"Narayana Hrudayalaya Limited Q1 FY18 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Narayana Hrudayalaya Limited Q1 FY18 Results 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 any assistance during the conference, please signal the operator by entering '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Debangshu Sarkar of Narayana Hrudayalaya. Thank you and over to you, Mr. Sarkar.

Debangshu Sarkar: Thanks Melissa. Good Afternoon, Ladies and Gentlemen, myself, Debangshu Sarkar and I run the Investor Relations and Mergers & Acquisitions function at NH. On behalf of the company, I welcome you all to our Q1 FY 2018 Earnings Conference Call.

To discuss our financial and business performance outlook and to address your queries today, we have with us Dr. Ashutosh Raghuvanshi – our CEO, Mr. Kesavan Venugopalan – our CFO, and Mr. Viren Shetty, who spearheads the Strategy and Planning at NH, and Ashish Sukhija from the Investor Relations team alongside myself. I hope you have gone through our result release and the quarterly investor presentation document, which have been uploaded on our website.

Before we proceed with this call, I would like to remind everyone that this call is being recorded and the transcript of the same shall be made available on our website. I would also like to remind you that everything being said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and the risks that they face. These uncertainties and risks are included, but not limited to what we have mentioned in our prospectus filed with SEBI and subsequently in our annual report uploaded on our website. After the end of this call, in case you have any further questions, please feel free to get in touch with us. With that, now I would like to hand over the call to Dr. Raghuvanshi.

Ashutosh Raghuvanshi: Thank you, Debangshu. Good afternoon to all of you.

On behalf of the Company, I welcome all of you to our Earnings Conference Call.

On the back of the solid foundation for the business as amply demonstrated by our fiscal 2017 performance, we are satisfied that our performance this quarter is in line with our expectation. As you all are aware, we are going through really unpredictable and challenging regulatory environment at the moment which has definitely had an impact on the overall business ecosystem, effects of which we foresee to continue in the near to medium term. As we thought, headwinds in the form of curb on cardiac stent pricing along with expected cash-burn associated with commissioning a new facility like SRCC Children's Hospital has affected this quarter's profitability.

As we move ahead, we continue to be excited to consolidate our footprints across the length and breadth of the country to charter our next phase of growth. Our commitment towards being a true Pan-India affordable healthcare operator is reflected in our well-calibrated expansion strategy centered around creating a foothold in newer geographical regions of interest like Delhi NCR and Mumbai while maintaining a dominating presence in Southern and Eastern parts of the country.

While we expect, the growth outlook to be similar in near to medium term, we do remain confident to deliver affordable quality healthcare to all sections of the society through our differentiated business model coupled with the long-term prospects of the Indian healthcare ecosystem.

With this backdrop, let me summarize the headline performance for NH in the first quarter of fiscal 2018:

For the last quarter, we reported a 15.3% year-on-year growth in total operating income from Rs. 4,520 million in FY 17 to Rs. 5,211 million this year. We registered an EBITDA of Rs. 556 million reflecting an EBITDA margins of 10.7% as compared to 12.4% in Q1 FY17. As I mentioned earlier that this dip in profitability is on account of the curb on cardiac stent pricing along with commissioning of Mumbai hospital. Curbing of stent prices by the government significantly affected our Heart Centres' business resulting in the segment's revenues dropping by almost 3.0% year-on-year. This led to Heart Centres' contribution to the overall business decreasing to around 5.0% from the erstwhile 6.2% and also impacted the segment's profitability coming down to 7.9% EBITDAR margin in the last quarter from 18.6% in FY 17.

Our performance this quarter was again a mix of healthy growth in the matured centers falling into greater than 5 years' bucket along with a steady ramp-up at younger hospitals, including the acquired facilities with maturity less than 5 years. Our matured centers continue to exhibit industry-leading growth registering an 11% growth year-on-year in the last quarter along with best-in class profitability with EBITDAR margins of around 24%. Led by impressive ramp up of operations at units like Guwahati and Whitefield, the younger set of hospitals including the acquired operations grew at 35% year-on-year.

Moving to international operations, our facility at Cayman Islands continues to build upon the strong momentum that has been generated over there through the host of clinical enhancements as detailed out last year. Growing at remarkable 38.6% year-on-year, this unit reported a revenue of USD 9.7 million in Q1 of fiscal 2018 with an EBITDA of USD 0.7 million. We remain bullish about the prospects of this facility in terms of its ability to generate significant cash-surpluses in the future.

On the clinical front, as some of you may have observed, one of the noticeable aspect of the last quarter is that our High-Value speciality focus is playing out with Oncology stream now contributing almost 10% of our In-Patient Revenue which has led to Non-cardiac contribution increasing to 56%. This achievement in oncology has been achieved as a result of our continued focus towards creating Oncology along with select other niche domains as the next engine of growth. Addition of Dharamshila hospital at Delhi to NH's umbrella is also a major contributor towards the increasing share of Oncology in our business.

Our success story in clinical excellence has not only caught the attention of patients across India but also across the globe namely South Asian countries like Bangladesh, African countries like Kenya, Middle Eastern Nations like Iraq, Yemen etc. This has resulted in significant increase in share of International Patients' segment in our overall business with its contribution being almost 10%. We see the traction generated in this segment to continue further with the onset of our newer facilities across NCR and Mumbai. Our strategy around leveraging the role of cutting-edge technology in the field of medicine along with increasing presence in other high yielding specialties like Oncology, Neuro sciences, etc continues to yield desired results with the ARPOB registering almost 13% growth year-on-year for the last quarter.

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

- A rare case of a 5 year old boy with fulminant hepatic failure was treated with an emergency liver transplant procedure at our flagship facility, Mazumdar Shaw Medical Center, Bengaluru
- Narayana Superspecialty Hospital, Howrah, the leading oncology provider in the eastern region, continued to perform cutting-edge clinical work across multi-specialty domains with complex 'Arterial Switch' paediatric surgery being performed to treat life-threatening heart condition
- Shri Mata Vaishno Devi Narayana Superspeciality Hospital, Jammu celebrated its first anniversary and treated more than 1 lakh patients and performed ~1,800 surgeries within its first year of operations
- Extending advanced clinical programs beyond the metros, a minimal invasive surgery like TAVI was performed at Narayana Multispecialty Hospital, Mysore, first of its kind in the city

On the new projects' front, as you all would be aware, there have been significant highlights over the last quarter:

- We started running a 300 capacity bed Dharamshila Narayana Superspeciality Hospital in Delhi marking our entry in the NCR region. While this is presently being operated as a pure-play Cancer Hospital, we are in the process of upgrading it into a Multi-Speciality Advanced Care unit
- In the same NCR region, we also acquired a near-complete 230 bedded hospital in Gurugram, close to the Delhi International Airport, which is expected to be commissioned during the last quarter of this fiscal
- To strengthen our foothold in the Western Region, we commissioned the premier 207 bedded paediatric SRCC Narayana Hospital at Haji Ali, Mumbai

I am sure you all will appreciate that these new projects, at hitherto unexplored territories, re-affirm our commitment to be a Healthcare Provider of choice for all across all the regions of the Country.

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

- NH won Business World Digital India Award for "Most Innovative Citizen Engagement through Technology" in May 2017
- NH featured in "India's Top 500 Companies 2017" list by Dun & Bradstreet in June 2017

While these achievements recognize the pioneering work we are doing in the healthcare space, we continue to evolve our business across the geographies with focused approach on affordability, high quality tertiary care and fostering clinical excellence.

With this said, we open the floor for Questions & Answers.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Chintan Seth from Sameeksha Capital. Please go ahead.

Chintan Seth: Sir, just one question on your matured hospitals ranging between 3 and 5 years, when we see the growth on a quarterly trend, the growth has been dipping down from 33% in Q1 17 to 13% this quarter, so what is the strategy over there and what can we expect from the growth perspective from matured 3 to 5 years' hospitals?

Debangshu Sarkar: Chintan, thanks for your question, while you have pointed out a key highlight on that particular slide that you have referred to in our investor presentation, couple of things on that front, one is that you would have observed that there has been a slight movement in that bucket whereby couple of hospitals from the erstwhile <3 years' bucket like Whitefield, HSR and Guwahati have actually moved on to this bucket of late and Raipur from this erstwhile 3-5years' bucket has moved onto the greater than 5 years' maturity bucket that we have profiled over here, so that also explains a bit in terms of within those buckets what has been the movement in terms of the vintage profile or the ageing profile of the hospital. That being said, our hospitals in this bucket in themselves have been registering pretty impressive growth, be it the Guwahati facility or the Whitefield facility as Dr. Raghuvanshi mentioned in his opening remarks out here which has been more than 30%.

The continuing issue out here in this bucket has been with a unit like Ahmedabad, though it had turned in the green, if you remember we mentioned that during our Q2 FY17 call, subsequent to that with effect from the demonetization as well as the cardiac stent price control effects have ensured that this has again gone back into the red with its growth getting affected. Leaving that aside, this bucket, we believe, has been performing in line with what we would expect of a 3 to 5 years' vintage bucket. If you see out the profitability profile, there has not been any substantial dip in that despite the inclusion of three new hospitals in this bucket, which has remained around 9 odd percentage for some time at least and taking out Ahmedabad from this bucket, this actually improves close to 12 percentage.

Chintan Seth: If I see the ARPOB of that bucket, it has seen a sharp improvement from 5.7 to 7.2, which reflects that even though we have seen the growth in ARPOB, but occupancy side we have been struggling, that is the right observation?

Debangshu Sarkar: That has been an issue with couple of those units, one is obviously the Ahmedabad unit and the other one is the HSR unit where we have had certain restructuring work that has been going on over there for some time now. With that being settled in, going forward, we believe that it would result in strong growth potentials both on the occupied beds as well as the ARPOB movement.

Chintan Seth: For 18-19, we expect the trend to continue basically?

Debangshu Sarkar: Yes.

Moderator: Thank you. We have the next question from the line of Anuj Jain from Value Quest. Please go ahead.

Anuj Jain: I have couple of questions, first, if the stent price regulation was not there, then what would have been the EBITDA for the quarter, if you can just throw some light on that?

Debangshu Sarkar: Dr. Raghuvanshi had mentioned in our last call that we anticipated around 40 to 45 crores for the full effect of the cardiac stent pricing on annual basis which translates to roughly around 10-11 crores for this quarter.

Anuj Jain: This is at the EBITDA level, right?

Debangshu Sarkar: That affects both the topline as well as the EBITDA.

Anuj Jain: The second question is if we remove all the negative EBITDA margin hospitals while doing our P&L then what would have been the EBITDA for this quarter or if you just tell for last FY17?

Debangshu Sarkar: We can get down to that on a separate note and give you details around specific hospitals' EBITDA, but on a very broad basis, if you go by the results of this quarter, the biggest contribution in terms of the loss-making hospital has been our newly commissioned facility that is the children's facility at Mumbai, which registered a loss of around 7 crores for this quarter for the three months of operation.

Anuj Jain: What is the contribution by Dharamshila in this quarter?

Debangshu Sarkar: Dharamshila is actually EBITDA positive.

Anuj Jain: What is the rough quantum for that?

Debangshu Sarkar: Dharamshila EBITDAR is around 16.5%.

Anuj Jain: Another thing we just noticed that the number of managed hospitals have reduced from 4 to 3, so which one we have exited and why?

Ashutosh Raghuvanshi: The hospital in Mahuva is the one which we have exited. This was just a management contract in a geography which was slightly difficult for us to manage and also it was not contributing to our facility in Ahmedabad, so that is why we have exited.

Anuj Jain: What is the reason for the high tax rate in this quarter?

Debangshu Sarkar: That is the effect of the losses that are there in couple of our subsidiaries viz MMRHL (Westbank facilities) and NHSHPL (Mysore and Dharamshila), so at a consolidated level, the effective tax rate works out to be higher. But for all practical purposes, there should not be any difference in the marginal tax rate year-on-year, or for that matter, quarter-on-quarter.

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

Charulata Gaidhani: My question pertains to the share of loss on the consolidated basis, why has the share of loss increased over the last 2 to 3 quarters?

Debangshu Sarkar: When you refer to share of loss, are you referring to the loss in associates or the equity accounted investees?

Charulata Gaidhani: Yes.

Debangshu Sarkar: Last quarter if you recollect Charulata, we had registered positive PAT in Cayman so that actually was not a loss over there, but this quarter while Cayman has seen a slight negative PAT, but there is one other associate which has contributed to a loss of around 1.4 odd crores in the form of our investment in the medical technologies software services company called Cura Technologies, that has meant that our share of loss in associate has gone up from the last time around.

Charulata Gaidhani: What about debt, there is an increase in debt in this quarter?

Debangshu Sarkar: That is essentially the debt that we had leveraged for our Gurugram acquisition in April.

Charulata Gaidhani: What would be the cost of debt?

Debangshu Sarkar: It is pretty competitive, average cost of debt will be less than 9% for us.

Charulata Gaidhani: There has been a dip in the EBITDA margin in Q1, so do you think for full-year FY18, will you be able to maintain the EBITDA margin at FY17 levels or will there be a decline?

Debangshu Sarkar: Given the headwinds that we have been facing and that is what was captured in the opening remarks by Dr. Raghuvanshi as well and given that we have recently commissioned the Mumbai facility and we are also planning to commission the new facility at Gurugram in the last quarter of this fiscal year, I would tend to believe that maintaining last year's margin probably would be a little ambitious for us. Having said that, we are, on a variety of fronts strategically as well as operationally speaking, taking a note of actions and initiatives to ensure that there is no significant drag in our profitability because we also want to consolidate and drive home the advantage that we have created in terms of the fiscal position of the company over the last couple of years.

Charulata Gaidhani: What will be the CAPEX for FY18 and FY19?

Debangshu Sarkar: As we have mentioned before Charu, we anticipate regular maintenance/replacement/ upgradation CAPEX of around 150 crores annually over the next couple of years. Any new projects would be an add-on to that.

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

Nitin Agarwal: On the Mumbai Hospital, I mean how should we sort of model in or how should we look at the improvement and profitability in this hospital going forward, and if you can probably help us understand in terms of how has the hospital performed in the quarter in terms of occupancy and some other parameters?

Ashutosh Raghuvanshi: The hospital actually started the inpatient services around April 20 so it has been only two full operational months. Currently, it is running at the occupancy level of about 10%, but we expect that occupancy to go up, the ARPOB was about 1.2 crores whereas the revenue was 1.3 crores in this quarter, so the occupancy is likely to start growing now as we have all the tie-ups in place with various other agencies and the insurance companies.

Nitin Agarwal: Doctor, is there any particular reason why we have not really spent money on or rather we have not been very proactive in terms of marketing the hospital in terms of the publicity of the hospital in the city?

Ashutosh Raghuvanshi: We were looking for a formal launch and since there were days which were clashing for the VIPs to give appointments that is why that launch has not happened as of now. However, we have been doing very active advertising and those of you who listen to FM have been telling us that there has been a bit too much of campaign, but yes, we need to do a formal launch of this hospital which is expected to be done over the next one odd month or so.

Nitin Agarwal: Secondly, on the stent issue how should we look at, you mentioned 10 to 11 crores of losses for the current quarter, assuming there is nothing more which happens from the government side, I mean how do you see these losses playing through the year?

Ashutosh Raghuvanshi: Regarding the losses in the Mumbai hospital, like you would know that as the centre starts picking up, these losses, at the run rate level, I expect that by the end of the year this should go into lakhs, that is the usual trajectory in every hospital as you have noticed earlier as well, so here as I mentioned to you that the ARPOB is about 1.22 crores, which is relatively high, so I expect that at the marginal level also by the end of this financial year, we should be in a fairly comfortable position.

Nitin Agarwal: We should probably be looking at a breakeven by next year?

Ashutosh Raghuvanshi: That is the attempt, yes.

Nitin Agarwal: Secondly, doctor, on the impact of stent pricing, how do you see that playing through the next few quarters?

Ashutosh Raghuvanshi: That impact had to be there for six months because there was a restriction in making any changes to the procedural prices, now that six-month period is over, so we will have various price readjustments which are currently being planned.

Nitin Agarwal: Lastly, when we look at the business mix, across which of these clusters do we see in terms of probably the most change in terms of the growth trajectory of those hospital groups, our mature hospitals have been growing extremely well, but in the other two buckets, I mean how do you see the trajectory of those two buckets going forward?

Ashutosh Raghuvanshi: There are two things here we have to keep in mind that the Northern cluster was not there earlier, we expect to see a large growth coming from the Northern cluster and we expect the Southern cluster also to continue to grow at a good pace and so the Eastern cluster. Amongst the hospitals between 3 to 5 years, we are seeing a rapid uptick in Mysore, Guwahati and Whitefield so I expect that to continue for the next one year or so. These hospitals in the category of 3 to 5 years again with the exception of Ahmedabad and to some extent Shimoga, have been growing at a very good rate.

Nitin Agarwal: We had a typical policy of not sort of engaging in referrals I mean how much of an impact does it have on our scale up of our hospitals versus competitors?

Ashutosh Raghuvanshi: I think that is very difficult to quantify, but we do believe that there may be an effect, I think it can be judged by the occupancy numbers in the early stages of hospital. In the late stages, it does not matter because once the hospital has established itself clinically, it does not matter.

Moderator: Thank you. We have the next question from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.

Chetan Thacker: Sir, just wanted to understand your line item- professional fees to doctors, what is the underlying driver there, so is it a combination of fixed and variable and how does that function?

Ashutosh Raghuvanshi: It is a combination of fixed and variable pay and the consultants are usually on three different models. There are 2 types of full-time consultants where there is either a retainership or hybrid of retainership with a variable component. Then there are certain consultants who are at pure fee-for-service who are visiting consultants, there are very few of those.

Chetan Thacker: Sir, over the longer run would it be fair to assume that this as a percentage would continue to increase as we continue to retain talent or that should not be a challenge?

Ashutosh Raghuvanshi: The variable component would obviously increase, but it will remain in proportion to the increase in business, so as far as the fixed component is concerned, we do not see that to be changing dramatically. With the new hospitals opening, there is usually a mismatch for some period of time when the outgo to the doctors is relatively higher compared to the revenues being generated by those clinicians, so when we have a new hospital getting commissioned, you would see a little bit of spike happening in the fixed fee, otherwise, the variable component will always be in a linear relationship with the revenue growth.

Chetan Thacker: Sir, on the hospitals which are under revenue share over there and those hospitals what can be the peak EBITDA that one should look at compared to the Karnataka cluster that is owned by you?

Debangshu Sarkar: Just to correct you, even in the Karnataka cluster there are hospitals like Shimoga, HSR and Whitefield where we do not own the physical underlying real estate but for the medical equipment, so there we have a revenue share or a rental model. Your question is valid to the extent that you are asking what can realistically be the EBITDA of an asset-light hospital, so that again is a function, as you would appreciate, of a lot of things, the notable ones being the size and scale of operations like say the profitability of 250 bedded hospital would be completely different than possibly a 500 or 700 bedded hospital given the sheer economies of scale on the operating leverage associated with the same. Then again, other important parameters are the associated geography of the hospital and the target populace of the same. A Tier-3 hospital possibly will end up having a completely different profitability profile than a Metro Hospital. That being said, on an average at maturity, we would expect any best-in-class leading hospital to possibly end up registering around 20 to 25% at the EBITDAR level. Anything north of that, our three flagship facilities obviously clock more than these numbers, are more of an exception. So from the 20-25% of EBITDAR at a steady state mature level, you need to subtract the rental payout which could be anything between 1% to 3% of revenues or 5% at times, that would give you the answer for the steady state EBITDA margins for those asset-light hospitals.

Moderator: Thank you. We have the next question from the line of Naysar Shah from ValQ Investment Advisors. Please go ahead.

Naysar Shah: Sir, just on the impact of stent pricing, you are saying that you will rationalize the price mechanism for other procedures in the near future, is that what you said?

Ashutosh Raghuvanshi: That is right.

Naysar Shah: We are going to do it now, we have not done that in first quarter?

Ashutosh Raghuvanshi: Yes, we are in the process of doing it now because at the time of price control, there was embargo on not changing the packages for six months, so to remain compliant, we did not make any adjustments in the procedure pricings.

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

Sameer Baisiwala: Probably I missed this, you had the embargo not to change the prices for the cardiac procedure or for non-cardiac procedures?

Ashutosh Raghuvanshi: This is I am talking specific to the cardiac stents, so the angioplasty packages primarily.

Sameer Baisiwala: Now looking at non-angioplasty procedures, have we taken any price increase over last three or four months?

Ashutosh Raghuvanshi: We normally take a pricing change in the month of January which we did this year as well. After this event, we have not taken any price increase, the hike I am talking about, the rationalizing of pricing will be happening now.

Sameer Baisiwala: Any color you can give us to what extent you want to do that?

Ashutosh Raghuvanshi: We basically want to sort of remove the anomaly of where the procedure prices have typically been priced low and material prices were priced higher, other than that, there is another factor which is driving this and that is the introduction of GST. With GST, what happens is that all our material input GST is chargeable, however, our services are exempt from GST, so we want to split the package between the material, consumables, implants and the services per se, so that rationalization is important because that will give us ability to get some kind of transparency in the entire process where the patients would have a complete visibility on what taxes they are paying on what material and the services would be charged separately, so in effect it would not be having an gross impact on the patient, so the prices to the patient would not go up dramatically, they may go up marginally.

Sameer Baisiwala: This is very helpful doctor, and the thing is the ARPOBs and comparing it from March to June quarter, it is a sequential comparison whether I do it by maturity profile or by cluster wise, in general there is a pretty nice uptick in the ARPOB so just wanted to understand that what is really helping us over here?

Ashutosh Raghuvanshi: There are two things, one of the most important as I said in my opening remark, one is that the changing profile and the mix of patients, as our cardiac revenue comes down and the non-cardiac revenue goes up, especially the cancer revenue contribution has gone up to about 10%, the oncology ARPOB is slightly higher than others. As many of our facilities start maturing, the kind of work, complexity of surgeries etc. they perform that also keep on improving and that is another driver for improving the ARPOBs.

Sameer Baisiwala: As far as the stent is concerned, what we are hearing is that there are lots of mom and pop cath labs, if that is the right word to use, are under pressure, they are shutting shops, the single doctor cath lab so on and so forth, is this something on the ground disruptive that you are seeing and could that have a meaningful impact on the chain hospital like yours?

Ashutosh Raghuvanshi: I agree with your observation, the standalone labs would find it increasingly difficult because their dependency on the margin of stents was extremely high whereas in an organized environment such as ours and other chains that problem is not there, so I think there will be some sort of consolidation happening as far as the Cardiology work is concerned, so I think it should have a positive impact but I think it is too early to predict that.

Sameer Baisiwala: One final question, that is a clarification, did you say that SRCC EBITDA breakeven would be next year?

Ashutosh Raghuvanshi: I said we are attempting to go towards that because the ARPOBs are good. Our typical trajectory in most other hospitals have been at least 24 months before hospital becomes EBITDAR positive. I would expect somewhat similar approach here also, though we are more upbeat about it.

Sameer Baisiwala: I understand that, you can take the bed capacity up from 200 to maybe 300 or so, at what point in time would you be doing the civil construction and thinking about this?

Ashutosh Raghuvanshi: Currently, we have already built 207 bed capacity, so once the occupancy starts crossing about 60% on a consistent basis, then when we can quickly add more capacity here.

Moderator: Thank you. We have the next question from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhary: Sir, this question pertains to Gurugram acquisition, how much cash-out was there for this acquisition and do we expect more CAPEX for making it operational?

Debangshu Sarkar: Bhagwan, as we have highlighted previously as well, the total enterprise value for our acquisition was 180 crores which was around 15% discount to the invested capital of around 217 crores by the erstwhile promoters of the project. Having taken it over at 180 crores, we are anticipating another 50 odd crores further investment to make it operational.

Bhagwan Chaudhary: When do we expect it to be operational, Sir?

Debangshu Sarkar: As highlighted by Dr. Raghuvanshi in his opening remarks, we are looking to commission it by the last quarter of this fiscal.

Bhagwan Chaudhary: Sir, second question can you please share some metrics from the Vaishno Devi Hospital, what is going on there and is it as per our expectations?

Ashutosh Raghuvanshi: The ARPOB in Vaishno Devi was about 7.5 million, occupancy was over 60%, revenue was 14.8 crores in this quarter. If we see from last year, there has been about 75% growth in revenue, so at EBITDA level I think it is just at neutral level.

Bhagwan Chaudhary: It is neutral post VGF?

Debangshu Sarkar: Bhagwan just to clarify that it is neutral post the Viability Gap Funding (VGF) that we received from the shrine board.

Bhagwan Chaudhary: There was some grant from the Vaishno Devi?

Debangshu Sarkar: There is an OPEX grant out here from the partner, shrine board.

Moderator: Thank you. We have the next question from the line of Chintan Seth from Sameeksha Capital. Please go ahead.

Chintan Seth: On the heart centre, our share is right now is 5% that is around 26 to 27 crores that declined 3% over Q1 FY17, margin has declined from 18.9 to 8% currently, if we do not revise any pricing on the procedural packages that means expense, where has been the Delta on the margin?

Debangshu Sarkar: This is a classical case of the curb on cardiac stent playing out. As these heart centers essentially do a very high volume of cardiology or stent-based procedures, what has happened is the dip in the top line has completely flown down to the EBITDA level, so the absolute entire amount what we told you, let us say for the group as a whole whereby 10-11 crores is the dip in our top line, it is actually the same amount of dip in our absolute EBITDA as well. Thus 3% dip in our revenue for the heart centres, as you rightly, said has resulted in 10% dip in our profitability as far as the EBITDAR is concerned.

Chintan Seth: That means that the volume in terms of stent application has declined significantly?

Debangshu Sarkar: Actually no. The realizations that we used to derive out of the stents have gone down significantly though same volumes have been maintained. As a result, our revenues have come down and the same amount is flowing down to our EBITDA level, which means our profitability as a percentage of revenue has fallen down drastically.

Chintan Seth: When we rationalize this, where do we see our margins coming back?

Debangshu Sarkar: Like Dr. Raghuvanshi said, we would like to recoup as much as possible without affecting the market equilibrium out here.

Chintan Seth: It will be in between what we used to earn and what we are currently making?

Debangshu Sarkar: The aspiration is to quickly get back to what we were earning, I mean, it is possibly a function of time and let us see how it pans out given the market dynamics.

Chintan Seth: Sir, on the CAPEX, 150 cr towards upgradation/maintenance and 50 cr on Gurugram, that will be the outlay this year?

Debangshu Sarkar: Yes but, at Gurugram facility, we have already spent 180 crores, technically that has happened this financial year, so additionally 50 crores, you are right, will happen this year in Gurugram. If we were to do any other new project that will be an add on to that.

Chintan Seth: Any new projects we are planning, any CAPEX which we have already thinking about to spend on the additional part, not the maintenance part?

Debangshu Sarkar: Nothing is firm at the moment, as you would appreciate, we are in the business of managing hospitals and thereby growth becomes a very important aspect for us, so all the while we keep on evaluating a lot of options, but as we speak there is no firmed up project in the pipeline.

Chintan Seth: Lastly Sir, on the balance 1,200 odd beds that we have, which are not yet put up, what can be the timeline, may be say over the next 3 years or 5 years, we are done with the addition, like from 5,800 operational beds and a total capacity of 7,000, how can we look at the bed addition going forward?

Debangshu Sarkar: We will possibly, Chintan, need to split it across specific units, case in point being let us say the upside or the headrooms that are available. Let us say, a couple of units like Guwahati, Shimoga wherein there is a possibility of taking it even further and in pretty short period of time, when we say short period of time, we mean possibly over the next couple of years. That aside there is latent capacity in both our newer facilities that we have commissioned in Jammu or Mumbai wherein we have possibly not even commissioned 50% of the overall capacity of those units as we speak. Additionally, while not being part of capacity beds, we do have provision to expand further in our acquired facilities like Barasat and Westbank by putting up new blocks around the current infrastructure. These are few prominent facilities, the ramp up profile of occupancies around these will determine to a large extent as to the timelines by when we can add more beds.

Chintan Seth: On a broader basis, we can say that over 5-year period we can absorb this because at that point of time, we can reach 60% utilization easily assuming the ramp up we are seeing?

Debangshu Sarkar: Chintan, I would like to believe that it should be much shorter than 5 years, but exact timeframe would be very difficult for me to hazard a guess upon, but I would tend to believe, at least in the facilities that I mentioned, it should definitely be much lesser than 5 years.

Chintan Seth: What will be the CAPEX required for this additional bed in the existing facilities we have to put up for bed CAPEX?

Debangshu Sarkar: In most of the facilities, the CAPEX would be very nominal in nature. When I say nominal, it is hardly anything. In case of MMRHL and Barasat facilities, it would involve putting up new blocks which will mean new civil construction but this expansion (entailing meaningful capital expenditure) is not accounted in our capacity beds.

Chintan Seth: So there is no major CAPEX required for this 1,200 bed addition to operationalize 100% of the capacity beds?

Debangshu Sarkar: Yes.

Moderator: Thank you. We have the next question from the line of Supriya Madye from Equentis Wealth. Please go ahead.

Supriya Madye: Sir, just wanted to understand what kind of top line growth we are looking for FY18 over FY17?

Debangshu Sarkar: Supriya, like we mentioned before, we do not give any forward-looking guidance on growth or for that matter any of the other metrics that you see. Suffice it to say, notwithstanding the challenges concerning both on the regulatory headwinds as well as the new facilities coming up, we would strive to continue the momentum that we have garnered over the last 3 to 4 quarters.

Moderator: Thank you. We would like to take the last question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to the 1,200 bed addition that you are planning, what is the timeframe for this and is it part of the CAPEX that you mentioned earlier on the call?

Debangshu Sarkar: As mentioned, we are planning to get these capacity beds commissioned over the next 2 to 3 years and this would not involve any significant capex.

Charulata Gaidhani: Commissioning over next 2 to 3 years?

Debangshu Sarkar: Yes. Commissioning meaning operationalizing those beds.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor back to the management for closing comments.

Debangshu Sarkar: Thanks everyone for being part of this call. Should you have any further questions or queries around any of the things that we discussed or any other thing that you would want to get clarified upon, please feel free to get in touch with us directly. We would be more than happy to address all of your queries. Thanks once again for participation in our call.

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