

Date: 3<sup>rd</sup> May, 2018

The Deputy Manager  
Dept. of Corporate Services,  
BSE Limited  
P J Towers, Dalal Street,  
Fort, MUMBAI – 400001

Dear Sir

Sub: Transcript of Virinchi Ltd Business Update Conference Call-Reg.

Ref: Scrip Code# 532372

With reference to the above subject, please find enclosed herewith the transcript of Virinchi Ltd Business update Conference call held on 25<sup>th</sup> April, 2018.

This is for your information and records

Thanking You,

Yours Truly,  
For Virinchi Ltd



K. Ravindranath Tagore  
Company Secretary  
M. No: A18894



“Virinchi Limited Update Conference Call on QFund Business in USA”

**April 25, 2018**



**VIRINCHI MANAGEMENT:**

- **MRS. SANTI PRIYA - EXECUTIVE DIRECTOR & CFO, VIRINCHI LIMITED**
- **MR. VISHAL RANJAN - GROUP HEAD, VIRINCHI LIMITED**
- **MR. MVS RAO -PRESIDENT, VIRINCHI LIMITED**
- **MR. RAVINDRANATH TAGORE KOLLI - COMPANY SECRETARY, VIRINCHI LIMITED**



*Virinchi Limited  
April 25, 2018*

**Moderator:** Ladies and Gentlemen, Good day, and Welcome to Virinchi Limited Update Call on the Q1 Business in the USA. 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 the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. we are now glad to hand the conference over to Mr. Vishal Ranjan – Group Head, New Businesses. Thank you and over to you, sir.

**Vishal Ranjan:** Thanks a lot. Very good afternoon, everybody. My name is Vishal Ranjan, we head all new businesses at Virinchi. we are joined today with Mr. MVS Rao – our Group President; Mrs. Santi Priya – who is our group CFO; and Mr. Ravindranath Tagore Kolli – who is our Company Secretary. we apologize at the onset on behalf of Mr. Satyajeet Prasad who happens to be travelling right now on the east coast and could not make up for the call.

While we have to speak specifically on QFund as a business but to set the context to our first interaction, we will just take a minute to explain our philosophy and business ethos before we go for the updates on QFund. Virinchi for us is essentially a technology company, that is something which we have been dealing for last 25 years plus. We have been publicly listed in 2001 and since then we have been building products and technology solutions which are primarily IT backed, achieved scale across US as well as European market. At a macro level what we are trying to offer are IT product and solutions for the developed markets like the US, and business solutions which are essentially technology backed and that is how we stepped into healthcare in the last three to four years. You would have observed over the last two to three years the significant diversification that we have made into healthcare which now constitutes the second vertical at Virinchi, first being fin-tech which we will be speaking on today and the other being the healthcare vertical, both of them essentially powered by our IT knowhow.

The focus of our call today is in particular on our product, QFund QFund is a global market leader offering loan management systems to micro-credit lending industries in US. We work with the top-12 of the top-20 players in the industry. And micro-credit in the US is called Payday Loan Industry which caters primarily to close to 60 million sub-prime clients for the US, of which around 25 million have

taken a loan from QFund at some point in time. we will possibly leave this number for us to say that at least 25 of the 60 million that we are talking about have gone through our product at some point of time. Every year this industry sees USD 12 billion of loans which typically has grown at the CAGR of 7-8%.

While that gives a macro picture of the industry we think one has to go deeper into what the industry is, what the Payday loan does and where essentially QFund comes in? So, in a macro way , Payday Loan caters to sub-prime customers who have pretty much exhausted their credit options, their credit cards or options of loans from friends & family. Say, on 20th of the month they take a \$500 loan from a near-by store to celebrate Christmas on 25th. And these are typically neighborhood stores what you possibly see in a mall. Typically a walk in store is equivalent of Western Union outlet or what we see in India, Airtel sim card shop. And now this industry has moved into online mode, but the value proposition still stays the same, that it is a completely unsecured loan to a borrower who might have a FICO score of 400-500 or even less, which is CIBIL equivalent in the USA.

All conventional banking products and conventional loan products are not available to this customer, The person typically comes is with a SSN which is equivalent of Aadhar Card, or he may just have a driving license and he walks to a store or may apply online and say, wants a \$500 loan.

Qfund does not carry the loan book, we work with multiple large NBFCs and for them we run the loan management system beginning to end. And in these cases, we do the underwriting as the FICO score for these people would any way be low. We hit the bank account, look at cash inflows that they have and in the US, some people get their salary biweekly instead of Monthly. We check last 12 months cash flows. Based on that we get some understanding of the financial strength of the person. Thereafter we look into his address and figure out the kind of zip code he is staying, how long he has been staying, how long is the lease agreement and so on so forth to identify people with high risk. We also look into his utility payments, whether he has been paying electricity bills on time. For e.g., if in the middle of winter the person has not bothered to pay his gas bills, then this would be a person with very low creditworthiness. If a person is interested in taking a loan against his vehicle (Title Loan), Qfund by virtue of its integration with a database called Black book, we can figure out if the insurance of the vehicle is live, if EMI on the vehicle is being paid on time, and if there is a ticket issued for speeding, if the amount has been paid etc. Qfund™ is integrated with close to 30- 35 different data sources in the US. In a few seconds we have to give a decision - yes or no pretty much in real time. This is the case even in a store-front model where a customer at the counter, has to give a yes or no decision in real time.

And at that point of time the decision could be that this customer is not good for a \$1000 loan, but good for may be a maximum of \$500 or \$600 or \$800 loan. And what is more interesting is the APR (the interest rate) that is associated with him. A customer who has taken a \$500 loan, is charged \$30 - \$40 of admin fee upfront and then say he will be paying \$540 on the first of the next month, so net-net a charge of \$50 - \$60 kind of a cost but because it is only a 15 day or maximum 30-day period and hence the APR works out to 300% - 350%. Needless to say, defaults are also high.

Since, we have interreacted and under-written 20 to 25 million individual sub-prime customers, we have created a huge amount of learning and all of this data goes into machine learning tool by which we can say with 90% confidence whether a customer is able to pay back his \$500 or \$700 due or not. And that is a huge amount of Intellectual property that we carry. We had a discussion with the IT in-charge of a large financial services company and our pitch was, how do you give a loan to a customer who has had a 500 FICO or less. Perhaps other than us nobody else has this kind of data. So if somebody has to build a product and try to cater to this segment, it is extremely difficult. Without this vast data nobody can possible tell what parameters to look at and how to possibly underwrite and price that risk.

This kind of continuous learning the last 10, 12 years has helped in forging huge amount of stickiness to our customer. The stickiness is not just because of our knowledge and intellectual property, but also because, it is a mission critical system that runs the business of the client. The product takes care of everything from loan processing to collections and not just underwriting. If a customer wants to make a pre-payment, wants to do a refinance - the product handles all of this. In the worst case scenario, where a loan is written-off, the loan, can be sold at \$0.05 a dollar or may be \$0.10 a dollar. Integrations are done to handle auctioning of loans as well.

For the NBFCs who are using Qfund, we are the ERP for them. You cannot change your ERP overnight. And in fact, there are instances where a couple of customers at certain stage tried getting an external vendor or possibly tried to do in-house. The whole complexity of this kind of business is such that either we have to be agile and cost effective or you will not be able to meet the challenges of this industry.

Staying on the industry, as you might have imagined because we are talking about 300%, 350% kind of APR, it attracts a huge amount of regulatory oversight. When we say regulatory oversight right from local laws to the state laws to the federal laws there is a CFPB which is a customer protection board, all of these customers keep making multiple rules which the vendors have to comply. In that kind of scenario what happens is suddenly there might be a lobbyist or a senator who will make a long

statement saying that this is a predatory lending and it is not good for customer and so and so forth, or you cannot give more than two loans to the same customer in six months. Now, the moment these kind of changes happen all our customers are impacted, we get a service income, we get a customization service income and we make those changes, thereupon nobody gets more than two loans in a six months period. And almost every single loan has to be reported to the stores like 18 to 20 agencies on a daily, weekly and quarterly basis.

Satyajeet - our CEO, based in the US, is an industry thought leader who spoke in the forum earlier last week and he was explaining what the kind of data we have collected, with the customer behavior we are seeing and what kind of industry initiatives we have to take. So with that kind of leadership position we will be seeing close to 20% - 25% of all loans will go through QFund, so you have pretty much control in the industry. The next competition which we talk about is hardly at 40% of our size compared to our 400-people team, they have 30-35 team based out of west coast and hence are not in a position to scale up to sudden industry demands.

Now, sitting in the US with US cost to deliver it is hardly economical for them to compete for our customers, because there is so much of flux and so much of fluidity that is there, you need to have the ability to deliver those customer changes, ability to be agile and anticipate industry regulations and to deliver at India cost, that is something which you would not expect from a US based company. One of our very old clients actually gave a contract to a large Indian IT vendor to develop business Dashboard kind of work and unlike service industry where you need a written SRS and written requirement document which takes six months to do and in the mean time requirements change and this happened so many times that the project was abandoned and we eventually executed that project. So that is the kind of industry we are talking about, this is a kind of a very unique place where close to \$12 billion of loans going through our product, we are talking about a scenario where no serious competition exists and we are already now going deeper and deeper into our customer relationships. And this is something which has become solution critical and because we are already getting to the large lenders, even the smaller lenders are gravitating towards us. In this industry much of reporting is done in excel sheets by the 5- 10 stores player. The moment you grow from 10 to 15 or we are a 100 stores player it becomes so complex that you cannot run the store and they sell off to the bigger customer. So one of our large customers has grown through acquisitions and we have started with them probably when they had a single store which now has grown to second or third largest in our portfolio. So this is an industry which is consolidating. We are pretty much on the top of that industry curve and the technology curve and we intend or at least we are able to sustain that relationship.

In fact, that also explains Advance America's signing this agreement and we will give a bit of more context to that we are working around 1200 stores for Advance America for product on Payday loan. There are some adjacent products like a title loan which is essentially a second lending on your car. For example, a car is currently worth \$5000 and you have EMIs of \$3000 still outstanding, then \$2000 becomes the Auto Equity and so you might be able to give a \$600--\$800 loan on that. This is still a variant of the same short-term micro-loan but then with certain collateral. It is more complicated because you have to instantaneously find out about that registration number, find out the history of the vehicle or you find out the market value/ resale value so on so forth. . Now we got a 5 year contract which, as Satyajeet spoke in one of his interaction, translates to around Rs. 270-280 crores kind of fixed revenue over next 5 years with good amount frontloaded. This particular contract which we are seeing has 5 years tenure with a renewal clause. Those of you who possibly have our last year numbers handy might recall our product revenue last year was around Rs. 92 crores and for the last three quarters for FY 2018 we have already crossed Rs. 94-95 crores and if you just extrapolate it , that comes to around Rs. 125 or 126 crores on annual basis for FY2017-18. So this Rs. 125-126 crores annualized revenue should see Rs. 18 to 20 crores increase in the next 12 months and also for the subsequent 4 years.

For your understanding purpose , our revenues are typically linked to the volume of the business, which was growing at 7%-8% historically for the industry while the larger players are growing faster because of the consolidation in new geographies. That is number one. The second part which becomes more interesting is on the kind of service revenue that we get either through customization or implementation. So the moment you move from 1200 stores to 2000 stores you need to be in that geography, you need to do training, you need to do configuration, you do data migration so we earn a significant amount of revenue for implementation. And as the industry grows or these kind of changes come there will be continuous service income in terms of customization. While all those numbers are available and possibly have cherry on the cake we can keep talking about it. But our current understanding, the contracts that we have signed we are seeing those Rs. 18 to 20 crores of additional annual revenue pretty much visible in the next four quarters. What is also interesting is because these are numbers which are linked to our SaaS model, the incremental cost to deliver these kind of revenues is not much. We think of it like a Facebook where if another million customers come in there is a marginal hardware cost and that's the end of it. So for us this is hugely EBITDA accretive and this should add around Rs. 13 to 15 crores of EBITDA for this business as we move forward. Most of this EBITDA will translate to PBT as there is no incremental depreciation or interest cost. So net-net the Advance America contract should add in terms of Revenue, EBITDA as well as the PAT, a significant growth for the Virinchi overall number. What is also relevant from our perspective is that this is not the end of our business for advance America, there are adjacent revenue sources not only with the

customization but also in terms of products specially if we talk about one of the adjacent product that we are talking about what we call “Payez” which is a B2B product. Payez will serve the same target customers who are typically under served for retail credit and working with the same lenders on the backside. We try to tie up with the merchant and allow these loans to be originated at the merchant site. So that is one adjacent product which further increases our revenue and a similar product we are looking to roll out for India which we spoke briefly about earlier in our interactions called vCard, which is built on the platform of machine learning tools , managing multiple sources of underwriting, origination, customer service, collection and all of it. And that knowledge of financial technology allows us to build IT backed business solutions for markets outside US including India. Take a pause here and keep the room open for questions around QFund.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Lavesh Jain from Sushil Finance. Please go ahead.

**Lavesh Jain:** we just wanted to know that Virinchi is expanding into hospital business too, so is there any plan to demerge the hospital business or something for shareholders?

**Vishal Ranjan:** To be honest those options are definitely available to us and we are looking into but for the next 4 quarters we are not exploring that option seriously and we are intending that for two reasons while healthcare business or at least a big part of healthcare business looks visible as a standalone business, we see huge amount of synergies in the way we are conducting our healthcare business. So we will definitely encourage each one of you on the call to find opportunity to visit us in Hyderabad. But when we was talking about the brick and click business of it we think the patient experience that we are providing is not limited to just doing surgeries and out-patient but also a lot around technology experience right from the moment you walked into the doctors room, taking an appointment, the moment you walk out, possible you are seeing prescription on your mobile app, the medicines are already available as you walk in. And then further to democratize it the technology not just in our own hospitals but also into adjacent partner hospitals not only in Hyderabad but nearby through our mobility product called V23. So as of now the technology part of healthcare is included to our identity we do not see a strategic reason to keep them apart but yes from the investor community there is a question that very often comes in our discussion to demerge both of these businesses.. At this point of time the synergies are allowing us to grow fairly well.

**Moderator:** The next question is from the line of Rakesh Jain from Asit C Mehta. Please go ahead.



**Rakesh Jain:** we had two questions, the first one; so you said that you have about almost top 12 companies as a part of your clientele in the payday loans, so what percentage of their spending on payday loans like QFund like what is the wallet share of Virinchi in that like is there any other player beside us, what percentage are we getting from this top 12 clients?

**Vishal Ranjan:** For some clients, we are pretty much the only IT customer and some have their in-house IT team also. However, because these are NBFCs with a large loan book there major cost is around obviously around the cost of funds.

**Rakesh Jain:** You were saying something about the P&L thing, could you repeat that?

**Vishal Ranjan:** If you take any NBFC's P&L, the cost does not form a huge of cost of their P&L and since this line item is not too huge at the CFO level, they don't see a huge reason to either do it in-house or to keep cutting on the costs.

**Rakesh Jain:** What could be the reasons we mean there is no other player who is serving this industry which is growing at 7% to 8% CAGR and it is such a high demand where there are unsecured loans, where they do not have the conventional banking options. So, why there has been no serious player or competition for us? What are these reasons behind it?

**Vishal Ranjan:** we think it is a fantastic question. So, long-long ago when the US economy was growing there were typically neighborhood stores. So, we know you personally and hence we give you an unsecured loan. Now, since 2003-2004 the CFCB came in and this industry started seeing scale. So, the big customers are talking about growing fast, we think in the last 15-20 years and it will continue to grow because of the consolidation as you will expect in any industry. We are still 28,000 of Payday loan providers in the US. So when we talking about 12 of the top 20 organized customers there will be people with like 200-300 stores and above but they are still 19,000 odd which are possibly 2 stores, 3 stores customers- think of it exactly the mon 'n' pop shops that we can think in the US as an economy. So, now those customers are difficult to serve, difficult to find it and they were doing their life reasonably okay on the excel sheet of the world and minor variants of the excel sheet. Because of the regulatory oversight, their cost of doing business is high. So, while those small mom 'n' pop customers will continue to survive anybody who has grown to like 50-60 or maybe 100 stores, they find trouble in doing the reporting, meeting the regulations and so on and so forth. So they have to pick up a larger customer. Now, QFund while it becomes the larger customer they may typically take their own cycle time to change their business model or change come to our platform because it is like an ERP change. But what is good for us is the bigger customers are growing up and gobbling those

100 stores, 200 store customers per se. So, for us we do not need to do the sale at the retail level which is expensive to acquire and service as you would imagine. So, we are growing with the industry pretty much well in that fashion. For the large customers, why is a large IT company not to be seen? we would possibly say on the scale itself if you are talking about Rs. 150 crores-200 crores kind of a topline for QFund, any large IT company will probably take another 5 to 7 years with all its might to get that scale. So, we do not think they will spend that much of effort they will possibly go to Bank of America or a Wells Fargo and get those revenues and possibly change request. Now, what remains at the smaller customer either they are America based or the Indian smaller customers they cannot invest for 7-8 years to learn this product. So, we are pretty much in the correct industry for long enough and that is an entry barrier for a new customer.

**Rakesh Jain:** So, coming back to why geographically you have been only doing this we understand that US is a big market but the geographical diversification have not we looked it through this, US we have observed the crisis could have happened once and it may happen even in future there is uncertainty always. So, at the geographical diversification is the company looking at, at this point in time?

**Vishal Ranjan:** Actually, yes and we will put in kind of 2 contexts. One of our customers took us to UK. So, we had a fair amount of information on UK at some point time we would say around 4 years back. But then they were not able to scale up and the even the customer closed the operation in the UK . So for us the option to do business in UK is still available because we know that industry well. But it is also important to understand that whatever that 50 million people that we are taking about is pretty much the subprime population in the US. So far, the US still continue to be consumption economy means when they borrow today from the future this kind of industry will continue to happen. What you said is correct in 2008-2009 we had a kind of a windfall year for our customers because pretty much everybody was out of job and they had to pay their health bills or rent bills, etc. But even in the height of the US economy which now is recovering, we do not see a significant diminishing population or a demand on the Payday loan because that is something which is catering to as we said means the lowest income group of US this continue to exist for a long time for now.

**Rakesh Jain:** So sir, your revenue calculation which you mention that you have been using two methods - one is the number of loans and other is the number of stores. So, currently what is the volume are we doing in the Payday segment.

**Vishal Ranjan:** So at this point of time we are doing around a monthly 500,000 loans give or take 450,000 to 500,000 depending on what the season is. But with that 500,000 loans, it is going to be

significantly higher. We would not take any guess on the exact numbers until we have some data coming in.

**Rakesh Jain:** And what percentage do we typically take on this 500,000?

**Vishal Ranjan:** So, we mean we would also clarify because these are small ticket loans \$500, \$800 maximum \$1200 pay of loan, we do not link it to the value of the loan. Because if somebody has taken \$1200 loan and we want a certain large percentage of it, it becomes a problem for the customer to calculate. So, we pay typically number of loans rather than value of loan. Give or take this kind of relationships depending on what customer we are seeing. We are seeing anything between, we think the numbers be per loan for calculation is not the peak we are talking about because this is related to the kind of number store front and all. But you can possibly divide our 500,000 per month loans with the revenue we are seeing and that is momentum that you can calculate.

**Rakesh Jain:** Sir, since your revenue is completely concentrated outside India and what kind of hedging policy do you follow at this point in time?

**Vishal Ranjan:** So, while our huge amounts of revenues are in dollars we have taken suitable hedging that is as advised by our corporate finance. Because of the current exchange rates outlook not always it is profitable to carry a hedge part of it. So, we are taking a quarter-by-quarter view. But so far, we do not think we have had a major currency shock since the days of 45-50 and in fact it moves from 45 to 65 it was more of a pleasant surprise than a shock for us.

**Rakesh Jain:** My question was what percentage of our revenue do we keep it as hedge or is there any or we are completely exposed to the fluctuations?

**Vishal Ranjan:** We are looking around 30% of our revenue to be hedged at any point of time.

**Rakesh Jain:** 30% and the remaining we reviewed on a quarterly basis?

**Vishal Ranjan:** Yes.

**Rakesh Jain:** So, out of these top 12 companies which we have what percentage of market share do they control?

**Vishal Ranjan:** As we said on the organized player space these customers would be around 25% for sure and in fact we would say organized would typically say the top 50 customers those who file tax

returns and those kind of stuffs. We are talking about at least 25% of all Payday loan go through our product.

**Rakesh Jain:** And with this new order come in which you mentioned that will have every quarter about, we missed that number how much new incremental revenue would be added with this new order?

**Vishal Ranjan:** So, while there is a front-loading to it, cash flows are part but in the 5-6 quarter hereafter what we are expecting at least for this financial year looking in anything between Rs. 18 crores to 20 crores additional revenue coming in for the product business.

**Rakesh Jain:** And are you expecting any more deal closures in near-term similar to this?

**Vishal Ranjan:** There is a pipeline but as you would have imagined these are typically long sales cycles. For example, one of the large deals that we did before this, obviously this is bigger, was in 2017 February.

**Rakesh Jain:** And any new product which you are planning to launch in a similar fashion?

**Vishal Ranjan:** Yes, so as we mention there are adjacent products which are not necessarily B2B. So, in the US also we are looking to do a B2C product which is again targeted to the high risk subprime customers doing distress purchases. For example, if a walk-in customer in the US, suddenly goes to a dentist and gets a \$5,000 price for RCT which he does not have, he just walks away in the pain. So, there we have our product sitting in the Dentist shop, which can offer the customer \$5,000 or \$3,000 kind of financing which is needed at that point and for which our lender can charge the kind of interest rates that is commensurate to the risk. Idea is to reach out to similar kind of segment across from the same lenders and the customers combination that we are good at.

**Rakesh Jain:** So, you are right now doing about 30% of margins, so this could further improve on as and when we get the incremental business from the deals which we are closing now that is what you meant, right?

**Vishal Ranjan:** Yes, actually from this one which you are talking about whatever the numbers we are seeing on the new revenue they will not have a huge cost....

**Rakesh Jain:** And talking about the hospital business what utilizations are they operating at right now?

**Vishal Ranjan:** We will obviously be speaking in much more details on the hospitals once we have the audited number for the last quarter. But to give a range of the numbers we are right now already at 25% occupancy and in the last 3 cumulative quarters

**Rakesh Jain:** Sir, you mentioned that in the Healthcare you are planning to do some digital service in wherein you will have everything online, you collect data and you provide these analytical solutions and there are already few startups which are there, we mean you would be also knowing about them and they are also doing a similar sort of business, so are we changing the phase of the way this business is done in a profitable manner or are we competing with them in a similar fashion?

**Vishal Ranjan:** we think it is an excellent question, it also defines how we want to play in healthcare and just to give a context when we acquired our Healthcare IT business in 2012-2013 the intent was to build a brick-and-click model to Healthcare. Now we will take a moment to define what we are trying to do here, while large hospital chains in India continue to add capacities and do only physical hospitals. If we were to touch a billion patients, which is what we are looking to build businesses model on, we have to find a way to first reach a billion patients across the country. Now, the moment if you take click to the brick then these kind of scalabilities become available to you. Now, can just a click model deliver health care service? Our experience is that unless you build a business solution, where in the patient is actually treated, any click-only model will just remain a directory service.

Healthcare, which is essentially a “touch and feel” businesses cannot succeed without the Brick Model and Scale up cannot happen without the Click Model. Our take of the story is, if we were to give an example here of a different industry, like before Uber came and when you wanted a taxi to take you to the Airport, the only option you had to was to go to Justdial and you see in the directory and find a driver and get somebody to reach you. That was the solution. But with a Taxi aggregator what we have got is, on a click of a button, your problem of moving from one point to the other got solved. Our take here is that, if we are able to do Healthcare brick and click in mass manner which unlike Practo or other soft-only solutions which are there, we can deliver Healthcare to all on a scalable model. We can become an Uber that we have solved the problem. So, let us stay on this problem for a moment when we say that not only that the technology will allow you to find a doctor, make a payment, go to that clinic, which clinic already has your medical records, all your past history & lab reports. The doctor makes a prescription which again can be done in our product and that prescription can fly electronically to the nearby lab and pharmacy and the lab customer can send somebody to collect your samples. The pharmacy customer can process 10 medicines to you and the problem of outpatient care gets solved and the proof of the pudding is right now the work which we

are doing with Uttar Pradesh government, where last year their 4,000 physical hospitals saw 12, crores patient in a year. If you had solving this problem even for their top 800 district hospitals not the PHCs, district hospitals and CHCs that which is what we are right now rolling it out. We have to contract to roll it out for all those 4,000 hospitals. But even if we do for 800 hospitals we have a visibility to touch close to 6 crores patients in Uttar Pradesh alone. Now with that kind of a model, not only that we can manage their health record, we can do the cross-selling of all our Healthcare services and incidentally we may end up having a hospital in Uttar Pradesh, very good. Even if we do not have the Government hospital or the private hospitals can solve your problem. So you can find an ultrasound nearby. You can know the payment for the ultrasound and pay for an ultrasound and you can get the ultrasound done and the report stays with you forever. So that is the model we are chasing in healthcare. And government came up with Ayushman Program and it will chase close to half a billion kind of population, so that is the scale they are talking about.

**Moderator:** Thank you. The next question is from the line of Rudhir Barma from KSA Securities. Please go ahead.

**Rudhir Barma:** we want to understand something. When you spoke about the demerger concept earlier where people are recommending that you go for the demerger. What we understand is your IT business is throwing a free cash flows. So, would not the plan be more like to fund your healthcare expansion by using the cash flows from the IT business?

**Vishal Ranjan:** . The answer here is right now our healthcare business is already growing fairly well and because of our fixed cost structure we have already taken the funds that we needed from the IT business to do the CAPEX, etc., so we do not think our IT business to be subsidizing our healthcare business going forward. If anything, the kind of momentum we are seeing by this financial year, the healthcare business should be standing on its feet very well. But does it mean that we will use the same free cash flows from the hospital or from the IT to add new facility or new capacity, we actually do not have a very good answer there because right now for example we executed this project for like Rs. 40 lakhs a bed which is pretty much low for the industry standard. See, if we go out of Hyderabad and we want to expand, we may end up doing an Rs. 50 lakhs a bed. So if we are doing that obviously it would be a mix of a free cash flows plus new equity plus debt coming in. We do not think we will have that amount of free cash flows in the next 12 months - 24 months to finance the hospital completely from our hospital business so whether we get external equity, whether we raise it from the market, whether our IT business generated more cash, we have all the options available. But whatever will be the best value creation option there because debt is cheapest for me. This is obviously all of us

would like to have the correct amount of leverage that we can get so that the debt is cheapest but the option for equity or option for free cash flows are still available. But at this point of time at least for the next 12 months we are chasing to make the hospital standing well on its feet, generate a lot more EBITDA, generate a lot more cash which already paying the principal part of EMI very well. we think by end of this financial year we should definitely paying up by what is you call the book breakeven. Right now, our focus is to run the hospital business better.

**Rudhir Barma:** Got it. And regarding the balance 250 beds that are to made operational, what is the timeline on that?

**Vishal Ranjan:** Okay, at this point of time how we are seeing this expansion we have the 350 bed in Banjara Hills and 200 bed for other two facilities, are running and doing fairly well. Now, we are commissioning another 50 beds in this couple of months . We have a visibility of rolling out additional 100 beds, on a 60 days' notice, but now we are chasing occupancy. At this point of time because occupancy does not require us to do that expansion.

**Rudhir Barma:** Okay, fine. But what is the occupancy level right now at the Banjara Hills hospital?

**Vishal Ranjan:** Give or take 70 beds - 75 beds.

**Rudhir Barma:** Okay, fine. And what about the older hospitals over there?

**Vishal Ranjan:** At 50% occupancy they are reasonably stable. So there is a room for going up but we do not think it will dramatically increase in this next 12 months. The major capacity beds will come from Banjara Hills.

**Rudhir Barma:** Got it. And going forward what is the sort of revenue split that you see between your IT and your hospital business. What is the target that you have in mind?

**Vishal Ranjan:** Okay. As of now, at least for the last financial year reported the healthcare was only 53 crores out of Rs. 28 crore that skew will move even if we annualized the number where we are seeing that is already improving on the favor of healthcare. In the end state the way we are investing both in our technology as well as healthcare we would probably like to have a 50-50 ratio. But that is something which will always be a back and forth based on our expansions in each of these two verticals.

**Rudhir Barma:** Okay, fine. Got it. we mean, the idea the reason we asked coming back to the first question is that when you stated a target of getting to 5,000 beds in five years. To achieve that probably you will need to take all the significant amount of debt. That is why we was saying that whether you will subsidize using your It business or will you at some point look at the demerger and the hospital business have to fend for itself.

**Vishal Ranjan:** As we said at this stage while the options are available on the table, while demerger allows me that additional fund source. My current IT business at least ensures that we never have a distressed call. Options for external equity investments are not only available they are something which we have some here and there inquiries coming in on these in a while. All of this depends on the correct timing. If we want to do it tomorrow are we ready? Maybe not. What happens in the next 6 months to 12 months will also decide the pace in which we can expand to that 5,000 beds. And that 5,000 beds may not necessarily the Greenfield, could be Brownfield, could be acquisition. So all those strategic options would be available depending on how we perform over the next 12 months.

**Moderator:** Thank you. The next question is from the line of Varun Ghia from Equitree Capital. Please go ahead.

**Varun Ghia:** Yes, the Rs. 270 crores to Rs. 280 crores additional revenue, the revenue from Advance America from 2,000 stores, is it additional or is it total for 2,000 stores?

**Vishal Ranjan:** No, this contract that has been signed is valued at Rs. 275 crores - Rs. 280 crores over the next five years. So this is not the incremental number. The incremental number which we just spoken to you at least of this financial year looks in the range of 20 crores per year.

**Varun Ghia:** Okay. And EBITDA margins would be earned on that around 18% to 20% right?

**Vishal Ranjan:** As we said this incremental Rs. 18 crores - Rs. 20 crores revenue we are talking about other than some one-time cost pretty much is EBITDA accretive, you can easily take a range of Rs. 13 crores to Rs. 15 crores kind of EBITDA coming out of it.

**Varun Ghia:** How much cash has been burned on the healthcare front currently? We have not reached the breakeven level, right?

**Vishal Ranjan:** We could better answer it like this in the case of healthcare right now we have EBITDA of about Rs. 14 crores for the first three quarters. The things which are leftover are the



interest and the principal repayments. The principal amount right now is on back-loaded kind of thing as it is a balloon repayment structure.

**Moderator:** Thank you. The next question is from the line of Kalpesh G. from Veda Investments. Please go ahead.

**Kalpesh G.:** Vishal, you have spoken about the hospital business, we are targeting a certain number of the beds by next five years. Coming to the current 600 beds plan by what time we can start operational the 600 beds?

**Vishal Ranjan:** So as we said, as of now the 350 plus 200, 550 is commissioned. Another 50 is something which because now capacity certain kind of Aarogyasri beds which we need that is creating already a capacity hit once in a while, so we are adding our 50 beds this quarter and we are ready to add our next 100 beds in short notice as infrastructure is ready. So, it depends on our occupancy as we see. The moment we start seeing our patients suffering or our quality of service is coming down because of unavailability of bed. we will just start from minus 60 days and get that 100 beds added. So all the funds for those 100 beds and the 50 beds are already available, wiring and the cabling everything is there. What we are not doing is the commissioning of these 100 beds just because we are waiting for our occupancy to catch-up.

**Kalpesh G.:** And after these 100 beds is not oncology when we expected to start the oncology bed then?

**Vishal Ranjan:** Oncology is coming on in the same company. Oncology has typically three businesses - We do surgical oncology, we do medical oncology and radiation oncology. We are already doing a fair amount of medical oncology with a set of doctors that we have got. The surgical and medical is growing fairly fast and they have been asking to get the radiation started right away. So within the same flagship facility that we have, we have identified the place the commissions are already underway and with that going in we will possibly be starting the radiation oncology in this block itself while the adjacent land that we have been available which can house another 100 beds that will again come with the expansion is needed. So the moment we see that we are getting 60% or 70% utilize on our radiation oncology, we will start the construction there, which is a 8-9 months project. So while the funds for these project is not a problem, the project team, the permissions, everything is lined up, when to do is a matter of what kind of occupancy we see. As of now, we have not refused even one patient for the want of bed or anything.

**Kalpesh G.:** Okay. Sir, what kind of CAPEX do we require for the additional expansion for the oncology?

**Vishal Ranjan:** You are talking about the capacity of funds?

**Kalpesh G.:** Yes for the CAPEX, how much amount we want?

**Vishal Ranjan:** Yes, the CAPEX typically linear accelerator and PET-CT would come for 20 crores with equipment finance and then the bunker building and all of it can add another 5cr of Capex. So we are talking about Rs. 25- 30 crores maximum to set up the oncology block with equipment finance and internal accruals of the holding company.

**Kalpesh G.:** Okay. You spoke about people asked you about the demerger, is it possible, we, in fact, go for the diluting our subsidiary stakes of the hospital business within the hospital?

**Vishal Ranjan:** As you had imagined these are discussions that as we said earlier also we do get once in a while on our table. At this point of time being an IT company and the way we are seeing the synergies in both businesses they are pretty much entwined. Now the question of when to do a demerger to unlock value or to possibly raise capital, we think those options will start presenting themselves possibly in three quarters to four quarters from now. From the third quarter would be a good time for us to revisit this question and then you see how we are doing with our hospital business, how the technology part is rolling out, whether the kind of numbers that MVS has just spoke about, we are pretty much now comfortable and cushioned. And the intent is definitely not to cross-subsidize healthcare perpetually that is not the model for sure. Healthcare is already standing fairly well on their feet. Now the expansion and all may require demerger, may require prior equity, we mean all those fund sources are available to us. We will speak on this possibly in more detail once we have that two quarters to three-quarters of performance behind us.

**Kalpesh G.:** Okay, fair enough, Vishal. So you know coming to the Qfund, you spoke about we have a 25% of the market are of the organized. If we look at the industry is growing by almost 7% so what kind of growth we can see in the future?

**Vishal Ranjan:** So okay, if the Advanced America Project was not there we would still have grown at least that 8% - 10% that we have seen year after and the EBITDA we will continue to be at the same that is 30% to 35% range that we have delivered quarter-on-quarter. And what is more important and possibly one take away that we would like all of us to go home with is this cash flow, this revenue,

and this EBITDA is not only well-protected for this quarter or this year, it pretty much has like five years kind of visibility. Now add the Advance America incremental revenue, incremental EBITDA it becomes easier and much better. So even if you take it away that industry and large customers growing faster that 8% to 10% growth that we have shown earlier should be well-protected as we go forward.

**Moderator:** Thank you very much. That was the last question. we now hand the conference over to Mr. Vishal Ranjan for closing comments.

**Vishal Ranjan:** Thanks a lot everybody for finding time to be on the call and we will possibly conclude on two specific lines from our side. This journey we would say, for the last three years or four years, for those who have been with us in that time, those who have shown a lot of patience, those who are showing questions about why are doing healthcare, how we are moving to grow QFund, we think this quarter or possibly this financial year marked that inflection point where those promises or those discussion that we have invested upon have started fructifying. We will possibly conclude on that note rather than talking about numbers. Whatever we invested on product side of QFund, whatever we have invested into technology side of healthcare with now possibly the quarter or two once we are seeing new investments bringing more revenue, we think this is the time where overall the business looks as good as any. Just today we are sure those who have tracked the market, we saw that volumes was reaching an all-time high, we saw the market talking about it. So we think, this is a very good time for us to be a Virinchi family. Within the employee's pieces we are seeing a fair amount of an enthusiasm is already coming in with the healthcare and the doctors and the patients. we think we are doing all that we can, so we keep doing well for the next few quarters. Thanks a lot for your time and we hope to connect again once we have audited numbers for the last quarter and in that stage we possibly have more numbers to evaluate as we go. Have a fantastic day ahead. Good day!

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