"HealthCare Global Enterprises Limited Q1 FY-20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HealthCare Global Enterprises' Q1 FY20 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, please signal an operator by pressing '*' then '0' on your touchtone phone.

I now hand the conference over to Mr. Niraj Didwania – Head of Investor Relations. Thank you and over to you, sir.

Niraj Didwania: Thank you. Good evening and a very warm welcome to all the participants to HealthCare Global Enterprises Limited's Q1 FY2020 earnings conference call.

Today we have with us Dr. B. S. Ajaikumar - Chairman & CEO, HCG along with the management team to share highlights of our business and financials.

We have uploaded our earnings update presentation to stock exchanges and also shared the same to our mailers. Without further ado, I handover the call to Dr. B. S. Ajaikumar.

Dr. B. S. Ajaikumar: Thank you, Niraj. Good evening. We are pleased to report Q1 FY20 results with continuing growth across our business. HCG core Oncology business continues to get stronger with enhanced presence and scale across attractive markets at a time when cancer incidents are on rising trend. Our oncology-focused business model is fundamentally robust, clinical and operational excellence, the economy subscale especially with majority CAPEX and investment cycle behind us, we remain excited about the growth prospects for the business in spite of short-term challenges and negative outlook in the ecosystem for healthcare industry in economy at large.

With strong performance of existing centers as the base foundation, a new center is nearing inflection point to replicate the existing centers at the future growth drivers. We are positively looking forward towards superior cash flows and return generation from capital deployed over the last few years. Having created a unique platform across oncology, fertility and precision diagnostics with pan India leadership, we remain committed to driving value creation for all of our stakeholders.

Business updates for Q1 FY20, 34% growth in Gujarat as multiple new centers ramped up. Presence across four cities now contributes 31% HCG centers revenue, 78% revenue growth in Bhavnagar driven by ramp-up of the new oncology unit. Baroda Cancer Center launched in May 2016, clocked double-digit EBITDA margin consistently. Rajkot Center ramping up well with reduction in losses nearing breakeven point. Continuing strong growth in Maharashtra region with 25% revenue growth YoY. Continued reduction in losses from Borivali and Nagpur new centers.

Nasik Center expansion driving enhancement of specialized services offering in the region. Kolkata Cancer Center launched offering comprehensive services in an upcoming urban locality. Positive trend at Milann reflected in growth registration IVF cycles in revenues. New first of its kind Oncology information system goes live at Bangalore Center of Excellence, which will drive digital transformation and set the foundations for data-driven analytics and research .

At this point, I would like to request our CFO – Mr. Srinivas Raghavan, to share the financial highlights. Srinivas.

Srinivasa Raghavan: Thanks Dr. Ajai, and welcome to everybody. Effective 1 April 2019, the company has adopted IndAS 116 legal standards applied to the leased contractors contract existing on 1st April 2019. The effect of this adoption has not been discussed but it will be retrospectively adjusted for the year ended 31st March '19 and previous period financials are not comparable.

Highlights for quarter ended June 30, 2019. Consolidated revenue was Rs. 2,689 million as compared to Rs. 2,266 million in the corresponding quarter of the previous year, reflecting a YoY increase of 19%. Consolidated EBITDA was Rs. 462 million, including IndAS 116 adjustment and Rs. 317 million excluding IndAS 116 adjustment as compared to Rs. 315 million in the corresponding quarter of the previous year. Consolidated operating EBITDA was Rs. 449 million including IndAS 116 adjustments and Rs. 304 million, excluding IndAS 116 adjustment as compare to Rs. 306 million in the corresponding quarter of the previous year.

Operating EBITDA for existing centers was Rs. 491 million, including IndAS 116 adjustment and Rs. 394 million, excluding IndAS 116 adjustment and reflecting an operating EBITDA margin of 17%, excluding IndAS 116 adjustment. Loss from new centers was Rs. 424 million, including IndAS 116 adjustment and Rs. 90 million, excluding IndAS 116 as compared to a loss of Rs. 57 million in the corresponding quarter of the previous year.

Consolidated PAT was a loss of Rs. 180 million, including IndAS 116 adjustment and a loss of Rs. 100 million, excluding 116 adjustment as compared to a loss of Rs. 34 million in the corresponding quarter of the previous year.

I now request your attention to Slide #4 of Earnings Updates Presentation, please:

Q1FY '20 revenue grew 18.7% YoY HCG centers grew by 19.3%; Milann center 11%. Q1FY '20 operating EBITDA existing centers Rs. 394 million, 17.5% margin and new centers loss of Rs. 19 million with the loss of Rs. 57 million in the corresponding quarter of the previous year.

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

Dr. B. S. Ajaikumar: Thank, Srini. I would like to draw your attention to Slide #5 of the presentation. 94% of the business revenue is contributed by HCG centers, and 6% by Milann Fertility Centers. Within HCG centers, Western India comprising Gujarat and Maharashtra contribute 44% of the total revenue, followed by Karnataka at 35%, Andhra Pradesh 7% and East India 7%. Tamil Nadu contributes 4% and North India contributes 2% as of Q3 FY '19.

I would now like to draw your attention to Slide #6 of the presentation. Strong growth continues at several existing and new centers in Q1 FY '20. Bhavnagar 77.8% YoY, Nagpur 32.3% YoY, Borivali 31.2% YoY and Baroda 21% YoY. New Centers contributed revenue of Rs. 342 million in Q1 FY '20 vs Rs. 174 million in Q1 FY '19.

Our revenue from existing HCG Centers grew 12% in Q1 FY '20 on a YoY basis. I would now like to draw your attention to Slide #8 of the presentation. Power cost forexisting centers were Rs. 33,142 as against Rs. 31,244 in Q1 FY '19. Continuing reduction of ALOS to 2.01 on account of trend towards daycare procedures and changing patient's profile. Operating EBITDA margin was impacted due to the scale-up and losses of new centers. Existing centers operating EBITDA margin declined by 44 bps to 21.1% against 21.5% in Q1 FY '19.

Looking at key geographies in Slide #9. Karnataka region continues its focus on improving realization parameters. Center of excellence ARPOB is Rs. 49,200 with 27.6% operating EBITDA margin at unit level. Q1 FY '20 ROCE improved from 23.5% to 26.6%. Focus on margin and returns optimization across regions. With respect to Gujarat region, strong occupancy and revenue growth. Bhavnagar oncology ramps up with 78% revenue growth YoY. EBITDA margin of existing centers at 18% for Q1 '20. In Maharashtra, Nasik Center expansion driving enhancement of specialized services offering in the region, Borivali and Nagpur new centers ramping up with continued reduction in losses.

In Andhra Pradesh, Vizag center continues to ramp up well focussed on improving revenue mix to reduction of steel business. In East India, the existing center EBITDA margin improved on 539 basis points, driven by improvements in patient and procedure mix. Kolkata Center operationalized.

Coming to Slide #10, covering the key highlights of Milann Fertility Business. New registration grows 3% YoY, Q1 FY '20 while it will continue to ramp up as leadership in attractive Bangalore market.

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

Srinivasa Raghavan: Thanks, Dr. Ajai. Kindly draw your attention to Slide #12. With respect to the CAPEX table, we are nearing the last leg of our expansion. Total CAPEX was Rs. 354 million, of which Rs. 240 million was in new centers. With respect to net debt, we closed the quarter at a net debt of Rs.

623 crores without the 116 impact, which represents an increase of Rs. 15.8 crores for that with the previous quarter.

We would also like to draw your attention to Slide #14. Kolkata center is operationalized in Q1 FY '20. South Mumbai has commenced outpatient services and will be operationalized in Q2 FY '20. We are not expecting any new centers for next few quarters. We do not have any more committed new centers for Milann.

I would like to hand over the call back to Niraj, please.

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

Moderator: Thank you very much. We will now begin with the question-and-answer session.

The first question is from the line of Sudharshan Padmanaban from Sundaram Mutual Fund. Please go ahead.

Sudharshan Padmanaban: Sir, my question is on the adoption of IndAS 116, while we agree that it is just an accounting entry. I mean if I am actually looking at your general parametric, which probably a lender would have a look at primarily before giving additional loans. One is your debt almost doubles to almost Rs. 1,200-odd crores. Second is, even if I adjust the incremental EBITDA, which comes from this I mean of course, even if you annualize the current thing, it comes to about Rs. 60 crores.

So, net-net, if I look at your debt to EBITDA, primarily increases probably from 5x to 6x. And also from a debt-to-equity perspective, given that your reserves and surplus only goes down and not goes up, even from that side, the numbers do not look good. In fact, it look at that worse. I mean from it is not only specifically for you, but for the Hospital segment. Do you think that, number one, from a rating agency, this could kind of be a little incrementally negative? And number two, from drawing incremental debt or do you think that probably your lenders would ask for additional collaterals, etc., for this?

V. Srinivasa Raghavan: To answer your question, our banking covenants are without 116 impact. We have socialized this with our banker. And all our measurements will be based on our BAU results, which means this incremental EBITDA that comes from 116 and the incremental debt that comes from 116 are not taking into consideration for the banking covenants. We have socialized this across the bankers and with the rating agencies as such and people do understand that.

Dr. BS Ajaikumar: So, it may be an accounting?

V. Srinivasa Raghavan: Yes.

Sudarshan Padmanabhan: Sure. That is what I just wanted to check. Second if I am actually looking at your losses from the new centers, while on a YoY basis, there is a Rs. 3 crores increase. But if I look at it on a QoQ basis, I mean last quarter, if I remember, the number was about Rs. 2.2 crores, it has gone to about Rs. 9 crores. So, the jump is about Rs. 7 crores. Have you also factored in the #1 is whether there is an impact of the oncology drugs that is sitting in over here or why is that number not so huge? Because, we were also looking at probably a number which is about Rs. 5 crores, Rs. 6 crores at max. So, the number seems to be slightly higher?

Niraj Didwania: So, what we have done is there is a reclassification. There were centers, which were operational as of calendar year 2016 and before, which has now moved to existing centers. So, when we were reporting losses earlier, the losses were also cushioned by the profits of these new centers and it was a net loss. Now what you are seeing is only the new centers, which are pretty much 2 years or under. And so it is only loss-making centers that are together showing the loss amount. That is one.

And second is also what we have done going forward from this year, there is some amount of corporate cost allocation that has also been aligned to new centers. This is because what we have seen as a trend for the last three years, and that is where we have changed this from this year onwards. Large amount of the corporate cost addition are to the credit of new centers that are coming and getting operationalized. So, that are the two changes that have happened in classification because of which, the quarter-on-quarter number is not comparable. The year-on-year numbers, we have made that like-to-like. So, that is what you should compare.

Sudarshan Padmanabhan: And specifically to the new center at Borivali, I mean earlier we were looking at breaking even in first quarter, end of second quarter. So, are we largely in line to do that or would there be any further delays to that?

V. Srinivasa Raghavan: We had actually guided last time, it will be Q2, Q3. So, we are very much online to break even in that time. So, we have the ramp-up has been very good. And I think we expect this to happen in Q3.

Sudarshan Padmanabhan: And specifically, with respect to Milann Center. I mean one is, it is pretty nice to see the growth coming back, I mean Rs. 17.5 crores this quarter. I mean any kind of clarity which you can give us specifically with respect to the operational profits? I mean whether we have seen improvement on the profits that we have in this part of there that is started to do?

Niraj Didwania: Yes. Even though last year was very challenging year for Milann, we have always been profitable, and Bangalore is a very strong business with solid foundations and market leadership. So, we have seen margin improvement across the matured cemters. So, net-net, it has been on an improving trend.

Dr. BS Ajaikumar: And our revenues also have improved significant, Sudarshan. So, we expect good revenue as well as compared to last year certainly good division of profitability happening as we go towards Q2 and Q3.

Sudarshan Padmanabhan: Sure. And I mean you mentioned that the South Mumbai is not fully taken the losses have not been taken into account in this quarter. Is that right? Or would there be a rational impact on the losses as we move in the next quarter or so?

V. Srinivasa Raghavan: South Mumbai has not been fully rolled out. We are just waiting for some regulatory things in terms of lifts approval and other regulatory approvals. So, we expect that to happen anytime. So, by quarter 3, the South Mumbai will definitely be rolled out, but the indications are most of the regulatory things will be in place by then.

Sudarshan Padmanabhan: The cost has not been factored in, right? So, that can be an incremental cost probably in Rs. 2 crores you now that comes in. Would that be meaningful or that would be what could be the impact if this comes true?

Dr. BS Ajaikumar: It will be minimal, I think.

Moderator: Thank you. The next question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Sir, just want to know that out of this Rs. 9 crores, if you can split like how much losses were from Borivali center as well as from the other recently launched centers?

Niraj Didwania: So, the growth in the losses to the Rashmi, are largely from the new centers because as of Q1 last year, we did not have Rajkot and Jaipur. So, there has been Rajkot and Jaipur that losses have come in. There is a large chuck of corporate allocation in Q1FY20 because that is allocated to all the new centers now. So, those are the main drivers of the difference between last year to this year.

Rashmi Sancheti: And if you can give this split how much losses were from Borivali, I mean out of Rs. 9 crores and how much was the corporate cost and allocated to the what you call, if you can just give the split?

Niraj Didwania: Yes. So, now we are allocating roughly about Rs. 2.4 crores of corporate costs through the new centers from Q1 '20. This was about Rs. 80 lakhs in the same quarter last year.

Management: This is the corporate cost for new centers.

Niraj Didwania: And the Borivali specifically is roughly around Rs. 2 crores.

Rashmi Sancheti: RS. 2 crores, okay, which we are expecting that from next quarter onwards or next to next quarter onwards, it can break even?

V. Srinivasa Raghavan: Yes.

Rashmi Sancheti: Okay. And what about the CAPEX? Are we going to add any new centers further in Milann or in HCG or currently there would not be any new centers to be added and the CAPEX would remain in the range of Rs.100 crores to Rs. 150 crores?

Dr. BS Ajaikumar: Yes. It will remain in that range. And also certainly we have no plans for adding any CAPEX in Milann. As far as the HCG is concerned, whatever is already in the works is what we are completing. So, as we said, we are coming to a CAPEX cycle end. So, we do not have any plans for any future CAPEX apart from the plans we are already in works.

Rashmi Sancheti: So, that said, our debt of Rs. 623 crores will also remain at the same level at the end of the year or it will go down?

Niraj Didwania: No, this year it will not go down because as we said there are two centers that we are completing. And so we have generally been able to fund a large portion of our CAPEX from internal accrual, so there could be some debt increase for this year.

Rashmi Sancheti: Okay. And lastly on Milann. I mean I do not understand that, is it something that we are facing local competition and that is why our new registration is just showing 2% to 3% kind of growth? And I mean we are not able to come up with strong 14% to 15% growth, which earlier you are guided that from now on, we will see a rebound in these particular centers?

Dr. BS Ajaikumar: So, last year, because of some regulatory things we close the Mumbai Center as well as Bhuvanagiri. So, that is the reason that is why we did not see. But last year, as you know was a tough year, we did not really grow. So, this year, within this even though we do not have Mumbai and another center, we are still growing. And also going forward we are seeing a good trend in the growth.

Rashmi Sancheti: Our registrations are not growing that strong. If I just compare Q1 FY '20 versus Q1 FY '19 also. So, I am just asking that is it something that I mean what are the challenges that we are facing? Is it a local competition or anything else?

V. Srinivasa Raghavan: So, Rashmi, just to reiterate what Dr. Ajai said. If you look at registrations last year to this year, last year had registration of Mumbai and Bhuvanagiri. Those centers were pretty much exited in December and Jan. So, that base has gone away. So, this is the growth you are seeing 3% is on the total base. So, that base is higher from last year.

Moderator: Thank you. The next question is from the line of Shriram Rathi from ICICI Securities. Please go ahead.

Shriram Rathi: Few questions. Firstly, I mean can you quantify, I mean what is the impact of the cap on the trade margin for the oncology drugs by government? And is it visible in this quarter?

Dr. BS Ajaikumar: As you know, at HCG growth we never gave up the breakup of pharmacy. We always said, it is a part of the revenue of 20%, 25%. So, what has happened since the oncology drug impact, there is certain amount of marginal lowering of the revenue we have seen.

But as far as our margins are concerned, we are not seeing any major impact because we have taken a lot of measures in terms of strengthening our operational excellence measures to improve our efficiency in operations, cost-cutting measures, which has helped us successfully to overcome this issue. So, we are happy to say that this issue so far, we have been able to overcome with only minimal impact in our top line.

Shriram Rathi: So, basically, we can assume that on the EBITDA margins, there will be no impact largely and in absolute number, there could be marginal impact because of the lower revenue?

V. Srinivasa Raghavan: Yes, correct.

Shriram Rathi: one new center, which is getting started in Q2. So, how should we look at the margins, like I mean is it like 11% level if we exclude the IndAS impact like 11.7% margin in this quarter, can we assume that this is like kind of bottom of the margins or can there be more impact because of the new center coming in Q2?

V. Srinivasa Raghavan: I think the margin will be pretty much as it is because as we go forward with Q3, we are like Q2 to Q3, the centers as we said are beginning to narrow their losses. So, because of that even the new centers come the only center is the South Mumbai. By the time it comes, we expect at least Mumbai Borivali centre and the output to narrow the losses, which will offset. So, we do not really expect much of a change in the margin.

Shriram Rathi: Okay. So, this Rs. 9 crores of losses in the new centers when can it be breakeven by when we can expect that?

Dr. BS Ajaikumar: It is not really new centers.

Niraj Didwania: So, what we are expecting is a large chunk of this is Borivali and Nagpur, which pretty much contribute 40%, 50% of this. So, once they achieve a breakeven in Q2, Q3, then the incremental only South Mumbai addition should be set off. So, we should be minimizing this.

Dr. BS Ajaikumar: And as you know, Kolkata is already there, so that has to ramp up. That will take few quarters to reach breakeven.

V. Srinivasa Raghavan: So, Q3 to Q4 is we see this should be going into the marginal levels because next quarter Q2, you will see some Kolkata impact also because Kolkata was not operational for the full quarter.

Shriram Rathi: So, roughly we can expect by end of this year in Q4, probably this loss amount can become half or even less than that?

V. Srinivasa Raghavan: Yes, we certainly expect that to happen.

Shriram Rathi: And sir, overall debt increased this year, how much we should expect because I think our CAPEX guidance is around Rs. 100 crores to Rs. 150 crores for this year? Am I correct?

V. Srinivasa Raghavan: We expect it to be around 660 to 670 kind of a range by the end of this year.

Shriram Rathi: End of this year. And then from next year this should start coming down?

Dr. BS Ajaikumar: Yes, that is the plan.

Shriram Rathi: Okay. And lastly, sir, I mean this consultancy fees that we report in the P&L so that has been consistently increasing as a percentage of sales. So, it is now 22.7% of sales, almost 150 bps higher on YoY basis. So, is it largely because of the new centers or anything more to that?

V. Srinivasa Raghavan: You are talking about the consultancy?

Shriram Rathi: Yes, so which is like Rs. 61 crores this quarter?

Niraj Didwania: Yes, it is. See what happens is the infrastructure and talent and team comes on both straightaway, revenue comes later on. So, that is why you are income increase in that.

Shriram Rathi: Okay. So, once those centers pick up then of course it should come down back to 20%, 21% range?

V. Srinivasa Raghavan: Yes, of course.

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

Chandramouli: First question is related to the drug price caps that had impacted the previous quarter. So, it is heartening to see that you have been able to offset some of that. But I was just looking for some additional color on the initiatives you have taken on the cost side?

Dr. BS Ajaikumar: Yes. I think one of the things we have done is we have looked at operational excellence, complete pharma core chain, how we can work with the manufacturer and the distributor with that we have made some changes cutting certain cost expenses related to that maintaining the cold chain. And with that, the service is end-to-end provided. So, that has helped a lot to bring down some of the HR costs and related costs.

Second area is we have looked at areas in between the system of the operation like unit level cost-cutting, which has also given us this extra benefit. So, these are the measures some measures from the corporate, where we were doing the wholesale on the corporate as we had done in the past, some at unit level. Both of these combined have definitely helped us to mitigate this the losses we were about to incur because of the regulation.

Chandramouli: That is helpful. Second question is on the repurchase of shares from Dr. Rao in Milann. I understand that there is an event that might happen around September this year. So, I just wondering how the company is thinking about this. What kind of impact it might have on leverage, looking at in terms of year-end leverage for the company?

V. Srinivasa Raghavan: Yes. I think this will not be there out of debt. It will be through our internal accruals and we are looking at ways and means to kind of generate cash through monetizing and unlocking value in some of our assets. Through that, we will be able to kind of payoff this put options.

Dr. BS Ajaikumar: So, what exactly we have time till 30th of September. So, some of the measures we have taken, which will reveal once those things to happen that by this, we are hoping, without debt we will be able to take care of the obligation of foot option with Milann with Dr. Kamani Rao.

Chandramouli: So, what would be the level of net debt to expect by the end of the year?

V. Srinivasa Raghavan: So, like I mentioned, we are looking at anywhere between 660 to 675 by the end of the year.

Moderator: Thank you. The next question is from the line of Iona Chan from Buena Vista Funds. Please go ahead.

Fiona Chan: My first question is on the broad trade margin cap. Now with the impact for this quarter was limited do we expect it to become more severe next quarter?

Dr. BS Ajaikumar: No, the answer is at this point we do not see it becoming severe because of our in-depth knowledge of the onco drugs and the measures, which are already articulated. We feel confident that this will not affect further the margins, unless, of course, the government comes up with new regulatory issues. And we do not see that in the horizon at this point in the new regulatory.

Fiona Chan: And my second question is, excluding the AS 116 impact and then excluding also the corporate costs you mentioned, are there any other reasons why EBITDA this quarter has not grown a lot?

Niraj Didwania: So, the EBITDA of existing sector continues to grow. If you look at the losses and add them back also there has been about a 10%-plus growth. This is in spite of some of the increased expenses in Nasik and Milann existing centers, not yet ramping up to expectations. So, the overall consolidated EBITDA, of course, as you rightly said, the reason for the lower growth impact in the new centers, generally the losses that are increased. So, we have so last year delivered 30 with Rs. 5.7 crores losses in spite of Rs. 9 crores losses this quarter, we have delivered Rs. 30 crores again.

Dr. BS Ajaikumar: And the existing center's EBITDA is around 39. Yes. As of now, which has been a growth from the last quarter. YoY growth 11% growth is there.

Moderator: Thank you. The next question is from the line of Aditya Mehta, who is an Individual investor. Please go ahead.

Aditya Mehta: Yes. Actually I have joined the call late. So, just wanted to know the outlook of regarding how many will be profitable at PAT level?

V. Srinivasa Raghavan: The issue is because of this 116, as you know, lesser PAT. So, according to us, we should be moving to a PAT positive by 2022. That is the outlook we have, and we are moving in that direction. Also the way you should look at it is currently what is happening is the new center that we have operationalized over the last 2, 3 years, we are not only getting EBITDA negative from them but there is also depreciation and interest impact. So, because of that, once we generate commensurate EBITDA from them, then we should be able to cut off the depreciation and interest, which are the reasons for the PAT negative largely.

Aditya Mehta: Okay. And our finance costs 8have nearly doubled as compared to last quarter. So, what is the main reason behind that? Has our debt been increased?

V. Srinivasa Raghavan: Yes, the finance costs, I think we need to look at without the IndAS adjustment. This quarter, it has increased because of the new accounting standard 116 that is the reason why it has gone up. Otherwise, it is pretty much in line with our borrowings.

Aditya Mehta: Okay. And what is the total debt on the books?

V. Srinivasa Raghavan: The total debt on the books is Rs. 623 crores, net debt.

Aditya Mehta: Net debt RS. 624 crores.

V. Srinivasa Raghavan: Yes.

Aditya Mehta: And is there a plan to bring down the debt from now going forward?

V. Srinivasa Raghavan: See as I mentioned earlier, we are tightening our CAPEX and we are limiting our debt. So, we are looking at the debt outlook, net debt outlook of about between Rs. 650 crores and Rs. 675 crores by the end of the year. And from next year onwards we expect the debt to come down.

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

Lalaram Singh: My first question is, in terms of impact of drug pricing cap on revenues. Can you give us the in number of how much impact it has in terms of annual gross?

Dr. BS Ajaikumar: So, as I mentioned to you, normally we do not break up pharma. So, as I said, in terms of revenue, it has been not that significant. And we already said that in terms of EBITDA, we have been able to overcome that by some of the measures we have taken. So, overall, the impact is not that significant because of the measures we have taken.

Lalaram Singh: Okay. Second question is, prior to the drug margin cap of 20%. What will be the margin before that on a comparable? The full transition of 20% cap?

Dr. BS Ajaikumar: So, see, for example, this is only for these 42 drugs. So, it is very difficult to give what was the margin. We never discuss the margins, we just gave usually as a group, what is approximate revenue from pharma, which is 25%, 26%. So, that is what we have given out, and we do believe that the margin impact cannot be talked because it is mixture of regular drugs non under those, which are come under non-control. So, overall, it will be difficult to give you a margin.

Lalaram Singh: Okay. Broadly in terms of capital raise, I think last quarter we raised Rs. 21 crores from a U.S. based doctor. Has that money arrived?

Dr. BS Ajaikumar: Yes, it was definitely arrived.

Lalaram Singh: Okay. So, going forward the next 1, 2 years, any sort of capital raise you are looking for?

Dr. BS Ajaikumar: No, in the interest of the shareholders and the company certainly we always looked at what is the best interest of the company and the shareholders. We look at various ways, what are the possible ways we can bring in more capital. Disinvestments, various ways we do look at operational excellence, sale and lead back. So, there are a lot of things we do look at it. But nothing is concrete, nothing is done. But as and when it happens, we will be very glad to share.

Lalaram Singh: Okay. Any of the centres in which we own the land of how many centres or can you share that?

Dr. BS Ajaikumar: We right now own two buildings in Bangalore and center in Vijayawada, center in Ahmadabad. So, these are the few centers we own, because always HCG model has been asset-light in terms of real estate, because we consider ourselves oncology service providers. So, our real estate has not been heavy throughout, this has been our right from the beginning, that is how we are functioning.

Lalaram Singh: So, going forward, there is a possibility there we might end up monetizing in terms of sell and lease back these 3, 4 assets where we own the land?

Dr. BS Ajaikumar: Like I said, we look at maybe all the options. Wherever we feel it is in the interest of the company and the shareholders we will certainly look at it. We like to do the necessary diligence and bring it to the board. So, certainly we will be looking at it.

Lalaram Singh: Final question is, in the light of strong reduction in the market value of the company, do you believe, or do you foresee our pace where we can also use Capital to buy back shares? Is that something which we are thinking of or any other ways of creating value?

Dr. BS Ajaikumar: I do not think I can comment on that.

Moderator: Thank you. The next question is from the line of Harit Ahmed from Spark Capital. Please go ahead.

Harit Ahmed: The cash outflow expected on account of the expected exercise of the put option by the minority shareholder in Milann. What is the expected amount?

V. Srinivasa Raghavan: Expected amount is around Rs. 70 crores.

Harit Ahmed: Okay. And the second question is related to the existing center EBITDA that we have reported for the quarter of around Rs. 39 crores. How much of this would be from centers which got reclassified from new centers to existing centers? I am referring to centers at Gulbarga, Baroda, Vizag and Bhavnagar primarily. So, just to get a sense of how much of these reclassified centers account for this Rs. 39 crores existing center EBITDA?

Niraj Didwania: Roughly about Rs. 4 crores.

Harit Ahmed: Okay. And then would you look at further ramp-up at these centers?

Niraj Didwania: So, Baroda is part of those centers that got classified as existing. And if you see the region wise highlight it has grown 21% year-on-year. So, these centers are ramping up.

So, just to add one more clarification. The new centers have got classified as around Rs. 3 crores.

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

Nitin Agarwal: Just two things. One is going forward, given the fact that you are planning to add new centers, so what is going to be our recurring CAPEX that we should be modelling going forward?

Dr. BS Ajaikumar: So, Nitin, you are asking about the CAPEX for the entire HCG Group or for the particular centers?

Nitin Agarwal: Sir, for the group from FY21 onwards assuming no new centers, excluding the investments of the new centers, what should be the recurring CAPEX that we should build in for the current network?

Dr. BS Ajaikumar: I think we are looking at in the range of Rs. 40 crores to Rs. 50 crores per annum recurring CAPEX.

Nitin Agarwal: I think his Rs. 120 crores to Rs. 130 crores this year, what would this really comprise of because no new center is coming up, right? Kolkata is already operational. So, where is this spent?

Dr. BS Ajaikumar: So, new centers which is not yet operational is South Mumbai, which is going to be operational, and also Gurgaon. These are the two centers and Kochi is in the 2022-23 we are looking at.

Nitin Agarwal: Out of Rs. 120 to 130 do we invest some money in Gurgaon also and this also part of that?

V. Srinivasa Raghavan: Yes Gurgaon, yes.

Nitin Agarwal: And secondly more from a broader perspective over the last few years, I think the management has been fairly busy with getting operationalized lot of new centers. So, from our own perspective are we prioritizing change as far as business focus is concerned now given the fact that we are entering this year new phase of consolidation in the business? I mean what are your priorities now going forward?

Dr. BS Ajaikumar: We have lots of new centers is coming in now around the same time, because as I have explained in the past, because of the regulatory issues, some delays, like we had Nagpur, Borivali, Jaipur all of them coming out, Rajkot coming around the same one after another. As we are now trying to ramp up this and try to make them to break even that is being followed by Kolkata ,South Mumbai and Gurgaon. So, we have these pipeline centers, which is growing. So, one way, we are looking is the growth for future, our plan is laid out.

The other way to look at it, obviously there will be negative EBITDA for some of these centers until they ramp-up and become positive. As these centers become positive, some of the new centers coming will always show negative. So, this is what will happen a balancing effect as we go forward existing centers as they ramp-up they will be continuing to grow 10% to 20%. So, the way to look at it is what is going to happen in 2, 3 years from now. So, we will see a ramp-up in EBITDA, we will see a ramp-up in revenue, but we will also see some EBITDA being pulled down by these centers, which are negative.

So, that is what we will be focusing on and manage that and put all our efforts to see how quickly we can ramp up these centers. As we know, the CAPEX cycle coming to an end, obviously we will not be focusing on any new projects. So, there is no focus on new projects, our focus will be on developing these centers, bringing them to a point of capacity utilization.

And we do see significant opportunity to do that. If you look at our Mumbai center Borivali for example within 14, 15 months, it has not only been operationalized, but it is researching a very high mark in terms of variation and even medical oncology is ramping up and certainly with the new surgical team we have, it is ramping up.

So, we see very positive signs happening in centre like Borivali. And same thing there was some regulatory issues, we are getting some of the approvals, all of that has happened and we have a very strong management team there with a partner.

We will see that also improving. For example, if you look at Jaipur, same thing in our oncology center in Jaipur has really ramped up extremely well. Even with one linear accelerator reaching almost capacity utilization within 6 to 8 months. So, these are all positive indications.

The reception we are getting for some of the things we have planned for Kolkata is also good but obviously with this kind of a plan we have an investor has to be patient because if you look at quarter-to-quarter, obviously you will see some changes because of the negative, which is coming in. So, if you understand the business and you look at little bit longer horizon you will see what the growth strategy we are, as you have seen, 19% growth in revenue year-on-year, which is significant.

S o, all of this has to be looked at a macro level and see what HCG is going to be down the road. And that is what we are laying out the foundation for it and there are new centers coming in, almost more than doubling happening in the last 3 years, which is significant in oncology space. And this has to be appreciated by the market and the investors.

And obviously, we understand we have to be patient and take time because there is off take of the revenue. This off take of EBITDA, off take of IndAS, off take of the debt. Whether what is the serviceability all these are there. We have serviceable debt, non-serviceable debt. But we are very comfortable in where we are. We know we are able to service the debt. We know we are able to grow, and we are specialists in oncology. Oncology has become a destination in HCG.

Everywhere we are very well known. So, future is very bright. Even we were concerned about the pharmacy, regulatory issues all the centers coming together. But I think we are executing. We have a strong management bandwidth with that we are able to execute it very well. And that is the trend we are going to take it forward, and we have a strong doctor's group, we see nearly now 100,000 mutations, which is one of the largest in the world footfall. So, that has to be also looked at. So, we are very confident of the future growth, but I think patience is required, obviously.

Nitin Agarwal: And then lastly, while we are not going to be putting any more incremental CAPEX to your new centers as you mentioned, are there the models that you probably can exploring or wherein if you can add to capacity in some sense or like that virtual capacity by not committing capital to it, is there other models are out there?

Dr. BS Ajaikumar: Yes, we are looking at models, unfortunately and historically also, these kinds of models have been even when I was in U.S. also it has been very common where there is a finance model operationally leased model and all. But the Indian conditions have not permitted that in the past. Because there are issues in terms of the customs duties, GST which has come which is draconian for some of these measures. If you do it, you have to save 20% and then share revenue, what is left. So, this is why a lot of people are shed from it. Obviously, we do not want to be equipment owners. We do not want to be CAPEX owners. We are good in operational excellence.

We are good in providing outcomes, we are outcome-based cancer care provider for patients. We are not we do not want to own equipment's, but the system is not conducive. But now, we are obviously looking at these options, whether there are ways to do it. Like for example, pay-per-use model, revenue share model, without the GST component or with GST component what does that mean for us because we have EPCG, where we do not pay if we buy the equipment, we do not pay 20% custom duty. Is that better or having a CAPEX scale or somebody coming and putting the CAPEX for the manufacturer.

So, these are all the debates taking place now, when we have certain macro environment, which has made us change. So, I will of course as and when we do, we will be very happy to share and update some of these things when they firm up.

Nitin Agarwal: And then lastly, in terms of what you have heard over the last few quarters is some of your peers or multipurpose hospitals are also sort of focusing on oncology in a reasonably focused way. Have you seen that impacting your competitiveness across markets in any meaningful way?

Dr. BS Ajaikumar: As I told you we are seeing 100,000 new patients. And in Bangalore itself KR last month July we saw a record number of new patients over 820 to 830 new patients per month. So, we are being a destination people. Let me just summarize saying we are looked upon as a destination. See for example, when a new patient is diagnosed with cancer, they may not come to us directly.

The competition is there, multi-specialty, they go in abdominal pain, they get cancer of the pancreas, it was treated there.

But when the cancer comes back, which unfortunately happens in significant number of patients, then they look for an expertise because they think, why did the cancer come back. And they want to come to an expert. That is when they come to a place, like for example, just to give you my own clinic there is some advanced and recurrent tumors last year I had a patient came all the way from Orissa and with lot of difficulty, he was a big bank's manager, why did he come? He said I did a lot of search, I wanted to go to because it is cancer they could not really an answer why he was having obstruction they came to us."

And they have got the solution. They stayed with us for nearly 10 days got a solution. Wrote a very happy note to us now his father is much better now. So, I think we not only get from India from outside India also. So, we are looking at a global company. One of the things I want to say here is we are just not only India provider; we are a global cancer care provider. We have provide cancer care for Middle East, Oman, Africa. So, we want to also we are also focusing on that with a situation in India, the regulatory things we have to do focused on international also. So, all of these is the future and we are very well far through. We have a clear vision and we are going to move forward on those.

Moderator: Thank you. The next question next question is from Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: Sir, I was just looking at your average occupancy rate in three of your largest clusters, Karnataka, Gujarat and East India. It is tightly clustered around 50%. So, for example, Karnataka at 47%, Gujarat at 53% and East India at 53%. So, do we see improvement in occupancy led gains from here? Or is this the kind of maximum occupancy that we are looking at in these three clusters?

Dr. BS Ajaikumar: See one way it is, as we have discussed in the past on this issue of occupancy. We are going forward we are looking at less and less bed occupancy. In our own model also, we are going to put less number of beds because most of the treatment now is outpatient phase. For example, anti-radiation is outpatient, chemotherapy, I would say, 60% to 70% is daycare chemotherapy. Patients were admitted are primarily for high-end therapy, high-end surgery also 3, 4 days to go on with robotic surgery.

So, we are expecting, like I mentioned in my initial report, ALOS is only coming down, it is not going up. So, with all this, some of these centers like Bangalore was built long time ago. We are certainly looking at bed strengths not significantly increasing, but the footfall will increase. Similarly, in the new east we have included Kolkata, I think. So, that is why you are seeing some otherwise occupancy is higher. And even in Ahmadabad area also, the brain cancer center is quite high. So, when you include the Rajkot and some new centers it is showing less. But Ahmadabad center is pretty much saturated at 70%, 73%.

Abhishek Sharma: Yes. So, that reflects in your ARPU, which has been consistently going up. So, for example, this year on a YoY basis, it is up Rs. 2,000. But I was more asking about occupancy you basically see around these levels. Is that right?

V. Srinivasa Raghavan: I think it has consistently remained same. But one of the things is as we change the mix, as we look at more international patients, service mix, it maybe it may fluctuate few points higher up, but we do not see like a center in Bangalore at this point going up to 70% or 80% occupancy.

Moderator: Thank you. The next question is from the line of Iona Chan from Buena Vista Fund. Please go ahead.

Iona Chan: I wanted to ask about Milann. How you guys have been continuing the business since Dr. Rao has cut down operationally?

Dr. BS Ajaikumar: So, since Kamani has exercised a put. We have to put in this fully exercised at the end of September. So, as of now she is still a 49% partner.

V. Srinivasa Raghavan: Dr. Kamani Rao is committed as a clinician, she will be with us. As you know, she was the original person of she is a medical director. She will continue to be there. And there is also agreements with our post disclosure that she will worked with us for several years. So, under this we have start the Milann. So, she is very much committed to working. The foot option was primarily exercise for some personal reasons.

Iona Chan: And given the weaker registration growth this quarter, are we concerned that cycles will not recover as strongly as we hoped in the coming quarters?

Niraj Didwania: The lesser number of registrations for the quarter are only an impression because of the last year registration also have in Mumbai and Bhuvanagiri which are no more there the existing center of Milann they are showing good pipeline in the form of registration.

Dr. BS Ajaikumar: And one of the things is also the IVF cycles have increased significantly 8.1%. And also the revenue increase is 11%.

Iona Chan: So, if you remove the center that you mentioned that was captured in FY '19, what would the growth look like for registration?

Dr. BS Ajaikumar: We will share that separately with you.

V. Srinivasa Raghavan: Yes, we can share that. We do not have that exactly. We would be glad to share with you separately.

Iona Chan: I am just trying to understand the EBITDA level for the IVF centers this quarter? EBITDA contribution from the IVF business for Milann?

Niraj Didwania: Yes, the EBITDA margins are improving, and it is now reaching the double-digit range for IVF as of Q1.

Moderator: Thank you. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Niraj Didwania: Thank you for as a participation on the call. We are available offline for any further discussion and details you may require. With this we conclude the Q1 FY20 conference call for HealthCare Global Enterprises. Thank you for participation.

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