



# “HealthCare Global Enterprises Q3 FY18 Earnings Conference Call”

**February 08, 2018**



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**Moderator:** Ladies and gentlemen, good day and welcome to the HealthCare Global Enterprises Q3 FY18 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 Investor Relations from HealthCare Global Enterprises. Thank you and over to you, sir.

**Niraj Didwania:** Thank you. Hi and good evening and a very warm welcome to all participants to HealthCare Global Enterprises Limited's Q3 FY2018 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.

**Dr. BS Ajaikumar:** I would like to start by saying we are very pleased to report Q3 FY18 results with consistent performance in a changing health care landscape. To begin with I would like to welcome the announcement from the government which will potentially make high quality HealthCare accessible to nearly 500 million people. This was as we know presented in the recent budget and how does this impact HCG with expansion plan of HCG and creating the largest oncology network in the country and also importantly we being in the Tier-2, Tier-3 cities already. We believe we are very well positioned with our network and presence to cater to all sections of the society on a pan-India basis.

Also I would like to add that we are very excited about the prospect of our newest addition to the HCG family created from the business combination of our Triesta unit and Strand Life Sciences to create India's leading specialty Diagnostics Company. This we will redefine precision medicine with the end-to-end expertise, spanning, bio-informatics, genomics and research. We feel our focused approach in both cancer and fertility and with a renewed positioning to tap opportunities in precision medicine. We are creating engines for focus leadership and sustain growth across each our verticals.

The business updates for Q3 FY18 are as follows. Growing strategic focus and scale across Maharashtra, Nasik expansion in launch of Nagpur and Borivali led to the recent contributing 9% of the HCG centers income in Q3 FY18 as compared to 4% in the corresponding quarter of the previous year. This is to further strengthen with upcoming launch of south Mumbai in Q1 2019. Borivali center operationalized with commencement of comprehensive radiation surgical and medical oncology services all under one room in large and high realization market. This is the only private dedicated oncology center in this area. Focused on, continued leadership in east region with strong performance in Cuttack and Ranchi presence in the regions to be augmented further with planned launch of Kolkata center in Q1 FY19. Milann announced our fertility



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center. Milann announced plan for new center in Whitefield area towards continuing market leadership in Bangalore which remains one of the most attractive markets for fertility.

At this point I would like to request our CFO - Yogesh Patel to share the financial highlights, Yogesh.

**Yogesh Patel:**

Thank you, Doctor and a warm greeting to everybody present on the call. In terms of highlight for the quarter ended December 31<sup>st</sup> 2017, our consolidated income from operations was INR 2,063 million as compared to INR 1,762 million in the corresponding quarter of previous year, reflecting to an increase of 17%. The consolidated profit before depreciation, amortization, finance cost, exceptional items and taxes EBITDA was INR 319 million as compared to INR 277 million in the corresponding quarter of the previous year reflecting a year-on-year increase of 15.3%. Operating EBITDA without losses from new centers was INR 309 million translating to 18.5% margin as compared to INR 274 million in the same quarter of previous year, the margin being 17.3% in last year.

The consolidated profit before other income, depreciation and amortization, finance cost, exceptional items and taxes, operating EBITDA was INR 261 million as compared to INR 260 million in the corresponding quarter of the previous year. Consolidated profit before taxes was INR 35 million as compared to INR 77 million in the corresponding quarter of the last year. Consolidated profit after tax and minority interest stood at INR 32 million as compared to INR 54 million in quarter 3 of last year.

With this, I will request Dr. Ajaikumar to take over with operating highlights.

**Dr. BS Ajaikumar:**

Thanks Yogesh. I would like to draw your attention to slide 8 of the presentation. 20.5% increase in occupied beds on account of new centers impacting about 4% increase in the occupied area bed. ARPOB for existing centers at INR 33,667, continuing reduction in ALOS to 2.40 on account of trend towards day-care procedures and changing patient profile. The EBITDA margin impacted with scale-up and losses of new centers. Existing centers EBITDA margin improved by 0.4% at 22.3 in Q3 2018 from 21.9 in Q3 2017.

Karnataka region continues its focus and improving realization parameters. The center of excellence in Bangalore Q3 FY18 ARPOB of INR 49.3 grew 13% year-on-year and ROC improved from 20.5% to 22.6%. Continuing drive towards improving quality of business, patient and service mix. With respect to Gujarat region Baroda center, Cancer center and Bhavnagar Multi Specialty continue to show strong ramp up. EBITDA margin of existing centers at 16.6% for Q3 FY18. In Maharashtra comprehensive Oncology Services operationalized at Borivali center, Nagpur center, continuing to ramp up. Existing Nashik center EBITDA margin 36% with strong growth. In East India improved procedural mix and efficiencies in operation leading to optimal occupancy. Strong growth across both centers in the region.

Coming to slide 10, covering key highlights for Milann fertility business are we continue our plans to expand presence and saw a revenue growth of overall 15% year-on-year. Milann ranked number one nationally for the second consecutive year by Times of India, All India fertility and IVF ranking survey 2017. We plan to launch a new center in Whitefield towards continuing leadership in attractive Bengaluru market. At this point I request Yogesh to explain the CAPEX and debt highlights.

**Yogesh Patel:**

Turning the attention towards slide number 12 and continuing with our expansion plan we have invested a total CAPEX of Rs. 609 million in the current quarter. Majority of that investment going towards HCG centers a small amount of Rs. 20 million was invested in the Milann center as well. The CAPEX does not include the investment of Rs. 52 million which we made in Africa subsidiary in the current quarter. With respect to debt position, we close the quarter at a net debt of Rs. 438 crores which largely comprises of vendor finance of Rs. 179 crores. The debt in existing centers translates to Rs. 719 million in the current quarter. I would like now to hand it back to Niraj.

**Niraj Didwania:**

Thanks, Yogesh and Dr. Ajai for the financial and business highlights. We would like to open the call now for the participants to ask any question to the management.

**Moderator:**

Ladies and gentlemen, we will now begin with the question and answer session. First question is from Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

**Sudarshan Padmanabhan:**

Sir, my question is around the Borivali facility. What I would like to understand is if I go through the numbers there seem to be a slight jump in your other expenses, which is why there is a decline probably on the margin side on a quarter-on-quarter basis. I would like to understand in terms of revenue contribution from the Borivali facility as well as what is the additional cost that we have incurred in the first quarter and how would you expect in terms of utilization where are we standing in Borivali and how do we see the center contributing going forward?

**Dr. BS Ajaikumar:**

As far as Borivali, I also have Dinesh here. So meanwhile, I would like to say that Borivali now really became fully functional only in October and as I had repeatedly said in the past if you recall Sudarshan that Borivali will take time because of the high rent and some other cost involved. So, it is expected to be we are incurring the loss and we will continue to incur the loss going forward most of the year although the cost is expected to come down. Regarding the ramp up Borivali is doing reasonably well and this actually we have a good number of patients in radiation and medical oncology, surgery is also ramping up. So, we definitely and the PET scan is doing well, so we definitely see a good ramp up happening. But as I mentioned the fixed cost or significantly high which we are new right from the beginning and so, we expect these two continue for this financial year. Dinesh, you want to add anything?

**Dinesh Madhavan:** So, with the current run rate we have seen that in the next 12 months we have probably look at an average of 100 plus patients based on currently what we are doing with about 40% to 50% capacity utilization on the technology which is currently running, and which is the good sign and we think it is going to improve.

**Sudarshan Padmanabhan:** And sir if I am actually excluding this Borivali out of the number, I am just trying to understand what the EBITDA margin could be, I mean because we have been seeing a jump in the EBITDA margins as well as in sales. Would I assume that the entire drop is on account of only Borivali or is there any other center?

**Dr. BS Ajaikumar:** Sir, Nagpur is a center. Nagpur and Kanpur both are in the early stages. Both are actually, so Borivali, so Sudarshan ...

**Management:** Kanpur, Nagpur.

**Yogesh Patel:** So, as you and I was mentioned earlier are if you were to exclude losses from new centers our operating EBITDA would stand at INR 309 million in the current quarter at 18.5% margin.

**Sudarshan Padmanabhan:** And sir with the coming south Mumbai facility, do we see this south Mumbai facility to also be in terms of cost or rent as high as probably this Borivali facility or how do we see that sir, in terms of cost and in terms of structure?

**Dr. BS Ajaikumar:** So, I think the model in south Mumbai is different and it is also inpatient facility is smaller and it is more in terms of radiation and medical oncology and so and the model with partner is more of a revenue shared model. So, we will not be seeing this kind of an impact in the south Mumbai and we went for Borivali, we went for 100 plus bed center and we wanted to make sure there is a dedicated oncology center with facilities for bone marrow transplant and everything else and as we go forward. That is the reason we took on Borivali as a dedicated center and in answer to your question we do not see that much of fixed expenses for us in the south Mumbai.

**Sudarshan Padmanabhan:** Sir, one final question from my side, if I am looking at the 3 centers that has been added this year that is Kanpur, Nagpur and Borivali. Most of them being more than 100 bed facility and next year whatever we are looking at is are going forward is largely the 50 bed, 30 bed kind of facility probably barring in Nasik. I am trying to understand your debt because more or less the big chunk of CAPEX has been done and the facilities have started. So, with the overall debt would we assume that this should be the big debt of HCG or ...

**Dr. BS Ajaikumar:** No, there will be for example Calcutta center coming and we are also going to see the center in Delhi which in Delhi in the Gurgaon part. So, those will be the two projects which will have debt component but apart from that at this point we are not seeing that may be debt requirement and Yogesh you want to...



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**Yogesh Patel:** Whatever the centers are opening in Q1 as indicated those also have final certain equipment ought to be incurred still from that perspective. So, we would have to incur cost for them as well but between the next 2 quarters type of thing.

**Sudarshan Padmanabhan:** But if we're looking at the debt versus this new center and the old centers I would assume that your debt in the existing centers should start coming down drastically, right because the existing centers is throwing up fair amount of cash flow.

**Dr. BS Ajaikumar:** So, at least for this quarter what we have reported our debt in the existing center has come down but as we were expanding the cash generation is also being used for expansion in new centers itself. So, from that perspective we are right now not effectively using that cash towards bringing down debt from existing centers but it has not increased over last 4 to 6 quarters last quarter it has been decreased.

**Yogesh Patel:** Also please remember Sudarshan, our model there is a deferred payment some of the technology we have. Some of that also will come up 3 years deferred. So that will balance some of the cash flow which is coming into the systems in the existing centers also.

**Moderator:** Thank you. Next question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

**Chandramouli Muthiah:** My first question is on Karnataka, I think in the December quarter there were news around in some kind of impact from the doctor's strike in the state. In spite of that I think we have grown about 13% to 14% in the Karnataka cluster. I just wanted to understand what the level of impact was.

**Dr. BS Ajaikumar:** So Chandramouli, we did have significant impact, I think most of the Health Care facilities experienced best of my knowledge is same impact and we had literally almost a month when the activity had slowed down. It was coupled with one health care related KPME Act where the several times IMA related facilities went on the total Bhand and also there was some other general Bhand which is not related to it. So, it is added to that and so, we did see an impact and we do believe slowly we are recovering from that. Also when you look at year-on-year there was we did not see that much of demonetization impact last time. And now our base was high and most of the institutions saw some demonetization impact a year ago November of 2016. So, that also our impact not being there, obviously the base was little bit higher that is why we are seeing this growth what we are saying Karnataka 13%.

**Chandramouli Muthiah:** So, going forward, I think in the March quarter is it fair to say that most of the doctor related strike impact is behind us now?

**Dr. BS Ajaikumar:** We are, we do not give any guidance, but we are hoping there will be recovery for this March quarter going forward and then of course we have to wait and see what will be the waiting period for people for this 5 lakhs which is coming somewhere from central government will people like to wait for that and what are they going to do because what we have been told is that will roll out only in October and what will the state government do meanwhile is also we have to look at and see. The state governments like Karnataka particularly which is a different government, congress government how will they react, what are the policies because they had their own policy which is 1.5 lakhs. So, how will that mingle with the 5 lakhs and what will be the, we are all waiting for clarity on this. So, this is one thing particularly our Tier-2, Tier-3 cities where a lot of dependency is there on these schemes. We have to wait and see so far it is too early to comment on what is going to happen from that.

**Chandramouli Muthiah:** And my second question takes me back to the startup cost this quarter I can see on your presentation like that this close to INR 7 crores in startup losses from new centers. So, I was just wondering if you could split it out for us, is it fair to assume that most of this INR 7 crores startup loss is from the 3 recently opened centers in Nagpur, Kanpur and Borivali?

**Dr. BS Ajaikumar:** Yes, most of it is from those 3 centers, Borivali, Nagpur and Kanpur.

**Chandramouli Muthiah:** And within that would it be possible ...

**Dr. BS Ajaikumar:** Borivali is the highest. Borivali is the majority.

**Chandramouli Muthiah:** Majority of the 7 crores is in Borivali, more than 50%?

**Dr. BS Ajaikumar:** I would say about 60% is from Borivali and the other major one is Nagpur and then about 15%-20% is Kanpur.

**Chandramouli Muthiah:** And just one last one on recently announced deal with Strand. So just wondering in the sectors that you hope to play within specialty diagnostics are there any established players out there in the Indian market any peers this first to get an idea on how the market place is?

**Dr. BS Ajaikumar:** See, there are 3 standing centers which deal with the genomics and others but one of the things we have done is the end-to-end solution where we have ordinary lab and where we have immunological chemistry and where we have genomics not only that we have probably the, I consider personally global leader in bioinformatics. That is what Strands is and we are now creating a bio-repository. So this I believe is a very big value creation for us and as we go forward we will see that why we believe is a value creation and why there will be enough interest on the investors and also to the patient particularly as HCG is very patient first. It will be an enormous benefit one stop shop where we can review the pathology, the staging and come to a solution where our multidisciplinary clinics will include the molecular pathologist, the genomic specialist

everybody to give a decision on the treatment. So, we are looking at this not only an impact in India but we believe there is enough interest even outside India to use this kind of services and I think the research and development what this Strands can offer as you may know this is initially a group which came from Indian Institute of Science, scientists, professors, AI professors. So it has got lot of intellectual capacity, so with that and what Triesta can offer with a bio-repository in the molecular diagnostic and the data. So, as we collate this data together and mind this data and analyze this we can, as an oncologist my hope is we can become a global leader in research and discovery of new treatments also.

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

**Amish Kanani:** Sir, I have 2 questions. One is this the new scheme that the government is announced, if you can give us some sense of whether the specialty that we cater to oncology, whether it is large opportunity to kind of cater to that in the sense that what I understand is there are few diseases and few hospitals which will be recognized for getting the benefit of this product, this benefits of this government program. So, how are we placed there and we have the experience of dealing with this type of scheme in terms of getting the money back because the receivables are generally delayed.

**Dr. BS Ajaikumar:** See, we have been dealing with schemes in a few states. Just to give you a background you look at Andhra Pradesh pioneered the scheme then came states like Tamil Nadu, Karnataka in various forms and then Maharashtra, Gujarat all of them have different schemes, different reimbursement methods for I am talking about territory care particularly cardiac and cancer. But this has been mostly at state run initiative and they may get, immediately getting some help from the government, Karnataka initially got help from World Bank but in all and all it was not a program which really truly reimbursed and it was only for below poverty line people and the reimbursement rate was very low and stuff some states actually did not reimbursed appropriately and then the delays, so which got frustration among people while Maharashtra, Gujarat and to some extent Andhra Pradesh reimbursed well. Karnataka was a lagged in terms of reimbursement delays and other things. So, lot of people were not even participating but coming to the present budget announcement Rs. 5 lakhs which we think is a little bit more reasonable amount, but I would like to say that as we have always know devil is in the details. We need to know the full details, we are getting some conflicting reports Health Minister is saying government is going to manage, and government hospitals will be priority. Whereas, Finance Minister and NITI Aayog is clearly saying it is, it will be outsourced and an independent body will manage like in US for example, Medicare System is run by the government but it outsourced to Blue Cross which is an independent body. So, we are hoping we have all written letters we are hope is it will be outsourced neutral why? Because if the government body does it again it will become like ESI or ECH where we struggle transparency issues, lot of issues will come in the programs will not be attractive. Now the question comes up if it is 5 lakhs and privates are participating the issue is the reason we see and answer to your last comment benefit is we are

already in Tier-2 Tier-3 cities. Take example cities like Nasik, Ranchi, Vijayawada, and Angol. We already have dedicated cancer centers and we do not have anybody else with the dedicated cancer centers in these and somebody wants to contemplate into it will take 5 to 10 years for them to complete the project. So, we are well ahead of the current well positioned for this kind of scheme to be implemented provided above reasons have met prudent and properly. So, the question then comes up is what will be the role of government hospitals. So, if you think reflect on it if you have a choice which is the focus group also like if you know your reimbursement even a person in the lower socio economy group if have a choice between government center and private, unless it is a phenomenally well run center they would rather prefer to go to private center which has got a good reputation which we believe HCG has. So, with this we also see that there is a shift of some of the people who were going to government hospitals now, which are heavily crowded moving to the private enterprise, so the footfall potentially may increase. So, this is what could happen, but of course we cannot definitely say it will happen, but this is our feeling at this point. So, we will study this more in detail will keep you abreast on quarterly earnings certainly on this situation and development.

**Amish Kanani:**

And sir, any plans about the expansion that we see in our press release and investor's communication about only up to FY19. So, any plans now to grow beyond FY19 and 2020 or are we looking at consolidating our position?

**Dr. BS Ajaikumar:**

Yes, we are definitely consolidating but strategically if there is something which we feel and our board feels that we should do. We are certainly open for that. At this point obviously there are strategic opportunities, other opportunities there in almost every week like I say we get about 2 or 3 requests. We are looking at in future also creating a hybrid where instead of doing heavy CAPEX ourselves is there a possibility we can do more of a O&M and more of a training program because there are lot of globally not only in India but Africa, I recently came back from South East Asia everywhere. There is a need for intense training giving the knowhow about oncology and getting involved how we can structure that. So, we are also looking at those things with may be some CAPEX or some JV investment. So, these are all the possibilities where we feel there is a need and we have, we do present periodically to the Board on the strategic initiatives and get their input and based on that we will be working in the coming New Year also.

**Amish Kanani:**

And sir, just to clarify when you are saying strategically looking at it, you were also mentioning you are looking for some M&A opportunities or you are referring to some internal business?

**Dr. BS Ajaikumar:**

No, M&A opportunities, of course like we did the Strands and all there is but we are mainly looking at O&M opportunities and obviously some M&A may come and there a strategically we will take it to the board at that point and decide.

**Moderator:**

Thank you. Next question is from Rushabh Verma, an Individual Investor. Please go ahead.



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**Rushabh Verma:** Of late you have been saying many private hospital groups getting into oncology and they have good expansion plans as well to plans to add the capacity and most of the private players have access to similar technology. So, according to you why do you still believe HCG will be the preferred destination for a patient?

**Dr. BS Ajaikumar:** Yes, I think obviously this question comes across lot of time Mr. Rohan along with lot of investors also they ask us this and see the way we feel is, we are, as Harvard Business School called us; we are a focus factory approach. See, if a multi-speciality hospital has the oncology division the patients who come to that will be from that multi-speciality hospital majority of the time. So, if you look at a 200-300 bed hospital will not be generating that kind of huge oncology base and if you look at the outside referral, how any outside referral will come to multi-specialty? Rarely because most of the specialties whether it is a private doctor, nursing home doctor or a non-oncology hospital will not refer to multi-hospitality because they go into the system to check their diabetes, blood pressure, heart disease everything. I used to call these in my practice as Mayo Clinic Syndrome. You go to Mayo Clinic you get everything done. So I do not think patients will be referred. But when they look at a focus factory we believe it is like a multi-cuisine restaurant where you have Indian, South India, North Indian, and Chinese and Italian whereas if you go to only pizza maker you think the pizza will be very good. So, that is the, or you go to some North Indian only making all accustomed things, which will be very good. So, we are like that we had a focused factory approach and we believe we are very good in that, our outcomes if you read the Harvard Business School; we are a value-based HealthCare provider. A value-based HealthCare provider is something which causes \$10 in US maybe \$7-\$8 in Europe we are doing at \$2-\$3 which is written up by HBS, Harvard Business School getting the same outcome. So, we measure the outcome that is our greatest strength and we look at the outcome to meet the global standard. You are right, technology maybe available but the knowhow, using the technology, the expertise, the multidisciplinary clinics I can go on and on, how to do personalize medicine. So, these kind of in depth analysis and doing for even complicated cases honestly you will not find in multi-specialty. Routine oncology can be done but what we are specializing in oncology is recurrent tumors. My speciality itself is for example advanced and recurrent tumors, people come from Middle East, Africa to my clinic on Tuesday. So, those are the ways you become a center of excellence and an institutions research bio-repository which I mentioned. So, I think going forward also even though there may be oncology centers, I feel we will continue to grow. One outstanding example I want to give you, which is several decades existing is where I trained in MD Anderson in Houston when I trained in late 70s Houston there was only one or two cancer centers. MD Anderson was the Mecca but today if you go to Houston or Texas there are so many centers like you said but today MD Anderson sees far more patients and what it was in '75. So, that is a testimony to what happens when you have a dedicated cancer center and also we are also leaders in first one to introduce lot of technology and when we take a leadership role obviously people look at us there is an oncology leader also others follow us like Cyber Knife, Chromo therapy, and NGS. So, we have established ourselves as a leader. So, obviously patients may go for a first time to a cancer center

to multi speciality. When the cancer recovers or there are issues they will obviously come to the center of excellence. So, that is also something we specialize in. In innovation we do prosthesis, we did voice prosthesis, so there are number of things for which we are known which I think will continued to attract oncology patients and related people.

**Rushabh Verma:** Just wanted to assess if you all done any market share analysis in terms of number of patients registered for cancer all India and in number of patients getting registered in HCG. Just to give a trend analysis last 5 years so that I can guess with an assessment?

**Dr. BS Ajaikumar:** So, we are number of patients I can tell you when we went by public we were seeing about 37,000 new patients and in Indian scenario at that time was we do not have a cancer registry of about 1.5 million new cancer patients. Today, we see approximately about close to 60,000 we will be completing the number year end we will know better 60,000 new patients. So, that is number and as more centers open obviously and the centers mature will be seeing lot more and we hope someday, it will soon be about 90,000 to 100,000.

**Moderator:** Thank you. Next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Doctor, from your perspective when you take 3-year out view now, what are the 3 or 4 primary strategic objectives that you focusing on for the business?

**Dr. BS Ajaikumar:** Yes, I think one of the things we look at is when you look at HCG itself with as it is mention 16,000 growing. One other thing we look at is obviously each center maturing and doing the capacity utilization. And now-a-days strategically one other thing we are looking at is more and more outpatient therapy I know most of the analysts and most of the financial market at first question they ask me how many beds. So, we believe we will change the mindset of all the analysts going forward asking about more about footfalls rather than the beds because as technology improves, as the care becomes like ten years ago chemotherapy was mostly 2 day to 3 day infusion in patient. Today it is 80% is out patient. So, our focus is to reduce the ALOS make it more efficient that I think will reduce the number of beds as we go forward and also technology using IT to create which we have done virtual tumor boards and having importance to the sub-specialization in oncology, like specialist in lung, sarcoma, breast cancer which we have already done in centers and data collection. This is one of the things I believe particularly with Strands coming on, these were the things which will be important for us strategically to become a leader and continued to keep the leadership role as we expand the number of centers and we were also looking at strategically we have a center in Kenya. We want to look at outside India also in a much programmed way.

**Nitin Agarwal:** Doctor, in terms of your over the last few quarters as the network has grown, what has your experience been in terms of the networks ability to attract clinical talent from outside and from India on to the network?

**Dr. BS Ajaikumar:** So, from India and outside we attract clinical talent. For example, in Mumbai, in Borivali right now we have one of the leaders in India in the radio surgery who is now performing very well there in terms of Radiosurgery. He is actually an identified trainer for one of the manufacturers of particular radiation units. So, we certainly have talent and also significant number of people who do want to come back and in Bangalore for example we have MD, PhD who has returned from UK. Recently I met a pediatric oncologist which are hard to come by, who was returned from US. Our liver transplant person is a board certified from US. So there is enough talent which is willing to come back and sometimes the difficulty we have is most of them want to stay in big cities. So, that becomes a problem how to do that and in Calcutta also we have a surgeon who is returned from US very well qualified. And Nagpur center, a US medical oncologist joined. So, I think one of the things when you look back Nitesh is why did we all go to US abroad to train and get to better knowledge. Why people are not coming back is because the infrastructure was not there. Today we have good training, so very little need to go abroad but people who have gone abroad when they come back and see what kind of infrastructure we have, we are also by the way hiring a person from UK and who is joining us as a very big bone marrow transplant specialist. So, today when they come and see the infra but unless they come and see they do not realize. When they come and see infra we have it is equals to or better that is what this MD, PhD doctor said it is better than UK practice. So, I think we are going to attract more as the awareness becomes more. I do not think we will have a problem for talent.

**Moderator:** Thank you. Next question is from the line of Rohan Das from Batlivala & Karani Securities. Please go ahead.

**Rohan Das:** So, I had one question only and this pertaining to your consolidated other income and I see that is gone up quite drastically this quarter, is there any specific reason for that, that you can provide?

**Yogesh Patel:** That is primarily because of two reasons – it comprises of interests on investments what we have and is also a component of write-back off certain liability which we had created in the past. So, this was a one-timer.

**Rohan Das:** What was these liabilities exactly, sir?

**Yogesh Patel:** So, these were certain liabilities which were from our software vendor which waiting for settlement with the kind of consisted in the quarter with the settlement.

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

**Lalaram Singh:** My question is on the proposed transaction where we are acquiring a clinic from I think one of the promoters. So, can you just throw some light on that transaction?



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**Dr. BS Ajaikumar:** Yes, we have Dr. Gopichand who is been with us for the last (+10) years and he was our partner for radiation medical oncology and he had a dedicated oncology center in Vijayawada. As the center has grown and he had originally 35% partner in that pre-IPO he merged the 35% into our HCG and he is also a promoter now. Now he would like to purchase a surgical division which is private and free-standing oncology and he is a very well-known, well-recognized and quite famous surgical oncologist in Vijayawada region particularly with the division of Telangana and Andhra happening, we are going to see significant growth in that region. So, consolidating the two together and making it a dedicated comprehensive center where he will be full time working with us and he will build a team of surgical oncologist and in Angol, made sense to us also when he approached us. So, with this we believe I think it will have a significant positive effect on HCG growth story in this region.

**Lalaram Singh:** Can you share some numbers for that particular business?

**Dr. BS Ajaikumar:** No, at this point we are unable to share any numbers on this which is work in progress.

**Lalaram Singh:** May be some valuation what we have paid in terms of, if you can, no?

**Dr. BS Ajaikumar:** No, it is not finalized this. We are just getting the board approval. We will be finalizing and we will be putting it out. Once the shareholders' approval comes.

**Lalaram Singh:** And this entire consideration will be in the form of shares of HCG?

**Dr. BS Ajaikumar:** It will be a combination both, some shares and some cash. It will be over a period of time.

**Lalaram Singh:** Second questions is with respect to our Gujarat geography, I think it has relatively lower margins compared to other because I think we have there multi-speciality hospitals apart from the cancer centers. So, do we see that that geography can achieve (+20%) margins going forward?

**Dr. BS Ajaikumar:** Bharat is also here, I will ask Bharat also but what I would like to say is we have certainly come up from a few years ago we are in 11-12% margins. We have improved, and we are looking at improvement in the revenue in the Gujarat region particularly the multi-speciality but the challenge we are having is as Gujarat has got the scheme, mass scheme which is consuming lot of cardiac work and so the margin again maybe limited because of that and those have some of the challenges Bharat is facing. Bharat, if you want to add anything?

**Dr. Bharat Gadhavi:** And these visiting doctors model, so we are trying to convert into full time model that will also ramp up our margins. The Q3 was 16.6%.

**Lalaram Singh:** And my last question was actually around the business model of HCG, so I wanted to understand does our business have a star doctor sort of a risk which lot of these multispecialty hospitals

have or we are more institutionalized. So how dependent are we on the star doctor, star surgery each region?

**Dr. BS Ajaikumar:** We have articulated this in this past also. See, HCG is an institution. We are an institution like I told you I trained at MD Anderson, the model is very clear the patient should come to HCG and we create star doctors. Actually, that is our model we do train and also we bring in doctors who have talent by this Dr. Vijay who came from UK just to give you an example. He is not even from Karnataka he is from originally from Assam. He was in UK for 10 years he came. Within a matter of a year, he has become very busy, his patient load is good because he is training, and he is background and what HCG culture is in also into research. So, this is what we like to do. Create leaders, create star doctors if you want to call them for the future but one other things is we also have a model where we offer them a long-term full consultancy sometimes they can even become full time employee of HCG. They can even offer some ESOP shares if they qualify. So and also we empower them, so where if you doctors in our top doctor level leave and go somewhere else. So, this is what we take a lot of pride in and I think this will continued to do well with the type of program we have like of empowerment and we were also encouraging doctors. We identified doctors who are interested in R&D work, research work and give them enough time during the clinical practice. So, they can spend few hours a day on research, data collection and we have a one main Dr.Lohith who actually has become very well known for radio genomics. In fact, we have sent an agreement; I do not know whether we announced quite a month ago or so where we are sole person in India to do radio genomics with a group in US. So, we are into all that to see we nurture them and so they are empowered. So, this is the model we have created and working well so fast, okay.

**Moderator:** Thank you. Next question is from Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

**Bhagwan Chaudhary:** Doctor, as your previous new centers has been breakeven in very quick time, sir including the Baroda and Bhavnagar. So what is your view on these 3 centers which is come up recently, Kanpur, Nagpur and Borivali?

**Dr. BS Ajaikumar:** Yes, like I try to address before see, Borivali I always said that it will take more than a year because of the high cost of operation, the fixed cost particularly rent and knowingly we have entered Borivali because it is a prestigious and Mumbai being the first dedicated cancer center is very much of a need and also for HCG it is very important. So it will take certainly more than a year. It may take over 2 years. But one positive thing is with its certainly ramping up well little bit may be ahead of what we projected. So we are very happy about it. Regarding Nagpur again it will take for example, it is a big center there is also a rent division which is there. So in view of these it may take about 18 months. Dinesh you can answer that.

**Dinesh Madhavan:** From the start of the project.



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**Dr. BS Ajaikumar:** Yes, from the start of the 18 months and regarding Kanpur I think it is coming close to breaking even. One of the things in Kanpur is we find that it is very heavily with GCH and all. So we are trying to slowly enter that where we are dealing mostly on cash patients. So part of the reason it is the recovery good obviously. So, we are trying to establish the brand and work. So it will take, I think in the next 6 months possibly it will likely breakeven.

**Bhagwan Chaudhary:** And secondly this the upcoming centers which are likely to come in FY19, 2-3 centers including this South Mumbai. What kind of model they are having means the different from this land cost or how all that?

**Dr. BS Ajaikumar:** We do not buy land anyway. It is rent cost. But in the model in Calcutta for example and South Mumbai both are more of a revenue sharing model with very little rent. So Calcutta is rented but rent is not very high. Much lesser than Borivali in Calcutta. So there I think we also have a solid partner with the Eko labs and already have an existing PET scan there is lot of awareness about cancer. So we feel we should do fairly well there. Hopefully, breakeven like normally we do, within a year. In South Mumbai also we expect because there is a revenue share model even though it is in a very prestigious area Cooperage we are very fortunate to have a partner with Khubchandani and work an ICS facility there. With that we expect also to break even in a year, little over a year.

**Moderator:** Thank you. Next question is a follow-up from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

**Sudarshan Padmanabhan:** Sir, I would like to understand the restructuring which is being done in Trichy. What is the kind of impact it is having on the topline as well as on the EBITDA in this quarter?

**Dr. BS Ajaikumar:** No there is absolutely no impact at all and we had an issue with the unit and type of patient's schemes and how to do. It is an implant model. So we are pretty much getting out of that. So we do not see any impact at all, zero impact.

**Sudarshan Padmanabhan:** But this base would have been in the previous year, right? So to that extent your growth would have been much higher if you are not ...

**Dr. BS Ajaikumar:** No it was not really contributing.

**Dinesh Madhavan:** Yes, in terms of value it was very minimal value and from a restructuring perspective we wanted to be more efficient.

**Dr. BS Ajaikumar:** It was actually running under loss technically.

**Sudarshan Padmanabhan:** How much was the loss, would it be meaningful or it would be basically making....



**Dr. BS Ajaikumar:** No, not meaningful breakeven towards INR 50,000-100,000 like that.

**Sudarshan Padmanabhan:** Sir, another question from my side if you can give some idea about this Triesta and the combination which you have announced. I understand that the combination brings a lot of focus into data management. But if you can tell us if I am looking at the next 2 years to 3 years with respect to your diagnostic business. How this does combined entity look in terms of revenue potential and in terms of harnessing the market which basically stands in terms of opportunity.

**Dr. BS Ajaikumar:** We obviously expect the revenue to grow significantly and Sudarshan as I said HCG is a focus factory of approach on oncology. What we needed was a focus factory approach in the cancer high-end diagnostic and that is what we have created coming with very good people scientist and done lot of innovations, lot of research, big R&D department. For me for example I will tell you to go and do something like science would have taken decade or more and to get somebody like that with our aspirations was on the similar line. How can we leverage HCG, data, bio repository and combined the two. So it was like a made in heaven for us to find that this group is there, who are willing to work with us and who have already become recognized globally bioinformatics and without making any names I could say there were lot of other global leaders who are interested and what is the Strands model, how it works. So I think certainly, I believe at this stage we have hit upon something which will be very credible which will create value. So when you look at growth of this kind of companies which are lab, diagnostic, biotechnology, R&D all combined together in a focused approach. So what we have to focus is on value creation and I think that is what we are going to create here value creation for our shareholders and investors.

**Moderator:** Thank you. Next question is a follow up from the line of Rushabh Verma, an individual investor. Please go ahead.

**Rushabh Verma:** Just wanted to know what your take on the clinical establishment that which is going to implemented by various states going forward and how much that would impact our topline and margins?

**Dr. BS Ajaikumar:** Only during the disturbance we saw some issues and now the clinical establishment that I can speak for Karnataka, has not yet come into full force. It may come sometime in the February is what they are saying. So if it comes, we diluted this quite a bit entire medical fraternity internal strike and we did lot of things, petition to the government, we were even willing to go to the courts. So government finally buckled down and they diluted it. So there is one important thing is there is no price fixation. And it has got to do with patient compliance and some transparency which already existed. So it is being strengthened and medical negligence, so what is strengthen? So I do not see much of an impact on our functioning and we are not seeing any impact now. So, but as I said before we have to see with new insurance scheme coming what will be the impact that we have to wait and watch.



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**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments, over to you.

**Dr. BS Ajaikumar:** Thank you everyone, for active participation on the call and we are always available to meet you offline or reply to email queries in the future, thank you so much.

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