"Healthcare Global Enterprises Limited Q1 FY 2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Health Care Global Enterprises Q1 FY2017 Conference Call hosted by Spark Capital Advisors India Private Limited. As a reminder, all participants' 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 phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Harith Ahamed from Spark Capital Advisors. Thank you and over to you Sir!

Harith Ahamed: Good evening everyone. Thank you for joining Health Care Global Enterprises Q1 FY2017 earnings call hosted by Spark Capital. We have on the call today Dr. BS Ajaikumar - Chairman & CEO of HCG along with HCG senior management team. I would now hand the call over to Niraj Didwania – Head, Corporate Development and Investor Relations HCG. Over to you Niraj!

Niraj Didwania: Thank you Dr. Harith. I welcome all the attendees for the call on behalf of Health Care Global Enterprises to our quarterly conference call for discussion and analysis of Q1 FY2017 earnings. We are joined by our Chairman & CEO, Dr. BS Ajaikumar and the management team who will participate in the interactions with all of you. With this I hand over the call to Chairman & CEO, Dr. BS Ajaikumar.

BS Ajaikumar: Thank you Niraj and once again I would like to welcome you for this call. What I would like to do is briefly give you a overview of this quarter and go over some of the numbers from the earnings presentation.

As you can see we are pleased to report a very strong operating result in the first quarter of FY2017. We continue to strengthen our leadership role in the cancer care both in terms of commercialization of new technology and successful expansion of our pan India network.

We are also pleased to report strong performance of Milann Centre and in particular excellent response to the new centre in Delhi. Overall, we see good growth prospects in our business across the board. With eight new cancer centres in development, we continue to make progress towards our mission to make high quality cancer care accessible to all.

In this regard I would like to give you a brief business update for Q1 2017. Two new advanced comprehensive cancer centres in Baroda and Vizag successfully commenced operations expanding the HCG network to 17 comprehensive cancer centres and adding an additional 157 beds. Adoption of new technologies including daVinci robotic surgery in Bangalore as well as Ahmedabad, the TomoTherapy technology in Bangalore and the

TrueBeam in Cuttack and as well as Vizag and Baroda driving our overall increase in the revenue realizations and margins, successful clinical and operational results from Milann's first new centre outside Bengaluru in New Delhi launched in Q4 FY2016.

With this I would like to now take you highlights of the quarter ended June 30, 2016. Consolidated income from revenue, consolidated revenue was 168 Crores as compared to 142 Crores in the corresponding quarter of the previous year, reflecting a year-on-year increase of 18.2%.

Consolidated profit before other income, depreciation and amortization , i.e.EBITDA was 23.6 Crores as compared to 18.8 Crores in the corresponding quarter of the previous year, reflecting a year-on-year increase of 25.4%.

The PBT was 7.9 Crores as compared to a profit of 28 lakhs in the corresponding quarter of the previous year. The PAT was 5 Crores as compared to a loss of 5 lakhs in the corresponding quarter of the previous year.

The other important thing was EBITDA excluding losses from new centres for the existing centres was 26.3 Crores, reflecting a margin of 16.6% and a growth of 31.2 % over the corresponding quarter of the previous year.

These are some of the highlights now I would like to take you through the presentation. I think if you have the hard copy of that I will name the pages or if you have it on your computer you could look at it.

The first one will be the slide #4 showing the financial highlights. I already discussed the part on the left side showing the YoY but what I would like to highlight here is the revenue grew 18.2% year-on-year. HCG centres grew by 17.8% and Milann centres 22.4%. The EBITDA increase was 25.4%. Existing centres showed INR of 26.3 Crores with a 16.6% margin and 31.2% growth. New centre loss was 2.7 Crores. I would like to mention point #3 as per the previous Indian GAAP for comparison purpose EBITDA was 25.8 Crores with a 15.5 margin and 25.1% growth YoY and PAT of 5.4 Crores.

The next slide I would like to take you through is slide #6. Here it shows the HCG centres where we cluster it based on the region and here as you can see there has been a continuing strong ramp up of growth in Karnataka, Gujarat as well as East India, Tamil Nadu and also as you can see Andhra Pradesh significantly grew in the current quarter as well. The continuing strong growth was seen at several centres in Q1 for Hubli 39%, Vijayawada 36%, Chennai 24%, and Cuttack 28%.

Vijayawada centre, which we mentioned in the past was to be revamped, is successfully on track now. New centres added 7.5 Crores in Q1, Bhavnagar, Gulbarga, Baroda and Vizag and the existing HCG centres excluding HCG centres exited grew at 15.6% in Q1 of FY2017.

So the next one I would like to take you through the operating metric. Here mainly I would like to focus on the Q1 highlights. Two new centres launched adding additional 157 beds 13.7% increase in the occupied bed days driven by launch of new centres as well as growth at existing centres, 3.7% increase in ARPOB driven by adoption of new technologies across the network offset by lower ARPOB at new centres as expected.

Reduction in ALOS was in line with trend towards day care procedures and changing patient profile and another important thing is 1.7% improvement in EBITDA margin from existing centres excluding new centres so at a unit level overall existing centres showed a margin of 20.8% in Q1 FY2017 from 19.1% in Q1 FY2016 driven by decrease in direct costs as a proportion of revenue.

The next slide page 9 shows regional highlights. As you can see Karnataka showed an EBITDA margin of 24.1% at unit level. Here the ARPOB grew by 10.9%, the revenue by 19.1 and occupied bed days by 7.4%. Similarly Gujarat also showed a good growth overall revenue of 27.7% and in East India also the growth was 22.9% with an EBITDA of 25.6%. So the important things here is Gulbarga even though it is started recently, within nearly six months it neared breakeven and doing extremely well. Hubli's ramp up following expansion, technology initiatives at KR Road and DR, which is our main centre of excellence and additionally Baroda was launched in Q1 of 2017. Bhavnagar within 12 months has reached breakeven in EBITDA. EBITDA margin excluding losses from new centres is at 15.1%. Volume growth was offset by lower ARPOB at new centres. Next one is successful adoption of the new technologies, in Eastern India which includes adoption of PET scans and TrueBeam at Cuttack.

A few words about the centre of excellence in Bangalore; here I just like to mainly focus on the highlights. What I would like to share is about the successful commercialization of new technologies. We have introduced TomoTherapy, robotic surgery, which has been very successful and accepted very well and also we have optimized the average occupancy rate at 56% with, reduction in 41 beds in Q1 2017 and EBITDA margin expansion has been very good 3.6% Y-o-Y. This is because of service mix enhancement as well as material cost reductions. In this regard we are very happy to state that in Q1 2017 ROCE increased to 21% as compared to 14.6% in Q1 2016.

Milann has been very successful now with multiple centres being launched. As you can see in the map here now we have a successful centre in Delhi. Centres about to start in Chandigarh, and Ahmedabad and multiple centres in Bangalore. All are doing well with good growth as you can see on the left side. Successful launch of Milann in Delhi, with coooperation with Apollo Cradle in Bangalore and have upcoming new centres in Chandigarh, Cuttack and Ahmedabad. At this point I would like HCG Director – Gangadhara Ganpati to talk a few words about the capital expenditure and net debt plans.

Gangadhara Ganapati: In terms of the capital expenditure just a quick note that these numbers have been stated in accordance with Ind-AS and relative to the old Indian GAAP and the impact that has been a reduction in our net debt as well as a reduction in our capital expenditure because of the change in accounting standard. So what we are showing here is restated numbers as per Ind-AS.

In Q1 2017 we had total capital expenditure of 38 Crores of which 36 Crores came from the HCG centres and 2.6 Crores from the Milann centres. In terms of the HCG Centres we have launched couple of initiatives, for eg. the Triesta's NGS Reference Lab was inaugurated, which is going to bring a new generation of technology into the reference lab business. SAP and HIS implementation is underway and in terms of new centres, as you heard, Vadodara and Visakhapatnam centres are launched and capital expenditure continues at Kanpur, Borivali and Nagpur centres which are under development.

In terms of the net debt for the quarter ended June 30, 2016 we had a net debt of 212.5 Crores of which 125 Crores was the debt in the new centres and the net debt excluding the new centres is 87.4 Crores compared to 83.7 Crores for the prior period.

BS Ajaikumar: The last one is about just a brief project update. Three new HCG Centr expected es commenced operations as of June 30 2016 and additional three new centres by June of 2017 as you can see from here Gulbarga, Vizag and Baroda started. Kanpur, Borivali and Nagpur will be starting all of them will be operational by June of 2017. As far as the fertility centres are concerned, three new Milann centres are operational as of June 30 2016, and additional three are expected by June 2017 in Chandigarh, Cuttack and Ahmedabad. So with completion of this presentation we can now open for questionsand will be glad to take those. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Chandramouli Muthiah of Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Thanks for taking my question. I can see on your presentation that Karnataka, which is one of the more matured hospitals, is a 24% EBITDA margins and East India is little higher. So

I was just wondering it was more of a runway in terms of margin expansion for the key Karnataka centre and if you could give us some color around that?

BS Ajaikumar: You want better than 24% is that what you are saying.

Chandramouli Muthiah: I was just wondering how much further it can go just so that we can get an idea margin potential in that key region?

BS Ajaikumar: I think margin will not increase significantly 24%, 25% is what we would accept. So we believe that is reaching the top and it may be 25.6 or 25 as you can see in East India 25.6. So that is the level in which it get the level of around that level.

Niraj Didwania: One thing is that we have not yet had any profits from the Gulbarga centre. So that is still at actually marginal loss to breakeven in the quarter. So perhaps there may be some upside from Gulbarga centre turning profitable in the course of the coming quarter.

BS Ajaikumar: And also as we indicated, some of the mix has changed with the TomoTherapy, robotic surgery and this has been only few months since these technologies have been introduced. As these technologies ramp up and reach to the capacity utilization level obviously that will also contribute to the better margin.

Chandramouli Muthiah: That is very helpful and just if could as a followup in the cancer hospital business could you just elaborate on seasonality trends if any like are there any quarters in particular when elective treatments if any postponed or conducted.

BS Ajaikumar: Usually what we have noticed is our best quarter is Q4 and as Q1 is lower because of the seasonality; like you said people do not if they have a let us say lump in the breast or abdominal pain, but because of the summer holidays, it is a global phenomenon, they do not go to the doctor till the holidays are over. So only after the holidays over they go and then get the checkup done and if they find something they refer to the oncology centre so there is a seasonality particularly there and also for example Q3 we also see lower because of all the holidays the Diwali and the Dasara and also we do see the holidays again. So during the holiday season there is downward but usually it catches up but Q4 is our strongest quarter usually.

Chandramouli Muthiah: That is helpful and just a final question from me. How long do you think the new centres at Vadodara and Visakhapatnam could take to breakeven like what are your internal targets if I could ask?

BS Ajaikumar: Usually it is 12 to 18 months but we believe Vizag will breakeven probably before 12 months and Baroda we are just still we do not we are still evaluating. So usually it is 12 to 18 months.

Gangadhara Ganapati: Just upon that Dr. Ajai mentioned our Gulbarga centre broke even in six months and Bhavnagar in 12 months.

Chandramouli Muthiah: That is very helpful. Thanks so much.

Moderator: Thank you. We have the next question from the line of Rajiv Maliwal of Sabre Capital. Please go ahead.

Rajiv Maliwal: Good afternoon doctor. I have a question. This quarter seems to be very strong quarter and you seem to be set for real take off and if there were two to three reasons you would attribute the strong quarter and path going forward what would they be?

Gangadhara Ganapati: As Dr. Ajai mentioned we had a strong growth in both the HCG and the Milann businesses. Milann because of the strong acceptance in new centres as well as volume metric growth and HCG Centres combination of KR/DR centre, the strong adoption of new technology where we got a good response as well as across the board as Dr. Ajai mentioned TrueBeam coming on stream and daVinci Robotic surgery in Ahmedabad as well as the new centres there the losses may have been a little bit lower than expected in Bhavnagar and Gulbarga which has broken even. So overall combination of all of these factors and of course efficiencies has also been there. We have also had some improvement in the cost structure. Thanks to purchasing efficiencies, formulary and all that. So overall combination of those factors have resulted in improvement across the board.

Rajiv Maliwal: One other thing, which is the average occupancy rate, has fallen a little bit over quarter one full year 2016. Is that just sort of normal aberration or is there something more material to it?

Gangadhara Ganapati: It is primarily due to the addition of capacity. So we have quite a significant addition in capacity from the new centre that have come onboard in Q1 2017 relative to Q1 2016 like Bhavnagar, Gulbarga, Baroda, Vizag. So all of these are yet to show any utilization of the capacity. So if you look at the existing centre for example is at 56% occupancy rate in Bangalore with an improvement. So centres are doing strongly and these centres of course will take some time to ramp.

Rajiv Maliwal: Thank you.

Moderator: Thank you. Next question is from the line of Sudarshan Padmanaban of Sundaram Mutual Funds. Please go ahead.

Sudarshan P: Thank you for taking my question. My question is while most of the regions have done very well for us. I mean the North India though it is a small component as basically been tapered. If you can throw some light on what are the difficulties that are there and whether in terms of profitability is it pulling us what are we trying to do to kind of get this in up in running?

BS Ajaikumar: As we have mentioned in the previous analyst conference also North India is one area we are trying to do some revamp particularly Delhi area. We are in the middle of that. We had mentioned North India as well as Andhra Pradesh, Vijayawada. Vijayawada we had successfully done that as you can see from the growth what has happened. In Delhi we are still in the middle of various initiatives we have taken particularly including the medical technology as well as discussing with our partner. So we are very clear that we want to be in Delhi and we want to see how we are going to revamp it at the same time our Kanpur centre is now about to open in the next few months and we are very positive on Kanpur centre. With this we should see some definite positive upside in the next following next few quarters. But it is according to our plan. Things are going according to our plan. Whatever we have planned in North India is in line with our plan.

Sudarshan P: Sir I mean coming to the ramp up I would assume that given the fact that the newer hospitals are about 2 to 3 Crores kind of a loss for us and we have seen in the past that in six months these hospitals six months or 12 months basis these hospitals tend to breakeven I mean number one is now that the quarter is over post June have probably Bhavnagar and Gulbarga seen a visible jump in these two to three months over the previous quarter and how do we see the progression in terms of these three or four centres that you have added the losses continuing in kind of moving into the positive trajectory as we move forward.

BS Ajaikumar: As we are indicated the Bhavnagar loss is not there now. We do not we do see upside but it will be slow and steady growth. As far as Vizag is concerned we do feel in the next few months it may breakeven. The trend is like that. Then Gulbarga is already at breakeven and again it will be in the positive territory. So all these three centres are going according to our plan and we do not see much of a change in these regions.

Sudarshan P: So more or less in this I mean the coming quarters we should be able to wipeout majority of the 3 Crores kind of a loss?.

BS Ajaikumar: There is business plan for Baroda but we are following the plan and whatever the loss Baroda is showing is as per the plan.

Sudarshan P: Sir on the interest cost we have repaid some debt and benefitted from the lower interest I mean was the benefit of the interest cost seen for a full quarter or can you see a bit more benefit going forward on a quarterly basis.

BS Ajaikumar: Full quarter.

Sudarshan P: Thanks that is from my side. I will join back the queue.

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

Harith Ahamed: I was looking at the number of beds at the centres of excellence in Bangalore and there seems to be a reduction in Q1 FY2017 versus last year. So can you help us understand this?

BS Ajaikumar: What we have done is we have reduced 41 beds in Q1 primarily because we had a lot of government patient schemes patient in our Double Road, which is another centre. There are two centres in Bangalore, which come under our centre of excellence. One is KR road and one is DR road. The one in DR road was primarily servicing the scheme patients. Now we have decided to reduce participation in certain schemes. So because of this addition of 50 beds is allotted in view of efficiency and all we brought it down. We did not accept any scheme patients and we have brought down the beds because of that to 40. Also one other thing I would like to mention here the macro level in oncology as we go forward more and more we will be doing outpatient therapy. The trend globally is to do more outpatient therapy, as we know most of the radiation is outpatient. In the past we used to admit patients for chemotherapy two three days admission we do not do that anymore because this hospital was built in the 1990. So it is long ago. So now we do not require that many beds with a lot of patients are outpatients so our goal is to bring more efficiency by reducing the bed, break patients, outpatient do take chemotherapy. They limit surgeries and a quick discharge. So our average length of stay also comes down. With all this we have taken a prudent decision I believe we have to bring down the number of beds and.

Harith Ahamed: I am also looking at the ARPOB figure for the centres of excellence in Bangalore. We have seen a good improvement after you introduced higher end technologies at these centres and so I am just trying to understand from here what is the potential ARPOB with the current technology that you put in place at the centres?

Gangadhara Ganapati: At present ARPOB is 41. We are continuing to see an improvement. In terms of the technology inputs which we have taken in I think that in coming times we would see a steady improvement in this and we also foresee in the future more clinical talent joining on board that will further fuel up the growth in the next quarter which is there.

BS Ajaikumar: Just to reinforce that I think our whole idea about this hub and spoke model as you know particular new centres coming in Gulbarga our expansion in Hubli and all that we want to the centre of excellence will cater to very high end therapy like the robotic surgery or TomoTherapy and more hi-tech surgery. So with this we are expecting ARPOB to increase at the unit level.

Harith Ahamed: Lastly from my side in the press release you talked about 8 new cancer centres in development and you talked about timelines 3 of them in your presentation that is by June 2017. Can you give a rough timeline for the remaining 5 whether these are going to come in FY2018 or 2019?

BS Ajaikumar: All of them will come in FY2018. For all the centres will be done in FY2018.

Harith Ahamed: If I may squeeze one more on the interest cost this quarter we have seen a significant reduction from around 8 to 10 Crores to around 5 Crores. So is this the run rate that we should be working with I am asking this in the context of your capex plans and whether we will be taking on more debt to finance some of the projects?

BS Ajaikumar: I think the average cost of debt will remain what you are seeing right now. So even though we may have a little bit of capex coming on board it will be essentially funded for combination of vendor finance which as per the new standard another thing I should add is that as per the new standard we are recognizing interest expense on the vendor finance. Previously under old Indian GAAP we were not recognized and that is also impacted in the new interest expense that you see here. So to the extent even if you take vendor finance we will have to show our interest expense for that in the Ind-AS. So some amount of increase in interest expense will happen as we add capital expenditures.

Harith Ahamed: Very helpful. Thank you for taking my questions.

Moderator: Thank you. Next question is from the line of Vivek Kumar who is an Individual Investor. Please go ahead.

Vivek Kumar: What is the historical average capex per bed and what is it is likely to be in future?

BS Ajaikumar: So for example for a new centre in Baroda the capex for that is around 65 lakhs. The total capital cost is about 40 Crores and we have got 69 beds there. So that is probably a good indication. I think it could be little bit higher or lower. If land is included of course it should go higher. So Baroda centre is excluding land and as far as possible going forward we will not have land. Historically, if you look at our capital base we have about if I am not wrong about 600 Crores of overall capital against which we have about 1200 beds. So historical basis may be around little under 50 lakhs. So going forward we do not see a huge increase beyond that number we said to Baroda.

Vivek Kumar: In 50 lakhs, which are the hospital or centres you are owning a land?

BS Ajaikumar: Right so in the major centre in Bengaluru we own the land. I think land value there is over 100 plus Crores and we also own land in Ahmedabad, Vijayawada, Ongole and in the Kanpur centre also we have the land already in our books actually. We already acquired the land and just about the launch. So the Kanpur land is also in our book.

Vivek Kumar: I was saying in Kanpur like in you are setting up a bed of 90 for 83 Crores and in Nagpur 115 bed for 46 Crores. So how do I match the two?

BS Ajaikumar: So in Kanpur we have everything there land, building so what you see in Kanpur is a fully, fully loaded hospital where we also own the land.

Vivek Kumar: Is there a difference services you will be giving or why such a huge difference like?

BS Ajaikumar: Because of the land value the difference is entirely the land value.

Vivek Kumar: It is purely the land value.

BS Ajaikumar: Purely land and building. So out of the total investment of 83 Crores the land value the land and building probably is around 40 Crores.

Vivek Kumar: Nagpur will be leased land.

BS Ajaikumar: There is no land and building.

Vivek Kumar: Sir the next question in the east your EBITDA margins are above 25 but your ARPOB is only 11,000. So how do you explain this like?

BS Ajaikumar: So there are a couple of reasons for that. One is that the kind of technology, the kind of service levels in Cuttack and Ranchi is quite low. These are older centres however we have started seeing a change there. So in Cuttack we have launched the TrueBeam technology. We have also added the PET/CT.

Vivek Kumar: So your 11000 average revenue this is most likely to match your Karnataka India revenue it will remain at sub 50,000 level.

BS Ajaikumar: No it is going to go up significantly.

Vivek Kumar: But when it goes up your margins now at 11000 you are doing 25% so it is more likely to move up of 40%, 50%?

BS Ajaikumar: Not necessarily. The high technology does not come for free. We want to add technology.

Gangadhara Ganapati: The other thing we want to add is when you look at Bangalore, Bangalore is centre of excellence with high technology. As I explained that is part of the reason why you are seeing because suppose a patient goes to Cuttack there is no CyberKnife in Cuttack. Patient will end up coming to Bangalore and getting the CyberKnife for an eye and bone marrow transplant. So I do not think ever we will have a CyberKnife in Cuttack. So Cuttack will have a limitation on what technology for example TrueBeam is probably the top of the line technology we are reaching. I do not think it will go beyond TrueBeam or we going to have we may have a full fledged like cannot say bone marrow transplant unit. We may have high-end medical oncology units.

Vivek Kumar: So Karnataka will always have a higher revenue per bed comparison to other centres?

BS Ajaikumar: Bangalore but same time I will also like to add Gujarat for example is also improving in technology robotic surgery is there. So Gujarat is also we look up on another centre of excellence like a hub in the future. That is so we are expanding. So we expect ARPOB in Gujarat and the Karnataka certainly to increase in future when we do our Mumbai centre and Mumbai centre for example in future possibly Delhi centre we are going to see similar increase in the ARPOB because of high technology there but certainly you cannot compare that whether we are going to have the similar technology in Cuttack. So there will be a mix of the patient is important the type of patient who all cash paying patient. So these are all the huge mix, which makes the difference in ARPOB.

Gangadhara Ganapati: The other point if I may just add to that doctor in Bangalore 10% our revenue comes from government whereas and also in Bangalore we have international patients. Similarly in Gujarat the percentage of revenue from government patient is very low whereas in some of the tier III towns, tier II towns you will have a higher percentage. So those are also at lower price points.

Vivek Kumar: For Milann fertility centre like what are the EBITDA margins versus your cancer care. Will are they similar or it will be a higher?

BS Ajaikumar: Similar.

Vivek Kumar: Any other new function you are looking to add other than cancer care and this fertility in future like after three, four years?

BS Ajaikumar: We are associated with our cancer centres is a molecular diagnostic division as we have shared before that is an area like a next generation sequencing and all we are moving. So that is the low capex. So that is the one area where we will try to grow. But apart from that present we believe we have enough areas of opportunities in oncology and fertility to grow.

Moderator: Thank you. We will take the next question from the line of Taksh Singhvi of Ernst & Young. Please go ahead.

Taksh Singhvi: I just wanted to know what is your strategy around Milann like will we see any acquisition in the future and what sort of margins can we see once like all the centres become mature and if you can throw some light on key trends that would be great?

BS Ajaikumar: So of course we are open to all possibilities. At this stage we have a significant organic growth opportunities already with three new centres coming up and eventually there will be some level of consolidation is very fragmented field and right now there is no there is really well organized national brand. So Milann will be one of the well-organized national brand and we are seeing a mass expansion and growth. So to that extend all we can say at this point that we are open but we are not active at this point going through anything.

Gangadhara Ganapati: I think our focus also in like in Delhi and other areas attracting talent making them part on Milann and working with doctors as if possible as partners we are developing these models which will give us quite high growth in the fertility particularly since it is not organized and we are now one of the prime movers in organizing this sector.

Taksh Singhvi: What sort of margins do you see in the future like once the centres mature?

Gangadhara Ganapati: Again as Dr. Ajai mentioned the margins are similar to what we are seeing in oncology and overall about same ballpark. So we would expect that margin should remain that way in fact the short-term one would expect Milann margin may in the compression because they going for high growth and today we are looking a 25%, 30% growth rate. So the growth is important, market share is important.

Taksh Singhvi: Just a question like if you can throw some light on key trends like how do you differentiate between good fertility centre to like some other chains say like Indira IVF or like other chain. So how do you differentiate?

BS Ajaikumar: What I would like to say here is it is like our HCG cancer centres also. The big differentiator is really the outcome. What is the success rate and how successful you have been treating after the first failure, second failure. So we have to measure the success rate with the global standard and it can be even better standards. So that is how the differentiator is. For example in our IVF centre Dr. Kamini Rao being one of the first movers and well known. Lot of people come and fail after the first they come for the second time, third time and they are very successful over 40%, 50% successful rates so there is a good benchmark particularly a centre which treats with more complicated cases. So that is how you create a centre of excellence. What is centre of excellence compared to community hospital or a centre around the corner is the centre of excellence can take on complicated cases they know how to handle and they have equally good results in their cases where there has been initial failure. So that is how we measure and we are very clear that even in oncology as well as fertility we measure the outcomes and that is our big strength.

Taksh Singhvi: My question is does the outcome depend on the doctor or the technology or it is a combination of those?

BS Ajaikumar: It is really a combination of both. It is a knowledge. The doctor who is experienced, experienced matters a lot quite obviously and also what is technology available, do you have access to the technology and the most important thing as an oncologist I can say is your experience and technology should translate to actual patient care. So if you can spend that kind of time and review that is what will give you the better outcome, whether it is fertility or oncology.

Taksh Singhvi: Thank you.

Moderator: Thank you very much. We have the next question is from the line of Bhagwan Chowdhary of Sunidhi Securities. Please go ahead.

Bhagwan Chowdhary: Thanks for the opportunity. Sir can you please share the EBITDA margin for this quarter. I think as we expanded in that business also so the first time losses that you mentioned?

BS Ajaikumar: We already answered that question. We have said that EBITDA margin will be in the same range as the overall ECB market. Is that the question you asked?

Bhagwan Chowdhary: Sir, my question pertains because during the quarter we see very low minority interest outgo, so my sense is either it would be pertaining to the loss of the Milann because we extended that or it was pertaining to the new hospitals which has relaunched with loss on those?

BS Ajaikumar: I think there is obviously confirmation of loss in the new hospitals as we know 2.7 Crores was our loss from the new centres and some of the new centres like Baroda are under the JV model where we got a 26% minority shareholder so to that extent and Vizag also we may not be shareholders. So there is a minority component of the loss, yes you are correct.

Bhagwan Chowdhary: If I compare on a year-on-year basis so what was the minority interest there. Was there a significant difference?

BS Ajaikumar: In Q1 FY2016?

Bhagwan Chowdhary: In Q1 FY2017 compared Q1 FY2016?

BS Ajaikumar: In Q1 FY2016 I do not think there was any minority loss, because both Baroda and Vizag were not operational. So the minority interest was not negative in Q1 FY2017. Either quarter it is not negative, but I think you would see that it is a little bit lower in Q1 FY2017 compared to FY2016 because of the extra losses from the centres, but even in Q1 FY2017 it is a positive minority interest.

Bhagwan Chowdhary: Once again Sir, if I can refrain the same question, my question pertaining to the mainland centres. Was there same profit in Q1 FY2017 as it was in Q1 2016 why I am asking this because they rolled expansion in mainland centres?

BS Ajaikumar: There are some losses from the new Milann centres also. I think it is about at the range of 3 million out of the Rs.27 million of loss in total about 3 million is the loss from the new Milann centres. 24 million is lost in the SEB centres.

Bhagwan Chowdhary: Sir secondly as going forward three more centres are likely to come as you mentioned by June 2017, so where do you estimate that level by that time?

Gangadhara Ganapati: We would not be so specific but I think as Dr. Ajai mentioned we are obviously doing everything we can. We have a business plan to see how we can keep the losses in check. Generally it takes some time for any centre to breakeven, I think overall you can expect at least six to 12 months for a new Milann and 12 months or so for a new HCG centre to breakeven. So that is the general principle. Of course beyond that cannot say much more than this.

Moderator: Thank you. We will take the next question from the line of Kumar Gaurav of Kotak Securities. Please go ahead.

Kumar Gaurav: Thanks for taking my question. Sir, my first question is on East India. So we see the occupancy has gone up to almost 71%. This used to be 60% in FY2016. So any specific steps, which we have taken here?

BS Ajaikumar: There has been a significant improvement in the increase in the occupancy because of the technologies in Cuttack and overall.

Gangadhara Ganapati: I think the main reason is there is some improvement in Ranchi also, the occupancy as well as Cuttack we have expanded services particularly with the PET Scan coming in as well as the True Beam and all this has added more new patients to the Cuttack centre and this is the reason we have seen expansion to 2017.

Kumar Gaurav: Second question is on Milann business, so here we see the IVF cycles which have gone up by almost 46% YOY but the revenues have gone up only by 22%, so have you taken any sort of price cuts or something?

BS Ajaikumar: No. So there is also an element of patients coming back for repeat cycles. So IVF cycle is also may be two to three per patient and I think the second or third time it is a slightly different price point. So there is an element of that. There is also a little bit of pricing and product mix issue with an IVF also you got frozen cycles, so there is a little bit of that all those factors put together, but we have not taken any price or anything like that.

Kumar Gaurav: Thanks.

Moderator: Thank you very much. We will take the next question from the line of Dr. Harith Ahamed of Spark Capital. Please go ahead.

Harith Ahamed: Ajai, I just wanted the figure for the capex that you are planning for FY2017 and some rough estimates for FY2018?

BS Ajaikumar: FY 2017 you know first quarter was 38 Crores and we have three new centres coming on track. I think we cannot give any specific, because we think it depends on what happens in the quarter, but overall I would say if I look at those three new projects as well as another four that are in the pipeline totally seven new centres, so we are looking at about 200 to 300 Crores of capital expenditures happening over the course of balance part of FY2017 and FY2018. Our best guess is by the middle part of FY2018 we should be completing most of the projects, but of course as the quarters go by, next quarter we will give a more detailed update on some of these projects particularly the ones that we know for sure are going to come on stream in FY2017 and FY2018 I think the next quarter we will give a specific guidance on that.

Harith Ahamed: On the tax rate, I see that it was a little on the higher side this quarter. So any guidance for the full year?

BS Ajaikumar: I think the ETR is a little bit higher. I think it is about 35% to 36%. I think it is function of the way the accounting standards are working. Going forward that Venkat, can I request you to answer that what we expect the EPR to be going forward for the full year?

Venkat: I think right now the tax rates have stabilized in terms of what has been the actual tax rate has guided by the finance act and the budget. You see it is about 36% as against the credits what we have taken in the past. In the past we have taken the tax credit on account of deferred tax because we have not recognized the credits, which are available on the losses that we are generating under the Income Tax Act, and from now on I think we would be stabilizing at the actual rates, which is 34.61% as it stands now.

Harith Ahamed: Thank you very much.

Moderator: Thank you. We have one last question. The last question is from the line of Vivek Kumar an individual investor. Please go ahead.

Vivek Kumar: Thanks Sir for taking my taking my question again. I want to understand how does the asset turnover you are looking forward and is the capex for your fertility centres lower than your cancer care like for every rupee you put on asset, what is your turnover you are looking for? Is it better in cancer care or it is better in Milann?

BS Ajaikumar: The asset turn in our cancer care right now is around 1.5 times after for a new centre if we put up a new centre we would expect by about year five to be at 1.55 of assets turn. So typical example if you look at a centre of what we are doing at Baroda with 40 Crores assets by year five we should be looking at about 60 Crores in revenue on that basis. Of course it depends a lot of assumptions and so on but that is a fair assumption right now. There are some centres where the asset turn is higher like our Ahmedabad Cancer Centre has a higher asset turnover of about 2 and it also depends on whether we have land and buildings. Of course if there is land and building the asset turn is going to be lower.

Vivek Kumar: How much it will be lower if you have a land and no land.

BS Ajaikumar: For example in our Bengaluru Centre where we have got land and building assets turn is closer to 1. So it depends on that. Kanpur where we have land and buildings we would expect the asset turn to be a little lower. Of course correspondingly you will have a higher EBITDA margin because there is no rent. So that is the trade off.

Vivek Kumar: So where you have a land it will be around 1x?

BS Ajaikumar: 1x depending upon the amount of the land involved but of course EBITDA margin will be higher to that extent.

Vivek Kumar: That I got it and for your fertility centres?

BS Ajaikumar: Fertility centre it is closer to 2 to 3. So right now typical fertility centre will be about 5 Crores of revenue and we should be looking at 50 Crores of revenues from typical fertility centre.

Vivek Kumar: So your fertility centre is also on per bed basis?

BS Ajaikumar: No.

Vivek Kumar: These are like centres.

BS Ajaikumar: We do have some amount of beds, but it is a hospital day care. It is basically a day care. So the main investment is not in the beds but on the technology, laboratory and all that.

Vivek Kumar: Thank you.

Moderator: Thank you very much. That was the last question. As there are no further questions, I would like to hand over the conference back to Dr. Harith Ahamed of Spark Capital for any closing comments.

Harith Ahamed: Thank you every one for joining this call. I would like to thank HCG management for taking the time out. Niraj any closing remarks from the management team.

Niraj Didwania: We would like to thank everybody for taking time to discuss our results and earnings on this call. Thank you so much.

Moderator: Thank you very much. On behalf of Spark Capital Advisors that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.