June 02, 2023

National Stock Exchange of India Limited,
Compliance Department,
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai - 400051,
Maharashtra, India

BSE Limited,
Compliance Department,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400001,
Maharashtra, India

Dear Sir/Madam,

Subject : ***Transcript of the Earnings Call held with Analysts/Investors on May 26, 2023***

Stock Code : ***BSE – 539787, NSE – HCG***

Reference : ***Regulation 46(2)(oa) of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015***

Please find attached herewith the Transcript of the Earnings Call held on May 26, 2023, with Analysts/Investors to discuss the audited Financial Results of the quarter and year ended March 31, 2023.

This is also available on the website of the Company www.hcgoncology.com.

Kindly take the intimation on record.

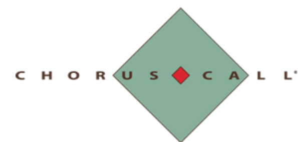
Thanking you,

For **HealthCare Global Enterprises Limited**

Sunu Manuel
Company Secretary & Compliance Officer

"Healthcare Global Enterprises Limited Q4 FY '23 Earnings Conference Call"

May 26, 2023



MANAGEMENT: **DR. B.S. AJAIKUMAR – EXECUTIVE CHAIRMAN – HEALTHCARE GLOBAL ENTERPRISES LIMITED**
MR. RAJ GORE – CHIEF EXECUTIVE OFFICER – HEALTHCARE GLOBAL ENTERPRISES LIMITED
MR. SRINIVASA RAGHAVAN – CHIEF FINANCIAL OFFICER – HEALTHCARE GLOBAL ENTERPRISES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Healthcare Global Enterprises Limited Q4 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements do not guarantee the future performance of the company, and it may involve risks and uncertainties that are difficult to predict.

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 star then zero on a touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Dr. B.S. Ajaikumar, Executive Chairman of Healthcare Global Enterprises Limited. Thank you, and over to you, sir.

Dr. B S Ajaikumar: Thank you very much, and good morning to everyone, and a very warm welcome to all present on the Q4 FY '23 Earnings Conference Call for Healthcare Global Enterprise Limited. Today, I'm joined by Mr. Raj Gore, our Chief Executive Officer; Mr. Srinivasa Raghavan, Chief Financial Officer, besides a few members of the HCG senior management team to share our operation and financial highlights for the quarter ended and year ended March 2023.

HCG is a leading chain of hospitals focused on oncology care, which is patient-centric, technology oriented and focused on quality outcomes for its patients. Our focus is to provide the best-in-class cancer treatment on a pan-India basis with superior outcomes with quality of life for our patients.

HCG is not only focusing on providing patient-centric outcome-based cancer care treatment but is equally focused on and has taken a lead role in the field of research and academia. Given the quality of our innovation, research and patient centricity, HCG ensures access to world-class cancer treatment and services for our patients. At HCG we actively participate in clinical trials, invest in ground-breaking research to advance the frontiers of cancer treatment. Our tumour board initiative is supporting platform that brings together a multidisciplinary team of oncology experts to discuss complex cancer cases, share insights and develop personalized treatment plans.

Employing breakthrough technology, including advanced adaptive AI, therapy, robotics, and genomics coupled with our pay- per-use model for LINACs enable us to provide best-in-class treatment at cost-effective prices. Our relentless fight against cancer is founded on our continuous research and technological innovation towards exploring new therapeutic avenues to move up the value chain of clinical excellence and lasting outcome.

HCG is first in Asia to complete 105 clinical runs for over 1,000 patients of comprehensive genomic profiling. The results are encouraging and with the wealth of data emerging from cancer genome studies and data lake created, we feel this is just the beginning of our journey in the

precision medicine and to win war on cancer, not only in early cases, but also in advanced cases to convert cancer to chronic disease.

We are also first in India to launch self-circulating tumour cell testing where just by a blood test, we can detect circulating cancer cells. Self-search is the first and only system which has received FDA approval for precise enumeration of circulating tumour cells in the patient's blood for diagnostic procedure.

Self-search helps in early detection and screening and also in detecting the response to therapy, informed patient care decisions, real-time treatment, and monitoring. At HCG, we always believe in raising the bar and staying ahead of the curve, we strive to provide the best possible treatment to our patients. I now hand over to Raj, Mr. Raj Gore to take you through the strategic initiatives and financial highlights. Over to you, Raj.

Raj Gore: Thank you so much, Dr. Ajai. A very good morning to all the participants on the call. We are extremely happy to announce our stellar performance for FY '23. We've ended FY '23 with revenues of INR1,691 crores, a very robust growth of 21% with increased profitability. Our adjusted EBITDA for FY '23 has increased by over 31% on Y-o-Y basis and stood at INR321 crores. Our efforts on operational efficiency, coupled with operating leverage has resulted into expansion of adjusted EBITDA margin by 139 basis points, which stands at 18.9% for the year FY '23 compared to 17.6% in the previous year, FY '22.

We ended FY '23 on a strong note with our consolidated revenue for Q4 FY '23 standing at INR442 crores, year-on-year growth of 21% and our adjusted EBITDA margin standing at 18.8%. We've been able to create a strong foothold in our mature geographies and have been able to make inroads into our emerging markets. In Q4 FY '23, our revenues from mature centers have increased by 19% year-on-year, and revenues from our emerging centers have increased by 32% over the same period.

The adjusted EBITDA margin is lower by 30 bps in FY '23 Q4 compared to the previous quarter primarily due to upgradation or replacement of radiation machines at 3 of our locations, Ongole, Ranchi and Shimoga, which has resulted in reduction of margin by 40 bps. These machines are under installation and are expected to be operational during Q1. In addition to driving higher utilization of existing capacity, we continue to invest in superior clinical expertise, capacity creation and brand building to fuel future growth and further fortify our leadership position in the industry.

To ensure our growth momentum going forward, we have increased our sales and marketing spend, which we think is an investment in our future in Q4 FY '23 by 0.5% of top line over the previous quarter and by 1.2% of top line over the same quarter previous year. Especially in our emerging geographies, our operating investment in engaging quality clinicians and our go-to-market activities are showing good results.

We are happy to report that our onetime value creation cost will end from this quarter, and there will be no further adjustment for the same on EBITDA going forward. These transformational activities done over the last 6 quarters has started adding value and have set us up very well on a path of profitable growth going forward. Our revenue through digital channels has grown by more than 3x in FY '23 over FY '22, crossing 6% of total revenue in Q4 FY '23.

We've also recorded our highest ever annual revenue from medical value travel with a year-on-year growth of 91% and reaching to 1.5x of pre-COVID highest level. We've been consistently delivering growth across our network and have grown faster than the industry over the last 8 quarters.

Our track record of consistent performance reflected in highest ever revenue and highest ever EBITDA over last 9 and 8 quarters in a row, respectively, is a testimony of meticulous planning and rigor in execution we have shown as a team. This unparalleled growth journey over many years is primarily due to HCG's pan-India network, specialized and differentiated cancer care model and local market leadership across locations, which we have established over past several years.

To conclude, I would like to say that HCG remains to be the trusted health care partner for every individual battling cancer. We are honoured to have earned the trust of our patients and the communities we serve and are committed to upholding that trust every day. Through our relentless endeavour, we assure our patients the best of the treatments available across the globe and live up to promise of adding lives to years. With this, I hand over to our CFO, Srini, for financial highlights.

Srinivasa Raghavan: Thank you, Raj, and very good morning to everyone. We have uploaded our Q4 FY '23 results, an updated investor presentation on the stock exchanges and company's website and I do hope everybody had an opportunity to go through the same. We are delighted to share that we have been able to grow our revenues ahead of the industry growth due to the trust and brand created by HCG.

On the revenue front, our consolidated revenues for Q4 FY '23 stood at INR442 crores as compared to INR365 crores in Q4 FY '22, a growth of 21%. Our revenues for FY '23 stood at INR1,694 crores again registering a growth of 21% year-over-year. Revenue split between HCG and Milann stood at 97% and 3%, respectively, for Q4 FY '23. Revenue growth for HCG stood at 22% year-over-year, whereas Milann witnessed flat revenues.

As mentioned in Slide 9, revenue from the mature centers stood at INR317 crores, a growth of 19% on a Y-o-Y basis for Q4 FY '23. Revenue from emerging centers stood at INR109 crores, a growth of 32% on year-on-year for Q4 FY '23. We are delighted to state that our emerging centers are inching towards maturity and are seeing good traction across geographies.

Moving to Slide 10. There are the key operational KPIs for our company. New registrations formed 21% of our revenues. Number of new registrations grew by 18% at 80,000 in FY '23

versus 68,000 in FY '22. 37% of revenues came from chemo sessions and volume-wise, the figure stood at 133,000 in FY '23 versus 104,000 in FY '22, registering a growth of 28%. Radiation formed 18% of our revenues and capacity utilization stood at 66% for FY '23 versus 59% for FY '22.

Total radiation patients treated stands at 5,100 in Q4 FY '23 as compared to 4,700 in Q4 FY '22, a growth of 9%. And 21,000 in FY '23 as compared to 18,000 in FY '22, a growth of 17% year-over-year. Inpatient bed occupancy stood at 60% for FY '23 compared to 53% for FY '22.

I now request your attention to Slide 11. There, we have disclosed our operational parameters across our mature networks and emerging centers for Q4 FY '23. Our company wide AOR stood at 65.1% and AOR for mature versus emerging centers stood at 64.8% and 65.7%, respectively. Our ARPOB on company level stood at INR39,800, and our ARPOB from mature centers stood at INR41,400 and for emerging centers stood at INR36,000.

Coming to the next slide, for full year, our AOR stood at 65.4% and for mature centers it stood at 64.3% and for emerging centers, it stood at 68.5%. On ARPOB, we did ARPOB of INR38,000 for mature centers and ARPOB of INR40,500 and for emerging centers, the ARPOB stood at INR32,200.

Across geographies, we have given our revenue breakup in Slide 13. Kolkata grew by 142%. Revenues from Rajkot grew by 58% and Ranchi grew by 51%. Bangalore centers of excellence grew by 24% year-over-year for Q4 FY '23. For our Milann business, revenues for FY '23 witnessed a growth of 6.8%, and new registrations increased by 13.6%.

On the EBITDA front, adjusted EBITDA for Q4 FY '23, that is after adjusting the onetime value creation cost and adjustment of ESOP expenses stood at INR83.1 crores as compared to INR67.6 crores in Q4 FY '22, a growth of 23%. Adjusted EBITDA margin stood at 18.8% as compared to 18.5% in Q4 FY '22, a growth of 26 bps.

Adjusted EBITDA for FY '23 stood at INR321 crores, a growth of 31% year-over-year, with margins at 18.9%, a growth in margins of 138 bps. We have also given bifurcation of our EBITDA across mature and emerging centers, and I would request the participants to use Slide 9 for further details. Our consolidated reported EBITDA stood at INR76.3 crores for Q4 FY '23 as compared to INR63.2 crores in Q4 FY '22, a growth of 21%.

Reported EBITDA for FY '23 stood at INR299 crores, a growth of 26% year-over-year. On PAT, PAT for this quarter stood at INR8.3 crores as compared to a profit of INR5.9 crores in Q4 FY '22. Full year '23 PAT stood at INR29.3 crores as compared to PAT loss of INR3 crores in FY '22 adjusted for onetime exceptional gains or losses in FY '22.

Our PAT pre-IndAS adjustments for Q4 FY '23 stood at INR11.2 crores as compared to INR9.4 crores in Q4 FY '22. PAT for FY '23 pre-IndAS adjusted stood at INR42 crores as compared to a profit of INR11 crores in FY '22. ROCE for mature network stood at 22.9% annualized for Q4 FY '23 as compared to 18.7% in Q4 FY '22, an improvement of 420 bps. ROCE before corporate

allocations for mature centers stood at 25.2%. ROCE for emerging centers stood at negative 3.6% for Q4 FY '23 as compared to negative 8.3% in Q4 FY '22. This is again an improvement of 470 bps. ROCE before corporate allocations for emerging centers stood at negative 2.4%

Our net debt position, excluding capital leases as on March 31, 2023, stood at INR198 crores as compared to INR190 crores on December 31, '22. Our expansion of existing facilities in Ahmedabad Phase 2 and Whitefield extension of Bangalore COE is on track. Total planned capex for Ahmedabad is INR85 crores, expected date of operations being Q1 FY '25 and for Bangalore COE is INR25 crores expected date of operations being Q3 FY '25. With this, I would like to open the floor for Q&A.

Moderator: Our first question comes from Dhara Patwa with SMIFS Limited.

Dhara Patwa Shah: Sir, I have a few questions. Still we are seeing increased significant growth in Africa and East India. So what are the reasons for this? And will the traction continue going forward for these 2 regions.

Raj Gore: Yes. Thank you, thank you for that question. In East India, our newest or youngest emerging center, Kolkata, had shown 142% year-on-year growth in Q4, and we are really happy how it's progressing in the right direction. In addition, our mature centers, Ranchi, and Cuttack. Ranchi is showing 51% year-on-year growth last quarter. Cuttack, which is a very mature center, large center, it is showing 32% year-on-year. So both emerging, mature centers are showing high double-digit growth, which is contributing is to show such a good growth.

In Ranchi, now as I discussed earlier, we are also putting -- upgrading the LINAC machines with higher capabilities will further help us to do more high-end, higher realization radiation treatment. Africa, we have commissioned a new linear accelerator which is first of its kind in East Africa. And I think as a result, we are seeing good growth momentum in our Nairobi Center, and of course, I mean, all this is sustainable, you will continue to see it going forward.

Dhara Patwa Shah: Okay sir, understood. Sir, in North India, which are the locations that we are covering like which are the hospitals there we are covering?

Raj Gore: It's only Jaipur.

Dhara Patwa Shah: Okay, only Jaipur?

Raj Gore: Which is our emerging center, yes.

Dhara Patwa Shah: Sir, in earlier con call, you highlighted that now once we reach an optimum occupancy level in the emerging markets, we will see improved ARPOB growth, sir I guess our emerging markets are already at a good occupancy level of 68%. So should we expect an ARPOB increase from here on?

Raj Gore: Yes, absolutely. So look, emerging centers, we are at 68.5%. But again, we have not operationalized all our beds in emerging centers. So as we keep reaching higher capacity utilization on beds, we'll keep operationalizing more and more beds, but yes, directionally, that's what we had -- that's the guidance we had given. If you look at our annual ARPOB for emerging centers, it looks like it's decreased over last year. But look at how we've ended the year. If you look at Q4, we have gone back at 36,000 level. It's the -- it's what we said that as the occupancy keeps going up, we'll start optimizing our payer mix and our procedure mix, business mix, and therefore, the ARPOB will continue to grow going forward.

Dhara Patwa Shah: Yes, sir, that's helpful. One last question on Slide #10, where you have highlighted the capacity utilization for LINAC. So just wanted to see what is the peak utilization for LINAC in any hospital -- cancer hospital. So we are at already 65% -- yes.

Raj Gore: So -- on -- doctor you can go ahead.

Dr. B S Ajaikumar: No, on the linear accelerator, capacity utilization, depending on the type of fractions we give, we can go up to 120 to 130 patients, but nowadays, with the different modalities of treatment like hypofractionation and all, we can even treat up to 140 new patients per month on the linear accelerator. It again depends on the type of linear accelerator and the technology we use.

Some of the linear accelerator that we use complicated technology like IMRT, IGRT, so we may take a little bit more time, so the number of patients may be less. So it's always depends on the mix of 3D CRT, but now the world is -- we are moving towards more high-end like IMRT, IGRT, so with that and the hypofractionation, we are very comfortable with the high-end linear accelerators we have, treating up to 120 patients on the machine per day.

Raj Gore: Thank you, Dr. Ajai. Just to add to that. From a capacity utilization perspective, we can go to 90%, 95% easily including downtime, holidays, lesser load on weekends, etcetera. So 90%, 95%, we've consistently done in our mature centers.

Moderator: Our next question comes from the line of Kunal Randeria with Nuvama.

Kunal Randeria: So sir, my first question is actually related to Slide 9. So when I see this slide, it seems the company has 2 different growth trajectories. Your mature centers are actually doing fairly well, growing at a very steady, consistent pace at both revenue as well as the -- your EBITDA trajectory. But the emerging centers, the EBITDA trajectory seems to be all over the place. Sir, just want to understand what is the growth for these emerging centers, see because your occupancy, your ARPOBs in Q4 are not too far away from the mature ones. So I'm just wondering where the profitability in some of these emerging centers will come from?

Raj Gore: Yes. So thank you, Kunal, for that question. See, the -- with any new hospitals, the way you do it is you may have 100% build capacity, but you don't operationalize total capacity, right? So you will open up part capacity. You will staff, you will add clinical talent, you will get to an optimum utilization on that operational capacity then you will again release additional build

capacity to operationalize it. Then you'll have to again add clinicians, again, start your go-to-market, so that's the nature.

So it's a step-by-step growth. What we have done is our -- as we kept hiring clinicians and that's an upfront cost. So the cost comes first and then the revenue growth comes later. That's one factor. Second, our investment in brand and our go-to-market comes first and then the growth comes. So because of the nature of this stepwise upfront investments and then the subsequent lagging revenue growth, this trending looks a little different from hospital to hospital in that bucket. And that's the result you see on the slide.

: Ashutosh Kumar: Just to add one point there so on the capacity front or the utilization front, 65.7% occupancy is on our operational beds, and we have given a note in our presentation that only 75% of our capacity beds are operational right now. So on capacity beds, our utilization is only 50%. So we still have a lot of headroom there.

Kunal Randeria: Right. Okay. So -- and -- but then on your -- at least on your capacity beds, you are at optimum level, right, at around 65%. So I mean, my question is more -- I'm not too worried about the revenue side of things, but more in terms of the profit because see as you operationalize some of the other beds also, there will be some increase in cost, right, from clinician costs, some staffing costs, utilities, so on and so forth. So it just seems that you are now stuck in the 7% to 10% kind of margin bracket for the moment.

Ashutosh Kumar: See there are some costs, which probably would not be increasing commensurate with the increase in operational beds. for example, as Raj mentioned, that in our emerging centers at Mumbai and Kolkata, the focus has been to invest on clinical expertise and sales and marketing upfront. Now these costs 1 -- first cost is in our clinician. The clinician cost, I don't think would go up in the same proportion as incremental beds become operational, and you will start seeing operating leverage on that.

Second is sales and marketing, which is like since the company has been performing really well, we have been investing on sales and marketing costs disproportionately higher in our emerging centers to fuel future growth. And within the emerging centers, our primary focus is in Mumbai and Kolkata regions

Kunal Randeria: All right. Okay. Got it. Sure. Okay. Now my second question is I would like to understand a bit more about your capex. Now the way I look at it is, it can be divided in 3 buckets. One would be your normal maintenance capex on all the centers that you have now. Second would be like you're adding new tech to the existing centers, something like the Self-search that you mentioned. And third would be what you would spend on expansion. So if I were to take a slightly longer-term view, right, so let's say, between FY '25 to FY '27 or something like that, could you highlight your plans that how would you be allocating the resources across these 3 buckets that I spoke?

Ashutosh Kumar: See I mean the current year capex is about INR135 crores, our maintenance capex is in the range of INR55 crores to INR60 crores. We have also spent incremental capex in the current year FY '23 towards technology upgrade. So we have got the high-end radiation equipment, which is adaptive therapy ethos in our center of excellence in Bangalore. Then we have invested in solar power plant in Karnataka which would help us in reducing our operating costs.

Having said that, the company has laid out 2 greenfield projects, which the company is right now executing. One is in Ahmedabad Phase 2. And second is in Bangalore at Whitefield. We have also provided the capital outlay towards these 2 projects in our presentation

For Ahmedabad project, we have capex of INR85 crores, whereas in Bangalore the capex is INR25 crores.

Kunal Randeria: Got it. And maybe just to simplify it a bit more from me, let's say, if we were to spend INR100 crores in a year on capex, how much would be maintenance? How much would be made from the new technologies that you're investing in your existing centers?

Srinivasa Raghavan: So I mean while we have not given guidance per se on the growth capex. However, our maintenance capacity remains in the range of INR55 crores to INR60 crores.

Kunal Randeria: Okay.

Dr. B S Ajaikumar And all over you may want to add here that capex nowadays with high-end capex equipment, we are doing pay-per-use models. So because of that, our actual capex requirement has drastically come down. And going forward, we see this as the new way of even replacement capex, which we have done for high-end linear accelerator. Right now, we have done very successfully for high-end linear accelerators. In future, we may also do for other equipment's. So right now -- but based on what Ashutosh said, our replacement capex will be the most requirement. And even that if it comes under pay-per-use, our requirement becomes less and less as we go forward.

Kunal Randeria: Sure, sir. That's very interesting because then would it be fair to assume that if capex will be lower in the outer years and maybe at the cost of compromising on some margins somewhere because pay-per-use I'm sure that will go to the previous quarter.

Raj Gore: Yes, it could be.

Moderator: Our next question comes from the line of Sabyasachi Mukerji with Bajaj Finserv.

Sabyasachi Mukerji: So first question is a clarification on the margin front. So if I look at your mature center revenue trajectory and the absolute EBITDA trajectory, the revenues have gone up sequentially, and it has been a phenomenon for the last probably 8, 9 quarters, that is very commendable. But from Q3 to Q4, the absolute EBITDA has dropped. And I think you have mentioned this because of some upgradation of LINACs, I missed the point, but this is structural because we are going for

a pay-per-use model, and hence, the rental will kick in, in the P&L and margins will look lower. Any color on that?

Raj Gore: No, it's not structural. As I said earlier, we have certain radiation machines in our mature centers, which are going through replacements. We -- in this entire digital transformation journey, we are also increasing incremental cost towards IT applications, licenses. That's the reason. There is no structural issue in this. Radiation, see radiation is a high-contribution business in all our modalities between surgical, medical, radiation. Radiation has the highest margin.

And therefore, any drop in radiation affects the total contribution margin that much more and as -- but what we are doing is in all these 3 centers, we are putting a high-end machine, which will give us capability to do high-end modalities, which have a higher realization and therefore, there will be improvement in your realization of radiation revenue in all these 3 locations. It will be more margin accretive going forward.

Sabyasachi Mukerji: Okay. Got it. So how many LINACs you have now total? And how many of them are in pay-per-use models?

Raj Gore: Yes. So we have 5 which are pay-per-use model out of 32 LINACs. Most of these LINACs have been installed years ago. It's only last couple of years, we have started moving towards pay-per-use model. And we expect going forward that all our replacements will start moving into pay-per-use model. And therefore what Dr. Ajai was saying that our capex requirement will go down.

Sabyasachi Mukerji: Understood. Follow-up to the margin question, so basically, if I look at a full year basis, the operating metrics that you have shown in Slide 10 that has improved strongly every aspect of the operating margin -- in the operating metrics. But if I look at the overall margins, overall EBITDA margins of the company it has adjusted somewhere around 18.8%, 18.9% and strongly refuses to move beyond 20% and probably missing piece of the puzzle here is your emerging centers still operate at a 7%, 8% kind of EBITDA margin, where the mature centers is doing at 24%, 25%. My question is, when can we see these emerging centers move up the ladder and revenue?

Raj Gore: See as a bucket, I think it will be about 18 months. But let me give you more details. Jaipur is already in mid-20s. Borivali is in mid-20s, so some of the emerging centers are already at that margin level. As a bucket in another 18 months, we should get to the mature level.

Moderator: Our next question comes from Nitin Agarwal with DAM Capital.

Nitin Agarwal: Two questions, sir, on this pay-per-use LINAC model versus an outright buyout. In your assessment, what's the difference in ROCE between the two from -- how does the financial the economics really work out for you in both the models?

Ashutosh Kumar: Yes. So I mean, Theoretically, income from a single patient on our pay-per-use machine is ROCE accretive because there is no capital involved. Now how does this play out when it comes to profitability is that almost about around 20% to 25% of what we generate from patient care

goes to the manufacturer. However, what we have also done and observed is that due to upgrade of these machines from the previous versions, we are able to give high-end therapies to our patients. So a lot of costs, which is going to the manufacturers also get traded off due to higher recovery from the patient. Further the pay-per- use model includes all maintenance cost and future upgrades

Dr. B S Ajaikumar: Nitin, what Ashutosh is trying to say is that the pay-per-use model is also good for a few things. One is when the beginning you may have a low volume of patients. So you are not really investing in the capex even with the lower volume, we're okay because this per patient you're paying, you've not invested and you're not -- your debt is not increasing and you're not paying any -- debt payment is not happening.

Point number 2 is because of the high-end units we are getting, we are able to do more of IGRT IMRT in even Tier 2, Tier 3 cities, where the revenue model is pay per -- the patient pay model is higher, because of that, our contribution factor will be high. So essentially, that usually whatever we charge is usually paying off what extra -- paying off what we may have to pay to the manufacturer.

So essentially, it makes us a win-win situation for us, working with the manufacturer with no investment from our part and no -- like no CMC, no custom duty. So everything comes -- we believe it comes in our favour when you look at it, we have done deep steady on this. That is the conclusion we have come to. Long term, it really works out well. And after so many years, like 8 years or so, it essentially becomes our own unit.

Nitin Agarwal: Okay. And doctor, broadly speaking, in your assessment over the next say 2 to 3 years, how much capex would be saving on in terms of cash outlay based upon our expansion plans?

Dr. B S Ajaikumar: Yes, if you look at replacement capex on LINACs, we may have to replace another 7 to 8 linear accelerators. Am I right, Ashutosh? Close to that, at least $22 million?

Ashutosh Kumar: Yes.

Dr. B S Ajaikumar: And not only replacement, the new instalments when you look at second linear accelerators, we may be in the region of 10 to 12, so you are talking about each unit about $2 million. So you are looking at approximately $20 million, $25 million.

Nitin Agarwal: Okay. Okay. That's helpful. And secondly, on the mature centers, while we did just talk about the fact that Q4 had some one-offs because of which numbers are a little down, but these EBITDA for these centers has been in the 74%, 77% range -- INR70 crores range for the last 3 or 4 quarters, all through FY '23, so Raj, where do we see this number? I mean do -- is there a scope for a meaningful delta on this number? Or this is where we're probably starting a bit of a plateauing situation in this -- in the mature centers on the EBITDA front?

Srinivasa Raghavan: Before Raj takes up, just on the numbers, while you said INR74 crores, INR75 crores, those were -- those are reported numbers. And if you look at the adjusted numbers, it has moved up

from INR75 crores to INR76 crores to INR83 crores, so there is a delta of INR6 crores, INR7 crores from quarter 1 to quarter 4. Now in...

Raj Gore: Yes. And as I explained, this is not -- this quarter is not the end goal for us. It's not the last over, right? We are -- as I mentioned earlier, we are continuing to invest in our sales/marketing expenses. Our sales/marketing expenses are almost 1% more than last year this year. And that's the right thing to do because I believe that we have -- we not only have expertise, we have spare capacity. There is enough demand supply. It's important that we create visibility of HCG brand so that we grow footfalls going forward. That's the right thing to do for the business on an ongoing basis.

Nitin Agarwal: Got it. And Raj sir on the last one on the INR14 crores, INR15 crores that you spent on the consulting expenses this year, what kind of payoff do you see on that? And when do you start to see it coming through?

Raj Gore: So we had already guided the market that we were expecting our margins to go up in the range of 150 basis points. Of that, we have sort of right now at least 60%, 70% of that benefit we have already seen in the current year and some of the benefits like now would commence as we go forward in the next few quarters.

Nitin Agarwal: Okay. And if I can squeeze the last one. On any -- what are the -- what is the way forward for us on the fertility clinic business? How are we seeing that business -- is it a strategic business for us, is it core? Are we looking to invest in this business incrementally?

:Dr B S Ajaikumar Yes. As we have said, we are now -- because of the COVID and post recovery took us some time, we have reorganized the fertility and we are also not going to do any of the merger we have planned with Ovum. So we feel there is a significant upside for us to focus on the facility only. So with this, we are looking at good improvement this year, and we have put a lot of systems in place.

And we want to be definitely dominant in Bangalore, so our focus going forward will be in Bangalore. So going forward in the next few quarters, we'll definitely update how we are doing but we do see quite a few positive signs for our growth. As you know, we have made it very clear at some point we want to divest. So we will decide at what points to divest.

Moderator: Our next question comes from Shyam Srinivasan with Goldman Sachs.

Shyam Srinivasan: Just one on the outlook for fiscal '21 -- '24, Raj, Dr. Ajai, how should we look at revenue growth. Firstly, we have done 21% this year. And if you could help us disaggregate into either changes in ARPOB that you foresee, we have about 4% increase ARPOB overall. So just want to see how we should look at ARPOB versus the utilization improvements.

Raj Gore: Yes. So as you said of 21% revenue growth, 4% is ARPOB, rest is volumes. If you see even NPR, which is the new patient registration which is the most important metric for us because 1 patient coming in, getting treated for multiple modalities and the lifetime value, so we have had

a very good 18% growth on a year-on-year in NPR. So largely, it's led by volume. As I mentioned earlier, first, we want to drive capacity utilization before we start optimizing all other financial metrics.

So we'll continue to do that. On going forward, we don't actually give forward-looking guidance but if you look at our track record for years and including last several quarters, we have outpaced the industry growth and we will -- our endeavour is to continue on that journey and grow at a higher rate than the industry growth.

Shyam Srinivasan: Yes, that is helpful. So what is the industry growth you think 15%, 14%?

Raj Gore: So cancer market is growing at 11%, 12% annually CAGR over a few years, of -- I mean last 5 years, it's grown about 11%, 12%. It's expected to grow at the same rate going forward, about 12%. So that's the cancer market growth in India right now.

Dr. B S Ajaikumar: And also, Shyam, I want to just add one thing. See, when we look at the growth for us historically for HCG, we have been very strong in radiation oncology.

Shyam Srinivasan: Right.

Dr. B S Ajaikumar: And even now, our radiation oncology is a big strength, where the contribution factor is very high. And when we look at the places like even Mumbai, Jaipur, we are adding more units and similarly in Vizag. So a lot of our centers, including mature centers and also growing. We are adding more units. So we feel our growth in terms of our radiation chemo administration will excel quite a bit in the coming year. That is where we are going to see a significant growth happening.

Shyam Srinivasan: Got it, sir.

Raj Gore: And Shyam, I think we have shared this in the past also that while we continue to grow organically, we are also looking at inorganic opportunities. We had several targets that we were evaluating. We have made good progress and hopefully, we'll be able to share more details in coming months on that front.

Shyam Srinivasan: Understood. If I were to look at Slide 13 and just looking at your regional cluster breakup, where do you think there is scope for further improvement? I'm just looking at headline numbers, like Maharashtra has only grown 6%, let's assume, right? So just the ones where growth has been slower for the full year -- or Andhra Pradesh for the quarter, let's assume. So is there something regional specific, cluster specific strategy that we have in the next 12 months?

Raj Gore: Yes. So growth, the -- while the mature centers continue to grow at a steady state, steady rate, the growth will come from emerging centers. Emerging centers, we have 2 in Mumbai, Maharashtra, 1 in Kolkata and then you have Rajkot, Jaipur, which are showing very good traction. You mentioned Maharashtra, it's showing 6%, but if you look at, I think that's largely

because in Maharashtra, in Nashik, in both Mumbai hospitals, we had large COVID and vaccination revenue last year.

If you look at our oncology revenue growth year-on-year in Maharashtra, that 6% will become 15%. If you look at -- if I can draw your attention to year-on-year growth in Q4, it's reflecting 19% because by Q4 last year, COVID and vaccination was not there. That is a real reflection of our oncology business growth there. If you look at Mumbai, we are -- in Mumbai, in Q4, we have grown about 24% for the year in Mumbai for oncology business, like-to-like, we have grown 41% over the previous year.

So Mumbai is growing very well. Mumbai, Kolkata, emerging center as a bucket will be the future growth drivers going forward. And as I mentioned -- as we have been mentioning, that 2 of our top centers of excellence, Bangalore, and Ahmedabad, we are adding capacity in terms of new facilities. We are adding 1 in Whitefield to continue to grow our market share in Bangalore. And Ahmedabad, we are shifting to a newly modern build 200-bedded facility by beginning of next financial year. And that will ensure that these 2 centers will continue to play a major role in our growth going forward.

Shyam Srinivasan: Got it. My last question is just on the -- I remember 12, 18 months back, we did a price benchmarking exercise of our prices with competition, and we took some price increases up. Do we foresee that will likely come back again? Is there pricing power you think where you can take prices up. The ARPOB growth, like you said, has been 4% only. So is there an element of price increases we can take in '24 or '25, let's assume.

Raj Gore: So we had -- 12 months ago, we had done it -- actually 15 months ago, we started doing that exercise in Bangalore. During this last financial year, we have taken it to the rest of 10, 12 major facilities. So that's been rolled out recently. We don't see it happening again soon, but we continue to do our inflationary price increase every year in -- effective from first April, which we have already done. I think as I stated before, we do have capacity in many of our centers. We do want to go for driving volumes first. In the meantime, we are upgrading technology.

We are upgrading our clinical strength and we are investing in building brand, combination of all 3 when the capaci ty starts reaching to optimum level should give us our pricing ability to charge premium, considering that anyway, in 2/3 of our locations, we have a market leadership position locally in oncology market. So we are working towards that. As of now, the focus is on volumes, volumes, volumes, driving capacity utilization. But naturally, it will move in that direction as we start reaching optimum utilization.

Moderator: Our next question comes from Aditya Jhavar, an Investor.

Aditya Jhavar: Yes. I have a question on the cash flow statement. I see there is a receivable write-off of INR31-odd crores and there are again doubtful debts for, I think, 2 to 3 years, INR11-odd crores. So could you throw some light on this part?

Srinivasa Raghavan: Thanks, Aditya, the thing is we have receivable policy positioning. So based on that, on the credit customers, we do make provisions based on the receivable, based on the collection trends. So the write-offs that you see in the books of accounts is basically the provision that we have created in the past. And over a period of time, we have verified it is compatible that's what we have cleaned it up as part of this exercise.

But having said that, it's not that we cleaned it up on dealer that's the end of the story. We will keep monitoring this and as and when there is an opportunity to put these collections, we will continue to do so. It's more a financial discipline exercise and our efforts to kind of drive the receivables ensures that we are behind this and collect as much as possible continues to be on.

Venkat P Just to add to what Srini said, since you picked up on the cash flow the net impact because of the bad debts and the provision is a write-back to the PBT because it's not a cash outgo, just making it clear.

Aditya Jhavar: But in the business, I'm still not able to understand receivables how it got stuck like INR31-odd crores is a very big amount. So could you again briefly explain here?

Srinivasa Raghavan: Yes. Listen Aditya this is not a 1-year phenomenon. It's over a period of time. We are looking at last 5 to 6 years. So as I said, on all our credit customers, we have been creating provisions based on the aging of those customers. And based on that, the provisions have got accumulated over a period of 5, 6 years that INR35 crores we are looking at is a provision that has been created over a period of time that we have realized is not collectible at this point in time. So based on a good financial discipline, we decided to write this amount, write up this amount.

Aditya Jhavar: Okay. And my second question is on the margin strength. If I see the core strength in margins, we have coming around 10% to 11%, which has been for the past 2 years. But as we know that in the hospital sector, generally, when the capex comes over, we see that the margin should trend upwards. But from the last 3 to -- from the last 6 to 8 quarters, we are sitting near 10% to 11% on margin. When we can see that bump up in the margins, if you can give in maybe 2- or 3-years perspective, like emerging centers should contribute how do you see this going forward?

Raj Gore: So Aditya I mean, we are not able to relate to your 11% margin because our reported adjusted -- sorry, our adjusted EBITDA margin is 18.8%.

Aditya Jhavar: I'm taking out rental also here. If you Post IndAS. Pre IndAS. Yes.

Ashutosh Kumar: pre-IndAS?

Aditya Jhavar: Yes.

Ashutosh Kumar: pre-IndAS is 15%.

Srinivasa Raghavan: Pre-IndAS cannot be 11%, Aditya. It should be a higher percentage. But the larger question is how do we drive margins across the emerging countries.

Aditya Jhavar: Yes, yes.

Raj Gore: So Aditya, I mean, if you look at last 2 years, 8 quarters, we've grown from 13% to almost 19% in terms of margin, post IndAS. Our existing centers have gone from 18% to almost 22%. right? It's the new center bucket that was dragging it down earlier. It was negative, now it's coming positive. I have -- we've been explaining that while we reached to a certain level of margins 3, 4 quarters ago, we decided that we want to go for scale.

And therefore, we started spending our clinical talent and investing in go-to-market building brand to make sure that we ramp up our hospitals faster than what we have done historically. Our emerging markets are new markets to us, we have to grab market share from someone else. So we decided to go on a front foot aggressively to grow these volumes.

I think what is happening the margin trend is a reflection of these decisions, which we feel are the right decisions for those businesses, right? Now fundamentally, we've shown again and again that the model delivers good margins in mid-20s, whether it is irrespective of the location that they are in, whether it's new -- whether it's metro, whether it's non-metro, Tier 3, Tier 4. We've proven it multiple times. It's a matter of fact when all cylinders start firing in the emerging bucket that it starts moving in the right direction towards the mature center margin.

Srinivasa Raghavan: I think in fact Raj has given a time frame of about 18 months to kind of for the emerging centers to fall in line with the mature centers. And I think that's a good starting point.

Raj Gore: And as I said, Jaipur in last 2 years have gone to mid -- early 20s. Borivali is gone to 20s, right? So even in the emerging center bucket, there are hospitals which are already reaching that level.

Aditya Jhavar: Okay. That helps. That helps. And the last question I have is on the LINAC machines. So currently, we have 31 odd LINAC machines, right? But correct me if I'm wrong. Correct?

Raj Gore: Yes.

Aditya Jhavar: Okay. Now we have current capacity utilization as 68-odd percent, but you said that we can move up to 90 plus percent. So how do we increase here capacity utilization? And how fast we can ramp up here? Or it depends on the more CIC, the number of patients also going up. so which is a good amount, then how do the dynamics change here, the increase in capacity utilization of LINAC. And for the 2 to 3 years, how much more we are trying to add that also in LINAC how many machines because you said we are going for pay-per-use model and this one here.

Raj Gore: Yes. Yes. So Aditya, if you look at the page on operating metrics, it shows that year-on-year, our utilization has gone from 59% to 66%. On quarter-on-quarter, it's moved from 60% to 65% in Q5 -- in Q4. In -- this is an average utilization for the entire bucket. We have many hospitals where we are already 90%, 100% utilization. For example, Borivali, Borivali we've been clocking 95%, 100% utilization. We had a bunker. We want to add 1 machine. The machine is commissioned as we speak. This month, we have commissioned the second machine. So the

answer lies hospital by hospital. We have identified hospitals where we already are hitting utilization, right? Ranchi is one more example. Jaipur, Jaipur we have 2 the utilization is in higher 80s.

What we've learned from our -- some of the past experiences that we don't need to wait for it to reach 90%, 95% because there is a long lead time to order machine and install it. It takes 6 to 9 months for that. Therefore, as we start hitting 80%, 85% in respective hospitals and wherever we have bunkers will start ordering machines and deploying it. Where we don't have bunkers, we'll start creating bunkers.

As we speak right now, we have about 4 machines that are -- 5 machines that are getting installed in various places. Borivali, Ranchi, Ongole and Jaipur. That's what is happening right now, and these machines will get commissioned in this 2, 3 months period, current period. We have also identified some of the other hospitals where we would like to add machines. For example, Nagpur, for example, Kolkata. So we have a list of units where we would like to now increase capacity by adding a LINAC. We have planned for the year and the subsequent year. And this pay-per-use model if there is a possibility to deploy it at right time without incurring capex in a margin-accretive and a ROCE-accretive manner going forward.

Moderator: Our next question comes from Rishabh Tiwari with Allegro Capital Advisors.

Rishabh Tiwari: My question was regarding the pre-IndAS numbers, which was being discussed in the last question as well. Earlier, we used to report it used to be around INR65 crores odd number in IndAS impact annually, what would be the ballpark number for this FY '23 here?

Srinivasa Raghavan: This is the IndAS impact is INR70 crores annually. So if we are looking at INR321 crores for the full year, pre-IndAS numbers probably would be about to INR250 crores.

Rishabh Tiwari: About -- sorry, sir I lost you.

Srinivasa Raghavan: INR250 crores.

Rishabh Tiwari: Okay, sir. So Pre-IndAS would be higher than the post-IndAS number, is it?

Raj Gore: No, no, no. Our post-IndAS EBITDA number for last year is INR321 crores. If you want a pre-IndAS like-to-like number, as we reported earlier, you will have to remove about roughly INR70 crores from it, which takes it to about INR251 crores.

Moderator: Our next question comes from Yogesh Tiwari with Arihant Capital.

Yogesh Tiwari: My question is basically on right-of-use assets, basically related to balance sheet. So you're right of use assets have declined in FY '23. Also your other intangible assets has also declined. So what would be the drivers for it, sir?

Raj Gore: Yogesh, can you repeat your question? There is a lot of disturbances in the background.

Yogesh Tiwari: Yes, my question is the right-of-use assets has declined in FY '23 from about INR400 crores in FY '22. So what would be the driver for the decline? Also, there is a decline in other intangible assets? So if you can share some thoughts on it.

Venkat P So Yogesh, last time when for the year-end call, we had explained this thing that we revised our policy of capitalization of right of use assets, we had taken only the lock-in period of most of the assets, which were only 8 to 10 years. And we wrote back, or we reduced the ROU assets of the impact of 10 years capitalization. That's why you saw INR300 crores reduction last year on account of this, plus, as we keep paying the rent, as we know, ROU is nothing but the capitalization deficient rentals. And as you keep paying rent, this will also organically come down. That is the reason why you are seeing a decrease in the current year also.

Yogesh Tiwari: So sir, the decline in rental would be related to which facility?

Srinivasa Raghavan: No it is not -- it is relating to all the facilities where we are paying rent, so which is almost across all the locations. So a better rightly explained, as the year goes by, the capitalization would keep coming down, and that's the reason for the reduction.

Ashutosh Kumar: It would capitalize rent.

Yogesh Tiwari: Okay. Sure. And sir, one last question on the upcoming capex. So at Whitefield and at Ahmedabad. So as you told earlier, it takes about 18 months for an emerging asset to become mature. So can we assume that the 2 upcoming assets at like Whitefield and Ahmedabad, it will start giving the targeted ROCE by the second half of FY '26?

Srinivasa Raghavan: Let's put it this way. Ahmedabad is not a [a new center We have just lifted in the existing hospital and putting it at a new place because we have run out of capacity at existing center.[inaudible 1:06:38]. So given that we should be able to maintain the momentum, rather improve the momentum as far as this center is concerned. As far as Whitefield center is concerned, it's an addition to our existing center of excellence, so we are optimistic that we should be able to pick up volumes very quickly from the induction stage itself.

Yogesh Tiwari: Sure. So just on the timeline, like we expect that to, for example, Whitefield to complete in the first quarter of '25, so we can expect like FY '26 would be the major contributor for this keeping in mind the timeline?

Srinivasa Raghavan: See one of the contributors, it's one of the contributors as Raj and Ashutosh explained, there are many activities that are happening, result is expansion. We are also looking at M&A activities. We are also looking at emerging centers kind of coming at par with new centers. All this will be a major driver to propel the overall growth of the organization.

Raj Gore: And just to add to what Srini said, the -- our center in Whitefield in the niche center primarily from the facilities that we want to consolidate and improve our market leadership in Bangalore. It's going to be a small center compared to what we already have in Bangalore, and it is more

aimed towards like increasing our market share in Bangalore, going to be primarily catered radiation and medical oncology center that we do have some surgical OTs and big beds as well.

However, it's going to be add-on center to our center of excellence. So it's going to be -- it's not going to drag us as far as paper debit is concerned, other will add to the incremental revenue and as Srini said, Ahmedabad is going to be just a shift of the hospital earnings not going to change the economics of the business.

Moderator: Ladies and gentlemen, we have reached to the end of the question-and-answer session. I would now like to hand the conference over to Mr. Raj Gore for closing comments.

Raj Gore: Yes. Thank you. Once again, I take this opportunity to thank everyone for joining your call, keeping -- keep having this interest in our organization, our growth story, we'll keep you updating on a regular basis for any incremental updates we have on the company. I hope we've been able to address all your queries. If there is more queries, please get us -- get in touch with us or our Investor Relations advisers, Strategic Growth advisers. Thank you once again and talk to you next time again. Thank you.

Moderator: Thank you. On behalf of Healthcare Global Enterprises Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.