



“Narayana Health Q3 FY19 Earnings Conference Call”

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MANAGEMENT:

DR. ASHUTOSH RAGHUVANSHI – CEO

MR. VIREN SHETTY - SVP, STRATEGY AND PLANNING PRACTICES

MR. KESAVAN VENUGOPALAN - CFO

MR. DEBANGSHU SARKAR - HEAD, M&A AND INVESTOR RELATIONS

MR. ASHISH SUKHIJA - MANAGER, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Narayana Health Q3 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 from Narayana Health. Thank you and over to you, sir.

Debangshu Sarkar: Thanks Lizzan. Good Afternoon, Ladies and Gentlemen, myself, Debangshu Sarkar and I run the Investor Relations and Mergers and Acquisitions function at NH. On behalf of the company, I welcome you all to our Q3 FY 19 earnings call of the company. To discuss our financial and business performance outlook and to address your queries today, we have with us Dr. Ashutosh Raghuvanshi, our Group CEO, Mr. Kesavan Venugopalan, our Group CFO, and Mr. Viren Shetty, who spearheads the Strategy and Planning practices at NH alongside Ashish Sukhija from the team. I am sure you have gone through our Result Release along with the Earnings Presentation, which have been uploaded on our website as well as on the stock exchanges.

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

After the end of this call, should you have any further questions, please feel free to get in touch with us. With that, I would now like to hand over the call to Dr. Raghuvanshi.

Dr. Ashutosh Raghuvanshi: Thank you Debangshu. Good afternoon all of you. On behalf of NH, I welcome all of you to our Q3 financial year 2019 earnings call.

With the third quarter being a seasonally moderate one during which the patients' footfall tend to come down due to onset of the festivals season, we are pleased to announce a healthy set of numbers. We achieved a strong growth in consolidated revenues on the back of steady performance demonstrated by our Indian operations and robust uptick in Cayman Islands' operations. Indian operations, centred around sustained performance of our matured facilities along with acquired operations which together registered a growth of almost 12% year-on-year, helped the India business grow by 13.5% in the third quarter of fiscal year 2019.

On the profitability front, adjusted for the losses of the three recently commissioned facilities across Delhi NCR and Mumbai, the Indian operations delivered a strong EBITDA growth of almost 21% year-on-year for Q3 FY19 resulting into an adjusted EBITDA margin of 13.5% for the quarter. Another impressive highlight of this quarter being 27% year-on-year growth in revenues in Q3 FY19 at Cayman Islands facility leading to an exemplary growth of 75% year-on-year in EBITDA at a margin of 21.1%. With this unit still being in its 5th year of operations,

given the operating leverage of the underlying business, we remain excited about its potential to deliver meaningfully to the group's overall profitability and cashflows.

Moving on, we are also pleased to share with you that our continuous interventions across select facilities viz. Ahmedabad, Guwahati and Jamshedpur have resulted in turnaround in the trio's profitability from being in the red to green registering an absolute improvement of 4.4 cr in EBITDAR, at a margin of 5.0% for Q3 FY19, over Q3 FY18. Despite this, we remain cautiously optimistic about these facilities and would like to put in all efforts on continuous basis to ensure that this revival is sustainable.

On the clinical front, with the traction in the core organs' transplant program, our focus on delivering advanced quaternary care is playing out well with consistent robust growth in the group's ARPOB aided by international patients contributing 10.6% of the Indian business for Q3 FY19. Our enhanced focus on creating regional Centres of Excellence centred around high-end specialties such as organ transplants is reaping us the benefits and has led to the following inspiring developments:

- We performed over 140 bone marrow transplants, almost 500 kidney transplants, 15 heart and 12 liver transplants across our Indian network during 9 months ended December 2018
- Mazumdar Shaw Medical Center, Bengaluru achieved the feat of completing 1,000 bone marrow transplants since its inception, thus becoming the first ever facility in Karnataka to have attained such distinction
- Narayana Multispeciality Hospital, Jaipur, achieved the distinction of performing 100 kidney transplants since its inception

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

- Dharamshila Narayana Superspecialty Hospital, Delhi was awarded the "Times Healthcare Achievers" Award under Multispeciality Hospital (Oncology) category in November 2018
- Narayana Health was awarded the "Forbes India Leadership Award" in the Conscious Capitalist category in November 2018

At last, I would say that in the near to medium term, we would continue to consolidate our operations after a well-calibrated expansion exercise across Mumbai and Delhi NCR in India and overseas at Cayman Islands. Overall, we are of the view that the Indian healthcare sector is poised to grow at an impressive rate. We believe NH is efficiently placed in the value chain and is advancing strategically towards its aim of providing affordable quality healthcare to all.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Anuj Jain from ValueQuest Capital. Please go ahead.

- Anuj Jain:** I have few questions. To start with, first is with regards to Jammu unit. So, we have seen that revenues have declined quite a bit within last few quarters for Jammu unit. So, question is whether we have received the money for the losses from the shrine board or this money still pending and it is being added to the receivables?
- Ashutosh Raghuvanshi:** It is not correct that the revenues have declined. They have more or less remained static and as we have been talking about it earlier as well that receivables are not a challenge in this particular location because the viability gap funding exists and that is for the period of the first 5 years of this institution. We are currently in the third year. Viability gap funding happens at the unit level and the unit does not contribute to our EBITDA in any way. So, that is why at the EBITDA level it is zero as we have shown in the slide 10 of the presentation. The figures for Revenues in Slide 10 for Jammu refers to incremental revenues over the corresponding period last year as has been mentioned in the footnote and not absolute Revenue for the unit. EBITDA remains zero which was the case in the last financial year and the revenue growth has been marginal. So, you are right that the revenue growth has not been sharp, but they have not de-grown in anyway.
- Anuj Jain:** So sir, I need to understand whether the funding is actually happening or it is just on the books and receivables are increasing. So, actually the money is being like being given by the shrine board to the company or it is still pending?
- Ashutosh Raghuvanshi:** No, its funding happens on a monthly basis at the unit level. So, it is not an outstanding payment in anyway.
- Anuj Jain:** And sir, regarding Jammu unit, in the last con call you mentioned that you are contemplating something regarding Jammu unit?
- Ashutosh Raghuvanshi:** See, that unit because of the dynamics, the way it has panned out and the ways we see the business developing, there are certain developments with the state scheme, etc. There are certain other collaborations in terms of the ECHS, CGHS, etc. which were not there earlier. So entirely, the revenue was cash paying patients. So, now that with all those tie ups in place, we expect the revenue to grow a little bit. However, due to the construct of that agreement and the EBITDA at this stage with the viability gap funding, is zero and not negative. It is the project which needs a regular review which we keep doing every quarter, depending on how it pans out over the next 3-4 quarters, we will then take appropriate decision.
- Anuj Jain:** And the second question is regarding the debt repayment schedule for our foreign currency loan. What is that schedule?
- Kesavan Venugopalan:** Spread over a period of 7 years.
- Anuj Jain:** Over the period of 7 years and it is likely equally divided or how it is. So, by how much time we will be able to repay this debt?

- Debangshu Sarkar:** Anuj the structuring of the loan currently is back-ended ballooning and basis the cash accruals that we generate and with the optimal usage of the same, we shall decide how to settle that loan. Plus please be aware that the foreign currency loans are twofold, one is at the entity level at Cayman of around \$32 million. Additionally, we have a foreign currency USD loan at the India level of \$25 million which we settle through our India international patient (US dollar generating) business that we receive. So, the 2 separate loans both are average door-to-door tenor of around 7 to 8 odd years.
- Anuj Jain:** And lastly if you can just provide some update on the units as you mentioned in your opening remarks regarding Ahmadabad, Jamshedpur, Guwahati if you can give the individual profitability of these units?
- Viren Shetty:** We will not be able to comment on the profitability of an individual unit because we divide them by buckets. But what we can disclose is , as Dr Raghuvanshi mentioned in his opening remarks, that the trio are no longer in the red as a group and we are going to work towards making that sustainable.
- Anuj Jain:** And in the last concall we mentioned that Raipur is operating at around 20% margins. So, what is the update on Raipur? Is it still operating at the similar margins?
- Ashutosh Raghuvanshi:** As Viren said we will not like to comment on profitability of individual hospitals. However, the trend in Raipur has been good and we are putting up the cancer facility also over there. So, we expect that this unit to continue to perform well.
- 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 Gurugram Hospital. By when do you expect to see ramp up in terms of sales and occupancy?
- Viren Shetty:** Gurugram Hospital has been doing well. We have seen a lot of good traction there. We expect its operational breakeven trajectory to fall more or less in the similar dynamics as the rest of the units. Given that there are lots of competitive pressures in Gurugram that may not have been there in other hospitals, it is very likely that it could take 6 months to a year longer than the traditional trajectory.
- Charulata Gaidhani:** And my second question pertains to the outlook for Cayman in terms of occupancies going ahead?
- Ashutosh Raghuvanshi:** So Charu, currently the occupancy levels over there are approximately 48% -50% and the trend of the growth has remained and it appears that it will keep growing at a healthy pace. So, though we will not be able to put an exact number but definitely the occupancy is likely to increase in a healthy manner during this coming year as well.

- Charulata Gaidhani:** How much was the occupancy in the current quarter?
- Debangshu Sarkar:** 36 occupied beds average as against 24 for the corresponding period of the previous year.
- Charulata Gaidhani:** And could you also throw some light on the increase in ARPOBs and how far you see them increasing going forward?
- Viren Shetty:** See, as we had mentioned in the past couple of investor calls, we have taken this very conscious call to invest a lot in improving the case mix, moving away from being known as a predominantly cardiac focused hospital towards increasing the mix through investments, in oncology, investments in solid organ transplant program, in more robotics and daycare surgeries. And so, we have seen very strong ARPOB growth. The other is that we have got a lot more international business coming in and this is a number that has grown from what used to be mid-single digit to now almost 11% of the total India revenues. And since we have also opened up in relatively high ARPOB geographies like Mumbai and Delhi specifically Gurugram. So, we expect this number to constantly be improving year-on-year.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** My question is on Cayman. Now Cayman, you mentioned that we are operating at about 48%-50% occupancy. So, when you look at Cayman pick up a slightly long term view on these assets. I mean, how should we see this? I mean, so at what, at some stage would you go back and you need to do CAPEX in this business or will keep, will sort of continue with the current set up that we have and try to sweat it as much as we can? How should we look at the Cayman business over a medium-term perspective?
- Ashutosh Raghuvanshi:** Yes, I think the Cayman business does not require any fresh CAPEX in a big way. Whatever developments to add new service lines, etc. are concerned I think we would be able to do it on the basis of whatever cash accruals we might have. So, it does not require that kind of a commitment in terms of CAPEX. In terms of the business profile, we do intend to add new service lines, etc. which could give a good uptick to this business as we go forward. Since the latent capacity is already there as you said, I think it needs to be sweated-out more since ARPOBs are very impressive over there and most of the cost being fixed in nature. The more we grow the revenues the better the returns could be. So, I think there is a huge potential to generate good cash flows for the group without actually committing too much in terms of CAPEX.
- Viren Shetty:** It is not that we are not investing. We have improved the look and feel of ICU beds. We have changed the outpatient entrance. We will be adding new service lines and so on. So, there will be minor investments here and there. And as for sweating it, we do need to start making it, a more attractive place for patients from the other neighboring countries. So, our doctors have been going doing camps across the region and being bringing those patients.

- Nitin Agarwal:** Viren, what I really meant to ask is, it is about 75 bed hospital, right or 80 bed hospital?
- Ashutosh Raghuvanshi:** 106 operational beds (95 census beds).
- Nitin Agarwal:** And so do we foresee a situation where we need to increase number of beds there or is there a provision for us to increase the number of beds there?
- Viren Shetty:** We would increase the number of day care beds, increase the number of ICU beds, chemotherapy for example. But that is more of realigning within the existing setup. So, for example a ward that may have 5 beds, we would probably break it down and turn it into a 2 bed deluxe ICU. And so, I would not change the absolute total number of beds but here and there we make investments in changing it based on the demand that we see.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Yes, sir in the India operations, what would be the like-to-like revenue growth for our business? And I am asking you in this question in the context of the fact that the industry had 2-3 headwinds. One was the implant cost reduction, second was generally the competition which was visible in the metro cities. So, in that context, what would have been your like-to-like revenue growth rate in the India operations?
- Debangshu Sarkar:** Pritesh, just to understand it better, does your question pertain to the fact that we have added a new unit in our Indian operations this time around, which is Gurgaon which was not there in the last fiscal year, adjusted for that what is the growth of our India business?
- Pritesh Chheda:** Yes.
- Debangshu Sarkar:** India business as you can see has grown by 13.5% overall and adjusted for that, it would be closer to around 12 percentage of like-to-like growth for the India business in itself.
- Pritesh Chheda:** And how would it be for 9 months?
- Debangshu Sarkar:** I do not have that answer readily available right now though my sense is that it will be similar kind of a number. We can take this offline and can confirm you the actual numbers. Think, you can easily calculate that given that quarter-on-quarter figures for the last 3 quarters are actually provided in our Presentations towards Gurgaon unit revenues.
- Pritesh Chheda:** My second question is on the India operations or let us say, I will put it this way, on the total company operations based on the improvement in the business in the less than 3 year hospital an improvement in the business in let us say 3 to 5 year buckets. What would be the pace of margin expansion that your business should see over the next 2-3 years? And what should be the pace of like-to-like growth that the business should see over the next 2 years or 3 years whichever you are comfortable? So, this is excluding the new bed addition.

Viren Shetty: It is hard for us to forecast and that is not something we would do. All that we maintain is that, yes what you said in the first part which is, there have been headwinds and challenges. And whatever happened in 2016 came completely unexpected. We do not expect too many of those happening again in future. And whatever we have anticipated with happening with government actions, we have taken the relative steps to mitigate against that. Anything going forward should be as per the current trajectory. So, the India business in exception to the new units, that have been commissioned would grow year-on-year anyway from 10% to 12%. In the short term, at least we do not expect it to deviate too significantly from that number. Especially given that a whole lot of newer units that we have set up, will start to mature and ramp up accordingly.

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

Sameer Baisiwala: Just a question in Gurugram, what are the steps that company is taking towards the operational ramp up in terms of sort of therapies that have seen launched? The pricing strategy and sort of efforts may be made to attract the medical talent over there?

Viren Shetty: Specific to Gurugram?

Sameer Baisiwala: Yes.

Ashutosh Raghuvanshi: So, Sameer, as far as the clinical offerings are concerned, we started with limited offerings and gradually kept on adding specialities. So, the latest we have added is that we have got the licenses for the transplant programs as recently as last month. So, those are the programs which are going to be a big focus there both the renal as well as liver transplant program. Other than that, of course there is a huge cardiac program. The other thing which is in the pipeline and the machine is in the process of being installed is the radiation oncology machine viz. LINAC which is likely to be commissioned by April-May. So, with all these speciality additions, the trajectory would be much higher in the coming year compared to this year in terms of the topline growth. However, as you asked about the clinical talent, it comes first and then the revenue follows. So, there could be a lag period in terms of the profitability in spite of having a huge growth on the revenue side. Our strategy for clinical talent has always been very clear that we want high quality clinicians who have an institutional mind set. So, those are the areas on which we do not compromise on and that is what gives us the kind of leverage we get in terms of the throughput which our physicians are able to provide. And from the company side we ensure that they have a good ecosystem to work which has academic and all the other components which make the professionals successful so that we do not go trying to poach people at a higher salary level, etc. So, that has been our approach and it has worked fairly well for us.

Sameer Baisiwala: Just on that, how are you getting the senior surgeons? I mean, is it all locally sourced or are you also may be hiring from outside of Delhi?

Ashutosh Raghuvanshi: Majority of people are locals, who, some of them at mid-levels, some of them from government institutions like we got one of the professors of cardiology from GB Pant Hospital who joined us in the field of electro physiology. So, these are the kind of people we are having. Other than that, one interesting thing which we are trying to do is to create clinical collegium across our network, like I earlier mentioned the transplant services. So, what we have done is that we have hired a senior level resource for liver transplant along with a large team which is based in individual institutions in Bangalore, Calcutta, Jaipur, Ahmedabad, etc. So, that forms one single team with the senior resource being placed in one location. In case of liver transplant, the senior person is based in Gurugram but he runs the program across the network. So, that way we get the advantage of creating that network of services. The patient movement also becomes easier with this.

Sameer Baisiwala: And just the other question, if you think about Narayana 3 years forward, how do you see the revenue profile by different therapies, cardiac, ortho, onco, etc. change from what it is right now?

Ashutosh Raghuvanshi: See, if you would notice that from 2016 to now, within last 3 years, the cardiac contribution has come down has come down to 41%. So, my expectations are that our cancer growth is going to be much higher than the cardiac growth. Cardiac will also remain in the growth mode because of the simple fact that the needs of cardiac care is huge. So, though in percentage terms it may come down but in absolute numbers it will keep growing. The ratios will obviously alter and the numbers on the GI front and oncology front will increase significantly.

Sameer Baisiwala: And with your permission one more. So, was there any price action taken by the company across its network in the quarter gone by?

Ashutosh Raghuvanshi: No, not in the previous quarter. As Debangshu mentioned earlier we had done some kind of corrections in terms of the pricing structure. But we have not made any changes in the absolute quantum of price. So, the price changes will possibly come sometime during this year, I mean in coming quarters. So, in the previous quarters there were no pricing changes. Actually what you see is the increase in ARPOB is the result of case mix and decreased length of stay rather than any price corrections.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I wanted to know the CAPEX plan for the next 2 years and if you could split it up into maintenance CAPEX and new asset creation CAPEX? And how many beds?

Debangshu Sarkar: Pritesh, this is something that we have been continually discussing over quite a few of our previous calls if you recollect. Just to give you a sense on the kind of maintenance CAPEX that we have been seeing, is anywhere around 125 crores annually going by the historical figures. But with the growing base of the gross block in itself, there is an upward bias or upward pressure on that number surging ahead increasingly every year.

Pritesh Chheda: And gross CAPEX, if you do not want to give the bed count but you can at least give the growth CAPEX number and the debt repayment schedules?

Debangshu Sarkar: Debt repayment we have already discussed in one of the previous questions whereby we said that almost all our borrowings are of long tenure of average door to door maturity of 7 to 9 odd. And these are all structured and customized in line with the expected cash flow accruals that we expect out of the business. As far as the new beds is concerned, like we have been discussing or telling you in every other forum increasingly enough, we are seeing that operating bed as a metric for this industry is losing a lot of relevance. And towards that extent, we are not actually looking at it from that perspective. That aside, as you know that we have around 1,000 odd beds of latent capacity already available within our existing network, so, the idea is has been is to focus on our existing operations and sweat those out before we look to embark upon the next phase of external inorganic driven growth.

Pritesh Chheda: So, looking at the debt of 820 crores is it fair to assume that you will have 100 crores repayment every year?

Debangshu Sarkar: Approximately, yes. Half of that is obviously USD denominated.

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

Nitin Agarwal: Sir, just one question on the relatively newer hospitals, less than 5-year-old hospitals that we have. In terms of EBITDA margin expansion if these hospitals, the primary driver is going to be revenue growth or you actively working on some cost containment measures also? Which is going to be the primary driver for margin improvement in this asset, in these groups?

Viren Shetty: So, Nitin there are 2 categories of those. In the less than 5-year bucket, you have the ones which are in the 3 year bucket and acquisitions. Those should be primarily our revenue growth drivers. There is not much leeway you have on cost cutting just because the team is new and there are not a lot of inefficiencies built-in in the supply chain. You may not really have that much scope for reducing inventory and such. But in the 3 to 5-year bucket, yes, for couple of places if you are talking about the more mature set ups like HSR, Whitefield and Guwahati, there will be a couple of things you can do on efficiencies. So, in HSR and Whitefield for example, given that they are in Bangalore, we will be integrating them into our common supply chain platform and so, that should really reduce their inventory holding cost. Guwahati is in bit of a challenging location given it is in northeast India and the availability of talent and manpower is a bit of a premium. So, there will be a couple of challenges especially in trying to cut cost over there. There are a lot of inefficiencies, so these are just something that we have a lot more scope to address.

Nitin Agarwal: And Viren, on Ayushman Bharat, in some of there, is there any rethink on some of the hospital networks that you want to utilize or probably get them accredited with Ayushman Bharat any at this point of time?

Viren Shetty: Yes, this is different for different states. So, the 2 biggest states for us, Karnataka and West Bengal. The latter has not empaneled themselves with the scheme. They have their own state schemes called Shishu Sathi and Swasthya Sathi which we were doing earlier and we continue to do. Karnataka, we were doing scheme patients and that just got moved from one classification to the other. as in Karnataka we are enrolled in Ayushman. We have not seen the numbers surge in a big way. The sort of rollout has been quite measured and many patients have not really been taking advantage of Ayushman and maybe the coverage is not as much as we thought. In Delhi, there is no Ayushman, so there it does not count. Most people come either through CGHS, ECHS programs. The other places for example, it is not yet fully launched it is starting to be launched, we will take it up in Jamshedpur, we are taking it up in Ahmedabad and Rajasthan. There are states' schemes which we were doing before and that will get rolled into Ayushman but again it is not going to start converting a large number of cash patients into scheme. And in fact, in some of the tier 2 towns in Karnataka, we actually noticed the opposite where a lot of people who were previously using schemes are now being converted to cash because they lost their coverage. I mean, they lost their coverage because there was a lot of fraud in the system earlier. So, the systems are tightened now.

Nitin Agarwal: And lastly on the Dharamshila Hospital, how should we view at this hospital now when to take a 2 to 3 years view of the business? We have been adding new specialties there and how has the pickup been on those specialties? And how is the older oncology program running there?

Viren Shetty: So, the oncology program has stayed steady. The thing about Dharamshila is even though it was a 20 year business when we took over it was more or less in a sort of life support sort of thing. It was just doing a very bare minimum oncology program. So, the 2 things that have been growing are the onco as well as the multispecialty business that did not exist before. That has to be grown from scratch, so we made investments in adding the beds, realigning the infrastructure, adding more ICUs and so on and getting the clinical talent for that. So, we took a business that was profitable at EBITDAR level but at a much low base, to one where the revenues have been growing quite strongly. But of course, these investments will take time to pan out, so, we actually internally treat it more like a Greenfield project that we have taken on and this again has demonstrated very strong trajectory. It has a strong brand in the area and with us coming in, patients are very enthused with the cardiac program that we are offering. We will slowly start upgrading the facility. We are adding new capacity there in conjunction with the Trust. We will be adding more advanced radiation therapy over there and so the entire profile of that hospital will change. But it does take time because it was more of an affordable alternative and now we are pitching it more towards high-end services.

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 Cayman. What is the outlook for a PAT breakeven?
- Debangshu Sarkar:** It has already broken even at PAT level.
- Charulata Gaidhani:** So, can you give me the number?
- Debangshu Sarkar:** In terms of what is the PAT for that hospital?
- Charulata Gaidhani:** Yes.
- Debangshu Sarkar:** Charu, we can take that offline.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, just wanted to check on one, the industry headwinds which were there for last couple of years in terms of multiple challenges? Have those subsided by now and you have any thoughts on it?
- Viren Shetty:** It is not something that this government will advertise well in advance and tell you that this is what we are planning to do. But you can take a sort of directional guidance from statements that have come from time-to-time. So, for example, the GST Council had announced that for patients, so right now in healthcare sector there is no GST. But for pharma, there is for selling medicines. But for patients who are in-patient, there is definitely a drug element. They ask giving medicines as part of the overall treatment. So, right now we roll it all up into one package that is given to them. The GST council sees this as a sort of leakage and they have indicated that they would want hospitals to start splitting up the bill for inpatient into drugs disposables, all the consumables and charge the services separately. It is very hard for us to distinguish between giving drug as a service and whether that comes as part of the overall package. So anyway, just given that this is what they want to do, we are internally realigning our hospital information software to be able to accommodate that. Other things on price control and so on, it does not look like there has been a lot of activism on that so far and a lot of the decisions that used to be taken by the NPPA have been moved to NITI Aayog. NITI Aayog has created a taskforce of which Dr. Shetty is also advisor to that and they are working on some more holistic solutions towards addressing the cost without it really being something about fixing price. But having said that, the NITI Aayog takes decisions very quickly and it may be that they may decide to fix prices in, let us say lab services or radiology. It is just that there is no way for us to know. But yes, also given that we are entering in an election year, I doubt anyone's interest would be on this. We should not expect anything going forward but as far as the GST thing, I think it is just more of a software correction and that is something we will make the changes to. Any future price control, one thing is on chemotherapy, the chemotherapy drugs they have indicated they have started bringing that under the NPPA. But that anyway has more to do with the manufacturer side. So, that again we have indicated in previous calls that we want to move away

from making margins on medicine and moving margin to our services. And that is a sort of alignment as an organization we have been doing over the past couple of quarters.

Pritesh Chheda: So, only thing which is still pending to get implemented is splitting of the bill?

Ashutosh Raghuvanshi: Yes, but that again pending the sort of official announcement from GST. Our software and packages all of that is ready on price control and so on we honestly do not know.

Pritesh Chheda: And anything on the imaging services?

Ashutosh Raghuvanshi: The question is we do not really know the level of seriousness of government officials and another point is the practicality of doing such a thing. The thing with imaging is that no 2 images are same. They are done on different technologies, they are done on different machines most of the imaging is done on software these days and those come at a huge cost. These things are very hard to implement. But having said that you cannot just assume that it will not be done, we just have to be prepared for that.

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

Sameer Baisiwala: A general question. For the third quarter, is there some sort of a seasonality versus other quarters there being more holidays in this quarter?

Ashutosh Raghuvanshi: Yes. Third quarter is always as I said in my opening remarks also that third quarter is typically a depressed quarter because of the holidays and all kinds of festivals. So, that definitely is the case here.

Debangshu Sarkar: Sameer, just on historical evidence, if you have observed our quarter-on-quarter performance over the last 3 years since we have listed, you would typically see that third quarter inevitably is the weakest along with Q1.

Sameer Baisiwala: And second is, on Dharamshila again. Do you have a full range of onco offering in terms of medicinal, surgical and radiational services?

Ashutosh Raghuvanshi: We have the full range. But now we are going towards accreditation. So we have, for example LINAC accelerator wherein one technology which is on the low energy machine. We are moving towards the high energy machines. We, in onco surgery, will be offering a robotic onco surgery in future. So, the full range is there. It is just that, in that range we will be offering a much higher quality of that going forward.

Sameer Baisiwala: Is it possible to split the onco revenues at Dharamshila into these 3 broad buckets is one more dominant than the other?

Ashutosh Raghuvanshi: The onco business is definitely growing business there. But the multispecialty has outpaced it and will continue to outpace it, given that we have launched multiple specialties in this unit. With a lot of the general surgery, even our software is not able to capture whether these are referrals from oncology and whether they are part of as a general surgery.

Sameer Baisiwala: My question was within onco, the 3 different fields which is medicinal, surgical and radiation, is it? Is one dominant versus the other?

Viren Shetty: No, typically between these combinations, it will be about 20% radiation, about 30% to 40% surgical and the rest comes from medical oncology. Medical oncology typically would be the largest piece simply because of the cost of the medication. So, that is the typical split in any mature cancer facility and here also, it is almost same.

Sameer Baisiwala: And your margin profile would be just be the opposite and the radiation being the highest?

Viren Shetty: Radiation is the highest margin, yes. But chemotherapy also does have a pretty high margin.

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

Charulata Gaidhani: Are you seeing any changes in the regulatory environment in India?

Ashutosh Raghuvanshi: I think, we have answered that already. It is tough to say given that there is an election next couple of months, possibly there could be some action on the GST side where from the inpatients we will have to split the billing into drugs separately and services separately. This is difficult for a lot of hospitals because a lot of services margin and drugs margin we do not distinguish between the 2. But once you start splitting the 2, then we will just have to realign the thing but this is more of an internal calibration exercise and more of a software exercise. So, this is the only thing we expect to happen in the near term. Regulatory in terms of more price action or more things like Ayushman I would say nothing in the short term at least.

Charulata Gaidhani: What about stent pricing?

Ashutosh Raghuvanshi: I mean, whatever happened has happened. What happens is that NPPA is moving towards the NITI Aayog to make the decisions and they have also exempted one Indian made, at least they are in the process of exempting one Indian made drug eluting stent. So, once the exemption start coming in, I expect that in a year's time at least the stents will be more or less decontrolled on price. But again this is just our assessment of the situation. There is nothing really official per se.

Debangshu Sarkar: Charu, just to answer one of your previous question, the PAT for the quarter at Cayman was around \$1.8 million for the quarter.

Charulata Gaidhani: And how much for this in FY18?

Debangshu Sarkar: It is reported in our Annual Presentation dated May 2018.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Debangshu Sarkar: Thanks everyone for your active participation on the call. We look forward to future interactions as well. Should you guys have any further queries or questions, please feel free to reach out to us at any of the forums or directly to us. Thanks again for your participation.

Moderator: Thank you. Ladies and gentlemen, on behalf of Narayana Health, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.