# "Healthcare Global Enterprises Limited Q2 FY 2017 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen good day and welcome to the Healthcare Global Enterprises Limited Q2FY17 Earnings Conference Call hosted by IIFL Capital Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Abhishek Sharma from IIFL Capital Limited. Thank you and over to you Sir!

**Abhishek Sharma:** Good evening everyone this is Abhishek from IIFL Institutional Equities, I thank the HCG Oncology Management Team for giving us the opportunity to host this call, I would like to hand over the call to Niraj Didwania, Head of IR and Corporate Development, who would make the other introductions and get us started. Thanks and over to you Niraj.

**Niraj Didwania:** Thank you Abhishek. A very warm welcome to all participants to Healthcare Global Enterprises Limited's Q2 fiscal year 2017 earnings call. We have Dr. B.S. Ajai Kumar - Chairman and CEO of HCG along with the senior management who will run you through the earnings and take questions. So I would like to hand over the call now to Dr. B.S. Ajai Kumar.

**B.S. Ajai Kumar:** Thank you very much and good evening. Welcome to this conference. I would like to start of by first of all introducing our CFO, Yogesh Patel, who is here with me, who will go over the financials later on. We are pleased to report a continuous strong result of second quarter of FY2017. HCG being the leader in cancer care and now we have made significant advances in the field of precision oncology and we are seeing a robust adoption of these new technologies across our network that will drive superior clinical outcomes. We also continue to expand our footprint and market share across India. Thanks to our model of comprehensive cancer care and partnership with specialist doctors. We are seeing strong progress building our Milann network in addition to the current six centres. Overall, we see good growth prospects in our business across the board. With eight new comprehensive cancer centres under development, we continue to progress towards a mission to make high quality cancer care accessible across. Few business highlights of Q2 are new cancer centres in Gulbarga, Baroda and Vizag and our multispecialty hospital at Bhavnagar continue to ramp up well as per our expectation. Our cancer centre in Vijayawada was under revamp and has been very successful revamp and has shown a strong operational performance showing a 70% rise in revenue and over 100% rise compared to Andhra Pradesh as you know 100% increase in the revenue. Strong adoption of our Da Vinci robotic surgery in our cancer care centres in Bangalore and Ahmedabad with over 100 procedures being completed in a very short period of time. Precession oncology advancements include our launch of next generation sequencing facility at our Bangalore centre as well as development of new liquid biopsy tests that are potential to transform standard of cancer care bringing in high level precision medicine. Clinical innovations include, development of 3D printing in the treatment of tongue cancers and other oral cancers and a normal surgical oncology technique for excision of carotid artery tumors. With these few words, now I will request Yogesh to go over the financials.

**Yogesh Patel:** Thank you doctor, good evening everybody. In terms of our financial performance for this quarter I consolidated the income for operations, in other words revenue stood at 174 Crores as compared to 144 Crores in the same quarter in the previous year reflecting a year-on-year increase of 21%. Our EBITDA or consolidated profit before other income depreciation amortizations, finance cost, exceptional items and taxes was 25.4 Crores, which was compared to 20.2 Crores in the previous quarter, previous year same quarter a growth of 26%. Profit before taxes on exceptional items, or PBT was 77.6 Crores in this quarter as compared to a profit of 1.6 Crores in the same quarter previous year. Profit after taxes stood at 4.9 Crores in this quarter as compared to a loss we made of about 1.7 Crores in previous year same quarter. EBITA excluding losses from new centres pertaining to existing centres is 27.2 Crores reflecting a margin of 17.2% and this number translates to a growth of 27% over this corresponding quarter of previous year.

**B.S. Ajai Kumar:** Thanks Yogesh. A few things about operation metrics and some highlights, our number of centres now, in HCG centres 19 compared to 17, which was in Q2 of FY2016. We are 7.6% increase in occupied beds driven by launch of new centres and growth at existing centres. 12.3% increase in RPOP driven by an option of new technologies across the network offset by lower RPOP at some new centres as expected. Reduction in a loss in line with the trend towards daycare procedures and changing cash inpatient profile and 2.6% improvement in EBITA margins from existing centres, that is excluding new centres which is 22.1% Q2 from 19.5% in Q2 of FY2016 driven by decrease in direct cost as proportion of revenue. Then I would like to move on to the regional highlights at this point. In Karnataka our growth has been good with our total overall revenue being 12.1%. I would like to state here a few things, our RPOP has increased by 18.6% and as we all know there was significant civil disturbance in September temporarily, which affected our functioning for nearly 10-12 days, this impacted the volumes and we are seeing continuing shift in the payer model. In Gujarat significant growth in the avenue 40.2% and we have had a RPOP growth of 2.8% and Bhavnagar centre achieved break even, EBITDA growth has been 11.3% and Baroda centre ramping up well as expected. EBITDA margin of existing centres is 15.8%; margin improvement has been there across the region. In East India the shift in payer profile model is under way, RPOP expansion is driven by adoption of new technologies where we are seeing a revenue growth of 18.4%, and RPOP increased by 18.9% and EBITDA percent is 26.6% a healthy EBITDA. Now few highlights of the project, I would like to take you over this, three new HCG centers operational as of June 30, 2016, additional three new HCG centres will be by June of 2017. As I explained Gulbarga, which has become operational in Q4 of 2016, Vizag Q1 of 2017, Baroda Q1 of 2017, Kanpur will be operational, which is 90 beds in Q3, Borivali will be operational in Mumbai in Q4, which is a 105 beds and Nagpur will be operational Q1 of FY 2018. Three new Milann centres operational as of June 30, additional three new Milann centres by June of 2017. M. S. Ramaiah started operations Q2 of 2016, Delhi Q4 of 2016, Marathahalli in Bangalore Q1 of 2017; Chandigarh will be operational Q3 of 2017, Cuttack in Q4 of 2017 and Ahmedabad of Q1. As you can see the good ramp up is going on and we expect significant numbers opening in the next year or year and a half. With this I will request once again Yogesh to go over some other aspects of financial.

**Yogesh Patel:** Let me walk you through a couple of elements from our balance sheet, specifically capital adequacy and debt positions. The capital expenditure in the current quarter was 43.7 Crores as compared to 38.2 Crores in this quarter of this fiscal. The spend was, chemicals consumed 41.2 Crores of which 32.9 went towards the centers whereas 31 million was for expansion and 52 million went within the existing centres itself. The Milann centres capitals spend was 25 million in the quarter, spread across 19 million for new centres and six for the existing. In terms of our net debt position, net debt for the quarter stood at 234.6 Crores as compared to 212.5 Crores in the previous quarter and the major movement seen in banks debt, which is at 101.3 Crores as compared to 85 Crores in the previous quarter and the vendor finance which is 155.2 Crores as compared to 154.2 Crores pretty similar number with one Crore change the other items similar in terms of capital use and other debt. In terms of usage for these debt changes we have spread across between new centres which consumes 147.2 Crores a compared to 125.1 of the previous quarter whereas as the net debt of excluding new centres should the same number at 87.4 Crores in both the quarters.

**Moderator:** Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press '*' then '1'. Participants are requested to only use handsets while asking a question. Ladies and gentleman we will wait for a moment while the question queue assembles. We have the first question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund.

**Sudarshan P:** Congrats on good set of numbers and thank you. See what I would like to understand is I think, you know we have seen good jump in margins from the existing units, but can you throw some light with rest to the overall number of units that we have kind of opened in the last 2-3 quarters and what is the kind of ramp up that you are seeing both in terms of scale, in terms of how we are expecting the margin trajectory to happen and if you can you know throw some examples in the past as to how the break even and how quickly these centres can break even, should give some kind of an idea on you know how the speciality business works.

**Gangadhar Ganapati:** Thank you very much for the question. So yes, as you know we had opened two new centres in the recent past, which includes the Bhavnagar centre and the Gulbarga and then two more centres recently which was Vizag and Baroda, so Bhavnagar and Gulbarga centres essentially broke even within the first 6-8 months of start of operations and this quarter actually Q2 they are pleased to report as Dr. Ajai mentioned Bhavnagar centre is actually breakeven. We are in the second quarter of operation and new centres continues to ramp very well. We are very pleased with the patient ramp as well as quality of outcomes, etc., and I think reasonable degree of confidence is there in similar ramp path of new centres getting to that level. So in terms of what drives that if it is your question. Essentially it is the number of new patients that drives the adoption and eventually drives the profitability, so generally one way of looking at it and we have discussed this in the past is, if you look at it from bed occupancy, though we know bed occupancy is not always the right metric, but broadly speaking even a 25% - 30% occupancy level we will be getting close to the breakeven point, and because you know we operate at a 60% 70% contribution, so really it depends on the number of patients.

**B.S. Ajai Kumar:** What we look at, see if you take an example of Baroda or Vizag why are they doing good, what are the drivers if the new patients footfall, like in Baroda for example, we see over 200 new patients in a very short period of time, and that aspects to increase number of patients and radiation, getting chemotherapy surgery. So we are seeing a very good ramp up in this as well as in Vizag, so like what Ganapati mentioned they will break even very quickly and this is in keeping with how we do our partnership models, work with the local partners who ramp it up very quickly.

**Gangadhar Ganapati:** Also one more point to this question if I may that the losses for new centres actually in the current quarter are less than what it was in the previous quarter mainly because of Bhavnagar basically turning around as well as relatively good performance at Vizag as well. So we are seeing both of those very much on track to getting to profitability.

**Sudarshan P:** And what is the quantum of the losses in first quarter and second quarter.

**Yogesh Patel:** I think the loss, 27 million and in Q2 there are no additional centres, the same centres have ramped up and now the losses in Q2 are 18.4 million.

**Sudarshan P:** Sir can you also throw some light, I mean would the business be a lot linear, because if I look at the last year’s number it looks like there has been some kind of loading up towards fourth quarter, so I am just trying to understand whether that trend would continue or whether it is something similar to the fourth quarter loan?

**Yogesh Patel:** Normally Sudarshan the trend continues for various reasons, historically our last quarter is when it loads up and this year it will be again probably there and also more because some of our existing centre expansion is happening which will be completed and the results will be shown in the 4th quarter.

**Sudarshan P:** Thanks a lot sir, I am joining back in queue.

**Moderator:** We have the first question from the line of Chandra Mouli from Goldman Sachs.

**Chandra Mouli:** Thanks for taking my question. I just wanted to check what are the levels of market shares that you are enjoying currently and mostly your major markets. Especially considering that Max, Apollo, and Fortis and focusing more on cancer care now?

**B.S. Ajai Kumar:** Max as you know he is very regional in Delhi and when you look at Apollo they have a few centres, 4 or 5 centres across the country, they are super speciality centre mostly the big one is in Chennai and one in Hyderabad is there and Calcutta, these are some of the big ones, but our market is not only in big cities, like you know look at Bangalore, Ahmedabad coming up in Mumbai, there is a big centre hopefully in Delhi soon as well as Calcutta. So apart from that we penetrate also tier 2 cities, for example we are the leaders in places like Cuttack, Ranchi, Vijayawada, which I mentioned, Vizag, Baroda and Khanpur. So our way of looking it is using the hub and spoke model and capturing the market across India. As we have mentioned in the past the goal here is to make sure the cancer patients in this centre is accessible when we bring in high technology to Vijayawada to Vizag or Cuttack. We are bringing technology so people do not have to travel elsewhere. So this is the model under which we are working and because of that we capture significant market share in this tier 2, tier 3 cities, regarding the big centres for example Bangalore we have over 50% of market share in the Bangalore location itself, of course patients should come from other parts of India because it is a centre of excellence and outside India to Bangalore excluding that. So similarly our way of looking at it is we are already there functioning so for the Apollo’s and Max’s too if they have this vision to come and establish their centre across India you know it will take a long time like always say, from the time you have a vision of a cancelled centre to actually start treating the first patient because of the regulatory issues and the way bunkers have to be built and everything, it takes minimum 3-4 years.

**Chandra Mouli:** That’s great colour. As a followup just from a modeling perspective, you did touch a point in your expansion plans. So a little more detail on that. If you could just in terms of bed additions if you could share with us for your internal targets for this fiscal year and the next end, what level of occupancy do you expect to attain in the newly added beds this year?

**Gangadhar Ganapati:** I think it is hard to give that kind of specific guidance, but as you know we are close to around 50% overall occupancy rate and as you know that when we look at going over 60% – 65%, it is quite a good occupancy rate generally in the kind of way we look at it and again typically a new centre will start at you know 20% in the first year, then go to 40% in about 3-4 years, so that is about all we can say. I think we are seeing that but again one of the trends we are seeing across the network and you can see this almost in every state, is a change in patient profile and service mix profile. There is a significant trend in deduction of a loss and more and more focus on outpatient or daycare therapies. As technologies are advancing and cancer is a very vibrant field as far as technology advancement goes. You are seeing a higher earning per bed or higher earning per patient without necessarily of the same in the volume size. So I think for us the volume is going to be one of the metrics, I think value is also going up faster.

**B.S. Ajai Kumar:** What we really look at is the mix, how do you change the mix and in this regard as Ganapati very well put it, you know the whole global trend is towards more and more out patients and what are the procedures, how to decrease the average length of stay, how to improve outpatient services. So this is where the technology, for example, robotic surgery, patients used to stay for 5-6 days now go home by 2 days, even liver transplant patients sometimes we send them home on 4th day, so the whole technology knowledge and as moving towards infrastructure which is showing improvement, moving towards particularly in oncology I can say, moving towards lesser number of beds being occupied by the patients. So this is a healthy trend and in fact that actually improves our top line as well as our margin.

**Chandra Mouli:** Thank you, and just one final one before I get back into the queue, what are the kind of margins that you are trying to aspire for the multispecialty piece of the business, given that it is close to 10% of the revenue right now?

**Gangadhar Ganapati:** I think it is not very different, you know in our overall cancer business, we had about 20% and 30% and there is no reason why it should not be in the same range. So that is kind of in the same range from a margin perspective.

**Chandra Mouli:** And would you say that you are at those levels right now as well?

**B.S. Ajai Kumar:** We do not comment on that right now because we do not break it out that way. It is consolidated in HCG networks, so we do not break it out that way.

**Chandra Mouli:** Thank you, I have more questions, I will join back the queue.

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

**Nitin Agarwal:** Thanks for taking my question. On our expansion plan, beyond the ones that you outlined which will come up over the next 2 or 3 quarters, I mean how we are looking at the expansion for the cancer centres over the next say 2-3 years.

**B.S. Ajai Kumar:** Yes. With all these centres coming we are nearly going to be having about 25 centres. We have centres already which are not here in the list I mentioned is in Jaipur and apart from that Calcutta is there which are already 2 centres and Kochi, so these three centres are on board and they are already in the various stages of development as well as the centre in South Mumbai in Cooperage, so the four centres will come. With this we will have over 25 centres oncology dedicated. Now the future beyond that you know we have a centre in Delhi, which we are waiting for certain completion and we feel there are other opportunities we see. Of course execution is the major thing for us to make sure these centres are executed well, they run on time and the next thing is opportunities for us is plenty to be honest and we have to pick and choose now. We have opportunities in Andhra Pradesh now, opportunities in Tamil Nadu; new opportunities coming in North East as well as in Gujarat State there are opportunities like places like Surat. So we are now in various stages of analysing this and seeing what the potential are, what are the market survey and come to a conclusion on how it is should be structured as independent free scanning centres. So our goal is majority of the time to go for free standing independent cancer centres.

**Nitin Agarwal:** But doctor are we going to go through a similar phase expansion as we did over FY2016 to 2018 in terms of a concentrated expansion when 10 to 12 new centres came up or, I mean how do we see them.

**B.S. Ajai Kumar:** I cannot really comment on the number of centres, all I can say is we are game to wherever we see opportunities to grow, at the same time one other thing, if anything we do not want to compromise is the quality of the care to the patients putting systems in place as I always say one umbrella of HCG putting multiple cancer centres across the country, so many, globally we are the leaders in that and we are using technology to health we are rolling out a new HIS system across the centres taking place, EMR is coming in, so we really like to apart from rolling out centres we like to focus on making the existing centre reach to the capacity utilisation which is also important for us to drive it. For example, in Ahmedabad we are driving the centre to capacity, putting a second linear accelerator PET scan, similarly Cuttack is expanding and possibly Vijayawada will need expansion, so we are looking at expansion of existing centres, new centres, high quality care outcome measures. For us you know as an oncology care provider we are not only service provider, it is a front end, but here also into the analytics making sure the patient comes are analysed, quality of care how does our quality compare to the global standards, not only in Bangalore, but across, you know even a patient walking into Cuttack should have the same outcome. So this is where you know we want to focus also in the area of quality outcomes, so both of these expansion of new centres simultaneously this has to happen, that is the reason you know, I cannot really comment on how many centres will be there but we really evaluate the opportunities wherever there is opportunity certainly we will consider and go further.

**Nitin Agarwal:** Okay. Associated question is in terms of how are we looking at you know managing the leverage on the balance sheet. We know we have about 200 Crores of debt right now, how do we see it, what numbers, is there a cap, or is there a threshold, I mean how are we internally looking at managing leverage on the balance sheet?

**B.S. Ajai Kumar:** I will attempt that. See right now we have got these new centres coming on stream so as of FY2018 I think we have our hands quite full with regard to the already disclosed and planned centres, so between today and the end of FY2018 we have about 340 Crores of capital expenditures that are coming on stream and by that time I think you know, including the cash generation from our operations, we continue to generate reasonable cash from our operations, continues to grow, which is funding, most of the equity requirements for our new projects. But overall we expect to be you know ending. Today we have about 240 Crores of net debt that may grow to about 400 Crores in that range 400 Crores or so, by the end of FY2018 we will also have of course a significant part of that would be vendor debt some of it would be bank debt and at that point in time I think we will also have reasonable debt capacity, debt servicing, because based on the cash flows that you are projecting as well as the EBITDA, so I think we should be quite comfortable at that stage and you know we want to be free cash positive which we will be I think thereafter. On the cusp of that, I think once this big round of expansion is through, I think we will be at a stable position you know then I think we should be able to quite comfortable position.

**Yogesh Patel:** Nitin we have done a multi-year planning on this. Like we used the model of certain bank loan and then the deferred payment scheme from the manufactures so what we do is really look at when the serviceable loan comes and based on this only we create a financial model for each centre which comes on board, because servicing the major capex will happen only three years after the first patient is treated. So in three years most of the models predict that they will be self sufficient to service all the debts and more. So this is how we do and that extra cash which comes of course will help us to take on new projects in the initial phase. So this is the model we are using and scaling up. Obviously, when you look at, without quoting any numbers what will be our EBITDA in 2017 when the 2020 new project comes that debt is serviced our EBITDA obviously will be higher so they will be very comfortable to service and same we take a new project then obviously there will be another three years. So this is the ladder fashion we use and it has been quite successful in the past and also now obviously the interest rates coming down and all be further helpful and we are also looking at other models whereby we can get even at a lower rate of interest and we are in discussions with various international bodies to see whether it could be applicable for ours and so that that will further enhance our capabilities.

**Nitin Agarwal:** We have opened up a bunch of centres over the last few quarters; in your experience are you seeing any of the benefits of scale, you know the network effect or you know any shape and form it is beginning to play through in some of the newer centres or across the network you know that can further build on itself as we grow?

**B.S. Ajai Kumar:** You know one is the number of new patients, you know what we saw last year 37,000 obviously we will be seeing lot more. Number 2 is because of our hub and spoke model, which is our intention, anyway is the centre of excellence. For example, when we started Gulbarga centre some of the routine patients are pushed to the Gulbarga centre to take routine treatments, what they are referred to Bangalore is for high end. So what we are beginning to see is this kind of spokes referring to our main hum, this is what we are trying to do even in Gujarat and eventually in Delhi and Calcutta where the high-end providers will be the hub and the drivers will be the spokes and we are beginning to see that in Bangalore just based on the number of robotic surgeries we do, number of chromotherapy, CyberKnife I am doing some research on that, where are we with CyberKnife compared to Global standards, 2400 patients we have done from the Accuray, which is the manufacturer the report I get is globally we are one of the two largest CyberKnife treatment centres. Similarly like robotic I told you 100 we were one of the fastest, so the technology can be used to capacity utilisation because of our hub and spoke model. A patient in Cuttack for example needs CyberKnife, the local Cuttack definitely will refer to us rather than others because this is our centre, and similarly a bone marrow transplant, we have done over 250 bone marrow transplants. So these are all high-end work, which is going on, and this will continue to increase and it will drive people not only from India, from abroad. So this is how we are looking at to use this hub and spoke model and drive.

**Gangadhar Ganapati:** Further to that our contribution margin continues to improve. If you see the financial results that we put out and one of the reasons is also if you look at the kind of pharmacy benefits we have been getting from volume purchasing of pharmaceutical drugs notwithstanding the DPCO and all that the advantages we get from the bulk purchasing which comes from the leverage of the network effect is helping us. Similarly, you know we are consolidating our lab operations, if you look at, we have so many new centres coming up and we are in the process of consolidating and there is definitely cost savings and benefits given that we have 25 hospitals centralising the lab, centralising the purchasing, centralizing all of these aspect consumables. So we are definitely seeing those benefits and our corporate expenses are not increasing in proportion so I think revenue growth is strong, I think 25% our corporate expense certainly is not growing at that level and contribution margins are increasing, so we are seeing those benefits for sure.

**Nitin Agarwal:** Okay, thank you very much.

**Moderator:** Thank you. The next question is from the line of Rahul Jeewani from IIFL. Please go ahead.

**Rahul Jeewani:** The civil disturbance which you talked about which impacted your patient volumes in Karnataka, have you seen that impact normalising this quarter and adjusted for this impact what would have been your volume growth for all your centres put together?

**B.S. Ajai Kumar:** Second part of it will be hard to predict what would have been, it is a postulation I cannot do, but we were fortunate, we were able to achieve these good numbers and as far as the impact of that obviously you know it is beginning to recover now unless something, obviously there has been very little rains and people are always talking about it and Karnataka as we know there is a drinking water issue and all. So that at present the recovery is happening from all the civil basis issues we had so we just have to hope that this will not recur and so we can continue to give the best of care to our patients.

**Rahul Jeewani:** So you do not anticipate any impact from this in the current quarter?

**B.S. Ajai Kumar:** You know, we have to wait and see you know there was some minimal impact because the carry over was there from September, but we will see you know we feel we may be on the recovery phase now, okay.

**Rahul Jeewani:** Sir on the new centres you have spoken about Bhavnagar, Gulbarga and Baroda, but on Visakhapatnam how has been the patient ramp up?

**B.S. Ajai Kumar:** Visakhapatnam has been going up very well in fact as Ganapati mentioned it is ahead of our forecast and it is you know almost near breaking even now, so we are quite happy with the ramp up happening in Vizag and you know this is a centre, which I think definitely will grow and we are seeing some good healthy signs.

**Rahul Jeewani:** Sir, both your Baroda and Vizag centres should also break even within the first nine months of opening?

**B.S. Ajai Kumar:** But you know the only thing is you know Baroda the number of patients growth will be obviously more because we have a partner there in terms of Dr. Rajiv Bhatt. In Vizag we have a partner, but he is not a surgical oncologist. He is the owner of that entire Pinnacle so we are in spite of that we are going very well.

**Rahul Jeewani:** Sir on the fertility centres has you seen any impact from the surrogacy laws, which were put in by the government a few months back. Have you seen any impact from those regulations?

**Gangadhar Ganapati:** No, on the contrary what is happening there is, there is a move to have set of guidelines that will be enforced and in fact there is an audit process also that is being discussed and Dr. Kamini Rao is one of the members of that team that is being put together with the Ministry of Health and if those quality control guidelines are in place that will have a significant impact on self-regulation of the industry. Within Milann of course they maintain their audits and all that so the idea would be that a similar set of guidelines will be in force and all fertility centres would be required to report or at least those that want accreditation from the government will have to report and that should result in actually some improvement in the quality controls but at the same time you know be a barrier to entry to some of the operators.

**Rahul Jeewani:** Okay, so these regulations would basically favour the organised players like you.

**Gangadhar Ganapati:** Surrogacy by the way was not a significant activity for us at all because you know we have been more on the IVF side for infertile patients who was admitted to an IVF so surrogacy is not a significant aspect, but nonetheless, it is a meaningful surrogacy nothing wrong with it, provided one works within the proper guidelines and with a proper standards in place. So I think it will benefit those people who are organised and follow the rules.

**Rahul Jeewani:** Thank you Sir. That is it from my side.

**Moderator:** Thank you very much. The next question is from the line of Harith Ahmed from Spark Capital. Please go ahead.

**Harith Ahmed:** Hi, good evening everyone. Sir in the past you have talked about your expansion plans in Africa, can you elaborate a bit on that, what stage we are at, at this point.

**B.S. Ajai Kumar:** Yes, Africa as we had mentioned in the past you know we have a partnership model with CDC and at present we are working very hard with them we are running some clinics in terms of chemotherapy, daycare but we are looking at expansion. So we will in the next 3 to 6 months probably we will have something going, we are not yet sure at this point, but there are opportunities particularly in Nairobi, in Kenya and Tanzania and Uganda as well as in Nigeria. So log of things are at various stages of discussion at present, but our model is really to do a few centres because the number of patients who come from there, so we can continue the care for a longer period there under our umbrella as well as make sure for high-end work they come here.

**Harith Ahmed:** And these will be comprehensive cancer care centres.

**B.S. Ajai Kumar:** A few of them will be comprehensive cancer centres. Okay providing even you knows radiation therapy.

**Harith Ahmed:** Okay. My second question was related to Milann centres. Can you talk a little bit about the margin profile of Milann centres? We have added a couple of centres in the last 12 months, so how long does it take for a new centre to achieve EBITDA break even?

**Gangadhar Ganapati:** So far the centre we have launched in, we have had a new centre in Delhi, one new centre in Bangalore and a small centre in Bangalore and I think both these new centres in Bangalore and Delhi are close to break even, it has been less than six months and again it depends on the volume but the losses are not very significant, so I would say that the break even period is really volume dependent again as Dr. Ajai mentioned very much dependent on the clinical partner and we have been very selective there and I think also fortunate having good clinical partners in Delhi the result we have been happy to report strong results there.

**Harith Ahmed:** Okay and lastly the expansions that we have lined up for the rest of FY2017 and earlier for 18, what exactly is the model there, the partner, is it a surgical oncology group like we normally do and what is the minority holding in these?

**B.S. Ajai Kumar:** In HCG centre, yes, our proven model is to definitely find a partner work with them. For example, you know only some of the centres where we have not done is Jaipur for example, but there is lot of interest locally for doctors now become partners so very clearly wherever we go we look for a local strong partner preferably you know oncologist, but if there is an opportunity where we have to do on our own we are also doing. So it is looking at a local region what is the talent, what are the partners we decide and take a call. For example so far Nagpur or Baroda are all with surgical oncologists whereas Kanpur is with the Regency hospital, Borivali is with a doctor who is not an oncologist, so we look at the local scenario opportunity who is strong player and we try to partner.

**Harith Ahmed:** Okay and our share holding in these new centres will be the typical roughly 75%.

**B.S. Ajai Kumar:** So it depends, I think in the case of Kanpur originally and Nagpur it is actually 51%, in the case it is 100%, so it depends.

**Harith Ahmed:** Understood.

**B.S. Ajai Kumar:** Baroda is 75% owned by us, so it is in that range.

**Harith Ahmed:** Okay thank you very much.

**Moderator:** Thank you. The next question is from the line of Hitesh Mahida from HDFC Life. Please go ahead.

**Hitesh Mahida:** Thank you sir. Congrats on a good set of numbers.

**B.S. Ajai Kumar:** Thank you Hitesh.

**Hitesh Mahida:** Sir, first thing, has there been any issue because of this; I mean couple of days back when the government announced to stop Rs.500 and Rs.1000 note has there been any impact of that on our business.

**B.S. Ajai Kumar:** So far we have not seen any major issue. We are of course not accepting until we get a clear visibility on this, you know government said only government hospitals, so we have written to them, we have contacted from all of our centres to give clarity, they are in the process of giving clarity, but until that clarity comes we are not accepting any Rs.500 or Rs.1000 notes, but patients have been very cooperative and we are not denied by the way of treatment to anyone because of this. Patients also have been very cooperative and written off cheques or come with other currencies and now I think from tomorrow or so things will ease because the new notes are coming and then it was said that the banks are opening. So we should not see major problems, but we are certainly keeping watch and evaluating the situation. See if there are any centres, which are going to be affected, particularly you know Bangalore, which is a big centre, Gujarat which is a big centre, a lot of them do have a lot of cash paying patients. So we are monitoring it on a day-to-day basis.

**Hitesh Mahida:** Okay, as far as Vijayawada is concerned we have shown almost 70% growth, this was a centre which was not doing well for us since few quarters actually, and it has turned around. Any reason in how sustainable it is.

**B.S. Ajai Kumar:** It is definitely sustainable and the reason is you know we had certain issue that especially stopped us, particularly medical oncologists and all so we were able to attract good talent on a sustainable model now. Today, compared to even two years ago, HCG has become a good brand where we do not have the dearth of getting good oncologists for even places like apart from Vijayawada, Ranchi and Cuttack people are willing to come. So that has been a positive thing. Second of course we have also you know built a second linear accelerator we have, so our load has increased and we are also looking at working very closely with the surgical oncologist. So all this apart from some of the high-end work in oncology we are doing. So this has really ramped up the centre and it will continue to do so. Anant you want to add anything.

**Anant Kittur:** Overall, from a clinical point of view and also from the management point of view, we have a good talent there and we have been able to attract more patients and HCG as a brand it clear shows up and also we have a facility it is a fully comprehensive centres in that area and we are the largest one. We are able to attract more clinicians and more patients because of this feature. And we continue to see growth potential there.

**Hitesh Mahida:** Understood Sir. And sir any guidance you would like to give on top line growth and margins going ahead.

**B.S. Ajai Kumar:** No we normally do not give any guidance, but all I can say we are doing well; we are well on track to achieve our goals.

**Hitesh Mahida:** Understood. This 20% - 25% growth we should consider as sustainable.

**B.S. Ajai Kumar:** I really do not want to comment on that hopefully we will.

**Hitesh Mahida:** Thank you and all the best.

**Moderator:** Thank you. We have the next question it is a followup question from the line of Chandra Mouli from Goldman Sachs. Please go ahead.

**Chandra Mouli:** Thanks for taking my followup. Just from a DNA perspective it looks like sequentially DNAs will hire is this the run rate that you are expecting for the rest of the year.

**Yogesh Patel:** Yes, the depreciation is higher because of the capex that is being, you know we are adding centres. So the new centres that have come on stream, clearly like Vizag and Baroda are now in the depreciating mode. So we are seeing the depreciation and amortization pretty much in line. I think our average is around 10 years, is average life. So our DNA would be over 10% of the block. So you can expect that, we are continuing that way about 10 years, I think average, maybe little bit less. I think the period is 15 years maybe around 10 would be the average. It is around 10 years. As we add capex the DNA is just increasing alongside that in proportion.

**Chandra Mouli:** Okay, and just a clarification on the Capex number that you had given a little earlier. The 340 Crores is for between now and the end of FY2018 right.

**Yogesh Patel:** Yes.

**Chandra Mouli:** Capex also seems to be sequentially higher so is this the run rate that your expecting quarterly for the rest of the year as well, or could it be up and down?

**Yogesh Patel:** This current quarter will be quite significant, because if you see we are quite advanced in some of these projects and visibility is very high. So for example, Kanpur and Borivali most of the Capex is almost coming through almost done. And they will all be finished in this current quarter and then Nagpur, Jaipur, Kolkata and are also getting in advanced stages, over the next couple of quarters you will pretty much see all of that done. So actually in FY17 itself we will be done with a big chunk of it will be completed in the next two quarters Q3 and Q4 and then residual parts will continue into the other half of FY2018, but majority will be completed by the middle of FY2018.

**Chandra Mouli:** That is great. Thank you so much.

**Moderator:** Thank you. As there are no further questions I would like to hand the conference back to Dr. Abhishek Sharma for any closing comments.

**Abhishek Sharma:** Thanks to the management again for speaking us through the results and their perspective on the business. Dr. Ajai any closing comment from your side.

**B.S. Ajai Kumar:** Really I want to thank everybody for all the questions asked and we will continue to dedicate ourselves to all the shareholders and as the company to the patient's outcome and focus on that and hopefully that will give the rewards to everyone.

**Moderator:** Thank you very much. With that we conclude this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.