



“Narayana Hrudayalaya Limited Q2 FY19 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Narayana Hrudayalaya Limited Q2 FY19 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Debangshu Sarkar. Thank you and over to you, sir.

Debangshu Sarkar: Good Afternoon, Ladies and Gentlemen, myself, Debangshu Sarkar and I run the Investor Relations and Mergers and Acquisitions function at Narayana Hrudayalaya. On behalf of the company, I welcome you all to our Q2 FY 19 earnings call of the company. To discuss our financial and business performance outlook and to address your queries today, we have with us Dr. Ashutosh Raghuvanshi, our Group CEO, Mr. Kesavan Venugopalan, our Group CFO, and Mr. Viren Shetty, who spearheads the Strategy and Planning practices at NH alongside Ashish Sukhija from the team. I am sure you have gone through the result’s release along with the investor presentation, which have been uploaded on our website as well as on the stock exchanges.

Before we proceed with this call, I would like to remind everyone that this call is being recorded and the transcript of the same shall be made available on our website. I would also like to remind you that everything said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and the risks that they face. These uncertainties and risks are included, but not limited to what we have already mentioned in our prospectus filed with SEBI and subsequent annual reports on our website. After the end of this call, in case you have any further questions, please feel free to get in touch with us. Now, I would like to hand over the call to Dr. Raghuvanshi.

Dr. Ashutosh Raghuvanshi: Good morning to all of you. On behalf of NH, I welcome all of you to our Q2 financial year 2019 earnings call.

We started fiscal year 2019 with the first quarter’s performance in accordance with our expectations and we are pleased to report that building upon the same, the second quarter delivered an expected result on all fronts. A robust growth in operating revenues at over 27% was achieved on the back of HCCI operations getting consolidated coupled with our Indian operations growing at over 11% YoY. On the profitability front, our Indian operations have picked up strongly vis-à-vis the last quarter and this uptick in margins was largely contributed by our matured set of facilities which registered an industry-leading EBITDAR margin of 23.5% and was ably complemented by 3-5 years’ bucket. We are quite delighted to share with you an impressive highlight that the three acquisitions done by NH in Eastern region namely Westbank and Barasat facilities have started to reap benefits with these units growing at 20% YoY and registering an EBITDAR margin of 15%. On the international front, as expected, our Cayman Islands facility is back on track with ~15% EBITDA margin.

Our newer centres at Mumbai and Delhi NCR have started to witness decent traction in terms of patients' volume and are moving up the operational trajectory in line with our expectations. Elaborating further, these facilities are making a mark in their respective regions with the strong clinical expertise we have, for example NH SRCC Children's Hospital, within 2 months of commissioning its Bone Marrow Transplant (BMT) department, has successfully performed 3 cases. Now that we have entered into a phase of consolidation of our Indian operations post an elaborate expansion exercise we undertook last year, the focus will be on strengthening our newly formed clusters by replicating the success we have achieved in East and South.

Separately, as a part of our global ambitions to look beyond the Indian shores, NH has made a strategic foray into Bangladesh by entering into partnership for operating cardiac sciences department in a state-of-the art soon to be commissioned 350 bedded hospital. Bangladesh being a key international market for us with it being in a close proximity to our eastern cluster coupled with NH entering the region through its flagship speciality i.e. cardiac sciences, will help us in leveraging the operational synergies emanating out of the Eastern region.

On the clinical front, our focus is on creating regional Centres of Excellences' by providing advanced tertiary and quaternary care and thus we continue to invest in state-of-the-art medical technology across specialties. We have emerged as one of the healthcare leaders in India in organ transplants with strong expertise in renal transplants and successfully performed over 600 renal transplants last year.

Coming to the clinical highlights for the period, we are pleased to witness significant progress in this direction as we continue to prioritize health and well-being of the patients.

- MSMC performed 15 kidney transplants and 9 liver transplants in Q2 FY19, thus cementing its position as a Centre of Excellence in organ transplants
- NH SRCC Children's Hospital, within 2 months of commissioning of its Bone Marrow Transplant (BMT) department, has successfully completed 3 cases
- Narayana Superspeciality Hospital, Howrah performed the first case of extracorporeal radiotherapy in Eastern India
- Rabindranath Tagore International Institute of Cardiac Sciences is now the 2nd facility in Eastern India to have successfully performed a heart transplant and the third center within the NH network to do a heart transplant program

I am also pleased to announce that during the last quarter, our organization was recognized at various platforms, the key ones being the following:

- NH won the "Express Healthcare Excellence" Award by Indian Express Group in Best CSR Initiative category in July 2018
- NH won the "Master of Modern Marketing" Award in Best Digital Campaign for a Healthcare Enterprise category in August 2018

- NH won the “CSR Health Impact” Award organized in association with ET Now for Swasth Bharat Initiative category in September 2018

To summarize, I would say that the latent demand for healthcare services remains intact and with schemes such as AYUSHMAN BHARAT, a plethora of opportunities could emerge in the healthcare space. But it remains to be seen that how the government and healthcare institutions will work inclusively to deliver innovative low-cost healthcare solutions to masses. Overall, we do remain confident about our ability to focus on delivering quality value-based healthcare services across all the sections of the society.

Debangshu Sarkar: We can open the floor for question and answers.

Moderator: Thank you very much. We will now begin the questions and answers session. We have the first question from the line of Rohan Dalal from B&K Securities. Please go ahead.

Rohan Dalal: So, I had some operational queries. Basically from what I can see from the results what I am getting is that overall occupancy or total occupied beds actually kind of reduced and realizations were huge growth driver. Is that due to a higher mix of outpatients because, I mean other players have also been noticing that because of the flu season, there has been a higher amount of outpatients in this quarter. So, that is my first thing and that is basically on sales. My second point is on EBITDA and I just wanted to understand what is the outlook going forward in the new buckets because the losses have decreased relative to revenues and I wanted to understand what kind of reinvestments will be doing for clinical talent or any equipment that will be adding in Dharamshila and SRCC facilities? Thank you.

Dr. Ashutosh Raghuvanshi: To take the first part of the question regarding the patient mix. Yes, patient mix has played a role in the kind of realization pattern which you see in this quarter. However, the flu onset this year was slightly delayed and you are going to see the impact of the flu related illnesses in the third quarter rather than the second quarter this year unlike what has been the trend in past. Having said that, one of the things which, within our setup, you see the increase in the OPD revenues is a result of larger number of oncology centers in the network compared to what it was earlier and they are showing a reasonably good growth. So, that is on the clinical front. Also you would have noticed that due to several other interventions at various levels and units, etc. the average length of stay have come down. And that also pushes up the realizations to some extent. Now, the second part of the question my colleague, Debangshu will answer.

Debangshu Sarkar: Rohan, you rightly highlighted the fact that there has been an improvement in the profitability across the maturity buckets and that is really heartening and that is what we have been pushing or striving towards all this while. If you recollect, there has been continuous investment across the clinical as well as the non-clinical talent pool across our centers. And it is yet to play out completely as you would like to believe but slowly and steadily we are seeing some results out of it. But at the same time, I would like to put in a cautious word out here in terms of the fact that we will continue to do so in terms of investment across the clinical talent pool as well as the

on-clinical talent beefing up across the key specialties in our network. So, there may not be very significant upside movement from these levels but from the levels that we started this year. There has been satisfactory uptick in terms of the profitability and we would want to continue that further.

Dr. Ashutosh Raghuvanshi: And to add to that you asked specifically about what are the clinical areas and specialties we are adding. In Dharamshila, for example we started the cardiac services last month. So, that includes the cath lab as well as the cardiac surgical program over there. We are in the process of installing the radio therapy equipment in our Gurugram facility which would be commissioned sometime in early January. Similarly, we are also adding some nuclear scanning facilities of PET scan and SPECT scan in our Kolkata facilities. So, these are some few things to be highlighted at the moment.

Moderator: Thank you. The next question is from the line of Anuj Jain from Value Quest. Please go ahead.

Anuj Jain: I have couple of questions. First is regarding the bucket with 3 to 5 year old hospitals. So, we have seen margins have improved from 2.5% to 11% QoQ. So any particular reason for that?

Debangshu Sarkar: Again Anuj, this is in line with the broader theme and that has been across all our hospitals across most of our maturity buckets. So, Guwahati facility had been a drag in the first quarter and subsequent to that, as we mentioned over the last call as well if you recollect, we had done some specific interventions around the beefing up the clinical talent pool over there which seems to have yielded some interim results out there and has resulted into that unit turning into the green for this quarter. Having said that, in this bucket, there is another unit which is the Whitefield center that we have in Bangalore in itself, over there, despite the de-growth in the revenues YoY that we again captured over the last call in terms of the heavy construction coming up over there which is likely to continue for at least 2 to 3 quarters more. But despite that bit, we saw an uptick on the margin front on account of the higher realizations for the quarter that Dr. Raghuvanshi just mentioned as a response to the previous query. So, across the board, we saw that the margins have expanded on the back of the interventions as well as the higher uptick in the realizations and thereby the ARPOBs for this particular bucket as well.

Anuj Jain: And what I understand is that all these 3 units in this bucket will move to 5 to more, like over 5 years bucket in one year time. So, how do you think, are we lagging behind our original target in ramping up as well as in terms of margin expansion?

Debangshu Sarkar: If you look at this bucket, we feel that both the Bangalore hospitals which is HSR and Whitefield respectively, they have performed as per the expectation. Whitefield has had a little bit of lag simply because of the obstruction from the infrastructure construction which is happening in the area. Guwahati has lagged as per our original expectations. However, we have seen as gradual turnaround there and we hope that it will go into a reasonably good growth phase for the next 2 years. However, it is lagging by almost 2 years as far as the original assumptions are concerned.

- Anuj Jain:** So, what could be the sustainable margins for the next 2 to 3 years for these 3 hospitals?
- Dr. Ashutosh Raghuvanshi:** As a bucket, I think we are pretty confident that this should come within the expected range for any 5 year plus hospital.
- Anuj Jain:** So, you mean to say from 11% to probably 20% in next 2-3 years?
- Dr. Ashutosh Raghuvanshi:** Yes, like HSR for example is already at the EBITDAR level of around 22% and EBITDA level at about 17%. So, I think that is the trend and it will move towards above 5 years bucket's margins
- Anuj Jain:** And would you like to throw some light on the units like Raipur and Jaipur within the mature bucket? How are the margins for these 2 units?
- Dr. Ashutosh Raghuvanshi:** Yes. So, Raipur has been having a very good growth and Raipur currently is almost inching up to the 20% margin mark in terms of its overall profitability and Jaipur though has not demonstrated very significant uptick but it is still slowly and steadily getting into the double digit figures in terms of the profitability.
- Debangshu Sarkar:** Anuj, just a word of caution on the previous answer in itself on one particular aspect of the three hospitals particularly the two units at Bangalore notably Whitefield and HSR in light of what are the sustainable EBITDA margins that you can derive out of relatively smaller scaled unit versus let us say a 500 out of 600 bedded structures. So to that extent, the 3 flagship facilities giving you margins, the kind that they are or they have been for last few years may not be possible out here because of the sheer facility consideration and thereby limiting the possible upside in terms of the economies of scale that you can derive out of those 3 units. Having said that, we recognize that bit and have already we are in the process of putting up expansion block in Whitefield. We have expansion plans to develop further our Guwahati facility as well.
- Anuj Jain:** And sir, second question is if you can throw some light on the Bangladesh venture - who is our partner, what is the plan, if you can throw some more light on that venture?
- Debangshu Sarkar:** So, as Dr. Raghuvanshi mentioned in his opening remarks, I mean this is a strategic foray that we had been eyeing on for some time given our overall global ambitions to scale up as a global player in the healthcare sector. Historically, as you would be aware that we have seen a significant traction of patient flow from that region to India and for different reasons, we could not set up a facility over there. So, what we have done is that through this agreement, we have tied up with the leading or rather the pioneer in terms of ophthalmology practice over there in Bangladesh. The gentlemen who is the owner of or rather the proprietor of the Mother Hospital is Prof. Rabiul Hossain, who is a pioneer in terms of eye surgery across that region having run the facility of the eye surgery for over 50 years over there. They have started this venture whereby they have tied up along with prominent local industrialists as well as financial investors to set up a multi speciality state of the art facility. They got in touch with us to start up the

Cardiac Sciences department. Over a period of time, we believe we would like to see how this venture pans out and then slowly and steadily set it up as a platform to thereby develop further our overall Bangladesh.

Anuj Jain: What is the arrangement like, is it revenue share? How it works for us?

Debangshu Sarkar: It is a typical cardiac care or the heart center arrangement but unlike other cardiac center engagements we have done whereby we also invest in the medical equipment, here we have not, I mean we are not investing anything into the CAPEX out here. But in lieu of their investment in the total infrastructure and the space that they are providing, we will be sharing a percentage of our revenue with them.

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

Amish Kanani: Sir, my question is about the less than 3 years' bucket where we have challenges versus 3 to 5 year. The occupancy rates are now similar, like 48% in Q2 versus 50% in Q1 but still the losses in below 3 years' bucket is reasonable. So the question is sir, what is it that it takes to kind of breakeven and whether we are on track to kind of breakeven i.e. about 18 to 24 months for Mumbai and Gurugram?

Debangshu Sarkar: There is a bit of optics in actually how you look at the occupancy i.e. the reported occupancies. Occupancy is a function of the utilization i.e. the percentage of the beds that have been operationalized. As an example, let us say in Gurugram or for that matter even Mumbai unit you see our reported occupancies of 40% or 50% given the beds that we have operationalized. That does not take into account the underlying capacity that has still not been commissioned or operationalized and it is a function of the ramp up in terms of the occupied beds over a period of time that we commission or operationalize.

Amish Kanani: This is one of the capacities occupied right now, okay.

Debangshu Sarkar: So the 48% occupancy of less than 3 year category is more like 25%-30% kind of occupancy. If you were to just calculate it on the basis of the overall capacity beds over there.

Amish Kanani: And in that context are we seeing between Gurugram and Mumbai, are we seeing signs of one doing better than other vis-à-vis our expectation?

Debangshu Sarkar: So, Gurugram it has been, I mean it has been less than 6 months now and the traction has been really encouraging till now. We have seen a growth in our revenues over there and this unit despite being in the fifth month of operations is already doing around 25 occupied beds on a consistent basis. The good part of the business is being contributed by our international revenues or international patient segment over there which is what we had anticipated from day one and which is contributing to the pretty high or rather attractive or healthy ARPOB for that center and we believe we are in good state in terms of following the expected ramp up over there. On

Mumbai unit, there has been a traction in terms of our patient flow but the revenues lagged for the initial 2 to 3 quarters and which we have elaborately captured over the phase of last 2 or 3 calls. But we believe overall we are in good state in terms of the occupancy ramp up for both these units across this particular bucket.

Amish Kanani:

And sir, if I can add one more question. Doctor's costs sir, is showing slightly more uptick on a Q-o-Q basis. Is it mainly because of HCCI integration? Or it is also the new centers in metro are also coming at a higher cost? So, are we seeing the Doctors inflation cost have been higher or is it just some mix issue?

Viren Shetty:

Yes, it is a little bit of all of that. As you noticed, the new hospital we set up are in Gurugram and Mumbai specifically South Mumbai. You might appreciate that these are not exactly low cost or low salary destinations. Yes, among that the Doctor reimbursement is high but is commensurate with ARPOBs that are achievable in those regions, so what you will see, right now at this temporary drag where the salary burden is hitting you right now. And the patient footfalls will take the regular ramp up time. But given that these 2 hospitals are in very high cost location. Your manpower cost will be slightly higher than its normal but should normalize within the next few quarters.

Moderator:

Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani:

My question pertains to the lower APROBs at Cayman Islands, they have come down 11% Y-o-Y. What is the reason for that?

Debangshu Sarkar:

I think, Charu as we have explained earlier as well, I mean in the initial days of a hospital because of the higher proportion of the outpatient business as a percentage of total, the ARPOBs tend to be little higher and over a period of time as the occupancies come to a steady state or sustains at a steady state, we see that the ARPOB typically comes down and settles down at a steady-state kind of an ARPOB. So, to that extent, if you see our ARPOB for this quarter is around \$1.7 million which we believe is the most steady state ARPOB for this particular hospital, there could be a downward pressure to this as the occupancy ramps up even further in this particular unit.

Charulata Gaidhani:

My second question pertains to the lower occupancy at the matured hospital is it because of product mix or is it only because of the Bangalore obstruction?

Viren Shetty:

No, anything specific about the occupancy are you worried or what is your question about that?

Charulata Gaidhani:

The lower occupancy at the matured hospital.

Viren Shetty:

If you look, actually in NICS, our occupancy is around 65%, on Mazumdar Shaw similar around 60%, Kolkata 75%. We are not like a hotel business where we can always plan for patients to check in exactly at 12 o'clock and check out by 2. So, people are coming in and out. These hospitals are full if you have visited both Bangalore and Kolkata units, there is rarely any space

to move. But occupancy unfortunately seems low because it is measured on people who are staying overnight getting procedures done, it may obviously look like a small number. We actually are trying to come up with a better method for recognizing the fullness of a hospital which also should account for ER and ICU beds and Cath lab and all the utilization but we have not figured out a good way yet.

Charulata Gaidhani: And I wanted a little more depth on the India consolidation plan like or from your entire network how many would be kind of non-performing hospital? And do you have plans to consolidate that?

Viren Shetty: Yes, we absolutely do have. In past also where depending on the geography or the size or any sort of issues that came up in hospital, we took judicious calls about that. This is something we reserve the right to do but these are not easy decisions to make. These are running hospitals that even if it is in an area that is very difficult to operate and badly performing, they perform very valuable public service. If we take a call overnight, 300 people lose their jobs or the few 1,000 patients who are depending on us for providing dialysis chemotherapy or life-saving procedures will face issues. The badly performing units are not a significant part of the overall network and the amount of loss that we suffered because of them is getting less over the time. But yes, we will definitely take calls about these units over the next few quarters.

Charulata Gaidhani: On a Y-o-Y basis there has been an increase of 375 beds for the India operations.

Debangshu Sarkar: This factors in the Gurugram unit getting commissioned and we have commissioned some extra beds across Dharamshila and Mumbai units where the occupancies have ramped up over the last 3 to 4 quarters.

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

Harith Ahmed: At Mumbai, what is the occupancy for the quarter? Last time you had indicated occupied beds of around 60 what was the same for Q2?

Debangshu Sarkar: It is almost the same kind of figure for this quarter as well.

Harith Ahmed: So, when I calculate the ARPOB for the facility it comes to around 20,000 per day, for a facility with high end specialized capabilities, this seems to be on the lower side. So, where do you see this number directionally? Is there a potential to take the ARPOB higher at Mumbai?

Viren Shetty: Yes, absolutely. See, this is a newish hospital and so the kind of procedures that we doing there are definitely high end but realization, you will get are low. One, because we are trying to build up a brand among the patients, we are trying to attract as many patients possible. So, we have been very competitive on our pricing. But as the confidence of the surgical team improves, as the confidence of the patients who come and get procedures will improve, we will start adding more high- end procedures and that should definitely move up the ARPOB in line with some of

the best performing units in tier-1 location. But as of now, you are right. it is low because we are taking a lot of government patients, we are doing a lot of charity cases and that is why we are looking at relatively low ARPOB comparative to other hospital in South Bombay.

Harith Ahmed: You mentioned that you have increased the number of operational beds here, so what is it currently?

Debangshu Sarkar: Harith, we can get back to you offline on that I guess.

Harith Ahmed: And the second question is on heart centers. There has been a good improvement in margins this quarter. We are almost back to where we were before the price control on stents. So, what is driving this improvement in the heart center segment? Have we revised the package prices for cardiac procedures? And are these margins sustainable?

Dr. Ashutosh Raghuvanshi: As of now, the majority of heart centers are in peripheral district and lot of volumes there are driven typically by scheme patients. One of the reasons of the drop earlier was that we were not very keen on taking large number of scheme patients. Now the schemes are being re-crafted and we are yet to estimate what would be the impact of schemes on these heart centers. So, it is difficult to estimate for us at the moment whether the growth in the heart centers is going to be sustainable or not. So, earlier question what Charu was asking, I think it is important for us to keep a close watch on how this unravels and then decide whether the sustainability of these projects is good or not. At the moment it looks like a sustainable growth but we still are in the early stages of the scheme getting re-launched and we need to see how exactly that pans out.

Moderator: Thank you. Next we have a follow up question from the line of Rohan Dalal from B&K Securities. Please go ahead.

Rohan Dalal: Just one last question. So, I just wanted to understand in Mumbai we operationalized more beds and the occupancy remained static. So, what is our outlook on that? And what is your outlook on the Jammu facility? We have not spoken much about that and I just wanted to understand how we look at that facility going forward?

Debangshu Sarkar: Rohan, I will take the first one. The Mumbai unit's increase in operational beds was as compared to Y-o-Y, I mean 30th September, 2017. So, we have not increased or rather commissioned any extra beds over last quarter to this quarter over which the occupancies have actually remained almost at the same level. The Jammu question, I will hand it over to Dr. Raghuvanshi to answer.

Dr. Ashutosh Raghuvanshi: Yes, Jammu is the challenging location but we have the viability gap funding there. It was not that great a concern. However, that is for a limited period of 5 years which is in 2.5 years from now. So however, at the operative level, the center has been growing at an impressive pace. The challenges of operation in that terrain are huge. Lot of peoples in general population are governed by the various schemes. The government has recently started schemes for the government employees which we thought would have a good impact. However, after the change of the

administration over there suddenly that scheme was withdrawn. Due to all the political and other administrative changes which have been happening in the state and this hospital being so interlinked with all those changes, we need to evaluate this further as to how this project can add value to us in future. Revenues are close to about 5 crores a month. But we have a little bit of dissatisfaction by lot of operational constraints which are there in that location and hence we are in the process of evaluating it as to what would be the long-term sort of normal status of this project in our larger scheme of things.

Rohan Dalal: If I can just ask, what was the total outlay on Jammu, if you have that on hand if not then we can take it offline, obviously.

Dr. Ashutosh Raghuvanshi: See, it was a project where we did not have any capital from our side invested in that. This was purely done by the Shrine Board as both on the land, building as well as equipment plus they also had a viability gap funding. So, in a sense it is a kind of a zero CAPEX project for us. So, first 5 years, it does not affect our operation. I mean we do not have to contribute for operational losses as well.

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

Nitin Agarwal: On the matured bucket, there has been a very sharp improvement as you mentioned on the EBITDAR margin over the last quarter in particular. Can you just help us understand, are there any specific measure that you want to take in or to improve the profitability in this cluster? And I mean, are these kinds of profitability levels are sustainable as we go through now as a result of whatever measures you want to take in?

Dr. Ashutosh Raghuvanshi: See, Nitin I think, we have been emphasizing in last few quarters that the external changes which started happening say 2 years back they had lot of impact on many of the costs elements as well as the pricing element in healthcare. And we had an impact of that and we did some proactive measures to handle those things. However, we did those measures in a way that they remain sustainable and hence the uptick of those initiatives or the results of those initiatives came slow. And that is what I have been emphasizing in last 3 or 4 quarters that those measures are going to be very sustainable. And what you see here specifically is the result of that, so we strongly believe that we are positioned to storm any kind of changes happening to a large extent. However, if something totally unforeseen happens then it is a different situation and then we have to take a reactionary step. However, most of the pro-active measures we have taken both in terms of pricing, costing as well as our cost structures, those have started yielding a result now. So, I am pretty confident that this performance is sustainable.

Nitin Agarwal: And Dr. Raghuvanshi, on the Ayushman Bharat with the way now with the rollout formally in place, any thoughts on how should, are we looking to approach participating that scheme?

Dr. Ashutosh Raghuvanshi: We have expressed our desire to be a part of it. However, there is a complete lack of clarity in most of the states and hence we are not able to estimate what will be the impact of these schemes. Even in our core state Karnataka for example, there is still not enough clarity as to how the scheme is going to get implemented and some of the dip in volumes is partially because of that as well. Because patients are also possibly not very clear where that scheme benefit they will be able to get or not. So, I think we need to wait at least another one quarter before we have clarity at the state level, multiple states as to how these schemes are going to come up out. And we would of course participate but we would participate selectively in the units where occupancy levels may be slightly lower and the units which are more peripheral. So, that is the strategy which we are adopting. The major centers we may be slightly selective about taking it.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Guys, I see that your ARPOB has improved sequentially across most of the buckets. Can you just give some color on that?

Debangshu Sarkar: You mean, quarter-on-quarter, right?

Sameer Baisiwala: Yes, that is right. Across all maturity buckets?

Debangshu Sarkar: I mean, there is no specific reason other than the fact that historically as well we see Q2 as a seasonally strong quarter as compared to Q1. And this time around like Dr. Raghuvanshi had mentioned, I think in just one to one of their questions, this time around the onset of the flu seasons marking the medical management cases have got delayed. To that extent, there has been an impact on the occupancy which has also meant that the ARPOBs for most of this units across the buckets have actually been much higher than what we have historically seen for this bucket. So, you see a higher ARPOB for his particular period in consideration as compared to both sequentially Q-o-Q as well as Y-o-Y consideration if you have to look at that.

Sameer Baisiwala: In addition to that, has there been any price action or the impact of earlier price action which is playing out now

Dr. Ashutosh Raghuvanshi: We have not made any pricing interventions during this period.

Debangshu Sarkar: We have done few notable transplant cases which Dr. Raghuvanshi again mentioned in his opening remarks. So, we have increased a bit of quaternary care program that we have been emphasizing in terms of improvement in our case mix across our centers of excellences. That also has also played out its part in terms of the improvement in ARPOB across the maturity bucket that you just highlighted.

Sameer Baisiwala: Just one question on Bangladesh, I heard your comments that there would not be any capital outlay from your side, one. Two, you mentioned that the revenue shares, so is it like a typical operator and single digit revenues come to you and bulk of it to the asset owner is that way it

would be? And three, how do we think about the Bangladesh market in terms of ARPOBs in ramp up as we go forward?

Debangshu Sarkar: So, Sameer first question there is no capital outlay from our side to start off with, over the course of the engagement, if there are any maintenance requirement that is what we will be responsible for. So, there is no capital outlay from our side. Your second question was pertaining to how much of a revenue share? In fact, it is other way around, it is a function of the way our typical cardiac center engagement frameworks are structured where it is a very low single digit revenue share that we do with the partner in lieu of their investment across the entire infrastructure that they provide to us. So, we retain the bulk of the revenues and all the operational costs associated with running the facility is to our account. And it is akin to rental actually, so rather than a fixed rental, it is just a proportion of revenue which is a single digit revenue that we will be sharing with them.

Dr. Ashutosh Raghuvanshi: And the ARPOB are in the region are likely to be similar as our eastern clusters, primarily our Kolkata facilities. So, we expect the ARPOBs in the cardiac range to be similar there as well.

Sameer Baisiwala: And then, so therefore if there are operational losses which I guess there will be and I do not know if it takes 2 years or 3 years to breakeven. All those operational losses will be to ours?

Dr. Ashutosh Raghuvanshi: Yes.

Debangshu Sarkar: We are just running the cardiac sciences department i.e. cardiac unit - cath lab and cardiac surgery. So, it will not be as huge amounts.

Sameer Baisiwala: But it is 350 beds. So would you be operationalizing 350 beds?

Dr. Ashutosh Raghuvanshi: No, we are running only a heart center. We will run only 1 department, which is the cardiac sciences departments, which is cardiac surgery and cardiology. So, we are not responsible for the entire 350 beds. It is like a typical heart center what we run in India.

Debangshu Sarkar: But we have the option to expand should the performance look positive. We have the option to take over the other departments as well. But for starting we are just doing cardiac.

Sameer Baisiwala: And one final question from my side. We come down to the Cayman hospital and I see there for last 3 quarters it has been 28 to 31 beds. And I think what is very important for us is to ramp up the occupancies. So, any thoughts on the efforts that you have taken you have mentioned in earlier calls and what is the outlook going forward?

Viren Shetty: With Cayman we have, you are right occupancy is low because given that it is a small island and lot of it is driven by medical tourism. The number of surgeries and the number of people staying overnight for the surgery is not the primary driver of the revenue in there, rather it is the number of people that come for day care. Those people that we medically manage both for chemotherapy or dialysis those are the ones that are driving revenue and that is really not leading to the long

stay patients that we were expecting. And going forward, we expect it to improve because we have done a couple of investments over there. One is, we have recently signed up with a partner to add our extended stay facility right on the campus. And so, for a lot of patients, it was proving to be very expensive to stay and get procedures done for a long period of time. But now that we have secured a hotel right next door, it will be relatively more affordable for them to extend the stay. Other is that our doctors will start visiting the neighboring islands and start doing cases over there. So, these activities in the near term should go along in improving the number of patients who will be staying for a long stay. We will be setting up the oncology, radiotherapy facility. So, that again it is like a one year project. But post that, it will allow to do a much larger range of general surgery than before because a lot of general surgery is onco related.

Moderator: Thank you. We have a follow up question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just thinking about your 2 new hospitals, SRCC Mumbai and Gurugram. Are the EBITDA level losses that you have reported in this quarter sort of the benchmark from here or we should see improvement going forward? And have they stabilized or do you think this can go up as well?

Debangshu Sarkar: We would tend to believe Sameer that, these have more or less stabilized now, if at all, there would be improvement from these levels and there has been improvement also if you notice over a period. But we would like to believe that these are the levels from which you can only expect an improvement going further.

Sameer Baisiwala: Are there any more regulatory risks that can come about specially price caps, price control given that we are just getting into the election mode and also any update on the in-house pharmacy price controls that was being early talked about?

Dr. Ashutosh Raghuvanshi: From the regulatory fronts, we do not expect any more price caps on the medical implants. what happened with the stents, for example, led to WTO Class action by the American manufactures on at what they are indicating is something that is more on the lines of our margin capping. We have taken the steps that we have mentioned earlier which is move away from margins and align towards doing procedures. To the other question that you have asked which is the price control in the outpatient pharmacy. More and more medicines are being added to the drug price control including certain syringes. We as an organization believe that more of a margin will start coming from procedures and that was part of entire price orientation program that we started doing a year ago. And so, we are well prepared for that.

Sameer Baisiwala: You were referring in patients pharmacy, right, so?

Viren Shetty: That is it is not billed separately as it is a part of the procedure.

- Sameer Baisiwala:** Yes, exactly. So, that is where the pressure point was that those numbers are very opaque and margins are 200%-300%-400 %. So, I think that is what was being talked about getting them in underprice control in more transparency around it?
- Debangshu Sarkar:** Sameer, I think what Viren had explained, I think we have taken the same steps as far as the inpatient pharmacy resources are concerned with respect to the margins being rationalized. But as far as the price regulation is concerned, I think we see that as a composite price rather than any inpatient pharmacy price being separately disclosed. However, when compared to other industry players we believe that we have a better structure which we have implemented in the last 8 to 12 months.
- Moderator:** Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.
- Amish Kanani:** Sir, if you can talk about acquired units in Calcutta and you did mention that they are doing well vis-à-vis expectation. But just to, if you can appraise us of about the acquisition that we are made in Calcutta versus the Cayman Island. How has been our experience and whether based on that our inorganic acquisition and initiatives versus organic in India, outside India, if you can just share some of your thoughts and how old are these Calcutta units and how are we tracking and ramping up there?
- Viren Shetty:** The units we took over in Kolkata were 2 sets. One is the hospital that we call the West bank unit, the other was units have been took from Jubilant. Both of these were more or less defunct units. They were under performing and when we took over both hospitals, we essentially build the revenues up from scratch. So, in a sense, until we had taken over Dharamshila in Delhi, we had not really taken over an inorganic asset that was already a running operation. So, experience there I would say, it was good in the sense we are able to set up all the systems in the way we wanted. And that was we paid a very good price for both those acquisitions and it is something we constantly evaluate on a case-to-case bases. Cayman was different, Cayman was Greenfield. It took the regular amount of time, 2 years to breakeven and it definitely had a huge amount of investment that we made both in the infrastructure as well as working capital. Going forward, we had mentioned earlier that we definitely will prefer the model of acquisition and brownfield projects over Greenfield. But in the near term at least for the next couple of quarters given that we have significant capacity within the units, we will not be looking at any acquisitions in the near term. If anything, it will be more to augment the existing hospitals of ours. Just because the amount of time it takes to breakeven is pretty long. The regulatory uncertainty at this point is we still need a lot more clarity on the payments from the Ayushman scheme and if these things are going to work out. The other that there has been a tremendous amount of new hospitals coming up that are in lot of troubles, lot of PE funded hospitals, a lot of doctors getting attracted to these places. So, we would rather wait at this point for it to cool down a bit before we commit to any more investments.

Moderator: Thank you. Next we have a follow up question from the line of Harith Ahmed from Spark Capital. Please go ahead.

Harith Ahmed: One question on the Jammu facility. Sir, as I understand we are tracking around 70 crores of annualized revenues at this facility and this seems to be decent ramp up for a facility in its third year. So, I am trying to understand how close we are to a breakeven here? So, should we expect positive EBITDA from here in the next year or so?

Dr. Ashutosh Raghuvanshi: Harith, as I said that the operating environment is very difficult, cost structures are extremely high. We have a kind of a residential campus kind of situation where majority of consultants is on the campus. So, with all that in mind, the breakeven point here is slightly higher than what would be in a typical hospital of ours. So, because of all those reasons, we have a slightly guarded approach about the future of this unit. Though the revenue growth is good as you mentioned, so the revenue growth is likely to remain good but the breakeven point also keeps changing and increasing. So, because of that there is a gap, so that is why we are critically always evaluating the functioning of this unit to see what is the role of such a unit in our long term strategy.

Harith Ahmed: Dharamshila currently in the quarter?

Dr. Ashutosh Raghuvanshi: Dharamshila, of course we have added a lot of new departments and facilities and because of that we have acquired lot of clinical talents, etc. and because of those reasons Dharamshila has not been in the positive as far as this current quarter is concerned. The newer services have started like cardiac which I mentioned earlier. So, all these will start showing ramp up over the next 2 quarters.

Harith Ahmed: And where would we be in terms of occupancies now?

Dr. Ashutosh Raghuvanshi: Yes, Gurugram currently, we are occupying about approximately 25 beds on an average. But we are seeing good traction now. Now it is about 6 months in the operations. There is a good trend and there is lot of international inpatient interest as well. For Dharamshila, we have around 90 beds occupied.

Moderator: Thank you. Next we have a follow up question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: How much it would be the CAPEX spend for 2019 and 2020?

Debangshu Sarkar: So, just to give a sense, I mean as we previously mentioned also Charu, historically we have seen a spend of around 100 crores to 110 crores odd annually towards our regular maintenance. But increasingly enough with the base of gross block also increasing, so, there will be an upward pressure towards that as well as the latest investment across the medical technologies that Dr. Raghuvanshi and Viren both mentioned over the course of this call. So, we believe the number for this year, I mean just to give you a sense on that for the half year ended at 30th September, we have probably spent around 65 to 70 odd crores towards CAPEX for this year.

- Charulata Gaidhani:** And next half?
- Debangshu Sarkar:** I mean, we would not be able to give you a number guidance on that. But directionally like we speak, we have given you enough hints around what the kind of numbers that we possibly will look for this year as well going forward for the next couple of years.
- Moderator:** Thank you. Next we have a follow up question from the line of Rohan Dalal from B&K Securities.
- Rohan Dalal:** I wanted to understand what is your outlook on Ahmedabad? Firstly, it was, I think, bleeding by about 5 crores or something as such in the last year. So, I was wondering how exactly do we see ramp up from your in that facility especially with those significant outlay there and yes, that is what?
- Dr. Ashutosh Raghuvanshi:** Yes, Ahmedabad is doing quite well now. I mean it is nearly at breakeven point. It is not quite there but it would be there in a quarter or so. The underperformance that you saw earlier was driven primarily by the fact that we lost a lot of doctors last year and a lot of new hospitals have come up in Ahmedabad. Having said that, this is one of the mature units in Ahmedabad doing tertiary care. It is a very well-respected brand and we have been very competitive in our pricing for that market. And we have a very good doctor team which is able to take the work forward. So, we actually are a lot more confident about the Ahmedabad unit and it is something that we will look at investing judiciously as the time goes.
- Rohan Dalal:** And locationally has there been any infrastructure improvement around the area?
- Viren Shetty:** Yes, the area is improving. They are making the road in front of us into a double-lane. In Ahmedabad they do have the dedicated bus lane and lot of large developments are coming. See, the thing was that Ahmedabad is, this is the only place we get very large plots of land which are the decommissioned mills. And so we expect in the coming years all the large projects and developments will be coming in this part of town where we are located. I think just going by the growth of the city we see it happening a lot more in the area we are located. So, things will definitely improve from where we work before.
- Moderator:** Thank you very much. That was the last question in queue. I would now like to hand the conference back to Mr. Debangshu Sarkar for closing comments.
- Debangshu Sarkar:** Thanks Raymond. Thank you all for participating in our earnings call today. Please feel free to reach out to us should you have any further query or clarifications to seek from any of us. It was nice to have you interacting with us today. Thank you all.
- Moderator:** Thank you very much. On behalf of Narayana Hrudayalaya, that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.