"HealthCare Global Enterprises Ltd. Q3 FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, Good day and welcome to the Healthcare Global Enterprises Limited Q3 FY19 earnings conference call. I now hand the conference over to Mr. Niraj Didwania – Head, Corporate Development & 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's Q3 and year-to-date FY2019 Earnings Conference Call. Today, we have with us Dr. B. S. Ajaikumar – Chairman & CEO of HCG along with the management team to share highlights of our business and financials. We have uploaded an earnings update presentation to stock exchanges and also shared the same through our mailers. Without further ado, I handover the call to Dr. B. S. Ajaikumar.

Dr. B. S. Ajaikumar: Thank you Niraj. Once again warm welcome. We are happy to report Q3 FY19 numbers driven by strong execution while focusing on consolidation in a dynamic healthcare landscape. Performance of our core Oncology business is on track. The existing centers are ramping up across all regions with improving return profiles while the new centers are geared to achieve break even. All the new projects are nearing completion, and with South Mumbai and Kolkata centers are being operationalized in the coming quarter, we will be consolidating our position in Oncology market. HCG is well poised to realize yields from these substantial investments made over the last few years. Overall, we are excited about executing our strategy of pan India leadership in healthcare specialties with focus on execution driving value creation for all our stakeholders. The business updates for Q3 FY19 are as follows. Maharashtra continues to demonstrate ramp up: over 10,000 new patient registrations and 100 radiosurgeries completed for the region in FY19. Nashik phase II fully operationalized with growth in patient volumes. Strong up-tick in Borivali occupancy levels and new patient registrations. Continued reduction in losses from Borivali and Nagpur new centers. Strong revenue growths with margins expansion across Gujarat. Existing Ahmedabad centers show margin up-tick of over 300 basis points YoY. Baroda center continues over 30% revenue growth on YoY basis. East India margins improve over 300-basis points YoY on back of improvements in patient mix. Strand Life Sciences completes acquisition of Quest Diagnostic India business to focus on driving synergies while augmenting wellness, specialized diagnostic and research business opportunities. At this point, I would like to request our CFO Srinivasa Raghavan to share the financial highlights.

Srinivasa Raghavan: Thanks Dr. Ajai and Good evening to everybody. The highlights for the quarter: Consolidated income from operations was INR 2,488 million as compared to 2,063 million in the corresponding quarter of the previous year, reflecting a YoY increase of 20.6%. Operating EBITDA for existing centers was INR 337 million as compared to INR 309 million in the corresponding quarter of the previous year reflecting an operating EBITDA margin of 17.5% as compared to margin of 18.5% in the previous year. Loss from new centers was around INR 48 million as compared to a loss of INR 48 million in the corresponding quarter of the previous year. The operating EBITDA was INR 289 million as compared to INR 261 million in the corresponding quarter of the previous year reflecting a YoY increase of 10.9%. Consolidated PAT with a loss of INR 62 million as compared to a profit of INR 32 million in the corresponding quarter of the previous year.

I now request your attention to slide 4 of the earnings update presentation. Q3 FY19 revenue grew 20.6% YoY. In that, HCG centers grew by 22.1% and Milann centers by 2.7%. Q3 FY19 operating EBITDA: Existing centers INR 337 million, 17.5% margin versus 18.5% margin in Q3 FY18. News centers loss of INR -48 million versus a similar amount in Q3 FY18. YTD FY19 revenue grew 18.5% YoY; HCG centers by 20.3%, Milann centers negative 2.7%. YTD FY19 operating EBITDA: Existing centers INR 1,048 million, 18.4% margin versus 18.3% margin in YTD FY18 and the new centers loss of INR 119 million versus loss of INR 69 million in YTD FY18.

I now request Dr. Ajaikumar to share the operating highlights.

Dr. BS Ajaikumar: I would now like to draw your attention to slide 5 of the presentation. Revenue split for our business is 93% contribution by HCG centers and 7% by Milann fertility centers. Within HCG centers, western India comprising of Gujarat and Maharashtra contribute 44% of the total revenue followed by Karnataka at 37%. Andhra Pradesh is 7% and East India is 7%. Tamil Nadu contributes 4% and North India contributes 1% as of Q3 FY19.

I would like to draw your attention now to slide 6 of the presentation. Strong growth continues at several existing and new centers in Q3 FY19. Vijayawada growth 72.6% YoY, Nashik 79.5% YoY, and Baroda 31.6% YoY. New centers contributed revenue of 53.3 crores in Q3 FY19. Revenue from existing centers: HCG centers grew 16% in Q3 FY19 on YoY basis.

I would like to now draw your attention to slide 8 of the presentation. ARPOB for existing centers at INR 36,275 as against 33,667 in Q3 FY18. Continuing reduction in ALOS to 2.23 on account of trend towards daycare procedures and changing patient profile. Operating EBITDA margins improving with scale up of new centers. Existing centers operating EBITDA margin improved by 85 bps to 23.2 in Q3 FY19 from 22.3 in Q3 FY18.

Looking at key geographies in slide 9, Karnataka region continues its focus on improving realization parameters. The Center of Excellence ARPOB of INR 53,700 with a 25.4% operating EBITDA margin. YTD COE ROCE has improved from 22.6% to 24.5%. Focus on margin and returns optimization across region. With respect to Gujarat region, strong occupancy and revenue growth with stable ARPOB. Growth across existing and new centers in Oncology and multispecialty. EBITDA margin of existing centers at 20.8% for Q3 FY19 from 16.6% for Q3 FY18. In Maharashtra, strong growth at Nashik center with EBITDA margin at 19.8%. Borivali and Nagpur new centers ramping up with continued reduction in losses. In Andhra Pradesh, strong revenue growth, occupancy increase, and ARPOB dilution driven by consolidation of partner's business in Vijayawada. In East India, EBITDA margin improvement of 370 basis points across the region driven by improvements in patient and procedure mix.

Coming to slide 10 covering key highlights of Milann fertility business, revenue growth is now 2.7% positive versus 5% degrowth in last 2 quarters. Revenue degrowth curtailed through strategic initiatives. Whitefield center in Bengaluru ramping up well. Mumbai center exited.

I now request Srini to explain the CAPEX and debt highlights.

Srinivasa Raghavan: Thanks Dr. Ajai. I would like to draw your attention to slide number 12. With respect to the CAPEX table, we are nearing the last leg our expansion plan. Total CAPEX for the quarter was INR 424 million with majority of that in HCG centers, a nominal investment of INR 5 million in Milann. With respect to net debt, we closed the quarter at net debt of INR 5,975 million. Vendor Finance comprises of INR 1,660 million as on Q3 FY19. I would like to draw your attention to slide number 14. In the current year, Kolkata and South Mumbai are slated to launch in Q4. We will update project status of Gurugram and Kochi in coming quarters. We are not expecting any new centers for next 3 quarters. We do not have any more committed new centers for Milann. I would like to now handover the call back to Niraj.

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

Moderator: Thank you very much, Sir. 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: Just want to understand more on the EBITDA margin front. You said that it was a strong margin in Ahmedabad and East India. If you can throw more light on what were the reasons behind it, whether it was only ARPOB which has increased or there are some other reasons also behind it. And my second question is on the existing centers. The margins have actually slipped in the quarter YoY. So, what was the major reason behind that and what could be the sustainable operating margins on the existing center front for the entire year?

Niraj Didwania: As we have said in our press release, in Gujarat, we are seeing margin improvement in existing and new centers and across Oncology and multispecialty. So, that is what has led to the revenue growth with margin expansion. So, that region and businesses there are doing well for us. With respect to East India, we have in the previous quarters also updated that we are focusing on a patient mix improvement, a payer mix profile, and so that is slowly starting to show results, and we are at a decent 10% year-on-year growth with a substantial marginal improvement there. That is the efforts we have taken and that's delivering results.

With respect to the existing centers, if you see from a pre-corporate and HCG centers perspective, those margins have actually improved for existing centers by 85 basis points. The dilution overall for Q3 has happened on 2 counts; one is that Nashik last year was at a supernormal profit which has now been normalized with the new center operationalizing and some cost coming there and there is a small difference in the Milann existing centers. Those are the 2 reasons for dilution.

Rashmi Sancheti: And sustainable operating margin for the existing centers would be?

Niraj Didwania: I think the sustainable margin will be what we have achieved in the 18% in post-corporate expenses. All of this what we are quoting is post-corporate expenses.

Rashmi Sancheti: If you can explain the patient profile mix currently in East India after the improvement? How much would be the corporate and how much would be the governmental, (institution) share?

Ashutosh: Our government mix currently is about 42% of the total revenue. Our non-government mix primarily is increasing both in TPA and corporate. So, overall 46% to 48% is our non-government business mix. We are seeing a good increase in corporate and TPA business.

Moderator: The next question is from the line of Sudarsan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarsan Padmanabhan: Sir, my question is on the P&L side. When we look at the cost on a quarter-on-quarter basis itself, I am seeing a sharp cost in the medical consultation charges to the doctors. In fact, it is a 5 to 6 crores kind jump in a quarter where your top line has not really moved much. Is there any one-off over here or have be increased the incentive to the doctors?

Niraj Didwania: One of the things is, Sudarsan, Rajkot is captured for the full quarter in Q3. So, that is a slight increase if you are talking on quarter-on-quarter basis. That's what your question is, right?

Sudarsan Padmanabhan: Yes, it's an increase by about 5 to 6 crores quarter-on-quarter basis. I am just trying to understand whether have we increased the broad base or is it because any one-offs or any new centers which has basically come in? Just trying to understand the difference and how is it being split into?

Niraj Didwania: I think mostly it is broad-based increase, Sudarsan. I don't think there is any one-on-one. We can further look at it and clarify for you.

Sudarsan Padmanabhan: How much of the jump would be because of Rajkot being operational for the full quarter?

Niraj Didwania: Is it about the medical consultancy, Sudarsan?

Sudarsan Padmanabhan: Yes, the medical consultancy charges that has moved up to 57 crores from 51 crores. I am just trying to understand why there is such a big jump in the cost?

Niraj Didwania: We will look at that and get back, Sudarsan, to you.

Sudarsan Padmanabhan: My second question is, if I am actually looking at your centers, we have been expanding the ARPOB across the centers. Barring probably Andhra Pradesh, most of the centers the ARPOB has increased, especially in the key ones. I am trying to understand why there is a drop in margins and even if there is a strong growth or profitability of Nashik in the previous year, excluding that, what could be the margins. How are we looking at the margin for the existing centers?

Niraj Didwania: Yes, you are right. Majority of the time we have been around 18% and if you look at it historically, we have grown, margins have increased year on year to this 18.5% or so. Now, last year one of the contributing factors was as Niraj suggested that the Nashik, even though it is a major expansion, more beds coming in and all, we have still included it in existing centres. Normally a center like that would have been put under new center, but we just included that in our existing centers even though it was a very big expansion. So, what has happened that the margin from higher 20% came down to 19.6% because of that and the significant drop considering the Nashik center being one of the big centers for us. So, that has contributed to this and also slight contribution about 0.5 or 0.6 from Milann, obviously their margin has also dropped. So, I think the combination of the two has been, but we do believe it is a temporary thing. It will come up to this level.

Niraj Didwania: Also, pre-corporate just for HCG, it has gone up by 85 basis points, Sudarsan. For HCG centers on a pre-corporate basis, it has still improved by 85 basis points.

Just to answer your previous question, Four million for the quarter medical consultancy from the Rajkot.

Sudarsan Padmanabhan: I think if you can get back on this with more color during the call, that should be good. Apart from that, as we move to the 4th quarter, we are almost done with our CAPEX. We are probably in the last leg and incrementally what is going to be added would be like 80 beds on a very high base. So, the impact might not be very huge. What I am trying to understand is as we move to the 4th quarter and going further from here,if you are looking at the losses, the losses have more or less formed a base of that 4 to 4.5 crores, and from here these losses are only going to start contributing. So, from here, where do we see, if you are looking at this 18% to 18.5% margins being consistent, and from where do we see from this 4.5 crores or 4 crores loss a quarter, where do we see the losses from the new hospital breaking even and then moving to the profit zone. And if you can also throw some color with respect to the debt because now that most of the CAPEX is being done, I think you had earlier highlighted that at best it would be about 600 crores of peak debt. Over the next 12 to 18 months, how this debt will start coming down?

Dinesh Madhavan: If you look between our ramp up from Q2 to Q3, we look at the Mumbai centre closer to Q4 exit or early Q1 reaching to a steady level of break even and probably in Q2 of next year would be the case of Nagpur, which is in plan with what we are aiming at and what we have been maintaining. So, those are the 2 big centers which currently acts as a bleed.

Dinesh Madhavan: Jaipur is operational for the past 6 months. We see Jaipur another 3-4 months' timeline to break even and then moving more into the profit zone.

Dr. BS Ajaikumar: On the debt point, Sudarsan, if you see the Quarter-3 numbers, despite 42 crores of CAPEX investment, my debt has gone up only by about 15 crores. So, that's the clear demonstration that most of my CAPEX is getting funded by my internal approvals. In Q4 also, we expect about a 40 crore of capital expenditure to come on board, and from Q1 onwards, you can start seeing tapering of some of the debt numbers in the coming years.

Sudarsan Padmanabhan: Just to clarify, as we move to 4th quarter, you have talked about Mumbai breaking even, losses from Nagpur becoming much lower, Jaipur also moving to a break zone, and the 2 new centers, would that actually mean that the losses despite of the 2 new centers can actually come down on a Q-on-Q basis from the 4.5 crores? Would that be a fair assessment?

Dr. BS Ajaikumar t: These centers as they become positive, we are going to have the operations at the South Mumbai.

Management: You are talking very specifically on Q4, right?

Sudarsan Padmanabhan: I am just talking about Q4 specifically because you are looking at 3 centers more or less breaking even or becoming much better and 2 small centers being added.

Management: Correction. The Jaipur, he was talking about Q2 to Q3 of next year because it is the center we just got functional just about 3-4 months fully and then we have Kolkata sticking in next year which will have some bleed. From current set of centers which are already functional this year, you will see Nagpur getting into a break even in Q2 of next fiscal and Borivali between Q4 of this fiscal and early Q1, to answer your questions. So, you won't see everything coming into Q4.

Sudarsan Padmanabhan: Sure, but we should be able to improve the margins from the existing and the new centers? Probably in the next couple of quarters?

Management: Certainly. These new centers, Sudarsan, as we all know will not have an impact on the existing center margin. The existing center will have its own thing. Improvement in Milann and improvement in Nashik these areas we are looking at reaching back to that 18.5% but the new centers' contribution will only come at the end of 3 years. Reduction in losses is expected in Q4.

Moderator: The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: I just wanted to understand the margin profile evolution as we look at the exit from this year and FY20. If you concede that the margins for the steady state hospitals or the existing centers have stabilized at current levels and to some extent peaked, then what are the big drivers for margins from an FY20 stand point?

Dr. BS Ajaikumar: I think the big driver is the new centers. As we discussed just before, as they become positive, obviously at the overall enterprise level, they will improve the margin. At the existing centers also, if there is a change in the mix, it will improve going towards 2020. So, the overall even the growth as we are expecting also as it happens, we believe, in answer to your question if I can go back and look at the unit level margins, for example, our unit level margins are at over 20% which is by any standard the highest in the industry, being in the low 20%; 22% to 25%. So, our contributing factor to that is the corporate expense. As our corporate expense percentage is likely to go down or remain stable, that will contribute possibly to a better margin as we go along and also some of the new centers coming into the existing centers.

Anmol Ganjoo: It would be helpful if you can just quantify this for us going forward in terms of a bridge now that the existing centers' margins have peaked, what is the evolution of your various loss making centers and when do they break even and what does it mean in terms of the overall percentage in terms of EBITDA margins from an FY20 standpoint and how do you see that evolution. It will be helpful if can just help explain that with some numbers.

Dr. BS Ajaikumar: Normally we don't talk about forward-looking numbers. All I can say is we do expect the losses. As the losses come down, there will be overall general improvement in the margins. The only issue we have to remember is because we are in the growth phase, the new centers still coming in, the Kolkata, South Mumbai, and all, they will obviously undergo loss for a while. So, that will contribute again for pressure on the margins at overall enterprise level, but at the existing levels, we are quite comfortable at the unit level. As the corporate cost decreases, we expect it to maybe bump up a little bit. That is all we can give, we cannot give any guidance on the 2020.

Anmol Ganjoo: I am not looking for a guidance but directionally if there is a ballpark?

Management: Directionally we think it will be positive.

Anmol Ganjoo: Thanks, that's helpful. Second question is on the leverage situation. Basically, what is the kind of metrics that we are aspirationally targeting if you look out next 2 to 3 years in terms of debt/equity, EBITDA coverage, what are some of these metrics that you are targeting to achieve and you think that your overall business evolution is nudging you in that direction?

Management: Yes, as we look at that in serviceable versus non-serviceable debt, the typical ratios that we look at is debt-to-equity and debt-to-EBITDA and those ratios are pretty much within the normal norms that are prescribed for this industry and we are well within that range and we are very comfortable with that and we will continue to measure in those lines for the future as well.

Moderator: The next question is from the line of Hari Belawat from Techfin Consultants. Please go ahead.

Hari Belawat: This is regarding the EBITDA margins; Maharashtra 2.2%, East India is 28%, large variations. What is the reason for such large variation in EBITDA margins?

Niraj Didwania: The Maharashtra margin has consolidated. So, the 2.2% is for Maharashtra, out of the 3 regions, two are new centers for us, and even the existing center is only 1 which has had expansion. So, if you see Maharashtra just the existing center is about 19% margin. And East India we have had some up-tick, we have no new center in East India right now. So, the margins have sort of peaked, but we will have Kolkata coming up in the next quarter.

Dr. BS Ajaikumar: At this point, I want to answer Sudarsan's question. We got the 5.7 crores you mentioned, Sudarsan, the breakup is existing centers are about 4 crores and then the new centers are 1.5 crores, and mainly it is because the new centers contributed by Borivali, Jaipur, and Rajkot and existing centers some changes in our main Center of Excellence, KR Road, and then of course the Nashik expansion and some minor changes at our Cancer Center in Ahmedabad.

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

Amish Kanani: If you exclude the new center revenue, then our revenue growth actually tapers down to single digit. So, the question is, Sir, is this a new normal or the existing centers this year have not grown well because of certain reasons?

Niraj Didwania: Amish, on slide 6, we have clarified that the revenue from existing centers which is just HCG, without fertility business, has grown year on year about 16%. This also includes our consolidation of Vijayawada business, but the normal would be always low double digits.

Amish Kanani: Sir, why I got confused I read that and actually I was going through that slide only, but the second bullet point suggests that the new center contributed to INR 533 million. So, if I exclude 533 million from 232 crores, 53 crores if I remove, then there is hardly any growth. And also the Kolkata and East India where there is no addition in the centers.

Niraj Didwania: You have to remove the new center revenue from both last year quarter and this year quarter, you are only removing from this year quarter.

Amish Kanani: Okay, the point is you are saying we are without the new centers, we are growing at about 10% to 12% is what you are saying.

Niraj Didwania: Yes, this quarter at 16% obviously as a base does not have Vijayawada. Q4 was when we had consolidated Vijayawada. So, from next quarter, this will get a little normalized, but double-digit growth we are maintaining.

Amish Kanani: Okay. And Sir, is that the revenue reflection of growth next year till our new center starts because as you mentioned, the new centers will start mostly in Q4 next year, so is it fair to say that till that time our underlying growth will be in that range?

Dr B S Ajaikumar: No, not necessarily. We are in the process of doing our budget, we really don't comment on that, but there are lot of things happening in our existing centers' expansion. So, it may actually change. We cannot take it that it will exactly be that, it may be better than that.

Moderator: The next question is from the line of Harith Ahmad from Spark Capital. Please go ahead.

Harith Ahmad: Based on your guidance of roughly 40 crores CAPEX in 4th quarter, this year we will be ending at around 200 crores of CAPEX for the year, and for the last 3 to 4 years, we have been around this figure or slightly above this. Now that most of our projects are already commissioned, is there a guidance for CAPEX or is there an expectation for reduction in CAPEX intensity from FY20 onwards? Is there a number that you can guide for?

Management: As I mentioned earlier, we expect about 40 crores in Q4 and then it should start tapering down in the future quarters. That's the way we see it.

Harith Ahmad: Is there a number for CAPEX next year?

Management: No, we are still working on our budget and normally we don't share those numbers.

Harith Ahmad: Okay. And when you talk about the new centers in HCG as well as Milann, can you give the capital employed that is sitting in the new centers and if possible a breakup between HCG and Milann just for the new centers?

Management: Harith, we can give you the exact numbers subsequently, but broadly almost 60% to 70% of our CAPEX in the last 3 years has been a new center and the balance 35 odd percent to 40% has been in the existing center expansion and routine maintenance CAPEX.

Harith Ahmad: Okay, I will take the exact number offline. And on the Strand acquisition, now that's adding roughly 2 crores of loss at the PAT level on a quarterly basis. Can you provide some outlook here and what's the expectations for this business?

Management: It is Strand in Africa Harith. On the Strand as you know that recently Strand also acquired Quest. So, we are doing all the numbers on that. Once those numbers are done, in fact the budget is being prepared. Once we have that numbers which are coming up in the next few days, I think we will be able to have a better visibility at that point. Our overall track record has been very positive; the acquisition of Quest, the way Strand we have structured, and the division of diagnostic as well as the bioinformatics and the research are doing very good. And what the budget we had before the Quest acquisition was on track. With Quest acquisition which happened just few months ago, we are looking at it and see how we can make it improve the revenue as well as bring down the cost so there will be more efficiency in this system. That is where we are looking at, and we will be able to better articulate after we get all the information.

Moderator: The next question is from the line of Fiona Chan from Buena Vista Fund Management. Please go ahead.

Fiona Chan: Can we learn more about the progress with Milann?

Dr B S Ajaikumar: On Milann, as we had indicated in the last quarter, because of various external factors and reasons Milann had not grown much, but with the new CEO we have, things have taken turn for the positive. As we reported, there has certainly been a growth and we expect that growth to continue and we are looking at the 4th quarter to be quite positive and also the coming year. So, we do believe with some of the new centers are also breaking even including our Delhi center Chandigarh, all of that will be positive at the expected growth in our existing centers. So, when you look at the infertility area itself, eco system and the demand for that, and the way we have been positioned as number one in the country, we do see significant positive things happening in the next year or two. So, we do believe with a new alignment we have done with new CEO, we will perform well in this.

Fiona Chan: And on the pathology business that you just talked about with Strand, are there any operating metrics you could share?

Management: On Strand, we don't disclose the financials, but the revenue of Strand has been really growing very rapidly. Company is still at very much of a growth phase and so we are looking at 30% to 40% plus revenue growth, and of course the business is built on research, and we are seeing a tremendous increase in the interest from both pharma companies and international majors in collaborating with Strand on research. So, there is a huge opportunity and we see good prospects.

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

Chandramouli: The first question is on the ARPOB growth. It looks like you have delivered about 8% ARPOB growth this quarter versus I think 1% decline last quarter. I think Niraj mentioned patient mix and payer mix initiatives. Could you just give us some more details on what the other things you have done to register this kind ARPOB growth?

Niraj Didwania: Broadly, we have seen a substantial revenue growth. If you see just the HCG centers, we have grown 20% year on year. What it shows is that we have even at a higher bed base, we have maintained occupancy and that is what has led to the ARPOB increase driven by strong revenue growth and realization.

Dr BS Ajaikumar: And one of the things, as you know the issue of ALOS always we discuss. ALOS also consistently keeps coming down, by 17 basis points it has come down, that always contributes to the better ARPOB and we do expect that to really keep going down because even though footfall can increase, even though the number of surgeries can increase, but the ALOS can go down because of the improvement in the technology and more outpatient delivery, more and more chemotherapy, more and more surgeries are all done, even headache surgeries with limited number of days in the hospital. All of this will continue to contribute for the next several quarters. At some point obviously the ALOS will reach a maximum ALOS we can do. We are still working on that. There is not that much visibility where ALOS may end.

Niraj Didwania: To Summarize, there has been higher volume and there has been better efficiency which has drawn the ALOS down leading to an ARPOB improvement.

Chandramouli: The second question is on Milann again. I think your slide that mentions that you exited the Mumbai facility, you have realigned strategy. How important was Mumbai in the Milann scheme of things?

Management: It was not really that important. We had taken over a center and we felt some operational issues there - some of the things which were promised were some regulatory things and all of that. So, we were not clear whether we should be there, so we exited. Whenever as HCG Group whenever we find that some clarity is not there, we exit. That is why, we mainly exited.

Chandramouli: The last question is on the new facilities. Earlier on in the call, I think you had mentioned that for the next 3 quarters, you are not going to have any new facility openings. So, it looks like Kolkata will be an FY20 project and how do we think of timing on Gurugram and Kochi after that?

Management: Kochi really is not going to happen possibly this coming year. Regarding Gurugram, it may be late this calendar year or like January the last quarter of next fiscal year. And then of course the South Mumbai will open in the first quarter of FY20 and Kolkata also will open in Q1. These are the 2 centers expected. Delhi may happen in the second quarter but possibly third quarter. Mainly all of this is dependent on the regulatory approvals. Two centers in Q1 of next fiscal and Delhi - Gurugram would be probably around almost Q3 end or Q4.

Moderator: The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Sir, my question is, once you have done with Gurugram and with Kochi, how are you looking at the business consolidation and your plans for growth there on?

Dr BS Ajaikumar: First of all, I think as we mentioned that we do need to consolidate. With so much of CAPEX invested, we have to put the CAPEX to use, particularly the new centers. So, we will focus on consolidation for probably 18 months to 24 months before we look at anything. Meanwhile, we have done some O&M and few other things. We will pursue that, but our focus will be on existing centers as well as the new centers to bring it up to the capacity utilization and make sure we sweat our assets. That is what we did between 2014 and 2016 and similar thing we will do now.

Nitin Agarwal: So, basically effectively beyond these 2 new centers come up, for some time after that, there should be a fair slowdown in the CAPEX intensity in the business?

Management: Yes.

Moderator: The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: My first question is based on the existing operating EBITDA margin. I think on slide number 4, YoY goes down sequentially, but on slide number 6, it goes up from 22.3% to 23.2%. Is that because of Milann? Could I infer that Milann is running losses right now?

Management: The difference between slide 4 and slides 8, Lalaram, is Milann and corporate cost.

Lalaram Singh: Okay, this includes corporate cost also, slide 4?

Management: Yes, slide 4 is post-corporate and what happens is we traditionally allocate entire corporate cost only to existing centers. So, this is post the entire corporate cost.

Lalaram Singh: My next question is a general question on ARPOB. What determines the ARPOB in different regions?

Niraj Didwania: ARPOB, we calculate the center revenues with the occupied bed days and the occupied bed days is calculated with admissions and total bed days for the period.

Lalaram Singh: My question is more pertaining to the difference in the different regions. If you look at Karnataka and you look at East India or even Andhra Pradesh, there is a variance in the ARPOB. What is the reason for this? At these new centers that are coming up, how can we see in which direction those ARPOBs are moving towards?

Dr BS Ajaikumar: Naturally ARPOB will be different in different regions because if you take our Center of Excellence in Bengaluru, ARPOB is very high because of the mix - type of patients, the mix of services we do, it depends on all that, and matured center. So, there are a lot of contributing factors, the technology we use and the type of surgery, intensity of surgery we do, all of that. For example, in Bengaluru and Ahmedabad which are all high is higher revenue, naturally the ARPOB will be higher but when you go to like Cuttack and all, maybe the ARPOB will be a little bit lower because of the situation there, the type of service provided, a little bit more on patient mix - we have government patients, scheme patients, that will again bring down the ARPOB. So, it's a mix; the technology, the type of service we provide, and what is the ALOS of these people will contribute to the difference in different regions which has always been the case with HCG.

Lalaram Singh: So how do you exactly decide what services will be provided at what region?

Dr BS Ajaikumar: It is based on the service to some extent. For example, you take Bengaluru or you take Ahmedabad where Bengaluru has CyberKnife technology or we may do like a high-end Tomotherapy. These kind of procedures or high end like in PET scan imaging we do PSMA therapy. When you do all these, obviously your revenue per patient will increase because of the mix. At the Center of Excellence type of service level excellence, people will come; whereas look at for example Cuttack or so, where these kinds of technologies are not available, they will end up getting a different technology. In case they need this kind of technology, they are expected to come to our Center of Excellence. That is how there is a difference you will find in the ARPOB between centers like this. All of them will have Linear Accelerators, all of them will have surgical OT, all of them will have medical Oncology, but it is the higher level like robotic surgery; in our centers it is only in Bengaluru or Ahmedabad because it has to meet a certain volume; otherwise, we cannot justify the CAPEX. That is the whole model of HCG - using the hub and spoke model. And also, one of the addition is international patients. International patients come to the Center of Excellence or Mumbai center or Ahmedabad. So, that is where you are driven more of cash patients or higher revenue generating patients.

Lalaram Singh: My last question is pertaining to the ALOS. Your ALOS strength is going down every quarter. How does that exactly benefit us? Does that help our occupancies?

Management: The reason ALOS will go down it is our intention. ALOS going down is what we would like. It is a good criterion which shows more efficiency in the system. Historically people have looked at the number of beds and they measure some centers by number of beds, but globally now when you look at it the number of beds is not the criteria. We look at more footfall and we are beginning to look at what is the average revenue generated by patient who comes into the system, because you take for example radiation, radiation is mostly done outpatient. Majority of the chemotherapy and immunotherapy all done outpatient. Only the patients who get into complications do get in, but then limited surgery. So, historically also, people with cancer or any disease used to stay in the hospital for weeks, so called palliative care and all. When we move those care outside the hospital like home care or intermediate care, hospital bed occupancy becomes less, and the institute becomes more efficient. That is one of the reasons we believe our margin at unit level is one of the highest in the industry is because of this; because of our efficiency, because the way we have structured, doing lot more what is really needed for the patient. We don't believe we should keep patients if not needed in the hospital. They should get quickly discharged. And also, from the patient viewpoint if I can say, it is not good because they develop secondary infections in the hospital. So, we encourage patients to leave the hospital as quickly as possible. That is how good practice is today. And moreover, if you look at the global standards, everybody is doing that. So, in the future as we look at it, for example, when we built our Center of Excellence 10-12 years ago, we built it for nearly 300 beds. Today, the reason we show occupancy less is because we don't need 200 beds. We are utilizing it for other services. Going forward, in Oncology particularly, we won't be building 200-300 bed Oncology center. It is more like 50, 60, 75 beds but more facilities for outpatients. That is what we are moving towards. And future of course is virtual hospital. That's a different story we can talk some other time.

Lalaram Singh: It is good that all are filling up these beds, but if the occupancy rate increases, there are more beds to fill up. So do you are trying to filling up these beds because our occupancy rates are pretty low, below 50% in most regions. That's why, I was just trying to understand this.

Dr BS Ajaikumar: Yes, one good thing about having this bed strength is like what we feel is you don't have to go and build anymore. In case we change the mix, in case we find our business plan needs to accommodate more patients for different services we are going to provide, we already have the physical facilities. So, that you can look up on as one positive going forward where we don't need to build anymore, but obviously we curtail the resources, the fixed costs everything we try to bring it down even though capacity is there as we go forward.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for your closing comments. Over to you, Sir.

Management: Thank you everyone for active participation on the call. We are available offline to have discussions if required. With this, we conclude our Q3 and year-to-date FY19 Earnings Conference Call. Thank you.

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