"Healthcare Global Enterprises Limited Q2 FY19 Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to the Healthcare Global Enterprises Limited Q2 FY19 Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Niraj Didwania – Head, Corporate Development and Investor Relations. Thank you and over to you, sir.

Niraj Didwania: Thanks, Raymond. Good evening, and a very warm welcome to all participants to Healthcare Global Enterprises Limited's Q2 and H1 2019 Earnings Conference Call.

Today, we have with us Dr. BS Ajaikumar – Chairman and CEO of HCG, along with the management team to share highlights of our business and financials. We have uploaded an earnings update presentation to the stock exchanges and also shared the same through our mailers. Without further ado, I hand over the call to Dr. BS Ajaikumar.

BS Ajaikumar: Good evening and happy Diwali to everyone. Thanks for joining on this day. Warm welcome. We are pleased to report Q2 FY19 results with continued strong performance across our business.

Our existing oncology centers, which have established leadership in their regions of presence are continuing to demonstrate strong growth, profitability and return. Our new centers not only augment our presence in attractive markets pan-India, but are also generating strong margins, offset by recent centers losses, which are nearing break-even levels as per the plan.

As we near completion of our expansion and our CAPEX cycle with substantial investment in new centers over the past few years, we look forward to realizing sustainable growth and details over the long-term, as these centers mature, thus establishing dominant leadership role in oncology and also perform as well as our existing centers are doing at present.

Our fertility centers named Milann, we continue to have leadership role in not only Bangalore, but also establishing across the country and the indicators are, in the coming quarters, will do well as planned, and we do see a huge potential for the growth. Overall, we are excited about continuing the leadership specialties across multiple geographies pan-India, with focus on efficient execution driving value creation for all of our stakeholders.

At this point, I would like to update on the Q1 FY19 business updates. Strong growth in Maharashtra, driven by Nashik and Borivali centers. Borivali center completed its first bone marrow transplant and continues to do well in radio surgery, taking a leadership role. The Center is emerging as a leader in private cancer, dedicated cancer center in Mumbai region, and we are also happy to report the way it is progressing, we are likely to see a breakeven in the last quarter or the first quarter of next year.

Completed acquisition of minority partner stake in Borivali. HCG now owns 100% stake in hospital entity. Continued reduction in losses from Borivali and Nagpur new centers. With all this, as you will see from the future presentation, Maharashtra has become a dominant place for HCG's growth.

Gujarat continues to show a strong momentum across existing centers and new centers. Commenced offering of comprehensive oncology centers in Bhavnagar, the only one in Bhavnagar area offering oncology, an underserved market with large catchment area. Rajkot multi-specialty hospital operationalized with partners and strong focus on specialty led by a leading clinical team as minority partners.

Also, Jaipur oncology center was launched as number one dedicated and comprehensive cancer center in the city, offering high-end services and quality of care, augmenting a HCG's presence in North India region.

Strong revenue growth and occupancy increase in our Andhra Pradesh region driven by Vijayawada, consolidation of partners business.

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

Srinivasa Raghavan: Thank you Dr. Ajai, and very warm welcome to everyone on the call. Highlights for the quarter ended September 30. The consolidated income from operations, the revenue was Rs. 245.3 crores as compared to Rs. 211.1 crores in the corresponding quarter of the previous year, reflecting year-on-year increase of about 16%.

Operating EBITDA for the existing centers is Rs. 37.3 crores as compared to Rs. 33.2 crores in the corresponding quarter of the previous year, reflecting an operating EBITDA margin of 19.2% as compared to a margin of 18.8% in the previous year. The loss from new centers was Rs. 3.8 crores as compared to loss of Rs. 2.1 crores in the corresponding quarter of the previous year.

Consolidated profit before other income, depreciation and amortization, finance costs, exceptional items and taxes was Rs. 33.5 crores as compared to Rs. 31.1 crores in the corresponding quarter of the previous year, reflecting a YoY increase of 8%.

Consolidated profit after taxes and minority interests was a loss of Rs. 6.5 crores as compared to a profit of Rs. 10 crores in the corresponding quarter of the previous year. The key driver for the PAT loss in the current quarter has been the FOREX reinstatement of about Rs. 5.8 crores.

I now request you to turn your attention to Slide #4 of earnings update presentation. The Q2 revenue grew 16.2% year-over-year and HCG center by 18.1%. On Q2FY19 operating EBITDA, the existing center stands at Rs. 37.3 crores, which is a 19.2% margin versus 18.8% in Q2 FY18.

New centers loss, as mentioned earlier, is Rs. 3.8 crores versus loss of Rs. 2.1 crores in the corresponding period last year. H1 2019 revenue grew 17.3% year-over-year and the HCG centers grew by 19.4% whereas in Milann, we have a de-growth of 5.3%.

The H1 results, the operating EBITDA, the existing centers is at Rs. 712 million, 18.9% margin, versus 18.3% margin in H1 FY 2018 and the new centers loss is about Rs. 70 million compared to a corresponding loss of Rs. 20 million same time last year.

I now request Dr. Ajaikumar, to share the operating highlights.

BS Ajaikumar: Thank you, Srinivasa. I would like to draw your attention to Slide #5 of the presentation. Revenues mix for our business is 93% contribution by HCG centers and 7% by Milann fertility centers.

Within HCG centers, Western India comprising Gujarat and Maharashtra, contribute 42% of the total revenue, followed by Karnataka at 38%, Andhra Pradesh is 8% and East India at 7%. As you can see from this, our distribution has changed, because at one time, Karnataka was heavily favored. Now, it is being distributed between Karnataka, Maharashtra, Gujarat as Andhra and Tamil Nadu and East India. Tamil Nadu contributed 4% and North India contributed only 1%.

I would like to draw your attention to Slide #6 of the presentation. Strong growth continues at several existing and new centers in Q2. Vijayawada 80% YoY; Nashik 79%, with expansion taking place 79.9% YoY; Chennai 28.7% YoY; and Baroda 24.3% YoY. Substantial growth has happened in these existing and new centers.

New centers contributed revenue of Rs. 48.6 crores in Q2. Revenue from existing HCG centers grew at 11% in Q2 on a YoY basis. Revenue excluding Kanpur, which is a discontinued operation, grew 20% in Q2 and 21.1% in H1 FY19 on a YoY basis.

I would now like to draw your attention to Slide 8 of the presentation. 165 beds added in Q2 FY19 on account of new centers. Rajkot, 120 beds; and Jaipur, 45 beds.

ARPOB for existing centers Rs. 34,624 against Rs. 33,463 in Q2 FY '18. Continuing reduction in ALOS to 2.27 on account of trend towards day care procedures changing patient profile and efficiency in the system.

Existing centers' operating EBITDA margin improved 69 bps to 24.4% in FY19 from 23.7% in Q2. In this area, I would also like to mention, some of our centers have been star performers, including our Center of Excellence in Bangalore, which has shown 28-plus percent margin in Bangalore center.

Looking at these geographies on Slide #9, Karnataka region continues to focus on improving realization parameters. The Center of Excellence, as I stated above, ARPOB is Rs. 48,400 with 28.3% operating EBITDA margin. The center of excellence ROCE improved 110 bps to 28.8% YoY. ARPOB rise in region driven by scale-up of multi specialties in Hubli.

With respect to Gujarat region, commencement of oncology center in Bhavnagar offering comprehensive services. Rajkot multi-specialty center just got operationalized and EBITDA margin of the existing centers at 19.1% for Q2 FY19 from 15.7% for Q2 FY 2018.

In Maharashtra, continued strong growth of Nashik center with Phase II operationalized and EBITDA margin at 23.4%. Borivali and Nagpur, new centers ramping up with continued reduction in losses and as I already commented, we are looking at a breakeven in Q4.

In Andhra Pradesh, strong revenue growth, occupancy increase and ARPOB dilution driven by consolidation of partners business in Vijayawada. New center in Visakhapatnam ramping up well. In East India, investment in enhancing quality of care at Cuttack centers; improved patients and procedure mix augmenting ARPOB increase.

Coming to Slide #10, covering key highlights in Milan fertility business center. The improvement has happened in new registration driven by new centers additions. Newly opened center in attractive Whitefield market ramping up well. Implementation of new strategic initiative across the business are helping to show ramp up in the third and fourth quarter is -- also expected in fourth quarter.

I now request Srini Raghavan to explain the CAPEX and debt highlights.

Srinivasa Raghavan: Thanks, Dr. Ajai. I would like to draw your attention to Slide #12. We are nearing the last leg of our expansion plan. Total CAPEX for the quarter was Rs. 41.4 crores with majority of that in HCG centers and nominal investment for Rs. 2 million in Milann. CAPEX excludes stake purchase of Rs. 253 million towards minority interest of partner in Borivali center entity.

Net debt – With respect to debt, we closed the quarter at net debt of Rs. 579.6 crores of which vendor finance comprises of Rs. 169.8 crores. This includes FOREX reinstatement of Rs. 8.3 crores as of 30th September, 2018 and Rs. 6.2 crores as of 30 June, 2018, on account of USD, INR exchange rate changes.

As on H1 basis, majority of the CAPEX of Kolkata and South Mumbai center are already accounted. I would like to draw your attention to Slide #14, please. In the current year, Kolkata and South Mumbai are slated to launch in next two quarters. With this, only two more centers in Kochi and Gurgaon will be upcoming for future. We do not have any more committed new centers for Milan post-Q1 launch of Whitefield centers.

I would now like to hand over back to Niraj.

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

Moderator: Thank you. We have the first question from the line of Sudharshan Padmanaban from Sundaram Mutual Fund. Please go ahead.

Sudharshan Padmanaban: While your presentation and your outlook talks about the newer projects and losses contributed by the newer facilities, if you can give some color with respect to the Borivali facility and what is the kind of magnitude of losses, which primarily, on account of the facility you opened this quarter specifically, the 140-odd beds in Nashik and Jaipur. That could kind of give us some color with respect to, directionally, how the Borivali is moving, as well as how we expect the Nashik and Jaipur to move as well.

BS Ajaikumar: As far as Borivali is concerned, as you know, when this center started last October, we had indicated that there will be a loss for about 18 months primarily because of the real estate, high value of the rent. But we are actually clocking well, and, in this regard, I will ask Dinesh Madhavan who is the business head of the region to talk about it. Also, he can comment on the Nashik where in spite of expansion, we have not incurred any loss. In fact, we have continued driving a margin of 23%, the expansion has already happened. In view of Jaipur, which has just started, right now, which is the Oncology Center, there also, we are doing well and month-on-month, we are seeing good growth. There also we expect in the next 4 to 6 months, the losses to narrow. Regarding Borivali, can you comment?

Dinesh Madhavan: Both at Borivali and Nashik in Maharashtra, we are finding the expansion of Nashik to the new centers with great acceptance that ramps up well, which is clearly indicated with the addition of about 60 beds. We still have been able to have a good financial performance there. Coming to Borivali, there are a few segments, which will catch up as Dr. Ajai said, in the last quarter of this fiscal. Largely for the transplant program on bone marrow and the radiation, we have done far better than what we pursued as per our plan. Going forward, we are already seeing that the ramp up here will be as we expected to be, and also take a very dominant leadership space in the private oncology space in Bombay. Borivali will see from Q2 much better than what we are actually look at in our -- from a budgeted level, as we said a little earlier, we look at it ramping up as expected.

BS Ajaikumar: And in this regard, our loss for Q2 in the oncology space, including Milann has been 3.7 crores. And we do believe, it's on the increasing trend and even if you look at Borivali and Nagpur, both have significantly decreased on a quarter-to-quarter basis also and we will continue to see that. As I said, we are hoping that the way things are going, breakeven will happen in Q4 or Q1 of next year.

Sudharshan Padmanaban: Sir, with respect to the debt, I understand a large part of this debt primarily comes from the newer centers. You did in the past commented that part of the future CAPEX is also included in the current debt. If I can get some idea with respect to debt, because I think the debt has consistently been moving up. Where do we expect the peak debt? Probably this is where the peak debt is? As Borivali starts contributing to profits and other centers start contributing to profits, your debt will start coming down. Is that a fair assumption?

Srinivasa Raghavan: Yes. As I have mentioned earlier, we've come to almost to the end of CAPEX cycle and from here on, what we expect the CAPEX to kind of taper down. And we expect our debt also coming down. So, by the year-end, we see all the leverage ratios at the right level from the debt perspective. But there are few commitments, where you may see slight increase even up to the end up a year. The way we have structured and way already commitments we have made is what we are going to fulfill. But as you said, Sudarshan, once Borivali and a few other centers turn profitable and a few other changes take place, we expect CAPEX cycle to be over and the debt reduction to start.

Sudharshan Padmanaban: One final question from my side is on the Milann side of the business. The last couple of quarters has been pretty soft in terms of indication performance. And I'm just trying to understand with respect to what are the changes? I understand that we have taken a rationalization with respect to looking at profitability and other things. Where are we as far as the benefits are concerned from this exercise?

BS Ajaikumar: I think from Milann, as we discussed last time, we had few things which happened in the first and second quarter, which caused the downturn. Now we have a new CEO who has joined a few months ago, Sudhir Bahl, and with under his leadership and the way we are structured, even our existing centers and the new centers, we are beginning to see certainly ramp up happening, and we expect fourth quarter to be one of the best quarters. So, with this, in mind, I think we are well positioned for that and also, when we look at the future like the year FY 2020, where systems have been put in place, where certain strategic initiatives we have taken, overall, are also definitely going to pay dividends in the FY20. We are fairly confident about this with the new CEO being in place.

Moderator: Thank you. The next question is from the line of Balthazar Florentin-Lee from Sloane Robinson. Please go ahead.

Balthazar Florentin: It is always good to see the margin at the existing centers expanding. Can I just ask for a bit more clarity on the trends in the losses from new centers? If Borivali is due to breakeven in the next couple of quarters and the losses are declining there and we have do not have any expansion projects planned for Q3, is it fair to say that what we have just experienced is peak losses from new centers and we should be thinking about a lower figure consistently going forward?

BS Ajaikumar: I think you are right. As we go forward, once the Borivali center, the Nagpur centers breakeven, the centers which are going to be still under losses include Jaipur and Rajkot and then future is, of course, when the Delhi center opens. These are all the centers we have lined up, so only s few centers will be coming up, as per the plan. With this plan, we expect the losses to narrow, not only narrow, but also possibly the losses may go away, if the Borivali center, Nagpur and the way Nashik centers are going, they will certainly contribute positive EBITDA to the whole group, that may actually decrease the overall loss. That is how we are looking at it. In the next 12 months period, certainly that transformation is likely to happen. When you look at how we are positioned now, when you look at the EBITDA, we see existing centers EBITDA of Rs. 37 crores. Existing centers EBITDA they have been growing at about 10% or so, which will continue to grow. To add to this will be the new centers contribution to the EBITDA. The losses will wind down and new profitability will also be added. That is where the major upturn is going to happen, as this transformation happens.

Balthazar Florentin: You say over the next 12 months. Do you have the visibility yet as to when we might see this inflection?

BS Ajaikumar: There are two centers are, either in Q4 or in the first of Q1 of next year, Borivali, Nagpur are going to breakeven. The only centers which are still going to be somewhat negative, may be Jaipur and Rajkot. Jaipur will probably breakeven earlier and Rajkot is the one, which is newly started, we are still looking at the numbers. It takes around 6 to 8 months to breakeven. That is why we expect second, third quarter next year when we start seeing most of the centers being more positive and EBITDA breakeven. Usually, in our scenario, as we have stated before, it takes about 12 months for any center to breakeven. One exception has been, actually, as stated, is Borivali center because of the high rent, otherwise, normally 12 to 14 months is the breakeven.

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

Arshad Mukadam: My first question is regarding the Mumbai center, the South Mumbai center, which is planned to open in Q4. I think a few quarters ago, this was supposed to be open in Q4FY18, but now is being pushed to almost a year behind. What's the reason for this?

BS Ajaikumar: Yes. I think the main reason has been regulatory issues, because we have put a bunker which was already existing as a cobalt bunker. We had to strengthen that, the AERB required us to strengthen the traditional material - steel and we had to redo that. That took a lot of time. Getting the approval from the AERB itself took time and that was one of the primary reasons. Also, we got very new equipment called ready sack. This ready sack is coming first time in India, for us, in Mumbai as well in Kolkata. That requires Type Approval from AERB. Type Approval is the first time when any new equipment comes, it takes a long time. It takes maybe 3 to 4 months for the AERB to look at it and they have to make a physical visit and approve that. So, these are the two factors, which was not under our control, which caused a delay. Now I think we are almost in the final stage and, Dinesh, you want to add?

Dinesh Madhavan: We should look at starting outpatient services by the Q4 of this fiscal.

Arshad Mukadam: Okay. My next question is regarding Capex. While answering your previous question, you had mentioned that CAPEX had peaked out and will start to decrease from now on. So, are you saying that after the launch of Mumbai and Kolkata centers, that for the next two years or so that we won't be planning to open any more centers?

BS Ajaikumar: No. There are a couple of others, a few things are in the works. For example, as I mentioned, the Q4 also you may see a slight increase in the debt because of the Mumbai center and all coming there. Then we have in future, the centers, we still have in New Delhi center, the Gurgaon center. There is also we have some plans in the Kochi center. So, if that happens, that will be one more center. Otherwise, most of the CAPEX cycle will be done and we do not have any new either greenfield or brownfield centers planned. In answer to your question, for two years, yes, we would like to be in the consolidation mode as far as the oncology is concerned. We are certainly looking consolidating these centers. That is our plan at present.

Arshad Mukadam: If I can ask another question regarding Milann. Responding to a previous question, you mentioned that you appointed a new CEO and now the business is supposed to pick up going forward. If I remember correctly, last quarter, on the con call, you mentioned that the absence of a prominent doctor was the reason for de-growth in the revenues. So, is this business reliant on the doctors? If the doctor leaves, will that affect us? I wanted to know the affect of the doctors on this business. Is the risk of doctors leaving happens, the business is degrowing?

BS Ajaikumar: No, as I mentioned previously, because of a prominent doctor due to personal reasons being not available affected the region in the Bangalore. But now with the new CEO, we are now institutionalizing the Milann business. As you know, Milann has been rated number 1, when we merged, when we took over 51% from our other partner Dr. Kamini Rao, who is a very well known, leading fertility specialist, that's the reason we took. The transition from that to institutionalization is what we are trying to do with the new CEO being in place. In this regard, we are now not only in Bangalore, but we are also in Delhi and Chandigarh and a few other places to make it a national entity and institutionalize it. In this regard, we have created a different doctor model and with this new initiative of different doctors, there are several doctors there as consultants full time as well as visiting. These changes are what will make it institutionalized just like we have done for HCG. And that is what we are good at and that is what we will achieve in next few quarters or so.

Arshad Mukadam: Okay, that's good to know. Could you just explain to me what exactly is meant by IVF cycle, the new registrations and how that changes the revenue growth going forward?

BS Ajaikumar: IVF cycle. Sudhir can explain?

Sudhir Bahl: What's the question?

BS Ajaikumar: IVF cycles and how does it impact the revenues? Registration and number of cycles, IVF cycles.

Arshad Mukadam: Yes, I just want to understand how those affect the revenue going forward.

Sudhir Bahl: If you look at the registrations, typically a new registration to an IVF cycle lead time is 60 to 90 days. Whenever we plan for IVF cycle, we focus on increasing the registration patients at OPDs. So, if you look at new registration Q2 versus FY19 it is 1,394, which has shown a 15% jump and because of which our Q3 and Q4 revenues are expected to be higher due to higher IVF cycles. Does that answer your question?

Arshad Mukadam: Yes. That helps quite a bit.

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

Chandra Mouli Muttiah: The first question is on the absolute EBITDA that you have reported. Is this right to understand that you have included the government grant revenue in the reported EBITDA number of Rs. 36 crores of PBT?

BS Ajaikumar: Yes, please. We have included, yes.

Chandra Mouli Muttiah: And is this government grant amount from what I see, for the first half, it's about Rs. 11.5 crores. Is this a recurring item, going forward into the next quarter?

Srinivasa Raghavan: Yes. It will recur in the subsequent quarters also.

Chandra Mouli Muttiah: I do not think this was planned the previous year, right? If you could just give us some color, why this is now a new item in our revenues?

BS Ajaikumar: It was a change in the method of accounting as per the new standard, earlier it was shown as part of the revenue. As per the new standard, it has been shown in a separate line. That's the reason why it has been shown like this. As you know, these accounting standards continue to change. You will also see changes next year, where there will be some changes related to rental, so next Q1. So, these changes are what we go by, what auditors advise us to do. Just for the sake of clarity, I guess, it's not Rs. 11 crores, it is Rs. 1 crores. It's a small number.

Chandra Mouli Muttiah: Yes, Rs. 11 million, sorry. Second question is related to Rajkot. You mentioned that 120 bed multi-spec facility that you opened in Rajkot. So, if you could just give us some color on what the ownership structure is there? What percentage you own? As well as what percentage of the beds have been opened as of now?

BS Ajaikumar: The Rajkot facility has started. It was inaugurated only about 2 weeks ago, and it is a doctor partnership model where the doctors are 26% partner. Most of the doctors are leading practitioners of cardiology and nephrology and pulmonary medicine, ICU as well as primary physicians, very good group. In fact, I personally visited them and met all the doctors at the time of inauguration. They are very motivated, and the hospital has a very good name now. They all were having good names, so we expect the hospital, which is run under HCG is going to have a very good name. At this point, it is very initial stage. We expect as you said, the growth to happen in the next 4 to 6 months. And the center manager, the business head of Gujarat, are quite optimistic about the Rajkot project.

Chandra Mouli Muttiah: Thank you. And the third question is on Kochi and Delhi. And I think in you presentation, it looks like Kolkata and South Mumbai should open in the final quarter this year, which leaves just Kochi and Delhi for next year. Could you just give us some perspective on whether it's likely to be first half of next year? Or maybe back-ended because I think there are quite a lot of new facilities between now and first half of next year.

BS Ajaikumar: Regarding the Delhi project, I think we are going to give guidance once we get all the regulatory approvals. As you know, regulatory approvals are always uncertain, and because of the type of center we are building there. We've done a lot of work, like soil testing, water testing, a lot of issues have been sorted. So, we are waiting for the AERB approval. Once the approval comes, I think, we will be able to have a better guidance to you regarding when the project will take off and how long will it take for us to complete the project. But if approval comes, we expect about 18 months. Anant is the project director for Delhi and will shed more light on it.

Anant Srinivas Kittur: I think if the approval comes for Delhi, I think, we should see some time in 12 to 15 months kind of a timeframe, which I think once we have clarity, we will give guidance.

BS Ajaikumar: As you know the initial built is done by the local partner. So, our main requirement of CAPEX will be only technology

Anant Srinivas Kittur: Most of the money that will be used will be when the building is ready and when we are ready to put the equipment.

BS Ajaikumar: So, we are looking at nearly 2 years, 2.5 years from now when the financials are required in terms of technology at this point for the Delhi project. For Kochi, also we have the same way - the building is being done by owner of the building. We are also looking at when the approvals will come, and the building is done. Once we get some clarity, we will certainly inform.

Chandra Mouli Muttiah: If I can just squeeze one last question in on Strand. It looks like last year or it was the year before, when a lot of profitability from the merger with Strand. Since we had profit in our entity, which now is minority in Strand's equity. So if you could give us some clarity on when you expect the joint venture with Strand to breakeven on an EBITDA basis?

BS Ajaikumar: Yes. As you know Strand is a different company, we are about 38% owner of Strand. We also have a private equity investor. The whole idea of going into Strand was the growth of the company in terms of revenue, which is very important for us, and we expect combined revenue to grow significantly. We expect the combined revenue growth to be nearly like 30% - 35%, 40% this year. And also, you might have read, that we have the Triesta acquisition which we've announced. That also will add to our revenue. The reason I cannot definitely tell you when the breakeven happens is because of the Triesta acquisition. That has to be factored in before I can offer the first guidance on when it will breakeven. But as it is now, we are expecting over the FY20 stands to breakeven. Now with the Triesta acquisition, we will have to redo and see when it'll happen. But we believe, it's a good strategic acquisition, which gives us a pan-India presence. Also, there is enormous interest in our bioinformatics analytics happening. So, we are all around very positive in terms of what is going to happen with Strand and the future growth of Strand.

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

Harith Ahmed: This new center in Rajkot, just wanted to confirm that it's multi-specialty hospital that you have opened there?

BS Ajaikumar: Yes. At present, it is a multi-specialty hospital, but the possibility of adding oncology is there. We're going to be doing medical oncology as well as surgical oncology now, just like we did in Bhavnagar. We are looking at future possibility of adding linear accelerator also. Oncology, as you know there are three branches, medical and surgical will be there as of now.

Harith Ahmed: So far most of our new centers have been in the oncology space. So, are we open to looking at more multi-specialty, tertiary care hospitals going forward? Or is this like a one-off?

BS Ajaikumar: It is really a one-off. As you know when you look at our revenue model, nearly 80% or so is coming from oncology. The number of centers, which are opening around oncology, we see that, as the growth in oncology. Gujarat is an exception. Gujarat, where we have most of our multi-specialty hospitals, including the first one, which started there because of the fact that we couldn't convert that into oncology. With that, experience Dr. Bharat Gadhavi, who is the business head of that, started also the centers in Bhavnagar, which was shut down and which we acquired and is doing well, and we have added oncology. And similarly -- with the group of doctors that are doing in Rajkot, so as you said, it is one of those centers coming up in Gujarat. But as a platform, we certainly do not have plans to do multi-specialty like we have done in oncology. It will be on a very selective basis if at all.

Harith Ahmed: And then the finance cost for the quarter, what is the MTM loss on account of reinstatement accounts included in that number of Rs. 24 crores?

Srinivasa Raghavan: 8.9.

Harith Ahmed: Rs. 8.9 crores?

Srinivasa Raghavan: Rs. 8.9 crores.

Harith Ahmed: One last question is, I know, you do not share the profitability at the Milann level. But just wanted to check if the EBITDA margins that we are getting positive EBITDA margins at Milann level?

BS Ajaikumar: At present, definitely it is at profitable level. It has always been at profitable level EBITDA margin, and we expect it to increase as we go forward.

Moderator: Thank you. Next, we have a follow-up question from Chandra Mouli Muttiah from Goldman Sachs. Please go ahead.

Chandra Mouli Muttiah: So, the first bit is on Rajkot again. So, could you tell us what more CAPEX you have to spend related to Rajkot?

BS Ajaikumar: It's about Rs. 15 crores or so, Rs. 15 crores to Rs. 20 crores.

Chandra Mouli Muttiah: And this is largely equipment?

BS Ajaikumar: Largely equipment. As you know, we have a 26% partner also, they would be sharing in this.

Chandra Mouli Muttiah: All right. Second bit is just CAPEX going forward. So, I think you did mention in the opening remarks that most of a CAPEX for this year seems to be done. There might be a little bit in the final quarter. But could you give us some clarity on how you are looking at CAPEX, maybe for FY20 and beyond, given that there is these Kochi and Delhi facility centers?

BS Ajaikumar: Hold on, could you repeat the question, please?

Chandra Mouli Muttiah: Looking for clarity on what the quantum of CAPEX outlook could be in FY20 and beyond given that Kochi and Delhi facilities are in those years.

Srinivasa Raghavan: As I said, those are the only two. And as you know from Q1 to Q2 we are at Rs. 40 crores, Rs. 41 crores in Q2, and we expect it to be at the same level in the coming quarters or slightly tapering down in the coming quarters. That's the way we see the trend, as doctor mentioned, regarding Kochi and Gurgaon, as and when it happens, we will come back to you with the specific numbers.

Moderator: Thank you. The next question is from Harith Ahmed from Spark Capital. Please go ahead.

Harith Ahmed: Again, on the Rajkot center, who owns the land and building at this facility?

BS Ajaikumar: Land and building is owned by the doctors, local doctors and some partners they have. It is a rent lease model.

Harith Ahmed: Okay. And then I missed the CAPEX number for this.

BS Ajaikumar: CAPEX will be in the somewhere in the region of about Rs. 15 crores.

Harith Ahmed: Rs. 15 crores on the equipment?

BS Ajaikumar: Overall investment from our side.

Harith Ahmed: It seems to be a bit on the lower side...

Srinivasa Raghavan: That is because, we are working with group of doctors, and they are also 26% partners so our share would not be so much.

Harith Ahmed: So, has the same already incurred?

Srinivasa Raghavan: Yes.

Moderator: Thank you.

BS Ajaikumar: I would like to correct on the CAPEX of Rajkot, that, it will be more in the region of about Rs. 25 crores to Rs. 30 crores. We checked about that, I am sorry about the mistake. This should be including the 26% contribution from the partners. Ours will be 74% of CAPEX.

Moderator: Thank you. As there are no further questions, I would like to hand the conference back to the management team for closing comments.

Niraj Didwania: Thank you, everyone, for active participation on the call. We wish you a very happy Diwali and we are available to discuss offline if there are any further questions. With this, we conclude Q2 and H1 FY19 Earnings Conference Call. Thank you.

BS Ajaikumar: Thank you very much.

Moderator: Thank you very much. On behalf of Healthcare Global Enterprises Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.