November 17, 2022

National Stock Exchange of India Limited,
Compliance Department,
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai - 400051,
Maharashtra, India

BSE Limited,
Compliance Department,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400001,
Maharashtra, India

Dear Sir/Madam,

Subject : ***Transcript of the Earnings Call held with Analysts/Investors on November 11, 2022***

Stock Code : ***BSE – 539787, NSE – HCG***

Reference : ***Regulation 46(2)(oa) of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015***

Please find attached herewith the Transcript of the Earnings Call held on November 11, 2022, with Analysts/Investors to discuss the Unaudited Financial Results of the quarter and half year ended September 30, 2022.

This is also available on the website of the Company www.hcgoncology.com.

Kindly take the intimation on record.

Thanking you,

For **HealthCare Global Enterprises Limited**

Sunu Manuel
Company Secretary & Compliance Officer

"Healthcare Global Enterprises Limited Q2 FY-23 Earnings Conference Call"

November 11, 2022

MANAGEMENT: DR. B.S. AJAIKUMAR – EXECUTIVE CHAIRMAN, HEALTHCARE GLOBAL ENTERPRISES LIMITED
MR. RAJ GORE – CEO, HEALTHCARE GLOBAL ENTERPRISES LIMITED
MR. SRINIVASA RAGHAVAN – CFO, HEALTHCARE GLOBAL ENTERPRISES LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Q2 FY23 Earnings Conference Call of Healthcare Global Enterprises Limited. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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. B.S. Ajaikumar – Executive Chairman, Healthcare Global Enterprises Limited. Thank you and over to you sir.

B.S. Ajaikumar: Thank you very much. I'm sorry about this disturbance. As I was saying I'd like to take few minutes to elaborate on new technology we have launched at our Center of Excellence, Bangalore. The technology is called ETHOS Varian and it helps perform adaptive radiotherapy and it's one of the first few in the world we have established here now at our Center of Excellence. Adaptive radiotherapy is something which continuously probes deep into the tumor and intelligently adopts the treatment to the tumor configuration using an AI platform. We can use the actionable information generated from it in the treatment of subsequent patients. Our area of interest is to collect proper data and see how a tumor responds to the treatment. This technology will finally help us answer some critical questions like when do we get a complete remission, how long should the treatment's span be, questions that have challenged radiation oncologists for several decades.

Being a leading cancer care provider, we are deeply engaged in academics and research. I'd like to highlight our seminal paper publications. Talking of academics, we are very proud to announce that we have fellowship programs of over 170 fellowships and different DMV programs and all of our programs are in high demand, not only in Bangalore but also importantly in Tier-2, Tier-3 cities. As we all know in the past it is very difficult to ensure high end training in Tier-2, Tier-3 cities and also to find personnel who are willing to relocate and practice there. But we are very fortunate that now even in Tier-2, Tier-3 cities like even Ranchi, Vizag, Angul , we have fellowship programs, DNB students for training which undoubtedly augurs well for the community of these regions. We take research very seriously. Till date we have published close to 756 research papers. For October alone we have 9 publications and more importantly a significant number of them have been a podium presentation. This clearly reflects a high quality of work which is one of the best in oncology globally not just in India. We have some doctors who have also written key chapters in textbooks, we have one who have won Best Paper Awards and been in top in the clinical research abstracts. Recently we participated actively in a radiation immune conference where we won one of the best awards for it globally. This is just of our achievement in academic and research and going forward we will continue to ensure a seamless integration of clinical services, academics and research such that all our **- breakthroughs** to serve the large purpose in the form of better treatment outcomes and improving the quality of life for our patients. The future is very bright for HCG across all aspects of cancer management.

We will continue to strive hard to make cancer a chronic disease and bring higher success to HCG. Thank you very much. Now I hand over to Mr. Raj Gore, our CEO.

Raj Gore: Thank you so much Dr. Ajai. A very warm welcome to all the participants on the call. We are delighted to share yet another quarter of good performance. We've been delivering growth on year-on-year basis as well as sequentially for the last eight consecutive quarters now and this quarter is no different.

We are happy to report another strong financial performance for quarter ended September, 2022. Our consolidated revenues for Q2 stood at 420 crores a growth of 19% on YOY basis. This strong revenue growth coupled with our focused efforts on cost rationalization has resulted in year-on-year margin expansion of 130 bps leading to adjusted EBITDA margin of 19.3%. Our adjusted EBITDA for Q2 FY23 stood strong at Rs. 81 crores a growth of 28% over Q2 FY22. As a result, our Q2 FY23 profit after tax on a pre-Ind-AS basis stood at Rs. 10.54 crores, up by 137% on Y-o-Y basis. Over the last few quarters, we've been regularly informing you about our efforts to drive growth on several fronts like enhancing our clinical services portfolio, increasing our clinician bandwidth and our go to market initiative to increase reach online and offline, retail and institutional accounts, domestic and international fronts. We are making encouraging progress on all these fronts resulting in a steady growth in new patient registration, higher utilization across all modalities of treatment across metro and non-metro market. While our mature centers continue to show higher than market growth rates, the growth strategies implemented for the emerging centers has started showing promising results. Kolkata and Mumbai centers have grown by 40% and 30% respectively on year-on-year basis in current quarter. I am happy to highlight here that our Jaipur center has more than doubled revenue on a year-on-year basis with more than 25% EBITDA margin, our two linear accelerators there are nearing full capacity utilization and we will be commissioning one more linear accelerator early next year. Our differentiated and specialized cancer care along with strong brand positions have enabled us to attain leadership positions in 13 out of 18 locations where we are present.

Going forward we will continue to invest in HCG brand to make it the most preferred choice for cancer patients across India. We are very optimistic of improving our market share and strengthening our leadership position going forward. Now I would like to hand it over to Srini, our CFO.

Srinivasa Raghavan: Thank you Raj and very good morning to everyone. We have uploaded our Q2 FY23 financial results and updated investors presentation on the stock exchanges and company's website and I hope everybody has an opportunity to go through the same. We are delighted to share that we have been able to grow our revenues ahead of the industry growth due to the trust and brand created for HCG. On the revenue front, our consolidated revenues for Q2 FY23 stood at Rs. 420 crores as compared to 350 crores in Q2 FY22, a growth of 19%. Our revenues for H1 FY23 stood at 828 crores, a growth of 23% year-on-year. Revenue split between HCG and Milann stood at 96% and 4% respectively for Q2 FY23. Revenue growth for HCG stood at 21% year-on-year and for Milann excluding for covid revenues in Q2 FY22 stood at 15% year-on-year.

As mentioned in slide #25 revenue from the mature centers stood at 309 crores, a growth of 19% year-on-year basis for Q2 FY23. Revenue from emerging stood at centers 95 crores, a growth of 26% on year-on-year for Q2 FY23. We are delighted to state that our emerging centers are inching towards maturity and are seeing good traction across geography.

I now request your attention to slide #26 where we have disclosed our operational parameters across our mature network and emerging centers for Q2 FY23. Our company wide AOR stood at 66.4% and AOR for mature versus emerging centers stood at the 65% and 69.9% respectively. Higher occupancy for emerging centers is due to 72% of beds were operational in new centers. AOR on capacity beds stands at 57%. Our ARPOB on company level stood at 36,914 and our ARPOB from mature centers stood at 39,684 and for emerging centers stood at 30,145. The de-growth of AOR in our emerging centers were majorly attributed to a couple of centers in the emerging markets growing at a very fast pace with higher share of institutional business as compared to business from out of **-pocket** patients. However, we believe this is a temporary phenomenon and should stabilize and we will see increasing ARPOB from our emerging markets as well.

Across geographies we have given our revenue break-up in slide #27, Jaipur grew by 205%, revenues from Rajkot grew by 80%, Mumbai grew by 30%, Bangalore Center of Excellence grew by 35% year-on-year for Q2 FY23. Our Milann business is also doing well. Revenues have increased by 15% in Q2 FY23 on YOY basis excluding the vaccination revenue for Q2 FY22 on a like to like basis and new registrations grew by 14%. On the EBITDA front, our consolidated reported EBITDA stood at 74.7 crores as compared to 61.7 crores in Q2 FY22, a growth of 21%. Reported a EBIDTA for H1 FY23 stood at 146.9 crores, a growth of 30% year-on-year. Adjusted EBITDA for Q2 FY23 that is after adjusting the one-time value creation cost and adjustment of ESOP expenses stood at 81 crores as compared to Rs. 63.3 crores in Q2 FY22, a growth of 28%. Adjusted EBITDA margins stood at 19.3% as compared to 18% in Q2 FY22, a growth of 130 bps. Adjusted EBITDA for H1 FY23 grew by 39.6% year-on-year with margins at 18.9%, a growth in margins of 230 bps. We have also given bifurcation of EBITDA across mature and emerging centers and I would request the participants to view slide #25 for further details.

On profit after tax, we have been delivering positive PAT for the last three quarters now. PAT for this quarter stood at 7.4 crores as compared to 0.8 crores in Q2 FY22. H1 FY23 PAT stood at 13.4 crores as compared to a loss of 8.7 crores in H1 FY22. Our PAT pre-Ind-AS adjustments for Q2 FY23 stood at 10.5 crores as compared to 4.4 crores in Q2 FY22. PAT for H1 FY23 pre-Ind-AS adjusted stood at 19.7 crores as compared to a loss of 1.5 crores in H1 FY22. ROCE for matured networks stood at 20% annualized for H1 FY23 as compared to 15.4% in FY22, a growth of 460 bps. ROCE before corporate allocation for mature centers stood at 24.8%. ROCE for emerging centers stood at negative 4.9%, annualized for H1 FY23 as compared to negative 8.3% in full year FY22. This is again an improvement of 340 bps. ROCE before corporate allocations for emerging centers stood at negative 0.9%. Our net debt position excluding capital leases as on 30th September stood at Rs. 211 crores as compared to 190 crores

as on March 31st, '22. Our expansion of existing facilities at Ahmedabad Phase 2 and Whitefield Extension of Bangalore COE is on track. Total planned CAPEX for Ahmedabad is 85 crores, expected date of operations being Q1 FY25 and for Bangalore COE is 25 crores, expected date of operations being Q4 FY24. With this this I would now like to open the floor for question and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Karan from Surana.

Karan: My first question would be on the 5 crores consulting cost that we booked in Q2. Can you just give us some color on where this 5 crores consulting cost has been spent and what kind of benefits are we going to see from this? That's my question number one. My question number two is that we see some sequential decline in our emerging centers revenue and some decline in ARPOB as well. Can you just give us some more color on how do we see this shaping up for us and what exactly are we doing in our Bombay and Kolkata center? We said that we are going to get new talent in and a new surgical head over there. Can you give us some color on both of these centers as well? Thank you, sir. That's it from my side.

Srinivasa Raghavan: Thanks for the question. I'll take the first question; regarding this 5 crores that we are talking about, this is regarding the value creation activities that HCG has embarked upon. We are working on two things. One is how do we drive productivity and efficiency across the system? That is one line of activity. The second area that we are working on is on the digital front as to how we can use technology platform and digital platform to drive revenue. These are the two activities that we have embarked on and as we see the progress is happening and the cost of 5 crores is towards these activities. In terms of your question in terms of what kind of benefit this would kind of entail or result in , we expect this should result in the next year a profit overall EBITDA improvement of about 100 to 150 bps basically on the EBIDTA Margin. On the second part of the question Raj would like to answer.

Raj Gore: If I understood your question, one was about emerging centers ARPOBs. As Srini mentioned in his opening remarks, that when you open a new hospital the first goal is always to get the utilization up on different modalities. So usually, you drive more institutional business and quarter-on-quarter that mix sometimes can change between different hospitals. We're not concerned about it. We think it's a one-off and it will get back on track going forward. Can you repeat the third question that you have?

Karan: On our strategy in both in Bombay and Kolkata centers, so what exactly are we….

Raj Gore: As discussed in the past also, Kolkata and Colaba in Mumbai are our newest centers. As soon as COVID went away we started doing our go to market initiatives. We started increasing our clinician bandwidth, improving our clinical services portfolio. Those are showing results. As I mentioned in my opening remarks, Kolkata has grown 40% year-on-year, Mumbai hospitals

have grown 30% year-on-year. We're very confident that as in subsequent quarters we will continue that growth momentum.

Karan: Just a follow up on the consulting cost, will we see this 5 crores continuing in Q3 and Q4 as well or will this now start trending on a downward trajectory in Q3-Q4?

Raj Gore: So, it will start coming down, by end of this financial year we expect it to go away.

Srinivasa Raghavan: In following year, next financial year this will not be there. That's why we identified it as a one-time separate expense.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sharekhan By BNP Paribas.

Kaustubh Pawaskar: My question is on margin front. Of the total material, medical equipment how much is the imported equipment because what I'm trying to understand is because of this rupee depreciation will it have any impact on your cost element and that might result in margins coming lower in the coming quarters?

Raj Gore: No, as far as rupee depreciation is concerned there are two things. We don't see any margin impact because the agreement we have with some major suppliers or as we have already indicated in the past or the pay per use model. Also, we do earn lot of foreign exchange which is a natural hedge. So because of these two things we don't see any margin impact from the procurement of the equipment.

Srinivasa Raghavan: Secondly, we do not have any dollar exposure.

Kaustubh Pawaskar: Just to understand the question previous participant asked about the ARPOB remaining flat. This is like a one quarter impact, you might see ARPOB coming in better in the subsequent quarters?

Raj Gore: Absolutely Kaustubh, thank you for asking that question. The emerging center is a bucket. You also have Mumbai there. You also have Kolkata there. Kolkata ARPOB is almost close to 50,000 per day. Mumbai ARPOB is in mid 50s. So as these three centers, two in Mumbai and one in Kolkata continue to grow in terms of their contribution to total revenue of emerging centers, the ARPOB will start going higher and higher in subsequent quarters. In addition to that these are also the two locations where we will get higher international business compared to other non-metro locations. That's another lever that we have to drive price realization as well as ARPOB. Usually what we do Kaustubh, the playbook for new hospital commissioning is, you open the hospital first you go for footfall, first you go for higher occupancy, higher utilization on different modalities. You create a significant number of treated patients to drive word of mouth. And then you start optimizing different mixes to drive your realization ARPOB margin. So we are in that journey right now.

Kaustubh Pawaskar: Thanks for the understanding. My last one is on as you said in your initial comments that patient registration is one of your key driver in terms of occupancy. On year-on-year basis can you give us some idea what was the increase in the patient registration? Because word of mouth and whatever technology you are bringing in. That will also help you to have more and more registrations going ahead. Any understanding on how it was in this quarter and any expectation in the quarters ahead?

Raj Gore: On a YOY basis last quarter we saw NPR registration growth in lower teens about 11%-12% at a network level. Obviously, it will vary from geography-to-geography and maturity of the center.

B.S. Ajaikumar: I think one of the things is we have not seen the full impact of our other initiatives like what Raj or Srini mentioned. That impact is to be seen in the last quarter at the beginning of the next year.

Moderator: The next question is from the line of Dhara Patwa from Smifs Ltd.

Dhara Patwa: I just wanted to understand how much time does the emerging centers take to become mature? Like when can we expect East India hospitals to deliver margin of (+15%)?

Raj Gore: Thank you Dhara. Sorry if I got the name wrong. If you see the different hospitals are at a different maturity stage. I gave an example of Jaipur. Now Jaipur is already double the revenue has started delivering EBITDA margin (+25%). So Borivali similarly in Mumbai is delivering in mid-20s EBITDA margins. Kolkata is our newest center; we expect it to start breaking even early next year and then we will continue to grow that margin. 15% is probably the subsequent year, following the next year because that's our newest center.

Dhara Patwa: Wanted to understand like 88% of our revenues comes from oncology. Do we have any approx breakup like how much of that would be from medicine and how much will be from the surgical procedure?

B.S. Ajaikumar: Okay split by radiation business.

Dhara Patwa: Right.

Raj Gore: Usually we break our business in four big buckets. One is consultation and diagnostics which is about 20% of our top line, medical oncology which is chemotherapy, immunotherapy etc. that's about 35%, radiation oncology is about 20% and surgical would be about 25%.

Moderator: The next question is from the line of Karan Vora from Goldman Sachs.

Shyam Srinivasan: This is Shyam Srinivasan. Just one on slide #11. Maybe I have not seen the slide before but it seems very interesting. Doctor can you just explain the non-metro versus metro? I think many of the other healthcare companies now are talking about going into non-metro locations but you seem to have made a pretty decent job of it. Just if you could explain this slide please.

Raj Gore: So, Shyam, that slide what we are trying to say is look healthcare opportunity in India, demand supply gap, accessibility, availability. We all know about it. But I think the bigger problem we have in this country is disparity. Most of our health care supply is in metro, big cities, state capitals. The real need to provide quality health care, bigger need to provide quality health care is outside big city. I think this is where HCG has a unique business model. What this slide basically says that we have 13 locations which are Tier-2, Tier-3, Tier-4 places like Angul like 2 to 3 lakh population, Shimoga again, 2 to 3 lakh population. Even almost Tier-4 kind of a category. Now out of those 13 locations, 11 locations we have a number one market leadership in oncology. The way we have, the way the business model works is the result of our business model is out of those 13 locations we are delivering EBITDA margins in the range of 15% to 28%. Some hospitals the lower side is 15% and the higher side is 28%. In terms of ROCE for these 13 locations the range is between 15% to 24%. That's because one we have an early mover advantage, first mover advantage, second our unit economics we are about 20%-25% lesser costs in terms of our CAPEX in these markets. These markets our operating cost also tends to be lower and then we go for more institutional business to drive higher volumes at relatively lower price points to make this model work for us. If you look at all the healthcare players in India I think HCG is probably the only one who has made this model work in different tiers of cities in India delivering pretty much similar EBITDA margins as well as ROCE returns across our locations.

Shyam Srinivasan: Just to following up, there Raj just on the peer mix which you also highlight, right. You take on more institutional, even government scheme patients. So ROCE you're mentioning greater than 15% still. But is there no worries around receivables from the government and how do you navigate that?

Raj Gore: I think when it comes to receivables, the trick is get your processes in terms of documentation, submission on time and follow up. Get that discipline in place. A lot of these schemes have gone now in terms of their processing online, you have portals to submit. There is better visibility coming in these channels. In fact, our DSO is consistently going down over last quarters for this particular payer mix in this market.

Srinivasa Raghavan: I think to add what Raj mentioned, Shyam this is Srini here. Yes, while there could be some government challenges in terms of collection. But as Raj rightly pointed our net DSO is kind of coming down quarter-on-quarter. That's point number one. How did you say that this quarter ended September was our highest collection month in terms of overall receivable prices, so while there are challenges but there is clear focus in terms of how we drive collection and ensure that we stay on board.

Shyam Srinivasan: Last question just back on ARPOBs. I'm talking now only just matured center ARPOB. I think remember last quarter or before we did a rationalization exercise to look at how our prices are versus competition and if you are a leader, we have taken some price increases up. Is there something that, I know it used to be a 12–18-month exercise but do you think that could be a lever in the next 12-18 months also that you could do the rest of the portfolio where you have not done that exercise?

Raj Gore: Absolutely. Just to recollect what we informed last time; we started that initiative from our Bangalore Center and we are in process of rolling it out to rest of the locations. In Bangalore Center alone we've had about 25-30 basis points impact on an overall EBITDA margin of the company by just rolling out this initiative in our Bangalore market. Now we are rolling it out as we have mentioned earlier, Srini also covered it in his remarks that we are looking at about 100-150 basis point improvement in our EBITDA margin by end of once we finish the rollout of the initiative, obviously it will also help us to drive ARPOB. Our mix is very different because our locations are Bangalore market, Ahmadabad market which has our core home market where we have dominant market position for a longer period. Our ARPOB is around 75,000 per day. Mumbai as I mentioned is in mid 50s. Baroda is in mid 50s. Kolkata is almost close to 50. So as our center starts getting at a higher utilization level, we will continue to optimize mix, drive price realization, pricing as a lever and we'll continue to grow our ARPOB in the right direction.

Shyam Srinivasan: Srini, just following up there. So that 150 is like a 12-18 month journey or how should we look at that? Just from this activity.

Raj Gore: So, we've already got some impact. We've seen that at a quarterly level early, I think first quarter of next year we will start seeing that impact in our P&L. We are expecting the full rollout implementation of these initiatives across different hospitals by end of Q4 of this year.

Moderator: The next question is from the line of Abdulkader Puranwala from Elara.

Abdulkader Puranwala: Could you please elaborate on the status of our expansion plans at Whitefield and Ahmedabad because if I see sequentially the CAPEX incurred this quarter, it's flattish. So just some color on that?

B.S. Ajaikumar: In Ahmedabad we have started the new project. The work is going on. We expect the transition to happen by October of '23. So that is going as planned. As you know there are also certain transfer of technology, linear accelerator all of these developments. So, we hope that by October it will all be completed. It will be fully operational. Regarding the Whitefield, we have just got the approval from the local authorities, the BBMP so for the plans have been approved. We expect the project to be completed in about maximum 2 years that is by the 18 to 24 months once the construction work starts.

Moderator: The next question is from the line of Naman Bhansali from Perpetuity Ventures.

Naman Bhansali: You previously talked about some diversified revenue from various modalities. Could you please help me understand the margin dynamics in that region? That is the margin dynamics in the medical oncology, surgical oncology, in that part? That's my first question.

B.S. Ajaikumar: We do not give margin dynamics by service lines. Because unlike other specialities oncology services are integrated and majority of patient undergoes multi-modality treatment. So, that is why margin at consolidated level are more meaningful.

Naman Bhansali: My second question was on the unit economics. So, you talked about 20% lower cost. What is the CAPEX per bed or CAPEX per center which you incur versus the industry?

B.S. Ajaikumar: CAPEX per bed, let me put it this, as far as the you're looking at Tier-II centers, right?

Naman Bhansali: Yes.

Raj Gore: Again, I would like to differentiate here. Bed capacity is not necessarily the main driver for our growth. We have four modalities OPD, diagnostic, chemotherapy, medical oncology, radiation. These are all daycare or outpatient services; only surgical largely is our inpatient. That matrix is not necessarily relevant for us. However, if I have to give you a ballpark, our cost per bed in metro cities will be about 65 to 75 lakhs and in Tier-II, Tier-III cities it will be about 50 to 55 lakhs for a hospital size of about 80 beds.

I just want to address the previous question that we had. The reason we do not give margin by modalities is because it's not necessarily a driver for margin improvement. Cancer patients, when cancer patient walks in, we do not have a choice to the modalities that you need to treat that cancer patient, it's not a choice. It depends on what type of cancer, what stage of cancer so that's not necessarily a controllable variable for us. It's more of a, it depends on what the patient's state is. It doesn't make sense to track it that way because it's not really a variable that you can control or optimize or drive.

B.S. Ajaikumar: Just to add to what Raj said in a multidisciplinary approach what we have the team decides whether the patient should undergo chemotherapy or radiation or surgery or an integrated approach. Nearly 60% of the patients end up having all three modalities of treatment so it cannot really break up into which is a high margin, which is low margin. We have to look it at a consolidated level. Perhaps what we try to look at is per patient, new patient what is it cost to do certain treatments combined so obviously there are ways the contribution factor may be more from radiation. So, we do look at all that but it is not the driving force for us to do the right treatment for the patient.

Moderator: The next question is from the line of Dipti Kothari from Kothari Securities.

Dipti Kothari: My first question was that we have been increasing in terms of revenues and margins, have also expanded over the last six to eight quarters. However, we are still not a high PAT generating company. What is your sense on PAT going forward?

Srinivasa Raghavan: If you go back to my earlier part of the thing, you know I talked about PAT before Ind-AS impact. So let me set the context here. If you look at it my PAT at a pre Ind-AS level is close to 10.5 crores and if adjust for the one-time impact that we talked about on value creation, overall, PAT at a pre Ind-AS level is 14 crores. Let me explain couple of nuances in this. Point number one, basically because of the Ind-AS impact the long-term lease rental model that we have. Because of that my post Ind-AS PAT is getting depressed because of the initial year of the lease

rentals, given the equalization of lease costs. But having said that over a period of time especially at the mid-way point this should kind of reverse. You got to look at the pre Ind-AS impact as far as PAT is concerned. Secondly, I did talk about the value creation activities. There is one time cost of 5 crores that is sitting which is in the EBITDA and kind of flowing into the PAT number also. If we exclude the impact of that my PAT should look better. Last but not the least since you asked about how is the future looking like we are currently at a tax regime of 35%. We are going to be moving to a 25% tax regime next year onwards. So, putting all these factors together on a pre Ind-AS PAT basis, my PAT is at about 14 crores for Q2 FY23, that's the way I would put it.

Moderator: The next question is from the line of Aditya Khemka from InCred PMS.

Aditya Khemka: Ironically my question is exactly the opposite of the previous participant. I see we have a lot of intangibles and obviously we do acquisitions and alliances that creates intangible. But I don't see a lot of amortization of that intangibles as in we are amortizing either not amortizing or if we are amortizing, we are amortizing at a very slow pace and I understand the higher the amortization the more depressed the PAT will be. But as an investor we don't really care about PAT. We care about cash flows and the cash flows has actually been really healthy for the past 4-5 years and they continue to be healthy. So, my question to you is why don't we amortize intangibles at a faster pace so that our ROC-ROCEs can look better and we get tax exemptions, tax break on our intangible amortization and that helps us save cash. End of the day any company's job is to generate cash and PAT is just a number.

Srinivasa Raghavan: Yes, I understand. It's a good point that you are bringing up and it's quite interesting that you call it that. I also appreciate the fact that you talked about positive cash flow in the last few quarters which is a good thing. Yes, it's getting the right balance. Getting the right balance in terms of amortizing the intangibles. We are not aggressive, at the same time we are not very slow as well; we are doing it as per the law, as per the procedures. And intangible comes only in the case of new acquisitions. In the last few quarters, we had seen we had this Lab acquisition, we had this Suchirayu acquisition. Those are kind of created those intangibles but having said that it would be amortized on a basis which is that allows as per the companies that as well as, as per the accounting standard.

Aditya Khemka: Yes, but your accounting standard actually gives you a very large range of amortization. It is 10 years to 50 years that you can use to amortize intangibles?

Srinivasa Raghavan: I agree.

Aditya Khemka: My point is that instead of using 50 years or 40 years you could do it over 10 years?

Srinivasa Raghavan: Our philosophy is our amortization happens anywhere between 5 to 8 years. I think that's the kind of trend that we have been doing and that is the way we would move forward as well.

Aditya Khemka: My second question is regarding the multi-specialty and the super-specialty makeup of our company. Obviously, I'm keeping Milann aside here given that it's very small in the context of things. But the multi-specialty hospitals, your super-specialty obviously seems to be doing phenomenally well. On the multi-specialty side what is the plan? Do we plan to remain a company which is both multi-specialty and super-specialty or at some stage, do you have any restructuring in mind for either of these verticals?

Raj Gore: I think we have stated earlier also that our strategy is to be oncology focused organization. That's what HCG is synonymous for, that's what is our core competence, we would like to pursue oncology business going forward. Now as a legacy we have a few multi-specialty hospitals. Currently what we are trying to do is see how we can grow oncology specialty business within those multi-specialty hospitals. A good example of that is Bhavnagar. It was a purely multi-specialty hospital with pretty much no oncology business. Last few years we added a linear accelerator there, we started growing surgical and medical oncology, that specialty is growing there. We will do similar things at Rajkot. So right now, we will focus on growing the oncology share of business within this that's what our current focus is.

Aditya Khemka: Basically, your multi-specialty setups you are trying to tweak them to be more super-specialty within the multi-specialty. Is that how I should read it?

Raj Gore: Yes.

Aditya Khemka: But why not divest those assets?

Raj Gore: I think that is best for us in Bhavnagar. We're trying to replicate that in other locations also.

Aditya Khemka: But Raj you could actually divest those assets. If you look at the private market transactions in the hospital space, the multiples at which these transactions are happening are far higher than the your stock there. So, it is actually going to be value accretive for you if you divest to multi-specialty assets, get the cash, pay off the debt and use the cash to acquire super-specialty oncology assets?

B.S. Ajaikumar: Yes, in this regard obviously this has been internally discussed quite a few times but our multi-specialty is very limited. If we have to look at it diversify and everything it requires for us to maybe put more emphasis on multi-specialty. we are looking at various models. What you have suggested also has been discussed internally and obviously we will continue to discuss. As they say there is a time and place for everything. We'll look at it when the right time and see whether we should do some of these things what you're suggesting also.

Aditya Khemka: On the CVC stake in our company which is currently if I am not mistaken around 58%. Have they shared any timeline with you as to how long they plan to hold on to the land share of the company and the fund which has invested in your company? How long will they stay invested

and when do they plan to liquidate and will the liquidation be one shot or multi stage staggered liquidation? How will that work?

B.S. Ajaikumar: This discussion has not taken place yet because it is too early possibly. They have been with us for little over 2 years now. Obviously, the time horizon will be 5 years or longer for any private equity. So, they are at this point obviously they have done well and they have been a continued support to us in our new whatever endeavors we have taken. It is a good partnership and at this point we want to really keep that good partnership and grow.

Aditya Khemka: One last question Dr. Ajai for you. A lot of the hospitals that we meet and speak to obviously all of them want to focus oncology as a specialty given the growing incidence of the disease and the lack of treatment options available in our country. My question to you is have you explored the opportunity of doing operating and maintenance contracts with many of these let's say standalone hospitals which might have oncology wing but may not be making much money or may not be doing very well in that wing because they just don't have the expertise or the knowledge or the technology to deal with the therapy area and that could be a very asset light model for you because it's just knowledge-based revenue. So, have you explored such opportunities? If yes what is the kind of feedback you're getting there, what is the traction in that business model?

B.S. Ajaikumar: As you know Aditya in the past, we have already looked at that models. We've also looked at the implant model. To begin with I would like to say the implant models are not workable for us because we want to be an independent dedicated cancer center. Even those asset light model what you talked about is not long lasting. The problem with this is maybe is the Indian DNA where the person through which you have got the contract at some point would like to say if we feel like we're doing good, we are generating profit they would like for us to exit they say we ourselves will do. We have seen that all happen a lot in Apollo model in the past as you know where there have been out. So, the model we feel just to take a minute and say strategically there is immense opportunity for us to grow in oncology and for us like what we have seen in Jaipur and other areas where went into market relatively competitive but just establishing a dedicated oncology center we have grown, Nagpur. We have this kind of significant opportunities, also for M&A we have some opportunities, we are exploring that seriously. So that is the way forward for us. Dedicated oncology centers either through M&A, Brownfield, to grow and also capacity utilization of our own centers. For example, some of our centers like what we discussed are capable of increasing the revenue significantly with all the systems we put in place where they are at an inflection point. So, our focus will be on that. Our idea is to focus and bring these centers to the level we want. Even our Bangalore center, Whitefield coming up which will add significantly in the hub and spoke model we have. There is so much opportunities in strategic areas; we want to focus on that. Of course, our focus is on quality of care to the patient. Being a dedicated oncology that is when we can deliver the real quality and real outcomes. So, this when we look at the clinical acumen we have, the type of doctors we have, 400 doctors across India and type of service we are doing and outcomes we are producing, research, academics. It has to be a dedicated oncology like what we have MD Anderson Sloan Kettering, that is the model we

want to drive and that will give us significant revenue and upside. There is no doubt in my mind. I don't know investors may have something but I feel as a founder and entrepreneur there's absolutely no doubt in my mind how we will grow.

Moderator: The next question is from the line of Sabyasachi Mukerji from Centrum PMS.

Sabyasachi Mukerji: I have two questions. First is if I look at your matured center's revenue profile and EBITDA margin pre-corporate expenses. The EBITDA margin pre-corporate expenses have been stable over the last six quarters at close to 25%. But if I look at your YoY change in occupancy that has moved from 57.6% to 65% Q2 FY23 and you have also I think there is an improvement in ARPOB as well of 5% YoY. Why the margin has not improved, what is the reason behind this?

Raj Gore: As we've been saying since last quarter the value creation plan that we have rolled out, we are incurring a one-time cost. Now that cost is largely allocated to mature centers in proportion of their revenue contribution to the total revenue. You will have to take that away to see the impact. That's one explanation. If you look at if I'm correct the graph you are referring to the quarter-on-quarter trend, you have a 19% growth on revenue but only 20% growth on EBITDA. But if you look at, if I take away that one-time cost that 20% will become 26%. So, 19% revenue growth is contributing to 26% EBITDA growth for the corresponding period. That's the difference. It's a one-time cost.

Sabyasachi Mukerji: This you are saying that this will go away by the end of FY23 and FY24 will be able to see the full impact and full benefit of the cost exercise?

Raj Gore: Absolutely.

Sabyasachi Mukerji: That benefit would be close to 150 basis points you are saying. This 25% whatever we are seeing in the pre-corporate margins that will probably move to 26.5 roundabout. Is that understanding, correct?

B.S. Ajaikumar: Yes, roundabout yes.

Raj Gore: That's at a network level.

Sabyasachi Mukerji: 150 basis points you are saying on a network level?

Raj Gore: 100 to 150 bps at a network level, yes.

Sabyasachi Mukerji: My other question is related to that only. On the emerging centers if I heard you correctly Jaipur has been doing very well, probably operating at more than 20% or I think I heard you 25% operating margin, Mumbai Borivali is also operating at a good margin levels. Where do you see the operating margin trajectory of the emerging centers which is currently at 10% level. Where do you see this going in FY24?

Raj Gore: Let me give you a trend to figure out how it will grow. Six-seven quarters ago that was at (-8%), today we are at (+10%) so that's a track record we have and like I said we will continue to drive revenue growth.

Sabyasachi Mukerji: I am aware of the trajectory. It has been very steep. The point I want to understand here is I believe the major drag in the emerging centers; margin is Kolkata where you are kind of seeing a 50,000 kind of ARPOB levels and eventually the emerging center’s occupancy has almost touched 70% this quarter. Eventually going ahead once the occupancy level settles then probably the margin levels will go up. That is the thought process. I was coming from there and that is why the 150-basis points improvement in the network level margins look little conservative if I say so?

Raj Gore: Let me clarify. 100 to 150 basis points impact is just on those initiatives that we have launched. But we are driving higher than market revenue at a higher than market growth rate. The operating leverage will kick in. Our endeavor is in next 18 to 24 months, our endeavor is to get emerging center bucket, PAT coming closer to mature center bucket. That's the aspiration that we are driving for.

Sabyasachi Mukerji: The total impact in margins would be lot higher probably in the range of 300 to 400 basis points, right?

Raj Gore: That's what we are going for.

Moderator: The next question is from the line of Pallavi Deshpande from Sameeksha.

Pallavi Deshpande: I was just a little late in joining the call. On the 5 crores one-time expense, if you could just elaborate who has just been, who is the consultant and I think you mentioned it will continue in the balance two quarters, is that right?

Raj Gore: Just to recap. End of last year we engaged one of the Big Fours to start driving operational efficiencies. Operational efficiencies on multiple levers. One was strategic pricing based on our market positioning in terms of market share, competitive strength, our internal economics, utilization rates etc. So that's one component. This is more over and above the inflationary price increase that one takes every year. Second is staffing productivity, staffing norms, dynamic staffing based on variability and utilization rates in different hospitals across different seasons. Third is the fixed cost that we have, the long trail of items in the mid-line that we have. Then you have areas of improving, reducing our discount, revenue assurance etc. There are different levers that we are working on with the help of one of the Big Fours and we expect that we will roll out all those initiatives by end of the year and this cost will go away starting from next year.

Pallavi Deshpande: We can expect a similar cost in the second half 6 crores, what we saw in the first half?

Raj Gore: It will start tapering down in remaining quarters of this year and it will completely go away by end of this year.

Pallavi Deshpande: Secondly you mentioned about the ARPOBs in the Mumbai property I think and by when do we see them? Any timeline for it to catch up with what you have at Ahmedabad?

Raj Gore: See that ARPOB is a function of high-end work, complex work that you do, your specialty mix, it's a function of your payer mix, it's a function of your market position where you can command premium and drive your mix optimization. That's why these centers are in emerging centers so eventually it will happen. Anyway, even if you compare mid-50s is a good ARPOB, even if you compare it with multi-specialty, there are not too many players who are more than 60K per day. I think as the centers matures it will happen. Sure, we can give timeline for that but our endeavor is to go there as soon as possible.

Pallavi Deshpande: The South Mumbai lease, it’s for how long with the Tatas?

Raj Gore: I think another 9 years but it's mutually renewable agreement.

Pallavi Deshpande: That center only directs the patients to Borivali, right? It's not a…

Raj Gore: No, it has everything and more than what Borivali has in terms of certain expense. That's the only other center other than our flagship at Bangalore which has a Cyberknife. It also has Tomo. In many ways the radiation technology that we have is best in class in entire Western India.

Moderator: Thank you. Ladies and gentlemen, due to time constrains we take that as the last question. I now hand the conference over to the management for their closing remarks. Over to you sir.

Raj Gore: Once again I take this opportunity to thank everyone for joining the call. We will keep updating the investor community on regular basis for incrementing updates on our company. I hope we have been able to address all your queries. For any further information kindly get in touch with us or Strategic Growth Advisors our Investor Relations Advisors. Thank you once again. Have a good day.

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