



“Narayana Hrudayalaya Limited Q1 FY 2017 Earnings  
Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Narayana Hrudayalaya Limited Q1 FY 2017 Earnings Conference Call. As a remainder, 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 ‘\*’ 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 from Narayana. Thank you and over to you Sir.

**Debangshu Sarkar:** Thanks Zaid. Good afternoon ladies and gentleman. I am Debangshu Sarkar and I run the Investor Relations and M&A functions at NH and I welcome you all to the Q1 FY2017 earnings conference call. To discuss our business performance, future outlook and to address your queries today, we have with us Dr. Raghuvanshi – our Group CEO, Mr. Kesavan – our CFO and Mr. Viren Shetty, who spearheads the Strategy and Planning Practices at NH. I hope you have received the copy of the press release and the quarterly earnings update which were uploaded on our website. Before we proceed with this call, I would like to remind everyone that this call is being recorded and the transcript of the call will be made available on our website. I would 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 uncertainties and the risk 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 report on our website. After the end of this call, in case you have any further question, please feel free to get in touch with us. Now I would like to hand over the call to Dr. Ashutosh Raghuvanshi.

**Dr. Ashutosh Raghuvanshi:** Thank you Debangshu. Very good afternoon to all of you on behalf of NH, I welcome you all to our earnings conference call. Let me start with the headlines financial performance followed by discussion on operational highlights for the quarter. I would like to inform you that starting this financial year, we are reporting our financial results based on IndAS, the new accounting standards that have been made mandatory. Our CFO – Mr. Kesavan Venugopalan would later take you through the impact of this standard on our reporting structure.

We have started fiscal 2017 on an encouraging note, with total operating revenues of INR 4,520 million up by 19% over the same quarter in the previous fiscal. You would be pleased to learn that this movement was led by a very healthy 15% year-on-year growth for our matured units which was complimented with an impressive 31% year-on-year growth for the less than 5-year old hospital bucket. I am delighted to share that our EBITDA for the last quarter was INR 550 million which reflects a very healthy growth of 50% on a year-to-year basis. This translates to an EBITDA margin of 12.2% which is approximately 250 basis points up over the same period in the previous fiscal and as per previously followed GAAP accounting system, our EBITDA would have been INR 555 million which translates to slightly higher EBITDA margins.

Overall, I would say that our performance in the 1<sup>st</sup> quarter of this fiscal is in line with the stated objectives with demonstrable growth across both the mature as well as newer hospitals leading to a significant margin expansion. The enhanced operating efficiencies in line with the maturity of facilities are playing a very significant part in sustaining the earnings momentum. We closed this quarter with a consolidated net profit of INR 167 million as against a loss of INR 6 million in the same period of previous fiscal.

Let's now move to the key operating highlights of this quarter.

The noteworthy highlight of this quarter is the commissioning of our facility at Kakriyal in Jammu which was opened by Prime Minister Shri. Narendra Modi and the facility is now opened to public. We are excited to inform you that the response has been very encouraging since the opening and we are seeing good traction to the business at this facility. The positive outlook at facilities like these, cements our business thesis and gives us the confidence to replicate this example as we enter new cities while consolidating our strong presence in Karnataka and Eastern cluster.

This apart, some other key developments during the quarter were:

1. A rare neurosurgery procedure of anterior 3rd ventricle tumour removal through trans-lamina terminalis approach was conducted at our Jaipur hospital
2. Our MS Ramaiah heart centre distinguished itself as one of the few centres in Bengaluru to utilize the Bio-Vascular Scaffold System for coronary stenting
3. We achieved an important milestone of conducting 25th heart transplant across the network
4. We installed the da Vinci robotic surgical system at our Health City at Bengaluru
5. Our flagship hospital MSMC at Health City, Bengaluru completed 10 years of Paediatric liver transplant program accomplishing 60 successful liver transplants on children till date

I am also pleased to announce that during the last quarter, our organization was recognized at different platforms. The key ones being as follows:

1. We were awarded "Firm of the Year in Healthcare" at the CNBC-TV18 India Risk Management Awards
2. We won "Frost & Sullivan India Price/Performance Value Leadership Award 2016" for the second consecutive year
3. We were featured in Fortune India Next 500 Company's List

Let me now throw some color on our overseas operations. Our performance in Cayman Islands hospital is picking up really well with the unit expanding its service offering through the programs of Plastic Surgery, Interventional Radiology and Interventional Neurology. The hospital achieved an operational revenue of approximately USD 7 million in the 3 months period

ending 30th June 2016, reflecting a growth of 157% over the same period for the last fiscal and almost broke even at the EBITDA level with a loss of only USD 15,589. Separately as you are aware, we have also announced our intention to set up a multispeciality hospital at Nairobi in Kenya. In line with our overall strategy of asset light investments minimizing our capital outlays particularly in the overseas region, we have entered into agreements with leading financial institutions and prominent Kenyan doctors to get this facility off ground. NH would initially own a 26% stake in this entity for a consideration of US \$1.325 million and earn Management Fee from the same.

To conclude, I would say that this quarter has been eventful one in terms operational performance which thus led to significant improvement in the earnings performance. The opportunities in the industry look bright as we move forward and we are confident of growing upon the strong momentum as we move forward. Let me now hand over the call to our CFO – Mr. Kesavan, for his remarks.

**Kesavan Venugopalan:**

Thank you Dr. Raghuvanshi. Good afternoon every one. As Dr. Raghuvanshi mentioned in his opening remark, starting April 01 2016, NH would be reporting its financial statements basis the new accounting standards referred to as IndAS.

From our business view point, IndAS impact is broadly on the following line items namely Leasehold and Freehold land, Employee benefits, Interest free security deposits, Leases, ESOPs, Expected Credit Loss (ECL) model for impairment of financial lease and related tax impact.

Firstly, on the lease part, for the lease land which was earlier being treated under AS-19 as financial lease, it will be recognized as operating lease in IndAS-17. Hence depreciation expenses would get reclassified as rental expense and corresponding net block of leasehold land would get classified as prepaid rent. The new accounting standards also states guidelines for straight lining for all the revenue sharing agreements. This we have classified under operating lease in our financials.

Secondly about the employee benefits; the changes in employee benefits broadly pertain to valuation of actuarial gains and losses and employees stock option. Actuarial gains and losses were earlier recognized in the P&L account as per AS-15. It is now being recognized in line with the IndAS-19 according to which, actuarial gains and losses should represent changes in the present value of the defined employee benefits and shown under other comprehensive income in the new representation below PAT. ESOPs as per earlier standard the ESOP valuation was done under intrinsic value methods. However, IndAS recognizes only fair value method.

Thirdly, on the treatment of the interest free security deposits, as per IndAS-109, all financial instruments have to be recognized initially at their fair value plus directly attributable transaction cost. This was not mandatory as per the earlier standards. Now we have shown the security deposit in the balance sheet as the present value and the differential amount on account of IGAAP and the IndAS has been reflected under prepaid rent.

Fourthly, IndAS-109 also introduces Expected Credit Loss (ECL) model for impairment of financial assets. This model applies to financial assets including loans, trade receivables and debt securities amongst other.

On the deferred tax front, deferred tax on free hold land was not a part of AS-22. However, as per IndAS-12, we have recognized deferred tax asset on the indexation cost of our freehold land in NH, Narayana Hrudayalaya Limited and MMRHL, our subsidiary. In addition to this, we have also created deferred tax on the noncurrent security deposits in accordance with IndAS-12 and IndAS-109 for its fair valuation.

On an overall basis, we believe that there would not be significant material impact on our financials because of the just mentioned accounting changes. As you have heard from Dr. Raghuvanshi, the impact for the last quarter on our EBITDA was nominal to the extent of INR 6 million. With this, we believe, we have laid the foundation for an effective transition to the new accounting procedures towards prudent financial practices. Feel free to reach out to us in case of any query or clarification. I would now open the floor for questions.

**Moderator:** Thank you. Ladies and gentleman we will now begin with the question and answer session. The first question is from the line of Ashish Kumar from Infinity Alternatives. Please proceed.

**Ashish Kumar:** A couple of things; one is I wanted to understand as to what is our net worth and capital employed and where are we trending on the ROCEs. If you can help me kind of understand that a little better?

**Debangshu Sarkar:** Sure Ashish. On the net worth as we have detailed out in the presentation it is around 890 odd crores and the noncurrent liabilities are around 220 crores with the total capital employed in the business around 1,100 crores. Given that we did an EBIT for the quarter of around 37 odd crores that translates to an annualized EBIT of around 146 crores, which on an 1,100 crores capital employed translates to 13% ROCE on a consolidated level. Please bear in mind that this includes one-off investments towards our Cayman unit which has not yet truly started reflecting in terms of positive contribution to our EBIT and also for that matter the goodwill that we have paid towards our acquisition in Kolkata namely in the form of West Bank units (MMRHL). So net of these 2 figures which is close to around 150 crores, our adjusted capital employed becomes around 950 odd crores and basis that denominator, our adjusted ROCE is 15.1% annualized for this quarter at a consolidated level.

**Ashish Kumar:** And just to kind of clarify once again I think on Cayman, we are not planning to make any more investments from NH balance sheet?

**Dr. Ashutosh Raghuvanshi:** As we said that, we will always be careful and remain on the conservative side as far as our overseas investments are concerned. As you are aware, we had an option of increasing our stake there to 50%; we are evaluating that option, we are in discussion with our partners which is

Ascension Health Alliance and will take this decision at an appropriate time whether we want to exercise that option or not.

**Ashish Kumar:** Okay, how long do we have Dr. Raghu for deciding that?

**Dr. Ashutosh Raghuvanshi:** The time decided was as of now, but we have had discussions with the partners and extended it for a period of one year or more. We are going to give the necessary guidance on that once we have definite agreement with them.

**Ashish Kumar:** Fair enough, I think that is fine and second thing which I wanted to understand is that on a quarter-on-quarter basis we are seeing a 5-6% revenue growth, effectively it is all coming from existent facilities because while Hyderabad has gone out of the system, the Jammu has got added. So pretty much in terms of number of beds we have been flat quarter-on-quarter. But in terms of the increase in terms of the EBITDA margins, we are not seeing that because our employee benefits cycle has kind of come through this year or this quarter?

**Debangshu Sarkar:** Yes Ashish, just to clarify that fact, as per IGAAP, actually there is an improvement even on our sequential EBITDA margins. The IGAAP numbers for last quarter were around 50.6 odd crores EBITDA, translating to around 11.9% EBITDA margin. But yes, that got an additional benefit because of conversion to IndAS on account of the actuarial gains that the last quarter saw which meant that the IndAS EBITDA from 50.6 crores (as per IGAAP) in the last quarter went up to 52.4 crores (12.3% margin) for last quarter which meant that on an IndAS basis you are right in your observation in saying that the margins are flat on a sequential basis. Again you are right on the fact that of annual escalation in employee cost kicking in Q1 starting 1<sup>st</sup> of April. Adjusted for this, our IndAS EBITDA for this quarter was close to 63 odd crores as against the reported 55 crores, with the additional 8 crores being that quarterly impact purely on basis of escalation of annual wage revision for employees. 63 odd crores of EBITDA in this quarter on a 452 crores top line translates to around 13.9 odd percentage which is actually more than 150 basis points sequential margin expansion for us. Trust that clarifies your question.

**Ashish Kumar:** Yes and my last question if you can squeeze one more question in is that we are seeing a very strong revenue momentum. Dr. Raghuvanshi, do you think that momentum is likely to continue or do you see any headwinds that may impact that momentum especially on the mature facilities that we are seeing this quarter or that we saw this quarter?

**Dr. Ashutosh Raghuvanshi:** No, we expect the trend to continue, however you have to view this in light of the fact that our healthcare business is cyclical and there is a holiday season where the elective procedures go down in number. So that quarter is essentially the 3<sup>rd</sup> quarter when the Diwali and Christmas etc. happen so we do expect a little bit of change happening at that time. However, whatever growth you have seeing in the matured as well as in the newer facilities is likely to continue the trend.

**Ashish Kumar:** So, on a YoY basis that is likely to continue?

**Dr. Ashutosh Raghuvanshi:** That is correct.

**Moderator:** Thank you. The next question is from the line of Jackson Yeow from Eden Champions Fund. Please proceed.

**Jackson Yeow:** I like to ask Dr. Raghu what are the ideal occupancy rate to our hospitals and how can it be improved?

**Dr. Ashutosh Raghuvanshi:** At the current level, if you see the hospitals which are over 5 years' maturity bucket, occupancy rates are about 60%, whereas the ones which are in the of 3-5 years' maturity bucket, the occupancy is about 53%. We expect occupancy to gradually grow with a healthy occupancy of about more than 75%. The reason why our occupancy levels are at 60% at the moment is because there is a large built-in capacity and we expect occupancy to increase over the next 12 months or so in the matured hospitals as well.

**Debangshu Sarkar:** Let me clarify one thing which we had also discussed during the last call of ours. Please bear in mind that occupancies that you see across our presentation are calculated on the basis of total operational beds including non-census beds. If you were to calculate the occupancies on the basis of census beds which generally our industry does internally for business reviews and even otherwise, which we are not sure how our other corporate peers are doing because nobody states that explicitly, if we were to consider the occupancies basis the census beds, then it roughly jumps by around 800 to 1,000 basis points improvement across all categories. Just as example, the 60% occupancy for the greater than 5 years' bucket basis the census plus non census beds translates to around 68.4% occupancy on the census beds basis and at the overall level, the 55% for this quarter translates to around 65% at an overall level. This is just to put things into perspective.

**Jackson Yeow:** Right Thank you and my next question is currently Narayana only incur on average about USD 50,000 in annual operational expenses per bed. While a typical Singapore hospital has an estimated USD 140,000 annual operational expenses per bed. So my question is how do we achieve such low operational expenses per bed and how much lower can we go? Thank you.

**Viren Shetty:** We are fortunate that being based in India we have this ability to reduce operational cost per bed through our purchase of generics by negotiating directly with suppliers who are efficient in the supply chain. We understand that this is the growing trend. Going forward, we expect the operational cost per bed to be going higher, but it is the measure of our efficiency both in terms of purchasing and ability to deesterilize and reuse a lot of equipment and our ability to drive down cost per patient which leads to a much lower operating cost per bed.

**Jackson Yeow:** Right, so how much lower do you think you can go in terms of reducing the operational expenses per bed?

**Viren Shetty:** We are already running at very fag end at this point. We believe that with inflation it will expand but going forward we are trying to work on several more initiatives towards being more efficient in equipment use as well as being able to sweat a lot of equipments more but then the bulk of the cost comes in drug cost, they come in lot of our consumables and a lot of these are the dollar denominated purchases which will only increase the pricing. The other large factor for us is manpower cost, especially the bulk of the manpower is in nursing and paramedical courses and these salaries have been revised upwards through government minimum wage revisions as well as increase in the expectations of people going forward. The savings we do expect going forward are in our utility that is power, water, etc. We are investing a lot in energy efficiency, investing in acquiring captive solar projects, in recycling of water and investing in our own utilities that can help in energy efficiency like light meters and LEDs. While this would help us in gaining certain efficiencies but we believe overall the operating cost per bed would inch higher going forward.

**Jackson Yeow:** We have been spending about Rs. 1 billion a year on CAPEX since 2011. So I would like to know what is the CAPEX plan for the next 3 years and in which areas?

**Debangshu Sarkar:** As we have been speaking before, during our previous interactions with financial community, at least for this fiscal generally speaking, we expect an annual spend of around the same figure of Rs. 1 billion towards our routine maintenance and replacement CAPEX as well as the regular upgradation of facilities. That aside, there will be some additional CAPEX to the extent of around USD 5-6 million for the proposed new facility that we are coming out with in Mumbai within this fiscal itself. Should there be any further update on that, obviously we will keep you posted around the same. But for the time being, at least we continue to maintain our guidance on similar lines that we had spoken previously in all our interactions with the financial community.

**Moderator:** Thank you. The next question is from the line of Sandeep Mukherjee from Ratnabali Capital Markets. Please proceed.

**Sandeep Mukherjee:** Just wanted to know the improvement in occupancy rate and ARPOB in Karnataka cluster in YoY basis?

**Dr. Ashutosh Raghuvanshi:** The occupancy has gone up to 57% in the Karnataka cluster and the ARPOB now stands at 7.4 million per bed for Q1 FY17

**Sandeep Mukherjee:** Okay and the reduction in ALOS?

**Dr. Ashutosh Raghuvanshi:** From 4.3 it has come down to 4.1.

**Sandeep Mukherjee:** For the Karnataka cluster?

**Debangshu Sarkar:** No, ALOS is for the group. We do not have ALOS figure for Karnataka cluster readily available with us. Touch base with us separately, we will be able to get back to you on that.



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

**Amish Kanani:** Just wanted to understand historically our growth rate has been more in the range of 25-30%, this quarter the growth is 19%. So how do you view that vis-à-vis historic rate and is there any indication that you share with us in terms of the likely growth in terms of the volume versus the growth from the new beds that we have had?

**Dr. Ashutosh Raghuvanshi:** See that is more of a function of the base effect. Larger the number, the percentage looks different. But if you really look at the matured hospitals' growth and the newer hospitals' growth, you will find that even the matured hospitals are growing at rate of about 15% and the newer facilities are growing at a rate of about 31%. So that growth shows that the momentum is similar to what it has been historically and we expect that it should continue in the same trend as the newer facilities go towards maturity. But the good thing is that the matured hospitals are showing a growth which is slightly higher than what other peers have shown.

**Amish Kanani:** And sir how was the performance in Jammu, you said this thing has started very well. Just to understand how much is already reflected in Q1 or it is starting to reflect from Q2 if you can remind CAPEX versus bed addition there?

**Dr. Ashutosh Raghuvanshi:** There is no CAPEX in that project in the beginning for us because this is an asset-light model where the infrastructure is being provided by the Shrine Board. The revenue from healthcare services for this quarter was about 3 crores and obviously it is at a neutral level because there is a viability gap funding provision as well. But definitely the traction is very good and we are seeing our business growing at about 100% month-on-month which is of course also because of the base effect initially but definitely the response to this hospital has been phenomenal.

**Amish Kanani:** So just wanted to understand whether for how many months Jammu has already contributed during the quarter and whether it is partially and from next quarter it will be full-fledged or something like that?

**Debangshu Sarkar:** It started operations from 8<sup>th</sup> of April as we have announced in our previous press release. So for the quarter, it achieved an operational revenue of around 3 odd crores as Dr. Raghuvanshi was saying and just to add a bit more color on that, on a consistent basis it is now clocking around 30-35 occupied beds or even more than that as we speak.

**Amish Kanani:** And sir is there any issue with respect to the disturbance that we are seeing in the region?

**Dr. Ashutosh Raghuvanshi:** No, this does not fall in that region, so two regions of the state are totally distinct in the security environment and we see no effect on that.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC. Please proceed.

**Nitin Agarwal:** You mentioned about 15% growth in matured hospitals on a YoY basis and as you sort of alluded to the fact that it is superior to what the peers have been showing in their matured hospitals. So I am just curious to understand if you can help us explain what exactly is driving the growth in these segments. Is it more a value, volume and how do you see this thing over the next 2-3 years this part of the business?

**Dr. Ashutosh Raghuvanshi:** It is a mix of both value as well as volume. The volume growth is not that huge but as we have always maintained that as the hospitals start getting more and more reputation they start getting more and more complex work. So the ticket sizes keep going up as you have more transplants happening and as you have more complex operations happening, the ARPOB starts going up and as I have said earlier in our opening statement that we have added robotic surgical system, etc. I think it has come from both ends, a little bit of volume growth and a little bit of quality of the revenue.

**Nitin Agarwal:** How much would be the volume growth in this 15%?

**Debangshu Sarkar:** Nitin, we will have to get back to you for the specific detail on that.

**Nitin Agarwal:** And how do you see the piece of the business really over the next 2-3 years as the base begins to catch up on this part?

**Dr. Ashutosh Raghuvanshi:** We are adding specialized treatments. We have acquired a lot of clinical talent recently. So we expect the high end work to continue to grow in the existing centres and obviously the newer centres will grow on their own merit.

**Nitin Agarwal:** And secondly Dr. Raghuvanshi, when we are looking at, now I guess it has been couple of years since we made the last sort of major expansion if you will through the acquisitions as well as the new beds that we commissioned. Now as the network base stabilize, at what point in time do we see another lag of expansion coming through or is it going to be sporadic, a little more gradual in terms of hospital to getting added every now and then and how do we see over the next 2-5 years the growth expansion really playing out?

**Dr. Ashutosh Raghuvanshi:** Other than the Jammu Hospital which was commissioned during this financial year, the Children's Hospital in Mumbai is going to get commissioned also within this year, over possibly within next 3-4 months. So these two hospitals together, we will be adding around 600 capacity beds this year. So as you know that we have to balance growth with Greenfield and also possibly some kind of acquisition mode to keep healthy balance and not strain our balance sheet. So we are and we always will continue to evaluate the opportunities which are available in the market and see if we can have some hospital acquisition which adds real value in terms of giving us a scale in a particular city or geography and at the same time also which does not strain our EBITDA. So we are in the process of evaluating such options all the time and we will continue to do so. The moment something good happens, we will obviously be informing all of you.

**Moderator:** Thank you. The next question is from the line of Neha Manpuriya from JP Morgan. Please proceed.

**Neha Manpuriya:** I just wanted to know the EBITDA margins for 3-5 years and less than 3 years versus the FY16 numbers, you have seen a strong improvement on the same, how has the improvement been from our 4<sup>th</sup> quarter numbers and what has driven this improvement, if you can mention specific hospitals which are seeing more improvement than others in margins?

**Debangshu Sarkar:** Actually the predominant improvement that you saw across 3-5 years' bucket has been contributed essentially by 2 facilities which are Mysore and Raipur without getting into further details on that and that is a function of the various levels of interventions that we have been doing at all our units and notably these two units. Not to undermine the fact that as you would be aware in July 2015 we commissioned the Oncology block at Mysore which has been paying dividends as well as the new private bed block that we have commissioned over there and likewise at Raipur also, a lot of issues at the local level has been sorted out and that is starting to yield result. This has been the trend broadly in our last quarter also and over the last 6 months or so the various interventions that we have done or the initiatives that we have put in place have been bearing fruit resulting in significant upswing in EBITDAR margins vis-à-vis Mysore and Shimoga over the last quarter but the broad trend has been there for all hospitals. That apart, in our facilities within the less than 3 years' bucket, Whitefield and HSR Hospitals within Bangalore in itself continue to again improve rapidly with the ramping up of operations across these facilities. Please bear in mind that these are still less than 3-year-old and it is again broadly in sync with the trends that we have been seeing over the last 3-6 months. So at an overall level, while there has not been very significant diversion sequentially quarter-on-quarter but our general across the board improvement in profitability. One good thing probably we missed out highlighting last time around was the fact that even at Ahmedabad we have almost broken even at the EBITDAR level during the last quarter in itself and we continue to see that trend even this quarter.

**Neha Manpuriya:** And then one follow up question if I may. Is there any pain point of any hospital which we necessarily need to improve or steps we are taking which could provide significant step up in margins from here?

**Dr. Ashutosh Raghuvanshi:** All the major hospitals are doing fairly well. We are looking to improve operations across our ancillary businesses in terms of clinics and heart centres. But all the major hospitals look to be on an even keel.

**Moderator:** Thank you. The next question is from the line of Mahendra Jain from Way2Wealth. Please proceed.

**Mahendra Jain:** I just want to know that specialty wards in the pediatric surgery and pediatric cardiac putting stent in coronary disease and all these things. So pediatric is contributing major part of the revenue right now?

**Dr. Ashutosh Raghuvanshi:** See, as you rightly said we started as a heart care provider and that formed a major bulk of our business to start with. However, over the years if you see that the revenue contribution from Cardiac Sciences which is not only pediatric but all kind of Cardiac Sciences has been steadily coming down in terms of percentage and the revenue from non-cardiac services has been growing. The growth (YoY) in cardiac side is around 14% whereas the growth in non-cardiac is over 30%. So we expect the ratio of revenue between cardiac and non-cardiac to change over a period of time and say which currently it is about 50:50 and it will gradually, become 40:60 (cardiac to non-cardiac) over a period of time as cardiac diseases are very prevalent, so cardiac is always going to remain a major focus area for not only us but for every hospital and it will remain so for us as well but major growth will come from non-cardiac specialties especially cancer where as you know we already have 4 LINACs across 3 cancer centres functional and we would expect those to grow quite a bit over a period of time.

**Mahendra Jain:** In cancer are we going for Robotic surgery and all these things, in cancer?

**Dr. Ashutosh Raghuvanshi:** Yes, as I said that in the main Mazumdar Shaw Hospital in Bangalore campus we have already added the robotic services. We already have Radiation Oncology Services here. Other than that we have added Radiation Oncology Services in Mysore and the West Bank hospital at Kolkata. We are in the process of expanding the Radiation Oncology services across our network and separately in the new Jammu unit as well, we have got the cancer services (Medical Oncology) started.

**Moderator:** Thank you. The next question is from the line of Charulata G from Dalal & Broacha. Please proceed.

**Charulata G:** I wanted to know the more complex surgeries which you mentioned, they are present in how many hospitals?

**Dr. Ashutosh Raghuvanshi:** The major hospitals which we have, amongst them we expect all of them to be centre of excellence in whatever specialties they provide. So as far as the current spread of hospitals is concerned, I would say that the main Healthy City which includes the cardiac and the cancer hospital in Bangalore, the Rabindranath Tagore Hospital in Kolkata, the West Bank Hospital in Kolkata which was one of the acquisition having a specialized cancer centre and Jaipur Hospital which currently is a Joint Commission International accredited hospital, being in the process of adding cancer as a specialized treatment stream. These are our major hospitals. But all the bigger hospitals have all the complex and multispecialty products.

**Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please proceed.

**Dheeresh Pathak:** On Vaishno Devi you said there is no capital investment by you. So can you just explain the economics of the business model because you know such deals would be very attractive and are there any more such structures in the pipeline?

**Dr. Ashutosh Raghuvanshi:** It is very attractive but I do not think there are such deals available that often. This came about specifically because the Shrine Board intended to bring hospital of great repute but since they did not have the technical expertise to run such a facility they invited all the major healthcare players in the country and by invitation these discussions happened with the Shrine Board and since this is a unique location as you know the geography is difficult because it is a slightly remote location; however, the area was grossly under served. So though we were absolutely confident that large number of patients will access this facility, we were not certain about their ability to be able to afford such higher standard facilities. We communicated that to the Shrine Board and it decided to create a structure where the entire infrastructure be the building or the supportive infrastructure in terms of residential, etc because the campus being located in an inaccessible place with the equipments being of very high caliber and complexities to be provided by the Shrine Board. Moreover, they would support the operational losses for the period of first 5 years to a maximum extent of Rs. 45 crores. So this is an unusual kind of project but we will always consider PPP projects where there is an element of financial viability. Many of the structures which are offered by several other state governments are not financially very attractive. We do evaluate them and in future if we do have some opportunities where there is a good financial viability and it makes a difference to the people of the region, we will always consider them.

**Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please proceed.

**Damayanti Kerai:** Just one clarification, your ARPOB which you report is it including doctor fee or we calculate excluding doctor fees here?

**Debangshu Sarkar:** Our revenues include the doctor fees, so basically we do not net it off just the way that one of our esteemed peer does. So our ARPOB is a gross figure.

**Damayanti Kerai:** So on net figure, we can say it is comparable to other the other major players?

**Debangshu Sarkar:** As you can see, even with our gross figure, it is close to almost half of what probably a Fortis or Max reports and thus our net figure will be even lower.

**Damayanti Kerai:** But on long term basis can you assume it can read somewhere around 10-12 million a year kind of level with better occupancy and improved case mix?

**Dr. Ashutosh Raghuvanshi:** We cannot specify as to what level it will reach. I think the ability of the market and the patient to pay is the guiding force. We always want to have a larger base and an economical price point, however it has to make sense to us as a profitable price points. So we will continuously keep revising and reviewing our prices depending on the market dynamics and the kind of complex procedures being done. We expect the ARPOB to rise not because we will do a pricing correction but simply because our nature of work will keep on becoming more complex. As we do more and more complex operations, our ticket size increases and as a result of that, the ARPOB increases. The second function by which ARPOB can be increased is to reduce the length of stay

and build in other efficiencies. So we continuously are working on all these parameters to achieve a higher and higher ARPOB while maintaining our accessibility to our patients and at the same time achieve the financial objectives of our stakeholders who have reposed such faith in us.

**Moderator:** Thank you. There are no further questions.

**Debangshu Sarkar:** Thanks ladies and gentlemen for attending this conference call of ours. It was a pleasure interacting with you. Like I said right at the outset, should you guys be having any further queries or anything, please feel free to touch base with us. We shall be happy to engage with you and provide you any further detail. Thanks for attending the call once again.

**Moderator:** Thank you very much members of management. Ladies and gentlemen, on behalf of Narayana Hrudayalaya that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.