Healthcare Global Enterprises Q1 FY19 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good day and welcome to the Healthcare Global Enterprises Q1 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Niraj Didwania. Thank you and over to you sir.

Niraj Didwania: Thank You Aman. Good evening and a very welcome to all participants to Healthcare Global Enterprises Limited Q1 FY2019 Earnings Conference Call. Today we have with us Dr. BS Ajaikumar – Chairman and CEO of HCG along with the management team to share highlights of our business and financials. We have uploaded our earnings upgrade presentation to the stock exchanges and also shared the same through our mailers without further ado I hand over the call to Dr. BS Ajaikumar.

Dr. BS Ajaikumar: Thanks Niraj and once again warm welcome to all the participants. We are pleased to report Q1FY19 results with robust growth across our business. We continue to create scale in oncology on Pan India basis. In addition to the leadership in Karnataka and Gujarat we are seeing strong growth in large markets like Maharashtra, Andhra Pradesh, Tamil Naidu across metros and Tier 2, Tier 3 towns. Nashik and Mumbai in particular are showing good growth. Our existing centers continue to show margin improvements while our new center scale-up as per plan, a testament to our focus on execution. We are also seeing excellent opportunity to leverage our core technology and expertise in oncology to offer services in various international markets. Also, we are very pleased to welcome Srinivasa Raghavan who has joined as CFO and brings lot of wealth of experience as well as Mr. Sudhir Bahl as CEO of Milan with significant experience. Overall, we are excited about continuing our leadership in niche specialties with focus on efficient execution while investing its strategic initiatives towards continued future value creating for all our stakeholders.

Business updates for Q1 FY19 are as follows Gujarat and Maharashtra together contributed 41% of HCG center revenue exceeding Karnataka for the first time so in that we are becoming more of a national presence definitely. Nashik sales to commence operations adding 75 operational beds and scope for further expansion. Borivali center ramping per plan establishing leadership in radio surgery and growing inflow of international patients. Advanced Hematology Oncology bone marrow transplant services offering at center in Maharashtra. Strong performance of Baroda center continuous increasing penetration in Gujarat region with commencement of outpatient's services in Rajkot center. Strong ramp up center in Nairobi first to launch high end HDR brachy therapy treatment in Kenya. New Milan center at Whitefield in Bangalore commenced operations, addresses one of the high potential IVF markets in India.

Strand Life Science, our leading specialty diagnostics and Precision Medicine Company initiated clinical research projects with leading pharmaceutical companies and expanded labs in Cuttack, Vijayawada, Vishakhapatnam and Jaipur. First its kind oncology specific electronic medical record (EMR) system to be co-developed with **Elekta** to bring in consolidated multidiscipline database with actionable analytics seamless automated window workflow and clinical data to enable standardization of treatment protocol particularly in oncology. At this point, I would like to ask Yogesh to share our financial highlights.

Yogesh Patel: My greetings to all the investors and analyst present here. The highlights for quarter ended June 30th, 2018: Our consolidated income from operations ("Revenue") stood at INR 2,266 million as compared to INR 1,911 million in the corresponding quarter of the previous year reflecting a year-on-year increase of 18.6%. The operating EBITDA for existing centers was INR 337 million as compared to INR 294 million in the corresponding quarter of the previous year reflecting an operating EBITDA margin of 18.5% as compared to a margin of 17.8% in the previous year. Loss on new centers launched of late was INR 32 million as compared to a profit of INR 1 million from new center in corresponding quarter of previous year. Consolidated profit before other income depreciation and amortization, finance cost, exceptional item and taxes, basically operating EBITDA was INR 306 million as compared to INR 295 million in the corresponding quarter of previous year reflecting a year-on-year increase of 3.6%. Consolidated profit after taxes and minority interest PAT was a loss of INR 34 million as compared to profit of INR 47 million in the corresponding quarter of the previous year.

Consolidated profit after taxes and minority interest excluding INR 40 million of loss from FOREX reinstatement recorded and INR 19 million which came in as a share of loss from associates, it would have been a profit of INR 26 million in this quarter. Drawing attention to slide number 4 in the earnings presentation our Quarter 1 FY19, Revenue overall grew at 18.6% and the breakup of that stands HCG centers grew at 20.8% while Milan centers degrew by 5% year-on-year. In terms of quarter one operating EBITDA, the existing center margin has shown an increase as stated to 18.5% compared to 17.8% in last year of same quarter. New centers loss had contributed 32 million in this quarter. With this I will request Dr. BS Ajaikumar to take back for sharing the operating highlights.

Dr. BS Ajaikumar: Thanks Yogesh. I would like to draw your attention to Slide #8 of the presentation. 115 new bed additions on account of Nashik expansion of 75 beds and 40 beds at Vijayawada ARPOB for existing center at INR 33,701 against INR 31,992 for Q1 FY18 continuing reduction of ALOS average length of stay for 2.37 on account of trend towards day care procedure and changing patient profile. Operating EBITDA margin impacted with scale up and losses of new center. Existing center operating EBITDA margin improved to 60 bps to 23.7 in Q1 FY19 from 23.1 in Q1 FY18. Looking at the geography in slide 9 Karnataka region continuous its focus on improving realization parameters. The center of excellence ARPOB INR 45.900 with 26.5% operating EBITDA margin that is the highest in our region in center of excellence. COE, ROC improved to 23.5% from 21.7 in Q1 FY18. ARPOB dipped in region driven by scale up of multispecialty in Hubli that is a reason for ARPOB dip in regions. With respect to Gujarat region

Baroda cancer center in Bhavnagar multispecialty continuous strong ramp up. EBITDA margin of existing centers at 17.5% for Q1 FY19. In Maharashtra Nashik phase 2 commences, enhancing total operational capacity to 152 beds. EBITDA margin at 29.2% for Q1 FY19. Borivali center in good international patient flow and strong revenue ramp up. In Andhra Pradesh strong revenue growth, occupancy increased and ARPOB dilution driven by consolidation of business partner in Vijayawada. New center in Vizag ramping up well. In East India reduction in skin patients along with investment in enhancing quality of care at Cuttack center. Improved procedural mix and efficiency leading to optimal occupancy.

Coming to slide 10 covering key highlights of Milan fertility business center, implementation of new strategic initiatives, appointment of CEO having strong IBF experience, new center in Whitefield launched with good potential, Mumbai center being restructured to strategically address large market opportunity. now again, I ask Yogesh Patel to explain the CAPEX and debt highlights.

Yogesh Patel: I would like to draw your attention to slide number 12 of the presentation bed share Continuing with our expansion execution we have invested a total CAPEX of Rs. 925 million in the current quarter with majority of that primarily going into HCG center and a nominal investment of 6 million in Milan center. Investment of 238 million in FY18 in HCG center Africa which is not shown as part of CAPEX stands there as well. Expansions for quarter 1 FY19 includes an investment of INR 70 million towards Vijayawada consolidation. In terms of net debt, we closed the quarter at a net debt of Rs. 5,042 million rupees of which vendor finance comprises of Rs 1,605 million. This number obviously has inflation impact because of recent statement of debt denominated in foreign currency the impact of that which was Rs. 62 million and 18 million as of corresponding number in last quarter in Q4 on account of exchange rate fluctuation as well. With this, I would like now to hand over the call back to Mr. Niraj Didwania.

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

Moderator: Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: My question is on the EBITDA margin mean if I am looking at more on a year-on-year as well as even sequentially I mean the EBITDA margin excluding the other income is lower and I mean while you had talked about the losses from the new centers of about 3 crores plus, what I would like to understand is here we have started the additional beds in Nashik whether we have incorporated the entire cost in this quarter or you know whether they can be a partial impact of that in the coming quarter because I believe that even as we move to the next quarter we have this Jaipur facility and West Bengal also coming in?

Dr. BS Ajaikumar: In terms of EBITDA margin specifically the existing center of HCG which has shown a ramp up in the past continue the same trend in fact the margin year-on-year if you look for existing center which was 17.8% last year, I mean if I were to give you in number it was 294 million on a 1,656 million of revenue which has now become 337 million on a 1,820 million revenue so that has shown a 70 basis point margin increase on the existing part. So the decrease which you see on the overall margin reported is primarily because of new center which commence operations in last fiscal which have obviously yet to ramp up to a breakeven level and that was pulling it down. I mean just to mention that last year first quarter we had 0 loss or rather we had a profit of 1 million from the new center as compared to 32 million of loss in this quarter. On the second question which you mentioned on investments in Nashik specifically so most of the investments, since the center is almost complete and functioning, is done. So the commensurate to the services commencement and the revenue recognizing for investment is done. There would be some part of investment to close out make the center fully operational and is supposed to go out in next quarter and within this Calendar for sure. So by October, November it will be done all but majority is done so I do not think more than 10% CAPEX from the center maybe pending as well.

Sudarshan Padmanabhan: Sir if I am actually looking at the full year trajectory, I mean in terms of blended margin we have another two or three center that is expected to come in and also with light of if you are looking at the traction I think we are seeing a very strong traction in Maharashtra and as well as Andhra Pradesh is also doing well. One I agree that there are losses which are going in coming in from the new center that you are starting this quarter, but should you also not see strong benefit of margins increasing from the existing center. So largely as we move forward should this be able to offset the kind of losses that we are going to see in the new center.

Dr. BS Ajaikumar: As you know the existing centers when you reach in the 20s that would be reaching level where further improvement particularly when you look at major contributors like Center of Excellence it would be difficult to reach above that and in Gujarat the center mature centers are in the higher teens and because of the agreements with a doctor agreement we have in Gujarat market where we are structured with a JV market and all we are not able to go beyond this 17%-18% in the Gujarat market even the oncology center and the multispecialty doing extremely well. So with this you know the opportunity in the existing center to go will be very limited and their contribution to the overall will not be that great. The major centers are reaching levels where higher level to compensate for the losses from the new centers may not be fully offsetting, whatever we have achieved what Yogesh said that 1% higher I think it is good and we are working on more efficiency obviously we will try to bring in a centralization shared services all this will continue to improve as centers mature.

Yogesh Patel: I think the focus were also is to ramp up our new centers faster towards breakeven and profit making as well and towards that a last couple of centers has shown that promising trend and growth what we are seeing in couple of centers of Maharashtra launch last year is also positive.

So from that perspective the focus also is to reduce lot as fast as we can and bring them to profitability to augment the profit margin.

Dr. BS Ajaikumar: Just to highlight one point the center of excellence with a ARPOB of 45.2k, I will say has an EBITDA margin of 26.5% so that is same and it contributes quite significant to our overall EBITDA so this is where we are and as Yogesh said we will ramp up our center but the center which are coming to mature levels will obviously contribute, but contribution percentage may not be great because of the lower revenue from them except for Gujarat cluster and Bangalore in Karnataka.

Sudarshan Padmanabhan: Specifically if I am looking at Borivali as such I mean in terms of how the growth in terms of profitability has been as well as ARPOB if you can give some sense whether it is in line with your expectation ahead of expectations and how this center specifically is expected to stand out in the overall schemes of thing probably in the next year or couple of years?

Dr. BS Ajaikumar: I just want to say I think we are certainly doing good being a dedicated oncology center the way we have put system and radio surgery leadership role it is ramping up well.

Yogesh Patel: From the last few months our experience at that place has been that the growth has been in line with what we are expecting at that region and it is only looking to be more promising and the acceptance of HCG as an entity there has been shown in the number of new patients they are getting registered and the patients are coming for therapy while we go on to the journey we certainly see improvement as we go along.

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

Rashmi Sancheti: On Nashik again has it started contributing to EBITDA or it is still generating loss?

Dr. BS Ajaikumar: Nashik is contributing because it was kind of extension of an existing thing so what we are adding there is phase 2 to an existing unit. So from that perspective it is augmentation itself, there are no draw down or a claw back what you see in a new center which start as a new Greenfields.

Rashmi Sancheti: So overall on a consolidated that is Nashik and the earlier Nashik phase 1 and phase 2 both are basically contributing to EBITDA at this point of time and there is no loss from Nashik too?

Dr. BS Ajaikumar: Absolutely none.

Rashmi Sancheti: And what about Borivali how much time would it take and if you can let us know like what are the kind of cost is contributed in the total operating cost.?

Dr. BS Ajaikumar: So Borivali commenced operation from September of 2017 based on our business plan and structure we usually look to breakup within the 18 months of having commenced the operation. Given that we have had seen full 10 months of operations as of June. It has definitely ramped up ahead of growth plan the business plan what we have set up. So with the growth we are optimistic in terms of meeting or doing better than that probably, but from a breakeven perspective we should see towards the end of this fiscal or somewhere in calendar of 2019.

Rashmi Sancheti: 2019 you are saying.

Dr. BS Ajaikumar: Calendar 2019, probably this fiscal itself. So probably by March of 19 is what we are saying.

Rashmi Sancheti: So what are the reasons behind de-growth in Milan centers?

Dr. BS Ajaikumar: I think what happened in Milan in the last quarter in the last fiscal one of our prominent doctors for personal reasons was not available all the time and that actually was the main reason why we saw some of the de-growth particularly in the center in Bangalore where she was primarily doing the consultation, but having said that what we are seeing now is definitely improvement in the registration and we hope this ramp up will happen in the next few quarters.

Rashmi Sancheti: So currently there are 9 center including Whitefield Bangalore so any plans to add up any new centers in Milan in the next two years?

Dr. BS Ajaikumar: Like I mentioned we are looking at strategically where we want to add center not only in Bangalore or Karnataka but even outside. As we know we have centers in Chandigarh, Delhi. So we are looking at some areas in NCR areas as well as in East like in Calcutta but these are all in very preliminary times. At this point obviously, we want to fully consolidate and ramp up the full potential of our existing center which is also equally important that is why we have been very fortunate to have Sudhir Bahl there who is well known this field and I think he has certainly taken this up the whole process Sudhir you want to add anything.

Rashmi Sancheti: And what kind of growth are you seeing in FY19 and 20 for Milan after adding up this facility?

Dr. BS Ajaikumar: Only for Milan will be 12% to 15% growth.

Rashmi Sancheti: And on debt side we have already reached to 500 crores debt so is it something that we are going to add more in the second half or will this be the peak?

Dr. BS Ajaikumar: Rashmi can you repeat that question please?

Rashmi Sancheti: I am asking that in case of debt, so the total debt currently stands at around 500 crores. So I am just asking that whether this is going to increase further or it will remain at the same level or it will be reduced?

Dr. BS Ajaikumar: For this year there will be increase from this number. We have a capital cycle which we are undergoing with newer centers to complete and operate specifically in Cochin, Delhi and three centers which are almost completed so those CAPEX cycle for that is done, but almost launching of the center is pending in this calendar year itself. So with that there will be increase in capital investment itself and little bit increase or some more draw down from a debt perspective. So they will be increase as we head towards end of this fiscal year.

Rashmi Sancheti: If you can give some amount like at the end of the year how will it look like?

Dr. BS Ajaikumar: So what I can tell you right now is from our CAPEX cycle perspective whatever we have done in quarter one is almost like 45% to 50% of this year is a CAPEX which should go in. So which means that balance amount which we are supposed to fund will be a combination of our internal accrual and debt draw down. So that is the quantum which would probably add to the debt which will draw down from borrowing line.

Rashmi Sancheti: So you mean to say that 45% to 50% of your CAPEX is something till that much the debt is going to increase?

Dr. BS Ajaikumar: You are right what I said is the CAPEX spending is equal to almost or about 90% of that value which is there in this first quarter itself so approx. whatever that number is 80 crores, 90 crores is what we will have to go ahead with which will get funded through a mix of debt and internal accruals. So a part of that will be increase to the debt.

Moderator: The next question is from the line of Rohan Dalal from B&K Securities. Please go ahead.

Rohan Dalal: I just had a couple of specific questions regarding some centers I wanted to understand about the Vijayawada center and how that panning out in terms of profitability. Revenues obviously seems to be growing that exponential, so I just wanted to understand that center and what the management outlook is on that and I also wanted to understand how exactly the losses the 3 crores worth of losses in the quarter have been split up between Nagpur, Borivali, Vijayawada at this point?

Dr. BS Ajaikumar: So the first part I will answer the main thing is in Vijayawada we had partners so who has been consolidated at HCG because of that you are seeing exponential growth and going forward this consolidation is only positive as surgery, radiation, medical oncology all coming under one entity. So together with this we expect the growth to continue as you know Vijayawada is becoming a very prominent place in the new state. So, with that and all the way we have been for a long time almost 10 years and this consolidation with a very prominent surgeon was our partner also. I think it is only going to help the growth of oncology. So I think the growth will sustain, the profitability will sustain and I do not see any negatives in this area. As far as your second question is concerned Yogesh you want to answer the last question 3 crores loss of Borivali and Nagpur.

Yogesh Patel: So 3 crores is a combination of all new centers and in terms of Vizag you said profitability remains higher. So can you just articulate a question exactly what you are looking for?

Rohan Dalal: So I was just wondering what the breakup is last year we had a breakup where we were talking about Nagpur, Kanpur and Borivali is a big loss making facilities and obviously we exit Kanpur. So at this point I just wanted to understand what is the breakup of that 3 crores or which center is really is it still Borivali the big contributor or is any of the other facilities now contributing a larger amount of those losses?

Dr. BS Ajaikumar: No, I think it predominantly Maharashtra center of Borivali and Nagpur only which contribute to that number.

Yogesh Patel: Rohan just to add this also includes some of the losses from Milan new center. So when we classify new center on a consolidated basis we have Milan new centers also and in fact in Q1 we have launched we have launched Whitefield. So from Q4 to Q1 is also because of that so it includes both.

Rohan Dalal: So ex of that launch cost how much would it be Rs. 3 crores would that be a sizable amount or is it just a small amount for these centers of investments?

Dr. BS Ajaikumar: I do not think it will be sizable amount.

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

Harith Ahmad: So looking at the revenue from new HCG center for a quarter there has been a sequential declines versus the fourth quarter last year so is there a reason for this previously for several quarter we have seen this number actually ramping up quarter-on-quarter. This quarter it is around 42 crores versus 43 crores - 44 crores in fourth quarter despite adding this the new block at Phase-2 at Nashik?

Dr. BS Ajaikumar: I think delta is because Kanpur center was there is fourth quarter which we exited towards end of that thing and in fact till 30th of March. So that is why it is higher in quarter four without that there is a growth in new center in quarter four to quarter one.

Harith Ahmad: The shares of losses from associates of around 2 crores so is this number going to recur every quarter or would we see a reduction here?

Dr. BS Ajaikumar: So this has a two of the associates which we consolidate at equity level one of them being our diagnostics investment which we did in last quarter which stands and the second one which is our Africa investment vehicle. So, both the unit continue to be associates of ours for sure. However, the loss from there would obviously the business plan is towards getting them to reduce more ultimately so the associate accounting will continue definitely whether the number is negative obviously idea is get into positive sooner.

Harith Ahmad: And you also mentioned something about the decline in ARPOB in the AP region due to consolidation of partner business I mean exactly understand that, can you explain that a bit?

Dr. BS Ajaikumar: Because when you have a surgical component which comes into the radiation and medical oncology, the surgical ARPOB is usually less and that is what contributes to the decline in ARPOB. The numbers will increase, your EBITDA will increase everything but ARPOB will come down as it goes into more capacity utilization that will obviously bring down the ARPOB.

Moderator: We have the next question from the line of Shriram Rathi from ICICI Securities. Please go ahead.

Shriram Rathi: Two questions one this 3 crores of losses from the new centers, how should we look at this number going forward in the coming quarter considering three to four new centers are becoming operational also in the remaining part of this year? Can there be significant increase or how are we looking at this number?

Dr. BS Ajaikumar: I think as we go forward, the two other centers which are coming up, we do expect the losses to be there, but our Nagpur as well as Mumbai center we will obviously have lesser loss. We do not think it would not be substantially **difference** and obviously as we ramp up the we expect particularly Jaipur center also to do well. So, we do expect small change but not a significant change in the losses.

Shriram Rathi: My question is basically last full year we had 14.3% EBITDA margin and this quarter is 13.5% because of the losses from the new center, so considering this Q1 weak margin for the full year basis how should we look at the margin to pan out? Will it be closer to the previous year figure or it will be more closure to the current quarter figure?

Dr. BS Ajaikumar: No, I think the blended margin what you are looking at will stay at muted level compared to last year closure to what we have seen in first quarter itself that is because new centers loss which contribute or bring it down or pull it down. What, hence, is relevant also see is the existing center margin which we kind of hold or keep improving to balance this whole thing out, but on a blended basis since the mix of new centers versus existing centers revenue changes. New centers keep kicking in there will be a delusion compared to last year of EBITDA margins.

Shriram Rathi: Lastly, the finance cost seems to have increase significantly YOY and QOQ because considering the 500 crores of debt is there and 18 crores of interest in one quarter, is there anything more to that in terms of any MTM losses or FOREX?

Dr. BS Ajaikumar: Yeah very much there is a M-to-M or a FOREX loan reinstatement in current exchange rate impact coming in first quarter and that impact itself is Rs. 62 million for the quarter out of that interest will be 12 Crores approx.

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

Chandramouli Muthiah: My first question is on Borivali transaction that you now announced recently that you are buying back the minority partners Apex so just wondering what the rationale was behind the transaction and if you can give us some numbers from the actual value of the transaction please?

Dr. BS Ajaikumar: I think as far as the transaction rationale, we were 51% and we were working with the partners who was also the landlord and as we work towards that we felt mutually because he was not an oncology field, they are in multispecialty on their own, they have Apex Hospital. The agreement was it will be better off if we focus on oncology and drive it. For us and our board also felt 100% owner in a promising place like Mumbai, delegated cancer center long term it was definitely better. And since all the work was done and we are seeing a good growth opportunity, we felt long-term this is value for us and also the partner wanted or looking at possibly saying there is a good relationship here. We are a tenant up there and with all this we felt it is positive for HCG to do this and this was our intention as we started growing and the partner was agreeable, so we have exited the partner.

Chandramouli Muthiah: Just a value of the transaction?

Dr. BS Ajaikumar: In the Q2 it will come out, we will certainly make a disclosure at this time.

Chandramouli Muthiah: My second question is around finance cost I think just in relation to the comments made that leverage this year might go up a little bit looks like there has also been a QOQ pick up in finance so is it fair to assume that finance cost might up for the rest of the year from current year?

Dr. BS Ajaikumar: So, what is reported in the quarter from that obviously we should see a quarter number represented much lower than what this is because one-third of this number is almost restatement cost is mark-to-market which hopefully would not recur to this extent for sure. So, with that you will have interest component which will come in because of higher debt drawn down but not of this quantum for sure. So, it will be lower than this but on a quarter-on-quarter, it will be in-line with my debt drawn down percentage.

Chandramouli Muthiah: So just to clarify of this 17.5 crores finance cost about one-third is just the markup the rest of interest cost?

Dr. BS Ajaikumar: 6.2 crores is mark up, about 11.3 is interest.

Chandramouli Muthiah: Just my final question is on some of the schemes around drug procurement and direct purchasing as you have been discussing as potential savings on the P&L, if you could just give us little more clarity on how those are progressing?

Dr. BS Ajaikumar: I think all of them are as per the plan, there has been no change in this quarter. As we know, we are very much on the centralization of services both pharma and consumables. All of this are going well and even though as you know there has been lot of disturbance in the pharma industry, MRP issues, pricing issues and all, we have been able to sustain all this and continue to have a good margin. So I think we do not see any issues and as more centers come I think the centralization of services we see lot of benefit for what we are doing and we will continue to do this.

Moderator: The next question is from the line of Aparna Naik from Crisil. Please go ahead.

Aparna Naik: My question is around Ayushman Bharat that has been recently announced so we have seen some apprehension on the hospital industry regarding the package rates, so you said you are going in **for** the consultation phase . So do you see yourself what is your perspective on the whole issue and would you be under the scheme or something of that sort?

Dr. BS Ajaikumar: I think we know it is Ayushman Bharat was started with a good intention and it is supposed to cover diseases like Cancer. Several states already have schemes as you are well aware Andhra Pradesh Scheme, and Karnataka, Tamil Naidu schemes because we are in Tier-2, Tier-3 cities in those cities we do participate in this because there is no other cancer center in the local area. So Ayushman Scheme we are still looking at the detailing of that which I think shortly the Prime Minister is supposed to announce. What will be looking at is who is the administrator of this, we will want more clarity and one of the things is what is the amount will be paid for procedures. As you know (IMA) Indian Medical Association rightly as opposed it because the remuneration is very low supposed to be even below CGHS rates. So what we look at in cancer care is HCG is known for its value-based medicine. Value-based medicine is what kind of technology, therapy, drugs we use and what will it cost for somebody to take same treatment in advance country and in India even in countries like Africa or Middle East and what will be even we do it and get the same outcome. So, what we have known, and we have been published in Harvard Business School and all because of our outcome at a lower cost, but the issue is Ayushman scheme is unfortunately not to be critical while it is a good intention, it is not focusing on outcome or value-based. It is focusing on low cost. I have always felt there is a cost to low cost. So I think in this region we have to address this issue. Low cost treatment if a patient is given with my own relative goes with Ayushman scheme as breast cancer and say that okay I cannot give you Herceptin because Ayushman scheme does not give, but Herceptin is going to probably give long-term control or cure, but who is at fault here. Is the patient at fault or doctor or institutional fault or the Ayushman scheme is at fault? So that is a debate which has to happen. So eventually it has to be started out as it is sorted out in advance countries. So, if the cancer has to be treated in the right way the first time I think it has to be right treatment. In the Ayushman scheme unfortunately it does not provide for that in all cases. So, it may provide in the initial case certain diagnosis, certain preventive measures, but when it comes to treatment when you talk about IMRT, IGRT, radio surgery or when you talk about certain drugs to be used potentially biomarkers, biosimilars the cost is so much the scheme may not allow. So this is under which only we are all looking at that is why IMA bodies have opposed it, but we are getting mixed message from the administrator of this scheme. One hand somebody says we will relook at the pricing, somebody says it is all fixed nothing we can do. So, the participation by the private enterprise itself will be in question. The whole scheme is based on whether the private enterprise will participate. So, we have to see how it plays out since we are already in Tier-2, Tier-3 cities which are smaller entities we may continue to be there and evaluate the impact of that. So that is how we will play it out.

Aparna Naik: One more question regarding the Borivali center so you expect to breakeven in 18 months, so could you give me a sense of what would be the occupancy rates that you are looking at for it to breakeven?

Dr. BS Ajaikumar: See in cancer care really it is not the bed strength. While bed strength is there for all others, in cancer care we look at the footfalls. When you look at for example radiation how many patients are on the couch, how many chemotherapy administrations, a lot of chemotherapy day care. So what we look at is the footfall number of new registration and from our viewpoint new registrations Dinesh has been good. We are tracking very well, and I think as Yogesh mentioned we should be able to achieve that in 18 months. Dinesh you want to add anything.

Dinesh Mahadevan: So I think Borivali the focus is to do our main work and not only makes the difference at center or mix of work which is being done and that will be a contributor, we are pretty upbeat about the location and we have 18 month projection.

Aparna Naik: Sir tell me what will be the usual share that you have between day care procedures and your impatient treatment?

Dr. BS Ajaikumar: So it will be roughly about I would say 20% of them would be internal and about the rest would be external which is all day care radiation, patients coming for PET CT and investigation.

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

Nitin Agarwal: Sir on the existing hospital, I mean how do you see this segment sort of incrementally growing from here when you took a two to three year view how much kind of growth because we have grown about 11%, 12% this quarter, can this growth rate accelerate or was the sustainable growth rate for this business? And on a profitability basis what could be the peak sort of sustained profitability for the cluster of hospitals?

Dr. BS Ajaikumar: Existing hospitals we expect the growth for various reasons to be between around 12% Nitin and the reason is it is not only as you know the price increase is there, but it is very minimal, but we are looking at the mix to improve. When you look at the center like in Bangalore or Gujarat, the mix is what it is giving us the growth as well as obviously increase in footfalls and we are seeing that more so even in the place like Bangalore which is a very mature center, we are seeing increase in the footfall as well as in center in our Ahmadabad are significantly that is happening. So, this is obviously going to drive the growth and regarding the profitability as we know as the revenue increases with a fixed cost, we do expect the margin to improve slightly but the only caveat here is centers like Bangalore margin may not significantly improve because we are reaching the top margin of 27%. So the existing center's capacity utilization, mix improvement for example, in Ahmadabad existing center we recently got a PET Scan we did a chemotherapy therapy units expansion and even in Cuttack we are doing expansion those obviously will add to the revenue and also the profitability.

Nitin Agarwal: Sir in terms of expansion beyond the expansion program that you have outlined for FY19 the four new centers how are we thinking about growth from there on?

Dr. BS Ajaikumar: The question is we have to also consolidate having nearly 26 centers and one of the things with CAPEX requirement funding most of it already happened majority Calcutta center, Jaipur and all we are looking at obviously consolidating these centers, capacity utilization and the ramping up of these centers is also very important. So putting new centers while it is good I think each center to reach that level is also a growth and other than that we are looking at some opportunity and as the time comes we will also discuss and disclose that where said in my initial statement there are lot of international opportunities to do some training, do some like telephysics, teleradiology physics which does not require much CAPEX, O&M. All these have been looked at and some of that we had already started, and we will of course disclose it right time once we have everything in order, but most important thing is here as we become like Nairobi center global company and we are known for value-based medicine, there are significant opportunities in the pipeline for us to grow not only in terms of putting up center in India but abroad but also the knowledge requirements look at science, for example the value-based company how we can do. For example, the next generation frequencies, bioinformatics, biorepository. Today in oncology people are not only looking at us at least HCG providing service value-based but the backend integration, what is R&D work based on this what is it we can offer to like drug discoveries. So, all of this are potentially data as you know data has become a big thing. So, we are doing some of these things so that we become center of excellence where people ask us from abroad to do training, knowhow. So this is all one area where we are growing in the education aspects. So, all of this I think will be value addition to the HCG growth story but having said that strategically if we feel that there are areas we have to penetrate in India or outside you will certainly do that.

Nitin Agarwal: So it is fair to assume that if for example in FY20 and maybe '21 we may not have too many additions and the focus would be consolidation of the current network?

Dr. BS Ajaikumar: As of now yes existing certainly we should consolidate and grow it to the level we think we all have potential.

Moderator: We have the next question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.

Arshad Mukadam: A couple of quarters ago you all had said the South Mumbai center will be opening I think in Q1 of this FY now it is shifted to Q3 so any particular reason for that, any permission problem or something of that sort?

Dr. BS Ajaikumar: South Mumbai will be opening in the Q2 that is what is the only reason as we were waiting for some AERB approval for the unit. So we expect that to start towards the end of Q2 or beginning of Q3 because the regulatory things in getting all the approvals for this particular unit where there was a **type** approval is also required. I think last quarter also we announced in the Q3.

Yogesh Patel: Last quarter we guided Q3 we are looking to probably fill it up ahead in Q2 if possible so that is the status right now. So rather a project execution efficiency demonstrated this year rather than delay from that point of view.

Arshad Mukadam: And another thing I just wanted to understand is that in the East India centers the occupancy is relatively high compared to other center with the ARPOB significantly lower so what is the reason for that?

Dr. BS Ajaikumar: Yeah, I think reason is as you know East India Centers is more capacity placed because lot of these stations comes under different schemes for example ESI, the local state schemes or the ones which are contributing to the capacity utilization, but our ARPOB is improving on year-on-year and so we expect we are also working on how to change the mix. Our cash percentage is gradually increasing. So these are some of the areas we are working on to see how we can improve the ARPOB in this area.

Moderator: The follow up question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

Rashmi Sancheti: Can you specify the reason why the interest cost is so high during the quarter?

Yogesh Patel: So the interest cost the finance side what you see has also a component of reinstatement of liability denominated in foreign currency so that mark-to-market number is there which is 62 million rupees in the quarter so that is why it is one component higher. Second point obviously is that with the draw-down of additional debts the interest quantum would be proportionately increase as well. Interest rate also has seen an uptick on the domestic borrowing, the bank debt what you see in the component has seen an uptick of interest rate as well for at least one month in the quarter we have seen an increase going our reset of interest was due of 1st June.

Rashmi Sancheti: And on an annualized basis how should we look at it?

Yogesh Patel: So annualize if you were to do for the quarter number itself this number if you were to take 62 million out is the interest portion but I would say also because the additional draw-down of debt will happen some amount of interest increase will happen because of additional debt as well and the next play would be how the interest rates play out.

Rashmi Sancheti: So what will be the blended interest rate which includes vendor financing also and the bank debt?

Yogesh Patel: Blended currently is around having 8% and 9%.

Rashmi Sancheti: So that would remain?

Yogesh Patel: That would hold for this year for sure.

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

Chandramouli Muthiah: Just a house keeping question on tax, do we stick to 37% tax rate for the rest of the year each quarter or is there a different way of thinking about it?

Yogesh Patel: Yes, so the effective rates for our parent entity would be in that 34% range itself. We have certain SPVs which have certain centers as well and all the new centers probably the tax asset would come in or deferred tax on the losses per se. So those new units being attracting 25% tax rates so that delta would remain in terms of mix of SPV-led revenue vis-à-vis what is in the consolidated or parent entity.

Chandramouli Muthiah: So this quarter looks like we have had a positive impact from tax, so the rest of the year it looks like we will be at probably early 30s?

Yogesh Patel: Absolutely correct.

Moderator: We have the follow up question from the line of Rohan Dalal from B&K Securities. Please go ahead.

Rohan Dalal: Sorry I just forgotten about the other income I do not know if it was mentioned already I was wondering why it was lower?

Yogesh Patel: Other income what you have seen last year in the first quarter had an interest from IT refund which was pending almost 92 lakh was an interest we accrued from that which came in first quarter and June quarter of 2017 that is one thing and then obviously given that we had made other investors. So whatever the surplus we would have kept in either deposits or financial instrument so that come down and hence the other income interest or market-led instrument income which should come and reduce, but there was a one-time in last year. So, for year-to-year you are comparing which is not 242 versus 94, 242 you should normalize for 92 and make it 160.

Rohan Dalal: Okay so I should make that 150.

Moderator: We have the next question from the line of Nilaksh Arora as an Individual Investors. Please go ahead.

Nilaksh Arora: I just have two questions right now. First one how was the projecting growth for Milan beyond FY19?

Dr. BS Ajaikumar: We do as far as growth in Milan is concerned as I said with a number of centers which were now coming to the capacity we are doing with Sudhir being there we do expect a good growth across all our centers and also with a certain initiative we have taken in areas like Delhi, Chandigarh area the growth will be good as well as in the Karnataka. So, opportunity is there as we know it is not a very organized sector, we are organizing it and Milan is rated number one in the country. So, we do significant opportunity and with Sudhir being there we see that growth happening.

Nilaksh Arora: My second question was what percentage of CAPEX is usually through vendor financing?

Yogesh Patel: So what we do as an investment in new cancer center happens, the equipments which we import we do have a tie up with vendors where they offer us a deferred payment structure. So, the amount till the time we had pay down to vendors stay as a DP or a deferred payment obligation in our books so that is the value which is classified as vendor finance.

Nilaksh Arora: And usually what percentage of debt does vendor financing comprises of?

Yogesh Patel: There are couple of vendors who are either based out of Europe or US. So, they obviously given that they are vendor financing they are very close to LIBOR rates itself I mean there is no reason to add in margin or float, etc. So the cost over there which we book in the accounting system when it is an integrated deal is closure to the LIBOR rate.

Moderator: 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 your sir.

Niraj Didwania.: Thank you everyone for active participation on the call we are available offline for any further discussions. With this, we conclude Q1 Earnings Call for Healthcare Global Enterprises. Thank you.

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