"HealthCare Global Enterprises Q3 FY '20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to HealthCare Global Enterprises Q3 FY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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 Mr. Niraj Didwania, Head of Corporate Development and Investor Relations. Thank you, and over to you, sir.

Niraj Didwania: Thank you. Good evening, and a very warm welcome to all participants to HealthCare Global Enterprises Limited Q3 FY '20 Earnings Conference call. Today, we have with us Dr. B.S. Ajai Kumar, Chairman and CEO of HCG, along with the management team to share highlights of our business and financials.

We have uploaded an earnings update presentation to the stock exchanges and also shared the same to our mailers. So without further ado, I hand over the call to Dr. B.S. Ajai Kumar.

B. S. Ajai Kumar: Thank you, Niraj, and warm welcome to all the participants. We are pleased to report Q3 and YTD FY '20 results with strong performance and outlook. The recently published study by World Health Organization predicts that 1 out of 10 Indians get cancer in their lifetime with high mortality rates, which is alarming statistic. HCG's oncology network through its presence and depth, uniquely positions us to address the growing cancer burden in India holistically, while delivering quality cancer care and outcomes.

With South Mumbai center being operational, we have entered a period of consolidation, with no further CAPEX and new centers in the medium term. Through focus on driving profitability in our new centers and improving efficiencies in our existing centers, we expect to see robust growth in operating cash flows and subsequent reduction in leverage. The company has successfully achieved scale up across specialized platforms in oncology, fertility and precision diagnostics with pan-India leadership and we remain committed to driving long-term value creation for all our stakeholders.

Business update for Q3 FY '20. Center of Excellence in Bangalore establishes new standards for precision, accuracy and speed in cancer diagnosis and treatments and becomes the first hospital with fully digitized pathology platform, which we plan to expand across our network. Launched South India's second digital PET/CT technology and with this HCG emerging as leading private cancer care provider across Mumbai. Mumbai center ramping up well with 30.9% y-o-y revenue growth. Comprehensive oncology services launched in South Mumbai center, which is in a very prestigious location, and also launched the first CyberKnife technology for advanced radiosurgery in Western India. Rajkot multi-specialty center achieves breakeven to commence oncology services offering in near future. Launched HCG centralized call center service for increased patient accessibility and care. Milann center in Whitefield, Bengaluru achieves breakeven towards continued leadership in an attractive market for comprehensive fertility services.

I now request our CFO, Srinivasa Raghavan, to share the financial highlights. Srini?

Srinivasa Raghavan: Thanks, Dr. Ajai, and very good evening to everybody. Effective April 1, 2019, the company has adopted Ind AS 116 Leases standards applied to lease contracts existing on 1 April '19. The effect of this adoption has not been retrospectively adjusted for the year ended March '19 and previous period financials are not comparable.

Highlights for quarter ended December 31, 2019. Consolidated income from operations was INR 2,779 million as compared to INR 2,488 million in the corresponding quarter of the previous year, reflecting a y-o-y increase of 12%. Consolidated EBITDA was INR 482 million. In other words, INR 325 million, excluding Ind AS 116 adjustment as compared to INR 299 million in the corresponding quarter of the previous year. Consolidated operating EBITDA was INR 457 million, in other words, INR 300 million, excluding Ind AS 116 adjustment, as compared to INR 289 million in the corresponding quarter of the previous year.

Operating EBITDA for existing centers were INR 419 million, excluding Ind AS 116 adjustment, reflecting an operating EBITDA margin of 18%. Loss from new centers were INR 118 million, excluding Ind AS 116 adjustment, as compared to loss of INR 85 million in the corresponding quarter of the previous year.

Consolidated PAT was a loss of INR 228 million, loss of INR 187 million, excluding Ind AS 116 adjustment as compared to a loss of INR 62 million in the corresponding quarter of the previous year.

I now request your attention to Slide #10 of earnings update presentation. Q3 '20 revenue grew 11.7% y-o-y basis. HCG centers grew by 11.9%, Milann centers 8.6%. Q3 '20 operating EBITDA for existing centers was INR 419 million, 18% margin versus 17.1% margin in Q3 FY '19. New centers loss of INR 118 million versus loss of INR 85 million in Q3 FY '19.

Moving on to Slide #11. YTD '20 revenue grew 14.5% y-o-y. HCG centers grew by 14.7%, Milann centers 12.4%. YTD '20 operating EBITDA for existing centers was INR 1,230 million, 17.6% margin versus 17.7% margin in YTD FY '19. New centers loss of INR 301 million versus loss of INR 214 million in YTD FY '19.

I now request Dr. Ajai Kumar to share the operating highlights.

B. S. Ajai Kumar: Thanks, Srini. I would like to draw your attention to Slide #12 of the presentation. Revenue split for our business is 94% contribution by HCG centers and 6% by Milann fertility centers. Within HCG centers, Western India comprising of Gujarat and Maharashtra contributes 43% of the total revenue followed by Karnataka at 35%, East India and Andhra Pradesh at 8% each. Tamil Nadu contributes 4% and North India contributes 2% as of Q3 FY '20.

I would like to draw your attention to Slide #13 of the presentation. Strong growth continues at several existing and new centers in Q3 FY '20. Vizag 37.5% y-o-y, Borivali 30.9% y-o-y, Cuttack 22.1% y-o-y, Suchirayu 21.5% y-o-y. New centers contributed revenue of INR 40.8 crores in Q3 FY '20 versus INR 25.7 crores in Q3 FY '19. Revenue from existing HCG centers grew a 6% in Q3 FY '20 on a y-o-y basis.

I would like to draw your attention to Slide #14 of the presentation. ARPOB for existing centers was at INR 33,918 as against INR 31,375 in Q3 FY '19. ALOS at 2.24 on account of trend towards day care procedures and changing patient profile. Operating EBITDA margins impacted due to scale up and losses of new centers. Existing centers operating EBITDA margin improved by 64 bps to 21.8% in Q3 FY '20 from 21.2% in Q3 FY '19.

Looking at key geographies in Slide #15. Karnataka region continues its focus on improving realization parameters. The Center of Excellence ARPOB is INR 63,300 with 29.8% operating EBITDA margin. And Q3 FY '20 Center of Excellence ROCE improved from 20.8% to 29.6%. Focus on margins and returns optimization across regions. With respect to Gujarat region, Rajkot center achieves breakeven in a very short period of time. Bhavnagar oncology ramps up with 14% revenue growth y-o-y. EBITDA margin of existing centers at 15% for Q3 FY '20. In Maharashtra, South Mumbai operational with first CyberKnife technology in Western India. Nashik center expansion driving enhancement of specialized service offerings. Borivali and Nagpur centers ramping up with continued reduction in losses and nearing their breakeven points. In Andhra Pradesh, center in Vizag continues to ramp up well; focus on improving revenue mix through reduction of scheme patients. In East India, Kolkata center operational which offers advanced and comprehensive oncology services. Existing centers had EBITDA margin of 26.2%. Driving improvements in patient and procedure mix.

Coming to Slide #16, covering key highlights of Milann fertility business. Whitefield center in Bangalore achieves breakeven and continues to ramp up well. Leadership in attractive Bangalore market. Restructuring Ahmedabad operations to increase focus on key regions of North India and Bangalore.

Now I request our CFO, Srini Raghavan, to explain the CAPEX and debt highlights.

Srinivasa Raghavan: Thanks, Dr. Ajai. I would now like to draw your attention to Slide #17. With respect to the CAPEX table, we are nearing the last leg of our expansion. Total CAPEX was INR 325 million, of which INR 188 million was in the new centers. With respect to net debt, we closed the quarter at net debt of INR 7,027 million.

I would like to draw your attention to Slide #18. South Mumbai center commenced outpatient services and will be operationalized in Q3 FY '20. We are not expecting any new centers for next few quarters. We do not have any more committed new centers for Milann.

I would now like to hand over the call back to Niraj.

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

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is on the new center. I understand that the OPD of South Mumbai had started. When is looking at the new center losses, there has been a Q-on-Q 2 crores-2.5 crores kind of a jump. Is it primarily only because of this South Mumbai? And even if the entire thing is taken on South Mumbai, it looks like on a Q-on-Q basis, I mean, the other centers have not shown an improvement in terms of the losses coming down. Sir, if you can help us reconcile this number?

B. S. Ajai Kumar: Sudarshan, what has happened here is, for entire quarter we have taken South Mumbai as well as Calcutta, which were not there on y-o-y basis. So actually, the other centers in Borivali and Nagpur have shown an improvement. And also, Nashik because of the expansion the improvement has also happened there. But initially, compared to y-on-y Nashik was actually down because of the expansion. So in order to just summarize the 2 centers added is what which were not there before was what has caused the jump in the losses.

Sudarshan Padmanabhan: This is Y-o-Y, sir. I'm looking at Q-on-Q actually.

B. S. Ajai Kumar: Q-on-Q also the same thing.

Niraj Didwania: So Sudarshan, in quarter 2, we did not have entire Calcutta impact, and South Mumbai was not operational. So the entire Kolkata impact came in Q3 currently. And also incrementally, South Mumbai impact came for the full month of December and some more period. So that is the main quarter-on-quarter impact on the new center losses.

Sudarshan Padmanabhan: How much would that be, if I look at these 2 centers, specifically on a Q3 versus Q2?

Niraj Didwania: It is more than the quarter-on-quarter delta, which shows that the other centers have improved as we have announced Rajkot and Whitefield have also break even. But the impact from South Mumbai and Kolkata is more than the improvement on the others.

Sudarshan Padmanabhan: Yes, sure. And where are we standing in terms of, earlier, we had talked about breakeven in the fourth quarter for Borivali. I mean, are we on course to that? Or is there any change in the guidance?

B. S. Ajai Kumar: The losses have narrowed significantly. So we believe we are very close to that. Either it is going to be in the last quarter or the first quarter of the coming year. But also, more importantly, due talent acquisition in the past we had some delays in the Borivali center. Today, we are very happy to report this fully talent acquisition has happened among doctors. Initially, we had very good talent in radiation. But now we have a significant talent and stability with medical oncology and even surgical oncology. And we have also identified and now on the verge of doing some bone marrow transplants there. Our footfall is also definitely increasing. And also, we are improving our international patient revenue there, which is going upside. Added to this, when you look at South Mumbai, which is in a very prominent area, we are seeing, as anticipated and even maybe better than what we have programmed, the run up is happening there. So we do think even South Mumbai may breakeven quite fast. So with all this happening, we see a very bright future for Mumbai together and whatever difficulties happened in Borivali, we have definitely overcome. As you know, in the past, you have given high rent reasons and a few others, but more or less, we are over that. We are on the upside in both centers.

Sudarshan Padmanabhan: Sure, sir. Sir, in terms of the overall losses, we're running at a good 42 crores kind of a run rate. I mean, the broad assumption would be that now that the entire CAPEX is behind and as Borivali gains traction and the other hospitals kind of gather momentum and reduce the losses, this typical would be 10 crore-12 crore loss. I mean, in your expectations, when should we see this getting marginalized because that would mean 160 crore kind of a number plus, you would also grow on that. So some color on that, sir.

Niraj Didwania: Yes. The thing is with South Mumbai, Kolkata is coming into the play, you will see some rise in the losses, and then it will start tapering down in the next couple of quarters. So that is the kind of trend we see and we should start getting it reflected in the results.

B. S. Ajai Kumar: Yes. Just to add to that, we see Borivali, South Mumbai breaking even. South Mumbai, of course, being a little bit later than Borivali and Nagpur. But Kolkata will take time because this has just started in July. So, Kolkata is one which will still have certain negative reporting for a while, and also Jaipur. As you know, Jaipur also we have started now. But Jaipur will also have some negative EBITDA impact for first 2 quarters. We expect that to breakeven by that time.

Sudarshan Padmanabhan: So, by the second half we should more or less have this almost to 0. This 10 crore loss.

B. S. Ajai Kumar: As we said, Calcutta may still run up to third quarter. But minimal loss may even be experienced in fourth quarter.

Niraj Didwania: So to a large extent, you can see it tapering down of these losses.

Sudarshan Padmanabhan: Sure, sir. And sir, with respect to the debt. I mean, now that the entire CAPEX is done, and I can see that whatever CAPEX was required has been added in terms of debt, almost 35 crore increase in the debt versus the 32 crores kind of a CAPEX that is required. Should I assume that more or less, this debt would be kind of a peakish debt? And second is from your comfort point of view, I mean, we also have several plans in progress, which we can actually encash and bring down the debt. So if you can give some route map on that forthe next couple of years?

Niraj Didwania: Yes, the thing is as we said earlier, we are coming to the close of the CAPEX cycle. There is some capex that is still left out in the Gurugram project. So I expect it to get over by Q1 time frame, Q1 or early Q2 time frame. So during this case, you can expect a marginal increase in debt after which it should kind of stabilize.

B. S. Ajai Kumar: And starts coming down.

Niraj Didwania: And it will start coming down based on the cash generated from the operations.

Sudarshan Padmanabhan: Sure. And any other plans we have? I mean, would it only be necessarily from internal cash or is there any opportunity that we can see in terms of monetizing any assets or anything? Is there any option?

B. S. Ajai Kumar: Obviously, I don't want to make any comment on that. But what I want to convey to our investors, shareholders is that, the management is looking at various options. As we have said even in the past that, including what are the ways we can reduce debt, what are the ways we can even monetize or even fundraising, we are looking at all options. So we will convey as and when certain things come to play, okay?

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

Chandramouli Muthiah: First question, Srini, just a clarification on one of the comments you made. You said that for the next few quarters, we do not have any projects on the CAPEX pipeline. So could you just clarify what the status of the Delhi or Gurugram project is at what point and how are you thinking about Kochi? Because as far as I can remember, those are the only 2 projects on the anvil at this point.

B. S. Ajai Kumar: Regarding Gurugram, while the work is going on in terms of infrastructure. So there is very little CAPEX requirement at this point, we have already invested. So we are not looking at any major requirement in the near future. We are looking at possibly not even this coming fiscal year. Regarding Kochi, certainly, the contractor there who is to complete the project, is going to take over a year to do anything. So again, we are looking at only the next fiscal year for any material capital investment if needed. Even that we have locked out of various models. So as and when those models fructify, we will convey to the investors what are the models. So our goal is very clear. Whatever way we can, we want to reduce the CAPEX requirements and look at alternate ways of really doing it. So the CAPEX requirement will come down or stabilize.

Chandramouli Muthiah: Got it. Second question is on the Milann business. I think you have put it on strategic review. I read in a recent interview that you had given as well that this is a business that you are considering a sale off. So I just wanted to understand how to think about that business going forward? And then how much that could be a part of your deleveraging plan going forward?

B. S. Ajai Kumar: Yes, I think, I was not quoted fully correct there. So second thing I want to say is, for Milann we will look at all the options. And when something really comes up, we will communicate. Otherwise, I don't want to comment much on that. As far as the Milann operations are concerned we do believe we have broken even in Delhi, we have run the upside in Delhi as well as in Chandigarh. And as I said in Ahmedabad, we have restructured it such a way that our losses will be minimal, and we are working with the partner there. As far as Bangalore, Whitefield has broken even. So compared to last year, definitely, we are on the upside. And looking forward next year, we are also looking at some andrology partner also. As we incorporate those, we will see healthy growth next year and years to follow. So this is our take at this time on Milann.

Chandramouli Muthiah: Got it. And just finally, on your deleveraging process, you just mentioned that Q1, Q2 FY '21, you might see a slight inch up in the net debt number. I think your pre-Ind AS net debt number this quarter is about 700 crores. So is there any quantum of debt reduction that you have in mind in the fiscal year 2021 that you can share with us?

B. S. Ajai Kumar: Yes, our management is looking at various options of debt reduction. One of the things we mentioned what are the option, you said that deleveraging, looking at assets, looking at fundraising, all of the options are on the table. We have been looking at all this. But further, I don't want to comment anything. When anything does happen, we will certainly convey that to the investors.

Moderator: Thank you very much. The next question is from the line of Vivek Agrawal from Citigroup. Please go ahead.

Vivek Agrawal: It's regarding sluggish growth in the existing centers, existing centers grew by 6% in the quarter. Any specific reason for that why the growth is tepid over the last 2 quarters?

B. S. Ajai Kumar: Yes. One of the things we mentioned in the revenue growth is as we being a totally oncology center the pharma issue had an impact on us. Now just to give you an example, if MRP of the Rs. 100 drugs is brought down to Rs. 20, obviously, that affects our revenues significantly. So that has been one impact. Second is the expansion impact of fully operational Nashik centers also had the impact of revenue. So the main reason is being the pharma reason. And hopefully, government will not come up with any other measures for going forward. With that, we do feel the revenue growth will pick up in the coming year.

Vivek Agrawal: Okay. And sir, on the margin improvement

B. S. Ajai Kumar: Yes, we should be the growth happening due to the base correction that has happened.

Vivek Agrawal: Yes, okay. Noted. Sir, 64 bps y-o-y margin improvement in the existing center. So is it like-to-like? Or is it basically mainly because of India.

B. S. Ajai Kumar: Yes, it is the like-to-like margin improvement in the KR-DR. You're talking about KR-DR, right?

Vivek Agrawal: Yes.

B. S. Ajai Kumar: One of the things very important for investors to understand is how Center of Excellence is performing and how we hit a very high EBITDA margin, ROCE because in the past there was some downside because of the mix was changing. Today, with the mix change we are having more cash patients, international patients. This is the model we want to work on to take it to places like Mumbai, South Mumbai, Borivali and Kolkata. This is where our focus will be. So those are the areas which are high revenue-generating areas. So that is where we want to focus going forward.

Moderator: Thank you. The next question is from the line of Senthil Kamaraj from iThought Financial. Please go ahead.

Senthil Kamaraj: Could you provide the number of patients treated during the quarter and for the 9 months FY '20?

Niraj Didwania: Yes. So, generally on the patient count we disclosed it annually in our annual report. We don't give interim numbers out because for accuracy reasons. So we will be able to disclose patient only in the annual report. 73,000 was the FY '19.

B. S. Ajai Kumar: Last year was 73,000. Obviously, we expect it to be close to 90,000 or more. But we can give you the accurate number when the year closes.

Senthil Kamaraj: And my second question is with respect to the multi-specialty hospitals that we have on our group. So what is the outlook going forward? And operationally, what was the performance during the 9 months and during the quarter?

Niraj Didwania: So we are not looking to add any more multi-specialty facilities. And in fact, like Dr. Ajai read out in his overview. After Rajkot breaking even, we are looking at some oncology services there like surgeries and medical oncology also. So currently, the multi-specialty business is doing well and we don't expect to add any facility.

B. S. Ajai Kumar: Just to add to Niraj, as some of you know we are a very oncology focused. And going forward, we want to be very directional in oncology and that is the reason our Mumbai center, South Mumbai, Nagpur and Calcutta are all oncology focused. The reason, previously when we started in Ahmedabad, we did a multi specialties primarily because we couldn't convert that to oncology and that is how we ended up with that. Later on, when we did Bhavnagar center weconverted that to oncology center now, some multi-specialty. Similarly, Rajkot also we will be doing this at the right time. This is how we want to move forward. We want to really focus more on oncology, not only in India but in other parts like Africa we have centers beginning. So our goal will be to become highly specialized in oncology care. That is where I think the future is also. As we read out the number of oncology cases unfortunately it is increasing due to the smaller number of the specialized center. For example, like what we have on HCG oncology there is no other specialized center. And one of the things we look at is really outcome-based. We have been written up by Harvard Business School, World Bank and all because of outcome. So people are now beginning to look at outcome and the value-based medicine.The reason why HCG Bangalore have such good numbers and we are beginning to see growth is because it's destination. Patients come for a final opinion, treatment or care. This is the model we want to take it across in centers like Mumbai, Calcutta.

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

Harith Ahmad: What we are hearing from some of your tertiary care hospital competitors is that a greater focus on oncology as a specialty is something that all of them are talking about and some of them are adding oncology centers to their existing tertiary care hospitals. So would this lead to more competition for the comprehensive cancer care providers like HCG? And what are the advantages of a pure-play cancer care provider like HCG versus some of these tertiary care providers who are getting into oncology?

B. S. Ajai Kumar: Thank you very much for your question. I can answer and take the rest of the half an hour for this if you want. Let me try to summarize it. This is a question which has been asked in the past also. But one point I want to make is if you look at the global cancer scenario, dedicated cancer centers always do better. Like I am trained in MD Anderson today there are so many cancer center of Sloan Kettering. They are the destination. Second thing is when a tertiary hospital says they want to do oncology it is part of the multi-specialty. So they are looked upon as a multi-specialty with an oncology wing. So the most of the patients who come there for example, even big multi-specialty hospitals see approximately 1,000 to 1,500 new patients a year because they are internally generated. Suppose you have a multi-specialty hospital and outside a patient is diagnosed with cancer, let's say, breast cancer or stomach cancer, patients are not referred to this multi-specialty. Because 2 reasons. One is, obviously the referring doctor wants the patient to come to highly specialized center. Two, the referring doctor also is concerned about what is going to happen to the patient in future. If the patient goes to multi-specialty, let us say I call it to Mayo Clinic syndrome because when I was practicing, I used to refer patients to Mayo Clinic, and this is what used to happen. You refer them for let's say, colon cancer. I remember this incidence very well. The patient had surgery for colon cancer. It was a very complicated surgery. He came and said, doctor you know I am now a new man. They found this aneurysm in my brain. The cardiac problem. They treated for my atherosclerosis and the bone problem. So you have got it overall completely. This is one thing that a referring doctor will never like because they will lose the patient completely. Once the patient goes into the multi-specialty system, they never come back. So that is part of the reason. Part of the reason is Center of Excellence. A multi-specialty cannot have 80 oncologists sitting and giving opinion. For example, we do tumor boards on Tuesdays, where all our centers are connected, where we measure outcomes, where we look at quality parameters, 152 quality parameters. We will produce papers. We do a lot of research, data collection. So patients are well aware of it.

Just to give you an example, yesterday a patient came to my clinic from a faraway distance in Bangalore. Why did the patient come even though multiple hospitals to share the breast cancer, why did she come, because she wanted to come to Center of Excellence. So this is where the dynamics changes and patients of course do Google reviews and other reviews. So essentially, any patient wants to come to the Center of Excellence, the dedicated oncology center. So people are more and more looking at it. So that is why even though multi-specialty hospitals have come with oncology attachment but when we collect the data, we know they are not capable of generating that kind of a patient load. I can't talk about the financial part. But all I can say is the patient load generation won't be there that high. Like we see 10,000 new patients in Bangalore KR Road, that's the kind of a number will not be seen anywhere. Government hospital, Kidwai sees that kind of number because they're government dedicated cancer center. So hopefully I've answered your question.

Harith Ahmad: Yes. One follow up there. When it comes to cancer patients there will be a lot of co-morbidities, which I mean the tertiary care hospitals aren't they even better position to manage those co-morbidities because they have all specialties under the same roof? Is that a right understanding?

B. S. Ajai Kumar: I will answer that question, another half an hour. No, I'm kidding. In this case, actually, it is the other way around because there is a ceiling which the multi-specialty hospital say, I have like a cardiology service, I have pulmonary service but if you come and visit our center in Bangalore or even Mumbai, actually, it is fully equipped. Actually, in Bangalore because of the size we have full-time cardiologists, pulmonologist, nephrologist. But even otherwise, what I want to say is who knows better of taking care of an oncology patient than an oncology group which has dedicated ICU. For example, this is my 43rd year in oncology. I can say, clearly that an oncology patient in oncology center ICU has far better chance of recovering than in a multi-specialty. Because you know how to take care of the onco patients because they may be having sepsis without fever. So if you go to multi-specialty there is no way they will know because you cannot be experts. They may know how to take care of pneumonia. They may know how to take care of cardiac. But to take care of an immunosuppressed onco patient is a rarity. So that is why we actually do audit to see how many patients go to ICU with 0 blood pressure, 0 blood count come out. Our rate in our ICU in Bangalore is almost 95% come out. And how many patients who were intubated come out of it. So we measure all this. And we have a concept of EICU, where the ICU people are trained to look at the anomalies of an oncology patient compared to a patient who is non-oncology. So the matter is quite deep.

The superficial assumption that we do not have, and we cannot is not correct. In fact, the data is what really speaks for it. If you look at MD Anderson outcome, if you look at Sloan Kettering outcome, if you look at a multi-specialty outcome their MD Anderson outcome is far better for the very reasons I said. Similarly, we have done calculations, but we don't get data from other hospitals, our data, outcome of our patients is equal to the best of the centers in the world. That is what Harvard or World Bank has shown as IFC. So we are very clear that the patient who walks into our center, definitely has a better chance of long-term survival or even short-term survival due to complications in oncology.

Harith Ahmad: Okay. That's very helpful, sir. Last one from my side. On Milann, you talked about some of the centers and the improvements there. So overall, at the Milann level, I'm trying to understand if we have gotten back to the original margin profile, which we had till a couple of years back when we started seeing some pressures there. So broadly, without being specific on the margin number, are we on track or will we get there in the next year or so?

B. S. Ajai Kumar: Yes, you're right absolutely. We are tracking to get that kind of top line. Top line will definitely be even better. We are also working on improving the EBITDA and the margin. And we should be on track to achieve that towards the latter part of next year and going into the year after.

Moderator: Thank you. The next question is from the line of Fiona Chan from Buena Vista Fund Management. Please go ahead.

Fiona Chan: I wanted to ask about the IVF business. Wondering why the registrations were lower this quarter sequentially? And what sort of trends we see going forward?

Niraj Didwania: Hi, Fiona. So there are 3 reasons. Number one is Q3 last year we had started seeing some recovery. So the base had already improved when you compare it to the first half of the year. Second is we had some shutdowns last year after Q3, which is Bhuvanagiri and Mumbai. So that base is there in the last year. But obviously, those shutdowns are not there in the current year. And the third reason is, in Q3 we have sufficiently slowed down. Ahmedabad, as you see we made a comment that we are restructuring that. So we are looking to focus more on the Bangalore and North India markets only. So Q3, that is the third reason why you are seeing lower registrations.

Fiona Chan: I see, sorry. But from second quarter, this quarter we have seen a further drop in new registration.

Niraj Didwania: Yes. So from Q2 to Q3, as I said we have slowed down Ahmedabad operation on a quarter-on-quarter basis and we are restructuring that. So that will sort of go off from Milann Q4 onwards.

Fiona Chan: I see. So from first quarter '21, we should see an improvement in registrations again?

Niraj Didwania: Yes, correct.

Fiona Chan: Got it. And my second question is on occupancy rate. We have seen marginal improvement or no improvement in occupancy rate across the region. Just wondering how we plan to sell the unoccupied bed? I think last quarter, we talked about maybe some of the centers we felt we had more beds than we now require.

B. S. Ajai Kumar: Yes. So, as I think I previously tried to explain, when we built our main center in Bangalore in 2005, that time oncology practice particularly chemotherapy was a lot more inpatient services. And there were more chemotherapy drugs given with more complications, requiring more inpatient facility. Also even surgery was more prolonged. So, the ALOS at those times used to be more or like 3, 4 days. But today, what we are happy to report is, lot of these chemotherapy treatment to be replaced by biotherapy and immunotherapy, which requires very basic outpatient therapy. So, they don't have to be hospitalized. And the other thing is, because they don't target normal cells, they target only the cancer cells, the patients don't have that much of side effects, including low blood counts or significant symptoms like nausea, vomiting are very rare. Because of these admissions for these kinds of complications are also less.

The third point is the look at surgery. Today surgery, what used to take for example 7 days-8 days is done in 1 day or 2 days because we are now doing robotic surgery, targeted surgery and laser surgery. So, all this has really improved the outcome of the patients and the side effects. Basically, in medical terms what it means is, we are not touching the normal tissue. See we do target it so that the surgery goes and only takes out the affected area. The normal tissue is not assaulted. Because of that the patient recovery is very fast. Like, for example, when we do breast surgery now we do it in the morning including a sentinel node biopsy. By evening, the patient is ready to go home. So, most of it is becoming daycare. So in the last 10 year-15 years, the requirement for inpatient has come down, our ALOS is clearly showing that which is now down to 1.9 or 2. So what we have to learning curve from this is very clear we have to look at more when you go for new hospital like what we have done in South Mumbai only 25 beds-30 beds do surgery and mainly for that and only some chemo complications and bone marrow transplant wherever we do. Centers which have bone marrow transplant may require additional 8 beds to 10 beds. So, more and more we are moving towards less bed but more footfall. So, going forward we will be looking at footfall and revenue per patient based on the footfall rather than revenue per bed. Obviously, as the bed strength comes on the ARPOB will keep increasing. So, this is the model we are looking at. As you can see our ARPOB is actually increasing. So, this is where the future is not to build huge centers, maybe 30 beds-40 beds at the most 50 beds but focus more on outpatient facility, daycare therapies and good ICU because that is when the patients come they're very sick. The ICU is very important.

Fiona Chan: Thank you. And so, the previous centers where we had maybe 60 beds or more, how are we improving that?

B. S. Ajai Kumar: We are looking at 2 ways. One is we are focusing in Bangalore which is the main one. For example, Gujarat and all the center is full. They have a occupancy of 70% or so. So mainly the center we are looking at is Bangalore. We are looking at providing additional services there including international patients. We have made a place for international which is not counted as bed occupancy now. So that is how we are doing it. So we want to increase more daycare services. So daytime, the patients will be full. Actually, as of now for example today we have 15 waiting list for the patients. So daytime the patient gets full. By evening 7-8 o'clock there are empty beds. So at the same time we don't have to service those beds. There won't be any nursing staff and all once they leave. So our HR is also less. As you can see that from our margin one of the highest in the industry where it's generating 29% EBITDA margin which clearly shows efficiency in the system.

Fiona Chan: It is financial having more outpatients' services versus inpatient?

B. S. Ajai Kumar: Yes, correct. Yes.

Fiona Chan: Alright. So the impact of the higher margins?

B. S. Ajai Kumar: Yes, going forward, that is what we're looking at and that is what we are planning on even centers in South Mumbai and Borivali as well as Calcutta.

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

Amish Kanani: Sir, one question that I had was we are referring to breakeven and you know the operating EBITDA loss. So we said that Rajkot and Whitefield has broken even. So when we say break even we are referring to operating EBITDA or PBT level?

Srinivasa Raghavan: Operating EBITDA.

Amish Kanani: Okay. Yes, and in that context, sir, of course, Gujarat and East India region operating EBITDA margins are 11% to 13%, obviously because of the Rajkot, Bhavnagar and Calcutta centers, and maybe in Maharashtra operating at a negligible operating EBITDA because of the Mumbai center. The question is, sir, that at what level of operating EBITDA, which of our older centers are more in the range of 20, and also is 25 for our Center of Excellence. The question is at what level do we then breakeven at PBT level? And how long do you see that as a journey for these regions?

Niraj Didwania: So Amish, currently, we have a huge depreciation impact because the new centers not only are they EBITDA negative, but the entire asset base has a depreciation negative. So we will probably see PBT reaching breakeven to positive in FY '22. We don't expect it to happen in FY '21.

Amish Kanani: Okay. So here we are referring to the respective regions, right? Or at a company level are we talking?

Niraj Didwania: No, we are talking at the consol company level. The existing regions some of them are at the parent company level. There are some at the JV level. So that's why we are talking at the consol company level today.

Amish Kanani: Okay, that explains. And sir, if I take the operating debt, which is 700 crore excluding the new Ind AS adjustment, and if I even add back the operating loss of 40 crores, which is annualizing on a 130 crore annualized again, 9 month The point is, we are having an operating EBITDA of

170 crores without the new center losses. And if we take the debt, it is still about 4x, assuming that operating EBITDA level you operate in, say, next 2 quarters to 4 quarters, maybe a little more. The question is, at what level of debt EBITDA, are we comfortable? And in that context, we are talking about lowering our debt, what is the level that we are looking at?

Srinivasa Raghavan: The serviceable debt of under 5, we are fairly comfortable and that's the direction we are moving towards.

Amish Kanani: Servicing level of debt, sorry?

Srinivasa Raghavan: Under 5.

Amish Kanani: Under 5. Including the operating loss, if any is what we are talking right?

Srinivasa Raghavan: Yes.

Amish Kanani: So right now, say 130 crores is annualized operating EBITDA, including the losses of center it is 5.4 or something like that approximately. So we are looking at under 5?

Srinivasa Raghavan: Under 5.

Amish Kanani: Okay. And sir, just thinking in the last quarter that was mentioned that we don't have any huge repayment obligation. But can you quantify the overall debt repayment that might come in the next full fiscal year out of the bank debt that we are showing in the slide?

Srinivasa Raghavan: See, as far as the repayment of debt is concerned, it is 30 crores for the next financial year. And then it will start slowly increasing from the year after, so which is a manageable number.

Amish Kanani: Next year, we are saying 30 crores.

Srinivasa Raghavan: 30 crores, yes.

Amish Kanani: Okay. So in that sense, you are not having, apart from funding the operating losses of the center, we just need to repay 30 crores and also the interest of it.

Srinivasa Raghavan: Yes, we are fairly comfortable. We have sufficient cash that takes care of our principal repayment, interest and all that and takes care of some amount of CAPEX also.

Amish Kanani: Sure. And sir, can you give us some sense of what is our cost of funding now on a blended basis?

Srinivasa Raghavan: Yes, our cost of funding is around 10% range.

Moderator: Thank you. The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: Just one clarification. On 17 December, there was a filing on the exchange which says that there was a launch of the Borivali center in Mumbai. So is that a mistake or could you just explain that, please?

B. S. Ajai Kumar: Even though Borivali center was started, we have not done an official launch. We are waiting to make sure all the drugs are in order, the doctors, the place. We had some in the beginning, we had some water entering the bunker, all of that was corrected. For that, there were some delay. So we made sure everything was okay and then we launched the center. Manisha Koirala the actress came and launched. So that is the reason we launched it in December even though the center was operational for some time.

Moderator: Thank you. The next question is a follow up from the line of Fiona Chan from Buena Vista Fund Management. Please go ahead.

Fiona Chan: I wanted to ask what are the financial implications as our business shifts towards having more outpatients versus inpatients?

B. S. Ajai Kumar: Yes. The outpatient facility, we feel the contribution factor will be better. If you look at radiation is one of the best contribution factor. Even medical oncology with daycare will be better. Even if you look at the robotic surgery compared to what the charges are and the patient being in the hospital for only 2 days is actually more efficient and better. And the main reason is if the patient stays for more than 2 days-3 days, let us say, post-operative recovery and all that your revenue recovery for that patient and your profitability goes down. More number of patients, a greater number of days they stay it goes down because it decreases the efficiency in the system. For us, if you do for example, a robotic surgery, let us say, we charge 3.5 lakhs, 4 lakhs for that patient. So you are doing that and the patient is getting out in a matter of 2 days. Whereas if you do routine surgery and do a long-term surgery the patient is there for 10 days and you are still charging only 2.5 lakhs. So your efficiency becomes better. Anant, you want to add anything?

Anant Kittur: No, the thing is about productivity. What will happen is, what we are doing in 12 hours if the same can be extended to late evenings and how the usage will come into picture. So your daycare concepts will move to a 2-step concept, which will increase the number of patients who can serve in the same given period.

B. S. Ajai Kumar: Essentially, what Anant is saying, in 1 bed there could be 2 patients. So that is how we will be bringing efficiency as we go forward.

Moderator: Thank you. The next question is from the line of Rahul Gupta, an individual investor. Please go ahead.

Rahul Gupta: Sir, can you please tell me that what is the total outstanding of HCG as a group as on December 31?

Srinivasa Raghavan: The consolidated outstanding receivable is 120 crores for the HCG Group.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management team for closing remarks. Over to you.

Niraj Didwania: Thank you for everyone for the active participation on the call. We are available to have discussions offline if required. With this, we conclude the Q3 FY '20 earnings conference call. Thank you.

B. S. Ajai Kumar: Thank you very much.

Srinivasa Raghavan: Thanks.

Moderator: Ladies and gentlemen, on behalf of HealthCare Global Enterprises, that concludes today's conference call. Thank you all for joining us, and you may now disconnect your lines.