Moderator
Ladies and gentlemen good morning and welcome to the Apollo Hospitals Q1 FY11 Results Conference Call. As a reminder for the duration of this conference, all participants’ lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today’s presentation. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Mayank Vaswani from Citigate Dewe Rogerson.

Mayank Vaswani
Good morning and thank you for joining us on this call to discuss our financial results for the first quarter of FY2011. We have with us today the senior management team of Apollo Hospitals. Before we begin, I would like to state that some of the statements made in today’s discussions may be forward-looking in nature and may involve risks and uncertainties. For a more complete listing of such risks and uncertainties, please refer to the investor presentation posted on our website. We will start with Ms. Suneeta Reddy, who will discuss the operational highlights for the quarter. Mr. Venkatraman will then discuss the financial highlights and CAPEX expansion plans and Mr. Padmanabhan will take us through businesses such as Apollo Munich, Apollo Health Street and the pharmacy operations. Documents relating to our financial performance have been emailed to all of you earlier and have also been posted on our corporate website. I will now hand over the floor to Ms. Suneeta Reddy.

Suneeta Reddy
Good morning ladies and gentlemen, thank you for being on call. I trust that all of you have been through the numbers.

It has been a strong start to FY11 with a 29% expansion in revenues on a standalone basis and a near 30% increase in topline on a consolidated basis. Profit after tax however has declined compared to last year, while I will let our CFO discuss the numbers in detail, let me say that the decline in PAT was an outcome of our investments liquidated in adding new hospital beds across the country. Our revenue growth has been driven by improved operating performance. We have witnessed a strong growth in some of our key specialisations, in fact, our EBITDA margins have grown by 50 basis points. In our key specializations, we have seen a growth of 31% in orthopedics, 25% growth in transplants, and 20% growth in the cardiac sciences.

Our performance has also been driven by increased patient volumes. Inpatient volumes have grown by 17% and outpatient volumes have grown by 26%. The children’s hospital in Chennai has been performing well and progress on our Bhubaneshwar facility is ahead of expectations. Further revenue growth has also been driven by capacities added over the last 12 months, the effect of this will be more pronounced as the facilities mature. These new facilities include those commissioned in Chennai, Madurai, Karur, Bhubaneshwar, Hyderabad, and Secunderabad involving a total capacity of 750 beds over a period of 13
months. This makes Apollo Hospitals the only healthcare provider in the world to have organically added six new hospitals in such a timeframe.

To this end, we have prepared a roadmap for the NABH accreditation for more than five of our facilities. Some of you may recall that last quarter, our hospital in Mysore was one of the first to be awarded NABH. We are also implementing programs to increase operating efficiency and to transition our performances to the next level. Initiatives in this regard are the 27 Six Sigma projects which we have completed in various locations in India. The Apollo Way initiative was launched by the group in 2010. This has shown an increase of return on the asset at the group level and is designed to sweat our assets a little more to optimize utilization and increase returns.

During the initial quarter, the initial assessment was conducted and primary focus areas were identified. We have also joined hands with TCS to design a hospital information system called Med Mantra. The deployment of Med Mantra has been initiated in Apollo Hospitals main. Some of the key highlights of the quarter, we launched the Billion Hearts Beating Campaign to create an awareness of cardiac health and we are pleased that the response for this has been tremendous. In fact, we are beginning to see increase in outpatient volumes in the cardiac space. A team of surgeons at Apollo Hospitals Chennai successfully conducted a heart transplant on a US citizen, who is the first US citizen to undergo a heart transplant in India. At the age of 65, he is also the oldest person to have a heart transplant in India. Mr. Lemmer had a history of cardiac complication and this is a significant testimony to the quality of health care at Apollo. IMCL, Delhi performed 34 organ transplants liver and kidney in May and this was a new record for the hospital in terms of numbers of transplant. Apollo BSR Hospital Mysore performed its 100th renal transplant during the quarter. Chennai completed its 50th liver transplant. Apollo Hospitals Ahmedabad has received permissions for conducting liver transplants.

While all of you will wonder why I am focusing on liver transplant and heart transplants, we have to recognize that our case mix has become more intense and therefore it has impacted revenues per bed per day. Also we have seen growth in the key specialties which is cardiac, oncology, orthopedics, and pediatrics. On the technology front, our new equipments like Novalis, Cyberknife, and PET CT have been received very well. We have commenced marketing of these revolutionary treatments in overseas geographies to attract more international patients. To conclude, we have made significant progress this quarter. Innovation in delivery format and perseverance in clinical outcome, I am sure will yield the type of increased stake holder value that all of us expect from Apollo Hospitals. I am truly excited about the future and about the next quarter. Right now, let me hand over to Mr. Venkatraman who will take you through the financials.

S. Venkatraman

A quick overview of the consolidated numbers. Revenues for the quarter were up by 30% to 6,012 million, more significantly EBITDA expanded 32.4% to Rs. 992 million. The EBITDA margin at the group level improved by close to 50 basis points, one of the important thing, the key highlight is the increase in return on capital employed at the consolidated level, which has risen from 14% annualized in Q1 last year to 15% in the current quarter. This is driven by an improving contribution from all businesses and in spite of a nearly 400 crore increase in capital employed which is not insignificant. So we have been able to actually shore up our ROCE in spite of increased capital employed. In order to invest in new facilities, we have liquidated our treasury investments and also borrowed to fund these projects. Therefore there is a marginal decline in PAT and this is totally in line with our expectations.
As these facilities begin to mature, the operating income will offer a greater contribution to overall return and we are seeing that happening with our facilities at Bhubaneswar, specialty hospital in Chennai, pediatric hospital in Chennai, and the Secunderabad hospital in Andhra Pradesh. Further the return on capital employed of the healthcare services segment which is again very important to notice is comparable at 17.5% in spite of an increase in the capital employed in the same quarter last year. Healthcare services ROCE remain strong despite the addition of several new facilities in the last 12 months. Here too we see an increase in contribution from new facilities as they mature, which is in line with our past track record. The key takeaway from these numbers is a strong rate of growth on a year-on-year basis, this is driven by an all-round improvement in our business and the significant thing to note here is that growth is accompanied by an improvement in margins which one would normally not expect, but which has happened because of our strong operating focus.

Coming to the segmental revenues, income from healthcare services have expanded 25.2% to 3,836 million rupees during the quarter. There has been a sharper increase at the EBIT level also. Revenue growth has been driven by strong growth in inpatient and outpatient volumes as earlier observed by Ms. Suneeta Reddy. We are seeing sustained growth in mature clusters of Chennai and Hyderabad. While the new hospitals shown in others have started to ramp up well with the OP volumes increasing by 55% and IP volumes higher by 30.5%. We have also had a strong focus on reduction of ALOS across all our facilities except at Hyderabad, where we have added new technologies leading to a bit of a change in the case mix, which is also planned. Further we have been able to drive up the average realizations per bed across all our facilities with mature clusters leading the way. And this goes against the normal observation by investors that mature facilities tend to max out. In fact at our main hospital at Chennai without pharmacy and doctors’ fees, our collections per bed per day is around Rs. 24,000. The new hospitals shown in others have also progressed well and in time we shall see the improved ARPOB as you drive patient volumes and occupancy levels.

Looking beyond performance indicators to the P&L, we can see that the overall expenses are increasing in line with business growth and are well under control. Depreciation has trended up this quarter as we have added new equipments and as new facilities are kicking in, they are getting operationalized. Interest income is up on increased borrowing, but well within the budget. We had a 2-crore loss on account of foreign exchange on the 15-million FCCB. While we had a 2-crore income in the March quarter, so this is happening because of the currency fluctuation and as and when we convert the FCCB, it will get booked in the P&L, instead of translation loss, the actual profit or loss. I will conclude by saying that we are confident of delivering sustained performance as we have done in the past. This is it from me, I will now hand over to Mr. Padmanabhan.

K. Padmanabhan

I will now take you through some of the other businesses in our portfolio. Apollo Munich Re Health Insurance recorded a gross written premium of Rs. 420.6 million during the quarter compared to 194 million in the same quarter last year. The company is well on course to record a gross written premium of about 2 billion rupees in year 2010-2011. The company has also delivered a strong topline performance, as earned premium more than doubled from 124 million in Q1 FY10 to Rs. 280 million in first quarter ending FY11. There were losses at the EBITDA level and at the PAT level as the company makes continuous investments to grow this business and all these losses were budgeted and were planned for. Of note is improvement in the combined ratio compared to the same quarter of last year. We are confident of transitioning this business to profitability as we increase our reach and scale of operations. We continue to do
well in our efforts to expand the reach of this business and have opened four more offices during the quarter.

Coming to Apollo Health Street, revenues and EBITDA have dipped compared to Q1 of last year. However this was anticipated in the budget given the carryover effect of the market environment and impact of the terminated contracts in the prior fiscal which we have discussed with you in the last quarter of last year. EBITDA was higher than the budgeted number of Q1 by about $300,000. New contract, basically contracts closed during the Q4 of last year accounted for about $1.5 million in revenues in Q1 for this year and is likely to generate about $6.5 million of additional revenues during the course of this year. Operationally, it continues to make steady progress.

Apollo Health Street also recruited a new CEO with over 25 years of experience in the US healthcare market including senior management positions at leading healthcare insurance companies. Karen who has joined us has already completed four new contracts in the first quarter. While the hospital business has lagged the company has received verbal commitments for 2 large contracts which we hope to close over the next 30-45 days. From our cash flow perspective, in addition to better working capital management, the company has started seeing the benefits of an extended amortization schedule as part of the completed restructuring of its debt. I will now hand over to Ms. Shobana Kamineni who will take you through the pharmacy operations.

Shobana Kamineni

Thank you, Mr. Padmanabhan. The pharmacy operations continue to grow steadily and we are pleased with the way this business is developing. What is established is Apollo's ability to create an entire new and very successful vertical thereby strengthening its overall healthcare dominance. The revenues expanded 40% over the same quarter last year. Further the operating losses at the EBIT level have declined to Rs. 46 million from Rs. 60 million in Q1 of last year.

During the quarter, we added 33 new stores and closed 16 for a net addition of 17. As of June 30th 2010, the total number of operational stores is 1,066 as you will see that this year we have adopted a very steady approach to opening stores and we have been very fiscally responsible in the stores performance to make sure that every store performs according to the target that we plan for it. And therefore our overall business matrix includes the performance analysis of mature stores and like for like growth in revenues for store of the mature stores was 17% on a year-on-year basis which is very rarely found in any kind of economy. The mature stores are also showing an improvement in operating performance as the EBITDA margin increased by 228 basis points from 2.34% in Q1 FY10 to 4.62% in the quarter under review. When looking at all Standalone Pharmacies (SAPs), there was an increase in revenue per store by 21% on a year-on-year basis and a 3% on a sequential quarter basis. This has been achieved despite the addition of 17 stores on a net basis. We are very bullish about this business and consider it to be a great growth strategy for Apollo as a whole and also as a very synergistic business where we started leveraging this to transact many other Apollo businesses and information services for the main hospital and doctor bookings. We have seen a steady progress in profitability in the business and have confidence of the performance going forward. That’s it from me and the group we can take questions now.

Moderator

Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Deepak Mittal from Samara Capital.
Deepak Mittal
I wanted to ask a question on the standalone pharmacy business. As this vertical has grown quite well and is now almost 25% of our overall revenues, I was wondering what share of these revenues, let’s say from the pharmacies which are put in within the hospital premises and what share comes from the pharmacies which are outside the hospital and are a pure retail pharmacy for the same?

Shobana Kamineni
We have actually separated the business, SAPS are the ones that operate outside the hospital space.

Deepak Mittal
So all this 140 crore revenue is all from pharmacies which are outside the hospital space?

Shobana Kamineni
That’s right.

Moderator
The next question is from the line of Gaurav Chugh from B&K Securities.

Gaurav Chugh
Can you tell me what is percentage of revenue from the insured patients in the hospital segment?

Suneeta Reddy
15% is from the insured patients.

Gaurav Chugh
Recently there was some kind of news for the insurance companies that they are removing facility of cashless through TPAs, any kind of impact that could be there going forward on the hospital segment?

Shobana Kamineni
As of this morning they revoked it. IRDA has asked them to revoke this. So what we are working on together is an initiative with hospitals and insurance companies and we are leading the initiative where the insurance companies are making towards that the claims processing is more transparent and is really only from the retail segment. I think out of the 15% retail segment is even smaller as a percentage. But it’s been revoked as of this morning.

Gaurav Chugh
So no impact as such, I mean?

Shobana Kamineni
No, there has not been any impact.

Gaurav Chugh
Next question is regarding your expansion plan, in the last 13 months you have added 750 odd beds, what is the plan for the next 2-3 years, how many beds?

K. Padmanabhan
We planned to open about 2,482 beds over the next three years. In FY11 itself, we will have additional 552 beds and in FY12, 300 beds and FY13 will be 1,630 beds. This will be spread across whole variety of Tier II towns plus also some major projects coming up in Mumbai and also in Chennai.

Gaurav Chugh
And what is the kind of CAPEX you are incurring on this expansion?

K. Padmanabhan
Well part of the money has already been spent on the expansion, the additional funding that we will be looking to spend is about 1,250 crore over the next three years. Currently our debt is about 700 crore and cash on hand is about 150 crore leaving a net debt of about 550 crore, so we can leverage another 600-700 crore and then with a combination of internal accruals and possibly if need be, some equity we will look at over the next three years.

Moderator
The next question is from the line of Ranjit Kapadia from HDFC Securities.
Ranjit Kapadia: My question relates to what was the occupancy during the quarter and in the corresponding quarter last year and what was the average length of stay and ARPOB for the quarter as well as the corresponding quarter last year?

K. Padmanabhan: The occupancy was close to about 80%.

Ranjit Kapadia: And the corresponding quarter last year?

Padmanabhan: 75% in the previous quarter and revenue per bed day at AHEL standalone was close to Rs. 20,000 as opposed to about Rs. 17,000 in the same quarter previous year.

Ranjit Kapadia: And average length of stay?

K. Padmanabhan: 5.03.

Ranjit Kapadia: I just want to know what is the CAPEX for the current year?

K. Padmanabhan: CAPEX for the current year will be about Rs. 400 crore.

Ranjit Kapadia: What are the plans for this pharmacy business, we are very near to breakeven, now we see a 40% growth in the pharmacy business, very good growth, and going further, are we planning to divest this business in a separate company or are we going to rope in a partner?

K. Padmanabhan: Basically, we have a big thing that the pharmacy business is getting close to critical mass and as you have rightly pointed out, we are getting also close to break even and we intend to actually extract value out of this business at some future point of time. But it will be a matter of valuation and we will look at the right time to demerge this business and possibly get either financial or strategic investors. But Apollo will continue to hold at least 51% of this business in the foreseeable future.

Moderator: The next question is from the line of Rashes Shah from ICICI Securities.

Rashes Shah: My first question is with regards to ARPOB, just wanted to know what are the factors which are leading to a growth of ARPOB on year-on-year basis among mature hospitals? What can we expect going forward regarding ARPOB?

K. Padmanabhan: Basically the revenue per bed is driven by the case mix, the tariff increases that we may have from time to time and the average length of stay. So we have, you know, in mature hospitals tried to reduce average length of stay and also improved case mix and depending on the levels of occupancy, we have selectively also used tariff increases, but we continue to do that both in mature hospitals and in new hospitals constantly striving to reduce length of stay and increasing case mix.

Rashes Shah: And just for my understanding purpose, I just wanted to know how the ARPOB calculation is being arrived at?

Padmanabhan: Total revenues is divided by occupied beds.

Rashes Shah: And in percentage terms what are the total doctors’ fees paid?
K. Padmanabhan: Our revenues don’t capture the doctors’ fees, but for you to have an understanding, you can take our revenues and multiply it by 1.23 times to gross up revenue including doctors’ fees.

Rashes Shah: So out of total topline in percentage terms, how much goes towards doctors’ fees?

K. Padmanabhan: About 23% additional over and above the topline, so I think 5,000 now.

S. Venkatraman: Multiply the topline by 1.23 or 1.2.

Rashes Shah: And you have just recently launched six new hospitals, how much CAPEX has been incurred in this?

S. Venkatraman: Rs. 320 crore.

Rashes Shah: And what is the revenue guidance for FY11 and FY12 from these hospitals?

K. Padmanabhan: Because these are new hospitals, we don’t give a guidance as far as revenues for new hospitals are concerned, but we expect that they will perform as well as what other hospitals have done when they are one year old.

S. Venkatraman: In Bhubaneshwar, I am glad to tell you, the hospital is EBITDA neutral in the first quarter itself.

Rashes Shah: There was a news for further equity infusion into the company for expansion of the project to the tune of 3,000 crore, how much is the company planning to infuse in the next two to three years and under which route?

K. Padmanabhan: Actually that news item I think was wrongly reported. As I mentioned to you, now the total capital expenditure that we need to spend over the next three years was 1,250 crore, we have 150 crore already in hand with us and we will be looking at raising new debt towards the second half of next year and with the combination of internal accruals. And there will be some amount of promoter funding that will be coming into the company. We hope we will be able to manage this expansion.

Rashes Shah: And my last question, what is the plan of Apollo in working along with Parkway and Khazanah post it having acquired a majority stake in Parkway?

Suneeta Reddy: I think at this time, Khazanah has not yet completed the entire transaction, post that, we will look at what the possibilities are in working with Khazanah.

Moderator: The next question is from the line of Vikas Sonawale from Religare Capital Markets.

Vikas Sonawale: Couple of questions, one is, my model is reflecting a different number for ARPOB, it was about 17,000 odd rupees to 19,000 odd rupees in FY10, so I mean this number was about 10,749 in FY10, it’s going up, so there is some confusion in terms of this number on a quarterly basis.

K. Padmanabhan: Yes, basically what we have done is, you know earlier when we used to give the revenue per bed, we did not include the pharmacy billing, we only gave the hospital billings, we used to bill for pharmacy separately. Now we have recognized that for making like for like comparison, the hospital based...
pharmacies which are integral to the IP billing have been included in the revenue per bed.

Vikas Sonawale So the approximate difference of about 9,000 is coming from that part?

K. Padmanabhan Yes, but the earlier year would have had probably been at about 17,000 and that will go to 19,000.

Vikas Sonawale Okay, but on a normalized basis, excluding pharmacy, that number would be around 10,000-11,000, that’s what I am assuming.

S. Venkatraman 12,500.

Vikas Sonawale Secondly, on the balance sheet numbers, I got your debt number and cash number, can you also highlight the net worth numbers for FY10?

K. Padmanabhan FY10 about 1,650 crore is the net worth.

Vikas Sonawale And this 750 beds for which we have spent about 320 odd crore, which is roughly about 50 lakhs per bed, so going ahead, what could be the kind of expectations in terms of CAPEX per bed, 50 lakhs is the figure that we can look at?

K. Padmanabhan It could be anywhere ranging between 50-70 lakhs per bed because some of these beds that we have added last year were also leave premises, so going by that, one can't go by that into the future, but you can say as general role of term, it will be been between 50-70 lakhs a bed.

Vikas Sonawale And most of these 750 beds are getting into like tier II cities, so I can assume about the tertiary care segment will be a lower contributor in these hospitals, is that right?

K. Padmanabhan No, in this year actually almost 280 beds came in Bhubaneshwar, about 82 beds came in Chennai and another 150-200 beds came in Hyderabad cluster, most of them were actually close to tertiary care except for the children’s hospital. But next year, going forward, you will find a lot of beds coming in the secondary care tier II towns.

Vikas Sonawale But the current composition is largely skewed towards tertiary?

K. Padmanabhan Yes it is.

Vikas Sonawale And any update on the Cisco JV incremental revenue or profit or anything on that front? I mean the JV which we have with Cisco.

Suneeta Reddy That is actually work in progress.

Vikas Sonawale You just mentioned about the promoter infusion, will that be significant because from equity divestment perspective, if I were to look at, will it be significant?

K. Padmanabhan It is 2.5%.

Vikas Sonawale 2.5%, okay great.
The next question is from the line of Himani Singh from Elara Capital.

Himani Singh: I have a couple of questions, one is as you mentioned that from couple of quarters we have been mentioning pharmacy revenues for only those pharmacies which are standalone ones, could you give me the number of pharmacies which we have in hospital, hospital-based pharmacies?

K. Padmanabhan: It's about 42 pharmacies in hospital-based pharmacies.

Himani Singh: And can we extrapolate that major tertiary hospitals that will come in future will have a pharmacy attached to it?

K. Padmanabhan: Absolutely, yes.

Himani Singh: My one very basic question, in the previous years we have seen ARPOB of the company in the range of 9,000-10,000 range, now we have restated it, the jump that we have seen, is it because earlier we used to calculate it as revenue per bed day and not revenue per occupied bed, when we take into account occupied bed count, then the ARPOB increases and if we calculate it as revenue per bed day, the denominator is our total count of beds, while in the other case the count will be occupied bed count, so is that the difference that is making the incremental jump?

K. Padmanabhan: No, firstly, we have not changed the way, it's always on occupied bed, but let me just take, what are the things that have actually happened, one is that the pharmacy sales to patients, for IP patients is now added back into revenue per bed, as it rightly should be, which we were not doing earlier. And also the total revenues of the hospital which includes OP revenues are taken and divided by the occupied beds to arrive at revenue per bed, now that is international practice.

Himani Singh: So we are taking OPD, pharmacy, and IPD all?

K. Padmanabhan: That's right and divided by occupied beds.

Himani Singh: And earlier also we used to divide by occupied bed only?

K. Padmanabhan: That's right.

Himani Singh: And my last question is we have seen healthy growth in ARPOB and a good decline in ALOS in this quarter, while we have added six new facilities, my understanding goes that our ALOS should have taken a hit, but we have also changed our mix, now our mix is more towards the tertiary mix which has transplants, liver transplants and heart transplants which to my understanding is that would take a higher ALOS for recovery. What is the driver behind reducing the ALOS and with these new hospitals coming in, despite that we have seen a very good jump in ARPOB which for new hospitals would have been significantly lower and a good decline in ALOS which for new hospitals would have been higher?

K. Padmanabhan: Now basically if you look at the mix of 750 beds that you were actually referring to, that constituted both brownfield expansion and hospitals like children’s hospital in Chennai and Bhubaneshwar hospitals, all of them were actually
below the average ALOS of the company. The second issue is in terms of, your question was in terms of, because of the transplants you are expecting ALOS to go up, yes of course in those areas, ALOS will go up, but it's also compensated by the fact that we are doing additional daycare surgeries, which actually didn't show in ALOS.. So we are actually continuously tracking both of this to make sure that the ALOS stays at a level that is comfortable to us, being able to manage and increase our revenue per bed day.

Himani Singh
Going ahead, as you said that we will have more facilities coming up in the tier II cities which will be secondary care kind of, do we expect our average ARPOB to take a hit next year?

K. Padmanabhan
I don't know whether that is the best way to look at, what we can say is that EBITDA margin actually could well improve because of the expansion into tier II towns. Obviously we will have a higher mix of secondary care hospitals, to that extent, you know the average ARPOB can come down, but that depends on what percentage of that will constitute our total mix, I don't think it will significant enough to make any dent in our ARPOB.

Himani Singh
And once we have a higher percentage in terms of secondary care, do you estimate that our doctors’ cut which is around 23% when we have higher best facilities in tier II cities, will that go up or go down?

K. Padmanabhan
Firstly, we are not accounting for that in our books at all. But your question is whether the doctors’ share of the total business will come down as a result of secondary care, I don't see why that should happen.

Himani Singh
It is just for my understanding as to whether the doctors would take more or less as in what is the trend?

K. Padmanabhan
Roughly, we would see that it will be in the range of 17%-22%, whether it's tertiary care or secondary care and after all we do run secondary care within our tertiary care also.

Himani Singh
Thank you so much for taking my questions and all the best for the future.

Moderator
The next question is from the line of Vinay Paharia from Religare Mutual Fund.

Vinay Paharia
I have two questions. One is, the numbers in the PPT which you have given specifically in terms of the hospital performance and you have discussed various parameters for hospital performance, there the standalone EBITDA appeared at 67 crore for the hospital segment whereas if I were just to do some math the standalone EBITDA for hospital, it would be somewhere around say 80-85 crore, 85-90 crore. So where is the key difference?

K. Padmanabhan
Yes, in this we do not include pharmacies, hospital based pharmacy, for example, we manage our pharmacy in Delhi, Kolkata, Bangalore, and those incomes are not taken into hospital income in the standalone.

Vinay Paharia
Because you have also mentioned about hospital based pharmacies Rs. 147 crore etc., in this slide, so you have not included the hospital based pharmacies turnover and profits in this, is it?

K. Padmanabhan
Yes, we have not taken into account the pharmacies on license outside the AHEL business which means there are divisions, subsidiaries, joint ventures,
associates to whom we do the pharmacy billing that is not taken into account in our hospital revenues.

**Vinay Paharia**

So basically 20 crore EBITDA comes from those pharmacies, which are on either JVs or on licensee companies?

**K. Padmanabhan**

That's right.

**Vinay Paharia**

Second question is, if I were to see the subsidiary numbers in the same slide which you have provided, the EBITDA margin for the subsidiary is for the Q111 comes at about 37% and on an average revenue per occupied bed of just about 12,000 rupees and then occupancy of 72%. So I was just wondering as to how are these hospitals so profitable and what is the difference between Chennai cluster, where also you have APROB which is double the subsidiaries APROB and margins are similar?

**K. Padmanabhan**

No, I think the numbers when you are looking at EBITDA margin, there at 17% that is actually the EBITDA margin at the company level, which is shown at the AHEL standalone hospitals. The EBITDA margins shown in the subsidiary is only for the pure hospital business, actually we should have put the EBITDA margins for the hospital separately.

**Vinay Paharia**

No, actually I am referring to, the Chennai cluster margins, this is just a fundamental level of question.

**K. Padmanabhan**

You are talking about Chennai cluster?

**Vinay Paharia**

Yes, because intuitively higher average revenue per occupied bed should have increased the margin disproportionately whereas if one compares these two clusters and specifically the subsidiaries and JVs margins and Chennai cluster margins they are similar, but in terms of average revenue the subsidiaries are half of, what Chennai cluster is at?

**K. Padmanabhan**

Basically, if you really want to get to that level of detail then you must actually see what is the EBITDA per bed, not the margin. So if you take a 26% EBITDA on a 20,000 rupees revenue per bed, if the EBITDA per bed in Chennai cluster is significantly larger then the EBITDA per bed in let's say the subsidiaries. Now also I would like to say that the tertiary care hospitals or the higher level of intensity actually has a high material content which brings down the EBITDA, although the revenue per bed will be significantly higher. So really you have to look at it as a combination of what is EBITDA margin and revenue per bed.

**Vinay Paharia**

Okay got it. So basically the costs in the subsidiaries are also similarly low, but EBITDA per bed is always lower?

**K. Padmanabhan**

Yes that's right, absolute EBITDA per bed.

**Moderator**

The next question is from the line of Rahul Gaggar from Centrum.

**Rahul Gaggar**

Two basic questions about your expansion plans in the Mumbai region, which are the hospitals coming and when would they be operational and all the stuff, because I have one in which is in Thane, Apollo, actually I don't know whether it's operational or not yet, so how many beds?
K. Padmanabhan: See basically we are looking at a hospital coming up in Navi Mumbai, which will be initially a 400-bed hospital that will scale up to about 650 beds.

Rahul Gaggar: When would that be coming into the picture?

K. Padmanabhan: That will be coming in 2012-2013. Then we are looking at putting up a hospital joint venture with the Yash Birla Group in Thane that is in the planning stage. And then we have one more that we are looking at in South Mumbai but I can't really disclose those details at this point of time.

Rahul Gaggar: So there is nothing in Thane as such, right, as of now?

Venkatraman: Joint venture in Thane with Yash Birla.

Padmanabhan: Yes, that is actually the primary stage.

Rahul Gaggar: So not before the next couple of years, that’s what I am trying to ask?

K. Padmanabhan: That's right.

Rahul Gaggar: Do you have some hospital coming up in Vizag as well?

K. Padmanabhan: Yes, we have a hospital coming up in Vizag.

Rahul Gaggar: And when would that be operational?

K. Padmanabhan: 2012-2013 again.

Moderator: The next question is from the line of Priti Arora of Kotak.

Priti Arora: Can I please have the number of beds, latest counts related to on your own JV and managed?

K. Padmanabhan: The owned hospitals is 5,376 beds and under management is 2,588, giving a total of 7,964 beds.

Priti Arora: And out of the owned, how much is under JV / subsidiaries?

K. Padmanabhan: Roughly about 50% is under JV / Subsidiary, about 2,500.

Priti Arora: And just to understand this these managed beds are what you classify under consultancy revenues?

K. Padmanabhan: Correct that is right.

Priti Arora: Which is basically a cut on percentage of revenues, correct?

K. Padmanabhan: Definitely it is, yes.

Priti Arora: My second question is again on that Slide 14 where you mentioned the hospital performances, why is that ARPOB hospital based pharmacies have increased YOY according to your last presentation and this quarter's presentation, but sort of margins have dipped in every cluster, say Chennai is at 26% versus 30%
whereas ARPOB has increased, similarly with Hyderabad. Is it that costs are going up at a higher rate?

S. Venkatraman  
No, Chennai cluster actually is 26.2 going down to 25.8 which is marginal, Hyderabad actually is increased from 13.2 to 15 and others 15.8 to 12.2 because new facilities are ramping up. At the AHEL standalone level, you would have noticed that it's going up from 17.4 to 17.5.

Priti Arora  
Yes, I understand that, but if I compare FY10 margin of Chennai cluster which is 30%, first quarter we have come down to 26% despite average revenue per bed increasing to above 20,000 in Chennai particularly.

K. Padmanabhan  
Where did you see this 30%?

Priti Arora  
30%, was your average margin for FY10 according to your last presentation.

Priti Arora  
This is the average for whole of FY10. So my question is why is margin dipping 400 bps in Chennai when your average revenue per operating bed is going up?

K. Padmanabhan  
You had it without the hospital based pharmacy, the hospital based pharmacy itself has an EBITDA margin of 17%, so obviously if I equalize it, the figure that you must see is that 26.2 to 25.8.

S. Venkatraman  
You should actually add back hospital based pharmacy to last year and see it. Yes that's the whole thing.

Priti Arora  
My next question is on now interest cost for the year, Suneeta, you mentioned that profit growth has come down this quarter, because of higher interest cost, I mean are we seeing Apollo enter a phase where interest cost is sort of going to eat into profit growth and profit growth would be less than say what you have done in the past which is above 30%? I mean is that a worry at the management level till the new hospitals sort of start kicking in at the EBITDA level in next two years time?

Suneeta Reddy  
No, I don’t think it's a worry, but the fact is that as Mr. Padmanabhan explained earlier how our future growth was funded and at that level of debt you can expect to see that this interest will occur going into the future.

K. Padmanabhan  
I think the important thing that you will have to look at is that the PAT has come down not so much because of interest, interest also contributed, but it's actually largely because the other income have come down, from 14 crore last year in the first quarter to 3 crore this year. So it's other income has come down by 11 crore. And this 14 crore that we had in the cost cut from last year, did not have any significant tax impact because it was capital gains. As opposed to operating income actually going up this year which has resulted in 33% marginal tax which actually increased the tax by another 3.5 crore. So, really if you look at there, there is an impact of about 14-15 crore which is really to do with other income.

S. Venkatraman  
Now an important thing to note here is that our continuing focus on return on capital employed and we are quite under leveraged at the moment, so what we and the Board decided is that we will add some more debt in spite of the fact that it's coming at a cost of interest, but certainly lower than the cost of equity to actually improve the ROE to the shareholder that's the whole idea.
K. Padmanabhan  
So we can actually expect ROE to go up as a result of increased leverage. Is that clear?

Priti Arora  
Yes but your debt as of now is 700 crore from 900 crore as of March 2010?

K. Padmanabhan  
No, you are looking at consolidated.

S. Venkatraman  
Consolidated you know is 900 crore if you look at the first slide.

Priti Arora  
And Suneeta, one more thing, just on your annual report, there is a paragraph particularly talking about increased competition in certain pockets where you see excess of supply than demand, what pockets are these?

Suneeta Reddy  
I think Hyderabad is the major one, because if you look at average revenue per bed, it is lower in Hyderabad because of significant competition in that space.

S. Venkatraman  
Yes, but see I have been with Apollo for around two decades now and seen that the problem of Hyderabad, it's a chronic issue, but what we have seen with competition over the years, we have been able to sustain and actually improve, but some of our competitors in Hyderabad which were there 10 years back are no longer there today. And a lot of competitors are actually doing variable costing which actually does not work out in the long term.

Suneeta Reddy  
Yes, just to add to that, Apollo is still at a premium to the market in all of the cities that we are present in.

Priti Arora  
You mean premium pricing?

Ms. Suneeta Reddy  
Yes.

Priti Arora  
And do you see a risk on super specialty hospitals like hospitals for specializing in cancer in Bangalore or cardiac elsewhere, is that a concern?

Venkatraman  
No, I think you are specifically referring to a group which is there having a hospital based for cancer and they have their model designed around the equipment for cancer treatment whereas our concept and philosophy is to have an integrated cancer center and the market is so large, I don’t think both of us will have any problem with each other because they do admit patients to our facilities also, so it is complementary rather than competitive. And our concept is to have a fully integrated cancer center and we are the only one in India having a Cyberknife and a fully integrated cancer center in Chennai.

Priti Arora  
How much is Onco specialty as a percentage of revenues, I mean just roughly, broadly?

S. Venkatraman  
Around 12.5%-15%.

Suneeta Reddy  
Yes and it's EBITDA margins are in the region of 40%.

Priti Arora  
But ALOS will be higher, much higher?

S. Venkataraman  
Again ALOS will be misleading there because there are some high-end procedures like bone marrow transplantation which requires hospitalization for about 21 days, whereas chemotherapy doesn’t require hospitalization even for a
day, so ALOS is only an effect it's not a cause, so we will have to see ALOS in that context.

Priti Arora

Last question, your EBITDA margin for standalone pharmacies has come down back into the negative region this quarter compared to last quarter, any worries there, do you still plan to breakeven on an average for the year?

K. Padmanabhan

I think basically some of the expansions were planned for and we have now started a new corporate marketing initiative where we will sell to the institutions the pharmaceutical products also directly, so we created a new organization around that. So the initial expenditures have been booked in the quarter and going forward it will continue in the next couple of quarters, but we hope to get back even keel towards end of third quarter or fourth quarter.

Priti Arora

So you are expecting it to be in the negative territory and turn positive by quarter four?

K. Padmanabhan

Yes, but very marginally negative.

Moderator

The next question is from the line of Vinit Bolinjkar from Ventura Securities.

Vinit Bolinjkar

I just wanted a general guideline for my understanding on the ARPOB occupancy and EBITDA levels as the new hospital is coming up in terms of REACH hospitals, mega cities and in small towns, can you give a rough kind of guideline what we anticipate?

K. Padmanabhan

The occupancy levels normally in the new hospital in the first year will be within 40%-55% depending on the number of beds that are bid out. And the EBITDA margins in the first year could be from as low as 5% to as high as 11%. And the third one you were talking about ALOS?

Vinit Bolinjkar

No, I was talking of ARPOB?

Padmanabhan

ARPOB is actually a function of the type of care if it is secondary care then ARPOB could be around 5,000-6,000 rupees, if it is tertiary care it could be close to 9,000-10,000 rupees.

Vinit Bolinjkar

And this could be across all types of hospitals or the costing would be separate, right? And how do you see the occupancies scale up say in the second year and third year and typically when do you achieve breakeven for the different categories of hospitals, Reach hospitals, Megapolis hospitals and maybe small towns?

Padmanabhan

If you look at, if it is 100-150 bed hospital then we will reach 80% occupancy around the third year. If it is 300-350 bed hospital, we will reach 80% within the fourth and fifth year, but they will all scale up from 40%-50%, so that's the kind of distinction. So it's not only the function of town, it's also the function of size of the hospital.

Moderator

The next question is from the line of Deepak Mittal from Samara Capital.

Deepak Mittal

I have two different questions, one is on daycare surgery, so somewhere in the call you mentioned that daycare surgeries have a lower ALOS, actually they probably have only one day of average length of the stay and then they also have a higher revenue per bed, is that correct?
Deepak Mittal: And then I was just going through the numbers, so 15% is outpatient and 85% is inpatient, so out of inpatient revenues, would you be able to divide that in to daycare surgeries and longer than one daycare surgery revenues, would you will divide them in those two?

K. Padmanabhan: Yes roughly about 20% of our surgical procedures in our larger hospitals are daycare and they would probably be about 15%-20% higher in terms of revenue per bed compared to the average.

Deepak Mittal: Okay so average here is mentioned about 18,000-19,000?

K. Padmanabhan: Yes.

Deepak Mittal: So they are about 20% higher and they will only have one day of ALOS?

K. Padmanabhan: Right, that's why it's called ambulatory.

Deepak Mittal: So to me it sounds like a great business right so do you have a plan to set up only daycare surgery hospitals in certain part?

Suneeta Reddy: Actually we are working on a plan and we are going to begin by, in the cities where we have large presence say Chennai and Hyderabad and in Delhi, we are looking at setting up three centers.

Deepak Mittal: Have you identified any therapeutic areas where you where you think that this model works?

Suneeta Reddy: Yes we have, actually there is a whole list of procedures that we plan to do, which there is more than 50 procedures.

Deepak Mittal: Is it possible for us to sort of get a, would be able to give us a list?

Suneeta Reddy: It's just cleared by the board yesterday, we need some fine tuning before we actually are ready to release it. The cost of each center would be around Rs. 10 crore.

Deepak Mittal: And the second thing on the pharmacy business, you said basically the EBITDA driver is private label of our own brands which leads to profitability improvement? And what share of our revenues are coming from private labels?

K. Padmanabhan: Yes. Currently it's about 2%. But over the next three to four years, we hope to take it to about 10%-12%.

Deepak Mittal: And my guess is based on other retailing, marginal private labels are anywhere between 50%-60%, is that correct or you were higher?

K. Padmanabhan: That's about right.

Moderator: The next question is a follow up from the line of Rahul Gaggar from Centrum.

Rahul Gaggar: My question is in regard to your JV in Mauritius that is functioning right now, correct me, if I am right? And how many beds would that be?
K. Padmanabhan  Yes it's functioning. It's about close to 250 beds.

Rahul Gaggar  250 beds okay. And this would be like a tertiary or what is the standard of?

R. Basil  It's tertiary care setup.

Rahul Gaggar  Tertiary care setup. And this is JV, right, if I am correct?

R. Basil  Yes it’s a JV.

Moderator  The next question is a follow up from the line of Himani Singh from Elara Capital.

Himani Singh  Although India as a healthcare market is booming and there is a lot of scope for everyone to grow, does Apollo have overseas plans in the future?

Suneeta Reddy  Well right now it doesn’t have any overseas plans. I think like I said our market is huge and we would like to deploy both our capital and management resources in a market that we understand and know well.

Himani Singh  In case if we see any development where for the Parkway set of hospitals, if we can get some management contracts, would we be open for that?

Suneeta Reddy  Yes I think Parkway and management contracts I don’t see that in the near future, but some work, I mean a relationship with Khazanah and their entities which is IHH, we are looking at opportunities of working together on that.

Himani Singh  What kind of opportunities, if that is not management, then would we be getting more entrenched with the JV or that kind of activity, you know?

Suneeta Reddy  Right now like I said, you know they are busy with, they have not completed the Parkway, the whole transaction will be completed only after August 26. So after that I think we will have time to sit down and see the areas, where we can add value to IHH.

Himani Singh  But you will definitely be looking into that.

Suneeta Reddy  Yes.

Himani Singh  And next question is, on the front of competition that we were talking about, various clusters are high on the healthcare services we can talk about the NCR region, Chennai region, Hyderabad region, what is our sense in clusters where we see high levels of competition what would be our strategy to go like the Chennai way and have higher penetration of Apollo brand in that cluster or basically what is our strategy to counter competition?

Suneeta Reddy  Well first I would like to say that that the market is large enough for everyone, we truly believe that. Second is that for 25 years, Apollo has been creating a special brand and we have been focused on tertiary care, but going forward I think what we have done in Chennai is actually we have created one tertiary care hospital and then we have built higher secondary and we have built specialty hospitals around it. And I think that this focus on specialties is something that we are looking at very seriously which we hope to replicate in all the other cities as well. Part of it is like the daycare surgery center that we spoke
about. So I think as a provider we have a different strategy which will differentiate us from the rest.

**Himani Singh**

Which would be the cities where we would be focusing our hub facilities or our high end tertiary care facilities in future?

**K. Padmanabhan**

Basically, we will go into fairly large cities and we hope to significantly dominate those cities instead of spreading ourselves across the whole lot of cities. So basically if it is Chennai or if it is Bangalore or if it's Hyderabad or Delhi, we would like to have very, very large significant presence there. The glut and shortages are always temporary. In fact the glut of hospital beds is only as a result of shortages, so that will keep happening, but over a longest period of time, we don’t see that as a big issue.

**Himani Singh**

And what will be the facilities like, what would be the specialisations that we are seeing to be the growth prospects in future?

**K. Padmanabhan**

Basically the cardiac, oncology, orthopedics, these are all focus areas, so those are ones, the high-end work that we will be focusing on and as Suneeta was mentioning, also we would look at selective work in the daycare surgery and surgical procedures.

**Suneeta Reddy**

And pediatrics.

**Padmanabhan**

Yes pediatric as well, yes.

**Moderator**

The next question is a follow up from the line of Vinit Bolinjkar from Ventura Securities.

**Vinit Bolinjkar**

See you mentioned about these new advanced technologies with Novalis, Cyberknife and something to do with liver transplant, so what kind of growth can we expect from using, leveraging of these new technologies in terms of what kind of revenues can we expect and what are the margins out here?

**R. Basil**

See most of these technologies are meant for offering comprehensive care, look at standalone profitability of all these investments, the primary objective is to give the best comprehensive care to patients for the given problem. Infact many centers today, can manage without all this. At Apollo we want to maintain a certain level of clinical excellence hence we go ahead and invest in all these things.

**Moderator**

As we have no further questions, I would like to hand the floor back to the management of Apollo Hospitals for closing comments.

**Suneeta Reddy**

Ladies and gentlemen thank you for being on the call. We are always open for questions and you could email Mr. Krishnakumar for any further questions and we look forward to an even better quarter during this coming year. Thank you ladies and gentlemen.

**Moderator**

Thank you. Ladies and gentlemen on behalf of Apollo Hospitals that concludes this conference call. Thank you for joining us.