



## Apollo Hospitals Enterprise Limited Q4 FY2016 Earnings Conference Call May 26, 2016

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Apollo Hospitals Q4 & FY16 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentations concludes. If you need assistance during the conference call, please signal an operator by pressing “\*” then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani of CDR India. Thank you and over to you.

**Mayank Vaswani:** Good afternoon and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for the 4<sup>th</sup> quarter of FY16 which were announced yesterday. We have with us on this call the Senior Management Team comprising, Ms. Suneeta Reddy – Managing Director, Mr. S.K. Venkataraman – Chief Strategy Officer, Dr. Hariprasad – President Hospitals Division, and Mr. A. Krishnan – Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today’s discussion may be forward-looking in nature and may involve risks and uncertainties. For a complete listing of such risks and uncertainties, please refer to our investor presentation.

We will start with Ms. Suneeta Reddy who will discuss the operating highlights for the quarter as well as the business strategy following which Mr. Krishnan will discuss the operating metrics, expansion plans and other financial highlights.

Documents relating to our financial performance have been shared with all of you earlier and have also been posted on our corporate website. I now invite Ms. Suneeta Reddy to cover the key highlights of our performance.

**Suneeta Reddy:** Good afternoon everyone and thank you for joining our call.

The year 2015-16 has been an interesting year with multiple developments across our businesses. It has been an exciting year with multiple developments across our businesses.

On the hospitals front, we are happy to have continued in our progress on operationalizing our pipeline of new projects. This quarter saw us commission another 2 new hospitals - in Bangalore and Vizag. We also entered Guwahati recently through a 51% stake in an existing hospital. We have successfully integrated all inorganic acquisitions, be it the hospital in Indore, the 300 pharmacies acquired from Hetero and the day care and short stay centers of Nova now rebranded as Apollo Spectra hospitals. You saw us operationalize over 1,725 beds over the last 36 months and with the proposed New Bombay facility in the coming fiscal, we would have added over 30% capacity.

The standalone revenues have now crossed the Rs 5,000 crore milestone while consolidated revenues are nearing the \$ 1-billion mark in annual revenues.

We have now identified 4 imperatives for the coming fiscal and beyond which we believe would ensure our continued pre-eminent space in Indian Healthcare.

- 1. Accelerate growth in the core business:** Notwithstanding emerging trends in public insurance and competitive pressures in a few markets, there still remains significant headroom for the mass affluent population who are still underserved on bed capacity; further Apollo has room across geographies to enhance market share and ensure optimum efficiencies. The levers for doing this would be strengthened consultant engagement, focused specialty forays, clinical differentiation through advanced medical treatments such as robotics and targeted volume increase initiatives.
- 2. Create and implement a strong digital strategy:** This is one we are passionate about. Globally, the healthcare sector is getting disrupted through emerging digital trends and India would be no exception to this. Therefore, a well thought through approach and strategy is now being put in place to leverage customer experience and customer loyalty, analytics, patient outreach and most importantly access.
- 3. Creating high visibility around clinical outcomes and to leverage the same:** Apollo has achieved significantly high clinical outcomes over several years. While we have been tracking this day-in and day out across all our hospitals, we have now as a pioneer in the hospital space, taken the lead in publishing the clinical outcomes, which we believe should further help customers and insurance companies opt for using Apollo Systems.
- 4. Increase International business by 2x over the next 3 years through a focused strategy on key target markets:** With that backdrop, I would quickly take you through our performance for this fiscal.

Standalone Revenues grew 18% to Rs 5,409 crore for the year with EBITDA growing 9% to Rs 741 crore. EBITDAR growth however was higher at 13% as some of our newer hospitals were on leased facilities.

While Healthcare services grew 9% to Rs 3,085 crore, (7% Volume increase and 2% on account of case mix and price). Standalone pharmacies grew 31% (including 6% from Hetero integration) to Rs 2,324 crore.

Reported EBITDA margins were at 13.7% for FY16 as compared to 14.8% last year primarily due to increasing revenue mix of both pharmacies and New hospitals. Margins independently in both existing healthcare business segment and SAP have expanded. Existing Healthcare services EBITDA margins improved marginally from 23.7% to 23.8% while SAP margins improved from 3.3% to 3.6%.

The new hospitals have reported 80% growth in revenues to Rs 319 crore aided by healthy volume traction across. Vanagaram and Jayanagar in particular have seen good growth in volumes – 15% and 20% respectively and are into positive EBITDA trajectories and further poised for improvement in the coming fiscal. The strengthening of the specialty mix and strong local marketing has helped the facilities at OMR (Chennai), Nashik, Trichy, Women & Children hospital Karapakkam and SMR to register healthy revenue momentum which should help them get into positive EBITDA in the coming fiscal. As indicated earlier Nellore is one market that is taking some time to pick up as people still prefer to travel to Chennai for care. We are working on a combination of right specialties and doctors to reverse this flow.

While the new hospitals on aggregate have reported a reduced EBITDA loss of Rs 2.1 crore in FY16 compared to Rs 7.5 crore in FY15, EBITDAR you would have noticed has improved to Rs 25.2 crore for FY16 compared to Rs 7.3 crore in FY15 as many of the new facilities are on lease and in the initial stages the EBITDAR metric will provide a better representation of their progress.

Revenues in the Chennai Cluster grew by 11% with IP volume growth of 8.4% while ARPOB grew by 15%. This validates our strategy to enhance market share on the back of increased volumes in select specialties in the southern region. The metrics also represent some of the strong traction we have made with high acuity procedures such as transplants and Robotic surgeries. Given that the use of robotics is growing at over 15% - 20% per cent every year we are looking at expanding our suite of robotic equipment. Over 1,000 adults and 80 children have benefited from robotic surgeries which enhances surgical precision & recovery.

In the Hyderabad Cluster rationalizing the subsidized scheme patients has resulted in lower IP & OP volumes. However, revenues grew by 8% despite lower volumes due to the improved case mix. Our move to a differentiated approach through a focus on retail patients, international patients and insurance patients through the COE strategy has seen both IP and OP revenues grow despite the de-growth in IP volumes. There has been a significant improvement in ARPOB, by 15%.

Revenues in the other standalone hospitals displayed healthy growth of 13%. Steady growth in both IP and OP volumes with strong revenue growth is highly encouraging. The growth in ARPOB in this hospital was 9%.

The growth in key subsidiary hospitals have also contributed to the performance momentum. Ahmedabad grew at 15%, Bangalore grew at 20%, Kolkata at 18%, Delhi at 12% and Indore reported year-on-year revenue growth of around 10%.

The Standalone Pharmacy Business sustained its momentum and reported 31% growth in revenues in FY16. There have been some highly positive trends in the margin profile of the pharmacy business. EBITDA grew by 44% and the EBITDA margin for the entire network excluding Hetero stores was at 4.0% in FY16. This was despite the additional Bonus provision as per the recent amendment of the Bonus Act.

Apollo Munich achieved a Gross Written Premium of Rs 1,108 crore in FY16 against Rs 861 crore achieved in the previous year, growing by 29%. The PAT for FY16 was Rs 7.5 crore as compared to Rs 0.7 crore in the previous year.

Apollo Health and Lifestyle comprising Clinics, Cradles, Day Surgery centers and other retail healthcare initiatives reported an EBITDA loss of Rs 42 crore as compared to loss of Rs 29 crore in FY15. Most of these business barring Clinics are in the initial stages of ramp up. We believe that each of these segments has good business potential in the medium term though there will be losses in the short term due to fixed cost and lease rentals.

I will briefly touch upon some new partnerships and collaborations. In the pharmacy business, we have collaborated with European Health and nutrition retailer Holland & Barrett in a deal worth £20m to open 1,000 franchise stores across India over the next five years. There are several innovative products in the wellness space in their product portfolio which we are rapidly accelerated in India. Apart from this, Patanjali Ayurved the fastest growing FMCG brand in India will now see their products being sold across all pharmacies in our network. Mumbai-based Pittie Group, which is the nationwide distributor for Patanjali products, has entered into a distribution arrangement with Apollo Pharmacy to enhance the reach of their products to the various parts of the country. In

addition, we have partnered with Google for disseminating accurate, useful and easy to decipher health information through their health cards which are amongst the topmost searched topics. Lastly, we have partnered with Deepak Chopra to launch an app aimed at enhancing wellness for discerning customers.

Before I close, I am delighted to inform you that Apollo Hospitals (Chennai) has been ranked as the number 1 & Indraprastha Apollo hospital as number 2 by All India Multispecialty Hospitals Ranking Survey 2016 conducted by Times of India.

Now I will hand over to Krishnan, our CFO to share further details of our financial performance.

**A. Krishnan:**

Thank you, Ms. Suneeta. We are pleased to report year-on-year growth in standalone revenues at 18% for FY16. This growth has come from volume growth at large hospitals in Chennai and Hyderabad supported by robust growth of 80% in new hospitals with superior performance in Vanagram & Jayanagar. The standalone pharmacy business maintained its trajectory with growth of 31% in revenues on a y-on-y basis.

Standalone EBITDA grew 9.2% from Rs 678 crore in FY15 to Rs 741 crore in FY16. The EBITDA margin has compressed by 107 basis points to 13.7% due to a couple of reasons. Firstly, the share of revenues from the Standalone Pharmacy business which operates at single digit EBITDA margins has increased to 43% of standalone revenues in FY16 from 39% last year.

Secondly, new hospitals launched over the last 24 months have impacted the blended EBITDA, as anticipated. Having said that, despite setting up 11 new facilities over the last 3 years with a capacity of 1,745 beds we have seen margins compress from 14.8% levels to just under 13.7% which indicates the inherent strength of the business.

I would like to bring your attention to Slide 9 of our Investor Presentation which breaks up the standalone numbers into the performance by existing hospitals, standalone pharmacies and new hospitals. It is worth highlighting here that the existing hospitals delivered a marginal improvement in EBITDA margin on a y-on-y basis.

Revenue from the new facilities has picked up pace growing over 80% from Rs 177 crore last year to Rs 319 crore in FY16.

The EBITDA loss from these facilities has decreased from Rs 7.5 crore in FY15 to Rs 2.1 crore in FY16. Within this, Jayanagar and Vanagram have nearly tripled their EBITDA from Rs6.8 crore last year to close to Rs 20 crore in FY16 in the third full year of operations validating our strategies deployed. The others, being newer facilities, reported an EBITDA loss of Rs 21.6 crore, this included the new facilities that we added in Q4 which is both Maleshwaram in Bangalore and Vizag which is why the Q4 EBITDA loss was a bit higher than Q3.

Other Income of Rs 68 crore in FY16 includes profit of Rs 46 crore on sale of Investments held by the company in Alliance Dental Care Limited and Apollo Dialysis Private Limited to AHLL. However, there were exceptional items of Rs 25 crore which includes impairment in the value of certain investments and a Rs 12 crore arrears of bonus for FY 15 payable to employees due to the amendment to the Payment of Bonus (Amendment) Act, 2015.

There was an increase in finance costs by 60% to Rs 134 crore from Rs 83 crore in FY15. This is largely due to funds deployed in new hospitals which are yet to meaningfully contribute to EBIT.

The Effective tax rate in FY 16 was 18.3% as compared to 25% in FY 15 due to the applicability of 150% depreciation u/s 35AD of Income Tax on new Projects commissioned in FY16 namely Vizag & Bangalore.

Coming to Slide 10, ROCE in the Healthcare services shows a decrease from 13.6% in FY15 to 11.2% in the current year. New hospitals commissioned during the last 36 months representing over Rs 1,200 crore of capital employed have resulted in lower ROCE as these are yet to scale up on EBIT contribution.

Slide12 and Slide 13 provide details of our consolidated financial performance. Consolidated revenues grew 17.5% to Rs 6,086 crore in FY15. Revenues from existing facilities grew 6% on a year-on-year basis to Rs 3,202 crore. Group Hospitals grew 12% collectively. New Hospitals & Businesses witnessed an 84% growth in revenues.

Coming to Slide 15, which covers the operational performance by clusters, you will notice that there has been encouraging growth in both inpatient and outpatient volumes on an overall basis. In Chennai, inpatient volumes grew by 8.4% while OP volumes have increased by 2.7%. More importantly the focus on high acuity cases has meant that the growth in IP and OP revenues are greater than growth in volumes indicating an improving mix. Along with the shift to new formats, the use of robotics has led to a decline in ALOS in Chennai from 4.43 in FY15 to 3.95 in FY16. The ARPOB at Chennai including new hospitals grew 14.9% to Rs 39,380.

At Hyderabad, the rationalization of subsidy scheme cases and focus on high value cases as well as international patients has paid rich dividends. Inpatient volumes decreased by 2% and outpatient volumes increased 1.4% resulting in decline in occupancy to 60% in FY16 from 63% last year. However, revenues have increased 8% in FY16; ALOS has reduced from 4.15 to 4. The ARPOB at Hyderabad grew by 15% to Rs 26,471. EBITDA has also improved over the last year.

The hospitals which are included in the "Others cluster" and account for 2,087 beds have reported growth of 13% in net revenues Both IP and OP volumes have grown fairly well combined with richer case mix have led to a growth of 12% in IP revenues and 17% growth in OP revenues. The occupancy is at 57% on a higher capacity as compared to the previous year. While Jayanagar which was added in FY13 has ramped up very well, the hospitals in Trichy, Nashik & Nellore are still in the initial stages of operations. ARPOB in the "others cluster" grew by 9% as compared to the previous year.

Our Joint venture & Subsidiary hospitals in Ahmedabad, Bangalore and Kolkata have performed well with strong revenue and occupancy numbers. ARPOB grew 9% to Rs 30,088.

Slide 17 contains details about the performance of the Standalone Pharmacies segment.

SAP performance has been robust at 31% growth. EBITDA margin for the year was 3.6% as compared to 3.3% last year. Margins excluding Hetero in the existing network of stores were at 4.0% on a like-for-like basis. Q4 margins however 3.1% was as Q4 had a full year Bonus provision of Rs 6.5 crore of pharmacy which was taken in Q4 because of the additional impact and the payment of bonus act. Q4 also had an additional impact on depreciation and on account of goodwill amortization which has begun from this year which is the reason that the EBIT margins were a bit muted on pharmacy which we expect to get better as we move to the next fiscal.

However, if you look at the batch wise stores you will realise that the Pre FY2008

batch of stores reported a margin of 6.8% and we are confident to take the overall margins of this higher as we move forward.

That is it from me, we are now ready to take your questions.

- Moderator:** Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We take first question from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** My first question is on Hyderabad. In your opening comments, you mentioned that EBITDA has improved year-on-year for Hyderabad, but we have seen occupancy remaining at the 60% level. Do you think improvement in occupancy and therefore margins on this level could take some time given the competitive landscape in that market?
- Dr. Hariprasad:** Hyderabad market as you said is very competitive but we have taken a conscious decision to position our Hospital and differentiate it from the rest of the competition, so that is taking a while; we have reduced the low paying corporate and we have managed to stabilize operations with high networth individuals coming in and paying cash and insurance, that happened till the last fiscal. In this current year we are looking at growing volumes in these two areas and I am confident that we will grow the volumes in this year resulting in higher margins which will be reflected in this year's P&L.
- Neha Manpuria:** Now we are talking about mid-second quarter commissioning for Navi Mumbai. Just wanted to understand, one, what impact could we see from the commissioning given it is such a large Hospital in terms of margins? And second, what would be the ramp up period for our Navi Mumbai hospital versus what we see from other hospitals?
- Suneeta Reddy:** On margins, I do not think we will be in a position to state right now, because when we start a new Hospital it is filling up the beds and covering fixed cost. So we believe a market exists in Navi Mumbai, is highly penetrated by corporate insurance. So we are quite confident of filling up at least 50-60-beds as soon as we open. We will get back to you on the margin analysis offline.
- Neha Manpuria:** Is it right to assume that Navi Mumbai our ramp up could be slower than our usual Hospitals given the segment that we are focusing on?
- Suneeta Reddy:** I think the ramp up because we prepared for it should be much faster than what we have usually done and we have learnt lessons from the past. The second is that we will have a dedicated team of doctors in Navi Mumbai on board as we start. So, it should result in a faster ramp up.
- Neha Manpuria:** Ma'am, you mentioned in your opening comment about increasing the International business two times over the next three years. Could you talk about our strategy there – would this mean in India or are we looking at even international business in terms of setting up operations in emerging markets like Africa or Middle East?
- Dr. Hariprasad:** At this point of time, what we are speaking about is patients coming into India, we get the largest number of patients in India and we are planning to go into new markets which we have not gone so far, apart from Africa and Middle East, we are getting into the Southeast also, and based on this we are projecting a two-fold increase in three years in the international market.
- A. Krishnan:** Additionally, one more point that we should add here is this e-Visa that has now been enabled by the government is something that we would expect should give a positive push to this business as we move forward.

- Dr. Hariprasad:** People travelling on e-Visa were not allowed medical treatment so far, but now the government has allowed people travelling on e-Visa to get medical treatment. So that is a big advantage for travelers to come into India for medicare.
- Moderator:** Thank you. The next question is from the line of Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** First, wanted some clarity on existing Hospitals and the new that you differentiate; the new is for last 24-months, right?
- A. Krishnan:** When we are putting the new Hospitals, which we have added in the last 36-months, except Jaya Nagar and Vanagaram which have come into positive EBITDA, the others are still not into positive EBITDA.
- Girish Bakhru:** How many total beds are these now?
- A. Krishnan:** So the capacity is 1,725, the operational beds would be close to 1,200.
- Girish Bakhru:** Just on Jayanagar and Vanagaram, given that they were opened somewhere around 2013-14, what kind of EBITDA levels have we reached there?
- A. Krishnan:** We are close to around high single digit EBITDA margins there.
- Girish Bakhru:** Is it not that like a very slow ramp up in these?
- A. Krishnan:** Two things – one of the things at Vanagaram that you should look at it is it also includes the lease rentals. So when we look at EBITDA it is post the lease rentals in Jaya Nagar, it is after the lease rentals that we are at this margin and lease rental as a percentage would be again 8-9%. In Vanagaram, we have 'Guarantee Money Doctors' which is something that we did as a strategy because we wanted to break into the market with high end specialties, so for both Cardiac and Neuro, the volumes are doing very well now and it is something that we have knowingly taken and we think it will accelerate over the next 12-months.
- Girish Bakhru:** If you look in this FY'17, one would assume new Hospital losses will increase, where do you see the traction coming from the margins side particularly – will existing Hospitals significantly ramp up?
- Suneeta Reddy:** Yes, certainly will, if you look at it might have taken a little bit more time but I think that what we have done in the Chennai market, Bengaluru market and in Hyderabad is to look at market share and we have an analysis of the Chennai market share, we are the leaders in the Cardiac space, in the Neuro space, we have the largest number of Neurosurgeries except for joint replacements in Chemo and general surgeries we are the highest. So I think it goes to a much larger strategic question on where we want to be in the next three years which is clearly to have the largest market share in all of these cities where we play in.
- Girish Bakhru:** Particularly, from the occupancy side given that consolidated occupancy has come down to 63 from 68, where do you see FY'17 would land up, if you could give some guidance?
- A. Krishnan:** One thing is you should also start looking at the overall admissions and not just occupancy because occupancy is also coming down, the case mix today if you look at it as Ms. Suneeta said in her opening remarks, we are doing a lot of robotic procedures, we are doing a lot of non-invasive procedures, lot of one day ALOS is getting into Daycare. So all of these are resulting in the overall average length of stay coming down which is quite visible and which is where the occupancy has come down and we have also been historically saying that beds is not the only thing that we have been focusing on and as we move forward the headroom that has got created by these empty beds, we look at that as an

opportunity to be able to fill up some of the complex surgeries, etc., that we have been doing.

- Suneeta Reddy:** It is almost like a 0.6 decrease in ALOS is equal to almost 5% occupancy.
- A. Krishnan:** So ARPOB as you said is seen something that is healthy. If ARPOB also had not increased, then it is a cause for concern. Given that ARPOB has increased, it is something that is fine. We are looking at increasing the admissions now in all our facilities including the new facilities. On an adjusted basis, actually occupancy it would be close to 68%.
- Girish Bakhru:** I am just trying to probably figure that would you say that case mix is a higher priority than just increasing the occupancy, right?
- Suneeta Reddy:** No, I think you should balance it out, it is always a question of balancing out especially when you have new beds in the system and we do have. I think for the next five years occupancy is important but in the Hospitals which have been established five years ago we will continuously look at ARPOB, we will look at case mix very carefully.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Two–three things: One is on Chennai; we have had this significant increase in ARPOB in the current year. If we take a gross number it is about Rs 1.9 crore per year on a comparative basis compared to where peers are typically. How much further can we increase ARPOB in Chennai from these levels, because it is substantial levels now?
- A. Krishnan:** Even now if you look at the COE volumes that we are doing which are the top six COEs, we still think there is huge potential which is untapped. If you look at the Cardiac volumes, the Neuro volumes, the Joint Replacement that we are doing, we are the #1 in the city today by market share, that is something that we are aware of, but with that said, we still think there is huge potential to still increase some of these cases. As some of these cases will move up, you will see the ARPOB can continue to rise and ALOS is something that we can probably bring down a bit on the other side which is outside of these cases and Joint Replacement in particular is something that we are now beginning to focus on more in this region because if you look across regions we have a leading surgeon in Ahmedabad, we have leading volumes happening in Bengaluru, we have got a very good set of doctors in Chennai and in the next year or year and a half as even international patients go up, we think this should help in the Joint Replacements also. So we think we still have scope to increase the ARPOB.
- S. K. Venkataraman:** Having said that, to add to what Ms. Suneeta said, we should also view it in the context of occupancy. So even if we maintain a fairly single digit growth in ARPOB, the occupancy as it ramps up will actually contribute to healthier growth in EBITDA.
- Nitin Agarwal:** On the ARPOB increase, which is there for 15%-odd for the year, what proportion would you ascribe to price hikes?
- A. Krishnan:** The price hike has been very limited in this fiscal; it has been probably 2%.
- Nitin Agarwal:** So the balance is largely on better case mix, the bulk of it which has been driven by that?
- S. K. Venkataraman:** Yes, moving up the acuity scale as we say in Hospital parlance.

- Nitin Agarwal:** That is why you see probably most of the scope in terms of further improvement in ARPOBs going forward on a sustainable basis?
- S. K. Venkataraman:** Yes, the important thing is to balance it with the growth in ARPOB and also increase in occupancy keeping our customer segmentation in mind.
- Nitin Agarwal:** Broadly, what would be a top five therapy specialties in terms of your revenue mix across the network?
- Suneeta Reddy:** The top five would be, Cardiac Surgeries, PTCA and use, the next would be Neurosurgeries, followed by Joint Replacement, everything that comes in the Oncology space which is Radiations where we do the highest number of Radiations and Chemo cycles. We also have Uro surgery, highest where Robotics is used a lot. General Surgeries is another area that we are highly focused on and we have not spoken much about the Cradles and the Deliveries and the Pediatric space. I would like to add that we do the largest number of Transplants now in the world within the system; especially in Chennai and Hyderabad we have seen a growth in transplants.
- S. K. Venkataraman:** We have an acronym for that; we call it as COE@ACT. So we have got two separate sets of Centres of Excellence; we call them as COE-1 and COE-2 and we will give you more details of that offline.
- Nitin Agarwal:** The 12 new Hospitals that we have commissioned over the last 3-years as you mentioned, just want to get your perspectives on that, I guess the ones that have been relatively better essentially are the ones in a larger cities in Chennai and in Bengaluru. Is there a trend to be read into the challenges which are there in terms of scaling up or the slower scale up which is going to be there when you begin to move beyond Tier-1 and metros?
- Suneeta Reddy:** When we first started Bhubaneswar, we realized there is a demand and a need. I think in some cities we were lucky with the doctors. In Nasik, it took us a little time to understand the system, but we do have now a very good set of doctors and we think that the performance from these cities will be much better; it is a learning for the future.
- Nitin Agarwal:** But in general, as a broader theme, it is more challenging to scale up Hospitals beyond Tier-1 and metros?
- Suneeta Reddy:** I would say that it is challenging but I think the long-term payoffs are very good, because not only does it result in that Hospital contributing to revenues and EBITDA but the referrals are very high into Oncology, into Transplants, into the more complex procedures.
- S. K. Venkataraman:** But as cities get smarter with the current dispensation, I think these difficulties are surmountable things will turn quite quickly positive.
- Suneeta Reddy:** We have the first mover advantage which is a huge advantage. So over a period of time, you will see these cities growing tremendously.
- S. K. Venkataraman:** You would have seen some news reports that by 2015, 30 crore Indians will be living in urban age centers. We presume that Tier-2 will fall squarely within that definition.
- Nitin Agarwal:** On Navi Mumbai, how many beds are we looking to operationalize in the initial few phase?
- S. K. Venkataraman:** 150 to 200 beds.

- Nitin Agarwal:** Of the two that we commercialized in the last four quarters, how many beds have we commercialized in Malleswaram?
- A. Krishnan:** 80 beds.
- Moderator:** Thank you. The next question is from the line of Manoj Garg from Bank of America ML. Please go ahead.
- Manoj Garg:** Suneeta, if we look at the EBIT margins of Healthcare Services business over the last few years, I think it has come down from the peak of 19.2% to 15.8% this year. I understand the larger part of this because we have opened up almost 1,700 new Hospitals. But if one has to look for the next three years, how do you see the margin trajectory, what are the comfortable levels, are we able to reach back to that 19-20% EBIT margins for the Healthcare Services business?
- Suneeta Reddy:** If you look at our existing Hospitals in spite of competition in everything that happened around us we were able to actually grow it by 0.1% to 23.8%. So, I think that is very real and it is happening. If you look at places where competition is high, which is Hyderabad is still in the 19-20% zone and it is 20%. So, I think the EBITDA margin of 20% is something that are sustainable and once that we do have Hospitals within the systems that are actually even in the 33% space. So definitely I believe that over a 5-year time period you will see us going back into the 20%.
- Manoj Garg:** EBITDA margins are 23-24% which we used to. So are we talking about that even in the next 5-years we will be able to reach only 20% kind of range?
- Suneeta Reddy:** No, we are sure of that.
- Manoj Garg:** If I look at the console Healthcare Services business which is the existing business, I think the growth has come down now to around 5-6% kind of range versus high single digit of 8-9%. So just want to understand from a long-term perspective, obviously like new Hospital definitely had the momentum and the growth but how much growth you are seeing from like-to-like or from the existing Hospital clusters as we move forward?
- Suneeta Reddy:** There was 8-9% in the existing ones, the new ones it took a little time because we moved into new areas. So, I think that we need to balance that out and that we need to give it some time.
- A. Krishnan:** We are redefining our customer segmentation as far as existing locations are concerned; we are moving about our Women and Children business and we are also moving out some of other businesses into places like Vanagaram. So when the entire shift happens and when you are redefining customer segmentation, this will actually start contributing positively to the existing business because we are also having targeted marketing initiatives.
- Manoj Garg:** This quarter the EBIT margins in the Pharmacy business just come down to almost around 1%. Any specific reason while we have a healthy EBITDA margin, but EBIT margin this quarter is just 1%?
- Obul Reddy:** This is accounting for the amortization and depreciation of the new acquisition we made – Hetero. Otherwise, the numbers are on the same zone.
- Manoj Garg:** What should be the tax rate which we should take into consideration for the next two years?
- A. Krishnan:** It has come down from 25% to 18%. It will probably settle around 20%.

- Moderator:** Thank you. The next question is from the line of Anubhav Aggrawal from Credit Suisse. Please go ahead.
- Anubhav Aggrawal:** One question on Chennai Hospital. The utilization this quarter seems to have dipped down. The impact from floods now is we have fully recovered. But I am referring specifically to the inpatient volume; inpatient volume growth this quarter was 6% year-on-year, much lower growth versus what we have seen in the first nine months.
- Dr. Hariprasad:** During the last quarter, the flood effect remained for some period of time because apart from the floods in Chennai, the travel was a problem; the trains from some of our drainage areas were not functional for about a month after the floods. So that has an impact on our IP. Second thing is elections itself, not just in Chennai and Tamil Nadu, but also in the states like West Bengal and Assam, impacted the IP volumes big time. So these are the two reasons why the IP volumes came down, but as you would notice OP volumes have gone up and ARPOB has gone up in Chennai which is a very healthy sign.
- Anubhav Aggrawal:** You mentioned that this year you have taken a 2% price increase. Any guidance or any indication that when should we see a first price increase, for this quarter, have you already taken a price increase or you are going to take in middle of the year?
- A. Krishnan:** We have not yet decided on that front, we will play it by ear depending on how the cost of the work etc., across the Hospital segment.
- Anubhav Aggrawal:** Can you give me sales of Jaya Nagar and Vanagaram in FY'16 out of the 300 top line?
- A. Krishnan:** Can you take this offline please?
- Anubhav Aggrawal:** One is on the Wellness Initiative, the ma'am mentioned that how are you going to do it – will you not open it through the Apollo Pharmacy right now initially or this will be separate store formats altogether, what is the reason of having completely separate formats?
- Suneeta Reddy:** If you are talking specifically about Holland & Barrett, that is actually in a discussion stage and when it is ready and when it is complete we will give you more details of the transaction. The other initiative in the Wellness space is definitely what we are doing with Deepak Chopra which is a lot of digital plus setting up Wellness Centers with corporates. So it was more deeply aligned to corporates, their stickiness in the corporate space with Apollo, I think that hopefully we will roll this across 25 corporates in the next six months.
- Anubhav Aggrawal:** You mentioned about Patanjali products. The margins on this product will be accretive to the margin that we have on the Apollo Pharmacy Stores today of 4%?
- Obul Reddy:** It will be, but we are examining the product portfolio, in the days to come we will have more information on that.
- Anubhav Aggrawal:** But do you think it will be accretive to that?
- Obul Reddy:** It should be.
- Anubhav Aggrawal:** On the new beds that you have added in Vizag and Bengaluru, when would they have been added to the quarter -- roughly say end of the quarter, middle of the quarter?
- A. Krishnan:** It is almost at the beginning of the quarter.

- Anubhav Aggrawal:** What utilization this bed would have operated?
- A. Krishnan:** If you look at the operational beds it is around 85 beds which were there in Malleswaram, of which almost around close to 40 beds were occupied. Vizag 100 beds were operational and 50 were occupied. Both these Hospitals we think should do well in the coming fiscal.
- Anubhav Aggrawal:** This is the only reason why except Jaya Nagar, Vanagaram, your losses increase in newer Hospitals if we exclude?
- A. Krishnan:** Yes, you are correct; almost around Rs 5-6 crore of the losses came from these two Hospitals.
- Moderator:** Thank you. The next question is from the line of Prashant Nair from Citigroup. Please go ahead.
- Prashant Nair:** Firstly, can you elaborate on your plans for AHLL and by when do you see this part of the business breaking even?
- Suneeta Reddy:** AHLL is a composite of many businesses – one is the Clinics business which is actually making a profit; aligned to that is they are building a lot of traction and scale which is a Diagnostics business. I believe that the Diagnostics business is the business that will deliver the margins for AHLL. They will be aggressive in the way that they grow the Diagnostics business. It will not only start in the Clinics but in every center that they have. Sugar business is something which is a shop in shop, it is there in the Clinics, it is there in the Hospitals and since it is new I believe that is something that will take time. But clinically it has done very well and the outcomes are something to be proud of. The Cradles is a format that we believe is very relevant to this decade – we have two Cradles that have reached breakeven out of the total of six that we are doing. We are adding two more this year. If you look at the format of Cradles, they are not super luxurious or super expensive, Rs 22 crore per Cradles. Over the next three to four years, I think you should see very encouraging results come from the Cradles space. The fact that all of this takes off from the Apollo brand which we were able to get high quality of doctors I think makes a huge difference. The second is that people are used to the Hospital experience and believe in the outcomes of the Hospitals. So the Daycare Surgery, there are one or two centers we have in Chennai that we start in Hyderabad, they are doing well because people trust Apollo, they have good doctors in place and I think the systems are very good. So really Daycare Surgery is a format of the future. People will not want to walk into a tertiary care Hospital for the smallest surgery plus I must say that the focus of Apollo is also now on Preventive Healthcare. All these formats will enable the Preventive Healthcare space to happen which means that if you look at everything that we do in Apollo, the OPs numbers will definitely go up. We believe that the OPs will eventually translate into IPs. So it is a long-term strategy decision to capture patients in the OP space through the Clinics, through a retail type of format. I hope that explains the rationale behind what we are doing in the Clinics.
- Prashant Nair:** Two follow on question on the Diagnostics side. Firstly, would the focus largely be on Pathology Services at this stage? Secondly, do you have your own testing at this point or do you currently outsource?
- Suneeta Reddy:** Yes, we have a central lab, we have collection centers, and we are ramping up the collection facility so that we have an all India reach.
- Prashant Nair:** One last question more on the accounting side to Mr. Krishnan. So when you mentioned the accounting change and treatment of amortization for the Pharmacies in the fourth quarter, so does the fourth quarter include amortization for the full year or have you just started doing it from the fourth quarter and it is just a pro rata for that quarter?

- Obul Reddy:** We have completed the acquisition of that Hetero transaction somewhere October, so it relates to from that period, full year impact will be in the next year.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** You mentioned about the increased emphasis we will be laying on Robotic Surgery, is this would be more about the services that you are offering in Chennai or are we looking to them across other centers also?
- Suneeta Reddy:** We already have it in four centers.
- A. Krishnan:** So with that we have in Chennai, Hyderabad, Delhi and as well as Kolkata.
- Nitin Agarwal:** To get a sense on what proportion of business really comes from there?
- A. Krishnan:** We would not have that handy because it varies from Specialty to Specialty.
- Nitin Agarwal:** Typically, how superior are the realizations in this case compared to regular procedure?
- A. Krishnan:** It is probably around 15% higher, but if you adjust it for the length of stay which is lower, then the ARPOB is probably higher by 25% to 30%.
- Nitin Agarwal:** In terms of the expansion, what we have laid out essentially apart from the Hospitals you have opened, three or four hospitals opening up over the next three years, so this is pretty much eight for us over FY'17 to FY'19 or are there more inorganic initiatives or organic initiatives which can come through over this period?
- A. Krishnan:** As of now, if you look at what is oncoming is only New Mumbai which is being planned and after that the Proton is going to be in two more years. We keep looking at inorganic opportunities in some of our new markets that we would want to get into like for example Guwahati that we have taken 51% stake now, other than that there is none which is coming in the next couple of years.
- Nitin Agarwal:** From a balance sheet perspective, what is the net gearing that essentially we are comfortable living with?
- A. Krishnan:** We have said that debt-equity of less than 1 is what we would be comfortable with and we would probably keep it at less than 0.9 if we can and debt-EBITDA of around 3 is what we are comfortable with.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Taking from the previous one, longer-term if we look at in map of India, do you see there are some geographic gaps or some areas that you want to be there?
- Suneeta Reddy:** I think we will keep analyzing that but right now focus is on filling up our beds and showing you much better margins which I am sure higher EBITDA, higher margins which is what you would like to see. If the year goes by and we find something that we can acquire at a reasonable price, yes, but we do have a Pan India network, if we are not present with a hospital if you take Pune and Jaipur for example, we have very large Daycare Centres. I think we are present where we want to be.
- Sameer Baisiwala:** If you look at the cost of surgeries procedure that is there in your hospitals versus what you see in the western world, I would imagine there is still a huge gap. How do you think about pricing longer-term?

- Suneeta Reddy:** We are hoping that pricing longer-term, people have to place a value to it and because of our Clinical work we are able to get a premium over the rest. Having said that, it is unlikely that India will move to the level of the international pricing – one is because insurance is going to pick up
- S. K. Venkataraman:** The Indian rupee depreciation also contributes quite a lot of it.
- Dr. Hariprasad:** I do not think the manpower cost and the administrative cost which happened in some of the developed countries would ever happen in India.
- Sameer Baisiwala:** Broad question do you think you can double your cost of surgery?
- S. K. Venkataraman:** I know where you are getting at, but the important thing is for us to retain our quality here while at the same time give a value to the patient so that we still remain very relevant to the Indian market.
- Sameer Baisiwala:** But just over next 10-years do you think you can double your prices?
- Suneeta Reddy:** Yes, over the next 10-years, we should be able to double it. But through our efficiency if we are able to keep it the same also why not - one is the question of efficiency, the other is a question of do we need to do it but I think whatever we do our focus on margins will remain.
- S. K. Venkataraman:** You should also please keep in mind the fact that our International business is increasing and one of the factors is also because of the quality that we give at quite reasonable prices. So that is why it has been increasing part of our business, even today it accounts for around 15% system-wide and a higher percentage in Delhi. So we are known for quality at affordable prices.
- Moderator:** Thank you. We will take the last question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Following up the previous one, what proportion of our business today comes from International Patients, typically what is the difference – is that a superior profitable business compared to the domestic business?
- Suneeta Reddy:** Yes, it is at a premium to domestic prices; 15% of our current business comes from international. Tariff is one thing but we are looking at a business where other indicators like return on capital employed is important and IRR of projects, I think that in the light of that, as long as we maintain that we focus on the ROCE of 20%, we are doing a good job in India. Prices which will move in different directions but this is the thing that should be constant, the focus on ROCE.
- Nitin Agarwal:** On the question of 15% that you mentioned in the top line, what proportion would be of the EBITDA this business?
- A. Krishnan:** We would not have that handy with us now. Let you know.
- Nitin Agarwal:** When you mentioned that you are going to look to double the business, I presume it is mostly in terms of the absolute amounts, it will not be big, where do you see is ending up as a proportion of revenues over the next three years?
- A. Krishnan:** From the current 15%, there is potential to take it to almost 20-25% and that is where we are working on select geographies especially in the urban locations like Chennai, Hyderabad, Delhi, Ahmedabad and Kolkata is what we are focusing on. The other thing is we are also growing our proportion of beds outside of these urban locations. So in these specific facilities, it should be able to go to 20-25% and Mumbai is the other place that we are also trying to get international.
- Suneeta Reddy:** I think Mumbai would be ideally situated to get international

- Nitin Agarwal:** On AHLL, what is the financial structure of the business today if you are talking about getting investors into the business, if you can probably just throw some light on that?
- A. Krishnan:** I think you should wait for our announcement on that. We have stated that IFC on their website that they are evaluating us very seriously and we have given that release as well and we will come to you once we get more clarity around it.
- Nitin Agarwal:** What is the current equity structure for that business?
- A. Krishnan:** 100% is owned by us.
- Moderator:** Thank you. That was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you sir.
- Suneeta Reddy:** Ladies and Gentlemen, thank you for your interest in Apollo. We hope that you see this performance in the light of how Healthcare is growing and look at the macroeconomic environment as well. We believe that Healthcare cannot be defined quarter-to-quarter but every year we are laying the foundation to create the largest Healthcare network in India. This keeping in mind the new formats, the Digital access, our focus on international patients and more importantly balancing our Clinical outcomes with profitability.
- Moderator:** Thank you very much, ma'am. Ladies and Gentlemen, on behalf of Apollo Hospitals, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.