# “Narayana Hrudayalaya Limited Q3 FY20 Earnings Conference Call”

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**MANAGEMENT:** **MR. EMMANUEL RUPERT – CHIEF EXECUTIVE OFFICER**
**MR. VIREN SHETTY – CHIEF OPERATING OFFICER**
**MR. KESAVAN VENUGOPALAN – CHIEF FINANCIAL OFFICER**
**MR. DEBANGSHU SARKAR – HEAD OF MERGERS & ACQUISITIONS & INVESTOR RELATIONS**
**MR. ASHISH SUKHIJA– SENIOR MANAGER, MERGERS & ACQUISITIONS & INVESTOR RELATIONS**

**Moderator:** Ladies and gentlemen, good day and welcome to the Narayana Hrudayalaya Limited Q3 FY20 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. Thank you and over to you, sir.

**Debangshu Sarkar:** Good afternoon, ladies and gentlemen. Myself Debangshu and I run the investor relations and mergers and acquisition practices at Narayana Hrudayalaya. On behalf of the company, I welcome you all to our Q3 & 9M FY20 earnings call of the company.

To discuss our business and financial performance, outlook, and to address all your queries today, we have with us Dr. Emmanuel Rupert – our CEO; Mr. Viren Shetty – our COO; Mr. Kesavan Venugopalan – our CFO; alongside Ashish Sukhija from the team. I am sure you have gone through the investor collateral which has 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 the call is being recorded and the transcript of the same shall be made available on our website at a subsequent date. I would also like to remind you that everything that is being said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and the risks that they face. These uncertainties and risks are included but not limited to what we have already mentioned in our prospectus filed with SEBI and subsequent annual reports on our website. Post the call, in case you have any further questions, do feel free to get in touch with us.

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

**Dr. Emmanuel Rupert:** With the third quarter being a seasonally moderate one, we are pleased to sustain the momentum in the third quarter which was generated over the last four quarters. Despite having shut down operations at our Whitefield facility, we registered a consolidated YoY revenue growth of 7.3% in the third quarter. Indian operations, adjusted for the Whitefield facility, registered a healthy YoY growth of 9.6%.

The three newer centres at Mumbai and Delhi NCR are progressing well with Dharamshila unit having achieved EBITDAR level breakeven during this quarter and has registered a strong build-up of occupancy. The facility won "The Healthcare Leadership" award by Zee Business towards our commitment to quality healthcare.

As you are aware, starting 1st April 2019, the financial results have been prepared as per the new accounting treatment for leases, IND AS 116. This resulted in INR 62.8 mn increase in EBITDA and decrease of INR 88.5 mn in PAT for Q3 FY 20 on a like-to-like basis (pre-IND AS 116).

On the profitability front, we registered a healthy uptick in our operational profitability with 25.5% YoY growth in the consolidated Pre-IND As 116 like-to-like basis EBITDA for the third quarter.

Adjusted for the losses of the three newer units across Delhi NCR and Mumbai, Indian operations posted an EBITDA margin of 15.6% during Q3 FY20 as against adjusted EBITDA margin of 13.5% in Q3 FY19. The three flagship facilities at Health City, Bengaluru and RTIICS, Kolkata continue to deliver robust EBITDAR margins at 30.0% in Q3 FY20.

Our other hospitals i.e. excluding 3 flagship centres, Jammu and 3 new facilities, posted a decent YoY revenue growth of over 11% in this quarter, adjusted for the Whitefield facility, translating into 35.9% YoY growth in EBITDAR in Q3 FY20, underlying the operating leverage in the business. This bucket reported an EBITDAR margin of 14.8%.

Moving on, sustaining the momentum generated over the last few quarters, our overseas operations at Cayman Islands posted YoY revenue growth of 5.5% in Q3 FY20 resulting into EBITDA margin of 24.3% helping the facility register a YoY EBITDA growth of 21.8%.

In the India operations, evolving case mix along with technology driven optimization of the medical infrastructure has helped us register a healthy YoY discharge growth of 8.6% in this quarter. Together with the above, increased contribution coming in from international patients (11% of India revenues) has resulted into 6.4% annual increase in the ARPOB for the Indian operations during the same period.

Some of the key clinical highlights for the period are:

- Mazumdar Shaw Medical Centre (MSMC), Bengaluru successfully treated a 3-year old patient suffering from Desmoid Fibromatosis, a rare form of tumour in the jaw. It is only the 3rd such case reported in the world so far
- Rabindranath Tagore International Institute of Cardiac Sciences, Kolkata successfully conducted one of its kind cardiac intervention in Eastern India using a 28 mm Atrial Septal Defect (ASD) device. It is a rare case as for the first time, ventricular septal rupture (VSR) closure with ASD device was performed in East India
- MSMC successfully treated a rare case of nasal tumour with intracranial extension. It is among the very few cases ever reported
- Narayana Multispecialty Hospital, Barasat performed the first-ever successful minimally invasive aortic valve replacement through swell right thoracotomy in East India
- Narayana Multispeciality Hospital, Raipur successfully performed the first ever Thoracic Endovascular Aortic Repair (Tevar) surgery in Chhattisgarh

We continue to consolidate our operations and have shut down the operations at our Whitefield facility, Durgapur heart centre and exited from the management of Durgapur IQ City managed

hospital leading to the total operational beds coming down by 553 as on 31st December 2019. We are quite pleased to share with you the strong interest that we have received from the investors' community which has resulted into well-diversified broad-based institutional shareholding of the company. We believe NH is strategically placed in the Indian healthcare landscape and is committed to providing affordable quality healthcare to all.

**Debangshu Sarkar:** Stanford, we can open the floor for Q&A.

**Moderator:** Sure sir, thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Raj Rishi, an Individual Investor. Please go ahead.

**Raj Rishi**: What is the trajectory that you foresee for the coming quarter i.e. the fourth quarter of FY20 and the FY 20-21?

**Viren Shetty**: We normally do not give out any guidance, but generally Q3 being a seasonally weak quarter, a lot of the shortfall of the third quarter gets made up in Q4. So we expect a better performance in the Q4, but we wouldn't say that it will be significant given that a lot of the gain that you have seen from this year and the last one was on the back of a very low base he had earlier.

**Raj Rishi:** And sir the coming year, 20-21?

**Viren Shetty**: Again, like we said, you will be considering it on a pretty high base. A lot of the effort that we are doing to take our revenue drivers to the next level such as expansion, additional beds, additional departments will take 9 months to 1.5 years to complete across the group. So we will be operationalizing a lot of the beds, increasing throughput, but this will be more on the existing hospitals' side.

**Raj Rishi:** And sir any plans for international expansion on an asset-light model or something?

**Viren Shetty**: Yes. There is a project we are looking at in the Caribbean. This is the managed hospital contract which will be in the Eastern Caribbean area where the hospital exists, and we will be running it on a fee for service basis. Like that, we are exploring a couple more opportunities, but this one should be close to getting finalized sometime in this calendar year.

**Raj Rishi:** And will it be like as big as your Cayman facility or much smaller?

**Viren Shetty**: The hospital is as big as the Cayman facility, but our earnings from it will not be because we would not be taking any P&L responsibility, we are doing this on a fee basis.

**Raj Rishi:** And sir what about the expansion plans in India like can you comment upon?

**Viren Shetty**: We will be adding at-least 50 to 100 beds in our Eastern India operations in Howrah. We will be adding a new out-patient block in the Health City in Bangalore. We will be adding a linear

accelerator and more beds in Ahmedabad and we will be adding an oncology unit in Cayman Islands. In addition, more beds will be added in Raipur which are currently under construction.

**Raj Rishi:** And sir like this asset-light model approach for India also that you are looking at?

**Viren Shetty**: Yes, there are couple of heart centers we will be looking at in North India. We might run just a cardiac department of the hospital. These are much smaller, they do not have a very long tenure, do not add much to the overall earning, but what they will increase our profile in the region and they also act as good referral centers for our major hub hospital. So we are evaluating these in North India.

**Raj Rishi:** And sir another, just last question. How do you see the debt levels year from now like say FY20?

**Kesavan Venugopalan**: I think we would see some sort of borrowing for Q4 FY20, we have had quite a healthy cash flow in the last quarter, but however, these are all subject to the government interventions at various points of time in terms of payment of the government schemes.

**Moderator:** Thank you. The next question is from the line of Vivek Agarwal from Citigroup. Please go ahead.

**Vivek Agarwal**: So the first question is on Durgapur. So why we have decided to exit in both basically heart center and managed care hospital and how is going to impact the financials?

**Viren Shetty**: Sure. Durgapur was issue with the promoter. This was a medical college hospital where we were running the cardiac center there. The previous management changed and it was taken over by a real estate developer. The real estate developer, pretty well famous in East India, but he ran into a lot of trouble recently and he was not able to sustain the operations of the hospital or to keep paying us our management fee. So the discussion stalled on commercial arrangements and so we decided to exit.

**Vivek Agarwal:** So how is going to impact the financials. Is the impact already there into the Q3 numbers or is it going to be felt?

**Debangshu Sarkar**: It is an insignificant number in the financials. We have already cleared the account in terms of whatever past receivables had been there in the account in the previous financial year itself. So this has been on the anvil for some time. In terms of current year financials, there is hardly any impact, if at all.

**Vivek Agarwal**: Just one more question on Bangalore cluster. Even after adjusting for the Whitefield, revenue growth is quite tapered this quarter around 6%. So any specific reason for that and what is the outlook going forward?

**Viren Shetty**: Yes. This is primarily driven by slowdown at our main Health City unit specifically one hospital, the Mazumdar Shaw Hospital. This hospital depends on drawing a very large patient volume and given the recent difficulties on travel for Bangladeshi patients to India, we have seen quite

a large drop in patient volume. Other than that, there are lot of difficulties in the Middle East as well. Lot of international patients who are very high value patients who come in for liver transplant, bone marrow transplant and high-end procedures, their entry has got impacted. We expect a lot of these things to not have as much impact going forward as we stabilize, but we are looking at mitigating it through a more sustained domestic focus and we will be addressing that in the coming months. In addition, our investment in the large out-patient block is towards targeting domestic patients and increasing our throughput for executive health checkups for scans, daycare procedures. This is the segment that we, historically, have been quite not known for given that our focus is on tertiary and quaternary care.

**Moderator:** Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum Portfolio. Please go ahead.

**Sabyasachi Mukerji:** In your opening remarks, you mentioned that the 3 flagship hospitals continue to deliver an EBITDAR margin of 30% plus. You also mentioned that the other hospitals excluding the 3 flagships, Jammu and the 3 new hospitals clocked a revenue growth of over 11%. Did I hear it right, 11% revenue growth YoY?

**Debangshu Sarkar:** Yes, that is right.

**Sabyasachi Mukerji:** Then my question is what was the revenue growth of 3 flagship hospitals?

**Debangshu Sarkar:** Around 6%.

**Sabyasachi Mukerji:** So I think these 3 hospitals contribute to almost, if I am not wrong, a major portion of your revenue and do you see any kind of situation here because I have learned that the Tagore Hospital in Calcutta is almost running on 80% occupancy and there revenue growth is kindly muted and also you have mentioned that the Mazumdar Shaw Hospital in this quarter saw large drop. Do you see any kind of slowdown in these 3 flagship hospitals?

**Viren Shetty**: Yes. So these are all slowing down for different reasons. Mazumdar Shaw is more seasonal and it is more on the throughput related to our own operational efforts. So the Bangalore units do not really have any capacity issue. Mazumdar Shaw just needs to cater to a wider audience and those are the efforts we will be focusing on. NICS has enough capacity, but there the throughput limitation is on the number of ICU beds and operating rooms. We have patients that are on waiting list, but we need to expand the scope of our intensive care to be able to process that many more patients. And you are right, Rabindranath Tagore in Kolkata, that has a proper capacity issue. One, that can be addressed through either one acquisition if we are able to pull off which is nearby or if we redevelop some of the existing areas nearby. So, there is one apartment complex, a property that we are negotiating with the landowners and if we are able to get that, we can add more beds. But even in the absence of that, what would then happen is, to drive growth, we will start shutting down low-yielding departments and replacing them with

high-yielding ones which is what we have been doing and that obviously remains an option for these hospitals. It is not preferable because there are lot of operational challenges in doing that.

**Sabyasachi Mukerji:** So any update on acquiring new property in Calcutta or redeveloping any adjacent building in Calcutta?

**Viren Shetty**: Still in discussion, but nothing significant as yet to announce yet.

**Sabyasachi Mukerji:** On the Bangalore EBITDAR margin adjusting for the Whitefield closure, it was around 31.8%. What was the number in the base quarter?

**Debangshu Sarkar**: We will take it up offline, Sabyasachi.

**Sabyasachi Mukerji:** And the same number for Kolkata as well?

**Debangshu Sarkar**: Like-to-like number for the top 3 facilities which we mentioned as 30% this quarter was 28.3% in Q3 FY19, if that helps.

**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 Jammu. That hospital has seen a spurt in sales. What is the reason for that? And number two in terms of the Indian operations, you expect EBITDA margins to scale up to what level? What could be the peak margins in the future?

**Viren Shetty**: So the first thing on Jammu. We have a very good clinical team and so that in addition to the fact that it has been very difficult operating in that state for the past couple of months. The stability of the team and the very admirable dedication they put to the work has ensured that patients appreciate the fact that this is a fully equipped, fully functioning hospital in the region. I would hazard a guess that patients are not able to travel outside the state for treatment which may be in our benefit, but ultimately it would boil down to our operational efficiency. The second part of the question you asked which is what is the upper limit for what the margin could be? We honestly do not know. Theoretically, there are hospitals we know in India, some unlisted hospitals that do as much as 40-42% in margin at their peak and there are hospitals that are still very healthy, very well-running hospital that are floating along at 20-22%. We will keep trying very hard to address our cost margins, to address the throughput issues and drive revenues. So it depends on balancing the long-term sustainability against the short-term pressures like raising prices and so on. So it is hard for us to hazard a guess as to how much more we could achieve.

**Charulata Gaidhani:** Then in terms of the EBITDAR, East India has seen a drop in the EBITDAR margin and so also West India and Delhi NCR. So what are the reasons for the decline apart from the seasonal weakness?

**Viren Shetty**: That could basically be it. If you just look at seasonal impact given that this is a festive season and it does get relatively colder, people do not travel as much for procedures and these are elective procedures after all. Patients can delay it a month, 2 months, 3 months, but not really much longer than 6 months and so we do expect numbers picking up in Q4.

**Charulata Gaidhani:** And what could be the fixed cost on an operational basis annually?

**Debangshu Sarkar**: Charu, probably we can touch base offline on this. We will also have to work out what element of the costs is actually fixed in nature. We have given the split of the cost in terms of the major heads. So a lot of the employees, the manpower costs are obviously fixed in nature, but actual calculation wise, in terms of what is the exact quantum of fixed cost, obviously we have to do the arithmetic and get back to you offline on this.

**Moderator:** Thank you. The next question is from the line of Chirag Patel from Adinath Share. Please go ahead.

**Chirag Patel:** Sir, I have two questions. The first one is going forward what are our plans to sustain our earlier growth trend? And second, how are we looking into the central budget for the healthcare sector?

**Viren Shetty:** So the growth plan as I had indicated earlier, we have a lot of incremental capacity across the network. At this point, we have not announced any sort of large projects on the lines of large capital outlay and so on. Just because of our relative caution about the sector and the economy at this point in time, we do not want to commit to large capex plans, but caution cannot last forever. Obviously, we also recognize that as much and as soon as we start to get this combination of right opportunities at the right price in the proper locations that enhance our overall network that is when we will be looking at deploying capital. In the meantime, we will just focus on our fundamentals, improve our current operations and make a better experience for the patients in the network. As for the second thing, a lot of the budget announcements that came up. Three things that were important. Number one was cess on medical equipment, hospitals like ours rely a lot on imported medical equipment. They function much better. There are not really any domestic alternatives available and as that gets more expensive, it just becomes a pass-on cost for patients. So I would not say it is good for the sector that an additional duty and as such, they already were quite large duties on imported medical equipment from US, Europe, China and so on. So costs will go up, but this will alternatively be passed on to the patient. Second thing was on the outlay on the healthcare, really not much has changed. There was not that much more additional outflow towards Ayushman and that scheme which we see as neither here nor there, does not matter as much to us**.** The last one is the gap funding that they have announced. So essentially, they are going to use the cess on the medical equipment to provide gap funding for hospitals that will come up in tier 2, tier 3 and smaller towns which do not have hospitals. Now, I really do not think this is the greatest use of any sort of funding because what the gap funding will do is turn a -10% EBITDA margin business into a zero EBITDA business, still not a great business and I do not know which entrepreneur will be brave enough to risk capital on the assumption that he can run a zero percent business in a small town, but anyway these are the

sort of announcements that were there. But ultimately, directionally it gives us hope because at least the overall outlay on healthcare has gone up. So hopefully, things should improve.

**Chirag Patel:** Sir, you said about the duty hike on imported medical equipment, so did we quantify any figure and what we are going to pass on to patients?

**Viren Shetty:** It is 5%. The thing is there will always be a claw-back, there will be exemptions, the full text of the laws have not yet come out and we do not even know what the tariff implementation is. So as and when these things come out, we will have a much better idea. But ultimately, like I said earlier, this impacts the CAPEX for the medical equipment which is only done once every 8 or 10 years. These equipment last for a long time. So its cost will get amortized quite well.

**Chirag Patel:** But we do regular CAPEX as well right for maintenance purpose?

**Viren Shetty:** Yes, of course.

**Chirag Patel:** So this regular maintenance does comprise such equipment?

**Viren Shetty:** As and when any equipment at any of the units is due for replacement that becomes part of our typical maintenance/replacement CAPEX which we have already guided you ample times in terms of the number that you see us incurring historically as well as in the near future.

**Moderator:** Thank you. The next question is from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.

**Arshad Mukadam:** I do not know if you have addressed this question in the opening comments, but this question is regarding the 5 to 6% growth in the Cayman Islands. So if I look at the presentation and the past IP discharges, I think discharges have grown at the good rate at 20%. So does that mean we have taken a price cut over there or could you explain that please?

**Viren Shetty:** So, the Cayman is a hospital that attracts patients from multiple geographies. The highest payers are within the Cayman Island itself. There are different contracts that we sign with different governments. So for example, there is something known as Caribbean rate which is all the other Caribbean Hospitals would be signing contracts with us at a slight discount to what the base rate is. There are patients that come from Latin America, these are concessional patients since they are also given a much lower rate. Patients come in from Haiti and Cuba, that comes from charitable donors like Good Samaritans, Red Cross and they get the discount. I think the broader implication of what you said is right. The broader the volume of patients that we start to get, you will see a moderation in ARPOB, but what happens also is that the specialty mix starts to change. When we start going towards more average procedures, low-yielding ones, procedures that have longer stay and longer ALOS, then also you start see the ARPOB start to go down as the occupancy part starts to increase.

**Arshad Mukadam:** So, what would you suggest how the ARPOB would move going forward?

**Viren Shetty:** It would stay stabilize is my guess because also what we will happen is that we will start oncology services. It involves a lot of daycare procedures and these procedures will definitely increase the ARPOB a lot as well as a different class of cancer surgery will start to be performed there and those also have an extremely high yield. So ARPOB will definitely go up. In the absence of oncology, I would say it will stabilize or even reduce, but once we start to add oncology services, we will start to see it increase again.

**Arshad Mukadam:** Sir, wanted to understand the rationale behind this Caribbean Managed Hospital that we are getting into, I think previously you mentioned that the managed hospitals in India to funnel patients to our larger hospital, so is this the same rationale for maybe funnel the patients to the Cayman Facility?

**Viren Shetty:** Yes, that is one aspect of it. The other is that it gives us insight into what it takes to run a hospital in a different island. Now, unlike different states in India where broadly the rules, players and economics are the same, these are different sovereign countries where there are completely different systems of laws and taxation and logistical issues and so on. So, running a management contract hospital is a zero cost, low effort way for us to understand running the hospital and we always retain the options for these hospitals to take over the P&L. So it is just done from our side as a way to understand how hospitals are run and as and when we feel comfortable, we can make an offer to the government of that country to allow us to run the entire hospital.

**Arshad Mukadam:** And If I could just ask one last question, so if I have taken the number of doctors given the IP and the fee paid to them, so I think if you just do simple mathematics, the amount paid to a doctor would come to an average of 15 to 20 lakhs annually, am I correct in understanding that?

**Viren Shetty:** Yes, just to the average, then it would

**Debangshu Sarkar:** The number of doctors also includes a lot of resident doctors as well as student doctors.

**Viren Shetty:** Who are paid stipends of 60,000 to 1 lakh a month, so that also drags the average down.

**Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** Sir, just on the new hospitals, if you could share what is the total capacity available and I wanted to just understand what is the current occupancy level in the current new hospitals?

**Debangshu Sarkar:** Across these 3 hospitals which are the two at NCR Delhi and Bombay, we have in the current format over 700 beds capacity.

**Prakash Agarwal:** Operational capacity.

**Debangshu Sarkar:** This is the capacity in the current format.

**Prakash Agarwal:** Ready to be used?

**Debangshu Sarkar:** Yes, that can be used in a very short go. We have not commissioned all of these beds. As and when the occupancy increases, obviously we will commission them in a staggered manner.

**Prakash Agarwal:** And third one you said?

**Debangshu Sarkar:** So, these three hospitals put together are the two at Delhi NCR and the third one is the SRCC Children's Hospital at Mumbai.

**Prakash Agarwal:** And just one year, two year, how do you or when do you see these EBITDA being neutralized and adding up positively for the new hospital?

**Viren Shetty:** One of our hospitals in NCR, the one in East Delhi is nearly there. We expect by the end of this financial year, at least on a monthly basis, we could achieve EBITDA breakeven. The other two hospitals, one in Mumbai and the other in Gurgaon, I would say another year to year and a half.

**Prakash Agarwal:** And from a matured hospital perspective, when do you actually see from an ARPOB perspective, we are marginally increasing though, are there more levers to improve the ARPOB in the matured hospital?

**Viren Shetty:** Yes, of course, one is increasing our throughput when we reduce the ALOS and so that involves improving the clinical teams working on better systems for coordinating care, focus more on daycare and outpatient procedures. The other thing is more high yielding procedures like transplants, robotic surgeries, international patients are another one, so hospitals, especially the ones we are focusing on which are in Bangalore, Mumbai and Delhi have large amount of connectivity to foreign locations and so we will start investing in marketing campaigns to attract patients from that areas. So yes, there are quite a lot of levers for improving both the revenue and the margin in the larger hospitals.

**Prakash Agarwal:** Lastly on the CAPEX side, what is the CAPEX guidance for this year and next year sir?

**Debangshu Sarkar:** Year till date, we have incurred around 100 crores this fiscal year. Historically, if you have observed us, we have incurred around 100 to 125 crores. Going ahead with an increasing gross block and the phase of reinvestment into quite a few of our existing facilities that Viren has captured in the call earlier, there would be some incremental figure on top of that.

**Prakash Agarwal:** Which would be like around 200 cr in total or more than that?

**Kesavan Venugopalan:** Annually yes, but that could be spread out over some period of time, yes.

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

**Sameer Baisiwala:** Just from the previous question, this CAPEX potentially 200 crores for next year, does it include one that you are required to spend on incremental expansion?

**Viren Shetty:** Yes, this includes all the incremental expansion. Some of the expansion will go on for 18 months to 24 months, it will be spread out over that, so you will see some lag in that as well.

**Sameer Baisiwala:** And the split between this 200 maintenance and the new CAPEX is about 50:50 or 60:40 something like that?

**Viren Shetty:** 60:40 will be more appropriate, 60% towards maintenance.

**Debangshu Sarkar:** Probably the regular/upgradation/maintenance CAPEX would be around 125-130 crores number or probably inching a bit north and the balance would be the expansion and that again probably will not completely be incurred like Viren mentioned over the next fiscal, that may get dragged down to the next fiscal.

**Sameer Baisiwala:** And the second is on the price changes. If I understood correctly, January every year you take it for the walk-in patients, any update for this year?

**Kesavan Venugopalan:** Yes, we have done the price increase effective 1st January. We carried out that across our facilities except a couple of facilities.

**Viren Shetty:** There also is that these TPA contracts get renegotiated as well, so that is the cycle that starts in April and can go all the way to November, but government contracts don't get renegotiated. They stay the same.

**Sameer Baisiwala:** And what hike have you taken in January, roughly any ballpark range?

**Kesavan Venugopalan:** It will be around 3 to 4%.

**Sameer Baisiwala:** And given that this is 50% of your revenue, the increase is about 6 to 8%?

**Debangshu Sarkar:** No other way around, 3-4% for 50% of the business will translate to 1.5-2% for the whole business.

**Sameer Baisiwala:** And final one, any regulatory changes that you are expecting i.e. inhouse pharmacy or anything else that can impact the business going forward?

**Viren Shetty:** Yes, so we continue to observe a lot of things to happen. So one thing that may come up is in West Bengal, we have heard rumors that they want to start putting these generic pharma shops, fair price shops in every hospital, not sure when they want to implement it or how they will implement it, but that is one news to look forward to. The other thing is that may happen is increase in minimum wage, so that is the case we are fighting in the Delhi High Court. One more thing that this is not healthcare sector specific, but it impacts all the industries**.** What used to

happen earlier is that PF was calculated on the base pay and on top of that, we used to layer a lot of additional HRA allowance, gratuity, so on, but now that the Delhi High Court has said that PF should be applicable to the whole lot. It could have an impact depending on which way this thing goes, whether they decide to make it retrospective or not. Going forward, we are compliant, but we don't know how much the retrospective action will be. In addition to that, price control, we don't think that will continue much further but we do have a sense that they may implement margin control and for margin control, we have already enacted that in our pricing strategy to cut down the margins that we get out of all our consumer bills and so on. The last part is price control in lab tests, diagnostics, blood tests, radiology, all of that. The government has asked for, over the past year, a lot of data from hospitals, from diagnostics, laboratory and so on, on our pricing and there is a sense that they may use that to come up with standardized price for a certain fix set of procedures.

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

**Nitin Agarwal:** Viren, on the existing hospitals barring the top 3 hospitals, are there specific hospitals where we see scope for significant improvement from these levels or is there way to club those hospitals into hospitals where you see a lot of scope for improvement on both profitability and may be somewhere things are probably matured or peaked out at the current level?

**Viren Shetty:** That is a great question. In the mid-tier hospitals, we saw phenomenal growth in Ahmedabad over the past year and a half and so there we will be adding more capacity to deal with the patients, so we don't have enough capacity to deal with the patients right now and thus running waiting list there. And so when we add more capacity, we will be able to change the profile of the patients we deal with. Primarily, a lot of scheme patients coming in now, we can start adding more beds for cash paying patients and insurance and TPA. The other is adding radiation oncology, again will improve our oncology program and again improve the realization in that unit. Raipur, we had noticed the same thing earlier, so in Raipur we had added oncology as well as now we are adding more beds over there, so that again should increase. I think we are pretty confident that all of them can mature and reach the Health City sort of performance, but it just has taken much longer. Jaipur as well has shown a lot of growth, but that again will take longer because it is a very low realization state, so we will wait a bit longer before we decide to add more capacity over there. Guwahati has done extremely well, the performance has been quite phenomenal this past year again, but Guwahati as such is very challenging place to attract talents to get decent realization and just logistically is very difficult and in the recent past months, it has been again challenging for the other reasons. So we would just take little bit of pause on deciding for Guwahati, how we do the expansion, but we know that all these units do require lot of capital outlay in expansion. We are just holding our horses to see how the whole thing plays out. Similarly, Mysore and Shimoga have shown great performance, so there again in the next year we will start evaluating options for them as well, how many beds that we need to add, which specialties we focus on, whether we focus on oncology or cardiac or transplant and so on and we will take a call over the coming months, but at least for now, lot of the expansion we have

indicated will be in whatever I had indicated earlier which is adding capacity to our mostly larger units. Once we run out of space there, then we will focus on the next tier of hospitals.

**Nitin Agarwal:** Is it fair to say that when we look at these cluster of hospitals, may be 15-20% CAGR EBITDA growth for these hospitals as a block over the next 3-year period that should be reasonably a fair assumption to make here?

**Viren Shetty:** Yes, it is a fair assumption because also there are some big city hospitals in there as well, the Ahmedabad, Westbank in Howrah, Raipur as well and those also have outperformed in terms of revenue wise, so they should definitely help it reach and that will compensate for hospitals at Jamshedpur, Guwahati, Shimoga which are in smaller terms.

**Nitin Agarwal:** And secondly on the three new hospitals, you mentioned that the Dharamshila Hospital has broken even at EBITDAR level in this quarter; a) do we expect this to sustain from here on and secondly, what does it really mean for this cluster of three new hospitals profitability? Do we start seeing a breakeven on this cluster by next year?

**Viren Shetty:** Just for the East Delhi Hospital, yes, you will see that EBITDA level breakeven by the end of this year. For the rest of the cluster, like I said earlier, it still take a year, year and a half. For whether it is sustainable in East Delhi, we are very confident it is, this is the hospital that took a while to find its groove to find the right clinical talent. We don't see too many hospitals coming up in that area right now, not many have been announced and given that this is not as economically well off as South, the Gurgaon part of NCR, we don't expect too much competitive challenges over there which would drive up cost or increase in manpower attrition. So at least for the near 2-3 years, we are feeling quite confident in the performance of this unit.

**Moderator:** Thank you. The next question is from the line of Chirag Patel from Adinath Share. Please go ahead.

**Chirag Patel:** Sir, we cover almost all disease which are essential in human life, like as per one survey recently that said that 20% of Indian going to be patients of depression and rightly going forward due to this technological disruption and all which we are facing world over, so do we have specific plan to cater to this next generation illnesses and diseases?

**Viren Shetty:** Sure, depression what you indicated, you are right, it is a massive, undiagnosed opportunity. It is just that this is primarily at this point an outpatient driven activity that for us is more a supplement to patients we get who are on long term, on pro-care and are offered more of the palliative treatment. We do offer therapies for patients that who want to do weight loss and those who come for clinical depression, but it is not a core segment for us. Our focus is more on the therapeutic aspects which are more clinically focused but if you were to ask a larger question as to which therapies we want to start offering going forward, one of the key ones we want to highlight to everyone is our focus on cell therapy or it is also known as immune therapy. This is a very cutting edge form of cancer treatment which would be the next generation of

chemotherapy which is very targeted. What it is we genetically modify T cells which will go after attacking the cancer cells, so it is essentially using your body's own immune system to track the cancer but the problem with that is it is still right now very much in the university research phase. There are a very few therapies that have come out. Those that have come out are extremely expensive closer to 40-60 lakhs. The investment we have made is with Biocon, their arm Syngene has invested in this facility. We created a GMP (Good Manufacturing Practice) Lab in our Mazumdar Shaw Cancer Hospital and this is in partnership with research and collaborators from the US as well as our own doctors here. So we will be working on identifying certain genes that we can target as well as certain cancer therapies that can be developed, so this we see as quite exciting for our push into onco care. In addition to that, other ways, I would say using digital means to reach our patients, we have invested a lot in creating a software, we call Atma which is a backend for all our clinical operations. On top of that, we will be building these apps to help our doctors connect with patients outside the hospital. So we hope that once we have these apps ready, we will be able to enroll our patients in long-term treatment. Right now, they only get treated when they are in the hospital. In the future, we have to enroll them on long-term plan, so patients with chronic heart failure, lung failure, liver failure will be able to be managed remotely by doctors, so that we will be able to better manage their condition from far distance.

**Moderator:** Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum Portfolio. Please go ahead.

**Sabyasachi Mukerji:** This is just to understand from a directional sense, I was just looking your Y-o-Y revenue growth for the last 10-11 quarters and listing and probably this has been the lowest since listing in terms of Y-o-Y revenue growth. What is the kind of reason that highlighted was that in the three flagship hospitals kind of stopped hiring once due to the capacity issue and the other more of a seasonal issue? How do you look forward into this in terms of growth levers and the revenue growth trajectory?

**Viren Shetty:** If you are just looking purely Y-o-Y and expressing as a percentage, yes you are right, this may optically give us the lowest number that you have seen so far driven by two things. One is the base keeps getting higher and higher but having said that I will take your larger point which is what are the growth levers going forward. What happened that you have noticed from our company is that we haven't really announced a large number of new hospitals, a lot of Greenfield capacity that we did announce from the time we listed until now and that is because we decided to focus internally on our operating metrics and improve the financials in our hospitals which is paring down debt, getting much high yield and waiting until all operations have broken even and we are generating sufficient cash before we look at newer opportunities. Other than that the playing field has become very different in the past couple of years, not only that we have to worry about competitive pressures, on top of that, there are lot of government and regulatory issues that keep springing surprise every 6 months or so, which completely upset the economics of running this sort of business and so we remain cautious on that. In the past, it was relatively easy, you will just push more beds button and then you would have pretty stable sort of growth

because more beds equals more patients equals more revenue, but we start to find that it is becoming harder and harder to breakeven in these hospitals and the return on capital invested is just not what it used to be, so we have existing capacity and lot of our investments, we focus on making the existing capacity do more and so that is increasing throughput i.e. trying to find out that we can extract more revenue per patient by decreasing the ALOS or improving the number of infrastructure that doctor is able to offer, even robotic surgeries, new therapies or get into onco therapy like cell therapy or even going into digital means. So, as things become more clear, then we may be more confident about announcing that okay, now it is time to start adding a lot more beds in hospitals like before, but at least from our side now it is not quite the time.

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

**Charulata Gaidhani:** In terms of addition of beds, what are the hospitals that you target to grow in terms of operational beds?

**Viren Shetty:** The bed addition that we are taking up in the near term is in Howrah that is our Westbank Hospital, then in Ahmedabad, we will be adding 50 beds there. Raipur, which we already announced which would get operationalized soon. In Health City, Bangalore, we will be adding out-patient block, so it is not really beds, it is more of adding more consulting rooms and diagnostic therapies and labs and so and so. It won't really add to the bed count, but it will add to the revenue. Then, in addition to that, Cayman will be adding oncology, so that again will not add much by way of beds, but it will improve the occupancy definitely as we start to get more patients. Ahmedabad, we will be also adding oncology there, so that should improve things and RTIICS, of course, depending on our negotiation either with the landlords or with the sort of business next door that would immediately add a large number of beds online, but that is not something that is either concluded but indicatively we have to add more beds in RTIICS.

**Charulata Gaidhani:** How long will it take?

**Viren Shetty:** It has taken quite a while. We have been negotiating this for more than a year and a half and we are as frustrated as rest of you about difficulties in negotiating but we still remain hopeful.

**Charulata Gaidhani:** And the other question was in terms of receivables, you mentioned that 100 crores of receivables are due from the government of India?

**Kesavan Venugopalan:** It is actually two thirds of around 280 crores outstanding in India that is due from the government.

**Charulata Gaidhani:** So with the interactions, what is your estimate?

**Viren Shetty:** Estimate of?

**Charulata Gaidhani:** By when would you get the money?

**Kesavan Venugopalan:** The way the allocations come into the government departments, we see a lot of slowness in the way claims and bills move from the departments which have got cleared but not available for making the payment due to the government allocation, so I think this trend in our view will continue at least for some more time.

**Debangshu Sarkar:** Just to add on to what Kesavan said, if you have seen the trends over the last few quarters at least, our growth in topline has been more than what it has been in the receivables. So, to that extent, it has been managed, but having said that, the majority of the receivables is primarily to the government sector and underlying payment mechanisms and the modalities probably remain the same as they were previously as well.

**Viren Shetty:** And we have been taking conscious efforts to rebalance our business away from schemes and towards private payers and cash paying patients

**Charulata Gaidhani:** And in terms of Bangalore, the EBITDAR margin was around 32% in the last quarter and has come down to 29% in Q3, do you think you have reached the peak in the Bangalore hospitals?

**Debangshu Sarkar** Charu, as mentioned before, first of all the 29.5% is inclusive of onetime losses that we have booked in Whitefield of around 4.5 crores this quarter. Adjusted for that, it is actually 31.8% which is as much as it was in the previous quarter and as we have mentioned quite a few times in the past, Q3 is seasonally moderate quarter, so to that extent Q2 versus Q3 performance evaluation or monitoring is probably not apt in the first place.

**Viren Shetty:** And to the second question you asked, is this sort of peak, like we said earlier, it is definitely not. There are lot of things we can do but we can't indicate for sure when it is that we would be able to get those numbers up. We are doing a lot of things with rebalancing the patients, getting more in the outpatients, improving throughput and so on and you might see the gains over the next couple of quarters.

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

**Sameer Baisiwala:** A bit of a dumb question, if I may, can you turn away the low paying patient or not that high profitable specialty and pick and choose what you want to do?

**Viren Shetty:** Just to be very clear, we never turn away any patient, so that is one thing that is very clear. What happens is that as the hospitals start to are ramp up at, there is enough capacity and so you will take as many patients as you can. So the new hospitals will be loaded with the lot of scheme patients once we get the empanelment and so on. You will take basically whoever is coming to fill up the beds. Once the unit matures, once you get a lot more control over, exactly what the allocation for each bed is and once you start to put people on waiting list, then the unit get choice and they have to choose for themselves based on their relative set of priorities and so obviously patients paying cash are the highest priority followed by patients on insurance with 30-60 days and so on. The credit patient keep going down and down the list but it also depends on the

clinical need, even if a patient who is coming with a government scheme comes in and presents case that needs to be done immediately, we absolutely do treat them immediately, we don't put anyone on our waiting list just because their payor does not pay us on time.

**Moderator:** Thank you. The next question is from the line of Chirag Patel from Adinath Share. Please go ahead.

**Chirag Patel:** My question is in developed markets like US and Europe, they cover almost all disease under insurance protection and same way in October or August 2018 somewhere, IRDA issued one guideline for general insurance scheme was that you should also cover this disease also and frame policies according to it, but somehow they have not launched such products, going forward are we going to witness similar kind of trend that we are seeing right now in Europe and US that take our almost all disease in their policies and in your view with respect to this on our industry?

**Viren Shetty:** Why this doesn't happen is because there isn't a broad base of people who are covered by insurance. Now the statistics are very hard to come by, but from what I have been told, only 10 to 15% of the country has private health insurance, rest of them either are covered by some sort of government program or the cash whereas in Europe it is closer to universal insurance. So when they are able to collect from a large pool, then it is easier for them to cover all the diseases and have no upper limit and cover very expensive therapy, but even they have exclusion, especially the European insurances that you mentioned will not cover therapies like immune therapy, they will cover transplant, they won't cover LVAD procedure which is the artificial heart since they have lot of exclusions. But to your larger question, IRDA can ask the health insurance companies to cover the procedures, but their number simply do not support. For group insurance policies right now, the claims ratio is closer to 120% from what I remember last whereas the ones that are shown in the retail are closer to 75-80% but still most policies sold are group insurance policies. As for what is the impact in our sector, the more people that have insurance, the better it can become because then it removes that first level of hesitation from the patient for access and care. What happens in India a lot is that even though most patients pay cash, they come to us at the absolute end of all their options, once they have exhausted the option of waiting for trying it medically, for going for ayurvedic or other nonworking sort of option, with hospitals as the last resort whereas with insurance our hope is that a lot of inhibition will go off.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Debangshu Sarkar for closing comments.

**Debangshu Sarkar:** Thanks all of you for your active participation on the call today. As mentioned before, should you have any further questions, please feel free to touch base with us anytime offline and we will be more than happy to address each one of your concerns on the same. Thanks once again ladies and gentlemen. Look forward to such active participation in future as well.

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