Apollo Hospitals Q1 FY12 Earnings
Conference Call Transcript
August 11, 2011

Moderator
Ladies and gentlemen good day and welcome to the Apollo Hospitals Q1 FY12 Earnings conference call. As a reminder, for the duration of this conference, all participants’ lines will be in the listen only mode, and 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 telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you and over to you sir.

Mayank Vaswani
Thank you Melissa. Good afternoon and thank you for joining us on this call to discuss our financial results for the quarter ended June 30, 2011. We have with us today the senior management team of Apollo Hospitals Limited.

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 more complete listing of such risks and uncertainties please refer to the Investor presentation posted on our website.

We’ll start with Ms. Suneeta Reddy who will discuss the operating highlights for Q1 FY12, Mr. Krishnan Akhileswaran will then discuss the financial highlights and progress of expansion plans and Mr. Venkataraman will discuss highlights of the pharmacy operations, Apollo Munich Health Insurance and Apollo Health Street.

Documents relating to our financial performance have been e-mailed to all of you earlier and have also been posted on our corporate website. I will now hand over to Ms. Suneeta Reddy to provide key highlights of our performance.

Suneeta Reddy
Good afternoon, ladies and gentlemen. Thank you for taking time out to join our call. It has been a good start to FY12 for Apollo Hospitals and we're quite pleased with our Q1 performance. We are committed to making this financial year better than the previous one. We have reported strong growth on both a standalone as well as on a consolidated basis.

Before getting into the operating highlights, I am happy to share with you that last month Apollo Hospitals successfully undertook a QIP offering to raise Rs. 330 crores. We issued 6.7 million shares at a price of Rs. 495 a share including a premium of Rs. 490 a share. This issue was oversubscribed by 2.3 times thanks to the efforts of our team at Apollo Hospitals and our bankers. And most importantly,
the faith that investors had in Apollo’s fundamentals and its strategy and its capability to execute the same. This in addition to warrants issued by the promoter group will provide AHEL with the equity component of funds required to implement its expansion plans up to the year FY14. These funds will be supplemented by internal accruals and debt.

Also I am proud to state that we have received three important recognitions last quarter. Apollo Hospitals has been ranked 1st among hospitals for the Economic Times Award on India’s ‘Best Companies to Work For’ in 2011. Superbrands, the independent authority and arbiter of branding have included Apollo Hospitals among India’s top 10 business Superbrands of 2011. Apollo Hospitals Hyderabad has been awarded the Asian Hospital Management Excellence Award for Clinical Service Improvement.

With that said, I would like to get into the operating highlights. As of June 30, 2011 we have a capacity of 8,617 beds across 53 hospitals. This consists of 5,842 beds which are owned by us either directly or through subsidiaries, JVs and associates. 2,775 beds are managed beds. During the quarter we inaugurated Hyderguda facility with the capacity of 150 beds. We have also launched the first of its kind Daycare Center in Chennai with a capacity of 20 beds.

This quarter we crossed an important milestone as Apollo Gleneagles Cancer Hospital. Calcutta completed 1,000 renal transplant cases, Apollo Hospitals, Chennai completed a 100 liver transplants and the Apollo group on the whole completed 1,000 tissue transfer surgeries.

Another important highlight is NABH Accreditation accorded to Apollo Noida for a period of three years. This is the 8th hospital to receive the NABH Accreditation and is an indicator of the high quality of patient care in the group.

Our strategy is to focus on key specializations through our Centers of Excellence initiatives to provide best-in-class clinical and service outcomes. We believe that this will help us to continue to deliver consistent and competitive growth.

Coming to the overview of our financial performance for the quarter, consolidated revenues were higher by 22.4% as compared to Q1 FY11 at Rs. 723 crores. Consolidated EBITDA was higher by 21.4% at 119 crores. The EBITDA margins were at 16.5% as compared to 16.7% due to the addition of new hospitals. PAT growth was strong, as it grew by 30.3% to Rs. 54.5 crores. Stand-alone revenues include hospitals, retail pharmacies and consulting. Average revenue for beds moved to 20,079 from 18,165. Stand-alone EBITDA was higher by 20% at Rs. 105 crores. The EBITDA margins were again at 16.5 compared to 16.9 last year, due to the increased contribution of retail pharmacies in the revenue mix and new hospital additions. However, standalone PAT was up by 30.6% at Rs. 51 crores. As you would have seen, we have been largely able to maintain our EBITDA margin in spite of the addition of new hospitals and consistently grow our profit after tax margins.

Among our major clusters, Hyderabad has performed very well as a contribution from the beds added over the last 15 months has begun to reflect in our numbers. Average occupancy was at 560 beds as compared to 482 beds in Q1 FY11. We witnessed strong volume growth on CoEs like Cardiology, Neurosciences and Orthopedics.

Volumes in Chennai were a bit muted this quarter due to renovation which resulted in temporary reduction of operational beds. The state election also resulted in
decline in the OP volumes. Having said that I must add that July has shown an improvement in both these areas.

Outside of the major clusters, we are seeing good traction in Bhubaneswar with average occupancy already at 70% and the back of continuous increase in inpatient admission. Among the subsidiaries, Calcutta was a strong performer with revenues of 34% and an EBITDA growth of 26%. Ahmedabad too registered a healthy growth of revenue and EBITDA of over 30% on a smaller base. Delhi and Bangalore grew around 10%.

Retail pharmacy continues to deliver strong momentum in the performance as revenues were higher by 36% at Rs. 189 crores in the quarter. We reported a positive EBITDA of 2.3 crores in Q1 and will look to improve that over the rest of the year. Our consolidated performance was also helped by a better operating performance from Apollo Munich, which grew by 17% and Apollo Health Street, which grew by 14%.

Mr. Krishnan and Mr. Venkataraman will provide further details on our financial performance later in the course of this call.

To conclude, it has been a good start to FY12. We are hopeful of accelerating as we move forward this year. I would like to hand it over to our CFO, Krishnan who will provide you with further details of our financial performance. Thank you.

Krishnan

Thank you Ms. Suneeta. Dear participants, I would like to bring your attention to Slide 7 of the investor presentation, which has been already circulated to you and has the consolidated numbers. Total revenues were higher by 22.4% to Rs. 723 crores in Q1 FY12. EBITDA as we said expanded 21.4% from Rs. 98 crores in Q1 FY11 to Rs. 119.7 crores in Q1 FY12. The EBITDA margin was lower by 13 basis points at 16.5% for the period. However, EBITDA growth has been strong due to increased contribution from subsidiaries and JV hospitals, as well as improved performance from businesses like Apollo Munich and Apollo Health Street. This is with respect to the consolidated numbers. Consolidated PAT was higher by 30.3% from Rs. 41.8 crores in Q1 last year to Rs. 54.5 crores in the Q1 of this year. The PAT margin has improved by 46 basis points from 7.1% in Q1FY11 to 7.5% in Q1 of this year.

A few balance sheet numbers, consolidated debt as on June 30, 2011 was Rs. 908 crores and our total cash balance at the end of the quarter was Rs. 164 crores. And investments in liquid mutual funds is Rs. 44 crores. This does not include the proceeds of the QIP issue, which was undertaken after the quarter end.

Coming to the standalone financial performance, please refer to Slide 9 of the circulated investor presentation. Stand-alone revenues for Q1 FY12 expanded by 22.5% to Rs. 641 crores. EBITDA was higher by 20% from Rs. 88.3 crores in Q1 FY11 to Rs. 105.9 crores in Q1 FY12. EBITDA margins have declined by 35 basis points to 16.5%. This was and due to new projects commissioned in Bhubaneswar, Hyderabad, Hyderguda and Karaikudi over the last 12 months, as well as due to an increasing contribution of retail pharmacies in the revenue mix. EBIT was higher by 19.7% despite increased depreciation on account of new facilities brought on stream. There was a decrease in the interest cost and an increase in the other income. This resulted in PAT growth of 30.6%, accompanied by an expansion in the PAT margins.

If you now turn to Slide 10, on the segment wise performance, you will see that the revenue growth has been led by a strong performance in the standalone pharmacies which registered a growth of 36% on a YOY basis. Growth in
Healthcare Services maintained healthy at 18%. EBIT margin in Healthcare Services was at 19% in Q1 FY12 compared to 19.9% in Q1 last year. Retail pharmacies had a positive EBIT in Q1 FY12 compared to a negative EBIT in Q1 last year. The annualized ROCE for Healthcare services is 19.1% in Q1 this year compared to 20.7% in the same period last year. ROCE remains healthy despite the addition of facilities in Hyderabad, Hyderguda, Karaikudi and Bhubaneswar over the last 12 months. The capital employed if you see has increased from Rs. 1,473 crores as on June 30, 2010 to 1,796 crores as on June 30, 2011.

Now I’ll turn to Slide 12, which is the slide on key operating metrics in the Hospitals business. The volumes in the Chennai cluster, as Ms. Suneeta already alluded, has been impacted by the state election which were held during the quarter. We also undertook renovation at our main hospital which resulted in temporary reduction in a number of operating beds. So we have seen moderate growth in IP volumes and a decline in the OP volumes. This has resulted in reduced occupancy as well. However, tariffs and case mix, due to the specific focus on the COE have resulted in an increase in IP/OP revenue as well as continued growth in the overall ARPOB for the Chennai cluster.

This quarter we reported a strong growth in Hyderabad cluster. We were able to maintain occupancy levels of 60% on an increased operational bed capacity of 930 beds. IP volumes have grown 13.7%, while OP volumes have grown a solid 29.4%. This along with a richer case mix as evidenced by the growth in our COE has resulted in strong growth in revenues of 30.8% YOY and a healthy increase in ARPOB.

Outside of the Chennai and the Hyderabad clusters, Bhubaneswar has been a strong performer with an average occupancy of 70% within 15 months of its launch. Overall revenues in this cluster have grown 23.7% YOY. The subsidiaries, JVs and associates have reported 8.8% growth in the IP volumes and a growth of nearly 21% in OP volumes. This growth has primarily been driven by Kolkata and Ahmedabad which have reported revenue growth of over 30% on a YOY basis. So the combination of case mix and largely stable ALOS has, as expected, had a favorable impact on ARPOB.

ARPOB was up by 7.3% in the Chennai cluster at Rs. 25,301 and higher by 13.8% in the Hyderabad cluster at Rs. 16,796. Other stand-alone hospitals showed growth 16% in ARPOB to Rs. 10,083. Amongst the significant subsidiaries, JVs and associates, we were able to improve ARPOB by 12% to Rs. 22,183. Consolidated ARPOB for the company was Rs. 20,079 as compared to Rs. 18,165 in the Q1 of last year.

Coming to our expansion and CapEx plans, Slide 16 has project wise details of our approved plans till the end of FY14. The total funds required for these projects will be in the range of Rs. 1,355 crores of which Apollo share is approximately Rs. 1,124 crores. Of this Rs. 320 crores has already been invested by us and the balance of approximately 805 crores will be funded through a mix of internal accruals, equity and debt.

As mentioned by Ms. Suneeta earlier, we have raised Rs. 330 crores through our QIP issue in July and combined with warrants issue to the promoters, it covers the equity portion of our fund raising plans.

I will now request Mr. Venkatraman to talk about Pharmacies, Health Insurance and Apollo Health Street.
Venkataraman

Thanks, Krishnan, I will quickly walk you through the performance of the other businesses in our portfolio. Revenues in the stand-alone pharmacy segments have grown nearly 36% from Rs. 1,397 million in Q1 FY11 to Rs. 1,898 million in Q1 FY12. While revenue for our mature stores increased by 16.5%, the increase in revenue for stores on an overall basis was 18% indicating healthy overall growth. Operating metrics continue to improve and we reported an EBITDA of Rs. 22.6 million for Q1 FY12 compared to a negative EBITDA last year. So we have been EBITDA positive for four consecutive quarters now and expect to do better as we move on during the year.

In Slide 14 of our presentation, our mature stores continue to demonstrate improvement in profitability with an EBITDA growth of 29.5% and an improvement of 51 basis points in EBITDA margins to 5.1%. We expect these margins to expand even further on the back of continued revenue growth, better operating leverage and buying efficiency. We have added 21 stores on a net basis in Q1 FY12. With the gross addition of 47 stores and closure of 26 non-performing stores and now we have a Pan-India network of 1,220 stores as of June 30th, 2011.

Apollo Health Street reported an increase of 12.6% in the total income from Rs. 1,084 million in Q1 FY11 to Rs. 1,220 million in Q1 of this year. EBITDA growth was a little stronger and expanded 31% to Rs. 192 million. EBITDA margins expanded 222 basis points from 13.5% in Q1 last year to 15.7% in the Q1 of the current year. Improvement in EBITDA was driven by cost control initiatives, through implementation of Project Lean, which has helped us identifying and significantly reduce operating cost. PAT though was impacted by one-time litigation itself.

We expanded our sales team and we look to accelerate growth in revenues. While the operating environment seems challenging given the events in US, it actually represents an opportunity for us, as US healthcare providers look at more efficient ways of managing their business and cut costs through outsourcing.

Apollo Munich Health Insurance has recorded gross written premium of Rs. 718 million in Q1 of this year which represents a growth of 71% over the same period last year. Losses at the EBITDA level declined to 20% in Q1 FY12 from a high of 45% in Q1 FY11. The incurred claim ratio improved to 59% in Q1 of the current year compared to 66% in Q1 last year. This was driven by improved price and increased prudence in underwriting measures. We opened seven new offices in Q1 of the current year as we seek to steadily enhance the network.

To conclude, we are pleased with the strong growth and improved operating metrics in businesses other than the core hospital business. We can now take your questions, thank you.

Moderator

Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Kashyap Pujara from Enam Securities. Please go ahead.

Kashyap Pujara

Just wanted to touch base with you on the presentation, there was one mention of the total amount of operational beds, which were at 5,200. So just wanted to cross verify because in one of the pages inside if you add up the operational beds, the figure is slightly lower. So is this 5,200 beds including the associate, which is Indraprastha Delhi?

Krishnan

5,206 operating beds is the right number. If you look at the metrics which are given in Slide 12 that does not include Mauritius, which is 200 beds. But if you exclude 200 beds of Mauritius, it will come to 5006. Is that the slide you are referring to?
Kashyap Pujara: Yes, I think, you need to exclude associate Indraprastha Delhi as well, to get at the actual number of beds on a consolidation basis?

Krishnan: I will repeat this, 5,842 beds is the total capacity that we have, of the 5,842 beds capacity, 5,206 beds are operational, and of the 5,206 beds, 200 beds are Mauritius, and 5,006 beds have been provided in the operational beds on the Slide 12, Chennai cluster, Hyderabad cluster, others and significant subs.

Kashyap Pujara: So, in those significant subs, we have included which is 1,750 as of this quarter, that also has inclusion of Delhi, which is Indraprastha Delhi, which is an associate company. So from a consolidation perspective, we would not be consolidating the top line since the holding is less than 50%. Hence what you are saying is correct, but from an operational perspective, if I want to compute the actual revenues, I will have to minus that revenue for a like-for-like comparison.

Krishnan: That is correct. There were specific investors, given that this is operative metrics, they wanted us to provide the entire number of the associates, that is the reason that we provided in that way.

Kashyap Pujara: Yes, from a presentation perspective, this makes sense because you can actually see the full impact of all the hospitals, but I was coming to from a comparison of financial statements, hence the difference.

Krishnan: You are correct.

Moderator: Thank you. The next question is from the line of Kaustav Kakati from PUG Securities, please go ahead.

Kaustav Kakati: My first question is related to the number of incremental beds in the Hyderabad cluster, which were added in the 1st quarter, what would be that number, sir?

Suneeta Reddy: Hyderguda has been 120 beds.

Kaustav Kakati: The other thing that I wanted to know was the reduction in the interest outflow, any particular reason for that?

Krishnan: Last year, there was a combination of two things which happened; Q1 of last year had some foreign exchange mark-to-market loss on account of the ECB which was part of Q1 last year, subsequent to that we also repaid some of our loans between Q1 and Q2, which also brought down the overall numbers in this quarter.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhary from India Nivesh Securities, please go ahead.

Bhagwan Chaudhary: Can you please explain on the Chennai part? How it impacted, means that as you stated that due to the election there were lower revenue and the implications, how much it impacted, I am quite confused.

Suneeta Reddy: Chennai cluster was impacted in April especially because of the election. People were not allowed to travel and therefore especially out patients, the numbers went down. But I think this is a temporary blip in performance. We see that it has picked up subsequently and July we will be on target.

Bhagwan Chaudhary: But the occupancy rate was almost 80%, so from the occupancy point of view, I think there was not a significant difference?
Suneeta Reddy: No, you are seeing the average of April-May-June, May-June was again better but April was low, if you look at that one month, it was low. So also we had renovation happening, so there were about 30 beds that were under renovation.

Bhagwan Chaudhary: Again the ARPOB was down from the same cluster?

Suneeta Reddy: Yes.

Venkataraman: If you look at the slide, the number of operating beds has gone up to 1,162, compared to 1095. And if you just look two levels below, you will see that the outpatient volume has also come down significantly.

Bhagwan Chaudhary: That is okay, I was confused that your occupancy was almost 80%?

Venkataraman: 80% on 1,162 compared to 82% on 1,095, combined with the fact that outpatient has also reduced. As Ms. Suneeta earlier in her speech and you should now recall that there is a factor of seasonality in Q1, on top of that we had elections here. So these are the two reasons and we are seeing recovery happening from the 2nd half of June and which is witnessed also by our July performance. So we are not unduly worried about this, we are on top of this.

Bhagwan Chaudhary: So what kind of occupancy rate can be expected for the full year?

Venkataraman: We do not give any forward-looking numbers. I think when we declare the results in Q2, you will see for yourself whatever we are saying.

Bhagwan Chaudhary: One more question, this was on the pharmacy side, the addition of the net 21 pharmacies and you have removed 26 pharmacies in addition of 47, just I want to know that if I am looking from the area point of view, your area has declined drastically, what kind of strategy are you adopting in the opening of new pharmacies and removing some old pharmacies?

Venkataraman: What we did is we have management reviews every three months and we look at all the pharmacies which are not performing, we have got certain criteria which we use which we are not able to state publicly at the moment. So these pharmacies did not meet our criteria, so based on that we had to close down certain stores and increase profitability. This is a continuing exercise and since we gave a longer period for the decision-making, we reviewed it over three quarters and in spite of the fact that these pharmacies did not meet our internal criteria, we had to close this down. So that is the reason why you will find on a global level the area of our stores have actually come down. There is no major shift in strategy in that way.

Bhagwan Chaudhary: So the new pharmacies are opening in the metro cities or in the tier 2 cities?

Venkataraman: No, we are always clustered around the metros but some of the metros we have found are not profitable given the fact that the sales were sluggish plus also the rents are quite high. So these are one or two of the criteria which we use apart from the other criteria. So based on the internal criteria, we have decided to close some of the stores.

Suneeta Reddy: Like Venkat said we would like to establish here that has been an ongoing policy with us, this is not the first time that we have closed stores.

Venkataraman: It is part of our management review, every three months with the operating team and based on their recommendations we accept them and go ahead and implement these recommendations.
Bhagwan Chaudhary  
Same from the pharmacy, on the like-to-like basis the pharmacies which are before March 2007, so the EBITDA margins and EBITDA you reported is approximately 35 million and again the net EBITDA is 29 million, so is it fair enough to assume that pharmacies which have opened after 2007, has not turned profitable by the time.

Venkataraman  
No, it is actually other way around. Up to 2007 we were very profitable, which is also intuitive and correct, so up to 2007, whatever pharmacies are there, the profitability actually increases along with the time and location. So the more mature the stores, the better the profitability actually.

Krishnan  
What you will see over the course of this year, the pharmacies which have been added post-2007 especially which have been added in 2008, you will see that the margins are going to improve over the next four quarters and you will be able to see a marked improvement in the overall margins of the pharmacies over a period of time.

Bhagwan Chaudhary  
Sir just one last question - the difference between the standalone total and the total reported in the metric slide is Rs. 854 million. What this difference of Rs. 854 million attributable to, is it from the pharmacy, from the hospitals or something else?

Krishnan  
Which slide is that?

Bhagwan Chaudhary  
Slide 12. If I am making the standalone hospitals from Chennai, Hyderabad and others, if I'm combining the revenue of all the three?

Krishnan  
That is correct, those are the pharmacies on license and the HBP’s that we run for them, for the JV income, that is correct.

Bhagwan Chaudhary  
That is Rs. 854 million?

Krishnan  
That is correct.

Bhagwan Chaudhary  
And what was the same in the previous quarter Q1 FY11?

Krishnan  
We could provide that you off-line if you could talk to Krishnakumar, he can provide the number, we don't have it with us here.

Moderator  
Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities, please go ahead.

Nitin Agarwal  
I just wanted to check on the expansion plan that you talked about, can you repeat the debt-equity mix that you were talking about for funding the project?

Krishnan  
We still need approximately 800 crores for our expansion. And of the 800 crores the QIP that we have now done is approximately 330 crores and we also have some balance warrants which have already been issued to the promoters of which monies are expected over the next 12 months, that is approximately 200 crores, so that will take us to approximately 500 crores and the balance 300 crores would be a mix of debt and internal accruals.

Nitin Agarwal  
What could be our diluted equity now, assuming the conversion of promoter warrants?
Krishnan 5% has been the dilution that has happened subsequent to June on account of QIP and the outstanding warrants to the promoters is approximately 6.3 million shares.

Nitin Agarwal On the expansion plan, what you were outlining for the next three years, this is what it is, or there is going to be any more increments happening to this or this is something which is subject to changes as you go along?

Venkataraman Currently, whatever we have disclosed are Board approved plans. As you know the industry is quite dynamic and there will be opportunities. At this point in time we're unwilling to comment as what they will be because we have not yet taken them up to the Board. For all practical purposes, these are the only projects that are on hand.

Nitin Agarwal How are you viewing the inorganic growth opportunity at this point of time? Are they available, how do you look at that part of the growth?

Suneeta Reddy We are continuously looking at inorganic growth opportunities. I must say this time it is very difficult to find one that would suit Apollo Hospitals in the sense that we are looking very carefully at return on capital employed, also in terms of location we now have Pan India presence, so acquisitions will have to be in places, we do not have a significant presence. The third is the integration issue, all our hospitals are either NABH or JCI Accredited. So we need to get hospitals that can fall in line with these standards.

Nitin Agarwal Lastly, probably just going back to the individual hospital performances on the different clusters, you talked about the decline which was there or a slow growth which was there in Chennai, but even if I look at the Hyderabad cluster and the other clusters, considering taking into fact, there is a significant capacity additions which has happened in these hospitals. The inpatient volume growth relative to the capacity addition does not seem to be too high?

Suneeta Reddy Well, these are new beds, so it takes some time for us to get traction on these new beds. Besides that I think there is a little bit of seasonality, we have started focusing on COEs, which will increase both revenue and volumes hopefully improve margins as well. But clearly, occupancy has risen in the Hyderabad cluster.

Venkataraman Apart from adding beds we are also adding doctors on existing beds and also the new beds. That would also contribute to a better traction in the occupancy and turn over.

Nitin Agarwal For the current year, we are not looking at operationalising any new hospitals, right, no new capacities will get operational in this current year?

Krishnan Hyderguda has already gone operational in the Q1 of this year, which is the 120 beds that we spoke off in Hyderabad. Then we have an international block which has already been just commissioned in July in Hyderabad. So we will be seeing some of those enabling our overall revenues.

Suneeta Reddy And we have also commissioned a Daycare center in Chennai. You would not see in terms of registration but definitely it will impact our revenue stream.

Nitin Agarwal The Hyderguda and the Daycare centers will that be included in the operating beds which are listed as end of Q1 FY12?

Krishnan Yes, Q1 FY12 it is part of the operating beds.
Moderator  Thank you. The next question is from the line of Ajay Nandanwar from UBS, please go ahead.

Ajay Nandanwar  Good afternoon and congratulations on a good set of numbers especially given the election impact in Tamil Nadu and West Bengal. My question is about, is it possible for you to sort of give some sense of what are the Chennai numbers both in terms of volumes, IPD, OPD and revenues would have been ex of the election result?

Suneeta Reddy  Chennai cluster, the in-patient volume grew by 1.3% in the first quarter.

Ajay Nandanwar  I have that info. I am just saying that in case there was no election impact in this quarter?

Suneeta Reddy  I think we could have seen at least a 10% growth in the outpatient volume for sure, but it is very difficult to say what exactly it would have been. Clearly, there has been a growth in July. And analyzing what happened in the whole state, not just in Apollo Hospitals, the figures that we got from other hospitals, there has been an overall decline of about 10% in that month. So clearly, it is seasonal and attributable to the election.

Ajay Nandanwar  And just one more question on this, since your revenue in Chennai was 205 crores, let us say if the revenue is higher by 10 crores, hypothetically, how much would that additional 10 crores lead to how much EBITDA improvement?

Krishnan  60% of that would go into the EBIT.

Ajay Nandanwar  Like you have the consumable costs is about 30 to 35% of your revenues and maybe some additional cost, almost 50% to 60% would be?

Krishnan  Almost 50% to 60% would go into the EBIT.

Ajay Nandanwar  And to that extent your EBIT margins would have actually been higher in the standalone business?

Krishnan  That is correct and also to give you pseudo of the numbers in July, if you look at it July we are trending well as Ms. Suneeta alluded to you earlier, we are looking at overall numbers as compared to the average of the Q1, the July numbers are trending up by around 7% to 8%.

Ajay Nandanwar  On your pharmacy side, it is obviously doing extremely well, both on the revenue per store and the EBITDA margin. Is there any structural sort of limitation on where your revenue per store can go and what are these numbers? How do these numbers stack up on your really old stores, can you give some idea about that?

Venkataraman  If you look at the mature cluster and the like-for-like growth, we have shown 16% that is the minimum that you could expect that will happen on a Y-O-Y basis and per store you can easily go up to a crore for sure, is what we are looking at internally.

Ajay Nandanwar  That is only 10 to 12% above what you achieved in the quarter in mature clusters?

Krishnan  This year we are saying, we will still be able to grow beyond a crore, the crore is something that we should be able to touch even by the end of this fiscal.
Ajay Nandanwar  Could you give us some idea about out of your 1,220 stores, which are the key sort of metro areas where the stores are concentrated, I guess Hyderabad is one of them?

Venkataraman  We are in Chennai, Hyderabad and Delhi and to a certain extent in Mumbai, Kolkata and Karnataka.

Ajay Nandanwar  What is the mix between Chennai, Hyderabad and Delhi? Could you shed some light on it?

Venkataraman  No, we can take this question off-line, we will be able to give you more details.

Moderator  Thank you. The next question is from the line of Aditya Khemka from Nomura, please go ahead.

Aditya Khemka  I just have a couple of housekeeping questions. One was you mentioned your consolidated ARPOB for the quarter, I missed that, could you just repeat that again please?

Krishnan  The consolidated ARPOB for the group has been 20,079 as compared to 18,165 in Q1 of the last fiscal.

Aditya Khemka  Could you also give the consolidated occupancy rates?

Krishnan  The consolidated occupancy rates are 73%, last year 74%. But this is on the back of higher number of beds, this is what you should be looking at. Because last year we had 4,400 beds, this year we have approximately 4,800 beds.

Aditya Khemka  Just another question on your consolidated income from operations as reported in Slide 7, so the other income of 47 million that you have in your standalone numbers would that be included in income from operations in Slide 7 or would that be flowing below the EBITDA level?

Krishnan  No, it goes below the EBITDA. We do not consider other income in our EBITDA.

Aditya Khemka  Just another question, I see the shares of JVs being added separately on Slide 7. So the shares from associates would also be added separately in profit after tax?

Krishnan  Yes, that is correct. The shares from associates get added only in the profit after tax.

Aditya Khemka  Any clue on what the consulting income was this quarter?

Krishnan  Approximately 4 crores.

Aditya Khemka  If I'm not mistaken this consulting income is over and above the other income of 47 million, right?

Krishnan  Yes, that is part of operations for us.

Aditya Khemka  Lastly, we are looking at the EBITDA margins, I think you have done really well given the issues that you have at your Chennai facility, the elections and given the new introductions of so many beds. What I really want to understand in terms of the margins is, how should we look at it going forward? I know you do not give guidance, but could we have more color on how separate forces would be acting
on your margins? One, you would be introducing more beds going forward, the
other is that you will have better traction on the beds which have already been
introduced and hopefully some better performance of the Chennai cluster as well,
how should we look at the EBITDA margins going forward?

Suneeta Reddy
I think if you look at what we are currently, just looking at the mature beds that we
have, we see an improvement in EBITDA margins in the mature cluster. The new
hospital beds are about 25% of the total number of beds and that is where the
margins will keep growing. So therefore for the next three years, I think we should
be able to maintain the EBITDA margins that we have. Having said this, we have
really not taken into account the growth in the pharmacy division and how we are
going to handle pharmacy as a whole.

Aditya Khemka
The last question would be, the difference between your standalone revenue and
the consolidated income from operations would then just be subsidiaries, right?

Suneeta Reddy
Yes.

Moderator
Thank you. The next question is from the line of Dinesh Harchandani from J.P.
Morgan, please go ahead.

Dinesh Harchandani
I just have a question on your CapEx plans. The 800 crores for expansion, does it
include all the divisions; does it include hospitals, pharmacies and the subsidiaries?

Suneeta Reddy
Yes, it does.

Dinesh Harchandani
Just wanted to know how much of this 800 crores you have already kind of
incurred?

Krishnan
Of AHEL’s share of Rs. 1,125 crore Rs. 320 crore has already been incurred and
Rs. 800 crore is the amount yet to be incurred.

Dinesh Harchandani
And this Rs. 320 crore, has this been incurred in the last year or this has been
incurred in the current quarter?

Krishnan
Rs. 320 crore has been incurred up to June 30, 2011.

Dinesh Harchandani
If you could give us some rough guidance of how much of this would be for
hospitals and pharmacies, just a rough percentage?

Suneeta Reddy
Rs. 15 crore on pharmacies that is it.

Dinesh Harchandani
No, I’m talking about share for pharmacies from outstanding capex of Rs. 800
crore?

Venkataraman
No, that is there on the left hand side, if you look at the date of completion, you will
see the outlay on each project.

Krishnan
And if your question is specifically to standalone pharmacies, this is what we have
provided as the three key hospital expansions. Stand-alone pharmacies are now
self-funding. Once we get to the EBITDA margins of 2 to 3% that we are hopeful
we should be getting up to, we have said around 200 pharmacies is what we would
probably add every year, that is approximately 20 crores every year, this will be self
funding.
Moderator  Thank you. The next question is from the line of Moni Verghese from the Bank of Bahrain, please go ahead.

Moni Verghese  With respect to your CapEx plans, I just want to know the actual debt-equity proportion in the 800 crores?

Krishnan  As we said at this point in time our debt-equity is around 0.42 at the standalone level, Rs. 940 crores is where we have an overall consolidated debt, but if you look at it, of the Rs. 800 crores, we have said approximately 330 crore has already come in through QIP. 200 crores are already coming in through warrants and the balance 300 crores is what can come in through a mix of even debt and internal accruals. Even assuming half of that coming in, our debt-equity should not change at all.

Moni Verghese  Okay and the CapEx plans that you have mentioned here on the slide, does it includes your plans across FY12 to FY14 as in all your plans across hospitals?

Krishnan  Yes, it does. Up to FY14 as per the Board approved plan as of date, as Venkat said in the middle of the call, if there are additional, because there could be opportunities that can come up in the existing locations that we have and we would be looking at adding some of those.

Moni Verghese  The latest expansion plan is set for FY12 which is for Chennai and Bangalore. So I just want to know an approximate date when you expect to start?

Krishnan  In the next quarter.

Moderator  Thank you. The next question is from the line of Shriram Rathi from Anand Rathi, please go ahead.

Shriram Rathi  I have just one question that on the presentation Slide 12, the difference between the number of beds in significant subsidiaries and JVs, like in FY11 and we had around 1,000 beds, now it is 1,750. So the main reason for this is the inclusion of Indraprastha in this presentation or is there something else also?

R. Krishnakumar  On account of Indraprastha Delhi.

Shriram Rathi  So that ARPOB also lie now at 22,000 plus, which was around 13,000 for FY11?

R. Krishnakumar  That is also because of…..Delhi.

Shriram Rathi  Okay so excluding Indraprastha it will be in the same range, around 13,000, 14,000?

Krishnan  No, if you look at the ARPOB increase, ARPOB increase has also been a result of a good performance by Kolkata JV, it has also been a very good performance on account of Bengaluru JV. So it is a combination of all. So the ARPOB increase cannot be attributable directly only to Delhi. It is a combination of all round performance.

Shriram Rathi  My question was that in FY11, we had an ARPOB of 13,278 for the full year for this particular segment.

Krishnan  That is because if you look at it, full year is right, but if you look at Q1 to Q1, 19,797 has gone to 22,183 now, because that would have be an average number.
Shriram Rathi: So this is the average number.

Krishnan: Yes.

Moderator: Thank you. The next question is from the line of Ravi Dodhia from CRISIL, please go ahead.

Ravi Dodhia: Although in the standalone pharmacy, you have shown year-on-year improvement in the EBITDA margins for mature stores. If you look at on Q-o-Q basis, it has declined from around 5.45% to 5.1%. So can you please explain the reasons behind decline in margins for standalone pharmacies?

Krishnan: Last quarter to this quarter the margins have declined a bit only because of the new store additions. But if you look at it we have a plan in place to increase it over the next few quarters and our overall target is to get to the 2% to 3% by the end of the year.

Ravi Dodhia: No sir, I'm talking about up to 2007 batch, so there those additions wouldn't be there, right?

Krishnan: Only on 2007, is it?

Ravi Dodhia: Yeah. It was around 5.44% last quarter Q4 FY11, which is now around 5.1%.

Krishnan: We will just get back to you, at this point in time we don't have a reason for that, we'll just check that and get back to you.

Moderator: Thank you. The next question is from the line of Deepak Mittal from Samara Capital, please go ahead.

Deepak Mittal: Actually I have a couple of questions on the pharmacy business, because I think it could be a significant value unlocking in this business. So the questions I have just for clarification. All these retail pharmacy stores are basically the independent stores, none of them are in the hospitals stores, right?

Venkataraman: That is right.

Deepak Mittal: All of them are outside?

Venkataraman: All of them are outside. That is right.

Deepak Mittal: And there were some conversations around getting external investors just in the pharmacy business sometime back, I think, it was December 2010 or June 2010, there was a lot of conversation around divesting about 50% stake in this pharmacy business. Is there a thought process around that going forward also or that plan is on hold for now?

Venkataraman: No, we are looking at unlocking value at some point in time but we will look at what is the regulatory environment and also the value that we are likely to get given the ramp up that we are doing. So still it is on the drawing board, nothing clear has emerged and nothing is before the Board now. So once some clearer developments are there and the Board takes a view, then only we will be able to convey anything of substance. At this point in time, the thought process is certainly there.
Deepak Mittal: I’m saying if you could provide the inventory days data as well going forward because you are just providing receivable days and payable days, the major capital employed in the business is about actually inventory.

Krishnan: Sure, we will provide that going forward and this is approximately 40 to 45 days at this point in time.

Deepak Mittal: I was just doing some calculations, the pharmacy business has been profitable for the last four quarters, right?

Krishnan: That is correct.

Deepak Mittal: And we have invested about 35 crores in last four quarters because our capital employed has gone from 190 crores to 225 crores. So you invested about 35 crores and the number of stores that we have added overall is about 54 stores. So basically per store if you look at the capital that we have invested is about 60 lakhs?

Krishnan: No, if you look at it, this is a mix of both the inventories in our existing pharmacies as well as the new pharmacies added. Typically, if you look at the CapEx per store, there is approximately around 18 lakhs.

Deepak Mittal: 18 lakhs is just the CapEx that includes inventory or that does not include?

Krishnan: It includes inventory.

Deepak Mittal: Okay and just one last request, if you could also start providing, you can divide this total store again into stores between 2007 to 2009 and then do the total, currently provide up to 2007 batch and then total if you could just provide one more?

Venkataraman: Definitely, we will consider that.

Moderator: Thank you. The next question is from the line of Priti Arora from Kotak Securities, please go ahead.

Priti Arora: Just wanted to confirm when you mentioned the consolidated occupancy rate is 73% of 4,800 beds operational, your presentation states 5,200 beds operational?

Krishnan: I said 5,200 beds are including the Mauritius facility. If you exclude Mauritius it is around 5,000 beds. Out of the 5,000 beds is what it will be 73%.

Priti Arora: So the 25% new hospitals beds you mentioned of the total beds, that will be 25% of 5,200 beds new additions, right?

Krishnan: Yes.

Priti Arora: Okay and could you please provide the hospital-based pharmacies revenue and EBITDA growth, sales growth and the absolute revenue number for the quarter?

Krishnan: We don’t specifically provide HBP growth separately, it is part of the overall hospital operation.

Priti Arora: So this 18% healthcare services growth which you reported in standalone it has dipped, so is that on account of only the Chennai factor or has there been a dip in
the hospital-based pharmacies? I am just trying to understand that without you giving any numbers if you don't want to.

Krishnan
This is only because of the Chennai factor.

Priti Arora
Can you give the ARPOB on a standalone basis please? You gave the consol number.

Suneeta Reddy
18,900.

Priti Arora
And the consolidated numbers you have given on Slide 7, this excludes the Munich Re, can you give it including the Health Insurance?

Krishnan
This includes Munich Re.

Priti Arora
No, but then your 1st quarter FY11 number should be different if it includes it?

Krishnan
This does include Munich Re. If you want the numbers without Munich Re, maybe you get in touch with Krishna Kumar and he can provide you the same.

Moderator
Thank you. The next question is from the line of Rahul Gaggar from Centrum Broking, please go ahead.

Rahul Gaggar
Wanted to basically touch base with regard to the whole concept of Reach Hospitals firstly. Sir, basically since we are in tier 2, we are expanding in this space. I just wanted to understand what is like the financial and business logic behind going in this concept and your view on it basically?

Venkataraman
Reach Hospitals was based out of our experience in terms of T-2 cities which account for around 14% of the GDP like the T-1 metro and the business logic is that we need to care to the patient as close to the home as possible rather than traveling to cluster, we wanted to decongest our main facilities because we received a lot of patients from these T2 cities, where we can give care at a cheaper rate without compromising on the financials. So the logic on which we launched the Reach concept and till now based on the current experience for around 5 or 6 Reach Hospitals, we feel that the experience has been very good, we have a lot of learning besides we are also getting a lot of doctors in the pipeline who then be employed at our main hospitals as time goes by because they improve in terms of clinical skills and they can actually qualify to become a super specialist at our main hospitals. This is the logic on which we rolled out the Reach concept.

Rahul Gaggar
Sir, typically I'm assuming obviously, because they are smaller cities the ARPOB in the cities would also be in the lower end as would the CapEx be obviously. So can you shed some light on that?

Venkataraman
Yeah, if you analyze the hospital industry, if you look at what we are doing in the metros, we do a lot of high activity and low-frequency work apart from medium severity and medium frequency. Now if you look at the medium frequency, medium acuity level, this is exactly what we do in Reach, so one could expect that the ARPOB would be between 6,000 to 8,000 at these locations compared to 15,000 plus at the metros.

Rahul Gaggar
What would be the CapEx in setting up these hospitals there?

Venkataraman
Yeah, except for the land factor, even land is becoming more expensive at T-2 cities, the equipment will be lower and the cost of bed actually probably is 40 to
50% of what it would cost in the metro. In the metro typically cost between a crore and crore ten.

Rahul Gaggar
So this should be around 50 to 60 lakhs, probably around somewhere?

Venkataraman
Yeah, max.

Rahul Gaggar
Sir, the one question which you said the equipment is lower. Is this, you mean because we don’t cater to as you said high activity but low-frequency procedures?

Venkataraman
For example, the oncology will certainly not be there and we will add on cardiology and cardiothoracic at the right point in time. Cardiology will definitely be there but you will have lesser number of theaters compared to the metro hospitals. In Metro hospitals, we would invest 40 to 50 crores without oncology. In Reach Hospitals, it would be between 20 to 30 crores.

Rahul Gaggar
Sir, because since you say the equipment is an important part, how much does an equipment of the 50 to 60 lakh consists of in that respect, in a Reach and probably on a multi-speciality hospital as well?

Venkataraman
No, I think the figure of that 20 to 30 crores which I said, you have to just divide by the number of beds that we have, you can easily arrive at that number.

Rahul Gaggar
What is the typical like, if you don’t share exact hospital details but like what is the maximum EBITDA margins that you can get in a particular standalone Reach Hospital that you might either you have it in your existing place or you look forward to in that respect?

Venkataraman
Potential is that we will reach 25%.

Rahul Gaggar
So this could be again like which year, 4th, 5th year probably once this stabilizes?

Venkataraman
No, these questions are very detailed. We can have an off-line discussion. It is a modeling question and we will be happy to share with you off-line.

Moderator
Thank you. The next question is from the line of Kashyap Pujara from Enam Securities, please go ahead.

Kashyap Pujara
Just one point which I couldn’t get while we were discussing I just missed that point. Was the run rate for pharmacies, I guess you mentioned that we will be at one crore per pharmacy revenue but I missed the timeline which you said after that. By when did you say that?

Krishnan
That is for the mature stores is what we are saying. For the mature clusters of 2007, we are aiming to get to 16.5% growth. If you look at another 20% growth, by the end of this fiscal, we should be there.

Kashyap Pujara
Okay for the mature cluster of pharmacies. And one more point was that, having looked at the results in greater depth even though the Chennai factor would have come into play marginally affecting our outpatient volume but there has been a reasonably strong improvement of ARPOBs across the board because even if I strip off the Indraprastha Delhi’s turnover and if I look at the number without Indraprastha I still see a reasonably strong growth in double digits on ARPOB on the consolidation front also, so that has been very encouraging. And second was the Reach Hospitals, generally the breakeven was approximately 2 years, but now
we have seen most of the Reach Hospitals breaking even in year one or year two. So are you seeing these trends as sustainable?

**Krishnan**
Yes, we do see these trends are sustainable. We are seeing a positive traction in Bhubaneswar, it has gained very well for us, and we have seen even in Hyderabad cluster. We have added new beds even on the back of adding new beds, we have done very well. So you are correct, we are seeing this happen and it will be sustainable.

**Suneeta Reddy**
And the other thing is that center of excellence strategy which had resulted in growth in Hyderabad, Cardiology has grown by 30%, Neuro has grown by 20% and Orthopedic has also grown by another 24%. So that too has resulted in a better ARPOB, the focus on COE.

**Kashyap Pujara**
Full impact of the Centers of excellence, I guess would not yet be out considering that the Reach Hospitals would not have the focus on COEs. I mean, this COE mix is largely been driven by the mature clusters as of now?

**Venkataraman**
No, all our metro hospitals are following this Center of Excellence concept.

**Moderator**
Thank you. Ladies and gentlemen due to time constraints we will take the last question from the line of Kaustav Kakati from PUG Securities, please go ahead.

**Kaustav Kakati**
I just wanted to know that, when you talk about CapEx per hospital, do you also include the land and building cost or is it just equipments and your lease rental?

**Venkataraman**
See, normally we do include land but land is actually a variable in project cost, so it would be a good approximate thing to take around 40 crores towards medical equipment and to look at around Rs. 3,500 to Rs. 4,000 a sq. ft. for the construction fit to occupy and the land is variable. So based on the location you could take this, what we gave you is just a thumb rule.

**Kaustav Kakati**
Right sir, but you would actually own all the land and building of all the facilities?

**Venkataraman**
No, substantial amount of it is leased, roughly 40% of our facilities are leased.

**Moderator**
Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Ms. Reddy for closing comments. Please go ahead.

**Suneeta Reddy**
Ladies and gentlemen thank you for joining us on this call. I think there were some questions which we said we would answer off-line. Please contact Mr. Krishnakumar, and he will supply with this information. We look forward to receiving questions from you in the future and to meeting you next quarter. Thank you again.

**Moderator**
Thank you. Ladies and gentlemen on behalf of Apollo Hospitals that concludes this conference call. Thank you for joining us and you may now disconnect your lines.