by the way, where there is a huge demand in various areas of fertility, reproductive medicine, pediatrics etc. So we are expanding that also in oncology, of course, and other areas also of late.

Moderator: Thank you. We have the follow-up question from the line of Fiona Chan from Buena Vista Fund Management. Please go ahead.

Fiona Chan: I wanted to ask, the interest rate seems to have increased. Could you guys please comment and give some outlook? Is the increase due to financing mix?

Yogesh Patel: Yes, so Fiona, the interest quantum has increased because our borrowing overall has increased. And on our debt portion, there are 2 elements. One is the bank debt borrowing; and second is, vendor finance or a deferred payment obligation there. The deferred payment obligation, vendor finance being overseas funding, there was much lower, I mean, basically a U.S. denominated rate, LIBOR plus, so it's much lower rate. Mix of change between bank debt and a deferred payment or vendor finance would create the differential interest rate, but that's not changed too much. It's our interest quantum, which has increased in line with the increase in borrowed amount.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Niraj Didwania for closing comments. Thank you, and over to you, sir.

Niraj Didwania: Thank you, everyone, for active participation on the call. We are available offline to have any discussion. I would like to hand over the call to Dr. Ajai for his concluding remarks.

B. S. Ajaikumar: Thanks, Niraj, and thanks to everyone for participating. As I said, we are focused on building on our leadership and strength in oncology and fertility and increase footprint across India, Africa, and opened up new centers where we remain cautiously optimistic. The cancer care is moving towards precision medicine, as I said, and presents, I believe, a significant opportunity for HCG. And we'll continue to explore this and grow as I've indicated. And thank you very much for all your support, and thanks for participating. Thanks again.

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