"HealthCare Global Enterprises Q4 FY'19 Earnings Conference Call"

May 23, 2019

MANAGEMENT: DR. BS AJAI KUMAR – CHAIRMAN & CHIEF EXECUTIVE OFFICER, HEALTHCARE GLOBAL ENTERPRISES
MR. SRINIVASA RAGHAVAN – CHIEF FINANCIAL OFFICER, HEALTHCARE GLOBAL ENTERPRISES
MR. ANANT KITTUR– DIRECTOR, PROJECTS, HEALTHCARE GLOBAL ENTERPRISES
DR. BHARAT GADHAVI – REGIONAL DIRECTOR, GUJARAT, HEALTHCARE GLOBAL ENTERPRISES
MR. DINESH MADHAVAN – DIRECTOR, HEALTHCARE SERVICES, HEALTHCARE GLOBAL ENTERPRISES
MR. NIRAJ DIDWANIA -- HEAD, CORPORATE DEVELOPMENT & INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the HealthCare Global Enterprises Q4 FY'19 Earnings Conference Call. As a reminder, all participants' 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. 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, Stanford. Good evening and a very warm welcome to all participants to HealthCare Global Enterprises Limited Q4 & FY 2019 Earnings Conference Call. Today, we have with us Dr. BS Ajai Kumar -- Chairman and CEO of HCG, along with the management team to share highlights of our Business and Financials.

We have uploaded earnings presentation to the stock exchanges and also shared the same through our mailers.

I would like to point out that the press release table and the presentation Slide 4, the table titles have been wrongly mentioned as December, they stand for March, and we will correct the typo post the call.

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

Dr. BS Ajai Kumar: Thank you, Niraj and good evening. Today, we are reporting our Fourth Quarter & FY '19 Earnings. We have had a robust growth across regions. Looking back to our journey over the last three years since we went public, as of FY'19, new patient registration at our cancer centers has more than doubled as compared to 2016. This is a testament of the huge need to address the rising incidences of cancer in this country. In addition, we continue to make deep social impact to lives of thousands of patients and their families within an active regulatory environment for healthcare.

The existing centers of HCG continue to demonstrate steady growth, strong margins and healthy ROCEs. With launch of seven hospitals in the last 18 months, we have created significant scale and our CAPEX cycle is close to the end with no new center being launched in the next few quarters. We are now at an inflection point in the near future as we dedicate efforts towards generating returns from these substantial investments over the last few quarters.

Strand Life Sciences, our precision medicine platform with high strategic alignment to our future vision and bio-repository we carried along with it is growing rapidly. Overall, we are excited about having created a scale platform in oncology with Pan India presence and are committed to focus on driving value creation for all our shareholders.

Now coming to the Business Updates for Q4 FY'19 are as follows: Strong YoY growth of 25% in Gujarat region with strengthening market share for HCG. Ahmedabad cancer center shows margin uptick of over 1.2%. Rajkot center ramping up well with growth in revenue and reduction in losses. Gaining scale and presence in Maharashtra, Nashik, post expansion transitioning into one of the most advanced cancer centers located in the north Maharashtra region; South Mumbai center with a marquee location commences outpatient services; continued reduction in losses from Borivali and Nagpur new centers; Kolkata cancer center commences outpatient services, augments presence in East India region; Jaipur comprehensive cancer center ramping up well across all sub-segments of oncology.

Now I would request CFO -- Srinivasa Raghavan to share the Financial Highlights.

Srinivasa Raghavan: Thanks, Dr. Ajai, and good evening and welcome to everyone. The highlights for the quarter-ended 31st March, 2019: Revenue from new HCG centers was Rs.592 million as compared to Rs.434 million in the corresponding quarter of the previous year reflecting YoY increase of 36%. Consolidated EBITDA was Rs.354 million as compared to Rs.348 million in the previous year in the corresponding quarter.

Highlights for year-ended March 31, 2019: Consolidated income from operations was Rs.9,787 million as compared to Rs.8,307 million reflecting YoY increase of 17.8%. Consolidated EBITDA was Rs.1,252 million as compared to Rs.1,188 million in the previous year. Operating EBITDA loss for new centers was Rs.140 million as compared to a loss of Rs.90 million in the previous year. Operating EBITDA for existing HCG centers was Rs.1,301 million as compared to Rs.1,147 million in the previous year reflecting YoY increase of 13.4%. Consolidated PAT was a loss of Rs.248 million as compared to profit of Rs.205 million in the corresponding quarter of the previous year.

I now request your attention to Slide #4: Q4 '19 revenue grew 16% YoY. HCG centers grew by about 18%, Milann de-growth of about 6.8%. Q4 operating EBITDA existing center of Rs.344 million recording 17.5% margin Vs 19.6% margin in Q4 of '18. New centers loss of Rs.22 million vs loss of Rs.21 million corresponding to the previous quarter. Revenue grew 17.8% YoY. HCG centers grew by about 19.7%, Milann centers was a degrowth of 3.8%. Operating EBITDA from existing centers is Rs.1,392 million, recording 18.2% margin vs 18.7% margin in financial year '18 and new centers loss of Rs.140 million versus loss of Rs.90 million in the corresponding last year.

I will now request Dr. Ajai Kumar to share the Operating Highlights.

Dr. BS Ajai Kumar: Thank you, Srini. I would now like to draw your attention to Slide #5 of the presentation. 93% revenue is contributed by HCG centers and 7% by Milann Fertility Centers. Within HCG centers, Western India comprising Gujarat, Maharashtra contributed 44% of the total revenue followed by Karnataka at 37%, Andhra Pradesh at 7% and East India at 7%, Tamil Nadu contributes 4% and North India contributes 1% as of FY'19.

I would now like to draw your attention to Slide #6 of the presentation. Strong growth continues at several existing and new centers in Q4 FY'19. Nashik 36.9% YoY; Baroda 23% YoY; Ahmedabad 17.1% YoY. New centers contributed revenue of Rs.59.2 crores in Q4 FY'19; revenue from existing HCG centers grew 13% in Q4 FY'19 on YoY basis.

I would now like to draw your attention to Slide #8 of the Presentation. ARPOB for existing centers grew to Rs.35,334 as against Rs.33,406 in FY'18. Continuing reduction in ALOS to 2.25 on account of trend towards day care procedures and changing patient profile. Operating EBITDA margins impacted with scale up and losses of new centers. Existing centers operating margin improved by 0.76% to 23.8% in FY'19 from 23% in FY'18.

Looking at key geographies in India, Karnataka region continues its focus on improving realization parameters. The Center of Excellence ARPOB is Rs.52,000 with 26.8% operating EBITDA margin, one of the highest in the industry. FY'19 Center of Excellence ROC improved from 22.5% to 25.8%.

Focus on margin and returns optimization across region. With respect to Gujarat region, strong occupancy and revenue growth with stable ARPOB, growth across existing and new centers in oncology and multispecialty, EBITDA margin of the existing centers at 21% for FY'19.

In Maharashtra, strong growth at Nashik center with EBITDA margin at 22%; Borivali and Nagpur new centers ramping up with continued reduction in losses.

Coming to Andhra Pradesh, strong revenue growth, occupancy increase and ARPOB dilution driven by consolidation of partners business in Vijayawada. New center at Vizag continues to ramp up well. In East India, EBITDA margin improved by 0.52% across the region, driven by improvements in patient and procedure mix.

Coming to Slide #10 covering the key highlights of Milann Fertility business, new registration growing at 16% YoY for Fourth Quarter FY '19; Whitefield continues to ramp up well; leadership is attractive in Bangalore market.

Now I request our CFO -- Srini Raghavan to explain the CAPEX and Debt Highlights.

Srinivasa Raghavan: Thanks, Dr. Ajai. I would like to draw your attention to Slide #12. With respect to the CAPEX, we are nearing the last leg of our expansion plan. Total CAPEX was Rs.353 million as compared to Rs.912 million in the corresponding quarter of the previous year. With respect to net debt, we closed the quarter and financial year at a net debt of Rs.6,071 million. The increase in debt from

Q3 to Q4 of financial year '19 is only Rs.9 crores as balance CAPEX and loss funding was entirely under through internal accrual as we continue to focus on cash flow generation.

I would like to draw your attention to Slide #14 please. Kolkata and South Mumbai has commenced outpatient services and will be operationalized in Q1 FY'20. We will update project status for Gurugram and Kochi in coming quarters. We are not expecting any new centers for next few quarters. We do not have any more committed new centers for Milann.

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

Sudarshan Padmanabhan: Sir, my question is on the existing centers where your EBITDA margins had dropped from 19.5% to 17.5%. One, if you can explain which are the centers that has been drag in the existing center? Second is if you can also give us some color because in the quarter we also saw a notification of the prices of oncology drugs that needs to be reduced for hospitals, whether a part of this drop is because of the new regulation that has come in?

Dr. BS Ajai Kumar: In answer to your first question, Sudarshan, the existing center operating EBITDA margin as far as HCG is concerned, they have improved by 0.76% from 23.8% from 23%. The reason EBITDA margin has come down is because of Milann center which we already reported was the negative growth. So, that is obviously being corrected and we are seeing a good ramp up in this quarter. So, we hope that we will nullify that and move on with the growth. So, that is the only reason. Second question you raised about the pharma. Yes, there was a notification of 42 oncology drugs. What they did is they limited the margin which we can get once we buy it from the manufacturer or distributor. If we are not a distributor, at retail level it is only 20%, distributor is 10% and of course the rest is the pharma manufacturer. So, with this there has been some impact and for those 42 drugs, we have done some work. And I am happy to report through other price changes we should be able to overcome most of it and we are still little over a month and a half or so. So, we are studying the impact and we are quite confident from this particular reason, there will be an impact but minimum. Coming to the issue of new regulation against drugs, the manufacture MRP has come down and the nine drugs that we have done, we do not see any major impact from this because we have seen the drugs, and we have studied the model. So, this is where we are in terms of pharma. Obviously, the regulatory concerns is going to be there. And what we believe HCG which is based on the performance you have seen we will continue to perform and continue to show the margin and hopefully from our calculation, the margin impact will not be that great.

Sudarshan Padmanabhan: Sir, if you can correct me here which means that this notification when it came in the middle of the quarter and then you had a lag through which you had to increase the services cost to absorb it, which means that you would have taken an impact in this 4Q FY'19, which would primarily start getting lower as the quarter go by because ...?

Srinivasa Raghavan: 4Q the notification came around 8th of March, Sudarshan. So, we had only two weeks of impact, and it was very marginal. I do not think that is associated with our performance for that.

Sudarshan Padmanabhan: It will not impact us going forward as you would have more or less covered it through the services price?

Srinivasa Raghavan: Yes, we are doing that, but as you know we cannot suddenly one day offer a patient huge increase in the service. So, it is being done in a very step ladder fashion and in a programmed way. So, we do not see YoY that much of an impact, but you may see some impact in the quarter.

Sudarshan Padmanabhan: But it should not be a meaningful one even for the first quarter as we move?

Srinivasa Raghavan: Because we cannot dramatically increase the price, there may be some change but hopefully it would not be meaningful.

Sudarshan Padmanabhan: With respect to Milann performance, how has the EBITDA moved over there, I mean, have we seen gradual improvement on QoQ basis, what is the kind of number that we are running at over there?

Dr. BS Ajai Kumar: As you can see in the statement I made, there has been an improvement in the footfall for the new registration in Milann. But when you look at a specialty like fertility, from the time the patient comes in and the time we start seeing the cycle, then the revenues come in, it takes four to six months. So, that is the region we are in, but that is healthy 11.6% growth in the new registration we believe is very healthy. And in that, we are going to see ramp up as I mentioned in the first month in April and also in May, we are seeing some upside, and we will obviously report it in the next quarter reporting and we do believe it will be better as we go forward.

Sudarshan Padmanabhan: Just a couple of things from my side. If we are looking at the new hospital that has started the outpatient services, that is Kolkata and South Mumbai, have we absorbed a fair amount of cost in this quarter or would there be a substantial amount of cost that will come in, in the first quarter? Second is with respect to your own guidance on Borivali breaking even either in the fourth quarter or the first quarter, so, are we in line with that or do we see further delays on the breakeven?

Dr. BS Ajai Kumar: Yes. Regarding the first question, on the outpatient, we have not seen any impact in our cost because of this outpatient facility. Obviously, when they become full-fledged, we are going to see the cost impact as per our budget. But so far in the quarter ending March 31st, we have not seen. Second question about Borivali. We are confident that we are on the right path. As we have already explained, Borivali is a premier area in Mumbai, because of the high rent we have seen difficulty in breaking even, but we do believe we are on track to breakeven in the second or third quarter.

Sudarshan Padmanabhan: There is additional losses from the JV. If I am correct, the losses from the JV in your P&L is about Rs.5.5 crores, I mean, this is slightly higher than probably what we have reported in the past. I am talking about the share of the minority interest

Srinivasa Raghavan: Milann, Rajkot and Nagpur, these are the 3 major drivers for the increase in the minority interest which should get corrected in the coming quarters as the performance improves.

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

Chandramouli Muthiah: First question is on the startup losses this quarter from the new facilities, I think it is about Rs.2.2 crores. So, if you could just help us with what the split is by facility contributing to the startup losses?

Srinivasa Raghavan: The major startup losses are in couple of areas - one is the Borivali facility; second would be the Nagpur facility and third would be the Rajkot facility which contributes to the loss of the startup costs in the current quarter.

Chandramouli Muthiah: How much of loss are you seeing on Milann?

Srinivasa Raghavan: Milann Q4 is not a loss, it is a profit and we see this trend going into the future quarters as well.

Chandramouli Muthiah: I think historically, Milann has operated at above corporate average margins, in some cases high-20s, some cases low-30s. So, what level of margin were you at this quarter on Milann?

Niraj Didwania: Chandramouli, we do not break out the Milann margins per quarter. So, we are seeing that it is currently below our HCG center margin, and it will not be correct to report it quarterly because it has been through a challenging year this time. So, we will be able to give you more perspective on the margin going forward.

Chandramouli Muthiah: Second question is on Andhra Pradesh. I notice on your presentation that the ARPOB has declined quite significantly YoY. I was just trying to understand what is behind that?

Dr. BS Ajai Kumar: Reason for ARPOB is primarily because there has been a strong revenue growth and occupancy increased, but because of the consolidation of partners business in Vijayawada, that is the reason, he is a surgeon, and the consolidation has happened, because of that you are seeing this ARPOB dilution.

Chandramouli Muthiah: Because of the consolidation of partners, there has been a decline in ARPOB, so it is more like an accounting thing. If you could just give us like what is the core trend in ARPOB. I think that is what I am trying to get, if you remove all the other accounting effects.

Dr. BS Ajai Kumar: The ARPOB was Rs.23,000, decrease by about 25% in the previous because of this consolidation. And I think when you look at the core, it is below the core/

Niraj Didwania: Chandru, the other thing as Dr. Ajai said that we have acquired surgical practice of our partners, which also comes in with high occupancy. So, what happens is the revenue gets split across the larger occupancy base and dilutes the ARPOB overall. So, that is what has happened in the Andhra Pradesh.

Chandramouli Muthiah: Third question is just outlook on some of your accounting items. I notice the tax rate this year has fallen significantly from mid-30s level. What tax rate and CAPEX you expect for FY '20? If you could give some comments on what the interest expense and debt levels could be in FY'20 based on your...?

Srinivasa Raghavan: As far as CAPEX is concerned for the full year, we are looking at about Rs.150 crores for the entire year. The key point to note is it would be based on our cash generation and our intention is to fund as much CAPEX through our internal accruals with lower debt. That is point #1. As far as debt is concerned, we aim to keep it at a moderate level, we do not want to increase it substantially and given that our aim is to kind of fund most of our CAPEX through our internal accruals. So, we expect the interest cost to kind of also be aligned to debt levels and ensure that we keep it at reasonable line compared to the last year and we are very optimistic about it.

Chandramouli Muthiah: What tax rate do you expect for FY '20?

Srinivasa Raghavan: There are a few loss-making centers and that would give us some upside. So, our tax rate should be in the range of about 30% for the coming year as well.

Chandramouli Muthiah: A few days back, you put out a press release on a potential preferential issue. I just wanted to understand what is the use of funds could be, and what kind of amounts you are looking at on the preferential?

Dr. BS Ajai Kumar: It is about Rs.20 crores and primarily this is because of an interest from a leading doctor anesthesiologist in US who has the pain management of cancer, his specialty. So, he was very interested in the social impact factor of what HCG has been doing. As I described in my read out in the first, we have had a major social impact and I think it is recognized to some of the contacts here in India and in US also. Because of that he contacted and he expressed his interest to invest in HCG. Primary reason being a social impact factor. And that is how we have come to this primary.

Chandramouli Muthiah: If you were to deploy these funds, would this be on new project or would it be to expand existing facilities, that is what I am trying to get?

Dr. BS Ajai Kumar: It is mainly to improve the quality of care to the cancer patients, pain management, we may be using part of the funds to create training programs for pain, and we will do all that.

Chandramouli Muthiah: So, it is kind of business improvement .?

Dr. BS Ajai Kumar: Yes, business improvement.

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

Lalaram Singh: My question is on the margins. You said that overall existing centers margin has gone up, but in one of the slides we are showing it I think 76 basis points increase, but in another part we are showing that margins have gone down from 18.7% to around 18.2%. You said that it is because of Milann. Is that correct?

Dr. BS Ajai Kumar: There is a difference between the overall centers and the existing centers. The first statement is you made on the overall center margins and the second one is on our existing centers which we said has gone down, and I also clarified when we break it up into HCG centers and Milann centers, HCG centers has actually gone up by 0.7%, when you add Milann, that is when we are seeing the decrease in the margin of the existing centers.

Lalaram Singh: But considering that Milann is I think not a very big component of the existing centers, how is it having so much of impact at the operating margin level?

Niraj Didwania: Lalaram, Milann Q4 last year was a high contributor. This year Q4 has not been as per expectation, that has diluted the margin compared to last year. In fact, Q4 was one of the better quarters for Milann last year.

Lalaram Singh: In this particular year, we have seen that the existing centers revenue growth has been 12%, 13%, which is compared to last year relatively better. So, what kind of trend do we expect in the revenue growth of existing centers going forward?

Dr. BS Ajai Kumar: As far as existing centers, we have always kept a view and we have stated that it will be between 10-12%. This is what we have achieved last year is our high end of our expectation. So, that is where we will be as we go forward.

Lalaram Singh: Do you think that the margins have bottomed out this year as you said there is a meaningful change in the business of profitability of Milann, is it safe to say that?

Dr. BS Ajai Kumar: I think the margins have bottomed out, but as I expressed my comments to Sudarshan on the other external regulatory things, so that is what we are looking at to minimize the impact. The first quarter or so may impact the margin. But we are doing all we can to see that the price changes are made to compensate for this. So, that is where we are in the middle of that.

Lalaram Singh: May I know the total cash flow from operations during FY'19?

Srinivasa Raghavan: For the full year, it is Rs.101 crores.

Lalaram Singh: The next year you said CAPEX of around Rs.150 crores. So, do we expect that the debt levels can still go a bit higher from current levels?

Srinivasa Raghavan: Yes, marginally higher to the current levels, yes.

Dr. BS Ajai Kumar: Primarily also because while we are doing self-servicing for internal CAPEX and other things, even though we are coming to CAPEX cycle close there are a few centers, which are still not fully CAPEX-ed out. So, once they are done, you may see a slight beep up of the debt and probably stabilizing at level and eventually coming down.

Lalaram Singh: Our Center of Excellence in Bangalore, how much does it contribute to the overall company in terms of percentage of revenues?

Dr. BS Ajai Kumar: KR contributes about 20% to the entire revenue.

Lalaram Singh: Over the last five years, what kind of revenue growth have we witnessed in the Center of Excellence?

Dr. BS Ajai Kumar: Five years if I recall it was about 15 - 16% and now it has stabilized around 10-12%.

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

Chandramouli Muthiah: So, you mentioned in your opening remarks that you are now towards the end of your CAPEX cycle and for the next few quarters, there is no major additional capacity planned. So, if you could just clarify around when approximately would you start on trying to open or operationalize Kochi and Delhi?

Dr. BS Ajai Kumar: I think we will be able to guide on those in the 2nd half of FY20, primarily, we expect Delhi to looking at operationalizing the last quarter and the first quarter of next year. Kochi will be still some time away and it may be another year to 18-months before it becomes operational. Anant? Anant is our Project Director. Would you like to...?

Anant Kittur: I think next one will be Delhi and Cochin maybe a little later than Delhi, but depends on the licensing and all of that.

Chandramouli Muthiah: So, I just split it into two. I think the existing centers are growing in the high teens, and Milann is slowly recovering and I understand it was kind of flattish for the year. So, as you enter FY '20, it looks like Milann is recovering and you have more capacity in the existing centers to drive more occupancy. So, would we be able to return to historical levels of 20% top line growth?

Dr. BS Ajai Kumar: I think as the centers which are negative now. With is a small base, as they start ramping up we will be getting closer to between this say 18% to 20%, I think we are confident we will do as these centers ramp up, and also the Milann recovery which is happening.

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

Harith Ahamed: Given you are planning to commission at least two new centers during this year and possibly three how should we think of the losses from new centers, I believe it was around Rs.14 crores for FY '19, so should we expect this loss figure to come down in FY'20?

Srinivasa Raghavan: The losses of this new center should really come down in the current year. I think the key centers are Borivali and Nagpur. We expect them to kind of turn breakeven in the coming quarter. To answer your question, yes, it would come down in the current year from the existing number to a lower number.

Harith Ahamed: Can you also give a exact number guidance for your CAPEX for FY'20 as per your budget?

Srinivasa Raghavan: We are looking at CAPEX of about Rs.150 crores for the current year. Our aim is to generate as much internal cash flow as possible to fund these CAPEX. So we are working backwards to ensure that this Rs.150 crores is largely funded through internal accruals and lesser debt.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Sir, on the Rs.150 crore CAPEX that you talked about, is this going to be the run rate for annual maintenance CAPEX or this will include some Brownfield expansion also?

Srinivasa Raghavan: Broadly, the Brownfield maintenance CAPEX would be about Rs.40 crores, and the other Brownfield expansion CAPEX would be about Rs.110 crores.

Nitin Agarwal: Barring a new center opening up, this is the sort of level of CAPEX that we should sustain going forward?

Srinivasa Raghavan: No, this should kind of taper down in the future years, yes.

Nitin Agarwal: Secondly, on the IVF business, sir, two things; one is with whatever happened in Milann this year and in the context of the development that are happening in industry, where there is a lot of businesses changing hands, how do you perceive this business right now? We have not done much investments in this business over the last couple of years and it does not seem to me too many plans to be putting up new centers. So, are we sort of giving up on the opportunity? How are we looking at this whole piece .Are we looking at some external funding to drive growth for this business?

Dr. BS Ajai Kumar: Good question, let me answer. Nitin, historically, we have placed lot of importance and quality outcome within the regulatory things, and our name Milann has been rated #1 in India several times, yes, because of the way we have structured it, working with Dr. Kamini Rao and the whole team. So, our plan has always been to create quality fertility center, which we believe there is a need today for that and the social impact is also very good. Actually the need for fertility is huge, nearly 300,000 people at least required, only 10% are really getting the services. We were one of the few ones which were EBITDA positive has been compared to others. So, when you look at growth versus EBITDA in Milann we took a decision; we want growth as well as profitability. With this in mind, we have worked for few years, and of course, last year, we have explained. Going forward, we have again put a plan to maximize the existing centers in Bangalore, Delhi, Chandigarh and work on them to maximize the capacity utilization and focus on quality. Expansion is a possibility. We are also looking at the right time if there is any meaningful merger, acquisition, we will also certainly look at it, but most of it will be at a low end. So, we do not plan to have any mega bigger ones. So, with this slow and steady progress, we see roadmap of profitability of growth and high-quality service.

Nitin Agarwal: Secondly, you also alluded to the Strand business earlier in your comments. If you can probably give us some more perspectives on how the business has shaped up during the year and what kind of outlook do you see for the business going forward?

Dr. BS Ajai Kumar: Strand is as I described it is one of the favorite topics for me to talk. So, Strand is an intelligent company. It is a bioinformatics leader not only in India but global. It has got nearly 40 Ph.D. scientists working. So, with this background, when we merged our lab services, we also had genomics it became a really dream project for us in terms of meeting all the service providers, meeting the needs of the patients, high quality research. So, with that in mind we created this where we are about close to 39% owner. Now one of the things I want to say here is Strand is a growth company, Strand is growing in three verticals. One is the R&D work, software development, where most of the customers are multinational and this includes Bioinformatics division. And we work for companies like Illumina, Agilent and United, and that we see as a good growth. Second one is the Lab, CDx, Diagnostic division. Because of the acquisition of Quest, we want to consolidate. Now the growth has happened, and Quest has added significant revenue off a top line, and the growth opportunities are good. So, with our own growth we had planned for CDx diagnostic division and Quest acquisition. We do believe that there is a significant opportunity for growth in terms of 30 - 40% or more which is going to happen this year. The third division is CRO division which is the clinical trials. That is a lower end in terms of revenue, but good margin, that is also there is lot of interest now. As you may recall years ago there was lot of regulatory issues which came in the way of CRO, today most of them are being undone. So, we are ramping up to do lot more clinical trials as we move forward. So, all of this impact you will see. Obviously, it may not become profitable right away because unlike in Milann, here we are focusing on the lab growth. So, we will be focusing more on the top line and that is where we think we will be successful.

Nitin Agarwal: On this business, from you being a minority shareholder in this business, how do you see the value unlock process for the HCG shareholders in this business going forward?

Dr. BS Ajai Kumar: There will be two ways for HCG shareholders. One, value creation and new people. Suppose we came at a certain value. New investors comes in at a higher valuation. That will be also value creation. And in the end, the question comes is there exit for us or probably dividend region can come? So, the exit is also a possibility for one division like for example, the R&D division and all. So, we have lot of interest and we want to first build this company in the next few years before we think of what is the exit option because this is mutually beneficial. As you know the part of the revenue for HCG also comes from Strand's revenues in terms of lab and all. So, there is agreement that produce labs for us. As they grow, HCG will also benefit indirectly.

Nitin Agarwal: On the multispecialty hospital business, you have done a couple of transactions over the last couple of years. How are you looking at that vertical now in the overall scheme of things?

Dr. BS Ajai Kumar: As I said in the last meeting also, we want to focus mostly on oncology. Our Gujarat Head, Bharat is also here. For example, we took Bhavnagar. We talked about social impact, lot of things. Bhavnagar did not have any quality institution. The institution multispecialty which was there by Wockhardt had closed. Dr. Bharat and his team took that and turned it around in a matter of not even two years and today we have become profitable and more important cancer care was not available in Bhavnagar. So, we used this opportunity to create cancer division also and that has also been successful. So, what has accomplished is profitability, social impact with this. Secondly, in terms of Rajkot where we have a local doctor partner, a multispecialty, there also the growth has been good, and we expect to add oncology there also, we are looking at possibilities. So, our goal here is we do not have any plans for further expansion in multispecialty. But strategically like what we have done in Bhavnagar, Rajkot is possible at a low level, we may be interested, but certainly we are not going looking for it. So, at this point, we want to consolidate all our focus on oncology, but certainly we will make sure the growth in the multispecialty also happens as expected, and most of this, as you know, is in Gujarat, headed by Dr. Bharat.

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

Fiona Chan: I wanted to ask about government regulation. We are currently seeing in trade margin caps for oncology drugs. Do we expect this to affect other parts of our business such as IVF or diagnostics or the clinical trials business you just mentioned?

Dr. BS Ajai Kumar: As far as the regulatory things so far they are not going to affect the IVF or the diagnostics. As we have said primarily, it is in the pharma and the pricing of the medical devices, which has been there which some correction has already happened. So, going forward in the areas you mentioned we do not expect to have any impact on our growth.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: In terms of your oncology business, while you are not looking to expand the business over the next few quarters as you mentioned barring Gurgaon and Kochi center, do you see opportunities for growing the business still or you believe that you have covered a reasonable chunk of the relevant market, so there is not much to be really done from an incubator growth perspective?

Dr. BS Ajai Kumar: Nitin, good question. I think as an oncologist and entrepreneur there is significant opportunity for growth. Obviously, we are now becoming more Pan-India from our initial slide and description where originally Karnataka was 60%, now it has come down to 36%. So, obviously we are penetrating other markets. There are certain markets we have taken informed decision not to do. But going forward our idea is there is growth can happen by ramping up our existing centers, and a couple of them we have provided operator management services. But certainly, we will look at opportunities or strategically if we feel there is a need we may do. But until the next two to three years, the consolidation phase is important. This is what we carried out in 2014 to 2016. If you see that we had about 14 centers, we consolidated and nearly doubled after that. So, that could be our plan where in 2020-2021 we will be again ready to do next expansion and I do not think we will miss any opportunities because the way oncology works is two to three years is not a big thing in terms of working out the models for development of either Greenfield or Brownfield. That has been our track record also. So, we do see consolidation, capacity utilization, maximizing the centers we have and then go for next expansion.

Nitin Agarwal: Associated with that, what are the thoughts on the international expansion in similar lines, we will wait for the next two, three years before you look at that?

Dr. BS Ajai Kumar: International expansion, we have centers. Dinesh Madhavan is here, who is in-charge of the international expansion. Dinesh?

Dinesh Madhavan: I think currently we have a project in Kenya, and that is what we are focusing on. As opportunities come to us and we are looking at only the Kenyan market right now.

Dr. BS Ajai Kumar: And also, without investment in international, we have done some work where we provided training, setting up centers, project, even O&M management. One of the areas we have done successfully is being in Ho Chi Minh City, Vietnam. So, we have lot of interest in these areas. But obviously for us most important thing is to maintain quality, outcomes and good training programs. So, we are focusing on that apart from research. And as we know, bio-repository areas, various interests for R&D, some of the drug companies to come and also look at drug discovery. Recently, without naming one, there is a big multinational drug company, which is interested in working with us on these areas because of our patient load, the data we have generated and we have now established digital pathology. Using digital pathology, we can actually provide service to areas in Vietnam, Middle East or Africa where we do not need the pathological expert in pathology. So, they need to just create a slide and then we push it, and then online live we can give them the report. What used to take nearly three to four weeks, we can do it in a matter of few hours. So, this kind of technology expansion has been well received by oncology community in the most in emerging market and also we are trying to plan into tele-radiology in terms of our PET scan. So, as we become known and branded forward compared to two, three years, significant awareness is there about our capabilities and huge leveraging on that, I think we can certainly grow in this area where we do not have to invest significantly.

Nitin Agarwal:: For medical tourism, what is the proportion of business for us right now?

Dr. BS Ajai Kumar: When you look at even centers in Vijayawada, Nashik and Vizag which does not really generate any international patient, overall it is about 5%. But when you break it up into centers which are capable of generating like Bangalore, Mumbai, Kolkata, Delhi, we expect that about 18% to 20%. So, similar growth can happen. In oncology space, when we have done some work, we are one of the biggest international oncology providers in India.

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

Lalaram Singh: May I know the patient mix for this full year government versus direct cash payer patients and insurance?

Srinivasa Raghavan: The cash patient is about 55%, the insurance patient is 25% and the government patient is about 20%.

Lalaram Singh: What was this number for the previous year?

Dr. BS Ajai Kumar: Similar kind of a number, the number varies between the cash and the insurance part couple of percentages point moves here and there, but otherwise largely in these lines.

Lalaram Singh: In terms of expansion, we are reading in the papers that one of the chains has been acquired by a global company and they are launching six new centers in the pipeline. So, do you think considering the opportunity size we should continue to keep expanding in spite of having certain pressure on the profitability or balance sheet, what are your thought process in terms of capitalizing on the opportunity versus profitability?

Dr. BS Ajai Kumar: We should be more strategic rather than looking at opportunity. What has happened here with Varian, which has acquired the centers they had a con call with us because we are also their customers, their idea was they are doing it primarily for data collection because this is part of a global company which is based out of Philadelphia and University of Pennsylvania, so they run some outpatients clinic there. So, the idea was they want to acquire the whole thing to create data mainly for US patients. But this came along with it. So, in this area, one of the things they told me was that they may not be that interested in expanding in India. That was what their CEO told me. In spite of that this group has always been there and it has not been any kind of competition for us because their model is different from our model, their model is a implant model where they go and do oncology only radiation sometimes within a multi-specialty hospital. We believe that for the growth of any institution, it is not the right model. So, because of that and I do not think they have any intention of starting a comprehensive cancer center. So, we do not see that as a competition. If you look at the Indian scenario, actually who has really succeeded in the model like what HCG has done even globally, we see, for example, when we went public, we saw 37,000 patients. So, see what the patient population has been now over 70,000. So, more than doubled in the matter of three years, one of the largest number of footfall of patients globally. But again, we cannot look at it through bed strength we have to look at the footfall because most of it is in terms of daycare outpatient. So, because of this and our excellence in outcome. One of the things which is attractive for people to work with us in some form of JV where training program, operational excellence and virtual tumor boards, telepathology, teleradiology can be provided is because of our expertise and that is what one arm which is going to grow along with that we are seeing some interest in R&D work in a very low level, but some of the major multinationals which has never happened in India before. They are now giving us some agreements to do some research work. So, that also can contribute some. So, these are the areas we feel. Once you establish a Center of Excellence, hub-and-spoke model, multidisciplinary clinics, these are the other things could also drive our revenue and profitability. Obviously, their margins will be higher.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Niraj Didwania for closing comments.

Niraj Didwania: Thanks, everybody, for participating in high numbers today on election result day. We really appreciate the support. And we are available offline to take any questions. Have a good evening.

Dr. BS Ajai Kumar: Thanks a lot.

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