"HealthCare Global Enterprises' Q3FY'17 Earnings Conference Call"

February 08, 2017

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Moderator: Good day ladies and gentlemen and a very warm welcome to the HealthCare Global Enterprises' Q3FY'17 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 phone. I now hand the conference over to Mr. Niraj Didwania – Head, Strategy and IR. Thank you and over to you sir.

Niraj Didwania: Thanks. Good evening and a very warm welcome to all participants to HealthCare Global Enterprises Limited's Q3FY'17 Earnings Conference Call. Today we have with us Dr. BS Ajaikumar – Chairman and CEO of HCG along with the management team to share highlights of our business and financials. We have uploaded our earnings update presentation to the stock exchanges and I have also shared with through our mailers. So, without further ado, I handover the call to Dr. BS Ajaikumar.

Dr. BS Ajai Kumar: Thanks Niraj and good evening to everyone, and a warm welcome. We are pleased to report continued strong results for the third quarter FY'17 despite the moderate impact of demonetization in certain sectors. Notwithstanding, we do not expect any material impact in the longer term and given our expanding national footprint and specialized focus we remain very excited about the growth opportunities ahead for us. By making the highest quality of cancer care accessible to patients across India we continue to create meaningful social impact whilst delivering efficient returns to our shareholders. The business updates of Q3 FY'17 are as follows.

New cancer centers in Gulbarga, Baroda and Vizag continue to ramp satisfactorily resulting in reduction of overall losses from these new centers in the current quarter. Strong growth in Gujarat continues in further strengthening HCG presence and market share in the region. Milann our fertility business has been ranked number one nationally for the second consecutive year in the all India fertility and IVF ranking survey 2017 conducted by Times of India. A new Milann center in Chandigarh was launched strengthening our presence in fertility in North India. Now I would request our CFO, Yogesh Patel to share the financial highlights.

Yogesh Patel: Thank you Doctor. My greetings to all investors and analysts. The financial highlight for Q3 FY'17 our consolidated income from operations were 176 crores as compared to the 143.5 crores in the corresponding quarter of the previous year, reflecting an year-on-year increase of 22.8%. Our consolidated EBITDA for the quarter was 26 crores as compared to 20.8 crores in the same quarter last year reflecting an increase of 25.2%. Profit before taxes and exceptional items was 7.7 crores in this quarter as compared to 1.5 crores in the same quarter last year which reflects increase of 402% year-on-year. Profit after taxes and minority interest was 5.4 crores in this quarter and when compared to last year we had a loss of 2.2 crores in the same quarter. EBITDA excluding loses from new center was 27.4 crores which translates to a margin or 17.3% and a growth of 25.6% over the corresponding quarter of the previous year.

Drawing your attention to Slide #four of the earnings update presentation where we have split our revenue growth between our two different businesses which we have shown in terms of HCG center and the Milann center. Our Q3 revenue growth of 22.8% comprises of growth coming from HCG centers at 22% and Milann centers growing at 33.1% year-on-year. The same revenue growth on YTD terms which is 20.6% overall comprises of HCG center growing at 20.3% and Milann centers at around 25% year-on-year. In terms of EBITDA split for Q3, EBITDA increased 25.2% year-on-year and existing center I mentioned earlier 27.4 crores translate into 17.3% margin and a 25.6% growth over previous year same period. The contribution from new centers was a loss of 1.4 crores in this quarter. On a YTD basis our EBITDA increased 25.4% over the same period in last year, comprising of existing centers contributing 80.9 crores of EBITDA which translates to about 17% margin and a 27.8% growth year-on-year. The new centers loss for the 9-month period was 5.9 crores. With this I will request Dr. Ajaikumar to take you over the operating highlights.

Dr. BS Ajai Kumar: Thanks Yogesh. Now I would like to draw your attention to Slide #8 of the presentation. Here we did not add any further cancer centers in the current quarter.

Across our network, we saw 14.4% increase in occupied beds driven by new centers and growth at existing centers. 6.7% increase in ARPOB driven by adoption of new technologies across the network, offset by lower ARPOB at new centers. Reduction in ALOS in line with trend towards day care procedures and changing patient profiles. 1.5% improvement in EBITDA margin from existing centers excluding new centers to 21.9% in Q3 of FY'17 from 20.4% in Q3 FY'16 driven by decrease in direct cost as a proportion of revenue.

Looking at key geographies in Slide #9, Karnataka region continues its focus on improving realization parameters leading to an ARPOB growth of 16% with continuing shift in payor profile. We did experience moderate impact of demonetization which was offset partly by continuing adoption of technology. Gujarat region also exhibited growth across volumes and revenues. Our Baroda center is ramping as expected and EBITDA margin of existing centers is at 18.1% for this region. In East India while we have good margins we are focusing on shift in payor profile. We continue to see patient growth at Cuttack with occupied bed days growing by 16%.

In our Slide #10, in our Center of Excellence, key highlights are, continuing growth in high end procedures like Robotics with ARPOBs improvement of 15% year-to-date and EBITDA margin at 26.4% at unit level, an increase of 3.4% year-on-year. We are focusing on improvements in returns and have ROCE at 20.5% for the Center of Excellence up from 16% last year. Coming to Slide #11, apart from Oncology, our fertility business under our brand name of Milann has a growth across the board with 34% growth in registration, 42% growth in IVF cycles and revenue growth of 33% year-on-year basis and we are adding two new centers as we look forward, one in Cuttack and one in Ahmedabad. See, with respect to expansion of our networks, we are strongly focused on execution of projects, in previous 3 quarters we have launched 3 centers. In the coming two quarters, 3 large centers one in Kanpur, Borivali and Nagpur will be launched. Also, we are at various stages of executing another 5 projects which should come on line in the next 5-6 quarters. Projects will be coming in Calcutta, Jaipur, South Mumbai, Borivali, Bhavnagar and Kochi. At this point I would like Yogesh to proceed with Slide #13.

Yogesh Patel: Thank you Doctor. The data points here are detailed in Slide #13. As we continue operationalizing our expansion plan we have invested a total CAPEX of 46.7 crores in the current quarter of which around 2.2 crores is in Milann and the balance in the HCG centers. Among HCG centers we had CAPEX towards expansion in Ahmedabad where we are adding Tomotherapy advanced radiation equipment to support the increasing demand. Also the CAPEX in new centers with respect to Kanpur and Mumbai has come on stream. With respect to the debt portion, we closed the quarter at a net debt of 267 crores which majorly comprises of vendor finance of about 159 crores and bank debt of 117 crores. With this, I would now hand over the call back to Niraj.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Harith Ahmad from Spark Capital. Please go ahead.

Harith Ahmad: My question is about the performance at the newly commissioned HCG centers, one of your slides you have shown the revenues from new centers at 15 odd crores. This number versus what we reported in Q2, the ramp up appears a bit on the lower side.

Dr. BS Ajai Kumar: But we are not comparing to Q-on-Q because seasonally normally the Q3 is always quiet.

Management: So the existing revenue growth what we had was 11% approx.. which is what is in line with the growth of the existing centers and beyond that was only what new centers were planned to contribute.

Harith Ahmad: This figure that I am referring in the Slide #6.

Harith Ahmad: I mean, 13 crores to 15 crores on a absolute basis.

Dr. BS Ajai Kumar: At 15% quarter-over-quarter. This is quite a strong growth.

Management: Q3 is seasonally a weak quarter.

Harith Ahmad: Okay, my second question is related to the performance at the Bangalore Centers of Excellence. Year-to-date in the 9 months FY'17 we have had a growth of around 7%. So is it the kind of growth we can expect from these hospitals which I believe are fairly mature in their life cycles. So high single digits is that the expectations from our Centers of Excellence going forward?

Management: See, I will just say one thing. As Dr. Ajai mentioned, there is some impact of the demonetization in the overall scheme of things. So we are hopeful that over time that may work out and we are not expecting that to be a long term effect. So definitely we are quite expecting that we have the stronger growth as we have seen in the past. So we do not see anything abnormal compared to our past performance in this regard.

Harith Ahmad: And on the Milann centers, can you give a sense of the EBITDA margins that we have at Milann centers?

Management: No, we do not tend to disclose that. We have not disclosed in the pasteither..

Harith Ahmad: Given that we have added 4 new centers in the last roughly 12 months, has there been a dip in the EBITDA or the loses from the new center substantial?

Management: Yes, there has been losses from the new centers, new Milann centers and which is to be expected, but I think there is a loss from the new centers of Milann as well, as well as the new HCG centers, both of them have a component in the loss. With that said, Yogesh anything you want to add?

Yogesh Patel: Right, the only thing I would add here is, it is tracking well to the plan which we have for those centers. So from that perspective we are pretty satisfied.

Moderator: Thank you. We will take the next question from the line of Shweta Karia from B&K Securities. Please go ahead.

Shweta Karia: Sir just one question on the ARPOB growth in our Center of Excellence, while we said that we have moderate impact because of demonetization, have we taken any price hike in this particular quarter. Would that be the reason, or any contribution from price hike to the ARPOB?

Management: No we have not taken any price hike in this quarter. In fact, the reason for ARPOB increase has been, as we said is the procedural mix has changed. Our Robotic da Vinci is doing extremely well, our CyberKnife. So because of this reasons and a decrease in the ALOS which is what we are looking at, all of this has helped to show an improvement in the ARPOB by a growth of 15% year-to-date.

Shweta Karia: Sir, second one on the expansion plans. While we see moderate increase in the number of cancer and Milann centers quarter-on-quarter, any guidance you would like to give as to when do we end our CAPEX cycle, or what is our game plan in the next 5 years with regards to expansion of network?

Management: Next 5 years you are asking? All I can comment is on the present project as I said which are in the various phases of completion and most of these projects will be completed by end of 2018. So 5 new centers coming on apart from the two centers. So we will have comprehensive cancer centers, over 24 centers by then. So that is what our plan right now. Obviously when some opportunities come we will look at carefully the CAPEX and the opportunity and what is the opportunity cost and together with CAPEX we will make a informed decision on whether to go with the future projects. There are number of opportunities. While we are quite selective as we go forward in choosing our centers and our partners.

Shweta Karia: I want to understand the payors mix if you could for Karnataka cluster especially.

Management: We are not seeing, and as I said there has been a moderate impact but recovery is happening very well. The payor mix is still mostly cash patients and we are also obviously looking at better private insurance payor mix, limiting our what we do with the government and other things. So we are looking at a situation where continued growth in the cash payor and insurance patients.

Moderator: Thank you. We will take the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir I would l like to understand a bit more on demonetization. I mean, I would definitely understand there has been some kind of an impact on your numbers, but if you can broadly tell us in an around when the impact had happened, how many days the impact was felt and are we back to the normalized level, pre-demonetization level and also some flavor on where the impact was more. I mean, we have a pan India presence more or less now.

Management: So as you know very well Sudarshan, our EBITDA growth was fairly good as well as year-on-year revenue growth was also very good, 22.8%. So the growth has been good when you look at the YoY. But what we saw in Bangalore from November 8, the day when the demonetization happened actually it was just the fact that the demonetization, the media created like a, going into a shell effect, so even the traffic in Bangalore slowed down dramatically. So it was just that people didn't know they were all in line. So people coming for care and all, those who were on treatment obviously didn't**,** but some other people who were intending on paying cash and all those people withdrew for a while. So we saw that in Bangalore as well as in our multispecialty hospital in Gujarat and to some extent in our Oncology center in Gujarat where there is high proportion of cash paying patients. But starting the middle of January or so we are beginning to see improvement and now I think I would say this month we will have a better view but we think we may be getting back to normalcy now.

Sudarshan Padmanabhan: And second is, if I am actually breaking your newer centers into two parts, one is the ones that you have started last year, that is FY'16 and the other ones which you have started in FY'17, if you can broadly, in terms of qualitatively tell, give some guidance as to where they are in terms of profitability especially this Gulbarga, Bhavnagar, in contrast to Vadodara and Vizakhapatanam and these two kind of pieces are?

Management: Yes, Sudharshan. Thanks for being on the line. Yes. I think we have mentioned in the last call that Bhavnagar and Gulbarga centers are doing well and are generally at the breakeven point. So most of the losses that we are seeing are really from the Baroda center and the Vizag center, which are continuing to do well but has still not entered breakeven point as per our expectation but things are generally going on track as far as those two new centers are concerned.

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

Abhishek Sharma: A couple of questions around debt. So basically, the debt EBITDA ratio has been going up, do you have a target debt EBITDA ratio in mind or is there any cap on debt that you have in mind, that you worked to?

Management: Thanks Abhishek. I think firstly we have no such cap but also I have to point out that if you look at the structure and composition of our net debt, as Yogesh has mentioned, today if you look at our structure and composition, significant part of net debt actually is vendor finance. So from a credit perspective, from a debt service perspective, it is not really reflective of the profile. So today for example out of the total 267 crores of net debt, our bank debt is around 117. Against 117 of bank debt we also have cash and equivalents. So I think we do stand right now we do have surplus debt capacity.

Management: No, I just want to remind you the HCG model of vendor finance is that for nearly 3 years there is no principal and interest payment. So this debt which we are not servicing at this point, so we are looking at servicing the debt 3 years down the road.

Management: So that said, right now if you look at it in terms of the bank debt part of what we have net of the cash and equivalents, we are at very comfortable position. Today even on overall net debt to EBITDA basis we still feel we are comfortable. That is what we could say. Of course we will make sure that we will don't do things that would…We are quite comfortable where we are right now.

Abhishek Sharma: And this 266 crores is the total debt in the entity or this is your share of debt and the partner?

Management: No, the total net debt. 267 crores is the consolidated total net debt.

Abhishek Sharma: Okay, got it. And sir just wanted to get a flavor or how are you looking at Borivali, Nagpur and Kanpur centers, in the sense you anticipate the ramp up to be faster than what you have seen in the past. If you could just give us any color on that?

Management: Yes. The Borivali, Nagpur and which other one Kanpur is about to start now. All the team is in place and we feel very confident this center will do extremely good with the type of infrastructure and the partner we have. The Borivali center is also almost ready to start. All the required regulatory approvals are coming from most of them. So the entire staff has now been appointed and Dinesh Madhavan who is leading that, spending lot of time to see that all the necessary personnel are there and we feel quite positive that once this center starts it will do very well. The third part, Nagpur is going to be the last one to start and I think again with the type of partner we have there, Dr. Ajai Mehta who is practicing as Onco surgeon, we expect that ramp up to happen quite quickly. As you know, most of our centers EBITDA positive within first year. So we are working towards that model in most of the centers.

Abhishek Sharma: Right. And on these 3 centers, the entire cost has been incurred, significant part has been incurred or…?

Management: Most of the 90, I would say Yogesh, 90% of the cash is been incurred?

Yogesh Patel: It is by far incurred, that is true.

Abhishek Sharma: Sir, just two more questions. One is on the staffing of these new centers, are these transplants from your Center or Excellence or you primarily do local hiring?

Management: We have a model where we train them, some of them at our Center of Excellence. But most of the doctors are from the region or their choice, we have some doctors from abroad who want to resettle in Mumbai or even Nagpur. So some of them are that. Others are who are from Nagpur and Mumbai who have gone elsewhere who want to return back because of the types of Center of Excellence we have. So most of them are from there. Very few are going to come from our centers like in Bangalore. But Bangalore will be a training place for them.

Abhishek Sharma: Got it. Just one last question sir. You said Q3 is weak for you seasonally. Any specific reason?

Management: No, Q3 because there are lot of festivals and there are things happening in Q3 every year. Like you look at Diwali, the Dussehra, holidays and even Christmas, vacation time, so historically Q3 is always slower. So that is what we see and that is why we are always cognizant of that. We accordingly plan.

Abhishek Sharma: Because I thought Onco will have very little elective component?

Management: No, when we look at Onco, see for example when somebody has say a lump in the breast. During the holiday time they do not go to the doctors. So they wait till the holidays are over and then they go to the doctor. The doctor then takes time to analyze and then do a biopsy and then only after they have their cancer diagnosis is when they come to us. So there is a lag period. So that is why, once the initial going to the primary Doctor or Obstetrician/Gynecologist is delayed, everything gets delayed. That means, the patient is not aware here that she has cancer. They have some problem but they postpone going to the doctor till the holidays are over.

Moderator: Thank you. We will take the next question from the line of Nitin Arora fro Aviva Life. Please go ahead.

Nitin Arora: Sir just want to know, the topic which you have discussed regarding demonetization, can you share a number of cash collection in terms of payments, pre-demonetization and now at your centers?

Management: Not really. But the way we measure cash is like, not only physical cash but even plastic money also counts as cash. So I mean, what would have happened is, people would pay with alternate payment mechanism, be it online transfer or card or a cheque, but that still remains as a cash. So from that perspective we would not see any difference.

Nitin Arora: Okay. So sir my question was that, the demonetization and the seasonality both came in your Q3 numbers, so we can understand the demonetization part in your Center of Excellence, but just wanted to understand your guidance going forward now on the Center of Excellence but this demonetization is gone, it can have an impact on the another quarter or not will definitely give us guidance going forward, but how do you see this revenue growth which was at 7.5%, so how should we look at the Center of Excellence to grow in a normal scenario?

Management: No, we do not do any guidance ahead at all.

Management: But as I mentioned we do feel that the demonetization effect is becoming less and less.

Nitin Arora: And in the Milann, I do not want, as you said we don't share the EBITDA margin on a quarterly basis but sort of an EBITDA margin let us say structurally you will see it in this business to be in?

Management: See, I think again we have said this before also that broadly speaking it is similar comparable. It is a healthcare service tertiary specialty field, so broadly speaking it is in the broad order of magnitude, same range, of course new centers will have losses and again like we said previously it take may be 6 months to breakeven, 12 months to breakeven, it depends on the dynamics of the specific center. Our Delhi center did well as we mentioned but you know there may be losses going forward in some of the newer centers when they come on stream.

Moderator: Thank you. The next question is from the line of Abhijeet Midha from Premji Invest. Please go ahead.

Abhijeet Midha: My question is regarding cash flow and net debt for Q3 particularly from the existing centers. On Slide #13, you showed that the net debt excluding new centers have gone up by about 20 crores from 87.4 crores to 106.4 crores, now when I look at the EBITDA of the existing centers that in this quarter grew by about 27 crores and CAPEX for the existing centers were 4 crores. So EBITDA after CAPEX for existing centers was basically 23.5 crores. If I assume 2-3 crores of interest payments and another 2-3 crores of tax, I would have expected that free cash from existing centers would have gone up by 17 crores to 18 crores. But what we are seeing is that net debts has actually gone up by 20 crores which means the working capital impact of the existing centers seems to be about 38 crores. So just wanted to understand if we have got the math right and how we should look at the working capital as well as the free cash on account of existing centers.

Management: Sorry, I did not follow all your math. So probably not commenting on that. But what you are trying to tell me, if I understand you right is that we had certain CAPEX made, a debt taken and certain cash flow assumptions to make from our operations.

Abhijeet Midha: So let me just quickly summarize it. Our EBITDA from our existing centers was 27.5 crores as per the presentation, the CAPEX of the existing centers which is largely Ahmedabad expansion was about 4 crores.

Management: 14 plus 7.7, 22 crores. Expansion is 14 crores and then there is an existing center at 7.7 crores also shown, so 22 crores would be the existing centers so to say CAPEX.

Abhijeet Midha: Got it. Which means that if it is 24 crores, there is still a 7-8 crores impact of working cap as per my calculation, I wanted to just understand basically the movement in net debt by 23 crores in the quarter which is net debt excluding new center.

Management: So again coming back, in summary in terms of our cash from operations perspective there is a little bit increase in our outstanding or receivable positions compared to previous quarter which would be translating to this number, a difference what you are seeing. However, that is more from a perspective of the way the business mix and the collection cycles are.

Management: I mean, if I can add to that. We would not read too much into that. It is probably at that point in time. But the biggest contributor was the Tomotherapy addition in Ahmedabad, new technology which is 15 crores investment and we are going for a very sizeable expansion in Ahmedabad center with Tomotherapy as well as we installed Robotic surgery there earlier and there is also addition of new beds there, taking place in Ahmedabad center about, I think 15 new beds. So given the excellent performance we have seen in the cancer center Ahmedabad we are continuing to expand there. So that is what you are seeing the expansion CAPEX.

Abhijeet Midha: I think what we are trying to understand really is, whether in existing center which are profitable, is free cash generation happening?

Management: Answer is yes, it is happening. We are funding our growth through a combination of strategies. Internal free cash flow is the first and highest priority and then vendor finance to the extent of equipment and then only we look at bank debt. So that is the big picture. That is the sequence of events, give us the financing priority.

Moderator: Thank you. The next question is from Chandramaouli Mutaya from Goldman Sachs. Please go ahead.

Chandramaouli Mutaya: My first question is on the margin expansion you saw sequentially in the quarter. So you have been able to expand EBITDA margins sequentially despite seasonality effects and demonetization that you have witnessed in the third quarter. So just wanted to understand was the expansion down to better performance at existing centers or did more of it come from new centers and better ramp up there?

Management: There has been a reduction in the loss from the new centers, as Dr. Ajai mentioned primarily because of the ramping up that we have seen in the new centers launched in the current year which is the Vizag and Baroda launch because of the ramp up there. We have seen a reduction in the loss from the new centers, so that has been one component. As regards the existing centers also there has been some amount of efficiency improvement which has resulted in the overall slight improvement in the EBITDA margin for the existing centers.

Management: So you see 0.3% margin expansion overall. 0.1 would be our expansion because of existing centers, the balance would be because of reduction in losses for the new.

Chandramaouli Mutaya: My second question is on interest cost, so you mentioned earlier on the call that there is no interest or principal repayment for the first 3 years on vendor finance and you have a fair bid of vendor finance in your debt structure. So I am just trying to understand what is the average cost of debt that you are working on and modeling internally for the next year or so when there is lot of CAPEX coming up?

Management: Just one comment if I can make. Under the IndAS we are accounting for the interest, even though there is no cash interest from an accounting standpoint, I am sure we can give you more details of how that is calculated but I just want to give you the highlight. There is a financial interest that we are taking on the book.

Management: No, but he is asking what is the average interest cost.

Management: So basically, just let me answer that. If you look at the components, on the vendor finance component our interest cost is around 4% which is essentially the Libor plus whatever we have to do as per the IndAS. On the bank debt, it is what it is, around 10.5%. So if you look at our implied effective interest rate as on our book is around 8%. So that is pretty much what it is and of course going forward if our mix of vendor finance goes up, then the effective interest rate will go down to that extent. Does that answer the question?

Chandramaouli Mutaya: Yes, that is great. Just one more follow up there. Is there any fluctuation on foreign exchange movement on the vendor finance portion or is all that locked?

Management: You are talking about our hedge? We do have exposure, I think maybe you can cover.

Management: Yes, for this purpose I mean, the way we do it is, we have a certain amount of export revenues coming in. So that gets mapped with whatever our outstandings would be in terms of payments to be done. Post that if there is any residual we do explore periodically in terms of any hedging to be taken or not.

Chandramaouli Mutaya: Great. Thank you. And my final question is on other income, so this is a line item that has been moving around in quite lot of the last 3 quarters, just relative to the net income and the size, about 3-4 million over the last 3 quarters, each quarter. So just want to understand what is the major items in here and what may be drove the reduction from the previous quarter? Thank you.

Management: So, the other income is predominantly our surplus funds which we have parked in certain investment category.

Moderator: Thank you. We will take the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Doctor, with network plan expansion that you are undertaking for the last few quarters and what is plan for next 5-6 quarters. I mean, strategically how are we looking at the business, if you take a 3-5 year view, more like a 3-year view, I mean, are we looking to take a pause after the Zonal expansion with five new centers coming up and focus on consolidation what was already done or there is financial metrics that you want to achieve before we move on to the next level of growth. How should we look at next 3 years for the business?

Management: See, we are very careful about what we discussed just few minutes back also, in terms of our debt, projects, how to fund? Right now, all these projects have been funded in a way that we are able to take care of it, service the debt as we mentioned about the vendor finance. So we are very clear this 24 projects, 5 new projects which are taking and the three ones which are already there, will go well and by will be in the 2018 period. Now looking beyond that we will be looking at based on our internal assessment of the next 5 year. Where are we in terms of revenue, EBITDA profitability and look at that and then look at the opportunity So that we are definitely will be in consolidating mode but that does not mean we will not take some new opportunities that come to us. That is why I said we have a very stringent way of looking at projects, if it means that our CAPEX will be lower, if there is a way we can do mostly vendor finance and not have any bank loans. We can certainly look at it because we expect as I mentioned, when a project becomes EBITDA positive within the first year we expect that by the third year when the servicing of that debt takes place, that project alone can service the debt. So that is our model and that is how the model has been successful so far and that is why when you look at our track record form 2007 in a matter of 10-11 years how we have grown from 1 or 2 centers to 24 centers, particularly in Oncology field which is high CAPEX. It is something globally very few people have been able to achieve as a comprehensive cancer center and we have been able to achieve in managing the finances funding, CAPEX and that too we are high in technology. All of this we have been able to do this kind of financing model and we are very confident if you look at our new centers, like what I mentioned about Kanpur and how our Gulbarga or our centers Vizag and Baroda ramping up. They are going to be EBITDA positive and some of them are already positive. So with that we are very confident, even in the future we will be able to look at centers opportunities where we have high level of confidence in being profitable within the first year, only then we will take up those projects while we are in the mode of consolidation.

Nitin Agarwal: That is helpful. And the last four center that have come up, that you opened essentially are in probably what could be classified as probably maybe Tier-1, Tier-2, they are more like Tier-2 towns and what has our experience been with this newer center. In general, in terms of typically hospital chains have struggled to grow when they have gone down into smaller towns, relatively smaller towns beyond the metros in tier-1s. What has our own experience been with entering into this relatively smaller towns and what kind of comfort do we have in terms of expanding in similar size in that territory going forward?

Management: Nitin, our model while we are in big cities we continue to grow in big cities, one of the hallmark of HCG as a free standing cancer center has been, the ability to penetrate Tier-2, Tier-3 cities successfully and this is what global people has written up about, Harvard Business School study, everywhere, the Hub and Spoke. The essence of Hub and Spoke model is to build centers, quality centers in Tier-2, Tier-3 cities. While I cannot comment on why others have failed, I can only comment on why we have succeeded. Why we have succeeded is, one we look at the area, what is the population, the cancer burden there and who is the likely partner there through which we will supply. Nasik model is a classic example. Way back, 10 years ago, Nasik was obviously a smaller city, but it has been a significant success for us partnering with a doctor there who is a very well-known Onco surgeon. Similarly, in Baroda while we partnered with doctor and it has been very successful within the first year itself we are seeing significant number of new patients. Cuttack again is similar model partnering with a local Oncologist. So again Nagpur it will be similar and Vizag while we have partnered with a non-doctor again we have driven because of our HCG brand name and the way we have positioned that as quality oncology center, it is becoming breakeven very quickly. So our models in Vijayawada has been successful. So our model is work with partners, work with local partners or if there is a gap, see how you fill the gap and develop it as a focused Oncology because people obviously do not want to travel long distance. In the past, what has happened is, Oncology centers in Tier-2, Tier-3 cities have been very low quality with cobalt, and others. But when they realize we bring in high quality equipment and they do not have to travel to Bangalore, Chennai, or Mumbai or Delhi, there is a huge cost saving for us. Because of that we are seeing an enormous interest in these Tier-2, Tier-3 cities. Again we are cautious, we do not randomly go to any centers. We make sure mapping is done, homework is done to make sure these are successful projects.

Nitin Agarwal: And if I can squeeze in one last one, in terms of, in your experience, when you are talking to the different network partners, as some of our newer centers are also sort of showing initial success and the overall business is ramping up. Is this scale effect playing through in some form positively either in our financials in the strategic advantage that we have otherwise in the business?

Management: Yes. Normally as I told you we become EBITDA positive in first year. See it is because we are using the partner who has got a building, said number of Oncology patients. Like, you look at Baroda for example, Doctor is already seeing based on his surgical expertise going around to many hospitals probably around to close to 2000 patients. So obviously that becomes the pace for us. So quickly we can ramp up based on that. That is a great advantage. We bring in the expertise, the quality, national brand and he brings in the local brand where he is well-known. Together it has a good additive affect.

Management: Was there a second part of your question because we could not hear correctly?

Nitin Agarwal: What I meant is as we have seen some scale up success in our recent scale ups and network also is doing well. Are we seeing some advantages on the cost side or in terms of when we are negotiating for further partnering?

Management: Of course, as every center has got pharmacy, every center has got lab, so there are definitely synergies and cost savings and defiantly there is a scale advantage when we enter a new center and we have the central pharmacy and ability to central lab services.

Management: While Nitin there is a cost advantage definitely central pharma, central consumables and all the greatest advantage I see as an oncologist is ability to train, work with the doctors to bring in high quality of care and also have a centralized systems like tele physics we do which is very important. We manage all the physics planning, radiology planning, pathology, so these provides person sitting in Gulbarga, or in Baroda, or Nasik he is getting a high-quality care as though they are coming to Bangalore and getting. This is the whole model of HCG which I believe is working out very well as we move forward.

Moderator: Thank you. We will take the next question from the line of Diwakar Pingle. Please go ahead.

Diwakar Pingle: This question is for Dr. Ajai. Just continuing on what Nitin asked I think I was looking at your Slide #6 where you got growth from almost all the regions panning out really well but north India is continues to be laggard. I just want to get a sense of what are we looking at that region from a long-term perspective?

Dr. BS Ajai Kumar: In North India, we have now started as I mentioned the Kanpur project and we are looking at even something in Delhi as we go forward. We are looking at opportunities in other areas of North India also. So while we are strong in Gujarat and South India and some centers in East, we are definitely making a lot of inroads and in the next few years, we will see a significant play by us in the Northern part of the country.

Moderator: Thank you very much. As there are no further questions from the participants, I now hand the conference over to Dr. Ajaikumar – Chairman & CEO for closing comments.

Dr. BS Ajai Kumar: Thank you very much and thanks for all the participants and all the question. I just want to conclude by saying that HCG as a group as a doctor's driven initiative, we are constantly working towards improving the clinical excellence and outcome for our patients across the country. In the next few quarters are very exciting as we enter large markets like Maharashtra, North India, Kanpur, Jaipur, and East India – Calcutta. With our existing centers continuing to grow and launched centers showing improvement in performance, we are definitely poised to take a giant leap forward in continuing our leadership in this speciality. Once again thank you all for joining this call. Have a good evening.

Moderator: Thank you. I hand the conference over now to Mr. Niraj Didwania for his closing comments.

Niraj Didwania: Thank you so much Dr. Ajai and thank you all participants for joining. So we conclude the Quarter 3 Earnings Conference Call with this. We are always available offline for any further questions that you may have. Thank you for joining. Have a good evening.

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