



“Narayana Hrudayalaya Limited Q3 FY18 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Narayana Hrudayalaya Limited Q3 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ followed by ‘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: Thank you, Ali. Good afternoon, ladies and gentlemen. I am Debangshu Sarkar and I run the Investor Relations and M&A functions at Narayana Hrudayalaya. On behalf of the company I welcome you all to our Earnings Conference Call for the third quarter fiscal 2018 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, Mr. Viren Shetty – who spearheads the Strategy & Planning Practices at NH alongside Ashish Sukhija and Ishaan Mohan from the team. I am sure you have gone through our Results Release along with the Quarterly 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 take this opportunity to remind everyone that everything 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 necessarily in conjunction with the uncertainties and the risks that they face. These uncertainties and risks are included but not limited to what we have mentioned in our prospectus filed with SEBI and subsequent annual reports uploaded on our website. Post the call, in case you have any further questions, please feel free to get in touch with us.

With that, I would now like to hand over the call to Dr. Raghuvanshi.

Dr. Ashutosh Raghuvanshi: Thank you, Debangshu. Good afternoon, to all of you. On behalf of the Company I welcome all of you to our Earnings Conference Call.

Let me start out with the summary highlights for the quarter

- We are delighted to let you know that we have been able to deliver industry-leading close to 22% Year on Year growth in revenues. That we have been able to achieve this, in a seasonally moderate third quarter which sees the onset of festival season leading to a drop-in patients' footfall, is really remarkable. Just to highlight that this is despite the really unpredictable and challenging regulatory at the moment which has definitely had an impact on the overall healthcare ecosystem over the last 12 months, effects of which we do foresee to continue to some extent in near future.

- On the overseas front, we believe, a very important milestone in the life-cycle of our institution has been achieved through acquisition of the entire stake of our partner in the Cayman Islands Hospital, making it a wholly owned subsidiary of NH. Registering an attractive 43% Year-On-Year (YoY) growth, this hospital achieved USD 32.65 mn in revenues for the 9 months period ending Dec 31st, 2017 and that resulted into healthy EBITDA of USD 4.29 mn, which has grown over 3.5 times or registering over 250% YoY growth, for the same period.
- Moving on, you will be pleased to learn that our upcoming facility at Gurugram is close to commissioning and we are looking forward to a really vibrant northern region of operations. This unit will be complementary to our Dharamshila facility in Eastern Delhi which is already gaining some traction in terms of its upgradation from a Cancer only centre to a full-fledged multi super-specialty facility. We remain hopeful about the prospects of both these units to contribute in a real significant manner to the overall group.

With this backdrop, let me now elaborate upon the performance during the last quarter.

For the third quarter, we registered a robust growth of 21.7% YoY in total operating income from INR 4,553 mn to INR 5, 538 mn. Its really heartening to note that the bulk of this growth is on the foundation of solid and consistent uptick in our volumes across the network. This showcases that the business is back on the growth trajectory after registering an average growth amidst the temporary stutters in the form of demonetization and cap on cardiac stent prices in the last 4 quarters.

The impressive growth in the business has ensured that our operating profitability, adjusted for the newer units like SRCC Mumbai and Dharamshila Delhi and the pre-operative non-capitalized expenses in our forthcoming facility at Gurugram, is maintained at 12.4% EBITDA margin on the lines of the margin observed in Q3 FY 17 thereby emphasizing the resilience of our business model. This is very satisfying for us, especially when the healthcare industry is facing turbulent times due to the regulatory & other external challenges. The margins were well supported by the sustained impressive performance from the matured hospitals with over 5 yrs vintage, which have been consistently recording industry-leading EBITDAR margins of around 24%.

Hospitals in this bucket of greater than 5 yrs continue to outperform by delivering best-in-class revenue growth of 18% year on year for this quarter and utilizing the available headroom in these flagship centres, they registered an uptick of 12% in Occupied Beds year on year for the quarter. Within this bucket, Health City, Bengaluru housing our flagship cardiac based NICS unit and multi-specialty MSMC unit, continue to occupy the Pole Position by registering maturity-defying close to 20% revenue growth.

On the back of a robust ramp-up in Occupied Beds in this seasonally moderate quarter, our other centres, also displayed a strong traction in patients' footfall and reported a healthy

revenue growth of 25%. Given this growth impetus from the newer units centred around our conscious strategy to develop other centres' as preferred healthcare destinations, is giving us the desired dividends as the contribution of the 3 flagship facilities has come down to just over 50% of the total revenues from over 70% few yrs back.

As regards our Cayman Islands Hospital, this less than 4 yr old, 105 capacity-bedded facility is a medically advanced tertiary care hospital providing high-end services such as Cardiac Surgery, Orthopedics Surgery, Neurosurgery, etc. With the prestigious Gold Seal of Approval from the Joint Commission International (JCI), HCCI is the largest hospital in the Caribbean to have such an eminent accreditation and attracts patients from the Cayman Islands, the Caribbean and the Central America.

With a handsome annualized ARPOB of USD 1.85 mn, the unit reported Revenues of USD 11.38 mn in the last quarter with EBITDA of USD 1.74 mn thereby achieving EBITDA margin of 15.3%. These figures highlight a healthy sustained trend in the operations of this centre. Looking ahead, we remain positive that this transaction has the potential to contribute meaningfully to the overall operations particularly in terms of augmenting our profitability and thus cash accruals.

On the operations front, we have tied up with all the major insurance companies in the region and have also entered into an understanding with airline operators to improve the connectivity in the region. On the clinical front, our outcomes are at par with the major hospitals in the advanced regions like the U.S. These endeavors have strengthened HCCI's brand recognition in the region. Going ahead, we are planning certain operational streamlining in the facility which is expected to give a further boost to its profitability. We expect this hospital to evolve as a major healthcare destination in the entire Caribbean region in times to come.

We are optimistic that this experience will act as a stepping stone for us to further explore the untapped international healthcare market. The success we achieved at this facility in terms of the unit breaking even at monthly EBITDA level in the 24th month and becoming profitable at Net Profit (PAT) level by the 11th quarter has bolstered our conviction to operate in such territories.

Our transformation from a cardiac focused centre to a multi-speciality healthcare provider through enhanced focus on providing advanced diverse spectrum of services is bearing us fruits today. Our endeavour towards high-end specialties with the highest degree of clinical precision and minimum incision has led to NH's brand soar new heights. NH's felicitation at various clinical forums speaks volume about the pioneering and cutting-edge work we have been doing. Recently, SRCC Children's Hospital won "The Best Superspeciality Hospital of the Year Award in Paediatrics" at International Healthcare Summit and Awards.

Linked with de-risking the business model from a Single specialty viz. Cardiac Sciences who's contribution to overall revenues have come down below 42%, high-yielding specialties like

Gastroenterology and Oncology now contribute around 16% and around 10% respectively with Renal Sciences and Neuro Sciences not far behind at around 8-9%. The recognitions like the one highlighted above have cemented NH's position not just in India but also abroad with international patients choosing NH as a preferred healthcare destination with international patients' base now appearing to be firmly entrenched around 10% of total revenues.

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

- MSMC, Bengaluru successfully separated conjoined twins. This medical problem is a rare event, occurring once in 100,000 births and the survival rate is also very low
- Our hospital in Jammu performed the first case of Endovascular Aortic Repair. This is the first case of its kind in the region. This establishes our pre-eminence in performing cutting edge cardio-vascular procedures
- MSMC, Bengaluru treated a rare cancer called Alveolar Soft Part Sarcoma of Pelvic Bone. The affected part of the pelvic bone was removed and replanted after sterilizing it via radiation through a technique called Extra Corporeal Radiotherapy

We are 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 Health Brand of the Year in Healthcare" at the India Health & Wellness Awards in December 2017
- NH was recognized in various fields at International Healthcare Summit and Awards in December 2017
 - ✓ SRCC Children's Hospital, Mumbai won "The Best Superspeciality Hospital of the Year Award in Paediatrics"
 - ✓ RTIICS, Kolkata won "The Best Cardiac Science Institute of the Year Award"
 - ✓ NSH, Howrah won "The Best Superspeciality Hospital of the Year Award in Oncology"
- NICS, Bengaluru won "The Medical Value Travel Specialist Hospital Award in Interventional Cardiology" at the Advantage Healthcare India Summit in October 2017

We remain confident that despite the continuing regulatory headwinds in the Indian healthcare ecosystem which is undergoing a sweeping overhaul, there are a lot of opportunities lying untapped in the market. And we see this apt for an institution like NH, focused on providing affordable, quality healthcare to masses, to benefit the most from the rapidly evolving healthcare environment.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the break-up of expenses. The expenses have gone up significantly in this quarter. Can you give me a break-up in terms of it or an idea in terms of expenses for the new hospitals and for existing units?

Debangshu Sarkar: If you see, the expenses have not gone up that significantly overall but for the doctor pay-outs that have happened across few of our units. We can explain the top few units across the same. So, out of our bulk increase of around 4 odd crores of doctor pay-out, this is in comparison to the last quarter that I am mentioning, we have incurred around 1.5 crores towards our Dharamshila facility that has effectively gone towards transforming from the cancer only facility to a multispeciality unit. Along with that, there has been onset of few new programs such as the pediatric cardiac surgery program that we have kick started in Guwahati. Similarly, we have also started the cardiac surgery program in Barasat as well as the cardiology program at HSR unit. Additionally, we have also beefed up our existing clinical talent across few of the specialities, let us say nephrology and orthopedic at Mysore as well as medical oncology and nephrology at Jammu. Sum total of all this has resulted in around 4 crores increase in our medical doctor pay-out vis-à-vis the last quarter. All the other expenses have actually come down in absolute terms, in line with the reduction in revenues which is like 5 to 6 crores as compared to the last quarter.

Charulata Gaidhani: My second question pertains to acquisition of Cayman Islands. What is the cost of the acquisition?

Debangshu Sarkar: As we have highlighted in our notification previously as well, this deal was consummated at an enterprise value of around US\$ 70 million and we have acquired the balance 71.4% from our partner.

Charulata Gaidhani: So, you have acquired 71.4% additional?

Debangshu Sarkar: Correct.

Charulata Gaidhani: Now this will be a wholly owned subsidiary of NH?

Debangshu Sarkar: Yes, going forward, this will be a wholly own subsidiary of NHL.

Charulata Gaidhani: Now how much was the occupancy at Cayman Islands?

Debangshu Sarkar: Close to 25%.

Charulata Gaidhani: And the number of beds stand at 105?

Debangshu Sarkar: Yes, ma'am.

Charulata Gaidhani: And if I could squeeze in one more, at SRCC how much was the occupancy?

- Debangshu Sarkar:** It is around 30 occupied beds out of around 60 census beds that we have commissioned. So, it is roughly around 50% of the census beds.
- Charulata Gaidhani:** So, then that should take you close to break-even?
- Debangshu Sarkar:** As we have specified in the presentation, SRCC loss in absolute terms has come down but it is still as high as 6.9 crores for the quarter as against 7.9 crores in the previous quarter.
- Moderator:** Thank you. We will take the next question from the line of Trilok Agarwal from Birla Sun Life. Please go ahead
- Trilok Agarwal:** Actually, I was keen to understand that in our 3 to 5 year category, our occupancy levels and margins have come down, any particular reason for that?
- Debangshu Sarkar:** 3 to 5 year bucket occupancy as compared to Q2 might appear that it has come down but with respect to Q3 last year, it has actually improved from 51% to 55%. So, this is a seasonal effect that we see on the quarterly basis. Despite that as Dr. Raghuvanshi mentioned in his opening remarks, we have had a fabulous third quarter, at least in terms of the volume ramp up which has translated into record or rather industry-leading revenue ramp up. Now coming on to your question about the margin drop. Over last year's Q3 bucket, the hospitals in itself have moved into different buckets this year. So, like-to-like you probably would not be able to compare. We can get down to the details around the units. So, if you see even on the quarter-to-quarter basis, I agree that it has possibly come down from 11% to 6% that you see in this quarter. That has primarily got to do with the reduction in revenues of around 3 to 4 crores and that has translated to the same in terms of EBITDAR flow as well. That aside, like I previously mentioned, there have been few one-off investments kind of expenses that we have incurred towards the clinical talent across some of the units like Mysore, Guwahati, HSR and so on and so forth, which explains these kinds of specific one-time expenses. But broadly this is in line with the drop-in revenues of these units quarter-on-quarter.
- Trilok Agarwal:** Are there any devices or medical devices that you guys invested in this quarter?
- Debangshu Sarkar:** That would not get captured in P&L at any stage, that gets captured in CAPEX.
- Trilok Agarwal:** As a part of other expenses, nothing else goes into P&L?
- Debangshu Sarkar:** We capitalize those expenses. So, it does not get captured in the P&L at all. The P&L expense is primarily towards man power and in this particular quarter, that we are talking about, it is primarily towards doctor pay-out.
- Moderator:** Thank you. We will take the next question from the line of Rohan Dalal from B&K Securities. Please go ahead.

Rohan Dalal: I wanted to know what was the CAPEX incurred for Gurugram facility, Dharamshila facility and the Cayman Islands facility?

Debangshu Sarkar: We hardly spent any significant CAPEX in either Dharamshila or Cayman in the last quarter.

Rohan Dalal: Gurugram?

Debangshu Sarkar: Gurugram is still under commissioning. So, once we commission it, we will probably be able to give you the complete figure around what is the total CAPEX that we have incurred after the acquisition.

Moderator: Thank you. We will take the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Dr. Raghuvanshi, I just have a question around the new hospitals. So our Mumbai hospital, I think that the loss continues to be at a run rate of around 7 to 8 crores a quarter. We will begin to invest now in Dharamshila to transform it to a multispeciality hospital and presume we are going to be start the Gurugram hospital anytime shortly. So, overall, when we look at this block of 3 new hospitals while our existing hospitals continue to do extremely well, how should we look at the EBITDA contribution from these hospitals, say over the next 4 to 6 quarters? And what stage do you see this cluster actually becoming EBITDA positive for us?

Dr. Ashutosh Raghuvanshi: I will take the 2 units in our northern cluster separately and then I will come to Mumbai. The first unit in north in NCR region, Dharamshila was an operational cancer hospital. So, there was a significant level of clinical activity and at the EBITDA level, it was almost neutral post partner pay-outs. However, as we are converting the hospital into a multispeciality hospital, lot of acquisition of clinical talent, etc. has happened in the last 2 quarters. Now, this expense getting translated into revenue in terms of patients and new specialties takes a period of about 2 to 3 quarters. Since it is an established hospital, the revenue ramp-up cycle over there would be slightly faster than a traditional hospital which is totally greenfield. So, the trajectories of Dharamshila and Gurugram will be slightly different. What we expect is that Dharamshila would start going towards the kind of maturity in terms of a positive sustainable EBITDA in the next 3 to 4 quarters. However, Gurugram is completely a greenfield facility and would have its normal cycle of growth which means that it should take about 24 months or so before we get into a positive territory. So, overall as a cluster or as a region, if we look at it, Jammu is an EBITDA neutral hospital and Dharamshila is hovering in that range. The impact of the northern regional cluster will not be very significant. On the other hand, as far as Mumbai hospital's operations are concerned, as Debangshu pointed out from the previous quarter to this quarter, the losses have come down though not to the extent which is extremely significant but from about 8 cr it has come down to about 7 cr. So, we expect that trend to continue. But as I said in the previous call also, that the typical cycle of about 18 to 24 months is what is required. For another 4 to 6 quarters, SRCC is likely to remain in a negative EBITDAR range. However, the quantum of that negative EBITDAR is going to come down gradually. As of Q3

FY18, the hospital is showing trends of occupancy of about 30 beds which implies an occupancy of close to 50%. So, we are getting into that phase where we would be commissioning more beds over there. That may also partly increase the expenses, but as the revenue catches up with the expenses and a positive EBITDAR territory comes, I think that journey would take us about 3 to 4 quarters minimum or may go up to 6 quarters.

Nitin Agarwal: If you can help me with the Gurugram expectations also, when you see it breaking even for you?

Dr. Ashutosh Raghuvanshi: Gurugram being a completely greenfield project, we expect at least 24 months for it to go towards the positive territory.

Moderator: Thank you. We will take the next question from the line of Amit Hiremath from Mahindra Mutual Fund. Please go ahead.

Amit Hiremath: Would it be possible to provide the break-up of our bed capacity across the maturity cadres like over 5 years, 3 years to 5 years?

Dr. Ashutosh Raghuvanshi: Yes, we can get that. Yes if we look in the percentage terms over 5 years 53% of our beds are in over 5 years category, 18% of our beds in between 3 years to 5 years and 15% of our beds are in less than 3 years. The acquired operations constitute 13% of the total beds.

Amit Hiremath: This is for the operational beds you are saying or the capacity?

Debangshu Sarkar: This is operational.

Amit Hiremath: Can you just give that data for 6,888 capacity beds?

Debangshu Sarkar: We can take it offline.

Amit Hiremath: And my second question would be for the heart centers. Now that we are well past the price embargo, what is stopping you from increasing the profitability of these heart centers which is lingering at around 8 to 9% EBITDAR?

Dr. Ashutosh Raghuvanshi: In heart centers, there are several dynamics which operates. Heart centers are exclusively within the secondary towns, majorly in Karnataka region. Most of the patients over there are government scheme patients, where the prices are fixed by the scheme. So, the cash paying patients' component in the heart centers is relatively small compared to our larger hospitals. Though in the larger hospitals, only 20% or even less are scheme patients but in the heart centers, higher number of patients are scheme patients. Also, the heart centers are referral centers to the base hospitals. So, those are the limitations you have in the heart center, but they are part of the larger ecosystem. So, it is better to look at them in a more comprehensive manner and as to what value they add to the operations of the mother hospital.

Amit Hiremath: But do you see this EBITDAR margin coming back to around 18% in the near future or would it take some more time?

Dr. Ashutosh Raghuvanshi: I think the heart centers will be under stress as I said because of the scheme business. We need to really see how the newer initiatives which have been announced are going to shape up the scheme business and a lot would depend on that. So, I would not like to hazard a guess on that. What we would be doing internally, and we always do is that we are continuously in the process of evaluating the relevance and the importance of a particular unit to our overall operations. So, if a particular heart center does not fulfill the criteria of being self-sustainable and at the same time being a good referral channel, then we would review it from time-to-time. As you might be aware, we have shut down one or two heart centers in the past.

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

Sameer Baisiwala: I think Dr. Raghuvanshi, you just touched upon that and my question is on National Health Protection scheme that the government announced yesterday. What is your first take on it? Is this going to be a big opportunity for the hospital sector in general and would there be margins to be made over here and would the business come to private operators or government hospitals, your thoughts please?

Dr. Ashutosh Raghuvanshi: Yes, I think the first reaction is I would say jubilation. Because if you look at our ARPOB levels, you would realize that majority of patients we will be able to cover, except for some very catastrophic illnesses or conditions like bone marrow transplant and liver transplant, almost everything gets covered into a below 5 lakh kinds of category. So that way it sounds very good. But the devil is in the detail and we are yet to see how this is going to be implemented. I think we all will have to wait for the fine print to emerge and how exactly the scheme is going to be implemented and administered. However, even if it gets implemented in a limited manner and does not cater to 10 crore families, I think this is definitely a good thing for the healthcare industry in general. Certainly, for provider which is in the value segment such as us and many other networks. The idea of government coming up with this scheme is that it is essentially focusing on secondary, tertiary care and not just on primary care for which they have created a separate vehicle which I understand. So, if that is the case then this business is likely to go to the private sector and not to the public-sector hospitals. That is our initial impression but as I said in the beginning, it would all depend on how exactly it is administered and managed.

Sameer Baisiwala: And my second question is about the stent price control. What is the current update on that. When I compare September quarter to December quarter, I cannot see a discernible change, but I thought that you had taken a fair bit of price increase in September.

Dr. Ashutosh Raghuvanshi: Yes, in the end of September, we took some price increase which covered the losses due to cap on stent pricing to some extent but not completely. However, the latest update is that the

government has constituted a review of that pricing mechanism and the National Pharmaceutical Pricing Control Authority has called for a next consultative meeting as early as next week. So, there is likely to be some change in that, whether that change would be significant or not is yet to be known.

Moderator: Thank you. We will take the next question from the line of Harith Ahmed from Spark Capital. Please go ahead.

Harith Ahmed: You talked about some of the measures that are being done at Cayman Islands facility to improve the occupancies there. Given that you have full ownership and management control now, how do you see these occupancy numbers moving over the next 12-24 months. Can we see a significant ramp up from less than 30% levels?

Dr. Ashutosh Raghuvanshi: The occupancy levels, I expect it to grow rather slowly because a lot of treatments over there are daycare and as you have seen that the ARPOB over there is remarkably higher than what one sees in the Indian context. So, we are not so concerned about the occupancy. What we are concerned about is the realization and what kind of ARPOB levels we are operating at. So, as far as the operating expenses are concerned, now as we have full control on the management, it will be rationalized to some extent and that could add to the profitability. We have been seeing a continuous growth in the numbers over there both in terms of the number of cases which are being done as well as the complexity of the work which is being done. So, that would continue to evolve at a healthy rate.

Harith Ahmed: And secondly on the Mumbai facility, the reduction in losses has been slightly more gradual than what we had expected. Are there any unexpected challenges that you are facing in Mumbai and what are we doing to address these challenges?

Dr. Ashutosh Raghuvanshi: No, there are no unexpected challenges but some of the things which we had anticipated are there. One of them was that the cost of clinical talent is relatively high, and the cost of overall staffing is also slightly higher. Similarly, many other ancillary costs like accommodation cost for the nurses, etc., are also relatively higher because of the general living index being higher in Mumbai. Other than that, the only other reason why the ramp up has been slightly delayed and slow is because we were planning a large launch of this facility which we were not able to do because of not getting the appointment from the VIP who had earlier consented to it. So that way it appeared that the ramp up is slow. The second thing is that this being a specialized children's hospital, we would expect that the outpatient business will be more significant than the inpatient and that has taken some time. The third factor which was there is to get all the arrangements in place in terms of the referrals because majority of children's surgeries are usually supported by various individuals, trusts, and other organizations and governments. So, now this hospital has a tie-up with the Assam Government to treat 1,000 children for heart operations and they have already started sending the patients over here. 100 heart surgeries have already been done. The second agreement we have reached is with the TATA Trust and the Maharashtra Government scheme where the Chief Minister's Scheme which is supporting

surgery for 500 children for heart operations. With all these measures in place, we expect to see a faster ramp up. But having said that being a children's only hospital, this hospital will see a slightly muted ramp up.

Moderator: Thank you. We will take the next question from the line of Mr. Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: A quick one on your employee count, if I am not wrong it has gone up by 1,000 quarter-on-quarter basis to ~15,900, what is driving this?

Dr. Ashutosh Raghuvanshi: Yes, that is because our new facility in Gurugram is getting commissioned. So, the appointments have been made and people have started joining. It is a pre-commissioning number, over there about 200+ employees are already in place. Similarly, there have been some additions in Dharamshila as well as in our Mysore and Guwahati facilities. So, this collectively put together has increased the number to some extent. Other than that, since the occupancies have gone up in some of the hospitals, therefore the number of nurses has also gone up marginally over there. So, all these put together has resulted in this increase.

Sameer Baisiwala: And for Gurugram, when exactly are you planning to open the hospital, and can you just ballpark some range on the year one EBITDA loss?

Dr. Ashutosh Raghuvanshi: As far as the commissioning of the hospital is concerned, we have all the licenses and everything in place. We propose a soft launch on Monday (5th of February 2018). The outpatient services we intend to start by 15th of February and the inpatient services by 1st of March. So, that is the time frame on which we are working. It is difficult to hazard exactly how much of EBITDA loss might be there in the first year but as I said earlier, this being a greenfield project, it will have a normal trajectory which means that at least for the first 24 months you should expect negative EBITDA. The other thing I must point out is that Gurugram again being in a great location in terms of cost of living, it would have a slightly higher cost structure than many of our other hospitals. But at the same time, we have been able to acquire very good clinical talents, so we are very hopeful that the ramp up might be faster than what we had originally anticipated.

Moderator: Thank you. We have the next question from Ashi Anand from Allegro Capital Advisors. Please go ahead.

Ashi Anand: The question is a follow up on one of the previous questions. Sir, you mentioned that there is a review on stent prices that the government is undertaking. Is this on the product pricing? Are they looking at capping procedure pricing, could you just give us some indication of what exactly they are looking at?

Dr. Ashutosh Raghuvanshi: I am not sure what kind of review they are going to undertake but their concern is that the new generation stents are not being introduced by the multi-national companies in India. And that is

a big concern for the government as well as for the medical fraternity and I think it should be a very big concern for the patients as well. To address that issue, I am sure they will have to consider the price capping issue as a primary driver of this whole problem. So, we do not know at this moment what kind of decisions they will take but they have called for a formal review. They have also called for industry experts to come and give their opinions.

Ashi Anand: Just a follow up question. In your mature facilities, specifically NICS, MSMC and RTIICS, I just wanted to understand, do we see a scope for brownfield expansion, is there a difference between capacity and occupied beds and can we ramp it up further?

Dr. Ashutosh Raghuvanshi: As far as the RTIICS is concerned, the capacity has exhausted now. So, we are trying to sort of reconfigure the facility as much as possible to see how we can have more growth there. So, the driver of growth for that hospital will be changing the patient mix. Whereas in case of MSMC and NICS, the capacities are still available, and we still have enough headroom for growth in both these facilities. As far as MSMC is concerned, we have added new service lines such as liver transplant program which we did not have earlier. So, we expect those also to ramp up as we go further.

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

Nitin Agarwal: Dr. Raghuvanshi, on the hospitals which are more than 5 years old, we have done a phenomenal job over the last few quarters in terms of growth and profitability. How much scope do you see in terms of further maintaining this kind of momentum, given the fact that the occupancy is pretty high and so are the ARPOBs across these hospitals.

Dr. Ashutosh Raghuvanshi: Yes, Nitin those are the three flagship hospitals, the older ones that have done extremely well. But within this bucket also there are other hospitals where we have a significant work to do. As you are aware that we are struggling with our Jamshedpur facility and Jaipur as well. In Jaipur, we see a lot of headroom being available for growth, and performance can be improved significantly. Not only that, as I pointed out earlier, also if you see in the cardiac hospital also we saw a good revenue growth. The only center which is saturated is RTIICS.

Nitin Agarwal: And in terms of your future growth plans given the fact that you have already got three large hospitals and these hospitals are still not profitable at EBITDA level, what is our appetite or view towards adding more hospitals in the network?

Dr. Ashutosh Raghuvanshi: See we have very clear strategy as to where our growth should be. The growth should be in markets where operationally you can make operations viable faster and we can utilize our existing brand value. At the same time where we can use our existing resources and the strength of our supply chain. With that in mind, we would continue to remain focused on the eastern cluster, southern cluster and with the renewed focus on the northern cluster where the 3rd unit is going to be operational very soon. And if there are certain opportunities in the

western cluster around Mumbai, we would definitely explore those. However, our appetite for a greenfield hospital is not very high. We would prefer to go for brownfield expansion in these markets as well.

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

Charulata Gaidhani: My question pertains to the Gurugram facility, how much is the total CAPEX that has been spent?

Debangshu Sarkar: So Charulata, as highlighted in one of the previous questions, we would be able to confirm that once we complete our commissioning work in this unit. Since it is still under CWIP so let us get this on board in terms of commissioning and possibly over the next quarter, I will be able to get you that detail. But roughly like previously estimated, it will be in the range of around 50 crores post the acquisition.

Charulata Gaidhani: And the Mumbai unit will also get capitalized in FY?

Debangshu Sarkar: Mumbai, there is no CAPEX at this point of time. It is a newly constructed unit which we got in O&M asset-light format where the partner has invested in the land and building, and we have just equipped with all the medical equipment and we have spent around 50 crores towards that.

Charulata Gaidhani: So around 100 crores will get capitalized?

Debangshu Sarkar: Mumbai is already capitalized as of April 2017. CWIP that you see in our balance sheet today is essentially towards Gurugram, which will also get capitalized over the next month or so.

Charulata Gaidhani: So, FY18 you expect any additional other than this 50 coming in?

Debangshu Sarkar: In terms of what?

Charulata Gaidhani: For capitalizing.

Debangshu Sarkar: There will be. Apart from this, our routine/normal upgradation and maintenance CAPEX on which we have previously given guidance or rather quoted the actual numbers. So, till last quarter or H1 it was around 50 crores and 73 crores till Q3. So, year till date 9 months we have spent close to 70 cores towards normal/routine maintenance and upgradation CAPEX.

Moderator: Thank you. We have the next question from the line of Rohan Dalal from B&K securities. Please go ahead.

Rohan Dalal: What is the contribution of RTIICS in revenues for this quarter?

Debangshu Sarkar: Rohan, we typically do not spell out individual hospital wise revenues out here. But suffice to say that unlike last quarter, RTIICS has grown significantly, in fact the entire eastern region has clocked a very impressive 21% year-on-year growth unlike the previous quarter where it was in mid-single digit number. While 21% growth has been contributed whole heartedly across by all the units in that region but that has been led ably by RTIICS.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Debangshu Sarkar for closing comments.

Debangshu Sarkar: Thanks, Ali. Thanks everyone for participating in our Conference Call and coming up with your questions. Should you have any further queries or questions, please feel free to get in touch with us. Apologies if we have not been able to answer some of your questions directly today on this platform but we would be more than happy to get in touch with you and address your queries separately if you were to take it offline. Thanks again.

Moderator: Thank you, very much. Ladies and gentlemen, on behalf of Narayana Hrudayalaya Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.