"Healthcare Global Enterprises Q2 FY20 Earnings Conference Call"

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MANAGEMENT: **DR. B.S. AJAI KUMAR - CHAIRMAN AND CEO, HEALTHCARE GLOBAL ENTERPRISES LTD.**
MR. V. SRINIVASA RAGHAVAN – CHIEF FINANCIAL OFFICER, HEALTHCARE GLOBAL ENTERPRISES LIMITED
MR. NIRAJ DIDWANIA – HEAD (CORPORATE DEVELOPMENT AND INVESTOR RELATIONS), HEALTHCARE GLOBAL ENTERPRISES LTD.

Moderator: Ladies and gentlemen, good day and welcome to the Healthcare Global Enterprises Q2 FY20 Earnings Conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. 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: Thank you, Raymond. Good evening and a very warm welcome to all participants to Healthcare Global Enterprises Ltd. Q2 and H1 FY20 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 our earnings update presentation to stock exchanges and also shared the same to our mailers.

Without further ado, I hand over the call to Dr. B. S. Ajai Kumar.

Dr. B. S. Ajai Kumar: Good evening, everyone and welcome. We are pleased to report Q2 and H1 FY20 results, as covered in our integrated annual report of FY 2019.

The economic and social impact created by HCG across the healthcare segment is being acknowledged in an upcoming study commission by International Finance Corporation, the testament to our commitment to cancer patients across India. HCG oncology network depth and presence uniquely positions us to address the growing cancer burden in India holistically while delivering quality cancer care and outcomes.

We are nearing the completion of our CAPEX cycle whiles driving profitability in our new centers. We are near the inflection point where we can expect to see robust growth in operating cash flows and consequent reduction in leverage. The company has been successful in creating scaled and specialized platforms across oncology, fertility and physician diagnostics. With PAN India leadership, we remain committed to driving long term value creation for all our stakeholders.

Business updates for Q2 FY20:

Borivali center ramping up well with 26.6% Y-o-Y growth. Leadership in radiosurgery regions completed 125 procedures. Organized successful education programs with leading neurosurgeons and comprehensive management of arteriovenous malformations to advance radio surgery technologies offered by HCG. Gujarat region, in spite of disruption due to monsoon and floods grew at 18.4% Y-o-Y. Bhavnagar center showing continued momentum to emerge as the premier hospital in the region. East India scaling up well with 26.8% Y-o-Y growth. Kolkata center continues ramp up updating midst the focus on non-government segment. Milann grew 18% Y-o-Y continues to show improving trend across registration, IVF cycles and revenues.

We also announced association with Stanford University, USA to implement outcome based treatment in cancer care towards achieving global standards of outcome and scoring. Strand appointed as an exclusive India member of Quest Diagnostics Global Diagnostic network a consortium of worlds 10 leading diagnostic company.

This point, I would like to request our CFO - Srinivasa Raghavan to share the financial highlights, Srini.

Srinivasa Raghavan: Thanks, Dr. Ajai. Good evening everybody. Effective 1st April, 2019, the company has adopted Ind AS 116 leases standards, applied to lease contracts existing on April 01, 2019. The effects of this adoption have not been retrospectively adjusted for the year ended 31st March 2019 and previous period financials are not comparable.

Highlights for quarter ended September 30, 2019:

Consolidated revenue was Rs. INR 2,785 million as compared to INR 2,453 million in the corresponding quarter of the previous year reflecting a Y-o-Y increase of 13.5%. Consolidated EBITDA was INR 471 million excluding Ind AS adjustment it is INR 340 million as compared to INR 358 million in the corresponding quarter of the previous year. Consolidated operating EBITDA was INR 456 million without Ind AS adjustment it was 325 million as compared to INR 335 million in the corresponding quarter of the previous year. Operating EBITDA for existing centers was INR 417 million excluding Ind AS 116 adjustment reflecting an operating EBITDA margin of 18%. Loss from new centers was INR 92 million excluding Ind AS 116 adjustment as compared to loss of INR 73 million in the corresponding quarter of the previous year.

Consolidated PAT was a loss of INR 223 million excluding Ind AS adjustment it was INR 141 million as compared to loss of INR 65 million in the corresponding quarter of the previous year. I now request your attention to Slide #4 of earnings update presentation. Q2 2020 revenue grew 13.5% Y-o-Y. HCG centers grew by 13.2%, Milann 17.7%. Q2 2020 operating EBITDA for existing centers is INR 417 million, 17.7% margin versus 18.5% margin in Q2 FY19. New centers loss of 92 million versus loss of INR 73 million in Q2 FY19. Now, request you to move to Slide #number 6. H1 2020 revenue grew 16% Y-o-Y. HCG centers grew by 16.1%, Milann centers 14.4%. H1 2020 operating EBITDA for existing centers INR 812 million, 17.4% margin versus 18% margin in H1 FY19. New centers loss of INR 182 million versus loss of INR 122 million in H1 FY19.

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

Dr. B. S. Ajai Kumar: Thank you, Srini. I would now like to draw your attention to Slide #7 of the presentation. Revenue split of our business is 93% contribution by HCG centers and 7% by Milann fertility centers. Within HCG centers, Western India comprising Gujarat and Maharashtra contribute 44% of the total revenue followed by Karnataka 35%, East India at 8% and Andhra Pradesh at 7%. Tamil Nadu contributes 4% and North India contributes 2% as of Q2 FY20.

I would now like to draw your attention to Slide #8 of the presentation. Strong growth continues at several existing and new centers in Q2 FY20. Bhavnagar 44.7% Y-o-Y, Borivali 26.6% Y-o-Y, Suchirayu 22% Y-o-Y and Chennai 20.8% Y-o-Y.

New centers contributed revenue of INR 373 million in Q2 FY20 as against INR 220 million in Q2 FY19. Revenue from existing HCG center grew at 7% Q2 FY20 on a Y-o-Y basis. This was lower on account of higher base of last year in Nashik with launch of new phase**,** change of mix in Vijayawada with reduction in government schemes, disruption in Gujarat on account of monsoon and floods.

I would now like to draw your attention to Slide #10 of the presentation. ARPOB for existing center was INR 33,536 as against INR of 30,306 in Q2 FY19. Continued reduction in ALOS 2.03 on account of trend towards daycare procedures and changing patient profiles. Operating EBITDA margin impacted with scale up and losses of new centers. Existing centers operating EBITDA margin declined by 176 bps to 20.6% in Q2 FY20 from 22.3% in Q2 FY19. Existing center operating EBITDA margin declined by 110 bps to 20.8 in H1 FY20 from 21.9 in H1 FY19.

Looking at key geographies in Slide #11, Karnataka region continues its focus on improving realization parameters. The center of excellence ARPOB in INR is 60.3 thousand with 26.6% operating EBITDA margin. H1 FY20 COE ROCE improved from 26.1% to 27.1%. Focus on margin and returns optimization across region. With respect to Gujarat region strong occupancy and revenue growth, Bhavnagar oncology ramps up with 45% revenue growth Y-o-Y, EBITDA margin of existing cancer centers is at 17% for Q2 FY20.

In Maharashtra, Nashik Center expansion driving enhancement of specialized service offering in the region, Borivali and Nagpur new centers ramping up with continued reduction in losses. In Andhra Pradesh, center in Vizag continues to ramp up well. Focus on improving revenue mix through reduction of steel business. In East India, existing center EBITDA margin of 27.2% improvement of 161 bps driven by improvements in patient and procedure mix. Coming to slide 12, covering the key highlights of Milann Fertility business. New registration growth at 8% Y-o-Y for Q2 FY20, Whitefield center continues to ramp up well, leadership in attractive Bangalore market.

I now request Srini, CFO – Srini to explain the CAPEX and debt highlights.

Srinivasa Raghavan: Thanks Dr. Ajai. I would now like to draw your attention to slide number 14. With respect to the CAPEX table, we are nearing the last leg of our expansion. Total capital expenditure was INR 438 million of which 285 million was in the new centers. With respect to net debt, we closed the quarter at net debt of INR 664 million. Would like to draw your attention to slide number 16, Kolkata center is operationalized in Q1 FY20. South Mumbai has commenced outpatient services and will be operationalized in Q3 FY20. 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. We will now begin with the question and answer session. The first question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Basically couple of questions. One on the growth for the Karnataka clusters which is the key cluster. Sir, growth rates seems to be much muted for the several quarters now des and occupancy is also not been improving. So, any specific reason for the same or it is competitive landscape or something like that?

Srinivasa Raghavan: Our main center of Bangalore growth has been in the region of 9% primarily because we have made significant changes in the mix. And now we are focusing more on non-scheme patients which we have tried to do from last year and we are not taking some of the government scheme. With this the change has happen and apart from that we had some changes in the management in Hubli as well as in Gulbarga which we are seeing now and moving forward the growth returning. So, we expect better growth happening in the next last 2 quarters and going forward.

Sriram Rathi: So, currently the occupancy is around 47%. So, from next year what kind of occupancy we can expect in this particular cluster

Dr. B. S. Ajaikumar:: Yes, occupancy has always been around 47% to 50% because our ALOS is only 2.03 primarily because the whole system in oncology is moving towards outpatient care. So, we are going to see compared to when we build the main hospital in Bangalore and now we are going to see always occupancy in this region. It may not significantly improve. But our footfall is going to increase and that is what we are looking at footfall. Apart from some of the measures we have taken we have also expanded into a very big bone marrow transplant team now. And we have a very prominent bone marrow team which we have put together. With that we also expect growth coming from that region particularly not only from domestic but international patients also. These are all the active measures we have taken where and expect the growth to happen.

Sriram Rathi: And secondly sir, basically since …

Dr. B. S. Ajaikumar: Sir, also one of the things I wanted to say was we have also now a replacement of our PET-Scan with digital PET which also we expect to see some growth happening because of the precision medicine which the digital PET is going to give us.

Sriram Rathi: And sir, secondly since now most of the centers have been commercialized only one is pending which will come in this quarter lastly. So, should we expect margin improvement now going forward? I mean, which is right now around 16% to 17% post Ind AS adjustment. So, when can we expect the margins to start improving and can it be like 18%-19% by the end of next year?

Dr. B. S. Ajaikumar: At overall HCG level we can expect the margin improvement in the next year only. Because we need to make sure, we are on the ramp up for the centers to breakeven definitely that coupled with some of the measures I told you for the existing centers will translate improvement only in the first 2 quarters of the next year.

Sriram Rathi: And sir, lastly any update on acquiring the remaining stake in Milann?

Dr. B. S. Ajaikumar:: Yes, actually there has been a put option but Dr. Kamini has extended that, so we do not have to do the call on the put option even though she done I think extended up to October of 2020. So, we have almost a year to complete obligation for the put.

Moderator: Thank you. The next question is from the line of Deepan Mehta from Elixir Equities. Please go ahead.

Deepan Mehta: Sir, just wanted to know that what percentage of the revenues comes from cancer care vertical?

Dr. B. S. Ajaikumar: 80% comes from cancer care vertical. As I said, 7% is from Milann the rest 13% comes from multidisciplinary, multispecialty hospitals.

Deepan Mehta: And just if you could give us a figure in terms of once all the new projects are on stream which most of them already in the current last quarter and this quarter approximately by how much the capacity would have gone up? No, I am referring to slide number 16 of project updates, so in terms of size or in terms of capacity how much would have been the percentage increase in their number?

Dr. B. S. Ajaikumar: So broadly this, if you are taking about the number of beds we have about 2,000 beds. This is only missing the South Mumbai which is going to open in the current quarter. And post that for the next 3 to 4 quarters we do not see any bed addition.

Deepan Mehta: I just want to clarify, sir that when you say in the project update slide 16. So, only South Mumbai is yet to yield revenue and billing has already started in Jaipur, Bhavnagar, Nashik Phase-II, Rajkot and Kolkata.

Dr. B. S. Ajaikumar: Yes, as on slide 16 along with the project update we are mentioning which quarter they were launched in. So, post that they are all been operational and functioning and their revenues are part of our consolidated numbers apart from South Mumbai.

Deepan Mehta: South Mumbai revenues will start flowing in the next quarter or so?

Dr. B. S. Ajaikumar: In the Q3, yes.

Deepan Mehta: In current quarter, we are in November already.

Dr. B. S. Ajaikumar: Present quarter.

Deepan Mehta: And any date you have announced for the launch of this center, sir?

Srinivasa Raghavan: We are finalizing that.

Dr. B. S. Ajaikumar: Date of the launch we are finalizing, yes. We are likely to do that in December and waiting for some confirmations from people we have invited for the South Mumbai. So, that can also happen around this year, we are hoping both will happen this year itself.

Deepan Mehta: And you are targeting breakeven about 4 quarters from now, including all the new centers including Mumbai, top Mumbai and everything is that a correct understanding, sir?

Dr. B. S. Ajaikumar: You are talking about South Mumbai?

Deepan Mehta: No, I am talking of the company as a whole. So, we are looking at a breakeven in 4 quarters from now. I could not get exactly the earlier response to the question which was asked when we do breakeven?

Dr. B. S. Ajaikumar: No, we have to look at center-by-center because it depends on when they have started. We have mature centers and new centers. We are expecting centers like, for example Bhavnagar and all are doing better. Rajkot is about to breakeven. When we look at center like Borivali, we feel that the last quarter we will see breakeven. When we look at center like Jaipur we expect same thing last quarter to breakeven. The center in Nagpur is taking little bit time. We think it will be either last quarter or beginning of first quarter. Then Kolkata, of course is a new center what we are looking at is past first 2 quarters of next year the centers which will be still not broken even would be Kolkata and South Mumbai. So, there will be only 2 remaining centers which will have to breakeven normally from the date it start it will takes about 12 to 18 months. So, we expect the same 12 to 18 months to happen. We expect South Mumbai possibly to breakeven in 12 months. Kolkata may take up to 12 to 18 months. So, once these centers were done as of now we have no new centers to come in this year. We will have to see like Srini said we will consolidate this and once they breakeven and look at the way we are performing with the new centers and existing centers and take a decision on some of the centers we have made some initiatives we have taken like Delhi.

Deepan Mehta: Delhi is on the horizon …

Moderator: Thank you. We move to the next question. The next question is from the line of Chandra Mauli Muthiah from Goldman Sachs. Please go ahead.

Chandra Mauli Muthiah: First question is on your sequential trend. The second quarter is typically a sequentially stronger quarter when we see EBITDA margins expand. I understand the growth margins have expanded since the previous quarter but EBITDA margin seems to have come down a little bit Q-o-Q which is unusual for HCG just given the seasonality trends. So, if you could just explain the reason for that?

Srinivasa Raghavan: Yes, I see your point in terms of revenue growing and margin declining. It is largely driven by the new centers in the current quarter. If you see as Ajay mentioned, our Kolkata came into operation this quarter. And those losses are kicking in which is kind of driving down the overall margin. If you see the overall numbers also the new centers losses are at around 92 million as compared to 73 million of the corresponding quarter of the last year. So, that is the reason why the margin decline is same.

Chandra Mauli Muthiah: Second question is just on the debt levels. So, I think the debt levels have increased since the March year end and if I just look at your cash flow statement as disclosed on your filing with the exchange it looks like the free cash flow seems to be negative for the first half of fiscal 2020. So, just wanted to understand, I think you have made comments in the past about using cash flow to reduce your debt? So, just wanted to understand on a full year basis if you are still sticking with that or the net debt might go up a little more for the FY20?

Srinivasa Raghavan: Yes, couple of points to ponder. One was, if we see the trend even in the last year our first half was lower, and second half was higher from the cash flow generation. The broad ratio is one-third, two-third, so the similar trend is expected in the current year as well. That is point number one. Point number two is, we are, as guided in the previous calls we are trying to keep the debt level below 700 and that is what we are trying to work out.

Chandra Mauli Muthiah: And just last one is related to the debt just in the light of the tax cuts announced by the government, I think HCG in the past has been around 30 plus percent tax rates. So, what is your thoughts on the tax cuts and how that impacts your debt free payment going forward?

Srinivasa Raghavan: Fair point, the thing is, we are evaluating the tax structure in a while. While the tax rate percentage has come down. There is another caveat which is, we must forego our losses also. So, we are evaluating given that couple of subsidiaries we may adopt a lower tax percentage is because it make sense. In other cases we are actually evaluating and we will kind of finalize it in this quarter.

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

Vivek Agarwal: Sir, we have 2 more centers coming in over the next 2 years for Kochi and Gurgaon. So, what is the plan now? Are you put on hold or?

Dr. B. S. Ajaikumar: No, Kochi project we have worked out for us where the contractor is going to complete the project. It may take 18 months or so until then we have not made any plans. So, we will not have to do any investment for quite some time. And also we are looking at without much CAPEX how we can invest, how we can do more of Wyndham and all those models. So, we are working on these models because we have good time to do that. Similarly, in Delhi, we do have a very prominent area to do only dedicate oncology center. We have started the project, the project is going on. But we are also working on a model where we can get 2 partners and also look at less CAPEX there. So, all of this is in the works and as and when it develops, we will certainly update the investors. But at this point, our main goal is to ramp up our centers which have opened and make sure they run the course and become breakeven. And from that point onwards we will take a next call. Our primary importance is obviously, to bring this CAPEX cycle to a close and then look at in future, how are we going to develop the CAPEX model we are internally looking at and have made some advances. And we will of course update action when it happens.

Vivek Agarwal: So, what are the CAPEX plan for fiscal 2020 and 2021, any estimates?

Srinivasa Raghavan: Yes CAPEX, we have guided last year, and it will be 150 crores for the current year. We are trying to bring it below 150 crores number basically. For the year after that CAPEX we need to understand consists up two components. One is the routine maintenance CAPEX and then the growth CAPEX. So, considering both these together we are expecting it to be in the range of 70 crores-90 crores kind of a number for the next year.

Vivek Agarwal: Just another question on margins, in the existing centers they have declined on year-on-year basis. So, is it mainly because of the regulatory impact or anything specific that you would like to highlight?

Dr. B. S. Ajaikumar: No, I think the main reason this happened was because of the launch of the new phase in Nashik. What we have done is the new phase of Nashik was merged into the existing center even though it was a bigger one. So, we called it as an existing center.. That is what brought down their margin to some extent and also in Vijayawada we had a reduction in the government schemes partly and also another important thing was we had significant disruptions in Gujarat for a while with monsoon and floods which also cause the decrease. So, these are the main three reasons we have seen a change in the margins.

Vivek Agarwal: And the last one from my side is an impact from this regulatory intervention is largely daring to the numbers so how we see?

Dr. B. S. Ajaikumar: You are talking about pharma?

Vivek Agarwal: Yes.

Dr. B. S. Ajaikumar: As we said last time, we have been very successful in navigating the pharma issue and most of it has been baked-in already . So, we do not expect unless the government surprises us with more changes. At this point we do not expect any changes to happen from our side.

Moderator: Thank you very much. Next question is from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand: You mentioned that it takes 12 to 18 months for center to breakeven. I just wanted to understand how much time it will take to reach full maturity in terms of close to peak margins?

Dr. B. S. Ajaikumar: some centres take one year but now depending of the cost involved and the location it may take up to 18 months even two years and centres are called as mature centres at end of three years. And it is five years before we start seeing the numbers we have seen like a ROC and higher margins it will take up to five years.

Ashi Anand: So, between three to five years, so kind of reach full margins.

Dr. B. S. Ajaikumar: It also depends on like you saw our center of excellence where lot of technologies which ROC of it is a very old centre. So, when we call out the centre of excellence for first several years it was dragging and then suddenly it picked up and it is delivering the EBITDA margin of almost 26%-27% and then showing ROC of 27. So, it does take time.

Ashi Anand: Secondly, I just wanted to understand as you mentioned developed centers or your matured centre’s there is initiatives like bone marrow transplants, digital PET-CT Scans etc. that can help drive growth. So, just wanted to understand what is the kind of center has reached say full maturity? Using these kinds of initiatives what is the kind of longer-term year-on-year growth that we could see in these kinds of centers?

Dr. B. S. Ajaikumar: You are talking about the centers which have all the technology?

Ashi Anand: Yes, so I am just trying to understand see once centers kind of completed five years and it say largely matured. There are few initiatives, greater technology also mentioned as it is moving more towards outpatient care or which would help footfalls improve. So, just trying to understand what could be the steady state growth of fully matured center?

Dr. B. S. Ajaikumar: Yes, normally matured centers what we have seen is 10% to 12% growth average, unless like what happens with bring new service, new technology. So, one or two years it may go little bit more than 10% to 12%. But after that it stabilizes around 10% to 12%.

Ashi Anand: And would it be possible of the 10% to 12% growth and how much be coming because of greater volumes or is it largely pricing?

Dr. B. S. Ajaikumar: Yes, usually we look at volume, new realization volumes and realizations because pricing pressure in this same services year-on-year is very limited in Indian Healthcare system. So, what we look at is a mix. For example, right now we are bringing a digital PET-CT scan that may increase some of the realization because the charges will be higher. Or we may be doing a like a Cyber Knife or high-end technology . So, these things obviously can generate better revenue percussion compared to doing an older technology. So, that mix will also help to drive the revenue but again these are quite CAPEX intensive. So, that is why we want to look at going forward with a large base could change the model and we are working on that.

Moderator: Thank you. The next question is from the line of Shivam Sarvayia from JHP Securities. Please go ahead.

Shivam Sarvayia: Sir, my question was on the point that you had made that cancer treatment is going towards the outpatient care model. So, I was just trying to see the number of beds that we have. Sir, is there a risk that those beds would not get and there could be an over capacity situation going forward? Because I always see that the occupancy kind of hovers between 40% to 45% even for the matured centers. So, any thoughts on that?

Dr. B. S. Ajaikumar: Yes. See, we have to go back mature centers when these were built like our main center of excellence built in early 2007-2008. At that time lot of these treatments for inpatient were occupying more beds where at 60-65. We have not expanded the bed but the reason the occupancy is now around 48%-50% is because we now we have more footfalls but less beds occupied. For example, we do liver transplant and patients are going home in fourth day because of the robotics surgery and even in the physician and major complicated surgery also people go three to four days. So, what we have taken a decision is some of the new centers we will see is that we have cut down the number of beds. We are now like for example, South Mumbai center has only 25 beds even though it has got very high in technology. So, we believe that is the way forward compared to even what was happening three to five years ago. It is a rapidly changing field fortunately or unfortunately I do not know these centers with 50-60-70 beds we feel requirement maybe only 40 even though that does not. That is why you see the ARPOB is high. So we are going forward financially it may not make a huge difference because historically people have measured by per bed, we understand. But now the measurement is going to change with technology advances even I say more home care and all less number of patients will be in hospital. So, that is how we have to really look at and positioned ourselves going forward. We are going through this transition phase it is not just us or in India, it is globally also. The number of beds occupied is coming less. Even in fact, in the government hospitals the report I saw once the number of beds occupied is dropping rapidly. So, we need to look at and now are moving from infectious disease to non-communicable disease, because non-communicable disease the admission of patient for example, diabetes or even cardiac is not that great. Even cardiac surgery patients are going home in few days and even in oncology you get breast surgery is a one day what used to be 5-6-8. So, it is good for the patient there is no doubt and also the way we model it is revenue capture is there. That is why the ARPOB is very high.

Shivam Sarvayia: Sir but considering our old hospitals, old cancer centers s, how do you intend to utilities the remaining capacity which is being unutilized currently? So, is that possible if someone comes with a heart disease you would be doing that kind of surgery is also out there or something on those line?

Dr. B. S. Ajaikumar: No, we are a dedicated oncology center but what we are doing lot of innovations. For example, HCG is also known for research, we using this phase for establishing academic and research program. Today HCG which is not known to may produces a lot of paper and we have nearly 108 in Bangalore fellowship and residency training program. So that it is growing and also that will add revenue to our bottomline and probably will be profitable as well. We started for example, clinical trials. Clinical trials we are going to expand. There has been some liberal; the central government has liberalized some of these things. We are also doing academic programs. For some of these, residency programs, the teaching program, fellowship program we are now intend to bring people from abroad to train here. In fact, in Mumbai we have started a training center for Elekta for one of the few in globally. So, all the people will come and they will of course be paying for that to undergo training. So, these are the models going forward where we believe these beds can be utilized properly. So, clinical trials, academic program, research and we are now moving towards more technology oriented group and that I think will be net positive for HCG as we go forward. But this is going to happen in the next 2 to 3 years.

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

Harshad Mukadam: You mentioned that shift from scheme patients to non-schemes patients. So, is that shift seen particularly in Bangalore itself or is that going to be seen across all regions?

Dr. B. S. Ajaikumar: Yes, we are actually doing it not only in Bangalore, for example in Gujarat where Ahmedabad in fact our main cancer center is now mostly non-scheme. As you are aware, one of the things which have happened even in a progressive state like Gujarat, the Mahad scheme they have where they have actually significantly cut down the cost. For example, it is actually shameful to say, a Doctor is very well-trained MCH performs**,** which is a major operation requiring 4 to 6 hours. They are paying Rs. 20,000, Rs. 25,000. They have cut it from Rs. 60,000 it was low because normally it causes few lakhs 100,000 to 200,000 depending on the complications and all. They are now paying 25,000. I do not know who will be able to do surgery for 25,000 and what kind of surgery can be done. So, these are some of the example how the schemes are moving I do not know what the reason is. Obviously they want to do get high returns for low cost which India wants to be the leader. And so, they are looking at very cheap medicine but we are all struggling to see how we can provide the quality care and that is why for lot of the centers it will be difficult to participate in this. And answer to your question, yes in some tier 2, tier 3 cities we are participating because we are the only cancer center. We do not feel that we are obligated to do but going forward we have to be very careful in how do we do the mix is the mix of scheme patients will be 20% or 15%-20%, then you have the insured patient 20-25 and cash patients 50-55 is the normal in which we like to work.

Harshad Mukadam: But would this cost crush on our growth going forward because if we look at our existing center growth, I think that has brought down our overall growth a lot this quarter compared to the last few quarters. So, do we see this affecting our growth going forward?

Dr. B. S. Ajaikumar: No, I think once this mix changes is happen it will not affect the growth going forward. Because we do expect more insurance patient and the way we are working on domestic and international patients. It will dip and it will come up and we are going to see the growth 10% to 12% we hope, we hopefully will achieve that.

Harshad Mukadam: The next question is on regarding the price caps. Now, if I look at those gross margins based on your filings I think that pretty much in tax. So, can we say that have we been able to transfer the impact to the price caps to our services or anything? Do we see this?

Dr. B. S. Ajaikumar: We have been very successful in addressing this issue and we feel we have overcome the impact. There has been some impact but we have managed to overcome with some of the active measures we have taken including streamlining, including some bed tightening we have done. So, overall impact is not material at this point.

Harshad Mukadam: Then my next question is regarding the CAPEX. I think, we have an estimate of 150 crores CAPEX for this financial year. But if I look at your PBT, I think 50%-60% has already been completed and majority of it is going in the new centers which I am presuming is Mumbai. So, where, so after Mumbai opens next quarter where will the rest of the CAPEX go to us? Are we investing in some new technology or something?

Dr. B. S. Ajaikumar: Yes, some of the Mumbai is where and most of the next CAPEX will be the replacement CAPEX. We are not doing any new CAPEX.

Harshad Mukadam: No, but if I look at the historical trend of our replacement CAPEX.

Dr. B. S. Ajaikumar: As I said, we are doing some replacement CAPEX in our center of excellence and few other centers. There is a replacement requirement every year. So, that will be part of it. Otherwise, as I told you we are coming towards the end of our CAPEX cycle. So, we are not planning on any new investments going forward in the three or four quarter.

Moderator: Thank you. The next question is from the line of Nagraj Chandrasehkar from Laburnum Capital. Please go ahead.

Nagraj Chandrasehkar: But any thoughts on our capital structure given that we are at 5 times debt to EBITDA as a result of our expansion program. Are we looking at improving this through bringing in outside capital perhaps the rights issue or some such other method to give us sort of a buffer?

Dr. B. S. Ajaikumar: No, in our serviceable debt is lower by merely 120 crores because part of it is deferred payment. So, in this our ratio will be little bit different and also in answer to your question we are exploring the various options and we have looked at what are the ways we can bring down our debt and we are actively involved in it there has been certain moves. But as and when it happens, we will certainly convey. We are very cognizant of that but at this point we are comfortable in servicing the debt.

Nagraj Chandrasehkar: And these 120 crores deferred payment with the vendor financing and what could be the repayment terms and timeline on this?

Dr. B. S. Ajaikumar: For example, HCG is always done that in the past. Usually it is a three year deferred. For three years there is no payment of the interest or principal only after three years it happen. So, as and when they become they go into regular debt which involves interest only for about very minimal principal and then over the next eight years sometimes five years it will be the payment. That is how and most of it is back-ended like a camel back.

Nagraj Chandrasehkar: And then as you mentioned that you want to end the year at a net debt of below 700 crores and you mentioned 78 crores-90 crores CAPEX in FY21. Just wanted to get a sense of the financial debt repayment obligations for us in second half of this year and then in FY21 and 2022?

Srinivasa Raghavan: Yes, I think as Dr. Ajai mentioned, we are kind of generating cash to kind of service our interest on principal repayment. And we are also able to take care of some of our maintenance CAPEX as well. So, the repayment is around 30 crores on an annual basis and our cash generation should be sufficient enough to take care of that.

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

Sahas Ranjit: So, you mentioned that you are working on a model where in you want to expand without not much of CAPEX involved. So, do you mean like it is something like O&M which have done in fixed. Is it something on those lines?

Dr. B. S. Ajaikumar: Yes, we are certainly looked at O&M and we actually do some O&Ms. For example, even in Hubli we are doing O&M model as well as outside the country we are doing couple of them. But what I was also talking about is we are looking at without being a financial lease. In India the lease is always a problem where you have to do high GST and all. So, we are looking at a model where without its being a leased whether we could partner with maybe a manufacturer where we actually use equipment in a joint way. And that way as we move forward our CAPEX will not be required. For example, if you let us say go to your banks and borrow at 10% under the same 10% around 10%-12% can we do work with a manufacturer others where they take some responsibility of installing the unit and together we drive, our interest is quality and one question is as we become big, when you are small obviously you cannot do this things because nobody will do the sharing mechanism . As you become big and you have good reputation then you can start embarking on this model where you actually become a more of an operational because our expertise is in operation. We should really not on owning the equipment but historically it has been forced on hospitals and doctors because of the size and the manufacturer obviously wants to sell it. But we now working on with a volume we have is to see how we can actually become operational and excellence providing quality care where the manufacturer actually partners with us. So, these are all the models in working and as and when it is solidifies and we took out the numbers and how it it affect the EBITDA, it be positive for PAT, depreciation. We are looking at all that and working with some groups once it is finalized we will take a pilot project and do it and based on that we want to move forward.

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

Harith Ahmed: There was a put option that the minority partner had in Milann to sell their stake. Has that been exercised? And if not, when do you expect that to happen?

Dr. B. S. Ajaikumar: Yes, at this time I already answered this question that this time the put option is not been exercised. It has been extended to October of 2020. Sorry, the put option has been exercised but the payment for that has been extended till October of 2020. So, our obligation is not there till October of 2020.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for any for closing comments.

Dr. B. S. Ajaikumar: Thank you.

Niraj Didwania: Thank you for everyone for the participation on call. We are available offline to discuss if there are any other queries. With this, we conclude the Q2 FY20 H1 Earnings Conference Call. Thank you.

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