Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Ltd. Q4FY18 earnings 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 presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mayank Vaswani from CDR India. Thank-you and over to you sir.

Mayank Vaswani: Good afternoon everyone and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q4 and full year FY18 which were announced yesterday. We have with us on the call the senior management team comprising: Ms. Suneeta Reddy – Managing Director, Mr. S.K.Venkataraman – Chief Strategy Officer, Dr. Hariprasad – President of the Hospitals Division, Mr. Neeraj Garg – CEO, AHLL and Mr. A. Krishnan - Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today’s discussions 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.

Ms. Suneeta Reddy will discuss the financial performance for the quarter along with the operating metrics and the expansion plans following which we shall open the floor for Q&A.

Documents relating to our financial performance have been shared with all of you earlier and these have also been posted on our corporate website. I would now hand over the floor to Ms. Suneeta Reddy.

Ms. Suneeta Reddy: Good afternoon everyone and thank you for taking time out to join our call. I trust all of you have been able to refer to the earnings documents which we shared earlier.

FY18 has been a challenging year for the healthcare sector. We began the year with the extended effects of demonetization which was followed by regulation on stent pricing and knee implants and thereafter the implementation of GST which impacted our input costs. Despite these regulatory headwinds, the cumulative impact of which was about Rs. 130-140 crore, I am pleased to report that Apollo Hospitals has posted a strong performance on revenue and EBITDA. We believe
this performance reflects the inherent strength and resilience of our business model.

These challenges have helped us to learn and adapt. We are transitioning to a service pricing model, through Assured Price Plans, which will recognize the intrinsic value of the delivered service itself, rather than individual inputs. This pricing model also eliminates financial uncertainty and stress for the patient. We have also carefully calibrated our case mix. We have consciously set about on a path of moving from volume to value, and creating a positive, meaningful margin in an uncertain economy. We will move ahead on this path, and we believe, through these efforts, we will be able to fully recover the impact I mentioned above, by the end of FY19.

To accelerate our efforts for margin expansion, we have initiated a design-to-cost and cost optimization initiative in our flagship units at Chennai and Hyderabad where we hope to develop protocols and pathways that will enable us to be competitive at multiple price points, and navigate the increasingly complex regulatory landscape. Asset utilization and improving system efficiencies remains a top priority and we are seeing promising traction both on occupancy, and on equipment turns.

We stay fully committed to our strategy of enhanced focus on Centers of Excellence (COEs). We have definitive plans to grow revenues and volumes in ‘Oncology’, ‘Minimally invasive surgeries’, ‘Robotics’ and establish ourselves as national leaders, with discernible clinical differentiation. We will also strengthen our work on Neurosciences and Orthopedics, while retaining our core strength in Cardiac sciences. To accelerate our work on COEs, we have made a giant leap for Artificial Intelligence in healthcare in India this year. We have partnered with Microsoft to develop and deploy new AI and machine learning models to predict patient risk for heart disease and assist doctors on treatment plans. We have deployed IBM Watson for Oncology and Genomics, which leverages cognitive computing to provide insights to oncologists while developing personalized treatment plans. We have launched the ‘Apollo online expert opinion’ service for Oncology, which will provide convenient, affordable access to Tumour Board experts in twenty-four hours. We have also partnered with Google India to launch a new feature in its Search offering called ‘Symptom Search’. Another important initiative we have undertaken is to develop a thoughtful, innovative engagement model for our clinicians, who are the bedrock of our work, in a way that attracts the best talent, fully aligns goals, and recognizes and rewards stellar performance. We believe these initiatives are path-breaking for our Country and the sector, and will strongly cement our position as best-in-class on clinical delivery and outcomes, which has always been our DNA. Equally, we will continue to focus our efforts on enhancing patient engagement and experience, through all our channels and segments, and especially through a strong digital thrust, and strategic partnerships with IT majors and start-ups.

Against this backdrop, I will run you through our results for the year which continue to demonstrate the strength of our business model which is centered-around ‘Scale’, ‘Reach’ and the ‘Right mix of formats and specialties’.

**Standalone Revenues** grew 14% on a year-on-year basis to Rs. 7,183 crore. Within standalone revenues, ‘Healthcare Services’ grew by 11% driven by volume growth. New hospitals reported 33% year on year revenue growth at Rs.779 crore aided by volume growth, while existing hospitals revenues grew by 7%. Standalone Pharmacies reported 17% growth this year (21% growth adjusted for GST).
FY18 EBITDA was at Rs.830 crore as compared to Rs. 774 crore in FY17 growing by 7% over the same period in the previous year. Healthcare services EBITDA grew by 5%, aided by a positive traction in New Hospitals EBITDA. New hospitals reported a positive EBITDA of Rs.19.5 crore in FY18 as compared to a negative EBITDA of Rs.3 crore in FY17. This is after absorbing the Navi Mumbai EBITDA loss of Rs. 35 crore EBITDA loss this year. Q4 FY18 Navi Mumbai losses were at Rs. 2 crore, compared to the loss of Rs. 33 crore in the first nine months. In line with expectations, with a very strong performance in Q4 considering EBITDA loss in the first nine months was only Rs. 33 crore. EBITDA margins at the existing hospitals were at 21.1% as compared to 22.3% in the previous year largely due to regulatory interventions, GST as well as expected credit loss under IND AS. CSR expenses were made to the extent of Rs. 8 crore in Q4 FY18. This impacted Existing healthcare services EBITDA margins by 100 bps for the quarter.

On the Operations front, overall occupancy across the Group was at 65% for FY18. The occupancy in mature hospitals was at 67% and New hospitals had occupancy of 58%. ALOS was 3.99 days, a marginal decline from 4.06 days in the same period last year. ARPOB’s in FY18 improved by 1% to Rs. 32,950. Our Retail healthcare business delivered 19.2% growth in revenues for FY18. This was largely driven by strong growth in our Cradle and our Retail Diagnostics business.

Now to give you all a brief overview of the Region wise performance of our hospitals:

**Tamil Nadu:** Revenues grew by 8% aided by Inpatient Volumes growth of 6%. ARPOB grew by 1% to Rs. 39,934. Overall occupancy in this cluster was 57% at 1,247 beds as compared to 1,174 beds last year.

**AP, Telengana region:** Revenues grew by 15%. IP volumes grew by 8%. ARPOB of Rs. 30,240 was higher than last year by 8%. Overall occupancy in the cluster was at 61% at 836 beds versus 788 beds last year.

**Karnataka region:** This region recorded promising revenue and volume growth. Malleswaram, which was commissioned last year, recorded IP volume growth of 23% while Bangalore, Mysore and Jayanagar grew by 7%, 12% and 10% respectively. Occupancy in the cluster was at 73% at 521 beds compared to 479 beds in the previous year.

**Stand Alone Pharmacies:**

SAP revenues grew by 17% year-on-year. SAP EBITDA grew 20% to Rs. 148 crore in FY18. EBITDA margins were at 4.5%. As more stores within the network gain in maturity and break-even, we expect EBITDA margins to improve further. Integration of the Hetero network has progressed well and the improved store metrics are contributing to the momentum. We have added 465 stores net of closures in this fiscal, our largest year of store addition yet. We plan to build on this momentum in order to further enhance our dominant presence Pan-India with the aim to be the undisputed leader in this space even as the market share of organized pharmacy chains in the domestic industry is still miniscule. The ROCE in this business is now over 16% on an annualized basis.

FY18 Standalone PAT declined by 18% to Rs. 233 crore year-on-year, as Interest costs increased by 20% year-on-year at Rs.240 crore and Depreciation increased by 13.1% year-on-year at Rs. 272 crore on account of the new facilities we have added; both of which will start getting absorbed over the next few quarters as we ramp up EBITDA from the New hospitals.
The effective tax rate for FY18 was 29%. The Present Net Debt as of 31st Mar. 18 is at Rs. 2,704 crore.

As the company concludes its current capex cycle, we are focused on generating robust cash-flows on the back of strong growth in revenues, and driving operating leverage across both mature and new units. We are committed to a year of acceleration across all parameters in FY19.

While in the near term, the challenges in the healthcare industry, market conditions and regulations are likely to persist, I would like to reiterate our strong belief that the structural demand for healthcare remains intact. The disease burden is growing, there is an acute shortage of hospital beds and clinicians, and the demographic profile is shifting towards an ageing population. Alongside, per-capita incomes are rising, as is consumer spending, which will have a trickle effect on healthcare spending as well. Medical Value Travel is growing rapidly, and there are good reasons why India is in a strong position to gain market share. All these factors point to a strong long-term outlook for the sector.

The ‘Ayushman Bharat’ scheme is also likely to spur demand. It offers comprehensive and meaningful family coverage and will substantially improve access. While currently announced rates appear to be low, we will continue to engage with the Government in developing a model which recognizes quality of care as a prime objective, and enables private players to participate profitably.

We are confident that the capacity created over the last four years offers us headroom for growth, and gives us the best opportunity among our peers to leverage these tailwinds, while remaining uncompromising in our clinical and service standards. We are entering an exciting phase for the sector, and we look forward to the road ahead with healthy optimism.

I now open the floor for questions. Dr. Hari Prasad, Neeraj Garg and Krishnan are here with me to take your questions.

**Moderator:** Ladies and gentlemen, we will now begin the question-and-answer Session. We will take the first question from the line of Neha Manpuria from JP Morgan.

**Neha Manpuria:** In the opening comments two interesting points were made. One was on the ‘service pricing model’ that we are looking at and the ‘volume to value’ shift. Could you give us a little more color on these points? Would this then therefore reduce the headwind when it comes to any regulatory changes that we have seen in the couple of States around devices, drugs, etc.

**Suneeta Reddy:** When we heard about the regulatory issues that we are facing in healthcare we realized that what Indian hospitals fail to do with is really price the services which are far more critical than the cost of input. We are now pricing for services and we have gone one step ahead where we also have assured price plans so that the customers know and there is no uncertainty about the amounts that you have to pay. It is very patient-friendly, doctor-friendly and I think it is the way that we will benefit going forward into the future.

**Neha Manpuria:** Have we rolled this out in our hospitals, or this is something that we plan to do?

**Suneeta Reddy:** We have just rolled it out, but you will see the full impact of that by the end of the year. About 55 packages have been rolled out.
Neha Manpuria: With regards to the volume to value shift that you talked about; some benefit of that coming towards the end of FY’19, what is that?

Suneeta Reddy: As I said earlier, we grew volumes by 10% to 11% and some units grew in double-digit figures. But now I think with what we are doing in the clinical space and with these assured pricing plans, we will see an improvement in margins as well.

Neha Manpuria: My second question is on Navi Mumbai. We see a very good ramp up in Navi Mumbai from the last quarter. Is it fair to assume that FY’19 or even in the beginning of say first quarter of FY’19, we will see Navi Mumbai breakeven and only ramp up from here; are you seeing that kind of traction in Navi Mumbai?

Suneeta Reddy: Certainly, we are seeing that traction.

Neha Manpuria: Okay. Any target in terms of what sort of margins we expect to achieve in Navi Mumbai over a three-year period?

Krishnan A: So, if you look at it, the current year we are targeting to break even by Q1 and hopefully we should do well in this year. In the next three years, I think the year after that, we think we should be between the 10-15% margin.

Neha Manpuria: My last question is on the cost optimization effort that you are trying in Chennai and Hyderabad cluster. Why is there a need to do this, I mean, is this because we are trying to also be ready for a potential rollout of ‘Ayushman Bharat’ and therefore lower price patient pool that might come in?

Suneeta Reddy: It is a combination of two reasons; one is as we shift towards IT and you know every institution has to be dynamic and change. So we realize there are a lot of cost initiatives that will help us and we are getting more digitally focused but we need to remove a lot of things that were legacy issues. I think there is a huge opportunity here for us to improve our margins, so to remove some of the things that you might have seen in a 35-year-old organization so that it can behave in a young fashion. Going forward, yes, the cost optimization and what we are doing design to costs is really for the tier-II hospitals and maybe some of the new hospitals so that we can work with the Government on the new initiatives that they plan to roll out.

Moderator: We will take the next question from the line of Nitin Gosar from Invesco Mutual Fund.

Nitin Gosar: My question is more pertaining to the retail operations. I think recently Delhi Government had made some announcements pertaining to the in-house pharmacy retail chains wherein hospital typically write down prescription and in-house pharmacy does get benefit out of those in-bound patient prescriptions. But with the kind of guidelines the Delhi Government is issuing; that there should be no more compulsion on the patient to buy it from the in-house pharmacy, where do we see our retail operations in this kind of environment?

Suneeta Reddy: So there was never any compulsion to buy from in-house pharmacy except for surgeries and patients who are inpatients, the supply came from the in-house pharmacy. Having said that, I think there is still room for us to have a tie up with the Delhi Government because accreditation standards around International and in India stipulate standards in the supply chain, we might run a risk of non-compliance which we need to communicate to the Delhi Government.
Nitin Gosar: So for in-house pharmacy, I think there is no more compulsion. So the earlier scenario whatever was continuing will continue?

Suneeta Reddy: Yes, to my understanding.

Nitin Gosar: For these inbound patients. And for the outbound patients, anyways…

Obul Reddy: No compulsion.

Nitin Gosar: My second question is pertaining to the ‘Ayushman Bharat’ scheme. I think you mentioned that the prices which are announced are too low and it is not so conducive for the private players to participate profitably. Broadly trying to understand, how big would be the price gap and where would we fit in?

Suneeta Reddy: Where we could try and fit in is they are offering 10% premium for hospitals in Tier-2 and Tier-3, plus an additional premium for hospitals which have International accreditation. So we need to work with our cost optimization and decide the costs to see if we can really provide a certain number of beds especially in our Tier-3 and Tier-2 hospitals for ‘Ayushman Bharat’ and do it at a marginal costing level so that we still make money.

Nitin Gosar: My next question is pertaining to the move that you highlighted i.e moving from ‘volume to value’. If we were to participate in ‘Ayushman Bharat’ scheme, would we be still in a position to claim that we are moving from volume to value?

Suneeta Reddy: I think because Apollo is present all over India, when you consider scale and location there are certain pockets where we will be able to participate. For example, we have hospitals in Kakinada, Karimnagar which are all only doing the schemes and are very profitable. But we cannot do it in say quaternary care like Chennai, Bangalore, where the cost per head is much higher. So I think we have the ability to be selective.

Dr. K. Hariprasad: And even in the metros, apart from the main hospitals, we have other smaller hospitals which come in at a lower cost. So we probably might be able to build a model which would fit the ‘Ayushman Bharat’ and serve those patients in the metros also.

Nitin Gosar: My next question is with regards to the new pricing that the ‘Ayushman Bharat’ scheme is putting across. Will it create pressure on the whole sector itself wherein the other insurance players will also start pushing the private players to adhere to the lower rate pricing model somewhere which would be lower from the existing rate?

Suneeta Reddy: I think that there is a segment of the population that is willing to pay a price for good healthcare and this is a segment that we are targeting. So ‘Ayushman Bharat’ will probably cap our total number of beds for this scheme to make the 10% of our total. So that would be focused on value, people who would pay for good clinical services and also for the medical value travels. So yes, I think what we are saying is that on ‘value versus volume’ we definitely have scope to improve on that and we believe that there is a market for that.

Nitin Gosar: My question was also pertaining to the environment wherein private insurance Companies have also started seeing the big gap between the pricing that ‘Ayushman Bharat’ scheme is seeing and the pricing that they are seeing when it comes to the charges?
Suneeta Reddy: As an owner of 10% of Munich, let me say that right now there has been very little reaction, in fact, they are getting flexible to increase coverage of disease, different disease profile, they are looking to see how flexible they can be.

Dr. K. Hariprasad: I think the segment of population which is covered by the insurance is completely different from the segment which is going to be covered by the ‘Ayushman Bharat’ and the expectations of this insurance segment would be much higher than those other people. So to deliver that value which these people are expecting the cost would definitely be higher and I think the insurance companies appreciate that.

Moderator: We will take the next question from the line of Rohan Dalal from B&K Securities.

Rohan Dalal: I question is on AHLL. I am just trying to understand exactly how the Cradles are panning out because losses have marginally increased. So I was wondering what exactly is the scenario regarding the cradles and diagnostics as well?

Neeraj Garg: On Cradles, I am happy to report that FY’18 has actually been a strong year in terms of performance. We have grown our revenues 39% in FY’18 over FY’17. Also in terms of asset utilization it has grown 31%; it has gone from 19% to 31%. So our occupancy levels have gone up significantly. The losses which you see are due to one new Cradle which was opened last year in Amritsar. There are specific Cradles where we recognize that there is a little bit of work to do. The Amritsar Cradle has been slower to ramp up as we anticipated but has now begun to come back on track. We had issues in our performance in one Cradle in Pune and that Cradle has been shut down and therefore this Pune Cradle is not there in our FY’19 plan and you will see the improvement in margins in FY’19 in Cradles as a result. Now, on Diagnostics, we continue to invest behind growing that business. We see a very strong opportunity there and we believe that in the South and the Eastern part of India where we are focused, there is a vacuum in the market or wide space there, because there are not strong national players and the Apollo brand is extremely strong. We have significantly grown our network in FY’18 both in terms of labs and more importantly collection centers. So we have a fairly large collection network of over 220 centers now in the South and East and that is reflected in the revenue growth of the business. So if we look at the retail diagnostics business, we have actually grown revenues by 80% last year. So, we continue to put effort behind that business and believe that we will become a strong significant player in the Southern and Eastern parts of Country.

Rohan Dalal: Okay, then what is the guidance on that segment? Are you expected to breakeven because FY’20 was guided before? I was just wondering if that holds true or it may take a little longer?

Neeraj Garg: So we remain true to that guidance, we are not changing the guidance and I think from a perspective of performance there, I think if we look at the first quarter of FY’19, we are on track with the plan that we would have to deliver on to achieve that guidance. On a sequential basis, Q4 of FY’18 grew 7% over Q3 of FY’18. Q1 of this year is another 7% up over last year’s Q4. On year-on-year basis, we will be up 26% this quarter. So I think we are on track and we are sticking to our guidance.

Rohan Dalal: My next question is with regards to Gleneagles Kolkata. I just wanted to understand what exactly is going on in that region as the PAT has registered almost Rs.15 crore of losses. So I was wondering what exactly is going on?

Dr. K. Hariprasad: As you would appreciate; the entire healthcare sector in Kolkata has been affected with happenings since a year. The good part of our hospital is, we have not lost out on volumes, the volumes are coming back and there has been a consistent growth in terms of volumes and I think it is a matter of another couple of quarters before
we come back to a level which we were in before this problem started. Because of the issues which were happening in West Bengal, lot of patients actually started traveling out of West Bengal, so that was another reason, and I think it will take a couple of months or quarters before the patients from West Bengal gain the confidence back in the health sector in the city and start coming back to the hospitals. But we are very bullish about it because we have seen a consistent increase in the number of patients walking into our hospital and the volumes are growing consistently.

**Rohan Dalal:** So roughly you think will be in the green by next year?

**Dr. K. Hariprasad** Yes, by next year we are hoping that we will come back to this thing.

**Moderator:** We will take the next question from the line of Nitin Agarwal from IDFC Securities.

**Nitin Agarwal:** What will be the consolidated net debt as of year-end?

**R. Krishnakumar** Rs.3,100 crore.

**Nitin Agarwal:** Secondly, on the Newer hospitals, Mumbai has done extremely well in this quarter but the losses for the New hospitals as a Group has sort of, EBITDA has declined on quarter-on-quarter basis at consolidated levels. So are there any particular hospitals which you have added to the losses this quarter or probably added to the losses or probably made less profit his quarter?

**Krishnan A:** There was a one-off provision which happened because in Guwahati, there was a provision of almost Rs.6 or Rs.7 crore which was made for some receivables and some provisions under the IND AS, that is a one off provision that has happened so we do not think there is any reflection of the operating EBITDA of that hospital and we should get back in Q1.

**Nitin Agarwal:** The numbers I may be wrong, if you look at our New hospitals at consolidated levels, our EBITDA ex of Mumbai was Rs.24 crore in Q3 which is down to about Rs.4 crore in this quarter, so there is like a sharp Rs.20 crore drop?

**Krishnan A:** Let me take a look at it and come back to you during the call, Nitin. I do not think there was anything that is material that I am aware of, but let me just come back to you.

**Nitin Agarwal:** In your mature existing hospitals, is there a revenue drop on year-on-year basis in the last quarter?

**Krishnan A:** No, last quarter if you looked at the last presentation, there was an intercompany restatement. If you look at the consolidated numbers, the consolidated numbers get audited only once a year, so there was some intercompany restatement which was done for the revenue and that number of Rs.50 crore has been adjusted in Q4 in the ‘Analyst Presentation, it is just a presentation perspective, so Rs.50 crore should have been adjusted all through the four quarters. So since the last three quarters were not adjusted because what was provided was from the estimates and MIS whereas there was an elimination of intercompany transaction that happened in the revenues and which reflected in the Q4, it looks like although there is a drop, in reality there is not. So if you add back that Rs.50 crore, you will get that number.
Nitin Agarwal: Okay. My last question is with regards to our expansion plans. So beyond the two-three projects that we have outlined, is there anything else that we are looking at over the next couple of years?

Krishnan A: Not at this point in time.

Moderator: We will take the next question from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: I just want to understand your new pricing model that you have rolled out. Is it across the payer category or only for certain categories? Secondly, what does it mean for your P&L in the sense that versus say hundred earlier in the previous pricing model, what does this mean, is it hundred and five, ninety-five, how should we think about?

Suneeta Reddy: First, we have rolled it across all our Tier-1 hospitals and it is for all our cash patients. So probably 50% of the people who come to us, this would be applicable. In terms of hundred or hundred and five, let me say that it ensures that our EBITDA margin is in excess of 20% for all procedures.

Sameer Baisiwala: With the new pricing model. What was it earlier?

Suneeta Reddy: No, we will see that we maintain our EBITDA.

Sameer Baisiwala: So are you saying the new pricing model is EBITDA-neutral?

Suneeta Reddy: Yes.

Sameer Baisiwala: So it just safeguards you from any further regulatory action if I understood you correctly?

Suneeta Reddy: Yes, if we maintain our EBITDA over 20%, it does safeguard us from any regulatory action.

Sameer Baisiwala: On the regulatory action, just to understand, a) do you think it is possible that the Government could come up with in-house pharmacy price caps across the Board or certain States and do you have a way to mitigate this?

Suneeta Reddy: I think that would be difficult for the Government to do so and hard to comment.

Sameer Baisiwala: Just on fiscal ’19 outlook; could you give us some more color on how do you see the volume growth, overall EBITDA, anything that you can share would be wonderful?

Suneeta Reddy: We cannot make forward-looking statements, but if you look at the volume growth, I think there is strong volume growth that we are demonstrating and especially with our New hospitals, the potential for growth is definitely there. I mean if you look at Chennai cluster, we do have the potential to grow it by 25% and therefore I think since all our fixed cost has been absorbed, the margins will steadily improve.

Moderator: We will take the next question from the line of Swati Madhabushi from East Capital.

Swati Madhabushi: I wanted to check what is happening with Munich? The numbers for the year look..
Suneeta Reddy: Yes, so Munich in terms of revenues, their GWP came in at Rs.1,717 crore vs. Rs.1,299 crore, so there was a strong 32% growth but last year they adopted a new accounting standard which has gone by fifty two, so the profits look high for the last year, so this year it is coming at Rs.15 crore. So I think they are on a very good growth trajectory.

Swati Madhabushi: But what is the change in this profit calculation if you can explain a little bit more?

Krishnan A: So during the transition in the last year there was a one-off effect which was there from the earlier accounting methodology to the new one. So if you look at the last year, the last year’s numbers were not fully comparable as because of the transition they had an impact in the profit. Going forward, this will be the new normal, is what we are saying.

Mr. S.K. Venkataraman: Because it is actually a provision for unknown loss reserve and now they have followed the International method of accounting.

Swati Madhabushi: And then for Gleneagles in Q4 FY’18, what was the loss?

Suneeta Reddy: Rs.7.8 crore at PAT level for Q4FY’18.

Krishnan A: They had some provisions of taxes also which they had to put in, in this quarter. So if you look at it, going forward as we move into the next year, so this year EBITDA if you look at, as a reported EBITDA of overall for Gleneagles was around Rs.10 crore and the target that they have for the next year is at least Rs.30 crore.

Swati Madhabushi: Okay, but what was the loss adjusted for this tax provision? I just want to understand if things are getting better or things are getting worse?

Krishnan A: Things are not getting worse, things will get better and things are getting better.

Swati Madhabushi: Okay and for next year the guidance is Rs.30 crore of EBITDA and PAT breakeven?

Krishnan A: That is right, it should be more than breakeven.

Swati Madhabushi: Could you tell me what was the EBITDA for Navi Mumbai?

Krishnan A: Overall for the year we had EBITDA loss of Rs.35 crore, the last quarter had EBITDA loss of Rs.2 crore, by the end of Q1 we are hoping that we will get into breakeven on Navi Mumbai and as we move forward into the year, we should get into positive EBITDA trajectory.

Swati Madhabushi: Did you start the Oncology part in Navi Mumbai?

Suneeta Reddy: Yes.

Swati Madhabushi: So the start-up cost of that is reflected already or will it show up in the next quarter?

Krishnan A: It is already there.

Swati Madhabushi: Can I get some sense on how many beds are operational and how many beds are occupied in Navi Mumbai?
Suneeta Reddy: 175 are operational, 130 are occupied.

Swati Madhabushi: How would this move, like next year what is the sense?

Dr. K. Hariprasad: We are planning to operationalize 250 beds in the next year based on our projection of occupancy.

Swati Madhabushi: So you are assuming 250 beds operational, what is the occupancy assumption there?

Dr. K. Hariprasad: It will be about 65-70% of the operational beds.

Swati Madhabushi: When will Proton start operations?

Suneeta Reddy: End of the year or beginning of next year.

Krishnan A: Around Q4.

Moderator: We will take the next question from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: On the Pharmacy business, we have seen adjusted for GST, the comment was about 20% top line growth, because the GST itself must have remained largely flat, 4.5%, how should we look at this business both from a store addition perspective in FY’19 and just looking at overall growth per se in margin?

Neeraj Garg: We have been very aggressive this year on store additions. We added about 470 stores which is double the regular expansion. We expect next year store addition will be in the range of about 250-300 stores. As you rightly said, GST impacted certain margin as well as supplies for some period and we could fully recover that from that phase and margins are stabilized. We expect at least a percent improvement i.e 50 bps or half a percent from this level in the next year and working towards that.

Shyam Srinivasan: How is the Hetero integration?

Neeraj Garg: This year it has posted an EBIT of 2%, and should improve next year.

Shyam Srinivasan: But even now if we see the revenue per store and all, it is not at the levels at which some of our more mature stores are there?

Neeraj Garg: That is because of the proximity to our stores and we are working to improve that further and their store sizes are different, we have so many factors, we are constantly working to improve that and we have seen a lot of improvement in the last two years.

Shyam Srinivasan: So would this entail more closing of Hetero stores or you think that is not the way to go?

Neeraj Garg: We have closed already about 50 stores, maybe except about 15-20 stores we do not expect to close more than that in Hetero bucket and we will improve the numbers on that segment.

Shyam Srinivasan: My second question is on the ARPOB growth. Again, several macro factors, but this has been the kind of slowest growth at about 2% that we have seen on the
hospitals. Just linking back to the original comment on moving from ‘volume to value’, how should one look at this because what are the levers that we now have? Is it just a case where headwinds have now cycled through that, ARPOB will start increasing or are there any levers that the management has which should help improve this number as we look forward?

Suneeta Reddy: I think cost is one lever, re-pricing of some of the services is another lever and definitely with the introduction of robotics and new technologies we are seeing an improvement in ARPOB.

Shyam Srinivasan: So just trying to break that ARPOB number; in Chennai we have seen yet again the kind of slowest growth. Is there potential for us to take price increases now even under the new pricing mechanism that you are proposing?

Suneeta Reddy: The new pricing mechanism will give you a higher ARPOB.

Shyam Srinivasan: So just trying to break that ARPOB number; in Chennai we have seen yet again the kind of slowest growth. Is there potential for us to take price increases now even under the new pricing mechanism that you are proposing?

Suneeta Reddy: The new pricing mechanism will give you a higher ARPOB.

Moderator: We will take the next question from the line of Shekhar Singh from Excelsyor Capital.

Shekhar Singh: What was the net debt on a consolidated basis that you mentioned?

R. Krishnakumar Rs.3,100 crore.

Shekhar Singh: What is the Capex plan for the current year?

Krishnan A: For the current year, the total Capex plan will be around Rs.350-400 crore.

Shekhar Singh: How much of it will be maintenance capex?

Krishnan A: Almost around Rs.125-150 crore will be maintenance capex.

Shekhar Singh: In terms of margin improvement there was a mention that going forward we should be expecting some margin improvement. So could you give a rough idea of what is the sort of margin improvement or how to go about calculating it and what are the levers for it?

Krishnan A: So clearly from the existing hospitals perspective, if you look at it, we have come in at the Q4 level at around 20.8% EBITDA margin. If you actually back out that provision that we made for ECL and CSR of almost Rs.8-9 crore in this quarter which was a quarterly impact, pretty much be at 21.8% which is similar to what we had in last quarter. So from the 21.8%, the plan is to see how we can get to almost 23% in the next year by Q4 which is what if you remember long back we have been saying that we will get back to the 23% through a combination of volume and some of the value based COE initiatives that Ms. Suneeta has spoken of, plus cost. So in cost, we are also working on alternates on consumables, we are working on productivity of employees, we are figuring out how we can bring down the overhead cost a bit, there are a lot of initiatives that we have done and it is all to improve the margins and get it back to the 23% without necessarily re-pricing everything. My guess is we would still be able to take a price increase, that is an additional which can come in but we still think 23% is something that a combination of all these can get us to by the next year end. That is on the existing EBITDA. Of course, the new hospitals, you know that currently it is at 4% EBITDA margin, and all of these once they start delivering, of course, the 4% still has the Navi Mumbai loss albeit the low number. As some of these new hospitals will start delivering over the next year, you should see that the new hospitals should also get to the 10% by Q4 at least and also going forward higher into the next year. So we have clear
plans around this yet there have been issues like Kolkata which have actually hit us in the last year, we are back on track, we should be able to get that also back on track next year. So I think some of these are hopefully behind us. We should be able to see margin improving as we move forward.

Moderator: We will take the next question from the line of Rahul Kumar from Aksh Securities.

Rahul Kumar: On consolidated basis, your overall employee expenses have gone up substantially. So what kind of predictions you have for the next two years?

Krishnan A: The two factors on the consolidated basis is; one is the standalone pharmacy and it may not be appropriate to look at just the consolidated numbers because the number of new pharmacies that have got added this year has been 465 stores. So if you look at the number of stores that we have there and then look at it from the perspective of also the Apollo Health and Lifestyle where there also there have been some additions. So I think a combination of that is not probably showing as employee benefit expenses per se. There have been 2,000 employees which have got added in standalone pharmacies this year alone. So clearly I think it may not be right to just look at that component in our overall results, if you look at the overall healthcare services and standalone pharmacy separately you will realize that within healthcare services we are well within control.

Rahul Kumar: That is the point I am making sir that the growth in the revenue is very less in percentage terms than in the growth of the employees cost, what is the trend you are predicting internally because you are there inside the industry, I am not industry part, so I wanted to learn the trend?

Krishnan A: So the trend has been about 8-10% increase particularly in hospitals, we do not think it is going to be significantly higher, of course, if there are any other minimum wage impact which comes in, we will pass that on to the patients. if there is any. Apart from that there is nothing much on the trend on per employee or a per unit basis that we have seen.

Suneeta Reddy: But we are calibrating employees per bed as part of our cost optimization strategy and with the introduction of new IT.

Rahul Kumar: If I may ask; do you have any customer satisfaction survey or any survey because we have went to many of your hospitals and especially in Navi Mumbai hospital which we visited recently, the service of the customer is not focused and it is like a corporate culture where you just want to charge a significant amount of money but the services are not up to the mark in some of the hospitals. Currently, it just that there are scarcity of the services and there are a lack of hospitals but once Fortis and the rest of the new hospitals are coming up in each and every metro, the brand which Mr. P.C. Reddy has made over the years, will it sustain at the same level because the kind of valuations you are getting is Rs.13,500 crore on this kind of net profit. I do not believe that in the longer run if you do not have a good satisfied customer, we can have this kind of bottom line.

Dr. K. Hariprasad: Let me assure you that we do our customer satisfaction survey both internal, external and niche customer on a regular basis and we keep track of what is happening and we actually we have reported it to the Board that our customer satisfaction has improved. As you would agree, it is heavily dependent on the people and the point of time when you come into a hospital and whom we are interacting with. Your interaction with the people in Mumbai must have been one-off situation, but on the whole all our surveys indicate a better customer satisfaction scores. Both external scores of customer satisfaction surveys; we do regularly with
the inpatient customers and our own internal patient feedback. All three put together the scores are improving on a consistent basis.

Rahul Kumar: But let me tell you that there are still lot of grey areas where you need to improve and I do not think profitability will keep on going at the same pace?

Suneeta Reddy: We understand and we continue to improve our services and we will take this offline and see what we can do to address those specific issues.

Dr. K. Hariprasad: There is always an opportunity for improvement so we will take this offline; to understand some of the specifics that you have, it will help us.

Moderator: We will take the next question from the line of Ashi Anand from Allegro Capital Advisors.

Ashi Anand: I just wanted to understand this new pricing model a bit better. Given the fact that healthcare has certain uncertainties with relation to what a treatment will actually entail either in terms of length of stay or the actual treatment involved, how exactly do you kind of propose having a total bill kind of a concept that you will offer a patient?

Krishnan A: So you are right, from a broad perspective it is not as easy as what we all think it is and we all appreciate that. What we are doing is at least at the entry level we are kind of saying that we will come with the assured prices, we have come out with the assured prices packages, we are saying that for the entry level this is the package which you can come in, which is fixed, that at least gives you certainty for a few procedures or some of those procedures that are not complex, that are clearly understandable and doable. Of course, if there are co-morbidity issues and if there are other issues, if there are age factors, etc., it may be a high risk category, it will not fit into that package; we will have to obviously ensure that the gating is being done in correct and appropriate manner which our doctors will have to ensure. Once they take the patient and give the assured pricing, it is then up to the system to ensure that the costs are kept at the levels at which we have estimated. So let me assure you again here that we are not kind of bringing down the realizations or whatever it is, it is just that we are providing the customer a certainty in the overall prices in the 55 procedures.

Ashi Anand: Just a follow-up; can this kind of pricing also be extended to insurance patients?

Krishnan A: Insurance already has that, interestingly, as we speak all the four insurance companies already have 100 packages as we speak where the prices have already been under a package price. So there are procedures where it has already been accepted by insurance and again as I said it is not as though it is diluting the current realizations in any manner. The NHPS or the National Health Protection Scheme was a very different perspective where the prices there was significantly different than what we have, they did not even take into account the price of our services that you would all appreciate is significant; from 65% gross margin if you look at an EBITDA of 20% there is almost so much into the services which is beyond the consumables and pharmacies and doctors’ fees. All of that has to be baked in into our pricing which the NHPS does not actually bake in.

Ashi Anand: Would it be possible to give some kind of indication in terms of what percentage of our patients do we believe we could shift towards this kind of pricing?

Krishnan A: I think it is quite early today to tell you that and if you ask me even today in healthcare the number of planned surgeries that we have is significantly lower
compared to the unplanned surgeries that happen and I think as the number of electives and as insurance increases, etc., we would think that the patients would get more into some of these packages, but otherwise if you ask me to come in at emergency, etc., you obviously cannot get into this package.

Ashi Anand: There is lot of noise around different types of regulation that may hit the hospitals sector. Any particular thing that we are watching that we think could have largest impact on us that we are concerned about?

Suneeta Reddy: I think everything is already out there. We told you that in pricing for services and assured pricing plan we hope to keep our EBITDA intact. I think everything that has to be done has already been discussed. So beyond that we do not see anything else happening.

Moderator: We will take the next question from the line of Damayanti Kera from HSBC.

Damayanti Kera: Sir, you mentioned Cradle asset utilization have gone from 19% to 31%. Is that correct?

Neeraj Garg: Yes, that is correct.

Damayanti Kera: Can you share the same utilization level for Spectra, where we are right now?

Neeraj Garg: Spectra's utilizations have remained constant; they were at 44% in FY'17 and they are at 45% in FY'18. One of our conscious efforts in Spectra was to really move towards trying to improve the case mix and through that what we have been able to achieve is an improvement in our ARPOB, so our ARPOB in Spectra has gone up by 10% from Rs.32,000 in FY'17 to Rs.35,000 in FY'18.

Damayanti Kera: For next two years, what we are targeting for this utilization level to go up from 45% right now to say like 50-60%, how we are targeting that?

Neeraj Garg: Directionally, what we would point is Spectra's utilization from this level will continue to go up. So we do not expect ARPOB of Spectra to go up dramatically further but we will see increase in utilization and we should expect the numbers to get into the 60% range over the next two years. In the case of Cradle, the occupancy levels have really gone up through one significant improvement in our Gynac surgery base as well as much better utilization of NICU beds and we will continue to see that improve. So, in the case of Cradle, we would expect it to be in the 50s over the next two years.

Damayanti Kera: Also, Suneeta ma'am had earlier commented that we have potential to grow by 25% in Chennai, did I hear that correctly? Also what would drive that kind of growth and by when we can see 25% growth in Chennai?

Suneeta Reddy: We said we have the ability to grow because of bed capacity. So definitely, we do have plans to grow it. You would not see 25% happening overnight or in one year but it will happen.

Damayanti Kera: But we have the potential to grow at that kind of levels?

Suneeta Reddy: Yes, we definitely have the potential to grow.

Damayanti Kera: Just one clarification on AHLL loss. So I am looking at Q4 FY'18 presentation. We are saying AHLL PAT loss for FY'18 is Rs.1,610 million and FY'17 it is Rs.1,770 million. I am just checking back at the old presentation for last year i.e FY'17 and
there it is mentioned that this loss was Rs.973 million. So what adjustments we have done or what has happened there?

S.K.Venkataraman: Last year we have done some regrouping to the retained earnings. Current year because of the IND AS, we had a transaction during the last year, buy back of controlled interest. So there has been a reclassification in the retained earnings. That is why we would see the difference.

Damayanti Kerali: So this is all because of reclassification of you said buyback?

Krishnan A: Also we are looking at the AHLL presentation as a part of our slide that is 100% PAT number that has been provided whereas what we consolidate is actually 71% because the IFC also owns, so that is the reverse minority which is there in the PAT.

Damayanti Kerali: So these two are the factors for this difference?

Krishnan A: Yes.

Moderator: Ladies and gentlemen, due to time constraints, we will take the last question from the line of Kashyap Pujara from Axis Capital.

Kashyap Pujara: I had a question regarding the Navi Mumbai facility and the AHLL. I think put together we are at a run rate loss of around Rs.150-200 crore between the two. Now, within the next year which is March '19, can we see the loss breaking even, do we see the entire loss going to zero in the current year or do you think that it might take a couple of years, what is your sense on that?

Krishnan A: Navi Mumbai, if you look at it, as we said, it is yet to breakeven by Q1 and hopefully by Q4 we should at least get to between Rs.5-10 crore of EBITDA and that is what we are targeting. But AHLL, even that will get into breakeven by FY'20. Neeraj, do you have any perspective on where we would be looking at it on Q4 of this year?

Neeraj Garg: AHLL we believe we are on track on a run rate basis to breakeven in the last quarter of this year at an EBITDA level and the EBITDA breakeven for the full year in FY'20.

Kashyap Pujara: What is the metrics that we should be tracking because how are you looking at the run rate, I mean are you seeing lower losses each month, could you share how that trend has been, I mean has there been some improvement in trend as we speak, while I understand that by Q4, you will be achieving breakeven. But what has been the trend like?

Neeraj Garg: The real metric that is the easiest for you to track is really revenue growth, because if you look at our losses it is largely because of asset utilization. As asset utilization improve, clearly the profitability improves there. So what we have been tracking is on a month-on-month and quarter-on-quarter sequential basis is what the revenue growth is both at the center and business level as well as the consolidated level, and that is where I mentioned earlier that we can see clear traction. So if I look at the last quarter of FY'18, we grew 7% over the third quarter of FY'18 and this is despite the fact that typically the third quarter is a good quarter for us, but with 7% sequential growth. When I look at the first quarter of this year, we are expected to close 6% higher than the fourth quarter of last year. So quarter-on-quarter growth is the real metric and we are on track for that. In Q4, there were a few one-offs on account of some provisioning that had to be done, that will actually help us this
year because some of that provisioning was double provisioning, for example, incentives and bonus payouts, we have historically charged them at the time that we made the payout. Under the new accounting standards last year, we were asked to provision them in the last quarter. So effectively last year we have charged that to P&L twice. That will effectively become a saving this year. So there is clearly quarter-on-quarter improvement.

Kashyap Pujara:  Hopefully that incremental Rs.150 crore comes in; now on top of it, the utilizations for our old facilities have also really not in-stuck to the extent that we would like to see. So what are your thoughts on the existing hospitals getting to better utilizations while you did allude to 23% margins earlier in the call, but how do we read that, if you can share some light on that one?

Krishnan A:  As we said, we are focused on volume growth, this is specifically one of the reasons that we have introduced this “Assured Price Plans”, right, so that there is a certainty which is there and people can come in and use us if there is a price perspective why they are not using us. So that is one area that we are doing. Second is COE’s itself, on the ‘Centers of Excellence’, we are focusing, we have added a few doctors in certain select areas, like neuroscientists and orthopedists, etc., and we are focusing on increasing the COE’s volume in particular year. The third thing is that we have already said if you remember the last call we did some recalibration of prices in some of the Corporates and that also should help us reach some revenue. So that is on the revenue line. On a cost line, as I said, some of these optimization initiatives that we are working on; should get us to the 23%. So it should be a combination of both because the levers are there in place, they will have to work on it, the teams are quite at it already as we speak.

Kashyap Pujara:  The entire thought of Capex cycle now getting behind us, so that we are maintaining, we are not going to see any incremental announcements, we are largely going to see whatever asset getting utilized better rather than us stepping up on incremental projects at the current point in time?

Krishnan A:  That is correct.

Kashyap Pujara:  Basically if I were to then simplistically say, in the next two years given Rs.150 crore loss and the incremental utilization, volume and margin uptick that you see, you easily can do Rs.400-500 crore EBITDA swing, based on these two levers and given that all your costs are essentially fixed in there including depreciation, interest which are all in place, we should be able to see Rs.400-500 crore PBT swing because that should clearly slow down?

Krishnan A:  Yes, that is true, we are working exactly on the way that you said, we will have to be a bit patient, hopefully this year we get the EBITDA margins higher, we get the new hospitals also into a better positive trajectory because this year that went by we had still Navi Mumbai which was there and we should hopefully see that behind us. Yes, the depreciation and the interest is fully blown for sure which means any incremental EBITDA which will come in, barring for the tax element will straight flow to PAT also. So PAT also will significantly move up once the EBITDA kicker flows in and there was another analyst on this call who asked us about the PAT of the Company and clearly the depreciation and the interest because of the 30 new hospitals and Rs.2,000 crore of Capex that has been added is the only reason both of that has impacted the PAT in the last two years and as the EBITDA comes up it should flow down directly to the PAT.

Kashyap Pujara:  The hospitals which are actually going in share of associate/minority, if I were to basically take a proportionate EBITDA, what would be the proportionate EBITDA of those two hospitals for the full year FY’18?
Krishnan A: As of now, when you look at Kolkata was almost at Rs.60-70 crore EBITDA that we had two years back and that has come to Rs.10 crore because of the issues that we had, I mean, local Government interventions, etc., we should be getting back to the Rs.30 crore next year as I said next year at Kolkata and Delhi is almost at Rs.80 crore EBITDA that we have. So these are the two parts that are not getting consolidated currently which is under the IND AS obviously because of the 50% holding, the earlier proportionate consolidation does not hold true now. So clearly next year if we get to the Rs.30 crore and a year after that could be even higher. Hopefully that will get consolidated.

Moderator: With this, I now hand the conference over to the management for their closing comments.

Suneeta Reddy: Ladies and gentlemen, thank you for taking time to join our call. We continue to remain committed to growing our revenues, our EBITDA and our margins with a very strong focus on ROCE which is currently at 10.43%. We will do this by building the most patient-centric, digitally smart and physician-friendly organization. We have also built the infrastructure to grow the wellness and the preventive healthcare segment. With these new initiatives and our focus on value and cost optimization, we should look forward to a stronger performance next quarter. Thank you again.

Moderator: Ladies and gentlemen, on behalf of Apollo Hospitals, that concludes this conference call.