



“Narayana Health Q4 FY19 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Narayana Hrudayalaya Limited Q4 FY '19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and 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: Thanks, Rayomand. Good Afternoon, Ladies and Gentlemen, myself, Debangshu Sarkar and I run the Investor Relations and Mergers and Acquisitions practices at NH. On behalf of the company, I welcome you all to our Q4 FY '19 earnings call. To discuss our performance outlook and to address your queries today, we have with us Dr. Emmanuel Rupert – Our group CEO; Mr. Viren Shetty – our Group COO; Mr. Kesavan Venugopalan – our Group CFO; and Ashish Sukhija alongside myself from the team.

I am sure you have gone through our investor collaterals 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 that is being 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 do feel free to get in touch with us. With that, I would now like to handover the call to Dr. Rupert.

Dr. Emmanuel Rupert: In fiscal year 2019, we continued to deploy significant effort and resources to overcome the regulatory controls that have affected this industry for the last few years. Our current emphasis has been on consolidating the existing hospital operations, as well as upgrading our services to offer advanced quaternary care. Adding in a strong performance from our overseas facility, we are pleased to deliver over 25% growth in our consolidated revenues resulting in over 30% increase in our consolidated EBITDA for the last year.

Our Indian operations registered over 14% increase YoY during the quarter. This was led by our flagship NICS and MSMC units at Health City, Bangalore which grew at around 12% in the same period. Our newer centres at Mumbai and Delhi NCR continued to witness healthy patient footfall and will set the stage for your company's growth trajectory in years to come.

- NH SRCC Children's Hospital, Mumbai now runs the 2nd largest paediatric cardiac surgery program in Maharashtra.
- Narayana Superspecialty Hospital at Gurugram performed over 900 surgeries with 1 liver and 1 kidney transplant in its first full year of operations
- Dharamshila Narayana Hospital performed 22 Bone Marrow transplants and 21 Renal transplants in the fiscal year 2019

Adjusting for losses of the 3 newer units across Delhi and Mumbai – our Indian operations posted an EBITDA margin of 14.4% during Q4 FY19 as against 11.6% in Q4 FY18. This translates to an adjusted EBITDA margin of 13.4% for FY19. From 31st March 2019, our units at HSR, Whitefield and Guwahati have also joined the mature bucket, which has delivered healthy EBITDAR margins of over 21% for the last fiscal. Together, the three flagship facilities registered an impressive 29% EBITDAR margin for the same period. We are also happy to note that our facilities at Ahmedabad, Jamshedpur and Guwahati combined have turned from red to green in the last fiscal and achieved a cumulative EBITDAR movement of ₹8.4 Cr in FY19 over FY18.

One of the highlights of the year was the performance of our Health City Cayman Islands unit, which recently celebrated its 5th anniversary. HCCI's revenues grew by over 35% in the 4th quarter resulting in over 22% increase YoY for FY19. This led to the unit reporting more than 100% YoY growth in adjusted EBITDA for Q4 FY19 translating into over 58% YoY growth in adjusted EBITDA for the whole year. Our Caribbean operations benefit from tremendous operating leverage and we remain confident about their potential to significantly deliver profitability and cash flows over the long term.

Patient discharges across Indian units went up by over 9% YoY to 2.6 lacs in FY19 while the average length of stay (ALOS) came down from 4.2 days last year to 3.9 days in FY19. Our focus on shifting the case mix to advanced quaternary care along with focus on specialities such as oncology, with increased footfall from international patients, has resulted in over 12% YoY increase in ARPOB for the Indian operations.

Key Clinical Highlights:

- We completed the first year of our new Liver Transplant program and performed 18 transplants across our hospitals in Kolkata, Bangalore and Gurugram.
- NH has now emerged as a leading player in the organ transplant space, having completed 19 Heart transplants, 198 Bone Marrow transplants and 604 Kidney transplants during the year
- Mazumdar Shaw Medical Center, Bengaluru, completed 1,000 bone marrow transplants since its inception This is the first facility in Karnataka to have attained such a distinction
- NH SRCC Children's Hospital, Mumbai recently commissioned a state-of-the-art Paediatric Bone Marrow Transplant (BMT) department and successfully performed over 10 BMTs during the last 6 months
- NH SRCC Children's Hospital successfully performed Endoscopic detethering of spinal cord. There have only been 7 surgeries reported in the world and this was the first one performed in India

- Narayana Institute of Cardiac Sciences, Bengaluru performed a double lung transplant. With novel techniques like these, NICS has become a leading centre for heart and lung transplants
- NICS, Bengaluru performed India's first Interventional Fontan Completion – a hybrid treatment modality that reduces the number of surgeries required from 3 to 1 to treat congenital heart diseases

The management of NH will focus on further optimization of our operations across the network to maximize value for all stakeholders. With patient well-being at our core, we are committed to driving excellence across the clinical spectrum and we will strive to make high quality healthcare accessible to all.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: What I was interested to understand was the outlook for the coming year, is it a fair way to assume that the last quarter run rate can be used as a base for the next year or do you expect any negative surprises on the numbers of this year?

Viren Shetty: It is tough for us to answer this question, obviously we do not give the forecast, but it is also very difficult to take a quarter's result and extrapolate that. Now, this has been a very good quarter for us and we remain very confident to perform well going ahead but having said that there is a lot that is yet to be accounted for. One is that, we are still in the process of making a lot of changes to cope with couple of regulatory things that have been happening recently. One of the key activities we are involved in is the price restructuring. There is a chance that the Government may cap the trade margins on all consumables and all drugs and in response, we will have to start shifting that to our services. Now, this thing cannot happen overnight. It is not easy for us to immediately transfer whatever margin we have from one bucket and move it to the other. There will always be payers who will negotiate with one at a time and certainly cash categories like general ward may not want to absorb the full cost upfront, so this is sort of a thing that we transmit gradually over the year and so that definitely we expect may have some margin impact as and when that starts to happen. The other thing, the units that do well, of course there is a lot of fluctuation over the year. While we do remain confident that the growth will be good this year, we cannot comment that you can just take this quarter and multiply by four and arrive at annual EBITDA.

Ashish Kumar: I was trying to figure out if there are any specific one-offs which were there in this quarter, other than the fact that the business momentum was good, was there any specific one-time stuff which happened this quarter, historically?

Viren Shetty: There is no one-offs, a lot of the units that were loss-making moved into black and so we have lot less impact from those. We had a good quarter in Cayman, but then again Cayman has been doing very well quarter-on-quarter. I would not say that anything in particular. We did also do a

huge number of transplant procedures and that is something we have highlighted in Dr. Rupert's note, so those are very high value procedures.

Moderator: Thank you. The next question is from the line of Chirag Patel from Bhavesh Investment. Please go ahead.

Chirag Patel: Sir, I have few questions, first one is on our debt condition, as of March 31st you mentioned that it is around 713 Cr. net debt, so going forward how we will be going to pay this debt, plans with respect to that and any further guidance on borrowing because in AGM we got the permission and all, so is there any specific plans for borrowing upcoming financial let us say in FY '20 or '21 or even in FY '22 also?

Kesavan Venugopalan: There is a guideline which says that around 20% of company's new borrowing should be in NCD. However, based on the law I think we would possibly consider some of our borrowings in this year in NCDs and we are in possibly talks with some of the institutions to get this done during the year. The quantum might be not very material. I think we should see something around anywhere between 30 to 50 crores on the NCD side and total borrowing in my view would not exceed 100 crores or 110 crores more than the current year.

Chirag Patel: Sir, any interest rate guidance on this fresh borrowings which you are going to take in this FY '20 or '21 might be?

Kesavan Venugopalan: We have around \$ 54 million of USD denominated debt. Other than that, it is Indian Rupee debt. I may not be able to give you the interest rate guidance because like every quarter it is subject to RBI and other interventions by the Government, but I can only tell you that we enjoy a very good banking relationship with our Indian institutions and we command a very good rate.

Chirag Patel: Any expansion plan going ahead?

Viren Shetty: For the near-term, no, nothing that we have planned in this year or the next. The only expansion is what we have already disclosed which is a new hospital that is coming up in Chittagong in Bangladesh where we will be running the Heart Centre. There is no CAPEX from our side. We are just running it on an operation and management basis.

Chirag Patel: Not much, but how little will be there of CAPEX?

Viren Shetty: No CAPEX in this project, it is an existing hospital, it has a cardiac centre. We will just be bringing in manpower, we will be running it, that will be on the P&L and we will pay the owner a percentage of the revenue.

Chirag Patel: Recently, we opened a subsidiary in US, right so what are you planning with respect to US market, whether it is same line you mentioned earlier that in Bangladesh we are just managing Heart Centre or there also we are going to open hospital or just similar to like Bangladesh what we are doing right now?

- Viren Shetty:** Not really similar to the Bangladesh model. Since we have this Hospital in Cayman Islands, we have got a lot of interest from US Hospitals for us to come there and guide them and advise them on our management process, on our business intelligence dashboards, on things we can do to streamline that operation, so we have set up this subsidiary which is more a sort of consulting arm and the idea is that on a chargeable basis, we will work with US Hospitals to offer a lot of the software and BI tools we have created so that they can improve their efficiency. We, at this point, are not looking at running or investing anything in the US Hospitals.
- Chirag Patel:** Internally like any assumption should build for revenue with respect to US market or apart from Indian market like Bangladesh, Cayman, and USA, let us say we want to earn 20% or 30% kind of revenue in that five years from the overseas market or any such assumptions you build internally?
- Viren Shetty:** Next five years is very difficult to build a model for that because we are also just exploring the market and the size of these contracts what we take is not very material, they are in the range of few hundred thousand dollars. Once it becomes something material, once we are sure that this is something that is sustainable, and we will keep doing then of course we will inform the investors and make appropriate guidance on the same, but for now it is not something that you should put in your spreadsheet.
- Chirag Patel:** We opened subsidiary four or five months before in US, right so any tie-up has happened or any kind of agreement we ended with any local hospital over there?
- Viren Shetty:** Those terms are still under discussion, but nothing that has been finalized yet.
- Chirag Patel:** In which geography, we are trying for in US, which provision we are trying to tie up with hospitals in USA particularly?
- Viren Shetty:** These are smaller hospitals in the Midwest
- Chirag Patel:** No, I am asking from the area, locality point of few like let us say New York or any?
- Viren Shetty:** Definitely not New York
- Moderator:** Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.
- Tushar Sarda:** What is your group occupancy and also cluster wise?
- Debangshu Sarkar:** Tushar, as you have noticed that we have discontinued the practice of reporting occupancies for a very specific reason, which we have elaborated in detail in our past interactions as well. What we have realized is that with increase in advancement in technologies and the clinical spectrum of work that we are focusing upon, occupancy as a metric to report in the manner and form that the industry is used to is losing its relevance and that is the reason that you would have seen that

across the Board in our investor collateral, we have started reporting discharges. Just so that you are not confused with the previous reporting, we are also reporting the ALOS figures so that you are able to calculate the occupancies but going forward we will be reporting discharges and that goes in line with our focus on ALOS reduction across all the specialties along with increasing discharges, resulting in occupancies becoming more and more irrelevant as a metric to track upon.

Tushar Sarda: Can you also give a little color on profitability of these high end procedures like transplant, how does it compare to your normal procedures?

Viren Shetty: Just to give you a sense, if you take the example of a liver transplant, the price is depending on the complication and so on can be anywhere from 20 to 40 lakhs. If you compare the average realization on a cardiac procedure is more like 1 to 2 lakhs. Now, when we started off the program it was not very profitable because your doctors and team were still new, and they spent a year going at it and now they have become quite proficient in doing these cases very well. Similarly, kidney transplant is anywhere from 8 to 15 lakhs, so these are just very high ticket, high revenue, and of course high margins cases.

Tushar Sarda: What is this as percentage of your revenue?

Viren Shetty: Transplant as a percentage of the revenue is not that significant now, but what it does is when you combine a bunch of them in the quarter, it has a disproportionate effect on the numbers of the hospital. The other problem of that is that there are only four hospitals we have in the network that are doing transplants, because these cases need a license to operate, they need to have the doctors who are trained and they need the OTs that are equipped for it, so four out of the overall network hospitals perform them and the overall volume will be still small compared to the total number of surgeries we do.

Tushar Sarda: The other question you mentioned that the Government may cap the prices of consumables or the margins on the consumables, so what are the margins on consumables and what impact would it have on your operating?

Viren Shetty: Just to clarify on that, we said the Government might cap the margin on consumables and drugs, this is something that we read in newspapers, so it is something that we anticipate may happen. If you recall there was lot of the noise around these cases in hospitals in Delhi where they said they were charging 1,000% margin on gloves, 800% margin on syringe and so on. Ultimately, you are talking about Rs. 2 item being sold at Rs. 5 or Rs. 10.

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

Nitin Aggarwal: Sir, on the performance of the existing hospitals there has been a pretty marked improvement even outside of the Cayman business, so if you can probably just take us through, A, on Cayman

what has been the major driver of profitability and revenue growth for the year and for the India business also, while the mature hospitals clearly seem to have done extremely well through the year, have there been any specific actions that you have taken which are bearing fruits and how should we look at incremental profitable growth from these businesses in these hospitals going forward?

Viren Shetty:

Nothing specific in Cayman case. This was the post-holiday season where a lot of the procedures were scheduled. This is mostly elective driven hospital. We do not get a lot of emergency cases there, so a lot of cases were lined up and our doctors were available to do all of them, so that is essentially what has driven the Cayman business. The other part of your question what are the actions and steps that we have taken to achieve this, I will be say nothing new as such, you have been part of all the investor calls from before, we spoke about how we are overhauling all the operations, consolidating, and streamlining, how we are investing in high-quality clinicians who are able to do bone marrow transplant, organ transplant, robotic surgery and so on. These are high yielding, high ARPOB procedures. We have made some investments in high-end medical equipment also to be able to do that, and the other one is the Ahmedabad and Jamshedpur Hospitals in particular which were historically loss making have become profitable.

Nitin Aggarwal:

Going forward, do you see still scope to further enhance the profitability across the network especially in India and drivers essentially is going to be still more profitable growth coming from a larger pre-existing hospitals or is that incremental more profit contribution coming from the hospitals that have just turnaround?

Viren Shetty:

A bit of both, the larger hospitals, of course, because they are the ones which are able to do more of the high yielding procedures more, so a major increase that will come from them, we see a lot of scope in our Mazumdar Shaw and the Cardiac Hospital in Bangalore. As regard to the rest of them, Ahmedabad, Shimoga. Raipur, for example, in Raipur, we are investing in a large cancer unit there, we see a lot of growth coming from that unit. Oncology unit is something that may be inaugurated later this year and that will unlock both radiation therapy as well as Onco Surgery. As regard, Shimoga, Mysore, Jamshedpur, Ahmedabad, and Jaipur, I would just say in normal course, they are getting their equipment, there are being upgraded, things should move in a positive direction for them. On the Ahmedabad, there is a big capacity constraint, their occupancy is high right now, so there we may take a call to add more beds in the existing structure, so that may require a bit of investment, but that will come in the next fiscal, nothing this year.

Nitin Aggarwal:

Lastly, what are the thoughts on incremental capacity expansion, there is nothing on the table right now, but how are we looking at what stage do we start evaluating capacity additions incrementally now?

Viren Shetty:

We would not acquire new hospitals or go in to new geographies or open up in the same city, but what we will do for example is - our Westbank Hospital in Calcutta, this is the one in Howrah, that has been doing extremely well and they are running out of capacity, so for that we

will add a couple of more floors which can add ICU beds, operating rooms, and that will deliver growth, so that is just an add on to the existing building, it does not come at too high a cost. Similarly, our Dharamshila building also has scope to go up higher. There we may add, this will be done by the partner so they will make a lot of the investment, that will happen sometime next year. Raipur as I said anyway, the trust that we are partnering with is adding the Oncology unit, we have just put in the medical equipment and we are good to go, so it is just sort of incremental CAPEX through the existing network. It would not add too much to bed count.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhary: Can you please highlight something regarding this Mumbai, Delhi, and Jammu hospitals, when do you think the breakeven in these hospitals and how they are doing, what has been the performance over the period?

Viren Shetty: On the Jammu Hospital, breakeven is not the issue because we get viability gap funding for that. We do not see it breaking even in the next one or two years given the difficulties of operating in that State, but the trust has promised to keep supporting us for as long as we are there and so for Jammu, it would not be too much of an issue. As regard to Gurugram unit, it is still new. The growth has been phenomenal there, we are seeing a lot of traction from the international patients, but it still has a long way to go. We are just putting up the radiation unit now. Normal trajectory that we expect for this hospital as we have indicated earlier is around 30 to 36 months or beyond. As regard to Dharamshila Hospital, this is something where we have made a lot of changes upfront, it was the hospital that was just about breakeven but when we came we made additional investments in manpower, infrastructure, and so on, so it went into the negative, but it is something that should breakeven pretty soon because we are seeing a lot of growth there. SRCC, again this is a Greenfield hospital, lot of the investment was made by the trust there, but again it should follow the normal trajectory of the hospital as we had indicated earlier.

Bhagwan Chaudhary: So it may take another one-and-a-half year to breakeven?

Viren Shetty: It may take a little more given that it is on the pediatric side, it is a Centre of Excellence, so what happens is that the cost that you incur on manpower or consumables is much higher and your reimbursements are a little lower, so it may take little longer.

Bhagwan Chaudhary: The second question is on regulatory side as you mentioned that Government may cap certain consumables, so in your business do you think the consumables contribute big to your top line or profitability, which can impact actually in either way?

Viren Shetty: It is huge component of our operating expenses and so especially what happens is the way we provide the bill to the patient, when I say take an IV bag, the cost of an IV bag itself may not be much, we buy it in huge quantities but the real effort in the IV bag is for the nurse to come, pick it up from the box, hook it up to the stands, put it in the cannula, and make sure it is monitored.

Now, you cannot really get a cost header for that, so in the end it is charged to the patient bill as IV charges. Now, when the Government decides to just cap how much you are allowed to charge for IV fluid then you just need to shift all of that into the next bucket which is nurse charges or infusion charges, these are things that were never there in the bill before and so that is essentially how we think about the margin that were available on products. In the outpatient setting, that is a different question altogether, but it is just to account for the effort it takes to deliver the services.

Bhagwan Chaudhary: Sir, lastly one of this drug prices cap particularly on these anti-cancer side, so do you think it will have an impact on Mazumdar Hospitals where we have entered in Onco business?

Viren Shetty: Oncology is a large part of our business, it is around 10% of our business of which chemotherapy is a small portion of the overall Onco business that is mostly driven by radiation and surgery, so when they change the prices, Onco drug will definitely have an impact but like I said earlier, we had anticipated that these sort of things would have happened and so we had changed our pricing mix to accommodate for that.

Moderator: Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Sir, are you planning to raise more debt?

Kesavan Venugopalan: Yeah, I think apart from the CAPEX requirements which possibly in some cases need to be funded by borrowing, we do not look for any major placement of debt.

Adesh Mehta: Okay, but then I understand that you actually have no CAPEX plans, so this would be for equipments or maintenance CAPEX?

Kesavan Venugopalan: It would be for a normal routine upgradation and maintenance CAPEX what we need to upgrade the current set of equipments and second thing is just to replace certain let us say equipments which are near the end of the cycle.

Adesh Mehta: The other thing I am seeing is that for both SRCC and Dharamshila, our revenues are broadly, they have stagnated over the last three quarters, so when can we see the next inflection point and what is limiting the revenues from this hospitals to grow further?

Viren Shetty: I do not think there has been stagnation in Dharamshila, I mean by stagnation you say it ...

Adesh Mehta: It is broadly 25 to 26 crores for the last three quarters?

Viren Shetty: Dharamshila has not been stagnating, I will take your point on SRCC at best we can say that it has not grown to the extent that we had anticipated, definitely we had expected a lot more occupancy, but the challenge there is the lot of the business that we can get on Pediatrics come from these Government schemes which in the past year they have not really been paying, that is

generally the case in the months before an election is that the Government machinery just stops working and so we have willfully stepped back on treating these patients who come from Government payers, but now that election is over we should start going ahead with this again.

Adesh Mehta: I see year-on-year your ARPOB has grown from Rs. 8 to Rs. 9 million which is around 12% to 13% kind of growth, just 4Q to 4Q what could the growth have been because my number suggest it would be around 14% to 15%, is that true?

Debangshu Sarkar: ARPOB in Q4 FY19 was INR 9.6 mn and INR 8.4 mn in Q4 FY18 i.e an increase of 14.4%.

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

Sameer Baisiwala: This question is on receivables, is there any difference for India versus Cayman business, I think it is around 30 days if I am not wrong?

Debangshu Sarkar: You are right Sameer, India business is around 30 days on a net receivables basis while the Cayman business is actually much higher than that, it is around 55 days. It has around \$ 8.5 million of receivables on a \$ 54 million top line for the last fiscal.

Sameer Baisiwala: Do you think this is going to change materially going forward both for Cayman as well as India operations?

Viren Shetty: Sameer, we would not expect any material deviations from this, you will appreciate that there has been continuous focus on, at least, the Indian part that we have been trying hard to impress upon the Governmental agencies from which there have been huge outstanding for lengthy periods of time and there has been material improvement on the receivables position over the last 12 to 18 months that you would have noticed on the Indian side. On the Cayman side, given that a lot of the logistics work out of the Indian supply chain based out of here, so I think this is pretty much settled now on both the assets unless there is any material change in any peer category or their payment policies, which is not anticipated at this point of time.

Sameer Baisiwala: Just thinking about the cash flows, for example, you have 300 crores of consol EBITDA for this year, back out the interest expense and taxes, probably we are left with 200 crores odd, I do not know if this Math is right, so therefore, how much does it go into working capital versus CAPEX even if it is maintenance CAPEX, and therefore, any free cash flow generation that may happen going forward?

Debangshu Sarkar: Your Math is actually right on the 300 crores total EBITDA and almost 100 crores towards interest and the tax servicing. Out of the balance 200 odd Cr, with increase in working capital not being very material (To the tune of around 20 Cr), the bulk of the other investment is in CAPEX of around 140 to 150 odd Cr and the balance is our reduction in the net debt which is getting reflected through the cash amount which is there on our book as of March '19 versus

what you would have seen in March '18, i.e. our net debt position has improved by around 50 crores from March 31st FY '18 to March 31st FY '19.

Sameer Baisiwala: How do you see this going forward?

Debangshu Sarkar: That is a function of how the underlying business grows. Obviously, you would presume growth in the EBITDA itself and there should not be material change in the working capital. Like Viren mentioned, we do have plans for extensive CAPEX across our network which is both in terms of our replacement and upgradation CAPEX as well as expansion plans like what we are planning for the Westbank unit. Also, the CAPEX that we are planning with the cancer unit at our Jaipur unit and so on and so forth. So a good part of this will obviously get utilized in that. Having said that, we should be in a decent position in terms of our overall cash flow management as far as our budget is concerned.

Sameer Baisiwala: Final question, that is on the potential price control if any Government may bring about, you mentioned about consumables but are we also thinking of inpatient pharmacy?

Viren Shetty: Medicine, inpatient medicines are a huge portion of that, so if margin control is to be put, we expect that is where it would have the most impact. On the outpatient pharmacy, our margin is anyway in line with the market and that will not have too much of an impact.

Sameer Baisiwala: I do not know whether it is a right question to ask, but of the 300 crores EBITDA, how much consumables in medicines would probably be at risk, I would say 50 crores, 70 crores, is that the order of magnitude we are talking about?

Viren Shetty: Like I said, what we are doing is we are just moving the cost bucket, so we are in the process of transferring that margin away from medicines and towards the services.

Sameer Baisiwala: Net-net neutral?

Viren Shetty: It may not be neutral Sameer. To the extent of cash paying patients, you are right, it might be neutral, but when you see agreement with TPAs and Government institution, it does not follow the cycle of price caps, it follows a different renewal cycle for MoUs, so to that extent you may go out on cost for sometime depending on the agreement being renewed and let us say the Government scheme may be when they are launched and when their renewals come on that.

Sameer Baisiwala: Just on the pricing, did you take any pricing fees in Q4 or even in the full-year fiscal '19 and how do we think about it going forward?

Viren Shetty: We normally take the annual price increase, so in March we have done one. What we will be doing now going forward will be a bit of price revision, it would not necessarily be an overall price increase but more of shifting from some buckets to the others, so it may go away from the pharmacy towards more of the lab or the bed charges or the ward charges and so on.

- Sameer Baisiwala:** The extent of price increase in March, can you quantify that?
- Viren Shetty:** It is more inflation linked.
- Sameer Baisiwala:** This was across all peer category?
- Viren Shetty:** As I said, we have control over cash, as far as the TPA insurance and Government are concerned, we wait for the new revision of the schemes or the renewal of the MoUs, for example, Government schemes there is no refresh cycle that has been going since 2014, so that you either choose to do it or not. As regard your private insurers and TPAs that gets renewed every two years, so in Karnataka we are renewing it whereas in Delhi and Bombay, we have just entered those agreements, so there will not be a change for the next two years.
- Sameer Baisiwala:** When you just renewed them, did you get a better pricing?
- Kesavan Venugopalan:** In Karnataka, we are still in discussion, we are in the process of doing that right now. In Delhi and Bombay, it goes as per the current rate, so whatever your rack rates are, you negotiate on the basis of that and you give a discount to that, let us say 5-10% on your list price.
- Sameer Baisiwala:** Sorry to persist on this, versus your earlier contracted rates two years back versus the latest renewable, can we build in two years of inflation-linked growth, is that the way to see about it?
- Kesavan Venugopalan:** Sameer, not necessarily that you can factor an increase because there are various factors, Government price caps announcement, the sentiment of the Government to deal with let us say the healthcare pricing, all would become factors when TPA negotiates with the healthcare operator, so we expect all this to be factored in when let us say when we renew this agreement.
- Viren Shetty:** That is one part of it, but if you are using this to help you decide on the movement of ARPOB, the much bigger factor for ARPOB movement is the change in case-mix, since we are going towards more high yielding, high realization procedures that again becomes a difficult thing to do because these procedures do not happen that often, but when they do they change the average ARPOB.
- Moderator:** Thank you. The next question is from the line of Tanush Mehta from Dalal & Broacha. Please go ahead.
- Tanush Mehta:** Sir, what are the source of the other income in the current quarter?
- Kesavan Venugopalan:** It is primarily the write back of our earlier provisioned liability since it is no longer required.
- Tanush Mehta:** Sir, secondly in the previous quarter's call we had discussed that we will be centralizing our inventory and with that we would have achieved some cost-cutting in our expenses, so where have we reached so far in that?

- Viren Shetty:** I think from a supply chain perspective, we monitor this from a central business unit and I think these initiatives have possibly consolidated over a period of last four to five years and consistently we have improved our consumption. As far as monitoring and operations are concerned, I think it is a very continuous process and I think we will deal with this on a day-to-day basis as with regard to let us say which unit should have what optimal level of staff control and what they should, depending on the patient flow and the doctors.
- Tanush Mehta:** Sir, my third question would be that this quarter we had a share of profit, so it was majorly on account of the Ahmedabad and Jamshedpur Hospital that has now become profitable and can we see that same moving in the future quarters as well?
- Kesavan Venugopalan:** Are you referring to the associate share of profit?
- Tanush Mehta:** Yeah.
- Kesavan Venugopalan:** This is predominantly on account of, we have invested in a company which that some patient related automation in terms of diagnostics and care, so I think the performance of this unit we consider it as an associate share and loss of profit. All our hospitals are 100% owned/operated by us and hence this will not get reflected in our share of profit.
- Tanush Mehta:** Sir, my fourth question would be that with the new lease accounting standard that has come effective from April 1st, so how do you see any changes in your books with that?
- Kesavan Venugopalan:** You will have to possibly capitalize the fixed asset and deal with that as a liability.
- Moderator:** Thank you. The next question is from the line of Harith Ahmad from Spark Capital. Please go ahead.
- Harith Ahmad:** Can you share your thinking on the M&A front, the are you evaluating opportunity aggressively or have you put on hold all M&A activities till you kind of breakeven at the new hospital and can you also comment a bit on the valuation that you are seeing out there on the M&A front, have the valuations kind of cooled off in line with what is happening with the listed players?
- Viren Shetty:** As per our M&A strategy, we have definitely cooled off on that front, we have nothing planned on an acquisition side. The thing that we would be considering is mostly around Heart Centre or for example in Cayman our doctors are doing operations in other hospitals and at some point they may be asked to run the P&L of Heart Centre in an another hospital, but these are not sort of acquisitions per se and these do not require any huge deployment of CAPEX from our side. To the second question you asked, what do we think about valuation, at least from what we have been seeing valuations in the private sector, couple of these that have happened at high valuation.
- Harith Ahmad:** The second question on Cayman Hospital, so we have ended the year quite strongly at roughly 24% margins there, so how should we think of a steady state EBITDA margin, do we see more scope for improvement from these levels?

Viren Shetty: Year, there is scope for increase. I forgot to mention that Cayman is one other place that we are investing in Radiation Oncology Centre, so that is a project where we will be starting construction this year, I think we have mentioned it in the last call also, so we are sort of stabilizing on the procedures that are done with existing specialty mix and investment in Oncology will just take us to the next level. We have a large Medical Oncology practice in Cayman right now, but we have missed out on Onco Surgery and Radiation Oncology, so with the investment in LINAC, we will be able to see a lot more growth coming from that, so that is one-and-a-half year project and once it gets commissioned, we should expect the next wave of growth coming in from that. In the meantime, we are doing work on other islands, not very meaningful, but some contribution will definitely be coming from them.

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

Debangshu Sarkar: Thank you all for taking your time out to participate in our investor call today. Like I mentioned at the outset, should you guys have any further queries, please feel free to touch base with us at any point of time and we will be very happy to address any and all of your queries going forward. Thanks once again for participating out here.

Moderator: Thank you very much. On behalf of Narayana Hrudayalaya Limited, that concludes the conference. Thank you for joining us Ladies and Gentlemen, you may now disconnect your lines.