

Dated: 11<sup>th</sup> December, 2018

The General Manager  
Department of Corporate Services  
BSE Limited  
Phiroze Jee jeebhoy Towers  
Dalal street,  
Mumbai-01

Dear Sir/Madam

Sub: Transcript of Virinchi Ltd Q2 & H1 FY-19 Earnings Conference Call -Reg.  
Ref: Scrip Code# 532372

With reference to the above subject, please find enclosed herewith the transcript of Virinchi Ltd Q2 & H1 FY-19 Earnings Conference Call held on 14<sup>th</sup> November, 2018

The same will also be hosted on the company's website at [www.virinchi.com](http://www.virinchi.com)

This is for your information and records.

Thanking you

Yours Truly

For Virinchi Ltd



K. Ravindranath Tagore  
Company Secretary  
M.No. A18894



“Virinchi Limited  
Q2 & H1 FY2019 Earnings Conference Call”

November 14, 2018



**MANAGEMENT: MR. VISHAL RANJAN – GROUP HEAD, NEW BUSINESSES  
– VIRINCHI LIMITED  
MR. M.V. SRINIVASA RAO – GROUP PRESIDENT -  
VIRINCHI LIMITED**



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**Moderator:** Good day ladies and gentlemen and welcome to Virinchi Limited Q2 and H1 FY2019 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 are not the guarantees of future performance and 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 this conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Ranjan. Thank you and over to you Sir!

**Vishal Ranjan:** Thanks a lot and a very good afternoon friends. I hope you had a good Diwali celebration last week. We are happy to discuss the performance of Virinchi Limited for the September quarter.

As a summary, in this quarter we continued our business growth across all verticals together with very strong momentum across multiple operating metrics. This has translated to much better bottomline, both on a year-on-year basis as well as quarter on quarter basis. You might recall that we have targeted this year to consolidate on our strong annual growth rates that we have shown over the past few years and we are looking to significantly strengthen our organizational processes, control costs to show better returns on our investments.

In today’s discussion, we will cover more about the financial numbers to begin with just to understand how the revenue and the margins are coming in, and which are the businesses doing well at segment level. We will also try to give a quick status on our capital expansion plans which are right now underway as well as the new investments that we are tracking. We would also conclude towards our operating and financial metrics around how the business is performing on ground level basis.

To begin with we reported this quarter with revenue of Rs.105 Crores. On a year-on-year basis this is a 23.6% increase in revenues. This also translated to an EBITDA growth of 35% against last year to Rs.31.2 Crores. The EBITDA margins have improved from 27.2% last year to 29.7% this year.

The more meaningful number at the bottom that you see on the PAT side, which has increased from Rs.8.1 Crores last year to Rs.16.6 Crores this year, this growth if you compare over the last few quarters has been pretty much sustainable and predictable. The



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revenue growth on a quarter-on-quarter basis has been 7%, while the EBIT has grown 6%. The PAT has improved by 63% since the last quarter.

If we go by the segments, the revenue for the IT product business, which is basically QFund in the US grew quarter-on-quarter from Rs.40 Crores last quarter to Rs.46.5 Crores this quarter. This growth continues to be spread across all the major clients, the large part of which is Advance America growth seen again in this quarter. You might recall in the month of April 2018, we had signed a multi year agreement with Advance America, which was supposed to translate to Rs.20 Crores of new revenue, a lot of that revenue has come in the last two quarters of April to June and now June to September and looks like this is now going to be a sustainable growth.

Typically when you are signing a contract in initial days, either the projects start getting delayed or some of the payments issues come in, we are happy to inform that now the visibility of that new project or the new revenue is much better and looking forward we think that the numbers we have looked for from Advance America are pretty much achievable.

You might also recall that Rs.20 Crores new revenue from the contract was largely EBITDA accretive. This is also seen in the performance for this quarter.

The IT services revenue as you might also recall in the last few discussions, have seen a small decline in the topline followed with an increase in EBIT, so the IT services revenue has declined from Rs.26.3 Crores to Rs.22.15 Crores, while the EBIT has increased from Rs.6.52 to Rs.6.57 Crores and as you might recall our typical strategy right now in the case of business is to protect margins than to keep chasing revenue because one obviously the US market in general has been seeing its own headwinds with uncertainty around IT projects and in addition there are projects, which we have been investing on the high end margin, high end billing rate project rather than chasing projects which may have receivable problems or may have issues around profitability in general, so this strategy or this thought process of improving margins in the case of business will continue to be reflected in the way we go forward. The stronger revenue growth if you see is from the healthcare segment. While the BCH business, which is reflected in the standalone business has been pretty much similar at 50% occupancy.

We have seen a stronger EBITDA growth in the flagship Banjara Hills facility. The EBITDA for the flagship hospital has grown from Rs.3.62 Crores last quarter to Rs.3.81 Crores this quarter and the revenue growth is from Rs.21.92 to close to Rs.25.86 Crores this quarter and this growth we are seeing is driven pretty much across specialities. We spoke



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last time that we are adding lot many more doctors, between the January and June 2018, we had pretty much doubled our doctor's count and right now we are talking about a consultant pool of more than 200 doctors.

This number was around 77 doctors last year at this point of time and this also shows into kind of a doubling of our revenue in the hospital business and in many ways I would say the hospital business now is well past the project risk that you typically see in the first couple of years of commissioning. The hospital has got a fairly strong brand pull in the market. There is a recall value in terms of repeat patient.

The doctors are reaching out to us to join our team based on our growth that we have shown and the kind of promise to values that we have delivered and while Hyderabad market continues to see its own set of churn in terms of new hospitals coming, older hospital shutting down etc., but Virinchi now is very firmly in the Top 5 or I would say in some specialities in the Top 3 hospitals under consideration in Hyderabad and that is reflected in terms of increasing occupancy.

If you might recall may be in April 2018 we were talking about 60, 70 bed kind of occupancy, now we are very regularly hitting a 100 bed occupancy, which translates to 30% kind of occupancy on our 350 beds commissioned at this stage. This also puts us into good momentum into growing the capacity expansion. We have undertaken the capacity expansion for another 150 beds coming up shortly, which is largely on our economy wards. The construction part of it is largely ready, the interiors are done and it should be commissioned pretty much very soon and what is also important in this capacity expansion is that this is driven by the business requirement. We have continued to see pressure on our economy bed availability where our patients are to be repeatedly upgraded to higher room categories because of bed availability and then that explains our need for capacity expansion.

We will talk about the funding and stages of that capacity expansion in a short while, so net-net this has translated to a consolidated EBIT growth from Rs.15.63 to Rs.22.76 and consolidated PAT has also seen a significant increase from Rs.8.08 Crores last year to Rs.16.64 Crores this year. This is something, which, if you see the large structure of the revenue as well as EBITDA is sustained quarter on quarter for the last couple of quarters that we have seen.

Coming to the operational part of it, one of the major considerations for us in this financial year had been to improve the quality for our numbers and if you see while the margins reflect a good story on its own, we are also seeing a better operational metrics in terms of



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hospitals ARPOB (Average Revenue Per Operational Bed), ALOS (Average Length of Stay), ARPP (Average Revenue per Patient discharged), inventory etc. One of the easier numbers to see in the balance sheet is around receivable cycle, you might recall it was slightly on the higher side around 84 days of receivables that we reported on March 31, 2018.

I am happy to report that 84 days of receivables has come down to 61 days of receivables and this has released a lot of working capital pressure that we had and this is also reflected in terms of reduction in our payable cycle, so we had payables, which are ageing at around 58- 60 days in general that has come down to 28 to 30 days overall and this is true for all the three businesses from the IT products, IT services as well as healthcare.

Healthcare by definition and now that more of corporate, more of credit business is coming in, it still pushes our receivable cycle slightly on the higher side, but we have put a very active team on this working capital management to ensure that this cash flow business does not hurt our overall strength to grow and invest in the business as we go forward and that is also reflected in terms of operational improvement or in terms of the inventory reduction from 40- 45 days of inventory that we had in March 2018, we have come down to 20- 23 days of inventory for the hospital now.

The hospital also sees improvement in terms of ARPOB despite more of credit business and more of government businesses coming in, we are staying at around Rs.23000 to Rs.24000 per occupied bed and this at an occupancy of around 100 beds at any point of time. This translates to a comfortable Rs.8 to 8.5 Crores kind of a revenue per month and this if you might recall also a key number for us to chase when we talk about an operating breakeven for the hospital business, so the hospital business with about two years of operations is well on track to be PBT positive and with the EBIT that we have already reported we are well in control to finish this financial year where we should be able to cover all our debt servicing requirements and be PBT positive for Virinchi Healthcare business. The other two smaller hospitals are anyway positive. The Virinchi Hospital is getting to generate positive cash and the IT businesses continues to generate cash with the momentum that we are seeing at this stage.

Coming to the operational part of it, the other number that we wanted to share on the balance sheet was in terms of our cash generation and use of cash. You might have seen based on our PAT growth on the last couple of quarters we had an increase in networth of around Rs.30 Crores and we raised around Rs.16 Crores of debt and all of it is pretty much reflected in terms of the fixed asset creation. The tower 2 and tower 3 of the hospital business is already under construction. Tower 2 is almost ready to be commissioned. It is



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just that testing is going on. Tower 3 expansion is already underway, it will take 12 month cycle that we have talked about since April, so that is on track.

In addition we added seats in our IT development centre, both at Hakimpet, which is our global delivery centre as well as our city centre and this capex is required for the IT growth in terms of not just increasing headcounts, but increasing new verticals those businesses are going on well and most of the cash that we generated has been used for this fixed asset creation. The fixed asset, buildings and plant & machinery together saw an increase of around Rs.47 Crores in the last year.

If you see our overall cost structure, the salary costs have come down marginally mostly in terms of the structure of the employees, etc., but you will also see some of the salary cost hidden in terms of the administrative expenses largely on account of our consultant charges, we mentioned in our earlier conversation where the doctors are charged as consultant and hence their cost appears in our administrative expenses and that has seen a bit of increase because of the number of doctor headcounts, but needless to say that investments that we have been doing on doctors since January this year has seen a steep jump in terms of occupancy, revenue and the other operating metrics for the hospital.

Lastly, our long-term debt has grown around Rs.16 Crores over the past six months, you might recall we had taken a Rs.35 Crores credit line from Edelweiss of which we have drawn around Rs.15 Crores, effectively at around 13.5% and the undrawn debt of Rs. 20 Crores and our internal accruals together should be sufficient to complete our capital expansions that we are doing largely for the hospital business.

By and large the company continues to be financially stable both in terms of the debt as well as in terms of cash flows and we are on track for whatever the operating growth in terms of revenues as well as margins that we have been chasing and do not see a major yellow flag at this stage.

With this I would possibly like to conclude our opening remarks and would like to open the conversation for questions.

**Moderator:**

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Pankaj Jain from Mahavir Investments. Please go ahead.

**Pankaj Jain:**

Thank you for the opportunity and congratulations on the good set of numbers. So my first question is on the healthcare side Sir. We had invested approximately Rs.175 Crores in the



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healthcare and in FY2018 and the revenue was approximately Rs.100 Crores and in the first six months it is approximately Rs.65 Crores, so are we almost at the break even level, is my understanding correct Sir?

**Vishal Ranjan:**

Yes Pankaj and I would qualify that statement with two parts to it, yes obviously in terms of revenue we have pretty much got, in fact we have done as per the projections that we had chased at that stage, but more interestingly at a PBT level in terms of not just chasing occupancy, not just chasing topline, but to ensure we generate enough EBITDA, enough cash such that it can be self sustaining, I think we are on track, as I mentioned in opening remarks, we believe by end of this financial year just the hospital business including the new expansion should be at PBT positive level for sure.

**Pankaj Jain:**

Thanks a lot and Sir second question would be what kind of a transaction have we seen after the launch of Ayushman Bharat scheme?

**Vishal Ranjan:**

There are two answers to that. In fact in Telangana and Andhra Pradesh, there have been equivalent programs already for sometime, so Aarogyasri program in Telangana pretty much corresponds to what we are seeing in Ayushman Bharat and so we have been seeing a similar kind of patient mix, revenue mix going in, but the good part is because of the awareness being created on account of the pan India launch of Ayushman Bharat we are seeing more of footfalls coming in and we continue to be operationally ready to manage these kind of solutions. To summarise, obviously it will improve the occupancy, the challenge here would be to maintain decent EBITDA here because there will be challenges in terms of profitably pricing, it will be challenge in terms of working capital management. Good news is at least in Hyderabad, at least in the Telangana, Andhra Pradesh area we have a stable process around that, so I do not think it will impact our bottomline, but sincerely we expect our occupancy to keep improving year-on-year with Ayushman Bharat, driven by that kind of optimism anyway.

**Pankaj Jain:**

Sir lastly I would like to know what would be our average revenue per day per bed for Banjara Hills Hospital and Hayathnagar and Barkatpura Hospital?

**M.V. Srinivasa Rao:**

The Banjara Hills facility ARPOB till this particular point of time is around Rs.25000 and for the 60-bed facility in Barkatpura is under Rs,15000 per day and for the 140-bed facility in Hayatnagar it is around Rs.8000 .

**Pankaj Jain:**

Thanks a lot Sir and that is it from my end. Thank you.





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**Moderator:** Thank you. The next question is from the line of Nikhil Bhargav from Zephyr Financial. Please go ahead.

**Nikhil Bhargav:** Congratulations, good numbers are from healthcare especially 40% growth. I have a couple of questions on IT services, so we saw a 20% degrowth in the revenues, so what is your view for this whole financial year despite there is an EBITDA growth in the IT service revenues, how do you look at for this whole financial year, the revenue growth under this segment?

**Vishal Ranjan:** There are two components to it as I mentioned that this revenue is actually dependent on the kind of projects and unfortunately for the last two quarters we have had some customers that we have let them go kind of a discussion because we saw either a receivable problem or more often a margins problems and with the kind of headwinds that we are seeing in the general US IT industry per se, we are continuing to focus on high margin, high technology projects, so we have been doing some very good work in mobility, on enterprise security as well as on the Cloud and analytics side of it, we have some very good projects and we continue to chase that. What we are ensuring here is whatever projects we have, continue to have better margins and that is what we have been doing quarter-on-quarter increase in EBIT. To summarize our thought process here is to either look to maintain the EBIT, the revenues here and there might keep going up and down like what we saw in this quarter, but as you might see the quarter before it had also increased by 10% to 12%, but from margins perspective we will ensure that we do not get into a trap of chasing revenues and lose sight of the bigger picture.

**Nikhil Bhargav:** What is your fixed cost on quarter-on-quarter basis for IT services, can you give me the number if you can, if possible?

**Vishal Ranjan:** These are typically on a billing rates projects, either they are in the US, which are 99% on project, there is hardly any bench cost there and what we are seeing in India is that there is a bench cost and if you see our employee cost we have rationalized at times, but if at a consolidated level we had a Rs.30 Crores kind of an employee cost and that is something which would continue to be on that kind of a fixed cost level and this is sufficient to maintain our margins and we do not intend to increase our employee cost for KSoft in the short-term except for the investment projects that we are doing.

**Nikhil Bhargav:** Okay Sir and what is the current interest rate for QFund for consolidated basis including the Edelweiss loan we have taken?

**Vishal Ranjan:** It will be around 13%.



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**Nikhil Bhargav:** Okay 13% and what is the current short-term liquidity I mean, I suppose – because the credit rating has been upgrade, so what is your near short-term liquidity, are we able to pay off the interest?

**M.V. Srinivasa Rao:** The last four months we have been in a position to pay the interest on time as well as service, the principal repayments also in time and with the liquidity improving we will be in a position to service our debt on time going forward as well.

**Nikhil Bhargav:** Okay, so you do not require another loan or something short-term loan, which you have taken from Edelweiss?

**M.V. Srinivasa Rao:** No, right now there is no further requirement for any loans. Only thing that will happen is in the case of Edelweiss, we have got a sanction for Rs.35 Crores of which we have drawn Rs.15 Crores, so there is another Rs.20 Crores to be drawn, so that we will draw over a period of time to complete the construction of the economy block like Vishal has mentioned during his conversation, quite a lot of work is done on the economy block, the first component has been done, so we will be completing the 50 beds in probably in a month or two months from now. Other than the money that we are going to draw from Edelweiss we do not see a need for any further borrowings.

**Nikhil Bhargav:** Okay, coming to healthcare Sir, this consultant doctors, which you have mentioned that you are doubling your accounts from 77 to so called 200, so can you just give me roughly – what is the revenue from consultant doctors and inhouse doctors , I mean what is the base like what are your margins in this consultant doctor segments if you are doubling their doctors from 77 to 200, what your current margins would be like?

**Vishal Ranjan:** I would like to clarify a bit on that. All doctors that we have right now are classified as consultants for the different tax reasons as well as the legal liabilities. That is why their costs are appearing in the consultancy charge that you see in the balance sheet. As a strategy we intend to have more and more doctors full time on our payroll, so the word "Consultant" that we typically use in the industry where they are associated with multiple hospitals and all, that is not a primary mode of doctor engagement here. Our primary mode of doctor engagement is full time consultant. In terms of accounting policy, in terms of classification of their salary cost, they are sitting in a different category, so that is the thought process. As of now of the 200 doctors that we are talking about around 40 of them would have come on a kind of I would say on a part-time kind of a model, but the intent here is all of them sooner than later will transition into a fixed fee model here and the reason here is what we believe is that, if we keep the doctor on a fixed fee model he continues to be focused on clinical outcomes while our sales and the marketing team is



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responsible for getting the footfall. We are not a big fan of the star doctor bringing his patients and then we becoming dependent to his marketing capability, so to answer your question at this point of time at a quarter level you might talk about doctor salary cost of around Rs.8 Crores at a quarter level, but that doctor salary cost is not linked to revenue increase that we have seen from whatever that Rs.5 Crores, Rs.6 Crores per month to around Rs.8 Crores, Rs.8.5 Crores per month that we are doing.

**Nikhil Bhargav:** Okay Sir and any update on the wireless card business, we have signed one agreement with one of the banks?

**Vishal Ranjan:** The vCard business right now is in a pre-revenue state we have done POCs, the banking partners and NBFC partners have already done some testing, we are doing cycles on that, but since we have not done a pan India launch and as we had promised earlier also we are looking to prepare complete detail docket on the business plan as well as some directional revenues. Since right now it is at pre-revenue stage, we would continue to keep our discussions on hold for that, but to assert they are pretty much on track right now, we had some regulatory challenges coming through our banking partners, they had to go to NPCI and now we know that from RBI there are some questions coming in, but the projects are on track and whatever the POC or the pre-revenue activities that we are doing they are going on as on plan, so that we would not say that it has come across a road block or we are not doing anything like that, it is just that we do not want to speak much on their future potential until it has reached a revenue stage.

**Nikhil Bhargav:** Thank you Sir. That is all from my side and all the best.

**Moderator:** Thank you. The next question is from the line of Imran Khan from RatnaTraya Capital. Please go ahead.

**Imran Khan:** Thanks for the opportunity. First of all congratulations on the great set of numbers. I have couple of questions on the hospital business, can you tells us what percentage of the hospital business was non-cash in the H1 FY2019 and FY2018?

**M.V. Srinivasa Rao:** The non-cash component is just about around 20-25% or so, which primarily comes in from the Aarogyasri, the BSNL, the corporates and customers like that, otherwise the remaining 75% to 80% is the cash cum TPI related business.

**Imran Khan:** And how do you see this going forward?



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**M.V. Srinivasa Rao:** We would want to actually have a tab on the Aarogyasri related and the corporate related cases coming in because though they give us the footfalls, it takes a little while to collect the money and in the case of Aarogyasri the rates are also not as encouraging, so we would not want this percentage to really go up, so we are careful while admitting the patients. We would retain that around 20% - 25%, and we do not see that going up.

**Vishal Ranjan:** I will just clarify in terms of operationally how we see these segments. Obviously there is cash paying patient coming in paying by the cash or the credit card, there are insurance patients, which again continue to be private guys then there are corporate guys the likes of Wipro or the likes of BHEL or the likes of NTPC and then you have the Aarogyasri or the government schemes. From our perspective the first two segments continues to be our primary focus as we just mentioned it would still be around 70% - 75% footfall in the volume of the patients and that also goes with positioning and the location of the hospital. The corporate customers, which I say the bulk customers from NTPC or the ESIs of the world, while they help us fill beds, they help us occupancy. The margins I would not say are too bad. Margins are still good. The receivable cycle on that becomes a problem, sometimes it goes to 60, in government programs can go even to 90, 95 days, so that is something that we are looking to check at this point, if you see in the last six months, a lot of our focus has been to improve our receivables largely from our healthcare business because that is something which you can go and chase volumes and then you may get stuck in a working capital situation, so I think that it getting stabilized, but I do not think even in the end state the corporate and the government program should ever increase more than 25% to 30% despite Ayushman Bharat etc.

**Imran Khan:** Okay, great. The next question is on the employee cost, if you can tell us what percentage of the employee cost was on account of hospital business in H1 and FY2018?

**Vishal Ranjan:** If you look into the consolidated numbers there are two overheads in which the employee costs have gone, in the previous question I just explained, so the Rs.31 Crores that you see is an employee cost mostly on the IT business and the non-doctor costs of the hospital business, so there are marketing guys, there are reception people, there are nurses etc. That doctor cost and a bit of US based employee cost because of again some tax reasons are appearing in the administration cost that you see in our cost structure, so there is a Rs.31 Crores employee cost and there is Rs.34 Crores administration cost, so these are the two places where the cost of the salaries have been split, so if I have to answer in one line in terms of day-to-day operational businesses that we are seeing, the Rs.31 Crores is an accurate reflection of our IT business as well as the non-doctor healthcare business. The large part of the doctor cost I mentioned I think around Rs.8 Crores for the last quarter is attributable to the doctor cost.



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- Imran Khan:** Thanks. I will come in line if I have some more questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Hardik Solanki from Money Bee. Please go ahead.
- Hardik Solanki:** Good afternoon Sir. Sir my question is on the VCard, which we are planning to launch, so I just want to understand how this card would be different from the Amazon Credit Card, even they are doing, they are coming up with similar change and in fact they have come in big billion sale?
- Vishal Ranjan:** Yes Hardik, like all of us are aware that in the Fintech space there are new and innovative products coming regularly. Amazon, some part of what Flipkart is looking to do, in fact the easier and better parallel would be what we see in Bajaj Finserv, these are typically merchant locked solutions, so what you are using here is there is a line of credit available and then you can use it at certain set of merchants. In what we are doing, a lot of regulatory questions are coming, what is being compared to a Master or Visa Card. A Master Visa Card does not lock into a merchant, it is something that you should be paying anywhere and to anyone and since we have chosen the UPI route, as we speak there are around 6.5 Crores UPI receivers or VPAs in India compared to around 20 lakhs merchants, which receive Master or a Visa Card, so I am just leaving that context. The scale of acceptance network is the first piece where it will differentiate against the likes of Amazon or any specific merchant programs. Second since this is a credit card, based primarily on the mobile phone, in fact the plastic card comes as an add on if you want, but it is a mobile first credit card, so the intent here is not to send you a plastic card that you again have to do the same thing what you are doing with your ICICI or a Citibank Card, here the intent is a personalization knowing you better, giving you more offers, just think of what are the multiple ways the mobile app can be different than a plastic in your pocket, which does not know the customer does not have a personalization component. I would hold on that discussion for a subsequent detailed docket as we have spoken shortly where how we compare with each and every different players in the market, but to be summarizing our conversation at this point of time while we have been working on this for almost a year now we have not yet found a parallel product simply because of the complexity that is involved in terms of regulation, in terms of technology that is needed to be done, so Amazon with due respect with a large brands like Amazon and Google we know what Google Pay is doing, it is more a debit card. VCard would possibly be more like a credit card in that space, I think that would be the equivalent that I would leave on rather than comparing each player at this stage of our discussion.

**Hardik Solanki:** Second question on hospital side, so just want to understand how much more capex would be required or our internal capex would be done and what debt we will be looking forward and would our internal accruals would be sufficient for, going for the capex then which we are under process?

**Vishal Ranjan:** Actually I am happy to give two perspectives to that, first an easy answer where are we right now in terms of capex obviously the Rs.35 Crores of Edelweiss was raised for this expansion and at this point of time whatever is the financial closure that is needed for this capacity expansion we are on track, I do not think we need to raise any further debt, most of it would be done through our own internal accruals and as you see in the last half year period we have already seen around Rs.47 Crores of fixed assets increase, which is done mostly through our internal accruals and a bit of debt, but before that I would also like to give a healthcare capacity expansion perspective, I would like to assert we are well passed the initial risky phase of investments and are about to see the returns, so we are seeing it on a day-on-day basis as an operating growth, so we saw economy bed seeing a capacity constraint, so we are adding economy block. As of now our cancer program does not see a huge amount of capacity block, it was growing well, but if it takes three months, if it takes nine months be it so, but depending on how the market gives us the customer mix, and capacity growth we will invest into the expansion. The overall capacity of 600 bed in Banjara Hills is known, is committed we have gone ahead on our records to say this is the total project cost and we have done the financial closure for that expansion, but the exact dates on that expansion would depend on the operating performance rather than going ahead and spending the money on the first cut.

**Hardik Solanki:** Okay, sure. Thank you.

**Moderator:** Thank you. The next question is from the line of Rohan Shah from Harsh Capital. Please go ahead.

**Rohan Shah:** Thank you for giving me the opportunity. Sir I had a couple of question, so my first question with relating to the healthcare division as we have observed with our flagship hospital in Banjara Hills has been reporting improvements, with utilization now at 30%, so I just wanted to know that how much utilization could we expect for the end of FY2019?

**M.V. Srinivasa Rao:** By the time we reach the end of the next two quarters, the capacity utilization should be more than 35%, right now we are at around 105- 106 bed occupancy and that should be going up to about 120- 125 in the next 2 - 3 month's timeframe, so the utilization by the end of the year should be upwards of 35%, 36%.



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- Rohan Shah:** Can you also guide for FY2020 what could be the expected?
- M.V. Srinivasa Rao:** Based on our internal projections for FY2020 we are looking at upwards of 45% utilization.
- Rohan Shah:** My next question is related to the IT products. I just wanted to know that what would be the revenue contribution from Advance America contract in this Q2 FY2019?
- Vishal Ranjan:** As we mentioned the new contract with Advance America should increase our revenue for this consolidated year by around Rs.20 Crores and it is a five-year contract, so that Rs.20 Crores could be clearly extrapolated year-on-year for the next five years. The more important part of this Rs.20 Crores of incremental revenue is largely because of new license sale and not in terms of new projects to be delivered complex and all, so other than our hardware cost mostly these are EBITDA accretive and we have mentioned a Rs.20 Crores increase in revenue because of Advance America, corresponds to around Rs.15 Crores EBITDA increase, take into account some tax and all, so may be Rs.10 Crores of PAT impact.
- Rohan Shah:** Okay, Sir, understood and my last question is related to the IT services, Sir I just wanted to know that have we benefited due to the currency benefits in this quarter?
- M.V. Srinivasa Rao:** We are maintaining what we have done in the past, so we hedged roughly about 30% because in any case the rupee dollar exchange rate is favourable, so 30% is what we have been hedging and we continue to do that.
- Rohan Shah:** Okay. Thank you so much Sir. That is it from my side.
- Moderator:** Thank you. Next question is from the line of Kalpesh Gothi from Valentis Advisors. Please go ahead.
- Kalpesh Gothi:** Good afternoon Vishal. Wish you and your team very Happy Diwali and New Year. Vishal my question is related to IT services, where do you see our IT services in terms of growth and in terms of new avenue we are looking for the next three years?
- Vishal Ranjan:** Fair question Kalpesh and this is the question that we continue to answer for us depending on the IT services involvement in the US we believe that the end stage for KSoft would continue to be on high end technology products as well as services around those products, so the kind of things we have invested in terms of mobility or in particular analytics and cloud part of it, I think that is what we have continued to keep doing. Even if my scale comes down those revenue quality will be higher, the value addition will be higher, the billing rates will be higher, to give an example, if I have to do a standard SAP or a Java



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project onsite they are still at in fact with the scarcity of the resources even I am doing a \$70 or \$80 billing per hour, the margins might not be very good because the cost of the recruitment in the US becomes higher, but I have to do that with the Indian capability and higher billing rates these kind of projects can easily sell for \$150, \$160 in the US for mobility or on the enterprise mobility setup, so to answer your question we think we will continue to chase higher billing rates, higher value addition and a kind of sustained advantage with this customers rather than doing standard human count kind of work there, so the revenues as we are seeing possibly in the last couple of quarters there have been an up and down, but the EBIT is something that we have seen an improvement and in the next three years we should see a significant improvement because of the uptick of these services, the market is responding very well to these skill sets in terms of AI in particular in terms of NLP on the machine learning things that we are doing, there is a huge, huge requirement coming from the market, from the customer, they are asking for reference check, our own technology solutions in terms of Fintech and healthcare has given us good standing in the market, so there is no point going and selling Java and .Net resource kind of a work, when I can sell machine learning, I can sell the advanced solutions, so as the market takes up we will keep investing into these high end services and that also allows us to compete with big guys. If I were to do a machine learning project, if I do a cyber security project I can go and say I am as good as any of the bigger guys, but in terms of routine run of the mill solutions I do not think that is the best strategy for a smaller segment player like us.

**Kalpesh Gothi:**

So as you said we are more focusing on the EBITDA margins, so can you give some data on what is the average revenue per employee in the service business, what is the growth rate?

**Vishal Ranjan:**

There are two answers to that, as I mentioned in the previous question also, there are onsite resources, there are offshore resources and this is built typically on the kind of projects that we do and onsite resource average we could be possibly talking about \$65 to \$70 billing, so that is something, which we are looking to improve as we move forward \$70 per hour is the billing that we see. Offshore depending on the kind of projects we are doing, we have seen billing as high as \$40. The lowest we would have done is around \$25 to \$28 per hour. These are typically higher rates. If I have to say an offshore rate for a large IT company could also go down as low as \$12, \$13, so we do not want to compete in that space.

**Kalpesh Gothi:**

So what is the scope of the EBITDA increment in service business?

**Vishal Ranjan:**

As I said it will come on a slightly lower base, we will not be possibly seeing a large contracts of \$5 million, \$10 million, we would still see those \$200,000 to \$500,000 project





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more, but on those \$500,000 we will ensure that the EBITDA margin is healthy, it is in line with the rest of our businesses.

**Kalpesh Gothi:** Okay, so typically in this service business we can grow 15% CAGR?

**Vishal Ranjan:** Over a three year period yes that would be a reasonable estimation.

**Kalpesh Gothi:** In terms of EBITDA?

**M.V. Srinivasa Rao:** We are trying to reduce the number of projects that we are doing on the regular technologies and move into mobility, analytics, machine learning which will yield better EBITDA margins

**Kalpesh Gothi:** I agree, that is why I am talking about what is the EBITDA growth we are seeing?

**M.V. Srinivasa Rao:** On the mobility side the charge out rates are better and the projects get turned over faster, so we do not end up spending six months to eight months in a single project, so you actually churn them out much faster, so to that extent it is like inventory rotation, rotation of my employees is also much faster, so that is the reason the margins are much better with projects like these.

**Kalpesh Gothi:** Okay and Vishal give some idea about VCard as well as the steps is the project is stuck?

**Vishal Ranjan:** In fact, I think I mentioned in the previous call that right now the product is on Playstore and is available on invitation only, if you insist I can send you an invitation code, but the intent here is that we do not want to do a pan India launch on a product, which has too many open ends and there were components of eKYC the regulations has changed because of the RBI as well as Supreme Court order, in particular because we are challenging the way, the Master and the Visa's of the world have set the rule, so some of our new age banks that we are working with they want to be doubly sure, so I would say it is more of a procedural problem rather than the product problem. Unfortunate part of this kind of relationship is that we are dependent on banking and NBFC partners and it is a choice of business strategy, there would be people who would say that why don't you become an NBFC yourself or you let the banks do it, different people, different reasons, but I think there is a core skill set and the strength that these banking and NBFC partners bring in, but because it is a partnership we are limited by their pace of moving things and in particular these are also I would not say shocked and surprised, we are also a bit hamstrung with their own IT capabilities, you would be surprised the number of new product IT developer teams are there even in the large banks, so that is one of the thing that was getting stuck here, but



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we have to move forward and I would not say that all the road blocks have been cleared or so, but they are moving out fairly well and I do not think we are discussing if this is not moving what to do next is not what we are talking at all, but it takes the time and because there are externalities involved, you would understand why we cannot give a deadline or timeline on this.

**Kalpesh Gothi:** So when this gone online for invite only?

**Vishal Ranjan:** This happened around two months back.

**Kalpesh Gothi:** How were the response and any difficulty we faced?

**Vishal Ranjan:** That invite only is on the POC model, so it is a proof of concept. The people that got invite are the people who reached out to us through either Facebook or our direct network and by and large there are no bugs for sure, what we are getting were more feedback on the comments on the features and because this UPI part is still something, which we have not rolled out on the POC part, so that is another piece with which we would like to wait on the pan India launch, but by and large we have got a very good positive response.

**Kalpesh Gothi:** Sir what is the total number of downloads we have or active users?

**Vishal Ranjan:** This invitation only does not happens only on the Playstore, we do it through a direct links, so that is what I am trying to say it is available on the Playstore, as of now it is being done on a POC for around 200, 250 people.

**Kalpesh Gothi:** Okay and probably do we see if it goes online for all in the next three months?

**Vishal Ranjan:** I would like to hold on to that discussion for sometime.

**Kalpesh Gothi:** Okay, so it is for launching we have to do KYC via Playstore right?

**Vishal Ranjan:** Yes, so once it is launched for everybody it will only and only be through Playstore, so the product will be that you download the App you will possibly have your Aadhaar or PAN card and by which you will be getting your KYC done. Let us hold on to that product functionality how does the product compete with others all of that, once we have a date and revenue stream starting on that.

**Kalpesh Gothi:** On your hospital business, what is the current utilization as on yesterday for the Banjara Hills facility?



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- Vishal Ranjan:** Hitting 100 beds and above, so that would be around 30%, 31% for sure.
- Kalpesh Gothi:** So can we reach 33% by the end of March?
- M.V. Srinivasa Rao:** By end of March 2019 we would be at least around 34%, 35%.
- Kalpesh Gothi:** Okay, so we are in line with the expectation now?
- M.V. Srinivasa Rao:** Yes.
- Kalpesh Gothi:** So it is because of we hiring doctors that help us to achieve a very sharp jump in utilization in particular Q2?
- Vishal Ranjan:** It is a combination of things. The last financial year went around more to stabilize our operations, ensure that the patient get what we promise, branding and etc., this was the year when we knew that we have a very strong platform though business risks around you know project starts etc., those were pretty much settled and then we started chasing how fast we can get to PBT positive as a break even part of it, so for that we have told earlier also that 32%, 33% occupancy give us that confidence that we can do it, now what comes first whether you do marketing first, whether you do an operational processes first, you get more doctors first, it is not how we do that, we have to do all of them pretty much simultaneously, so our marketing efforts have gone up, we have hired a couple of more smart IIT IIM guys who are driving that part of activities, we have hired some very, very good doctors who have come together and are reaching out into the market and there is a good word of mouth that has gone over for the last year now and I think it is a combination of factors and that inflection point was something that we knew would come, but that has six months lag, so that is what January to June went around setting those things, the results of which you are seeing in the September, October months now.
- Moderator:** Thank you. The next question is from the line of Rudhir Barma from KSA Securities. Please go ahead.
- Rudhir Barma:** Good afternoon. I had a few questions now. Regarding Advance America, how much of the Rs.20 Crores revenue, have we already booked in H1?
- M.V. Srinivasa Rao:** Roughly Rs.9 Crores.
- Rudhir Barma:** Okay, fine, also could you give the occupancy and ARPOB for the 140 and 60 bed hospitals for the H1?



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- M.V. Srinivasa Rao:** The 60 bed occupancy is around 80% and the 140 bed facility occupancy is around 40%.
- Rudhir Barma:** Okay and ARPOBs?
- M.V. Srinivasa Rao:** ARPOB for the 60 bed is around 15,000 and for the 150 bed it is around 8000.
- Rudhir Barma:** Also this quarter we had slightly lower tax component, could you explain why that was?
- M.V. Srinivasa Rao:** This time we have had the deferred tax coming in on account of the tax netasset being a little higher, this is a sort of one time thing for this quarter and the next quarter and for the year 2019 the deferred taxes would not be as high.
- Rudhir Barma:** Okay, fine, all right. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Hemish Shah who is an Individual Investor. Please go ahead.
- Hemish Shah:** Good morning Sir. I just want an outlook on the US business, are we generating enough cash flows in that business and where is that cash flow been utilized, is it been utilized in the hospital business?
- Vishal Ranjan:** Hemish, I will answer for the US business in terms of the two verticals that we typically reported the IT product business largely Qfund and IT services business, which is KSoft. The IT product business has continued to grow fast both in terms of revenue as well as on the EBITDA margins and with the impetus that we found with the new contract which I talked about Advance America, which will give us incremental revenue of around Rs.20 Crores this year, so I think the IT product business should be doing well for the foreseeable few quarters as we move forward.
- IT services business had seen some headwinds in terms of the run of the mill business. If you are talking about the standard Java and the SAP part of it we have seen margin pressures from multiple customers, but the kind of investments that we are doing in terms of high technology solutions in particular around cloud solution, mobility and analytics AI machine learning etc., so those pieces have shown a good growth, new customer coming in, existing customer expanding their project scope, repeat customers expanding from three month projects to one year, two year project, so all of those things are happening very well and we intend to shuffle our portfolio to those high technology solutions rather than leaving on a number of headcount into billing rate kind of project, so these two together have generated impressive EBITDA as well as EBIT on quarter-on-quarter basis if you see last six quarters you would see a clear upward trends and while this question of where is the



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cash going on was much more pertinent I would say 2- 2.5 years back when lot of this cash being generated was helping us complete the healthcare diversification, obviously the project investment etc., where we are right now I would say this half yearly period last two years, the cash generated around Rs.27 Crores, Rs.28 Crores of PAT plus whatever we are seeing in terms of the small incremental debt, that went into capacity addition, so we increased our fixed assets in terms of plants, machineries, not only just in healthcare, but also our IT business, we added around 125-seater facilities across two locations, one in Hakimpet, one in the city centre, so those fixed asset growth was seen around Rs.47 Crores, so Rs.27 Crores plus of PAT Rs.15 Crores was our debt. Going forward we would possibly see that even the healthcare business would also generate its own cash, we are intending it to be PBT positive by this financial year. While the IT business will continue to generate the cash that we have seen. Now where will this cash get invested and how it will be deployed, largely it will be towards the growth part of it, we would be largely seeing either in terms of capacity expansion or in the new project that Kalpesh in the previous discussion is talking about, but at this point of time what we have focused on is to ensure all the three verticals are breaking even and are generating cash by this financial year.

**Hemish Shah:**

How are we look in at the IT business in the foreseeable future for let us say like 2, 3, 4 years, what the plans for IT business because the hospital business is doing well we are investing there, but what are looking at IT business, will it remain stagnant are we investing in it too?

**Vishal Ranjan:**

Fantastic question, I said it is a kind of investor PPT earlier, but I will just cover two to three key drivers of the US business growth. The bulwark of the growth would continue through our IT product primarily Qfund, we continue to be a very strong market leader the second largest guys hardly, it is not even Indian players, it is more of a 30%, 35% of our size and we continue to have deep relationship with the top 10, top 12 players in the industry, so by doing that we think that QFund is at least for the next three to five years should be maintaining where it is in terms of revenue growth and cash flow and we will continue to add new clients. The pipeline looks very good. We have added one large client pretty much every year and this industry because of the B2B business that we are seeing we will not be adding like large clients every quarter, but there is a pipeline of a few large customers, so that growth that we have seen in the last two, three years in QFund should continue. The unfortunate part of the QFund business is, it is a niche industry, so you will never expect that Rs.150 Crores revenue momentum going to Rs.5000 Crores of QFund, but Rs.150 to Rs.200 Crores of QFund is pretty much visible in the next few years. The more important from Rs.150 to Rs.200 Crores story is also in terms of adjacent product, so the VCard product that we are doing in India as well as the Payez product in the US, which again we are seeing a fair amount of momentum are additional product built around our



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core Fintech capability that we have grown over the last 8, 10 years and we know we have disbursed loans to close to 25 million individuals, so that is larger than all credit cards combined in India at this stage, so that is the number of individual loans if you are talking about it gives us an ability to diversify around QFund either on a same product, new geography or similar product in the existing geography, so that is our IT product strategy.

We think the Rs.200 Crores kind of a portfolio on QFund with additional revenue streams on adjacent product is how the IT product business will grow. IT services in the US as I mentioned in the previous discussion is something we are more focused on value creation in terms of EBITDA, in terms of margins rather than again chasing a Rs.500 Crores or Rs.1000 Crores kind of a volumes in terms of IT services, it will not become a large piece of cake except for some inorganic growth if at all we do, but at this stage we will continue to invest into IT services, so far it is giving us good margin and that IT services will help us, expand our US Fintech business, our India Fintech business and India healthcare business, so that IT DNA will continue to be with the business as we go forward.

**Moderator:** Thank you. The next question is from the line of Santosh Reddy who is an Individual Investor. Please go ahead.

**Santosh Reddy:** Sir in next quarter what is the amount of foreign exchange benefit?

**M.V. Srinivasa Rao:** You were asking for foreign exchange benefit?

**Santosh Reddy:** Yes Sir.

**M.V. Srinivasa Rao:** Like we have told you a while ago 30% is hedged and the rupee I am sure is not going to fall much further, so it is going to be around the 71, 72, so we would not really expect too much of a volatility there. Compared to the last year I think the movement has been more than Rs.4 or Rs.5, so that is the amount that is getting in, in terms of the foreign exchange fluctuation benefit per dollar revenue.

**Santosh Reddy:** Okay, Sir in Hakimpet, what is the market value of the land, is there any vacant land?

**M.V. Srinivasa Rao:** We have 11 acres of land in Hakimpet of which we have used just about 2 acres, so there is a good 9 acres of land, which is un-utilized and the land value if you ask us is probably something that we are not really looking at because we are not in the business of selling of the excess land. The land is there primarily for the purpose of further expansions and things like that, so we are not really monitoring the market value of land, but if you are really



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interested in knowing the value of the assets in the books of the company then we are looking at, at least about this land being worth close to Rs.20 Crores.

**Santosh Reddy:** Okay, that is a cost of land, not the market value?

**M.V. Srinivasa Rao:** No that is the market value of land.

**Santosh Reddy:** Okay, Sir is company having any policy for recruiting employees from campus?

**M.V. Srinivasa Rao:** We had a policy on recruiting candidates from the campuses. We have not followed it up as much, but right now we are again starting the process of going in into campuses because on the IT side we are revisiting on that and restarting it. In case of healthcare on the paramedical staff we have already started. This year we have gone to some campuses to recruit the nursing staff.

**Santosh Reddy:** No I am talking about IT employe's lower level, not?

**M.V. Srinivasa Rao:** Like I mentioned, we stopped it in the middle because we had gone into newer technologies and we cannot recruit candidates from the campuses with exposure to newer technologies, you will have to recruit at the lateral level and having now got the senior guys, we are trying to now go to the campus for junior candidates.

**Santosh Reddy:** Thank you.

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

**Vishal Ranjan:** Thanks a lot for your time today and I am glad that we were able to touch upon multiple financial as well as strategic initiatives within the firm and to conclude I believe whatever the operating metrics that we have seen in terms of the momentum that we have maintained, I would say quite a few 8 to 10 quarters we have been on a good trajectory and the investments that we have done to improve our bottom line and our revenues, both of them have started showing good results.

I would also like to touch upon those investments that are in the pipeline, which helps us move from this existing orbit to the next orbit, but the next growth where it will come from is a second discussion. Even our current growth of 20% year-on-year with a good improvement on margin on year-on-year basis, I think that is something which we should be able to sustain fairly well and we would definitely get back in the next quarter with even better results.



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Thanks a lot for your time. MVS and me would be available for direct questions or reach out through SGA our IR agency for any further discussions. Thanks a lot.

**Moderator:**

Thank you very much members of the management. Ladies and gentlemen on behalf of Virinchi Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.