June 05, 2024

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 30, 2024***

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 30, 2024, with Analysts/Investors to discuss the Audited Financial Results of the quarter and year ended March 31, 2024.

This is also available on the website of the Company - https://www.hcgoncology.com/investor-relations/

Kindly take the intimation on record.

Thanking you,

For **HealthCare Global Enterprises Limited**

SUNU MANUEL ABEY
Digitally signed by SUNU MANUEL ABEY
Date: 2024.06.05 17:09:05 +05'30'

Sunu Manuel
Company Secretary & Compliance Officer

“Healthcare Global Enterprises Limited Q4 & FY'24 Earnings Conference Call”

May 30, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on May 30, 2024 will prevail.

MANAGEMENT: **DR. B.S. AJAIKUMAR – EXECUTIVE CHAIRMAN, HEALTHCARE GLOBAL ENTERPRISES LIMITED**
MR. RAJ GORE – CHIEF EXECUTIVE OFFICER, HEALTHCARE GLOBAL ENTERPRISES LIMITED
MS. RUBY RITOLIA – CHIEF FINANCIAL OFFICER, HEALTHCARE GLOBAL ENTERPRISES LIMITED
MR. ASHUTOSH KUMAR, HEALTHCARE GLOBAL ENTERPRISES LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 & FY'24 Earnings Conference Call of Healthcare Global Enterprises Limited.

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 are not guarantees about 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 "*" then "0" on your touchtone 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 warm welcome to the present Q4 and '24 Earnings Conference Call For Healthcare Global Enterprises. I am joined today by Mr. Raj Gore – our CEO, and Ruby Ritolia – CFO and my senior management team along with SGA, our Investor Relations Advisor.

The past year has been another remarkable chapter in our growth history. We are proud to have positively impacted the lives of those have entrusted us with their well-being. The achievements have been made possible through the efforts and tireless dedication of our doctors, nurses, staff and other stakeholders. Having spent decades in cancer care industry both in US and in India, I needless to say, there's a contrast between the Western countries and India. In the beginning we used to see a lot of patients with advanced stages. But today I'm happy to say even bigger cities we are seeing patients in early stage, and we are seeing good quality of treatment as well as very good outcome.

Given the population of India and more recognition of cancer and lifestyle disease, there is definitely going to be a rising incidence of cancer in the coming decade. With the reported incidence 2.2 million annually, the actual incidence is expected to be much higher, maybe 1.5 to 3 times higher as the statistics are definitely all around.

At HCG, we are ceaselessly fighting the war against cancer. We are the only organized cancer care chain in the country, with the state-of-the-art operation extending to tier one and tier 2 cities. Thanks to our state-of-the-art technology, including digital PET scans, digital pathology, precision radiation therapy, cutting edge robotic surgery system, we deliver the highest standard of care to our patients.

We recently added Robotics which will transform precision medicine in the era of genomics. We believe precision medicine is the targeted therapy in the future and genomic evaluation is going to play its major role. And having done genomic analysis over several thousand patients, we have certainly become leaders in this to the targeted therapy based on the genomics.

We plan to introduce MR LINAC Radiation Therapy in Bangalore, which would be a notable addition to the vastly superior radiation treatment offering at a HCGwhich will help us revolutionize radiation therapy in the state.

This cutting-edge technology integrates magnetic imaging with linear accelerator to improve the clinical outcome ,decrease side effects and reduce treatment span.

There are several clinical milestones we have achieved during the year. To mention a few, we have performed record number of minimal access head and neck surgery in our center of excellence in Bangalore.

We have administered one of the rare procedure called Neuro SAFE a nerve savingprostatectomy. We have done robotic assisted breast axillo thyroidectomy which is the first of its kind in Mumbai.

We have also done a significant number of 3D Planning Large Tumor Resection in our Bangalore division with having an engineering department for the same.

We're happy to report that our mortality rate as we measure while we are one of the few measuring it has now come under 1% over the years, the feat we are immensely proud of and definitely meeting or beating the global standards.

Research and development is an integral part of HCG DNA. Our clinical trials and research initiatives are paying the way for new and improved treatment modalities. We have established an Institutional Research Committee to fund investigator-initiated trials, which is one-of-a-kind in the Indian private health sector. This commitment to R&D nurtures innovation and leads to industry-leading academic excellence in HCG.

We continue to collaborate with marquee companies and projects like predictive analysis, analytics, computational work and key technical design support system by leveraging our AI-ML technology.

We are the best-in-class medical talent from around the world, ensuing that our patients benefit from the expertise, some of the best minds in oncology.

Our commitment to improving cancer care in India remains steady fast. We are dedicated to raising awareness, enhancing early detection and providing advanced treatment option to transform the perception and reality of cancer care and make cancer care a chronic disease.

Together, we will continue to strive for a better outcome and a brighter future for those affected by this disease.

I will now hand over the call to our CEO, Mr. Raj Gore, for his observations and strategies going forward, and also the summary of the operational performance for the quarter gone by. Raj?

Raj Gore: Thank you, Dr. Ajai. Good morning, everyone. A very warm welcome to all the participants on the call.

We are very proud to report a strong performance during Q4 '24 with all-time high annual revenue which grew 12% with EBITDA growth of 21% translating to 19% EBITDA margin. This exceptional growth serves as a testament to our enduring commitment to excellence in cancer care.

HCG has positioned itself as the destination for cancer care with superior clinical outcomes underpinned by advanced technology and commanding market-leading positions across 16 of 18 cities.

The company has decoded the oncology business model in India with robust performance both in metros and non-metros.

We continue our dominance in key existing markets like Bangalore, Ahmedabad and Cuttack along with turnarounds for centers like Nagpur, Jaipur, Borivali and now Kolkata.

Furthermore, there is a massive potential across the key established and emerging centers that still remain untapped with potential to grow faster than the market over the next few years, which would help us to improve our return matrix going forward.

For the Fiscal Year '24, ROCE performance for the company has been 10%, whereas our established centers operate at much superior ROCE of 21%. Based on vintages, we see that the nascent centers, although have low or negative ROCE currently, they can significantly improve ROCE to operate in line with longer vintage centers. With the Kolkata center generating positive EBITDA, our conviction on delivering strong returns has only increased.

There are multiple levers in place to keep dominating the oncology market in India, which we have captured in the last couple of slides in the first section of our investor presentation. Now, I would like to briefly talk about some of the key strategic initiatives. Over the years, we have taken multiple steps to enhance our operations and improve our profitability. To point out key strategic initiatives during the year, after consistently achieving organic growth for 3-4 years now, we are now poised to expedite HCG's expansion through strategic acquisitions.

In addition to our expansion efforts in Indore, we are committed to further strengthen our presence in Bangalore. We are currently in the process of establishing two hospitals with total 125 beds in North Bangalore and Whitefield area, slated to be operational in the next 12 to 15 months. These state-of-the-art facilities will enhance our capacity to cater to the growing cancer needs of the region.

Furthermore, to enhance the patient experience and streamline access to healthcare services, we have introduced HCG Care Smart App suite, including a Patient App exclusively designed for unique needs of cancer patients. This innovative platform provides patients with seamless access to treatment options and their medical records with a click anytime from anywhere. In addition, the app would also help us consistently engage with our patients to monitor adherence to treatment plan and post-treatment follow up to improve long-term outcome. Already, the Smart App suite has benefited over 56,000 outpatients with active participation from more than 300 doctors on this digital platform.

Our digital revenue has grown 75% year-on-year in FY'24 and will continue to be an important driver of growth in future.

With this, I hand over to Ms. Ruby, our CFO for Financial Highlights.

Ruby Ritolia: Good morning, everyone. In reviewing our performance for the quarter, I'm pleased to report 12% year-on-year growth, culminating in a top line figure of 495 croresFor the full year of FY'24, the revenue stood at 1,912 crores, witnessing a growth of 13% year-on-year.

Our operating metrics, key indicators of our performance have shown substantial all-around improvement in this quarter.

Chemotherapy sessions increased by 15%, OPD footfall rose by 19%, and while our radiation experienced healthy growth. The decline in capacity utilization from 65 to 61 is due to proactive expansion and the incorporation of four new linear accelerators.

ARPOB for the quarter stood at 42,700 as compared to 39,700, registering a growth of 8% on a YoY basis.

The revenue of our established centers experiences a 11% year-on-year growth and revenue from emerging centers grew by 15% on a YoY basis, with EBITDA for emerging centers growing at 117% on a YoY basis.

We are observing a consistent uptick in our emerging centers marked by increased footfall across various cancer treatment modalities. Our two prominent emerging centers in Mumbai and Kolkata have demonstrated robust performance. Specifically, our Kolkata Center had an impressive year-on-year growth of 20%, while our South Mumbai center achieved 37% growth. Additionally, our Nagpur center has outperformed expectation recording a remarkable 48% year-on-year growth.

On the EBITDA front, our EBITDA grew by 21% YoY and stood at 94 crores for the quarter. PAT for this quarter stood at 21.3 crores as compared to 8 crores in the previous year same quarter. Our CAPEX for the 12-month period stood at 187 crores and net debt excluding leases stood at 358 crores as on March 2024. This includes acquisition of Nagpur, Kolkata and Indore, and we have spent 116 crores towards our growth CAPEX mainly on our two facilities, Ahmedabad and Whitefield.

As we speak, Ahmedabad construction is almost complete, and we will be transitioning very soon.

We have also given bifurcation of our EBITDA across matured and emerging centers. I would request participants to refer the investor presentation for further details.

With this, I would like to open the floor for questions and answers.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Nishith from Chrys Capital. Please go ahead.

Nishith: So, I just wanted to ask the revenue growth drivers for FY'25 between new beds, ARPOB occupancy.

Raj Gore: If I've understood your question, you are asking about revenue drivers for the current year?

Nishith: Yes, between new bed additions, ARPOB occupancy.

Raj Gore: So, look, our revenue growth in last few years is primarily driven by two-third by volume growth and will continue the same trend going forward, it will be largely driven by volume. While we have seen improvement in ARPOB, as you know, during the year we have deployed bed capacity, linear accelerator capacity, OT capacity, we have added clinicians and strengthened our go-to-market efforts. We are also in this year moving to a larger facility in our center of excellence in Ahmedabad. So, we have deployed additional capacity. We have increased our clinical bandwidth; we strengthened our go-to-market which will continue to help us get more patient footfalls and therefore grow at a healthy rate which is better than the market growth rate.

Nishith: Just wanted some color on outlook on margin for FY'25 and beyond? Our EBITDA margin overall for the company in Q4 is around 19%, whereas for FY'24 is 17.8%. So, is Q4 the new normal for margin and what will drive margin improvement if at all?

Raj Gore: So, if I can just take you back, look, first half of the year, we communicated that our margins were subdued because investment in clinical bandwidth and then downtime transition time to add our linear accelerators. Throughout this year subsequently, you have seen improvements in our EBITDA margin. EBITDA margin that we see in Q4 is on account of better service mix and a payer mix and operating leverage due to a strong revenue growth. We expect that to continue going forward. And as I mentioned earlier, there are lots of revenue growth levers to drive volume-led revenue growth going forward. Our utilization as Ruby mentioned in her presentation on beds it's about 56%, on linear accelerator is 61%. So, I think we are very well poised to drive revenue growth and that will help us to get operating leverage. One of the strongest performance is our emerging centers. As you heard, Kolkata has started contributing positive EBITDA. It will continue to grow going forward. South Mumbai has reduced the losses and is expected to start breaking even sometime in the middle of the year. These two were earlier EBITDA drag due to losses and now going forward as they start contributing to the EBITDA margin, we are very confident that we will continue our EBITDA margin journey in a positive direction going forward.

Nishith: So, even the emerging EBITDA which is in Q4 is 14%, you're saying is sustainable, right, because fiscal year is somewhere close to 9%?

Raj Gore: So, just to recap, we have many centers in this bucket. Most of the centers have been contributing EBITDA and have been growing. The two youngest hospitals, the Kolkata and South Mumbai were the drag on our EBITDA margin in the past. Kolkata in Q3 and Q4 has started contributing positively and will continue to reduce the losses, in South Mumbai we will break even in the middle of the year. So, as a result, the emerging center bucket will start moving in the right direction throughout this year.

Nishith: And could you share how Indore has panned out for us?

Raj Gore: So, look, as we said, Indore was our strategic acquisition in a new market, Madhya Pradesh. Central India has the one of the lowest penetration or lowest density of comprehensive cancer care center per million population. It's about 45, 50 lakh population. You have one cancer care center versus about 16, 17 lakh population per cancer care center in our Southern region. So, we made this acquisition starting with the second half. Our first priority was to integrate it on HCG platform in every possible way and invest in this asset to bring it to HCG quality care. We had started the construction work or renovation work. We have upgraded ICU facilities, we have upgraded private rooms, we have invested in medical equipments, invested in upgrading OT equipment, we have started empaneling more TPAs, our go-to-market initiative has been strengthened. It's on the right track so far as per our integration plan and we will continue to share the progress going forward. So, far so good in terms of our progress on integration of this new asset.

Nishith: Any thoughts on inorganic acquisition?

Raj Gore: We have been saying that after 3-4 years of consolidation and a consistent quarterly strong performance, few quarters ago, we said that we will look at acquisition as a strategic lever to grow or expand the company. We have already done Indore acquisition. At any point of time, we are evaluating several key assets, and as and when we get to concrete concluding stage, we will be happy to share with everyone.

Moderator: The next question is from the line of Dhara Patwafrom SMIFS Limited. Please go ahead.

Dhara Patwa I just have three questions. One is, what is your bed expansion strategy for the next two to three years? And suppose if you want to develop a new hospital, so what is your criteria to select the geography for that expansion?

Raj Gore: Thank you for asking that question. See, over the years, we have created a dominating presence in our current 18, 19 locations. Our first priority is to invest in these assets and create capacity in terms of beds, OTs, linear accelerators, so we continue to dominate our presence and continue to grow our market share in our current locations. We have already announced and shared with you that in Ahmedabad, we are moving from a below 100 beds to 200 bed capacity, newly built to our specifications, very premium advanced cancer care center in next month. So, we're doubling our capacity there. We have added about 20 beds and two OTs in the last year in our center of excellence in Bangalore. We have announced two new projects in Bangalore market, one in East Bangalore in Whitefield with 25 beds, comprehensive cancer care center, and one in North Bangalore, about 100 beds, comprehensive cancer care Center which will become operational in another 12 to 15 months. So, we're doubling down in our both strong markets. In total, across our current hospitals, we are looking at adding about 350 to 400 beds in our existing hospitals in the next four to five years. Most of that will get completed in the next three years. So, that's the plan on our current Brownfield expansion in our current market. As I mentioned that we continue to look at M&A opportunities. In the past, we have had a brilliant track record in acquiring cancer care centers and creating value. So, we continue to look at it. We started our journey last year with Indore. We are looking at opportunities. Basically, our criteria for that is we're looking at comprehensive cancer care centers in markets which are attractive markets in terms of cancer incidence, affordability, household income, density of comprehensive cancer care centers. These assets are usually 70 to 80 beds. We are looking at assets which preferably are EBITDA-accretive from right in the beginning and we can acquire it at a good valuation. So, that's the criteria for our M&A. In markets where we do not see M&A opportunities, but we feel that there are markets of strategic importance, we may look at Greenfield, especially in our current states where we dominate like Maharashtra, Gujarat. As and when we have something concrete plan on that front, we will share with you.

Ashutosh Kumar: In addition to 350-400 beds we are having, we also have about 200 additional installed bed capacity, which we have not deployed. So, along with adding new capacity, we will also be deploying the existing installed capacity where the CAPEX is already spent.

Raj Gore: If you look at our current occupancy is around 65%, 67% on our operational beds. Our capacity-on-capacity beds, including the 200-odd beds, Ashu mentioned, which we have not made operational is about 56%. So, in all capacity parameters, we have enough headroom in our current hospitals to continue to grow for the next five years.

Dhara Patwa: My second question was what is the average life of a LINAC machine and the replacement cost for the same?

Raj Gore: Sorry, are you asking about average life of a LINACmachine?

Dhara Patwa: Yes, like how much is the duration that we could use it -- it is 12 years, 15 years, something like that?

Dr. B.S. Ajaikumar : The linear accelerators normally there for about 10 to 14 years. Most of the new technology has been in the software upgradation. The basic hardware platform has remained the same in the last 10-years or so. So, as new technology evolves, as you know with the AI and high technology, more and more it will be software upgradations. So, the basic unit may remain the same with upgradation. So, our thinking at this time is, it will last anywhere between 12 to 15 years, the average linear accelerator hardware. Of course, the software and all can even last longer, but we are in the transition process as far as the linear accelerator is concerned, because we are talking about adaptive therapy, precision therapy, MR LINAC, so many new things are happening. So, it is undergoing a tremendous change. As an oncologist, I do believe this will last for a long time.

Dhara Patwa: And lastly, what will be the effective tax rate for FY'25?

Dr. B.S. Ajaikumar: Sorry, can you ask that question again?

Dhara Patwa: Effective tax rate for FY'25, ETR?

Ruby Ritolia: Somewhere between 35% to 39%.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just the first one on the opening remarks around the whole aspiration to grow faster than the industry, so we have done about 12%, 13% this year in terms of top line growth. When I look at some of the large NCR-based players who report oncology separately, they have grown 21% to 25%. I know they may be an outlier, but some of their relative absolute sizes of revenue have now reached almost pretty close to us. So, just want to understand what's the reason why we may be actually growing lower than some of these peers, is it just that they are in expansion phase, and we have not, just want to understand some of the competitive dynamics?

Raj Gore: We have grown about 12% year on year-on-year. However, I want to just point out that the last couple of quarters ago, we have announced that we're going to scale down our large shop and shop center in North Bangalore, MSR. So, that business has not been with us for the last six months. If we adjust for that, we have grown about 14% year-on-year in the last year. That is about the market growth rate, which is about 12% on an average oncology market. Now, obviously year-on-year growth rate is also a function of the base that you have, and I think many multi-specialty players have started focusing on oncology recently and therefore, their year-on-year growth is a function of their existing base that they had. We have a large presence; we have been in this business for a long time and therefore our base is much higher. Some players have very high concentration in specific markets, right? So, there the realization plays a larger role in growth versus volume-led growth. I think as a strategy, we want to continue to focus on volume-led growth, which is a sustainable growth, while continue to improve realization, but primarily volume-led growth. So, look, as a leading oncology player, we have enough levers and as explained our plan is robust to maintain our leadership position which is volume-led growth, and we will continue on that path. More than that, I can't comment on other players, yes.

Ashutosh Kumar: While Shyam, as you rightly mentioned, they have been on an expansionary path, we have been in a consolidation phase. We started deploying additional capacities and in some of our key centers like Ahmedabad. So, Ahmedabad, Cuttack and some of the other large centers, we have started deploying capital, increasing the capacity which has been done and we should start seeing growth momentum from these centers which will rub on the overall growth of the company as well.

Shyam Srinivasan: Just a second question, actually a related question, question number one, in terms of doctor attrition because some of your competitors are expanding, have you seen attrition or any of those parameters that you look at from an HR or retaining our key talent perspective, has that seen an uptick or a change or what are we doing to retain our top talent?

Dr. B.S. Ajaikumar: Shyam, as you know, HCG has always been very proud of our doctor group, and our top doctors' attrition is very low, less than 5%. So, we have been very proud and even today because of the way we empower the doctors, we are involved in academics and research. Our attrition has not been a major issue and we don't expect it to be an issue at all. And another thing I want to tell you is we are also in training, we have our own training programs in fellowship programs, residency program and because of that we have significant number of doctors coming out of the training in medical oncology, radiation, surgical oncology. Because of that and we are an institution and I always like to compare it to where I trained MD Anderson, wherever you went in US, you found doctors trained in MD Anderson. And it is a proud thing that doctors are there working in different institution trained by that. So, similarly where we go now, we see doctors are trained in HCG are there. So, we don't have any issues. Doctors who want to even sometimes leave… because we have an internal training mechanism and because we brand HCG more than doctor and we collaborate with doctors and work, we don't see that as a foreseeable issue at all. And the people come to it to HCG has a quality institution as a destination. So, that is how we have been able to grow and maintain our status as the leader and we will continue to do that. And we are very clear that most of the major doctors have been with us for a long time and will continue to be there and we don't see any issues in.

Shyam Srinivasan: Just my second question is if you could double click on both I think the case studies that you've presented in the investor presentation are very helpful, but I just wanted to go through like South Bombay, what's you now are looking at international medical tourism as an avenue. So, just want to understand what's the size there, what are the plans for further enhancing our offering at South Bombay, what's been the response even from local patients?

Raj Gore: As you know, South Mumbai, our South Hospital is a premium hospital at a very good location. We have a differentiated technology there. It is still the only hospital in Western India with a CyberKnife and Tomotherapy under one roof. As mentioned earlier, we have invested in our clinical talent. We have medical oncologist who focuses on breast oncology. He used to be a director of breast oncology program in UK, in Nottingham Hospital. We have a breast surgeon who's come back after getting trained in Memorial Sloan Kettering. So, we have a very good talent on medical side, surgical side radiation, we were always strong in that department. So, we have a product now which is a premium product, differentiated technology and with full-time clinicians with a very high pedigree. I think this is the perfect… and Mumbai is more connected to the rest of the world in most cities in India. So, this is the perfect recipe to attract international patients. And just to explain, CyberKnife gives a lot of advantage in terms of treating cancer patients which cannot be treated by other LINACmachines. But one of the biggest advantage of CyberKnife when international patients travel to India, you can treat the patient with a hyper fractionation. Generally, in linear accelerator, you will go through 25 to 30 fractions, and you have to stay 6 to 8 weeks for that, whereas CyberKnife can do it in a matter of days and therefore the length of stay for international patients in India becomes much lesser and therefore out of pocket expenses goes down. So, not only do you have a superior outcome, but your out-of-pocket expenses go down. So, it's well positioned to target international patients. We have been working on our go-to-market efforts in certain markets like Middle East, Oman and East Africa. We have seen currently 30% to 35% of our center revenue coming from international. At the same time because of these differentiated products, we are targeting a wider geography, not just South Mumbai, but a Greater Mumbai, Maharashtra and strategically connected locations to Mumbai who historically train into Mumbai like Northeast states there, some of the cities in central India. So, we continue to spread our net wider in terms of go-to-market to get the right segment for the products that we have in this. We have significantly reduced our losses this year in this center, and we are expecting it to break even sometime middle of this year.

Shyam Srinivasan: Similarly, on Borivali, your presentation talks about positive EBITDA in Fiscal '24 and revenue going at a CAGR of 22%. So, all the changes regarding I think we have made management changes as well. So, how is that seeing fruition now when I look at Borivali? Any numbers you want to share at this point of time given that we have now reached probably some scale there?

Raj Gore: Borivali has been a well-performing asset. Actually, it exactly follows our unit economics. Last year we have added one more linear accelerator to augment our radiation capacity there. We added our surgical robot there. We have created a vertical specialization in surgical team. We have onboarded surgical talent. It had shown 20%-plus growth. It delivers a mid-20 EBITDA margin, and we have enough spare capacity on all modalities there. So, I think we are perfectly poised to gain market share from others and continue to grow at a very aggressive growth rate going forward in Borivili in Mumbai.

Shyam Srinivasan: My last question is just on the balance sheet. In terms of our debt, I know, debt went up year-over-year in Fiscal '24, but what are the plans going forward, will we use this dry powder to kind of do M&A like we may have hinted, but just wanted to understand how should we look at any plans for debt reduction?

Ruby Ritolia: So, at the current levels, we are very comfortable with all our currently covenants we have enough headroom. We are exploring looking at inorganic growth and that Raj talked about, and we will be looking at those. In terms of funding requirements for that, we will be funding it through both internal accruals as well as external debt funding.

Moderator: The next question is from the line of Ankit Pandya from InCred Asset Management. Please go ahead.

Ankit Pandya: Sir, I have a few questions. So, starting with on the CAPEX front, so what will be the organic CAPEX for the next one to two years?

Ashutosh Kumar: As far as the maintenance CAPEX is concerned, we have always guided, and our maintenance CAPEX will be around 65 to 70 crores and 70 crores is the number which you saw for FY'24 as well. On the growth Capex, Largely any new projects which is coming up, we have been presenting it before you. So, other than what we have laid out in Ahmedabad and Whitefield in Bangalore, we also announced North Bangalore Center. North Bangalore, the total CAPEX is estimated is around 90 crores which largely would be spent in the current year and of course in the next financial year.

Ankit Pandya: You mentioned that in some of the centers you will be adding more capacity over there. So, in FY'25 to '26, how many Brownfield capacity expansion can we expect apart from Ahmedabad and Bangalore that has already been announced?

Raj Gore: I think other than Ahmedabad, I mean that's primarily the Brownfield capacity increase that will come this year. Rest will probably follow in the year after that majority, I mean.

Ashutosh Kumar: We are doing some beds and OT expansion in our existing centers. For example, our center in Vizag, we're doing expansion in Cuttack. So, there are beds or associated infrastructure addition which is happening in couple of centers and large one would probably happen in next financial year in Cuttack.

Ankit Pandya: So, that will be roughly how many beds that we will be increasing?

Ashutosh Kumar : Sorry, what is the question?

Ankit Pandya: How many beds capacity you will be increasing in the Whitefield?

Ashutosh Kumar: In Bangalore, we are adding about 125 beds.

Raj Gore: But that won't come this year, that will be next financial year. So, in between both projects, North Bangalore and Whitefield will be added in about 125 beds, which will get commissioned in the following financial year FY'26.

Ankit Pandya: Sir, can you just talk about your inorganic CAPEX also, inorganic plans of acquisition that we will be doing? So, which region and how much you'll be willing to invest in inorganic opportunities?

Raj Gore: I think we are uniquely poised to be a consolidator in this space. There are some active comprehensive cancer care centers across the country, while from a management bandwidth, we would prefer them in existing markets or adjacent to our markets. We will be opportunistic if we get a good acquisition target in a newer state. So, with M&A, you have to be opportunistic. Our investment in these assets will be proportionate to the size of the asset. So, we will be able to tell you as and when we have something concrete. So, it's difficult to comment on the size of the acquisition.

Ashutosh Kumar: It will depend on obviously the visibility of the capital, and we are mindful of the debt level, which we can sustain, and we have our internal guidance on the debt levels, we will be within that.

Ankit Pandya: Sir, one more question on the tax rate. If I look at your cash tax, the tax that you pay on and it is visible on the cash flow statement. Last year on PBT of 45 crores, we paid 23 crores tax, that's 50% of PBT and this year on a PBT of 68 crores, we have paid 47 crores of cash, that's like 70% of our PBT. And then on the P&L, you are guiding for an effective tax rate of 35% to 39%. I thought the corporate India tax rate has fallen to 25% a few years back. So, what is it that is keeping our cash tax and our P&L tax so high, I mean 70% tax rate on our cash tax basis seems unreal. So, can someone explain to us why our cash tax rate tends to be like 60%, 70%?

Ruby Ritolia: So, we have various entities and under which our businesses are there. There are entities separately where we incurred losses. And since they are separate entities, we don't get that benefit at a consol level, and we don't recognize the effort that asset on that. And that is the reason why our effective tax rate is higher. You're absolutely right that we're moving towards 25% at the corporate level. However, there will be a journey. Once these entities becomes profitable, we will start seeing a reduction in our effective tax rate.

Ankit Pandya: So, on the entities which are profitable, are we paying exactly 25% tax?

Ruby Ritolia: Yes, that is right, we are paying 25% tax. So, we have about 47 crores of losses that is netting off our overall profitability.

Ankit Pandya: What I was asking was that if I take the 47 crores of tax paid in FY'24 and I multiply it by 4, that gives me almost 180 crores of profit before tax on our profitable entity. Would that be correct?

Management: So, we have for the year entities making 115 crores of profit, on which they have paid 24%, 25%, which comes to 27 crores profit, and we have 47 crores of loss-making entities where there are no tax credits taken. So, if we adjust for the 47 crores, we would be at 26%, 27%. Right now, we are at 39% because we are not taking the tax rate of 47 crores. You can do the math.

Ankit Pandya: I'm not following the math here. I'm sorry. I'll have to drill a bit more on this. So 67, 68 crores of consol profit, right, add that 47 crores of losses that we are going to be included in this profit, so that gives me 120-odd crores of profit. Even on 120-odd crores of profit-making entities, we are paying 48 crores of tax. So, that's 40% tax, is that correct?

Management: 27 crores of tax, you see the net tax. Please make it above the deferred tax also.

Ankit Pandya: Net of refund the tax is 47 crores on your consol cash flow. I'm talking about cash tax.

Ruby Ritolia: No, that includes the TDS also, that is not the tax charge, you should look at the P&L because the balance sheet includes two things. One is the cash tax as well as the TDS, which gets deducted from the payments that we collect from our credit payers. You should not include that.

Ankit Pandya: So, what is this TDS?

Management: TDS is tax deducted at source under Section 194J. Whenever we bill our credit payers while taking the payment, they will deduct tax at 10% before taking the payment or in some places we have got low TDS which will be anywhere between 3.5% to 4.5%. But still there is the tax deduction which normally will get 3% in a cycle of two to three years. So, those are not the cash taxes, that is what impact we feel them that is only a cash flow issue, which is with the government, with the income tax department, which gets refunded after two to three years.

Ankit Pandya: But this has been going on for the last 2-3 years, right? So, this 22 crores tax that we paid last year -

Management: So, it will go on because we have credit business, which is of our total revenue. So, it will keep going on like that. So, once our PAT is 10% of the revenue, you will see netting off that part. Right now we are at 2% to 3%. So, we have some way to go there.

Ankit Pandya: Last question is on the multi-specialty hospitals that we have, Raj. This question is for you. On the three multi-specialty hospitals that we have, what's the strategy now going forward and what are the current sort of margins that those facilities are doing for us?

Raj Gore: So, Aditya, thanks for that question. We have been pretty clear on our communication on this front. We had four multi-specialty hospitals. Bhavnagar is now oncology, is a dominant specialty. We added a linear accelerator a few years ago. We are looking at adding another linear accelerator there. So, oncology will continue to contribute more and more in Bhavnagar. Rajkot, again, last year we started surgical oncology and medical oncology. Currently, we are in the process of building a bunker. So, on Rajkot, we will also have a comprehensive cancer care facility and oncology will become a dominant specialty going forward. In Suchirayu again we have a very strong market share there. It's a very, very good referral center for North Karnataka. We are currently building a bunker for linear accelerator as well as PET scan next to the Suchirayu Hospital. Eventually, we have an opportunity, we have another comprehensive cancer care center in Hubli. Eventually, when we need to add more capacity, we cannot add that capacity in our existing Hubli cancer center. However, this is a plan roadmap for going forward. Since we are adding a linear accelerator in PET Scan next to Suchirayu we have a growth headroom. Whenever we need additional capacity and then oncology will start becoming a dominant specialty within Suchirayu. The last multi-specialty hospital is in Ahmedabad, HMS, which will continue to be a multi-specialty hospital. There is no space there to add oncology in that hospital.

Moderator: The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

B Pathiparampil: A couple of questions. Following up on the earlier question, in Ahmedabad where we are adding beds, what is the existing capacity utilization there or occupancy there and what's your expectation regarding the new 100 beds? So, is it going to get filled in six months?

Raj Gore: So, I wish I can fill 100 beds in six months in any market. But yes, look, Ahmedabad, again, it's a hospital that we started more than 12, 13 years ago. It had less than 100 beds. The capacity constraint more than beds, it was ICU beds and OTs, we have had five OTs. As you know, this is a surgery dominant cancer center. We have a very strong team of more than 20 surgical oncologists there with vertical specialization and a very high volume, strong robotic surgery center. Since it is a surgery dominant center, OT capacity and post-op ICU beds became a problem for us or capacity constraint for us and that's when we decided to invest in a new hospital, which is 200 beds. There we will be moving sometime next month; we are doubling the OT capacity from 5 to 10 OTs, and we have further headroom to add OTs whenever we need. Same for ICU. So, we are very excited. This is a center that is built to our specification, a very premium center, because we have all the clinical bandwidth and currently the number one market share, I think we are best poised to ramp it up quickly. How fast can we ramp it? Well, we are shooting as fast as we can, but as stated earlier, we have always said that we will grow at higher than market growth rate in every micro market. Here, we have an opportunity now to increase our market share. We are already #1 market share with 30%-plus market share. So, we have an opportunity. So, we will go all out and see. It's difficult to predict how fast we can fill that at this stage.

Ashutosh Kumar: To give some historical growth pace around that value input. So, in FY'23, Ahmedabad center by 20%, in FY'24 in spite of all the capacity challenges we grew by 14%. We do expect the growth momentum to continue, and this growth probably will get accelerated once we get into the new centers. We have had a capacity challenge. And you can take guidance from here of the growth rate and I mean make a sense of how faster we will fill those beds.

B Pathiparampil: Second, typically at least three years from plan to operationalizing a new facility or a new bed, so after this Bangalore 125 beds addition in FY'26, it looks like we don't have a plan to grow further our capacity. Do you have anything in mind, even in the early stages where you'll be doing something significant Brownfield or Greenfield for addition beyond FY'26?

Raj Gore: It's difficult to hear you. Is this a question about Bangalore?

B Pathiparampil: No. Overall, your bed growth plan because we don't have a plan in place beyond FY'26, next year, we have 125 beds addition in Bangalore, beyond that we don't have a plan in place, so the question.

Raj Gore: No, we have a plan. We just spoke about it a little while ago. So, let me start from the current base. Today, we have 56% utilization on our capacity beds. So, we have about 44% beds unoccupied right now in our existing hospitals. So, that's number one, first headroom. Then in our strategic markets like Bangalore, we have added 20 beds last year. We have the ability to add, we have a plan to add another 25, 30 beds in our existing center in the next two years. We are also adding two more hospitals in Bangalore, one in Whitefield and one in North Bangalore with total 125 beds, that will get commissioned in FY'26. Now that's enough bed capacity for Bangalore to continue to grow for the next five years. I would like to point out that we have also have three daycare centers in this market which have done very well, and we will continue to add couple of more daycare centers in next 12, 18 months in Bangalore, so that we have a deeper penetration in greater Bangalore market and grab higher market share. The second key market is Ahmedabad. We just spoke about it where we are doubling our capacity. So, we have a headroom and a runway to continue to grow for the next few years. Similarly, market-by-market, we have added 35 beds in Baroda, we are adding another 25, 30 beds in Vizag next year, and then we have a plan to add another 25, 30 beds in Vizag in two to three years, in Cuttack we will be adding about 60 to 70 beds. The remaining all our hospitals we have enough current capacity which is unutilized which will continue to fuel the growth for the next five years. We don't see any capacity constraint in our hospitals with this plan baked into our five-year plan. We don't see any capacity constraint for at least the next five years. And as we ramp up, we will continue to monitor utilization and figure out if we need to add subsequent capacity in any of these markets. So, to summarize today, we have enough capacity to grow, we are clearing the capacity bottleneck, and we will have a runway to grow for the next five years. And if we feel that in the next 2-3 years we will continue to monitor it and continue to deploy more capacity in our established centers. These are the centers we have a dominant market share, and we will not let the capacity come between our growth in future.

Ashutosh: So, we do have visibility and within the next three years we will be deploying 500. We also have done an assessment of which are the centers which probably would go out of capacity after three years. That would also need an addition of about another 200 to 300 beds. So, in five years' time you have a visibility of adding about 800 to 900 beds.

B Pathiparampil: So, these are mostly Brownfield, you're saying?

Dr. B.S. Ajaikumar: I just want to add one thing here. See, in oncology, you should never focus only on beds. As we go forward, oncology is more outpatient, more time-related treatment and also we should look at the growth in oncology, not clearly just measured by the beds alone. While the beds will be needed but the proportionate growth of oncology will be more without even considering the beds, the way it has moved in the last few decades because our average length of stay, as you can see, has come down significantly, more targeted surgeries, more targeted treatment So, all of this will have a more footfall is what we have to look at rather than the bed strength. But as we explained, bed strength will increase, but one should not measure only by the bed strength. Because for example if you have hub-and-spoke model, you are more clinics like what Raj mentioned, outpatient clinics and there will be no beds, but it will still infusion centers which are contributing to the revenue and the growth. So, it has to be looked at in a more analytical way in oncology rather than just the beds.

Raj Gore: And as you know, we have added a few linear accelerators in the last few years. Today, we have 36 linear accelerators. On that, our utilization is about 61%, 62%. So, there also we have enough headroom to keep growing going forward.

Moderator: Ladies and gentlemen, as that was the last question, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Raj Gore: So, once again, thank you so much for your interest in HCG. As I mentioned in my opening remarks, we have had a fantastic performance in Q4 with about 12% year-on-year growth, 12% year-on-year growth on revenue, 21% on EBITDA, our margins are hitting 19%. The team has worked very hard to add clinical bandwidth, clear capacity constraints, drive our go-to-market, we are very optimistic in driving our growth in the current quarter and in the current year. Looking forward to see you next quarter on this call. Thank you.

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