"Healthcare Global Enterprises Q4 FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HealthCare Global Enterprises Q4 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone telephone. I now hand the conference over to Mr. Niraj Didwania from HealthCare Global Enterprises. Thank you and over to you, sir.

Niraj Didwania: Thank you, good evening and a very warm welcome to all participants to HealthCare Global Enterprises Limited Q4 and full year FY2018 Earnings Conference Call. Today, we have with us Dr. B S Ajaikumar – Chairman and CEO of HCG along with the management team to share highlights of our business and financials. We have uploaded an earnings update presentation to the stock exchange and also shared the same through our mailers and on our website. Without further ado, I hand over the call to Dr. BS Ajaikumar.

Dr. BS Ajaikumar: Thank you, Niraj and welcome to the participants. My apologies for the few minutes' delay. We are pleased to report Q4 and Full Year FY18 Results, with strong performance across our verticals and multiple strategic initiatives in our core business. With respect to oncology, existing centers are consistently showing margin improvement as they mature while new centers scale up as per plan, a testament to our focus and execution. This is particularly important with marquee projects coming up in the next few quarters across South Mumbai, Jaipur and Kolkata. Milann, our fertility vertical is at the cusp of several exciting growth opportunities and we have the potential to create leadership in the country in IVF. At Strand, the foremost integrated diagnostic and precision medicine platform, we aim to redefine patient care and outcome across our chosen specialties with leadership role in bioinformatics. We have seen some early success in our international operations in Kenya and we are looking to grow the same further as we address underserved markets in that region. Overall, we continue to focus on efficient execution of current plan while investing in strategic initiatives towards a continued future value creation for all stake holders.

The business update for Q4 2018 are as follows. Completed business combination of Triesta unit with Strand Life Sciences to create India's leading specialty diagnostic and precision medicine company with added expertise spanning bioinformatics, genomics and research. Combined Strand Triesta business received investment of growth capital from healthcare focused investors' HealthQuad and Quadria Capital to drive expansion. Sustained reduction in losses from new centers. Gulbarga, Vizag, Baroda continued to show strong scale up. Nagpur and Borivali in Mumbai are ramping up well with growth in volumes and revenue. Exited Kanpur center on account of market dynamics, stake sale to partner completed. Consolidated operations in Vijayawada with acquisition of surgical practice of Dr. Gopichand. Announced center in Rajkot in partnership with reputed local doctors. Center in Nairobi and international operations across Africa showing positive momentum.

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

Yogesh Patel: Thank you Doctor and a warm greeting to all present on the call. In highlights for the quarter ended March 31st 2018, our consolidated income from operations was Rs. 2,223 million as compared to Rs. 1,824 million in the corresponding quarter of the previous year, reflecting an increase of 21.8%. Operating EBITDA for existing center was Rs. 343 million as compared to Rs.309 million in the corresponding quarter of the previous year, reflecting an operating EBITDA margin of 19.6% as compared to a margin of 19.3% in the same period previous year. As mentioned in highlights for the year, full year ended March 31st, 2018 consolidated income from operations or our revenues stood at Rs. 8,307 million as compared to Rs. 7,001 million in the previous year, reflecting a year-on-year increase of 18.7%. Our EBITDA - consolidate profit before depreciation, amortization, finance cost and exceptional items and taxes was Rs. 1,316 million as compared to Rs. 1,147 million in the previous year which translates to a year-on-year increase of 14.8%. Operating EBITDA for existing center stood at Rs. 1,278 million as compared to Rs. 1,119 million in the previous year reflecting a margin of 18.7% as compared to a margin of 17.6% in the previous year, increase of 1.1% in terms of margins. The consolidated profit before other income, depreciation, amortization, finance cost, exceptional items taxes, the operating EBITDA was Rs.1,188 million as compared to Rs. 1,050 million in the previous year, reflecting a year-on-year increase of 13.2%. Our PAT for the year stood at Rs. 205 million as compared to Rs. 222 million in the previous year.

With this, I will hand it back to Dr. Ajaikumar to share the operating highlights.

Dr. BS Ajaikumar: Thank you, Yogesh. I would like to draw your attention to slide 8 of the presentation. 15.3% increase in occupied beds on account of new centers impacting AOR by 240 bps. ARPOB for existing centers was INR 33,406. 90 beds reduced on account of Kanpur center exit. Continued reduction in ALOS to 2.39 on account of trend towards day-care procedures and changing patient profile. EBITDA margin impacted with scale-up and losses of new centers. Existing centers EBITDA margin improved by 100 bps to 23% in FY18 from 22% in FY17. Looking at key geographies on slide 9, Karnataka region continues to focus on improving realization parameters. The COE FY18 ARPOB was INR 46.5k, a growth of 11.5% Y-o-Y and ROCE improved from 20.4% to 22.5% continuing drive towards improving quality of business, patient and service mix in the region. With respect to Gujarat region, Baroda cancer center and Bhavnagar multispecialty continue to show strong ramp up. EBITDA margin of existing centers was 18% for FY18.

Maharashtra region is showing strong ramp up in both volume and growth and leadership in radio-surgery segment, particularly in Borivali center which has done extremely well in ramp up in the last few months. In East India, we improved procedural mix and efficiencies in operations leading to optimal occupancy, we saw a strong growth across both centers in the region. Coming to slide 10, covering key highlights for Milann, the fertility business. We continue our plans to expand presence and saw a revenue growth of 13.5% Y-o-Y. Milann ranked number one nationally for the second consecutive year by Times of India, All India Fertility and IVF ranking survey 2017. Plan to launch new center in Whitefield towards continuing leadership in attractive Bangalore market.

Now, Yogesh will take over, to explain the CAPEX and debt highlights.

Yogesh Patel: Thanks, Dr. Ajai. Would like to request your attention to slide number 12 of the presentation shared. Basically continuing with our expansion plans we have invested a total CAPEX of Rs. 912 million in the current quarter with majority of that going in HCG center and a small amount of investment of around Rs. 35 million was in Milann towards the new center. This CAPEX includes investment in Kanpur centre shown in the HCG new centre amount mentioned. The CAPEX however does not include investment of about Rs 238 million made in Africa in the current quarter since it does not get consolidated at line item level with us. In terms of net debt we closed the quarter at a net debt of Rs 416 crores of which vendor finance was Rs 150 crores.

Would like to now handover call back to, Niraj.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'.Participants are requested to use handsets while asking a question. Ladies and gentlemen, we wil wait for a moment while the question queue assembles. Thank you. The first question is from the line of Sudarshan Padamanabhan from Sundaram Mutual Fund. Please go ahead

Sudarshan Padamanabhan: Sir, my question is on this Maharashtra region. Now that we have Borivali come up, I am also seeing that we have shown a pretty good growth commercially. Sir, if you can throw some light with respect to the occupancy with respect to how the profitability of Borivali is right now? And when do you see things breaking even over there and contributing to the overall numbers?

Dr. BS Ajaikumar: Yes Borivali, just started full functioning in October of last year. And as we expected and indicated before, it will take some time for it to breakeven. But what we have noticed in the last 5 to 6 months is clearly the growth has been very good and the numbers are good, the radiation numbers are good. The footfall in the hospital is also good and what we are now become is really a center of excellence for radio-surgery. One of the parameters we use is to measure the radiation 'patients on the couch', which has now increased over 60 patients in a very short period of time. So, Dinesh, do you want to add anything? Dinesh is the P&L head for Borivali. You want to add anything to the question.

Dinesh Madhavan: From a clinical aspect, one of the things that location has been able to do to the people of Bombay is provide technology which makes the difference and that is highly augmented with the fact that the amounts of radiosurgeries we are doing in Maharashtra is the highest..

Dr. BS Ajaikumar: So, we have also built there a multidisciplinary team and we have now incorporated several of the practice of what HCG does in terms of precision medicine. And that has been a big thing. This is the only dedicated cancer center in private enterprise in that region. And obviously as communicated in the past being in a very popular place in Mumbai, our operating cost, the fixed cost there are in terms of rent. So, that is why it may take us few more months to breakeven but as our usual practice we look at we had indicated between 12 to 18 months and we will be breaking even in that period in terms of EBITDA positive.

Sudarshan Padamanabhan: And if I am actually looking at the numbers our profits from the exiting centers and excluding the existing centers, I mean how would that look like?

Dr. BS Ajaikumar: You are looking at what numbers, Sudarshan?

Sudarshan Padamanabhan: No, I am just looking at the EBITDA that is 32 crores for this quarter. But if am looking at this Rs. 32 crores, I mean just including, I mean if I am just removing the losses of Borivali then how all these number look like, sir? I was trying to look at what can be the impact on Borivali.

Dr. BS Ajaikumar: So, Sudarshan we are not getting into individual center wise losses but at a consolidated level all new centers did a Rs. 2.1 crores loss for the quarter 4, it obviously includes the 3 centers that have broken even earlier and are now generating positive EBITDA and we have only 2 centers Nagpur and Borivali generating losses. So, rather than getting individual this is what you can get a picture from.

Sudarshan Padamanabhan: And going forward the Kanpur will also not be there because basically kind of moved out, right?

Dr. BS Ajaikumar: No, Kanpur has moved out. So, while these numbers include Kanpur up to 28 March, going forward that will also not continue.

Sudarshan Padamanabhan: And in terms of CAPEX and debt, I think fair amount of, we have seen about closer to about Rs. 100 crores of debt increase largely on account of the new centers. Would we believe that more or less the debt is at elevated level or probably this should be the peak debt for the company at this point of time?

Yogesh Patel: Looking at quarter-on-quarter right now, we had this quarter an investment of INR 91 crores of CAPEX whereas, our net debt was kind of flat or came down predominantly because of restructuring of the Kanpur unit going away. Whatever investments we do are a combination of our internal cash accruals and further borrowings. Also the year was obviously steep in terms of

CAPEX plan because of number of new centers we launched out, which we already had committed to at an advanced stage. We have still 3 or 4 centers which are getting completed and getting ready for roll out in this fiscal. So, completion cycle of this CAPEX would be there in 1 or 2 other centers which go to next fiscal. So, probably not as much as CAPEX as of previous year but yes, there is some part of CAPEX to be funded and hence we will be increasing in debt from what we see in this March number

Sudarshan Padamanabhan: What would be the CAPEX in FY19 we should be looking at?

Yogesh Patel: So, in terms of quantum of CAPEX should be probably around 60%-65% of what we did in FY18 which will kind of get funded with the mix of internal accruals as well as debt. And while I mention debt here obviously new debt which will come in for new centers has a mix of vendor finance component as well, which for first 3 years has no servicing required that being a deferred payment obligation.

Moderator: Thank you. Reminder to all the participants, if you wish to ask a question, you may press '*' and '1' on your touch tone telephones. The next question is from the line of Rohan Dalal from B&K Securities. Please go ahead.

Rohan Dalal: I just wanted to know about the Maharashtra, Nagpur facility what has the occupancy rate been in these 2 facilities in Nagpur and Borivali and what kind of timeline do you see for Nagpur? Will next quarter be the breakeven time or a little later than that?

Dr. BS Ajaikumar: Yes, as far as the occupancy is concerned as we look at the occupancy at only about 35%-40% range because they are very new start up centers. But in oncology, we mostly look at the footfall. While occupancy is important but more important is what is your outpatient, what is the radiation 'patients on the couch' and that gives you and what is the new patient registration? And both of the numbers are tracking very well, particularly in Borivali they are doing extremely well. And Nagpur also now is beginning to ramp up now. Dinesh, you want to add anything on that?

Dinesh Madhavan: So, we have a measure that Ajai a few minutes back mentioned, i.e. at any time between 16 to 18 months what we may reach in some of these centers to mature and I think we are on track to that.

Rohan Dalal: So and in terms of the Borivali center the consultant charges might be a little higher over there. So, how is that been panning out just because there been some other competitors who are also getting into the region. So, I was just wondering from that standpoint, is that delaying anything or has the growth been exceptional in terms of radiology, so that will pan out as planned?

Dr. BS Ajaikumar: The growth has been very good and we have not had any issue with the competitive landscape in that and most of our patients at this point are cash paying patients. So, we have not had any issues as we see and whatever the competitors are I do not think there are any dedicated cancer centers in that area. So, in Mumbai as far as we know we are the only private dedicated full-fledged cancer center.

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

Amish Kanani: Sir, looking at the project update slide. We see about 4 or 5 centers coming in this year and largely in the first 3 quarters of this year. And the question is are we done of our CAPEX in this cycle and then will have a pause after this or that we have not seen freezing of say CAPEX per say?

Dr. BS Ajaikumar: I think, most of the centers which are now coming up, most of the CAPEX is been completed now. So, except most likely for example, South Mumbai, Calcutta all the units have already arrived and the buildings is all done. So, we are pretty much done with these new centers which are now going to open in the next quarters or so. So, we have done but what is still pending will be our Delhi center, our Kochi center and all which will come in the following year. So, as already the CAPEX requirement was explained by Yogesh. So I think, that it will be our pretty much our requirement for the coming year. And once again I want to kind of repeat what we said most of the CAPEX which is coming now has deferred vendor finance which will give us 3 years before we start paying and we expect the centers to be self-sufficient to service these debts.

Amish Kanani: And sir, about the growth likely for say this year, how should we look at it in terms of, will it be in line with the kind of bed addition that we are doing? Or is there underlying growth of the same existing center growth that we should kind of think of? And if you can just give some qualitative remarks surrounding that?

Dr. BS Ajaikumar: I think, we always try to differentiate for existing centers and the overall growth because the new centers obviously will grow higher. So, existing centers could grow between 12% to 15% across, that is what we expect. When we add the new centers obviously the growth could be closer to 18% to 20%.

Amish Kanani: And in terms of profitability sir, do we see this year's profitability to be stable at least surrounding the existing center, sir? And whatever is the outcome of these scaling up of these new centers that will add or result in adding or maybe minor decline in the operating level EBITDA, sir?

Dr. BS Ajaikumar: Yes, so as far as the existing centers, as I said they will continue to grow and usually they are in line with revenue growth. So, we are not seeing any issues on this. The new centers, of course as I explained to you the Mumbai center as well as new center coming up in Jaipur and all there will be a lag period and I think, growth of course will be very high in terms of revenue growth and most of the centers as we always mention they except for the Mumbai center which may take 12 to 18 months. In the first 12 months, we are breakeven in terms of EBITDA and that is what we are seeing, we are not seeing any other challenges at this point.

Moderator: Thank you. The next question is from the line of Balthazar Florentin-lee from Sloane Robinson. Please go ahead.

Balthazar Florentin-lee: Looking at the margins your existing centers which were 19.6 versus 19.3 in the corresponding quarter last year. Should we expect this rate of improvement to continue or is there reason to think this should flatten out, so 19.6 or improve even faster?

Dr. BS Ajaikumar: Yes, our target is usually in the low 20's. We like to keep that, this is including the corporate expenses which we factored in without the corporate expense at the unit level obviously there will be at nearly 23% margin. So, I think in our view being in an oncology space 23%-22% at a unit level is very good and we need to keep it and sustain it. And I do not think we expect the margin to significantly improve and when you look at the pricing pressures we have in the HealthCare today in India how things are going, I think, we feel we are doing extremely well in terms of margin and efficiency of the system has been very good and we will continue to sustain this kind of efficiency. We know today HealthCare there are challenges and you all are very well aware of the challenges and most of the hospitals are facing it but our way of operations, the way we are managed it has been a very prudent and we have efficiency has been brought into this system using hub and spoke model. And clearly, that is showing up in the numbers as well as the margin what we are able to get at the unit level as well as the whole HCG the combined levels including the corporate.

Moderator: Thank you. The next question is from the line of Rushubh Shah from Sameeksha Capital. Please go ahead.

Rushubh Shah: Sir, couple of queries. Firstly, sir how frequently do we normally replace the medical equipment's due to technological upgradation or any other reason? And how much does it cost as a percentage of gross block at the time of replacement?

Dr. BS Ajaikumar: Yes, I think as far as there are several levels of technology we use. Let me just address this by the most expensive one. The most expensive ones are the linear accelerator, the PET scan, the Cyclotron. So, taking at the linear accelerator which delivers the radiation to the patients, our depreciation is about 15 years. So, the basic unit when you look at the some of the newer units like True Beam and all this the LINAC the basic unit is, the hardware is not changed at that time. So, the only change happens is in the software changes which can deliver more precision as more and more research is done. So, what we do is in our comprehensive coverage for this equipment's we include an anti-obsolescence, so that the software up gradation happens as and when it is needed with manufacturers. So, we normally do not replace a linear accelerator for at least 10 years. And if there is a need, there is a center of excellence which requires a new center or a big center what we have done successfully in the past also because of our number of centers we move this unit to tier 2, tier 3 city and bring the higher unit to the tier 1 where there is a more need. So, this is how we have done successfully. So, in the history of HCG probably we have decommissioned only about 2 linear accelerator units. So, that has been our trend and it has been very successfully done. In terms of PET scan, similar, PET scan also can be upgraded and there are based from the slides and all we do, when we buy we build in a contractual agreement usually to see how it can be upgraded and PET scan also usually 10 years the whole system function that is and there is no need for replacement. Regarding the Cyclotron, it is actually much longer. Cyclotron is a 25 years to 30 years, it can last longer. It is a production unit for FDG for the PET scan. So, this is how we operate in terms of the main technology. Otherwise, the normal MRI is again, 3 Tesla MRI is 10 years to 15 years. There is not required much replacement except software up-gradation. So, these are the main technology units, so we are concerned about and this is how we function in terms of their replacement. But when the replacement is needed obviously it will be full price replacement. That is why, we try to send the other units somewhere it may be useful. That is how we have managed so far.

Rushubh Shah: And one more thing, you mentioned about the price can controls by the government. So, in current scenario, are you foreseeing anything which is coming up especially for cancer or anything which can impact your company? Because government, just a couple ofdays back came with that there is a rumor that they are planning to put cap on diagnostics as well. So, …

Dr. BS Ajaikumar: Yes, there are lot of discussions taking place in terms of cancer care, the only area which we have always addressed even in this meetings, in the past has been pharma drugs. As we very well know they are essential drug center and Government significantly brings down the maximum retail price. But we have successfully weathered the storm and continue to work with good margins for us but will continue to do that. So, that impact is lesser now. I do not think there will be much significant impact going forward because that is come down to the bottom as we say. So, I do not think there will be any much of a downside pressure on the pharma except some new drugs which come in and those drugs when they are out of patent, they may bring again in terms of essential drugs. In terms of the government regulation on diagnostics, I do not think we will be affected much because we are not a diagnostic company. We are an integrated oncology with PET scan and I do not think that will affect as much. Whereas, there is some talk about Delhi Government and others talk about pricing and all, but I think really this a long way off. So, we do not see this happening in the near future and there is also some of the EY reports, I would urge you to read EY report, which has put out what is the status of private hospital in India. Majority hospitals how they are, majority are not doing that break by what is the return and capital these hospitals have. So, hopefully the authorities read this, they will also understand what is the real scenario rather than always talking of hypothetical scenario and talking about the cost versus benefit. One thing we can clearly say which we do also in all my talks and writings is India is a very big value-based medicine field. What value-based means for the type of treatment we get and the outcome we do the Dollar amount we spend is the least in the world even compared to African countries. I was recently in Vietnam and Philippines. Even comparison with all that we are lot cheaper for the same technology and same service. So, this is what we have achieved in India and this is a significant move in the last 10 years. The rest of the world is appreciating but even today the India is not appreciating which is very sad. Mr. Modi goes and makes statements in England on certain things which upset all the doctors who put in a lot of time and effort. I do not think that they understand what is the doctors' life and what it means to be a doctor and work in this kind of environment it will be little sad but anyway we are very happy and proud what we have done in HCG where we have taken cancer care across not only Tier-1 but Tier-2, Tier-3 cities. And made it accessible to every individual high-end cancer care and that is what has been as written up by several papers, Harvard Business School, World Bank, IIFC everything has written. I think we are very proud of that and we are also made it viable project for that and we have also done put it in terms of satisfying the investors, the patients, the doctors, the technology. It is a high level of satisfaction to all.

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

Rashmi Sancheti: Just want to know about Kanpur center. In the press release you said that you exited that particular center due to market dynamics. If you can throw more light on that because that was the recent investment and I think we owned our building also over there. So, if you can just explain little in detail like why we have exited that center after planning to start with the center?

Dr. BS Ajaikumar: Yes, it is a good question and actually, yes, we did own the building with a partner and the partner when we made the partnership it was very clear we should jointly own even though, as a rule HCG does not like to own real estate. In this we did make an exception. But as we started working on this center, started the center, we began to realize that there was certain market dynamics, which were not that favorable in the long-run. Most of the patients being in a government scheme CGHS scheme, very few cash paying patients and so, with all this consideration looking at a long-term, we felt it may take a long time for us to come out of this and breakeven and even growth in that area. So, having had a discussion with our partner, we were able to take our investments with some return. We feel positive because there are lot of other exciting areas we are looking at. So, we felt better for us to prioritize where we should see us and we decided this was probably not our priority even though we have gone there hoping it will be but it is always good to, I think too as you said when you see there is something which concerns you to leave out of that rather than pursue to keep it and go through deeper and deeper that is why we decided to move out. And this was also our board decision.

Rashmi Sancheti: And what is about debt from the current levels whether there will be any increase in further debt and what is the CAPEX figure for FY19, which I have actually missed?

Yogesh Patel: CAPEX depends on the investment cycle time itself. But however, given what we have done in FY18 between 60% to 70% of that value should be the amount in FY19 CAPEX cycle. In terms of debt, we would obviously use first available cash yet to be funded so not an exact number to communicate there in terms of what would be the increase but yes, CAPEX cycle should be at least 60% to 70% of what we have done in FY18.

Rashmi Sancheti: So, basically your debt will remain at the same level or you will see any increase in that? There is no need of giving any number but whether we will see any increase or decline or anything if you can just explain.

Yogesh Patel: It would increase. We actually have been also saying that the most stress at the peak scenario of debt what we will see will be also in FY19 probably Q2, Q3 depending on which quarter we do more CAPEX, but the peak would be in FY19 in our leverage per se itself. So net, it would be an increase and this will be the max level we will reach somewhere in FY19.

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

Chandramouli Muthiah: My first question is on international expansion. So, could you just give us some detail on what you are thinking about maybe Africa and other countries, if there are plans that you have at the moment?

Dr. BS Ajaikumar: So, we are seeing quite a few opportunities, as you know we have got a center in Nairobi. We are going in a very prudent way, in a methodical way to study the market and then deciding how we should expand. So, our foray into Africa, where Dinesh actually heads that area, Nairobi center working with CDC has been very good and I think Dinesh you can explain a little bit more on that. And now we are certainly looking at based on our learning's to other parts of Africa including West Africa and we also have some opportunities in Middle East and we are trying to work on some agreements in other parts of emerging markets, Dinesh?

Dinesh Madhavan: The way we have made inroads in, largely in Kenya to partner with local medical community with a vision to deliver cancer care. The learnings from the last 7-8 months have been highly encouraging in that part of the world. We are looking at the opportunities and measuring each one of them and then looking for taking decisions on how we could make a difference in the regions. And we are pretty much excited about what is happening with our foray overseas.

Chandramouli Muthiah: My second question is on the National Health Protection Scheme. I think that was a big bang announcement with the budget in 2018 and after that it is gone a little quiet. So, as one of the leaders in oncology have you been in active discussions with the government? Has the government reached out, are there any updates that you had related to this scheme?

Dr. BS Ajaikumar: Yes, there has been, fundamentally, the scheme when they rolled out, they said they will cover 500,000 per person for the family. And they are now working out the details, so what we have asked for is clearlity. Over a 500 million citizens should be cover under this scheme as we said INR 500,000 per family. And they are trying to provide a float, and they are going to link it to Aadhaar but want to make it cashless which are all good things. Just to take a step back and what I said few minutes ago in terms of cost versus benefit, the reason in India people always complain about the cost is very clear. It is because they are paying out of pocket. Even when for example you might have provided service, what it cost in the United States where I practice for a long time may cost like in terms of Rupees may be 30,00,000, whereas in India we are doing for 500,00-600,000 or 700,000. But even that 500,000-600,000, 700,000 whereas in US it is all cashless insurance, 500,000-600,000 is heavy on a middle class or even few several persons to pay onetime that kind of money. But we may be providing extra ordinary service but that money going out of the person's pocket is huge. So, that is why this hue and cry about the cost. So, with this kind of scheme what we are talking about, if it really going to pay 500,000 or 600,000 for the person,it may which is certainly mitigate to some extent this kind of problem and it will be more cashless. But what we are hoping more so if the other 500 million plus people also have to be covered, even a wealthy person today very few people, only 25% have some kind of insurance. So, how would we incentivize them to get insurance across or make it compulsory. This is what we are proposed several times, that that the whole nation should have universal healthcare. And everybody based on their job description or even if they are independently working should pay to this system and they should be autonomous body which administers this health insurance. It should certainly not be the government body then it will become like your CGHS, DGHS or ESI where again,there are transparency issues and again, the delays in payment and nobody will participate in that. So, you have to make it workable, make it really citizen-centric,if you want to really do that not politician-centric, citizen-centric. If you want to do, not populistic ideas but citizen benefit. This kind of thing, if it is done in an autonomous way and people get access to it without much bureaucracy and corruption it will make wonders. So, it is a good move that is certainly it will cover 6,00,000 cancer patients. We will now hope they can become cashless with this. We can certainly help not only for the cancer patients also because HCG is in Tier-2, Tier-3 cities immediate positive impact for HCG. So, because this will become accessible with high-end technology. So, this is how we see it as a net positive thing if it can be properly implemented and executed.

Chandramouli Muthiah: My next question is on PET/CT as a business model. So, we have seen that some diagnostic lab chains, for example Thyrocare, we are focusing on setting up their own standalone PET/CT chains across the country. So, have you seen any competition in this regard? And has this trend come up at discussions internally?

Dr. BS Ajaikumar: Our model is different from Thyrocare. You look at Thyrocare, Thyrocare is not a cancer care provider. They do independent PET scans. So, in our view that model really does not work. Very clearly, PET scan in all our centers are within the cancer center. It is an integral part of the cancer center. Like you have a linear accelerator, here they have PET scan. With a PET scan is not just simple diagnostic. It is used for treatment planning, it is used for data, it is used for assessing the progress of the patients. So, it is very important tool for proper staging, proper therapy. But it cannot be outside. I think this kind of in my view, personnel view PET scan is not like a MRI or CT scan to put up independently because the use of PET scan is very limited. It is not there for all diagnostic which is only after cancer diagnosis is made, we use PET scan for proper staging, proper therapy and follow up. So, that is where, I think we have done very well. We are probably one of the largest PET scan in the country and we do very well because it is integrated into comprehensive cancer centers.

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

Harith Ahamed: Looking at your P&L, the finance cost has gone up this quarter while the debt numbers have been more or less the same from the last quarter. So, can you help us understand that?

Yogesh Patel: Yes, there are a couple of pointers we made here. One is the debt number what you see is the closing number which has impact of reduction of debt due to deconsolidation on closure of Kanpur center itself. So, the actual finance cost burden taken for the quarter is for a higher number in that and second thing is for the current quarter ended as per accounting guidelines we would have restated our liability in foreign exchange basically vendor finance with the exchange rate fluctuation as well. So, there is a restatement cost of that liability also in that number. These two are what is differentiating number while you see the finance cost being higher.

Harith Ahamed: So, we should be looking at a lower number going forward given that Kanpur is no longer there?

Yogesh Patel: Yes, the finance cost for first quarter is definitely expected to be lower than fourth quarter, given that Kanpur debt is not there, as rightly pointed out by you and second point is we have had this one time charge of steep increase or devaluation in Rupee, which we all saw come in. Do not expect any further hit and suppose if it does improve there might be a restatement, and we might see benefit as well. But ignoring that, I mean no impact of FOREX, it should a reductions.

Harith Ahamed: And on the other expenses that is also gone up sharply this quarter versus last quarter from around 44 crores to 60 crores. So, can you help us understand that?

Yogesh Patel: Since we had this inorganic 3 transactions,so there were costs relating to closing those transactions coming in this quarter specifically. They would normalize in terms of what we were having in the past 3 quarters. There is no other particular reason to be at this level.

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

Nitin Agarwal: Sir, on this the Milann centers we still are talking about launching another 4 or 5 centers going forward. How do you look at this whole space in terms of our own ability to step up phase in this whole segment going forward?

Dr. BS Ajaikumar: We are very positive going forward. And we will see some ups and downs as we go forward. But year-on-year we have grown nearly 13%. So, I think the existing centers will continue to grow and I just said we do feel being rated number one we have significant opportunities to grow across India. We did have a small issue in Delhi were one of the IVF doctors well known started their own center. So, that is one of the reasons there was some stunted growth in our fourth quarter. But looking at going forward I think we have an excellent opportunity for growth. We are also going to making some changes in the operations, administrations. So, we will see that hopefully in the next quarter announcement we did put up a center in a very prime area in Bangalore in Whitefield which is the population base which really needs good fertility consultation. That also we are very positive. So, similarly we are looking at few other centers across. So, I think our plans in the future look very good and as we know very well as this sector becomes organized, there will be more and more opportunities for organized people like Milann. With Dr. Kamini is now being there and the brand name we do see significant growth going forward.

Nitin Agarwal: But sir, right now in terms of our ability to grow what is sort of constraining us in terms of accelerating growth in this segment? Is it in terms of probably doing more new centers or add at a much faster pace given the fact that it does not required too much to set up these centers. So, what is the constraining factor in the growth in the business?

Dr. BS Ajaikumar: Actually, we do not have any constraining factor. As I have mentioned one of the reasons we have slight issue was the Delhi part, one of the primary IVF specialist starting on their own. Otherwise we are not seeing any constraining factor. And as you will see this year we expect good trajectory in terms of our growth.

Nitin Agarwal: And sir, on the HCG centers part of it beyond FY19 what is the thought process, are we looking at certain geographical dominance? We still looking at creating a more pan India footprint? Or what is the thought, or probably more on the brownfield center with more focus on brownfield expansion? So, what are the broader thoughts in terms of how you look at HCG beyond in FY19, the HCG oncology part of it?

Dr. BS Ajaikumar: As we see it right now the biggest contributors are coming from Karnataka and Gujarat. And Gujarat will continue to grow, plans for Rajkot are there and future plans in Surat, so definitely it will continue to expand and grow. And there are lot of opportunities in Gujarat when we look at the number of linear accelerators in Gujarat compared to Karnataka and so we see significant opportunities there particularly with the brand name of HCG. We are an independent cancer center but meanwhile one of the things which will go significantly is Maharashtra. As we have shown already the Borivali center as it ramps up, the Nagpur and the Nashik center which is also going to expand rapidly or likely to become over 200 bed center and the South Mumbai center. So, we believe beyond 2019 Maharashtra will be quite a big group for us in terms of growth and similarly, with some of the changes we have made in Andhra Pradesh also there will be significant growth with some of the merger we have done with Dr. Gopichand. We expect that also to show significant growth. The last but not least is Gurgaon in Delhi where we are planning on a huge center of excellence. The work has started and in the 2020-2021 you will see some of the announcements we are also going to make in the next 2 months. We expect that to become a big center with the center of excellence not only drawing patients from India but that will be a global center drawing patients from this part of the world. And the Calcutta center of course, it is opening, and it will take another year to really ramp up and Kochi center for example another year or so 18 months it may start and then you have the big center in Jaipur, which just recently we are planning on just a trial run is going on. We expect that to also be fully functional in the few months. So, all of this will be contributing significantly to the growth beyond the 19. So, when you really look at HCG what is happening in the oncology centers and what is happening even in the non-oncology, IVF vertical and Strands and the multispecialty, somebody an investor looks at HCG as the promoter, I look at it, I see that there is a horizon not just one or two years but 5-10 years. The opportunities are there, need is there, so HCG in my view will continue to grow significantly over the coming 5 to 10 years.

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

Amish Kanani: Sir, you mentioned about the outpatient numbers that you have been internally tracking and our average length of stay being shorter and maybe the occupancy may not be a great indicator to look at if you can just tell us on an annual basis how was this overall and also if you can share it on a regular basis through investors release, sir?

Dr. BS Ajaikumar: See, as we will say our new patient registration volume as of few months ago is in the region of about 60,000 new patients. With some of the new centers coming we expect it to increase significantly as the centers is mature. For example, if you take Baroda what was nearly about 100 and 150 new patients a month is now really 300 in the last year itself. So, as we clock this new patient registration I think, certainly that 60,000 number is going to increase significantly and also there are patients who are now come back for follow-ups, recurrent treatments and all. So, all of that we are beginning to track now centrally. So, one of the other things also we are apart from the patient we always look at as I have mentioned before how is our radiation patients, what is day chemotherapy administration. So, the bed is only one measure for how the center is doing. So, as we go forward you will begin to see our number of beds in the hospital is going to come less and less. It will be more outpatients and particularly the ALOS is coming down significantly. This is mainly because of the chemotherapy being day care, given as an outpatient and most of the insurance company is accepting it is a day care and obviously paying for that.

Then we have also the targeted surgeries that robotics surgery where the length of stay is less. So all this improvement in technology, understanding and new ways of giving chemotherapy are going to only help in reducing the number of strength and also it will reduce the complications. One of the things we look at is we monitor as quality parameter the complication, morbidity and mortality, we find that significantly becoming less as we go forward and because of the technology and the way we administer and way we manage cancer patients and even we are looking at more home care. So, as we do these kinds of things the requirement for bed, I think will become less. That is the global standards now and actually that will also actually improve ARPOB. So, this is how we are looking at going forward.

Amish Kanani: And sir what was the number for new patient registration in last year which this year you were saying probably 60,000? The indicative number?

Dr. BS Ajaikumar: So, I think the new patient registration last year was about close to 42,000 in terms of cancer patients only, fiscal 2017.

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

Rohan Dalal: I just got an access to the results actually. The actual circular that sent on the exchange it got uploaded 2.50 instead. So, could you just repeat about the other expenses please and why it is increased so drastically in the quarter?

Yogesh Patel: Other expense for the quarter primarily is because we had these 3 inorganic transactions and there were closure cost for them, this is primary reason for the cost.

Dr. BS Ajaikumar: It is mostly the transaction cost because of the many closures.

Rohan Dalal: How much was that sir, if I was to normalize it?

Yogesh Patel: Can I take this offline and provide these details to you, if you are okay?

Rohan Dalal: Sure, no problem.

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

Chandramouli Muthiah: You mentioned last quarter that the Gujarat elections had some impact on your volumes. So, I was just wondering in the June quarter with the elections in Karnataka, has there been any unusual impact on volumes apart from the normal seasonality you see in the June quarter?

Dr. BS Ajaikumar: So, we are not seeing much of a change because of Karnataka election except for 3 days they had declared holiday, the day before and the counting day. So, we don't think much of an impact except for slowdown that particular day. That is all.

Chandramouli Muthiah: And this is a follow up. We have clocked 20% annual topline growth in FY18 and FY19 looks like more facilities are ramping up and some more facilities opening as well. I was just wondering if there is an internal commitment to continue the (+20%) topline growth in FY19?

Dr. BS Ajaikumar: So, we normally do not give any guidance, but we expect that to be in line with what you said.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I hand over the conference to the management for their closing comments. Over to you, sir.

Niraj Didwania: Thanks everyone for joining the call and we look forward discussion in the future. We are available for any discussions offline. Thank you.

Dr. BS Ajaikumar: And once again thank you very much for joining the call and once again apologies for being about 5 minutes late. Thank you very much. You all have a good day, thanks.

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