Apollo Hospitals Q1 FY13 Results
Transcript of Conference Call
August 13, 2012

Moderator
Ladies and gentlemen good day and welcome to the Apollo Hospitals Q1FY13 Earnings Conference Call. As a reminder 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. If you should need assistance during this conference call please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Vaswani from CDR India.

Mayank Vaswani
Good afternoon everyone and thank you for joining us on this call to discuss Apollo Hospitals' financial results for the 1st Quarter of FY 2013. We have with us today the senior management team of Apollo Hospitals. 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 our investor presentation. We'll start with Ms. Suneeta Reddy who will discuss the operating highlights for the quarter, Mr. K. Akhileswaran will then discuss the financial highlights and expansion plans and Mr. S. 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 website. I now invite Ms. Suneeta Reddy to provide highlights of our performance.

Suneeta Reddy
Good afternoon and thank you for joining our call. I'm pleased to share with you that we have begun the new financial year on a strong footing. We have witnessed robust growth in both revenues and profitability aided by an all-round growth. The Apollo excellence framework has been further reaffirmed by the volume growth not only in mature clusters like Chennai and Hyderabad but also in our new hospitals at Bhubaneswar, Karur and Karaikudi. Tier-II locations like Madurai, Mysore, Karimnagar have also displayed a strong traction in patient flows. The ‘Centres of Excellence’ focus combined with technological excellence and the emphasis on patient care continues to yield clinical outcomes comparable with the best in the world.

The Apollo REACH initiative to set up hospitals in Tier-II and Tier-III cities in India was recognized for inclusive business innovation at the prestigious T 20 summit in Mexico. We are the only health care organization in the world to be acknowledged at such a platform. We are equally excited about the REACH initiative and are looking forward to the launch of our REACH Hospitals in Ayanambakkam and Trichy in the latter half of the fiscal year.
Our transplant program continues to demonstrate a strong momentum on the back of over 900 solid organ transplants in a single calendar year. As indicated earlier we have extended our transplant programs to our hospitals at Bhubaneswar and Ludhiana. We have introduced, this quarter, robotic surgery in our hospitals in Kolkata and Delhi. Our approach to robotic surgery is two pronged and we are in the process of widening the scope by adding the capability at more centers deepening the scope by extending its application to areas like cardiac surgery, head and neck surgeries and pediatrics.

We have witnessed a steady increase in overseas patients. What needs to be highlighted here is that international patients place greater emphasis on clinical competencies and outcomes as they compare value. Patients study the treatments that are offered, the clinical protocols that are followed, assess success rates and measure clinical outcomes before they come to us. We take great pride in sharing with you that they choose Apollo hospitals after evaluating several other medical facilities across the globe. We believe that this offers a great potential and we have plans in place to further augment our international patient focus.

Our Hospital in Hyderabad was recently reaccredited by JCI during the quarter and we continue to have the largest number of JCI accredited hospitals in the country with seven hospitals having achieved this distinction.

To provide a quick overview about financial performance, consolidated revenues grew by 21.8% from 723 crore in Q1 last year to 881 crore in Q1 of this year. Consolidated EBITDA expanded by 24% from Rs. 119 crore in Q1 to Rs. 148 crore in Q1 this year. Profit after tax is up by 44% to 79 crore.

The standalone pharmacy business continues to demonstrate strong momentum with over 30% year-on-year revenue growth. Our initiatives to rationalize our store network and to introduce self branded products are paying off to a steady increase in operating margins. The private-label category today constitutes 4% of the total pharmacy business and includes over 100 products with 200 stock keeping units in the categories of off patented generic drug over the counter product, personal care product and nutritional supplement. We are planning to launch more products in the vitamin and health supplements category.

Both Apollo Munich and Apollo Health Street have seen significant improvement in their profitability. Apollo Munich recorded a gross written premium of 1,017 million representing 42% year-on-year growth.

Coming to our CAPEX plans. the Board has approved, the setting up of a hospital in Indore. This will be a 185 bed super specialty hospital and will be completed by FY14. This is incremental to the expansion plan that we shared with you last quarter and the total expansion plan envisages over 3,100 new beds in the next three financial years.

Before I conclude I would like to share with you that IFC has converted the second tranche of outstanding FCCBs amounting to USD 7.5 million that has resulted in the issuance of 1.4 million shares. There are no outstanding FCCBs following this conversion. Now I will hand you over to Krishnan our CFO who will provide you with further details of our financial performance.

K Akhileswaran

Good afternoon everybody, I trust all of you have received our investor presentation which has been circulated earlier and also has been uploaded on our website. I would like you to refer to slide 9 of the presentation which contains the standalone financial performance. The strong momentum continues with 21.3% year-on-year growth in the standalone revenues this quarter. Total expenses have
increased by 20.9% year-on-year primarily due to increase in employee cost by over 30.7%. We had a wage settlement for our hospital staff and support services including nursing in the beginning of this quarter which has now been absorbed.

Despite this, EBITDA grew over 23% from Rs.106 crore in Q1 FY12 to 130 crore in Q1 FY13. The EBITDA margins have expanded by 26 basis points to 16.8%. The trend in EBITDA has been driven by volumes, richer case-mix and improved pricing enabled by our ‘Centres of excellence’ initiative. Margin improvement from standalone pharmacies have also helped in the overall margin expansion. Depreciation is higher due to the addition of operating beds at Hyderabad, Bhubaneswar, Madurai and Karaikudi amongst others. There was a reduction in the financial expenses due to refinancing of debt through debentures and new loans. Other income in Q1 FY13 was 4.1 crore. Standalone PAT grew 36% to Rs.70 crore.

If you now turn to slide number 10 on segment wise performance. You will see that the healthcare services segment grew by 17.4% in the 1st Quarter. Revision in price, a richer case mix and volume growth across our network of hospitals have led to this performance as I said. The EBIT from healthcare services expanded 18.6% from Rs. 86 crore in Q1 FY12 to Rs.102 crore in Q1 FY13. The annualized ROCE on healthcare services has marginally improved to 19.2% in Q1 FY13 and it is important to note that this is despite the addition of Rs. 315 crore of capital employed in facilities like Hyderabad, Madurai, Karaikudi and Bhubaneswar.

I will now quickly take you through slide 12 which contains the key operating metrics in the hospitals business. The operational beds as of June 30th, 2012 are at 5,218, the net increase of 212 beds over the period has come through the addition in beds at our hospitals in Bhubaneswar, Madurai and Karaikudi as well as across key subsidiaries in Calcutta, Bangalore and Delhi. Occupancy has increased to 74% in Q1 FY13 compared to 71% in the same quarter last year led by a volume growth specifically in hospitals like Bhubaneswar, Madurai, Karimnagar, Karur, Karaikudi and Mysore.

Chennai cluster has displayed strong growth with 19.4% increase in the revenues in Q1 FY13 as at Rs. 244 crore as compared to Rs. 204 crore last year. The outpatient volume increased by 13.2% and inpatient volumes by 1.5% as compared to the same period in the previous year. It is also important here to note that versus the sequential quarter the Chennai cluster has almost grown almost around 5%. Hyderabad revenues grew by 14.5% in Q1 FY13 to Rs. 97 crore as compared to Rs.85 crore in Q1 FY12. The outpatient volumes increased by 9.6% and inpatient volumes by 10.9% as compared to the same period in the previous year.

Other hospitals outside of Chennai and Hyderabad have displayed a strong growth. Bhubaneswar today has an occupancy of 174 beds, 70% utilized on an increased capacity of 250 beds as compared to 102 beds in Q1 of last year. Madurai today has an occupancy of 194 beds which is almost around 86% utilization on a capacity of 225 beds as compared to 155 beds in Q1 of last year. Mysore is at 73% utilization at 134 beds on a capacity of 185 beds, that despite having 30 beds under renovation. Among subsidiaries, JV’s and associates Bangalore, Delhi and Ahmedabad reported strong volume growth which has resulted in improved revenues and EBITDA.

Slide 16 has our expansion and CAPEX plans for the next three financial years. Ms. Suneeta already spoke about the Indore hospital which was approved this quarter. Including Indore, we will add 3,140 beds across 15 hospitals thereby increasing the number of owned hospitals in our network to 51 from the present 36
and the number of owned beds from a current gross capacity of 5,908 beds over 9,000 beds in FY15. The total funds required for the projects are in the range of Rs.2,000 crore of which Apollo’s share is approximately around 1,815 crore, of this we have already invested Rs. 322 crore and will source the remaining funds to cash, internal accruals and debt. Our current leverage levels and debt servicing abilities offers adequate comfort for us to undertake our calibrated expansion plan. That's it from me, I will now hand over to Mr. S.K. Venkataraman who would walk you through the development in pharmacies, health insurance and Apollo Health Street.

S.K. Venkataraman

Revenue growth remained very strong in the standalone pharmacy segment as it expanded over 30% from 190 crore in Q1 FY12 to 248 crore in Q1 this year. EBITDA has improved to 6.1 crore in Q1 FY13 from 2.3 crore Q1 FY12. The EBITDA margin has also increased to 2.5% this quarter from 1.2% in the same period last year. This is also driven by the increase in private label sales which now constitutes almost 4% of our total pharmacy turnover. I will refer you to slide number 14 of our investor presentation which shows that our stores have been classified into three categories. Stores set up before FY07, stores set up during FY08 and others. There has been a brilliant growth of 17.4% in the average revenue per store. The growth in same-store sales for the stores opened prior to FY07 was 15.7% and 25.5% for the stores opened during FY08. The EBITDA performance has been getting stronger for each category. The pre-FY07 category which contains the mature stores has an EBITDA margin of 5.8% which has climbed steadily due to rationalization of our store network and higher contribution from private labels, as stated earlier. The FY08 batch which are the mid maturity stores have also reported a significant improvement in the EBITDA margins from 1.1% in Q1 last year to 3.5% in the current quarter. We are the largest pharmacy chain in India with a pan India network of currently 1,357 stores as of 30th June 2012.

Coming to insurance, Apollo Munich Health Insurance have recorded an increase of 42% in gross written premium from Rs.72 crore in Q1 FY12 to Rs.102 crore for the current quarter. Total income is up by 60% from Rs.68 crore in Q1 last year to 108 crore in Q1 this year. Q1 EBITDA was only marginally negative and improved from a negative EBITDA of -7 crore in the same period last year. Apollo Health Street reported an increase of over 10% in the total income from Rs.122 crore in Q1 FY12 to Rs.124 crore in Q1 FY13. This has been driven by currency exchange rate and increased volumes. Cost optimization has led to an increase in EBITDA with the expanded 49% to Rs.29 crore from Rs.19 crore in Q1 last year. The EBITDA margins have also expanded 560 basis points from 16% to 21%. We have also reported a net profit this quarter and will look to build on this momentum throughout the rest of the year. If you look at our consolidated performance alone, it was 119 crore two years back going up to 135 crore and now 176 crore, so the 30% growth in our JVs and Sub actually is a cause of great happiness to us because this shows that below the level of AHEL the JVs and Subs are showing an excellent turnaround. That's it from me, we will now take your questions.

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from Farzan Madon from Enam Securities.

Farzan Madon

Thank you very much for the excellent presentation which is very informative but however just wanted to know about the media reports making the rounds on Health Street, so is the company actively looking out for potential buyers and at what valuation would this be?
K Akhileswaran  On Health Street at this point in time it is quite preliminary to state anything, we would come back to you if there is anything meaningful. The business as you have seen is doing well and we have even in the past got a few people who have expressed their interest in the strategic tie up / strategic partnership etc. We have still not decided the way that we should be looking at it and so at this point in time it is quite preliminary, we will come back to you when we have something specific.

Farzan Madon  How is the expansion program especially in Bombay going on?

Suneeta Reddy  With regard to the expansion program you know we are on track to open in the next 12 months, we will open four hospitals which will be Ayanambakkam, the Orthopedic Hospital in Bangalore and also the Nellore Hospital will be ready, Trichy will also be commissioned so clearly we will have close to 1,000 beds which will be ready for opening. With regard to Bombay specifically, New Bombay, we have already started construction it has been slightly delayed in the sense that of 8 to 9 months because of some permission that needed to be obtained, this is particularly relevant for our hospitals in both Byculla and Thane as well but we do know that by the 1st Quarter of 2015 we will have all our beds operational in Bombay.

Farzan Madon  So more or less basically we are in line for the expansion program?

S.K. Venkataraman  Yes, you can actually refer to slide number 16 which more or less captures the essence of what Ms. Suneeta just said.

Farzan Madon  We have a lower tax rate because of section 35 AD, now structurally, we will be at a lower tax rate, slightly?

K Akhileswaran  That is right, that’s how it will be because with the section 35 AD allows all new hospitals over 100 beds an accelerated depreciation of 150% in the first year so given that the effective tax rate is now at around 27%. Given that we have an expansion plan, over the next 3-4 years and it will obviously even continue as we move forward, so we expect our tax rate to remain in this range over the next few years.

S.K. Venkataraman  This is a path breaking policy announcement in the sense that Apollo spearheaded the whole effort and we are gratified to note that the Central Government actually gave us a lot of accolades in acknowledging the fact that we are a leader and this is good for the hospital industry as a whole.

Moderator  The next question is from Kemp Dolliver from Religare Capital Market.

Kemp Dolliver  With regard to the hospitals with our subsidiaries and joint ventures the ARPOB increased by about 4% which is noticeably slower than the 11% or more posted by the standalone hospitals. Is there anything different going in those markets, that would account for the difference or is there just a difference in your mix of hospitals year over year?

K Akhileswaran  If you look at the JVs and associates the important thing is we have not done any increase in the tariff in Delhi because the Delhi focus was more on the volumes and if you look at the overall growth in volumes, the growth in volumes in Delhi has been almost around 14%. So if you look at the overall revenue growth it has done well and we have strategically not increased the prices there and the tariffs have been kept at the earlier level so which is one of the reasons that the ARPOB increase is not something which is visible because in the JVs and the associates, Delhi plays a significant role. Again if you look at the other mix of hospitals again Ahmedabad is one market that we again wanted to fill up the beds so we have not
increased the tariffs as much but if you look at the other hospitals like Bangalore and Calcutta tariff does play an important role and it is visible in the overall numbers.

**Kemp Dolliver**
My second question relates to the hospitals that you are bringing online during the course of fiscal 2013. How many of the beds do you expect will actually be operational during fiscal 2013?

**Suneeta Reddy**
Ayanambakkam the capacity is 250 beds but we believe that we will bring on only 150 will be operational, with regards to Bangalore we are hopeful that we will start with a 125 beds because I think there is a latent demand and we have everything in place to do that. Nellore and Trichy of course will be a bit slower because they are in new markets. Nellore has a capacity for 250 beds, 100 beds will become operational and the same will happen with Trichy which has a capacity for 250 beds but 100 will be operational which brings us to 550 operational beds.

**Moderator**
The next question is from Rashmi Kwatra from Prince Street.

**Rashmi Kwatra**
I was just looking through your receivables for the last 5 years and I am wondering how come those receivables have increased from 1 billion to 4 billion, I am missing something and what explanation for that would be?

**S.K. Venkataraman**
As a percentage of sales if you look at the past five years, it is actually stable or actually come down and the way we monitor the receivables is we have a very strict audit committee and we actually specify a number of days of receivables and at our most of our locations it is around 90. In some locations it may go up to 110-120 but we are on top of that situation because of specific reasons but overall if you look at it, the right way to look at it is, not in terms of absolute numbers but as a percentage to revenue and the number of days of the credit sales which is quite controllable in our opinion. And the fact that we are going after businesses like insurance and private sector corporates and public sector corporates, there is a conscious move to actually increase the credit business.

**Suneeta Reddy**
And also the CGHS which we never had last year, the Central Government Health Services.

**Rashmi Kwatra**
The number of days for your credit cycle that you talking about, is stable at?

**S.K. Venkataraman**
We are currently around 90-95 with some outliers at 120 but those outliers are truly outliers and we are managing that situation also.

**Suneeta Reddy**
Those outliers like Bilaspur have a lot to do with public sector companies so that is the reason for the delay.

**S.K. Venkataraman**
But it is manageable and we are on the top of the situation.

**Rashmi Kwatra**
Could I just get a break down of the percentage of EBIT in the three different hospital segments Chennai, Hyderabad and other?

**S.K. Venkataraman**
We can take this question off line, K Akhileswaran will be able to provide you that.

**Moderator**
The next question is from Saion Mukherjee from Nomura.

**Saion Mukherjee**
First of all would you guide us to the CAPEX plans, you said that there are about, Rs.15 billion CAPEX lined up for the next three years, so what would it be like more front ended, more tail ended what is the CAPEX guidance?
K Akhileswaran  
As you see we have around 1,815 crore which is still required as Apollo’s share and if you look at it already you are right 322 crore has already been incurred and 1,500 crore is what will be required over the next three years and the requirement will be almost spread equally amongst the three years so almost around 500 crore in each of the three years.

Suneeta Reddy  
The details are available in slide 16.

S.K. Venkataraman  
Basically the execution is in place so we will more or less stick to these numbers at a broader level.

Suneeta Reddy  
Actually what is important is that we have already invested about 322 crore and of the balance; the promoters in terms of warrants have brought in 160 crore this quarter and between internal accruals and debt we will actually complete the rest of the funding. So we will do it on a staggered basis.

Saion Mukherjee  
And what would be the debt level at which you will be comfortable, any threshold of the debt equity levels that we had previously spoken about?

Suneeta Reddy  
At 0.5 to 0.6 is something that we can very comfortably live with, without affecting our net profit margins.

S.K. Venkataraman  
We monitor our debt-EBITDA coverage, we monitor our interest cover, and we look at security cover and based on that we take a call. So, based on all these considerations the levels that Ms. Suneeta and K Akhileswaran referred to are sustainable.

Saion Mukherjee  
What is the kind of ARPOB growth that we are looking for in our mature clusters that is Hyderabad and Chennai so I understand Hyderabad for example most of the growth going forward could be driven by either an increase in occupancy rate which we have not seen for the past few quarters or they can be grouped by ARPOB, so what is the kind of ARPOB growth that we can expect there?

K Akhileswaran  
The important thing that you should look at is if you look at the ARPOB growth in Chennai and the Hyderabad cluster even in this quarter they have been almost around 18% and 11% respectively. The important thing that we have also stated in the past is we are focused on centers of excellence and if you look at it we are looking at doing high-end cases, high-end tertiary care, substantially higher and specifically in mature clusters like Chennai and Hyderabad so with that focus we would still be focusing on a double-digit or high single digits ARPOB growth. 9% CAGR as the company is something that we have done and we would be looking at that range to a higher depending on how the COEs matures in each of the clusters.

Suneeta Reddy  
Having said that, Krishnan mentioned earlier that in each of the markets we have different strategies because if you would have looked at Hyderabad we have added a considerable bed base, we have added 500 beds over the past one year and I think the focus has been on actually filling up these beds making sure fixed costs are covered so to make sure our margins remain intact, definitely our desire is to improve ARPOB we will do that using the centers of excellence and also our focus on foreign patients. These are two things that we are looking at very carefully but I have to reiterate that in each of the clusters the growth in ARPOB is actually very independent, it cannot be a central strategy. We can monitor but we cannot dictate.

Saion Mukherjee  
Isn’t there a role in the base of the ARPOB for example in Chennai we are touching Rs.10 million a year ARPOB, so would you still believe that even at this base we
can continue to grow at high single digits or double-digits growth say for the next 3 to 4 years is that something which is possible?

**Suneeta Reddy**

Double digits yes, it is possible but I think in Chennai once we open Ayanambakkam you will begin to see volume growth rather than increase in ARPOB because that will become a new facility and could bring down the average.

**K Akhileswaran**

From the cluster you might not see the same dip but if you look at within the clusters we are still have significant headroom on the main hospital, etc., even if you look at the speciality hospital there is still a case-mix change which we are seeing more towards oncology compared to the other specialties. So all of that within the cluster you will see that happening but as a cluster if you look at Ayanambakkam coming in you will see some of that not probably clearly visible.

**S.K. Venkataraman**

Apart from that the important thing to consider is we are also looking at EBITDA per bed so we look at not only ARPOB per bed but we are also monitoring EBITDA per bed.

**Saion Mukherjee**

On Hyderabad, so over the past 4 to 5 quarters the occupancy rates have remained in low 60s and we have not seen any kind of ramp up in this but just wanted to understand broadly what is the kind of strategy that we have there? Are we really looking to increase occupancy rate so that we can bring the additional capacity online or is it that the case-mix between the existing capacity and new capacity is different and therefore it doesn't matter, the occupancy rate of the current capacity you can still bring online the new capacity that we have?

**Suneeta Reddy**

We have actually brought down the new capacity and inpatient volume has grown by 10.9%, outpatient has grown by 9.6% but I think the problem there was that we were little slow in lineating ourselves with the GIPSA rates and we did lose some amount of customers because of our reluctance not to bring down the tariff in order to accommodate GIPSA but now that we have already tied up at a premium to other hospitals, Hyderabad is still at a premium to all the other hospitals in that region so now that it is tied up we hope that next quarter we will start to see the reflection of that post an improvement in volume and in ARPOB.

**Saion Mukherjee**

And occupancy rates?

**Suneeta Reddy**

Volumes will get reflected in occupancy.

**S.K. Venkataraman**

Strategy is specifically will be to look after GIPSA which is General Insurance Public Sector plus also renewed focus on international patients, so with this two primary strategies I think in the next couple of years we will see that occupancy will go back to the healthy level that they were earlier before expansion.

**Saion Mukherjee**

Is there a target number of standalone pharmacies that we have, net pharmacy additions for this year?

**Obul Reddy**

We have about 250 pharmacies planned to be open during the current year that is gross.

**Saion Mukherjee**

Do we have a net number?

**Obul Reddy**

It will be in the range of 210-220.

**Saion Mukherjee**

Actually we have already shut 33 pharmacies this quarter?
Suneeta Reddy: Actually it is very difficult to predict the net number at this time till we actually review performance on a quarter-on-quarter basis so to give a net number is a little difficult but we clearly are on track to open to 250.

S.K. Venkataraman: Because the failure rate is difficult to predict we are just forecasting based on past history.

Moderator: The next question is from K. K. Konduri from ICICI Direct.

K. K. Konduri: Just to understand more on pharmacy business, what revenue it should clock to breakeven EBITDA level at each pharmacy?

Obul Reddy: It depends on each unit. We track each sub separately for that because it depends upon the cost structure, location, we have internal numbers to monitor that. We will take this offline.

K. K. Konduri: May be strategy wise how you can help us out, how are you identifying to close down a pharmacy, like you will keep a monitor may be around 12 months for 15 months if it is making losses you will close down that way or how you will monitor this?

S.K. Venkataraman: We have multiple criteria based on rent, sales, ratio of sales plus the location so not exactly conveyable in a con call so we will share the strategy later.

K. K. Konduri: Any update on the diabetic centre's plan?

K Akhileswaran: The sugar clinics is something that we have now started as part of our hospitals itself, there is a sugar program now also started as part of the hospital as well as clinics. We are now rolling it out and that is something not specific so it is just a preventive program as well as a program where we're working along with the patient and trying to also give him information on how he can control diabetes, etc., so it is a program that we have already launched and it is now gaining momentum across the hospitals so we are seeing that a lot of people are interested in getting enrolled and we have seen a lot of healthy responses from across patients.

Suneeta Reddy: I think the overall plan for the sugar clinics is to see that they have already been established in all our main hospitals but to roll it out in the clinics as well even though it is part of preventive what it does, is it does sends us conversions into the hospital base because they are people with various stages of problems with diabetes do get admission so it is actually the complete holistic care for people with diabetes.

S.K. Venkataraman: And one of the key thing that we are going to centralize and the central message is how to live with diabetes without disease, it appears as a contradiction but the fact is that we are going to look at some programs where people with diabetes can live without the complications of the disease so this is going to be the thrust of the sugar clinic.

Moderator: The next question is from Perin Ali from Edelweiss.

Perin Ali: My first question is on your margin outlook for the year if you could just explain to us how you see margins going forward for both your hospital as well as pharmacies for the year given that you will be also opening up 3 new hospitals if you could just help and give some directional understanding on that?
Suneeta Reddy  That is a very forward-looking statement to give you but I think if you look back at what we have done over the past at least if you look at 16 quarters, margins have grown at a certain rate but it is a clear indication of how we are growing.

Perin Ali  If you look at the pharmacies this quarter you have also closed down certain pharmacies and if you see sequentially the same-store revenue has also improved but our overall margins have remained at sequentially 2.5% so directionally how do we see pharmacy margins going forward in the whole year?

K Akhileswaran  As you would understand that while you have looked at it sequentially it is not very easy to do everything quarter-over-quarter on a sequential basis but directionally if you look at it we are in line to continue to expand margins on the pharmacy segment which we have stated and on the hospital as well if you look at the overall hospital as Ms. Suneeta said you would have new hospitals coming up which would have certain costs etc. but barring those the margin expansion plans because of operating leverage is something that we are focused on.

Suneeta Reddy  Historically if you look at going back to pharmacy, pharmacy margins expanded from Q1 FY12, Q1 FY13 by 71 basis points and it has reached 5.8% which is a healthy margin to begin for a pharmacy.

K Akhileswaran  The important thing is to note the higher contribution from private label so that would give you an indication of how things can be.

Perin Ali  You mentioned that your Chennai overall growth, if you see is largely driven by increase in ARPOBs to around 18% and if you look at it from revenue per inpatient, growth is almost around 21% so I just wanted to understand how much of that is driven by case-mix and how much of that is driven by tariff increases and how do you see this sustaining?

K Akhileswaran  So if you look at it at approximately around 6 to 7% would be on account of tariff and the balance will be because of case-mix and we are continuing to look at case-mix growth across our specialties and as I said it is something which is sustainable because we're looking at an oncology increase. We are seeing with the new hospital coming in Ayanambakkam we would also be looking at some of the low end specializations to be shifted there so we will be continuing to focus on case-mix as we have done in the past so you would see that momentum continuing.

S.K. Venkataraman  And there is a thrust on centers of excellence, that 6 specialties called Connect, so you will see that we will be able to sustain this, this is not a one-off flash in the pan because we are continuously working on the centers of excellence across the group.

Perin Ali  On the tax rate you have reduced your tax rate to 27% but as you also mentioned that the section defines that all new beds, over 100, which are added during a particularly year, you will get 150% depreciation CAPEX benefit on that but this quarter you have not added any new hospital and if I may know just previous new hospitals are you getting a benefit of that, that is why you have reduced your tax rate or are you just taking a scope of what is going to be added over the next year and then just factoring that in your numbers?

K Akhileswaran  The provision for taxation is always computed based on a full-year view of the tax liability.

Perin Ali  So this takes in account 3 to 4 hospitals which you have mentioned over the year.
K Akhileswaran  This is correct.

Perin Ali  You have mentioned that, in the press release I have seen that you plan to add a lot more large format retail pharmacies if you could just help us say over the next two or three years what are the new additions you plan to do in the pharmacies, how much of that will be the large format pharmacies in which you will be doubling the overall size of the pharmacy, if you could just help us understand your strategy on that?

S.K. Venkataraman  It is still on the drawing board stage and detailed plans are being drawn up, so at this point in time we are unable to share with you any specific details but as and when the development takes place we will be certainly happy to share that with you.

Perin Ali  But this large format with the conversion of existing stores or it will be focusing on the new stores?

Obul Reddy  It will be combination of both.

Moderator  The next question is from Ravi Dodhia from CRISIL.

Ravi Dodhia  If you look at the number of beds in the Chennai cluster there has been a decline from 1,159 in Q4 to 1,130 beds in Q1, so need to understand the reason for the same?

K Akhileswaran  That is something that we keep doing in certain hospitals. There has been a remodeling in the main hospital so there has been some conversion of general ward beds into ICUs, etc., and that is what is visible in the case mix as well. The increase in the case mix, the focus that we have in centers of excellence etc. warrants us to do some of these changes and that is something warranted in the main hospital and that is where it is overall come down by 30 beds.

Suneeta Reddy  And the fact is that Day Care was added last year so some of the surgical work is actually shifted to Day Care procedures, so while we are adding new beds in Ayanambakkam, I think that our theatres and all are better utilized.

Ravi Dodhia  And last quarter almost 30 beds were kind of closed for adding this liver transplant facility so is it that those 30 beds will come on stream say within the next 2 to 3 quarters?

K Akhileswaran  Yes it is already on stream now.

Ravi Dodhia  If you look at the mature store margin performance in the last three quarters, it has been actually kind of stable at 5.8%, so just want to understand what will it take to increase margins even in the mature stores and going forward what are the kind of margins that the company expects that this has potential to achieve margins?

Obul Reddy  Generally batch margins will be around 6% in mature stores which reflect only 2000-2007 batches. And if you look at the next batch where the growth is coming that is happening progressively, as planned. You can refer to Page #14 for those numbers.

Suneeta Reddy  Our branded products where the margins are much higher.

Obul Reddy  And expansion in the private label portfolio will further increase those margins.
Ravi Dodhia  So of the private labels which we say currently contributing 4% to the total revenues, what will be the share in the mature stores as in 2007 batch?

Suneeta Reddy  I think our target is to make it around 15 to 20%. It will take time for us to move to that level.

Ravi Dodhia  Okay, that will be over a period of time?

Suneeta Reddy  Yes.

Moderator  The next question is from Dheeresh Pathak from Goldman Sachs.

Dheeresh Pathak  Can you share the gross margins in the standalone pharmacy business?

Obul Reddy  It is in the range of about 20 to 22% post the loyalty cost.

Dheeresh Pathak  What is the loyalty cost?

Obul Reddy  Loyalty cost generally ranges about 5%.

Suneeta Reddy  That is the discount that is given to patients who patronize us over a certain volume, they continue to buy from us.

Dheeresh Pathak  Can you also share the revenue mix of the hospital business in terms of how much is out of pocket, how much is public sector and how much is through insurance?

K Akhileswaran  Approximately around 65% of the hospital business is out of pocket, 15% comes from insurance and 10% from public sector.

Dheeresh Pathak  And is this mix more skewed towards public sector in the Hyderabad cluster?

K Akhileswaran  Location while this would change, yes, you are right. This is at a broad level but you are right in Hyderabad, the out of pocket would be probably more around 50%.

Dheeresh Pathak  And public would be?

K Akhileswaran  Public would be a bit higher and the state insurance also plays a big role in Hyderabad.

Dheeresh Pathak  Like you share from your EBIT margins or EBITDA margins for the standalone pharmacy business in terms of various batches, is it possible to sort of get a sense of EBIT/EBITDA margins in the hospital business in terms of maturity of the hospitals?

K Akhileswaran  We would not want to go that route because it is something that we would not want to do from a competitive landscape perspective, if you want any specific ideas around that you are free to call up our investor relations team or me and we can guide you towards that.

Moderator  The next question is from Eshit Sheth from Anvil Share & Stock Broking.

Eshit Sheth  On the presentation that we have given, your Chennai cluster the bed occupancy level has gone to 80% which was earlier at 73% to 75%, is there some regrouping that have happened here?
K Akhileswaran  It is now at 80%. If you look at the last year there has been a regrouping in Q1 alone because in Q1 we did not have the clinics that is what we have put as comment there, Q2 onwards we have included the clinics and that is where if you look at the Q2 presentation onwards the clinic numbers were also part of the Chennai cluster so there has been a regrouping in Q1 of last year.

Eshit Sheth  And the occupancy rate has gone up from 77 to 80%?

K Akhileswaran  That is correct.

Eshit Sheth  On the tax front your tax rate has gone down to 27% but considering the CAPEX plan of the company has do you think this tax rate will go down further because we have aggressive CAPEX plans and the benefit that we have got of the current budget do you think that the tax rate would go down further?

K Akhileswaran  I think this is something that we should be looking at around this range because our profits are also on the rise and given that it would be in line around that 27 to 28%.

Eshit Sheth  Tax-to-PBT ratio will be around 28%?

K Akhileswaran  That is right.

Eshit Sheth  On the large format pharmacy stores could you give a sense on what would be the CAPEX plan for those kinds of stores and what will be the average size of those stores?

S.K. Venkataraman  We are still at the drawing board stage. We are at the planning stage but at this point of time they have not firmed up any specific expansion plan as and when we do and we get our Board approval we will be happy to share with you.

Moderator  Ladies and gentlemen we will take one last question from Perin Ali from Edelweiss.

Perin Ali  How many operational beds were there in Karaikudi?

K Akhileswaran  In Karaikudi we had 70 beds.

Perin Ali  How much capacity do we have in this hospital?

K Akhileswaran  150 beds.

Perin Ali  Do we plan to increase it further during the year?

K Akhileswaran  Not now it would probably take some more time before because we are still working on filling up the beds and increasing the revenues. But not in the next two quarters we will wait for the whole year and at the end of the year we will review that.

Perin Ali  On your CAPEX guidance you mentioned that 500 crore is the approximate CAPEX you will incur for hospitals, how much CAPEX you will be incurring for pharmacies this year?

S.K. Venkataraman  We are looking at opening around 250 stores gross.

K Akhileswaran  Around 30 to 32 crore is what is the approximate number for the full year.
Perin Ali Out of the total debt of 797 crore how much of that is attributed to Apollo Health Street?

K Akhileswaran If you look at the standalone debt, the standalone debt in the books is around 600 crore so that is what you should be looking at. So if you look at the standalone debt it has been around the same levels in the last couple of years.

S.K. Venkataraman It is classified under Associates so it will not come at all in the consolidated debt.

K Akhileswaran If you're looking at the consolidated debt.

Perin Ali I just wanted to know that how much debt is at Apollo Health Street and is there any debt which we have guaranteed or is attributable to Apollo Hospitals?

K Akhileswaran From our side, if you look at it we have invested in Apollo Health Street between equity and debt of almost around 180 crore and that is something that can get potentially unlocked over a period of time.

S.K. Venkataraman But as far as Apollo Health Street debt is concerned none of it is recourse to the parent.

Perin Ali How much is the interest rate and we are receiving or this year given that we have restructured some of the debt?

K Akhileswaran Some of the new debt we have access to ECB, etc., and we have hedged the ECB's completely and given that we are almost at 9.5% on the new debt. The existing debt is a combination of term loans and other debt that we have been having which is around 10.5%, so today if you look at the blended rate today we are at 10.5%, we should keep seeing a reduction in the overall number.

Moderator Ladies and gentlemen that was the last question. I now hand over the conference back to the management for closing comments.

Suneeta Reddy Thank you ladies and gentlemen for participating in this call. As usual we would be very happy to take your questions off-line as well. We welcome any questions that you might have on our performance and on our future progress.

Moderator Thank you very much. On behalf of Apollo Hospitals that concludes this conference call.