



# “Narayana Health Q4 FY18 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY18 Earnings Conference Call of Narayana Health. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Debangshu Sarkar, Head of IR and Mergers and Acquisitions. Thank you and over to you, sir.

**Debangshu Sarkar:** Thank you Stanford. Good afternoon, ladies and gentlemen. Myself Debangshu and I run the Investor Relations and the Mergers and Acquisitions functions at Narayana Hrudayalaya. On behalf of the company, I welcome you all to our FY2018 and quarter 4 2018 Earnings Conference Call of the company. To discuss our financial and business performance outlook and to address your queries today, we have with us Dr. Ashutosh Raghuvanshi – our Group CEO, Mr. Kesavan Venugopalan – our Group CFO, Mr. Viren Shetty – who spearheads the Strategy & Planning Practices at NH alongside Ashish Sukhija from the team. I am sure you have gone through our results release along with the Investor presentation which have been uploaded on our website as well as on the stock exchanges.

Before we proceed with this call, I would like to remind everyone that this call is being recorded and the transcript of the same shall be made available on our website. I would 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 risks that they face. These uncertainties and risks are included but not limited to what we are mentioned in our prospectus filed with SEBI during our IPO and subsequent annual reports on our website. After the end of this call, in case you have any further questions, please feel free to get in touch with us.

With that, I would 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.

We are pleased to announce that we closed yet another year on a high with ~21% Year on Year growth in revenues. This industry leading growth becomes even more noteworthy after taking into consideration the unpredictable and challenging regulatory environment the Indian healthcare industry has faced during the year gone by. This spectacular growth in revenues has been achieved on the back of successfully consummating the HCCI transaction, our expansion exercise in Northern and Western frontiers of the country along with sustained performance from our matured facilities. The profitability was impacted by initial losses associated with our newly commissioned hospitals at SRCC, Mumbai and Dharamshila, Delhi along with pre-commissioning expenses at our Gurugram facility coupled with a slew of regulatory measures in the form of cap on cardiac stent prices, knee implants, introduction of GST, etc.

Notwithstanding the impact of these transient ripples, our profitability is as resilient and notable as it has been over the last few years.

On a separate note, with the addition of Dharamshila Narayana Superspecialty Hospital and our recent commissioning of Narayana Superspecialty Hospital at Gurugram, we have taken serious steps to create a meaningful and vibrant northern cluster. We believe, there is a lot of operational synergies to be derived in this region from the shared usage of resources and clinical expertise.

In a nutshell, fiscal year 2018 has been a watershed period for us during which we put to execution our vision of emerging as a true leading pan-India healthcare operator through foray into strategic markets of Delhi NCR and Mumbai. Cayman transaction was a step further towards realizing our objective of taking affordable healthcare beyond the Indian boundaries.

With this well calibrated expansion exercise entailing significant capital deployment, we have demonstrated our commitment towards the healthcare sector particularly in this continual phase of challenging regulatory environment.

We are confident that the addition of these new hospitals will hold us in good stead in delivering quality affordable healthcare and shall provide a significant boost to the group's profitability as well as cash flows in times to come.

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

For fiscal year FY18, operating revenues stood at INR 22,808 Mn, registering an extraordinary growth of ~21% year on year basis. As explained above, it has been achieved due to well calibrated expansion exercise which we undertook in North and West India along with a significant contribution from Cayman Islands, apart from the sustained performance of our matured centres which grew by a healthy 12%.

This strong uptick in our group revenues resulted into our FY18 EBITDA margin, adjusted for initial years' operational losses associated with our new facilities at Mumbai and Delhi and pre-operative non-capitalized expenses in our recently commissioned facility at Gurugram, at ~12.5% as against the reported 10.0%. Just to highlight that these adjustments still do not capture the impact of cap on cardiac stent prices, knee implants and GST, which also had a material bearing on the profitability for this fiscal.

We continue to register consistent performance from the matured hospitals with over 5 years' vintage, with an impressive EBITDAR margins of ~22% for FY18 despite our loss-making Ahmedabad unit becoming a part of the bucket as on 31st March 2018. With headroom being still available for growth, at 65% occupancy, we expect this bucket to continue to outperform. Within this bucket, Health City, Bengaluru housing our flagship cardiac based NICS unit and multi-specialty MSMC unit, continues to grow by a robust 16% for FY18.

Our other centres, excluding the hospitals commissioned in the last 12 months, have generated decent traction in terms of patient footfalls, which resulted in them growing by robust ~22% in FY18.

Our de-risking strategy around developing newer centres as regional Centres of Excellence (CoE) and thus emerging as dominant healthcare providers in their respective regions, is bearing us the fruits in form of our decreasing reliance on the three flagship facilities whose revenue contribution, for the first time, has come down below 50% to group's revenues in Q4 FY18 from ~70% in FY15.

As regards the group's overall leverage, the rise in our net debt from INR 1,826 mn as on 31st March 2017 to INR 7,662 mn as on 31st March 2018 is a part of conscious thought through exercise aimed at using the financial headroom we had in terms of the lowest net gearing ratio in the industry until the beginning of the FY18 to deploy it judiciously towards commissioning of our Gurugram facility and making HCCI a wholly owned subsidiary of NH. These facilities are expected to be game changers for NH with their vast untapped potential in terms of contributing significantly to group's performance. It is very heartening to share that ~INR 3,650 mn is US Dollar denominated and has been tied-up at very attractive commercials making the HCCI transaction even more appealing.

The acquisition of partner's stake in Cayman Islands Hospital is another feather in NH's cap. This 106-capacity bedded demonstrating stellar results even in its initial years of operations is a testament to the sheer success of NH's distinguished business model which is built on twin pillars of quality and affordability. The sustained ramp up in occupancy with ~27 occupied beds in FY18 out of 106 operational beds, reflects the significant headroom to expand further by attracting local as well as international clientele in the region.

With US\$ 44.6 Mn operating revenues in FY18, this facility is progressing well on growth trajectory and thus registered an inspiring growth of ~37% over the last year and as stated above, a revenue CAGR of ~79% over the period of FY15-FY18. The facility has rewarded us once again with handsome returns by registering an EBITDA margin of 13.7% for the fiscal year, adjusted for one-time transaction cost of US\$ 0.96 Mn.

At ~150% Year-on-Year growth in the adjusted EBITDA, the unit has laid a strong foundation for its growth story in years to come. This achievement at 27 occupied beds in FY18 with ~80% of business from domestic patients along with the burgeoning demand supply gap at the broader Caribbean region and its proximity to North and Central Americas, points towards a robust build-up of momentum the facility can tap into.

The facility's PAT and cash flow to equity breaking even in the fiscal year 2018 is a healthy sign and highlights the potential of HCCI.

Our well-directed efforts towards developing the international patients' base are yielding results. It is really heartening to say that international patients contributed ~10% in group's revenues during FY17-18, almost doubled from the levels achieved two years back.

Delhi NCR and Mumbai are often regarded as medical tourism hubs. Gurugram facility's close proximity to the Delhi International Airport is expected to play a pivotal role in shaping up the international patients' base of NH. The fact that the Gurugram facility, within ten days of its commissioning, performing a knee replacement surgery on an international patient speaks volume about the strong brand pull NH enjoys not just in India but also abroad. SRCC Children's Hospital is one of its kind premier facility which channelizes all its resources in children healthcare and we believe it will emerge as premium healthcare destination in times to come. We are confident that international community will act as an important lever in NH's growth, which will get significant impetus from these newer centres across crucial metropolitan markets.

Patients' safety and well-being is the ultimate goal we have always aspired for. To cater to all the healthcare needs of our patients ranging from OPD consultations to critical surgeries, we have developed a "One-Stop Shop" ecosystem. In this direction, we have come a long way from a single speciality provider to a multispeciality provider. Our endeavours towards eliminating the element of human error and thus ensuring the highest degree of clinical precision has resulted into NH investing in state of the art medical infrastructure such as Da Vinci Robotics surgical system. Adoption of these novel technologies has led to NH's felicitation at various clinical forums speaks volume about the pioneering and cutting-edge work we have been doing. Recently, NH was among the "Top 10 most innovative companies in India" list which was prepared by the Fast Company in March 2018.

Our organ transplant program is widely renowned in the country and has been quite successful with 610 renal transplants, 13 liver transplants and 9 heart transplants done in fiscal year 2018.

At the end, I would like to add that with the commissioning of newer facilities in North and West, the profitability outlook will remain cautious in the near to medium term as these units ramp up along the typical maturity cycle over the long term. However, over the long-term, we expect the momentum to pick up across these units as they create a mark for themselves in their respective regions, thus contributing significantly to the group's performance.

With this, now we open the floor for Q&A session.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Devraj Rada, an individual investor. Please go ahead.

**Devraj Rada:** Sir, how is the pricing in MA Yojana scheme in Gujarat for normal patients?

**Dr. Ashutosh Raghuvanshi:** Yes, the scheme typically has lower pricing structure. MA Amrutam now has scheme pricing which is pretty similar to the other schemes such as CGHS and in fact slightly lower than CGHS and ESI scheme, etc. So that is typically about 30% to 40% lower than the lowest possible price in the cash paying category. And that definitely is a low yield business. However, on marginal cost basis that kind of business may make sense for a unit based on its maturity amongst other factors.

**Devraj Rada:** So sir, will even central government scheme (NHPS) will be on the similar line only?

**Dr. Ashutosh Raghuvanshi:** We expected it to be on similar lines. We do not have the absolute details because the scheme is going to be implemented through various state schemes. So, the various states will have the flexibility to fix the prices as well as the terms of the reference of the scheme and what is the kind of coverage they want to provide in their respective states. Some states are adopting a trust model which is little different from an insurance mix model, at the moment it is prevalent in Tamil Nadu, Karnataka and Andhra Pradesh. So, we need to see how these schemes emerge, I think the clarity will emerge only by August.

**Devraj Rada:** So sir, probability of empanelment on NH will be more, right? Because it is already empaneled with state governments.

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

**Devraj Rada:** Second question. Sir, can you please guide on the overcapacity in the health care hospital sector?

**Viren Shetty:** Is there anything specific, over-capacity with regards to what?

**Devraj Rada:** Over-capacity related to micro level to the Gujarat only because in Gujarat you have a facility at Ahmedabad. Hospitals there are advertising for procedures like angioplasty, life time angioplasty. So, this is something we have never heard before. This is like marketing. Life time angioplasty means you can come back if there is some problem?

**Viren Shetty:** I think these are mostly marketing techniques. What has happened in Ahmedabad is that a lot of new hospitals have come up recently. And as a way to drive the footfalls, there are certain entry level procedures like angioplasty like you mention that will have these entry offers. But we do not imagine that this is linked in any way to over-capacity. This is linked to driving footfalls in hospitals.

**Devraj Rada:** And sir, the price change in cardiac stents will it not deter the international patients' medical tourism because we are offering low cost and maybe low-quality stents.

**Viren Shetty:** Yes, that is absolutely right. There are segments of international patients who choose India. These are specifically patients from the Middle East and some from Eastern Europe, who come to India because we offer extremely high levels of care at a very affordable price. Now, because of the stent price capping, the multinational companies that have very high-end stents have taken

them off the market. So, that segment of patients, the rich Indian patients, who may want to pay for that, they no longer have that option either. So, this has actually led to reversing of the medical tourism game.

**Moderator:** Thank you. The next question is from the line of Rohan Dalal from B&K Securities. Please go ahead.

**Rohan Dalal:** I just have two questions. One on the receivables and inventory, if I see, they have gone up quite substantially, obviously there has been lot of CAPEX and Cayman Islands facility has been consolidated. But am I missing something here, if I see the receivable days have gone to 45 from 30 and they said inventory days have gone from 44 to 55. So, I was just wondering if I am missing something.

**Kesavan Venugopalan:** See the inventory essentially what you have seen in FY17 versus 2018 is primarily due to the Cayman being consolidated in FY18 versus not being there in FY17 and with respect to the new facilities Mumbai and partially Gurugram, you will have the same impact of they not being there last year and being there in the current year.

**Rohan Dalal:** So, that has been the main impact the working capital cycle?

**Kesavan Venugopalan:** Yes.

**Rohan Dalal:** So, in relation to that as well does that also correlate to the increase in inventory in this quarter? So, it has gone up from 24% and the COGS have gone from 24% to 25%. May I be missing something there?

**Kesavan Venugopalan:** You are talking about consumption?

**Rohan Dalal:** I am talking about the other consumption, non-consumable, yes consumable cost?

**Debangshu Sarkar:** No, so that has not really got to do with the newer units coming up or anything. Essentially got to do with the fact that there has been a material change in terms of the speciality mix quarter-on-quarter. So, if you would have seen the speciality mix of our revenue, there has been a 3% increase in contribution by cardiac at the expenses of gastrointestinal sciences. And these cardiac procedures have been largely the high-end procedures entailing a lot of implants and other consumables. And typically, what we have seen is that the cardiac sciences as a specialty tends to have a higher consumption costs as against other specialties, but for neurosciences. So, the increase in cardiac sciences as compared to gastro sciences has resulted in our consumption cost as a percentage of revenue going up by almost 200 basis point quarter-to-quarter from 24.2% to 26.2% in this quarter.

**Rohan Dalal:** And that relates to the receivables as well. So, which of the new facilities has been the key driver of these receivables? Which one has more scheme-based patients basically?

- Debangshu Sarkar:** These have got nothing to do with the receivables. That is the separate answer which Kesavan just pointed out to, the fact that our gross or net receivables that you see on the face of the balance sheet as well as the inventories going up from our last stated balance sheet position is because as of 31<sup>st</sup> March, 2018, Cayman got line-by-line consolidated in our total balance sheet which means the receivables which were not getting added up in our consolidated balance sheet from Cayman got added up in 31<sup>st</sup> March balance sheet.
- Rohan Dalal:** Aside from that, my last question was regarding the intangibles. It has gone up to 70 crores from 2 crores, is that only relate to what was said before by Mr. Raghuvanshi regarding the new surgical techniques and new software's put in or I am missing something?
- Debangshu Sarkar:** You talking about goodwill?
- Rohan Dalal:** No, I am talking about other intangible assets. It has gone up to 70 crores from 2 crores. So, I just wondering what happened there just directly from Cayman Islands and it is not like it is anything confusing. I was wondering if I miss something.
- Debangshu Sarkar:** We will have to get back to you Rohan on this. My sense is, this has got to do with some Ind AS accounting basis grant provision on lease accounting. But I am not very sure at this point of time. I would request you to get in touch with me separately post the call and I will be able to get back with the exact answer on this.
- Moderator:** Thank you. The next question is from the line of Anuj Jain from ValueQuest Capital. Please go ahead.
- Anuj Jain:** I have couple of questions. Number one, what is the total negative EBITDA for all the hospitals which are making accounting losses at the EBITDA level?
- Debangshu Sarkar:** So, if you see Anuj, we have given a sense of that on slide number 17 in the profitability snapshot of India business.
- Anuj Jain:** So, that is for the new facilities. I am more interested in the old hospitals which are there for quite some time.
- Debangshu Sarkar:** So other than that, it is our Ahmedabad facility which is loss making, I mean it had turned in the green albeit slightly just prior to the momentum getting impacted during the demonetization drive. So, for the last 4 to 5 quarters now, Ahmedabad has been bleeding after gaining the momentum that it did prior to that. Jamshedpur is just near breakeven, Guwahati is just above breakeven or pretty much close to that. Other than these, all other units, except the newer ones, are in the green.
- Anuj Jain:** And among these three, Ahmedabad, Jamshedpur and Guwahati, which one does the management consider as disappointments?



**Dr. Ashutosh Raghuvanshi:** I would say, Ahmedabad is a major disappointment. We are pretty confident about the ramp up happening in Guwahati. Jamshedpur, obviously being a secondary town has limited potential and as Debangshu said that we are almost at the breakeven level. So, we expect this to become better as we go forward. However, the reason of disappointment for both Jamshedpur as well as Ahmedabad is that these units have both being in existence for more than 5 years. So, i.e. in that time they should have gone towards a maturity cycle and that is the reason for disappointment.

**Anuj Jain:** And can you also disclose the losses at the Ahmedabad, for the Ahmedabad unit?

**Debangshu Sarkar:** I will have to get back to you on that. I think, it is around 6 crs at EBITDAR level for the year. As a matter of practice, we typically do not disclose unit-by-unit profitability to this detail any which ways.

**Anuj Jain:** And one last question that, I understand that 3 units which have moved from bucket of 3 to 5 years to 5 years are Ahmedabad, Mysore and Shimoga. So, can you just give some outlook on these hospitals?

**Dr. Ashutosh Raghuvanshi:** Mysore hospital has been fairly performing consistently well along the normal trajectory and it is currently at about 20% of EBITDAR level and Shimoga is at ~10%. At Mysore unit, further expansion is going on as the occupancy levels in this facility are pretty good.

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

**Charulata Gaidhani:** My question pertains to the increase in the interest cost and also the parallel increase in debt? I would like to know the structure of the debt and how you think it will go forward?

**Debangshu Sarkar:** So Charu, your question in regard to the increase in the finance cost can be answered in two ways. One is obviously the increase in the overall leverage of the company as has been explained or rather detailed out by the Dr. Raghuvanshi in his opening remarks. This has been essentially because of funding of our overseas acquisition as well as funding the Gurugram acquisition in the country. So, this has resulted in obviously our leverage going up and that has meant that our interest burdens have also gone up. I should also add in another point that the finance cost that you see out here is not all interest-on-loan expense as it also has provisioning towards lease treatment of financial lease towards the couple of assets that we have taken on, namely in Dharamshila and Raipur.

**Kesavan Venugopalan:** And there is one more item with respect to the Cayman Islands' borrowing which previously was not consolidated as a part of the borrowing and the finance cost. As a result of the 100% consolidation, it is coming as both debt and interest on that.

**Debangshu Sarkar:** Now, moving on to your question as regards the nature of our overall debt, as you have seen that we have close to 800 crores of consolidated gross debt on the books. Out of which approximately around 370 odd crores is USD denominated, as again detailed out by Dr. Raghuvanshi in his

opening remark. This pertains to the borrowing both at the unit level at our Cayman entity as well as the borrowings that NH India has taken on board to finance that acquisition. These are very attractive structured financing linked to 1 month or 6 months Libor at an overall cost of around 4% to the company. And the balance all is Rupee denominated long term bank finance. And these are all at best-in-class commercials that you can imagine a company of our repute and credit rating to get in the market.

**Charulata Gaidhani:** And how much is the Cayman borrowing?

**Debangshu Sarkar:** Cayman at the entity level is around gross debt of \$32 million and net debt of around \$30 million. While separately we have borrowed \$25 million at NH India to finance the acquisition which is part of the outlay to the partners that we bought out the shares from.

**Charulata Gaidhani:** Then my second question pertains to, is there our decrease in the ARPOB and how would you guide going forward?

**Debangshu Sarkar:** Not really. If you see our ARPOB movement, it has gone up by close to 5 percentage for the year, fiscal year 2018 over 2017. So, I would tend to assume that on an annual basis as we do more high-end work and as we move more along the maturity ramp up of newer units, this should only go up even further.

**Charulata Gaidhani:** And pertaining to the employee cost there is, I mean more than proportionate increase in employee cost in Q4?

**Debangshu Sarkar:** That is again explained by the newer units that have been set up. Wherein, obviously the revenues have not yet started kicking in and in a lot of places, we have actually beefed up lot of our medical specialties over the last 6 months which I have also detailed out in our previous earnings call if you recollect. As a result of which obviously there is a lag in terms of the costs being there today and revenue have not yet come on board. But we think, over a period of time, the operating leverage on this account will play out.

**Charulata Gaidhani:** So, how do you see the operating profits going forward? EBITDA margin would be around 8% to 10% or is there a scope to improve?

**Debangshu Sarkar:** Charu, as has been our stand all throughout, we do not hazard a guess on this and we refrain ourselves from giving any guidance on numbers as regards to profitability or for that matter even growth. I think, you would have gotten enough of indications as to where the trend is, in terms of our overall performance notwithstanding the newer units coming online over the last 12 months or so. But then again, we see a potentially significant upside in terms of profitability with our Cayman unit getting consolidated from day one today for this fiscal.

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

**Nitin Agarwal:** Sir, my question is on the new hospitals. We have had 3 new hospitals which have started up over the last year. I guess the scale up in these hospitals has been extremely slow especially in context being the Mumbai Hospital where the losses continue to stay at pretty elevated levels. Is there any challenges which are particular to Mumbai hospital which you facing or in general this is going to be the trend in terms of at the pace at which our new hospitals scale up for us in terms of getting into the breakeven level?

**Dr. Ashutosh Raghuvanshi:** Yes, Nitin, I think Mumbai being a children's hospital is slightly different from what the experience would be in Gurugram and Dharamshila. Both these NCR hospitals are likely to show a much better trajectory compared to a typical children's hospital. Now, as far as Mumbai's Children Hospital is concerned, yes there are specific challenges which are more specific to a children's hospital rather than the location or the city specific challenges. We have been very fortunate in terms of getting the best possible clinical talent. So, in spite of that, the ramp-up being slow is because of the visibility of the brand. Having said that, the trend has changed in the current quarter and presently we are running at the occupancy levels which are approximately close to 60 Inpatients on a daily basis as compared to 25 average occupied beds for Q4 FY18. So, it seems that the traction has started coming in as far as the children hospital is concerned. But word of caution here that children's hospital's ARPOBs will go up only as more specialized work will start. So, we are likely to start the bone marrow transplant services within next few months and similarly we are going to start transplant services for children in liver and renal field in few months. So, when we will start those kind of procedures, then Mumbai will actually see the traction. Now, these procedures have not been started because the process of getting the concerned permissions and the licenses have taken more time than what we had anticipated. So, that is now on track and we expect that to change. However, the experience for Gurugram and Dharamshila will be different. Gurugram has become operational only in the month of March. So, it is just 2 months' operation and for a 2 months' old operation, we are very excited about the early response. In Dharamshila, we have added new services of Orthopedics, Neuro Sciences, Urology, Nephrology, etc over the course of last year and are currently in process of setting up our flagship specialty i.e. Cardiac which is expected to become operational over the next few months. So, I think we are on track as far as those 2 hospitals are concerned except that for the first 3 or 4 months of delay which happened which we originally anticipated that these hospitals will start, like Gurugram for example we expected to commission in December-January. So, but it got commissioned only by end of March. So that was the delay but now we see the response being good.

**Nitin Agarwal:** Would you like to give us some sense on by when do we see these hospitals sort of breaking even individually and what kind of a time frame are we looking at incrementally from here?

**Viren Shetty:** See Nitin, we cannot give guidance on when exactly they are going to breakeven. I hope you will recall the conversation we have had when we first started out. We spoke about the NH business model itself in which we have doctors on fixed salary, so that implies a much higher fixed cost from the start of a hospital. Generally, the path has been for us anyway from 24 to 36

months on an average across the group in terms of breakeven. We do not expect these hospitals to be any different.

**Nitin Agarwal:** 24 to 36 months that is the probably fair assumption to go with for the newer hospitals barring the Mumbai hospital right?

**Viren Shetty:** Yes.

**Moderator:** Thank you. The next question is from the line of Raj Desai from Vallum Capital. Please go ahead.

**Raj Desai:** Yes, my question is related to your Ahmedabad, Jamshedpur and Guwahati facility. I know you are having some problems there. But now how do you all see lately the outlook for the hospital, has there been volume ramp up in terms of patients or in occupancy levels or anything in that sense that you believe that this year is going to be better for them?

**Viren Shetty:** See for the Ahmedabad unit, the problem with the location is unique only to our hospital. We are in a part of city where almost no large businesses are located, and the thing is we came in there as outsiders. Everyone really is aware of a lot of conflict that exists within the city and where you are located matters a lot. So, while, yes, the overall Ahmedabad market has been doing very well, a lot of new hospitals have come up in time. As the area improves, we believe that the ramp up will improve there. But we don't see it happening anytime soon. So that will continue to be a near-term challenge for us. As regards Jamshedpur, it's again the location that is a big disadvantage for us. So, while Jamshedpur is a very strong market and with us having a good hospital there that has very well regarded by the locals. Incidentally, it drives a lot of traffic to network hospitals in Kolkata and Bangalore. While the center itself may not do as much, but if you count referral benefits that are being there i.e. the value of having hospital in Jamshedpur. And Guwahati is doing very well. I mean this is a premium hospital in the Northeast. This hospital in partnership with the government and has got a very good reputation. We have increased the service offerings there and providing a very high standard of care that is not available in Guwahati. So, that as a very long runway across and we will do very well.

**Debangshu Sarkar:** Just to clarify one thing out there, I think I had initially said that Guwahati is in the red, it is actually not. I mean there was a minute dip in its performance in Q4 but for the fiscal year 2018 it is actually in the green albeit slightly.

**Raj Desai:** And my other question is regarding the new government policy that is coming up in Delhi and all regarding the price cap on consumables and medicines. Do you see that coming into other states and affect our hospitals in Dharamshila and Gurugram?

**Dr. Ashutosh Raghuvanshi:** Yes, so there are 2 aspects to that, one is the Delhi government has announced that they are intending to pass the law that would cap the margin on consumables at 50% and on implants I think at 15% or 30%, I am not sure.

**Raj Desai:** 35%, I believe.

**Dr. Ashutosh Raghuvanshi:** 35%, okay. We had anticipated this from the time the stent price cut had happened and so we have undertaken a program across our group where we would revise the pricing mechanism. So, we would be an institution that would get the margin out of the procedures themselves, not just from frontloading it on the implants. So, yes, the other states might adopt it and as and when they adopt, we will revise our pricing accordingly. It will definitely have an impact because I do not know for sure if the other states will follow the Delhi formula or they will take up their own. But we are, at least from an operations' perspective, well-g geared towards that.

**Raj Desai:** And can be there be any government policy with regards to our procedural cost?

**Dr. Ashutosh Raghuvanshi:** That becomes a little harder, so for example, if you take the Ayushman program, one that is supposed to come up. They have announced a set of prices. Those prices are anywhere from 11% to 30% of the cost of doing the procedure. That is the actual consumption, forget about the overheads and the margins that is required to do it. Now, if the government were to say that this is the price and any procedure that happens in the country has to be at that price, then at some point there is a legal conflict as to whether you can force someone to lose money. So, in that, I would say it is a very challengeable thing. But in so far as the sort of fixed prices, it is a bit of grey on that. We are not really sure whether they can do it and if so, we would obviously present them the data on what it actually costs to us. Because the big myth that is running around in the policy makers is that we are making tonnes of money on the back of the patients that is not really the truth, this is the cost to deliver a very high standard of care.

**Raj Desai:** And I just wanted to ask you one last question with regards to our return on capital employed. What we are return on capital employed for a mature hospitals who are over 5 years per say our Bangalore or our Kolkata hospital?

**Debangshu Sarkar:** Those are all over 30%.

**Raj Desai:** All over 30%. And that do you reach at the stage after what 7-8, approximately?

**Debangshu Sarkar:** Yes.

**Moderator:** Thank you. The next question is from the line of Chirag Patel, an individual investor. Please go ahead.

**Chirag Patel:** Sir, my question is on debt outlook. For the next one-year point of view, if you are planning of establishing any new hospitals and what would be the debt from long term point of view?

**Debangshu Sarkar:** Going by what we have communicated in the past as well, we typically like to keep a headroom on our overall leverage position and having consummated both the HCCI as well as the Gurugram transactions which were, by the way the 2 largest transactions that this company has ever done in terms of capital deployment across assets, have meant that, temporarily, we have

pretty much used up the headroom in terms of what we would be comfortable with, in terms of the overall leverage of the group. For further growth opportunities, if any, that we feel is opportune and strategic enough for us to pursue, would necessarily have to be financed by internal accruals or equity capital.

**Chirag Patel:** And any other further plan outside India opening any hospital like Cayman?

**Viren Shetty:** We have nothing that is planned as of now. But with regard to Cayman, we feel that the Caribbean is a very exciting opportunity and the entire area. So, we believe that as and when opportunities come up, we will pursue it. But these are projects that have much longer pipeline. We do not imagine it happening anytime soon. Usually from the start of the time, you will see a site, then negotiation and final all the terms it does take many months to even years.

**Debangshu Sarkar:** Just to add on to what Viren said, as you would be aware, we do harbor global ambitions and to that extent, in capital prudent manner, we are on a strategic basis, evaluating opportunities across the African or more importantly the South East Asian region. But all these opportunities would be pursued strictly without exposing any significant risks to our over group operations or financial positions.

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

**Amish Kanani:** Sir, I have a question on our occupancy. We have an occupancy which is averaging at 57% for 3 to 5 years and about 65% over 5 years. But the way we show it region wise, the region wise occupancy looks much higher at 63% and 71% for Karnataka and East respectively. So, the question is sir, our business model should have a higher occupancy level and how do you see in that context these occupancy levels? And with Ayushman Bharat, you mentioned the challenges, but how do you see that panning out slightly or a medium-term basis?

**Viren Shetty:** So, on the occupancy barring the new hospitals which anyway will take the time to reach occupancy for the hospital that are healthy and growing anything more than 80% is not ideal because we do not operate like hotels where people will check out at 12 and check in at 3. Sometimes a discharge can take the whole day. People may leave at 6 pm and sometimes when they come in, they come in at let us say 10 in the morning. So, anything more than 80% could mean that you are actually turning away patients. So, in that, 65% and the 50%-odd that you had mentioned means that there is a lot of a hospitals in Bangalore especially which have a lot of capacity for growth. And so, while they are very strong performers, they have extra beds that we have not yet been utilizing. Specifically, the cardiac hospital, this was many years back, the cardiac hospital was actually a multispecialty hospital and gradually it got spilt off into two which then became the Mazumdar Shaw Multispecialty hospital. So, the cardiac specialty immediately lost half the business and has been growing as a pure cardiac center since then. So, that explains this thing. Second point, on the Ayushman Bharat and how we would see that, you see up until this time around 18% of our business has been coming from government schemes.

The reimbursements have been poor and the time for collection of funds that is due to us has taken an extremely long time and dependent on the mood of the government. But we still do it because on a marginal cost basis, it makes sense. When you have excess capacity, we can use those beds as long as we are able to cover with cost of consumption. The Ayushman scheme is special because it does not even cover the cost of the consumables and so, it is something that is quite difficult for us to make the case so maybe on a limited instance, one may decide this on a case-to-case basis. But at the current reimbursement, that have been announced, it does not seem very attractive.

**Amish Kanani:** Is there a way, we can calculate occupancy as these numbers look slightly different the way they have been calculated on maturity and then on clusters?

**Debangshu Sarkar:** Not really, I mean the way that the occupancy is calculated is consistent across both the regional as well as the maturity slides. So, we possibly would need to get down to the details around that region. The Northern region is very obvious given that Dharamshila and Gurugram are new units, I think for the limited days that Gurugram was operational resulted into low occupancy. And that possibly results into the occupancy for Northern region and 3-year category which is the lowest among all the four categories that you see over there. So, no specific reason just to answer you straight as to why it apparently looks different to you, both are essentially same.

**Amish Kanani:** And sir, my second question is about managed hospital versus our own hospitals. So, what is the current mix now, sir? And how do we see it given the kind of CAPEX that we have done in the past?

**Debangshu Sarkar:** The managed hospitals in our context is limited to only 3 hospitals which is around 600 odd beds. In fact during the fiscal, we exited one such engagement at Mahua in Gujarat. Just to clarify, the managed hospital are the units where the P&L responsibility is actually not with us. Strictly speaking, these are our consulting assignments where by typically a single resource from our side is deputed as the de facto administrative head of that unit for which we gets reimbursed and we collect advisory fees on a lump sum payout payable over a period of time. This is not a very preferred model of growth for ours. This has historically been used to reach out to destinations where it otherwise become economically unviable to setup a hospital with our own P&L and thereby try to drive footfalls to the nearby mother hospitals as the case maybe. As an example, we had 2 managed hospitals in Gujarat in the form of Mahuva and Palanpur. The latter one, we still have currently as we speak, these were means to augment the footfalls in our mother center at Ahmedabad. Similarly, we do have one center in Bellary in Karnataka which is more of a CSR project of the JSW Group that we are managing and then we have another one at Durgapur in West Bengal.

**Debangshu Sarkar:** In case, if you are asking about O&M which is operations and management. Those are the hospitals in which we own that P&L and we pay the asset owner a percentage of a revenue or fixed rentals as the case may be. That is our preferred model.

- Amish Kanani:** Vaishnav Devi and SRCC model, right sir?
- Debangshu Sarkar:** That is the model, yes though Vaishno Devi is different where we don't pay any commercial consideration to the counter party and on top of that are protected against any P&L losses through Viability Gap Funding.
- Amish Kanani:** And sir, is it possible to you to give guidance on CAPEX for the next two years?
- Debangshu Sarkar:** Let me give you the CAPEX for the last fiscal. So, other than the newer projects in terms of Gurugram which we actually acquired and Dharamshila and Mumbai where they were very minimal CAPEXs and aside from Cayman, the actual CAPEX that we incurred for FY18 towards routine maintenance as well as upgradation of equipment was around 115 crores. And that has been the number give or take 10-30 crores over the last 4 years consistently.
- Moderator:** Thank you. The next question is from the line of Harith Ahmed from Spark Capital. Please go ahead.
- Harith Ahmed:** Given that we had around 40 crores of losses from new hospitals this year and we are looking at a 30 crores to 40 crores for the next year as well. What is your view on further acquisitions? Is it safe to assume that you will be taking a pause now and wait for achieving breakeven at some of these new centers?
- Viren Shetty:** You are right, given our conservative outlook on the amount of debt that we take. As of right now, we would not look at any sort of acquisition that would involve onboarding any further debt. We definitely have been part of a strong growth cycle, guess now is the time to consolidate operations but having said that, we cannot rule out these very attractive opportunities that have shown themselves in the market. We are exploring them, not to say that any of these will ever happen but should it, so happen, we would look at alternative methods of raising funding for that other than internal accruals.
- Harith Ahmed:** And just to clarify on your earlier comments on the National Health Protection Scheme. Now, the government has published the first cut of pricing and assuming this is the final price that they offer. What will be your course of action? Will you be opting out of this insurance program? Is that an option that you are considering now?
- Dr. Ashutosh Raghuvanshi:** It is a completely voluntary scheme. The problem with health being a state subject is that ultimately this will be done in conjunction with states and with exception of West Bengal, most of the other states that we operate in, have schemes and we have been working with the government quite well in all those programs in there. So, I think this is just maybe, at some point in future, it will become the only program that the government runs. But as of now, I think it will sort of be subsumed into one of the many options that the different states offer. So, I do not imagine that it will change but you are right in that if this becomes the only program and if this



is the only price list that is available, we may not be able to do it at significant volumes that would matter.

**Harith Ahmed:** And then last one from my side. Given your comments around your centers such as Ahmedabad and Jamshedpur, where there are challenges and despite them being operational for more than 5 years. Will you be looking at rationalizing your network to some extent, maybe exiting some of these underperforming assets? Is that an option?

**Viren Shetty:** Yes, of course. I mean this is something that we have always sort of maintained. For example, in the past, we have exited from a heart centre in Kuppam and another hospital that we run in Hyderabad both because operational challenges as well as when we did not see a future in that. This thing with Jamshedpur and Ahmedabad is that they have been very attractive destinations for us. They lean in to our catchment area and these all are very strong markets individually. So, we will be spending a lot of management effort to try and turn these around and make things work within the current set of limitations.

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

**Sameer Baisiwala:** Just on the previous discussion, do you have an option of saying no to Ayushman and to say yes to the other schemes? Or if you say no, then no means no to all the schemes?

**Viren Shetty:** All these government programs are voluntary programs. They have a MoU that you sign and you walk into it, if you do not sign then you do not get to take those patients. As it stands right now, in certain states we do not do ECHS which is the ex-serviceman scheme but we will do the CGHS which is for central government employees. You completely have the option to opt into various programs. In some states, we may do the state program like Aarogyasri at Karnataka but we will not do the ESI which is the central scheme to workers. I mean, these are all independent contracts that you negotiate individually.

**Sameer Baisiwala:** And second is, what is if you can work the EBITDA contribution of in-house pharmacies across a network?

**Debangshu Sarkar:** We do not have a ready answer to that, Sameer. I think we will have to dig down and see if we can figure out and get to you this data and possibly we can touch this offline.

**Sameer Baisiwala:** And maybe you mentioned that but what is the percentage share of scheme patients in fiscal year 2018, revenues?

**Debangshu Sarkar:** Around 18%. It is detailed out in the one of the slides in our deck. You can refer to that, which details out the revenue mix of patients. Just to clarify that 18% is for the India business. We have separately provided the number for the Cayman operations in our deck this time around. So, for Cayman, it is around 35% (govt run departments, govt run insurance companies administered through TPA) which is not directly comparable against Govt. Schemes as prevalent in India.

**Moderator:** Thank you. The next question is from the line of Devraj Rada, an individual investor. Please go ahead.

**Devraj Rada:** Sir, this trust-based hospitals, right you said this Mahuva Hospital. How is it different from owned hospitals?

**Debangshu Sarkar:** No, that is not the trust-based hospital, that is the managed hospital. Like I mentioned, in the owned hospital, we do own the P&L responsibility of the entire operations of the hospital. In few of the cases, we might be owning the physical real estate in terms of the land and the building and in the others, we would not be owning the land and the building, and we will be paying a rent in the form of either a fixed rental or a revenue share to the land lord as the case may be. The managed hospitals are different entities whereby we do not have the P&L responsibility and we just manage it or provide consulting services for fees to oversee the overall supervision of the hospital.

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

**Sameer Baisiwala:** One more from my side. What was the sort of price action that in fiscal 2018 and any color you can share for fiscal 2019?

**Viren Shetty:** These are basically reconfiguring the packages. So, generally what happens is that our hospitals are configured towards the mass market and we operate on a lot of poor patients as well as lot of rich patients and there would be huge amount of cross subsidy that was involved in the pricing. So, a lot of these excess margin that was collected on stents, implants, medicines would be passed on to poorer patients through lower procedure prices. Now, the problem that happened is because the government is capping the amount of margin that you can make on. So, that has to be reconfigured and moved back into procedures. So, unfortunately, what will happen because of this is that poorer patients will end up paying more and richer patients will start to pay less. But this is how it is but essentially on an average, the ultimate impact to the patients stays the same because it just changes the configuration within the procedure that he is getting. So, this does not change the ultimate revenue line, it just changes how the hospital prices each individual component of an overall surgical package.

**Sameer Baisiwala:** So, fair to say that it was just relocation within the bill of the same patient the gross amount being same. So, there you practically had no price hikes in physical 2018. Is that for you are suggesting?

**Dr. Ashutosh Raghuvanshi:** Yes.

**Sameer Baisiwala:** And fiscal 2019, do you expect to see an overall increase or remain flat?

**Debangshu Sarkar:** Sameer, the pricing as you would appreciate is a tactical strategy whereby a lot of thought goes into that as to what is the competition, what is the product, the vintage of the hospital, so on and

so forth. Obviously, it is amalgamation of all these factors along with passing-on the necessary inflationary cost pressures viz. wage etc. Therefore, it is a combination of all these factors which essentially determines what the final pricing would be. It could be radically different from one speciality to another specialty for the same unit and could be very radically different for two units in the same town for the same speciality as well.

**Moderator:** Thank you. The next question is from the line of Raj Desai from Vallum Capital. Please go ahead.

**Raj Desai:** I just had one more question. I was reading something in the papers about you all along with Piramal like going for Seven Hills hospitals. Is there anything on that?

**Debangshu Sarkar:** We will not be able to comment on all this market speculation at this point of time.

**Moderator:** Thank you. The next question is from the line of Rohan Dalal from B&K Securities. Please go ahead.

**Rohan Dalal:** There is one more. I just wanted to clarify about CAPEX because in the last call we were saying that we would add some beds in Mumbai and everything, the ramp-up has been slow. And so, I just wanted to understand aside from all that we have also added Cayman Islands and everything. So, what is your outlook for FY19 and FY20 in terms of CAPEX?

**Debangshu Sarkar:** I guess, I answered this as a response to one of the previous questions. So, I said that rather than hazarding a guess on the future I would want to leave you out with our exact CAPEX what we incurred for the fiscal year 2018. And that number is around 115 crores towards routine maintenance as well as up gradation of medical equipment across the network. This obviously, does not factor in the acquisition cost and subsequent CAPEX that we incurred in our Gurugram unit and some bit of nominal CAPEX across the Mumbai and Dharamshila units. And just to be sure the number towards the annual CAPEX has actually hovered around this or actually being a little slight lower than this by 25 odd crores over the last 3 or 4 odd years if you see consistently.

**Rohan Dalal:** So, in the last call we had said that 190 crores would be the CAPEX for next year, for FY19. So, we are not doing that now. We should just at least you are not hazarding a guess on it, right now and you cannot give us guidance. But we should take your regular maintenance CAPEX?

**Debangshu Sarkar:** No, that is what, the CAPEX that I meant was towards routine maintenance and upgradation of our equipment across the network as it stands. That aside there could be expansion CAPEXs which are very specific in nature across specific units at any point of time. We do have expansion plans across 2 or 3 or possibly 4 units whereby to setup oncology unit as well as beefing up services across key specialties.

**Moderator:** Thank you. The next question is from the line of Karan Agarwal from Jainam Share Consultants. Please go ahead.

**Karan Agarwal:** If you can update me on the law suits going against the company and also the amount involves in those cases?

**Kesavan Venugopalan:** Apart from the normal medical legal cases which each hospital would have from time-to-time, we do not have any significant outstanding law suit against the company. Having medical legal case in a hospital in Indian context, it is not something to be worried about. So, those are normal, and we handle that as a part of our routine course and are nothing material.

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

**Debangshu Sarkar:** Thank you all for participating in our conference call today. I hope that we have addressed all of your queries. Should there be any further clarification or queries that you might want to get addressed by ourselves, feel free to reach out to us at any point of time subsequent to the call. We will be more than happy to do our best to address each of your queries and clarifications. Thank you again for participating in the call today. Thanks.

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