



## Apollo Hospitals Limited

### Q1 FY20 Earnings Conference Call Transcript August 14, 2019

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**Moderator:** Ladies and gentlemen, good day and welcome to Apollo Hospitals Ltd. Q1 FY20 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank-you and over to you sir.

**Mayank Vaswani:** Thank-you Karuna. Good afternoon everyone and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for the first quarter of FY20 which were announced yesterday. We have with us on the call, the senior management team comprising Ms. Suneeta Reddy – Managing Director, Dr. Hariprasad – President of the Hospitals Division, Mr. A. Krishnan – Chief Financial Officer and Mr. Chandra Sekhar – COO of AHLL.

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

Documents relating to our financial performance have been shared with all of you earlier and these have also been posted on our corporate website. I would now like to turn the call over to Ms. Suneeta Reddy for her opening comments.

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

In transitory and turbulent times for the healthcare sector of the last 3-4 months, Apollo Hospitals business model has reflected resilience based on business diversity. We are diversified across multiple facets, first in terms of formats, we are the only integrated healthcare provider with a presence across the value chain, including pharmacies, retail and insurance. In terms of geographies, we have 70 hospitals, of which 28 are tier 2 and tier 3 cities. We work across 55 unique specialties and 12 centers of excellence. We offer diverse delivery models including digital health, home health and tele-health. We compete with different price points while continuing to hold pole position as a premium brand. This diversity has helped us in creating a balanced portfolio, the superior margins profile without overdependence on any single specialty and with the unique ability to offer a differentiated value proposition to different customer segments. This resilience within our business model has been built consciously and is largely insulated our business model.

Against that backdrop, I am happy to report that we have begun the financial year on a good note. Our revenue and EBITDA momentum continues from quarter four last year on both healthcare services and pharmacy verticals. Q1 revenues grew year-on-year by 17% to Rs. 2,229 crore, aided by healthcare services growth of 15% to Rs. 1,172 crore and SAP growth of 18%. New hospitals supported revenues of Rs. 255 crore, registering a 25% growth year-on-year, while mature hospitals revenues grew 14%. The overall healthcare services growth for the quarter was aided by growth in surgical and Cath lab volumes at both mature and new hospitals. Q1 total in-patients volumes grew by 6% on a year-on-year basis supported by 17% in-patients volumes growth in new units. Overall Q1FY20 occupancy across the Group was at 4,849 beds or 66% compared to 4,638 beds or 65% in Q1FY19. The occupancy in mature hospitals was at 3,702 or 68%. New hospitals had occupancy at 1,147 beds or 61%.

Q1 overall EBITDA post IndAS 116 was at Rs. 326 crore. Pre IndAS 116 Q1FY20 EBITDA stood at Rs. 274 crore as compared to Rs. 227 crore in Q1FY19, a year-on-year growth of 21%. Within this, healthcare services EBITDA grew by 17% to Rs. 216 crore. Healthcare services margins were at 18.4% in Q1FY20 versus 18.2% in Q1FY19. This improvement was largely aided by a positive traction in new hospitals EBITDA which registered an EBITDA of Rs. 21 crore in Q1FY20 and an EBITDA of Rs. 11 crore in Q1FY19. Also, the EBITDA margins for mature hospitals increased from 21.6% to 22.1%, whereas new hospitals EBITDA margins improved from 5.1% in Q1FY19 to 8.4% in Q1FY20. The Proton out-patient services were commissioned in February 2019 and reported a revenue of Rs. 80 lakh and an EBITDA loss of Rs. 8.1 crore for the quarter.

On SAP, the revenues grew 18% on the back of 68 stores added during the quarter, taking the total to 3,496 stores. SAP EBITDA grew 41% to Rs. 59 crore. EBITDA margin was at 5.6%. SAP ROCE is now at 24%. Private label sales are almost 7% and rising.

Net debt as of 30th June is Rs. 2,931 crore. We have a debt to equity ratio of 0.86 and net debt to EBITDA of 2.7x. On a consolidated basis, we reported 27% EBITDA growth and PAT growth of 69% in Q1.

Apollo Health and Lifestyle continues to maintain its growth above all formats. In Q1FY20, revenues stood at Rs. 162 crore, up from Rs. 132 crore in Q1FY19. EBITDA loss was at Rs. 4.7 crore for the quarter compared to EBITDA loss of Rs. 19 crore in the same quarter last year. We are pleased to share the top clinical talent across all verticals have entered the Apollo Hospitals fold this year, especially in the oncology vertical. We are committed to remaining at the forefront of clinical excellence and pushing the bar on standards of care and clinical protocols, which will keep us differentiated in the consumers' mind.

Looking ahead, we believe the trajectory of profitable volume growth, COE focus, margin expansion and lean costs that we have embarked upon will continue to yield results over the next six to eight quarters. We are focused on achieving 23% EBITDA margins from our mature health services and driving margins from our new hospitals into the team. We are hopeful that continued momentum in our performance will help in achieving higher profitability and improvements in our cash flows. We are confident that our inherent strengths and deep clinical expertise, 360 degrees presence across all delivery formats, increasing digital clinicians and our futuristic focus on artificial intelligence, wellness and preventive health will continue to help us achieve industry leading growth and create further value for our stakeholders.

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

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

**Kashyap Pujara:** Congratulations to everyone at Apollo Hospitals for a fantastic set of numbers and delivering on all the commitments, be it regarding pledge reduction or be it regarding delivery of numbers, so congrats on this one. On my question, I have a first question on the ROCE profile. While we are seeing improvement across all the verticals in terms of margins or loss reduction but when I look at ROCE, you still have your mature facility and standalone pharmacies, we are now close to 24% on that one. But the new and some of the CWIPs are kind of causing a drag. So, roughly around 50% of the capital employed has very attractive return on capital, but 50% is still hugely work in progress. So, just wanted to understand from the management how they see this over a 3 to 5-year perspective in terms of return on capital employed. And can these kind of ever come to 20% plus mark? Or do you think that because they are new, the return profile is slightly more subdued compared to historic facilities?

**Suneeta Reddy:** So, let me start by saying that, yes, historic facilities, first we got the land at 25% of the project cost associate with land, and another 20% building. However, that has changed significantly. Having said that, I do believe that several things have changed within how we practice and what we do in the industry. The first, of course, is we have selection of case-mix, our focused-on CEs, all of which give you a superior margin profile. The second is cost. The cost at which we are doing business remains the same 30 years later. We have started by being one-tenth of the U.S. costs. Even today, we are one-tenth of the U.S. cost. So, we have a very tight control on costs. The third is that we are looking at the volume case, and if you mix the volume with the case mix, we do think that we will achieve an ROCE in the high teens for the Tier 2. And Tier 1 will continue at; we should be above 22%.

**Kashyap Pujara:** Okay. So, on a blended basis over 3 to 5 year the sustainable return on capital for the Group should be in the range of 15% plus given the breakup?

**Krishnan A:** Yes, that is correct. In fact, it could go even higher because the standalone pharmacy, if you understood that, clearly, the next 5 years standalone pharmacies ROI will be different. And there is also the restructuring that we are doing; the ROI of the backend would be even higher. So clearly a combination of that the ROI of pharmacies could go north of 30%-35% based on two things. One is the same store growth, which is continuing well. Second is a private label focus which we have now again started focusing on significantly and which we are quite hopeful that it will get to almost around 10% of the topline in the next couple of years. So, a combination of both of that we believe could get the ROCE of the standalone pharmacies to north of 30% to 35%, which should enable us overall.

**Kashyap Pujara:** My second question is related to the regions, Tamil Nadu region and the Telangana and AP region. If I look at the outpatient volume, that has been pretty anemic; in fact, in the Telangana and others even the inpatient was hardly 0.5% or so. So, what explains that low outpatient volume growth? And or do you think the outpatient growth has kind of capped out for these facilities or these geographies?

And as far as the ARPOB is concerned, we have a very healthy improvement in ARPOB across all the regions. Do you think that incrementally, the volumes have to make it up versus ARPOB or what are your thoughts on this?

- Dr. Hariprasad:** As Ms. Suneeta introduced during her introduction, in fact we are looking at profitable occupancy and profitable volumes. So, we are really conscious about the type of patients that are coming into the hospitals. And second thing is in terms of outpatients, there was an obvious impact of elections which was there during the first quarter with the outpatients. At the end of the day, we will make sure that the inpatients there was a decent growth even in the old clusters and this growth was more in terms of the Centers of Excellence which was chosen by us and which were promoted. And it starts right from choosing the clinical tablet to actually marketing, so it was conscious efforts by the system to improve profitable occupancy and volumes.
- Krishnan A:** We know for example there are specific segments like insurance and international within the specifically AP, Tamil Nadu, etcetera, where we have seen better growth than what we are seeing at an overall level. So, the patient segment mix is what we are focusing on, and those are the things that will enable us to see profitable growth.
- Kashyap Pujara:** And lastly, just one last question, and that is if you can just run us through any incremental update that you have as far as the regulatory side in the market, anything incremental on that front? And any update on what is happening to the Proton Therapy Center, the strategy behind monetizing that, anything incremental on these two accounts?
- Suneeta Reddy:** So, regulatory, there was no impact this quarter. So there is nothing that we need to be concerned about.
- Chandra Sekhar:** Oncology price correction happened in last quarter, and we have not seen significant impact on account of that as we maintained our margins through the scale and negotiations.
- Kashyap Pujara:** Sure.
- Suneeta Reddy:** And with regard to Proton, we had Rs. 80 lakh of revenue and Rs. 8 crore of loss. But the good thing is that the impact from the whole oncology COE has been significant. The growth of the COE has been around 18%.
- Krishnan A:** And the other point is Proton has now will be fully commissioned in July because whatever commissioned last quarter; is the outpatient services. The Proton effective July 1<sup>st</sup> will be fully commissioned. And you will see that the EBITDA losses in the first quarter itself will be much lower than the EBITDA losses that we had in Q1 and our estimate of that number is close to Rs. 5 crore, and which will be hence our overall for the year, we have said that we will not be over Rs. 25 crore of losses. We believe it could even be Rs. 20 crore and lesser if things go well. That is on the Proton side, so things are progressing well on that.
- Suneeta Reddy:** I also want to add that we have a waiting list of patients.
- Krishnan A:** Yes. There is a significant...
- Suneeta Reddy:** So, the volumes have really come up to our expectations and beyond.

- Krishnan A:** And on the Proton structuring bit, I think you will hear from us I think we are on the last stages of getting this done and I guess in the next month or so you will hear from us.
- Moderator:** Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.
- Sudarshan P:** My question largely is on Navi Mumbai and AHLL. I think of these 225 beds, what is the kind of utilization that we are running at and what is the kind of EBITDA contribution that it is making, how is it expected to kind of change over the next, say, 3 to 4 quarters? And similarly, AHLL, I think we have seen a remarkable drop in losses, almost halving even in a quarter's span. What I would like to understand is which are the building blocks that have actually contributed to the kind of profits, I mean if you can broadly give us as to how much is sugar doing and probably the other ones the Cradle contributing? And I mean here as we move forward, what is the kind of contribution we are kind of expecting from AHLL probably in the next couple of years?
- Suneeta Reddy:** With regard to Navi Mumbai, we have opened 225 beds, out of which nearly 200 are occupied this month. We closed this quarter with Rs. 2.8 crore of EBITDA and we are hopeful that there will be the EBITDA target of Rs. 30 crore. Chandra Sekhar, on AHLL?
- Chandra Sekhar:** Yes, ma'am. The growth of AHLL is spearheaded largely; we have a growth of close to 30% in year-on-year in the Cradle's business. And Spectra, which is our day surgery, specialty surgery is showing a growth of 17%. Clinics, which is our primary care show is about 20%. Diagnostics has grown 42% year-on-year. And we expect these growth rates to be maintained across the year. Sugar as a format has taken up a little bit of a slowdown in the previous quarters. Now we have seen a near 10% growth rate on Sugar as well. Dental is a business which is a little stagnant, but it will show growth rate in the coming quarters as we have made some essential changes to the model as well as the engagement with the doctors and other fundamentals. So, we are expecting dental also to grow. Dialysis is essentially the other format, which is showing a significant growth but because this was started late and it is showing 125% growth actually, but then the base was small in the previous year. We are expecting the Dialysis to add to both the profitability and the topline of AHLL in the coming years. This year, the estimates on dialysis are a little muted.
- Sudarshan P:** And the second question is primarily on debt and cash flows. One is on the promoters' side, where we had guided for the pledge coming down to 50% and probably to 20%. But on the contrary, there has been a marginal increase in the pledge. I would assume that, that is primarily to fund the deal, Apollo Munich deal. And second is the debt itself on the company level, where we are expecting the cash unlocking to come from the Munich deal as well as from the pharmacy transaction. I mean, if you can give some color with respect to the time lines of when both these events should happen? And what is the kind of debt which one should expect on the company probably in the next six months and by the end of the year?
- Suneeta Reddy:** So, with regard to the family and the pledge, I think we remain committed to our earlier statement. The additional beds were because of solvency funding in Apollo Munich. We have committed that we will bring this down below 50% and by the end of the year to bring it down below the 20%. And I think that we are completely on track with that. With regard to the company debt, I will ask Krishnan.

- Krishnan A:** I think clearly, we have indicated even last year, last quarter that we will be getting the overall standalone gross debt to around Rs. 2,500 crore, if you remember. And we are committed to that because the combination of both the Apollo Munich realization as well as the front-end pharmacy, which should get hived out and get into the SPV should help us get almost around Rs. 400 crore, Rs. 500 crore. On top of that, the cash flows which is going to accrue from the operations will also be helpful even though Proton still has Rs. 170 crore of balance CAPEX; even post that we will realize that we will be able to get our overall debt closer to the Rs. 2,500 crore number by end of the year. This is assuming that Proton continues with us. If Proton moves into an SPV, and as I said earlier that we get in an Investor there. We would be bringing our debt further down.
- Moderator:** Thank you. We have the next question from the line of Nitin Gosar from Invesco. Please go ahead.
- Nitin Gosar:** Just wanted to know the gross debt and net debt for standalone and console entity? I think in the presentation, we have some old back-dated data?
- Krishnan A:** What is it? Sorry, I did not get that?
- Suneeta Reddy:** Gross debt and net debt.
- Krishnan A:** So, the gross debt, standalone is what I told you. The console will remain, the delta will remain the similar one. So, the gross debt...
- Nitin Gosar:** What is the status today? The question is on, as of today end of first quarter FY20, what is the gross debt and cash on standalone and same for consol. The PPT is showing some data which is I think have not quite updated?
- Krishnan A:** No, it is an updated one. Rs. 3,120 crore is the total gross debt as of today in the standalone.
- Nitin Gosar:** Rs. 3,000 crore?
- Krishnan A:** Rs. 3,129 crore, the presentation says that.
- Nitin Gosar:** Okay. And it was strange because this was exactly the number a year back?
- Krishnan A:** No, actually last year back, I do not know. But this is if you look at the last quarter, last quarter was Rs. 3,200 crore.
- Nitin Gosar:** Yes. Okay. And what is the number for consolidated gross debt?
- Krishnan A:** Rs. 3,700 crore.
- Nitin Gosar:** Okay. And the same was the number strangely for fourth quarter?
- Krishnan A:** Yes. For the overall, the standalone debt has actually comes down to almost to Rs. 70 crore, Rs. 80 crore in this quarter, just so that we are on the same page. And this standalone debt of Rs. 3,200 crore will actually come down to Rs. 2,500 crore at the end of the year, as I said.
- Nitin Gosar:** Sorry, can you please come again on the last statement? I did not get it.

- Krishnan A:** It will come down to almost Rs. 2,500 crore by end of this year, standalone gross debt.
- Moderator:** Thank you. The next question comes from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** This is Shyam from Goldman Sachs. So quickly, just on ARPOB, just going back to the earlier participant's question. I think it has been quite significant, the ARPOB growth. So, can you split into say price and mix change, what has happened there? And the efforts to kind of read out all the lower margin, including some of the Government business that were there, would you have the impact of that this quarter as well?
- Krishnan A:** So, predominantly, it was, as we said, because of the patient segment mix which we have been focusing on some of the profitable growth. The predominant number comes from there. We have not taken any price increases this year. The price increases that we have taken were only last year, and that was something that was known to you almost around 4% increase is what we have done last year. But as of now, we continue with the same prices and the combination of the patient mix and also our case mix is what is helping. For example, even in the new hospitals, we have been seeing a good uplift in some of the high end cases, including transplant, neurosciences, oncology, et cetera. Combination of this is what is helping us.
- Shyam Srinivasan:** Just on the pricing environment, just a related question. Do you think all the pressure we saw 2 years, 3 years back on pricing, is it become a more easier environment for you to take price increases related to where competition is? Like you took a high like you said 4%. Do you think you can repeat that this year whenever it is more amiable to take?
- Suneeta Reddy:** No, I think a reasonable amount we can do and we continue to do, more in line with the inflation. But what was really improving is the clinical service outcome. And for example, we are moving more into the robotic, more into minimally invasive. And this is clearly reflecting in the ARPOB.
- Shyam Srinivasan:** My second question is on the pharmacy business. Can you quantify what is the private label contribution at this point of time?
- K. Hariprasad:** It is about 7% during the current year. It has moved from about 6.5% last year we continue to grow on that.
- Shyam Srinivasan:** So, do you think there is a path to reach say 10%, 15% over time on this business? And what is the kind of margin?
- K. Hariprasad:** Plan to move to 10% in next 2, 3 years. We are working on some additional SKU's and improving the packaging of the current products. We are planning to move to 10% in the next 2 to 3 years.
- Shyam Srinivasan:** Yes. Related to this, how much do you think the margin improvement that we are seeing in SAP is driven by just say private label part? And do you think it is a big driver or you think the overall operating leverage is the one that is driving margin expansion?
- K. Hariprasad:** It is a big driver now. We have in absolute value term, it is a good value and then it is driving the margins.

- Krishnan A:** And this is one thing which will enable us significantly as we move forward. Even in the ROIs and ROCEs that we discussed earlier, which I have mentioned earlier. This is because clearly the distribution now of 3,500 stores that we have across is a good distribution that we have. The number of stores is high. And this is enabling the private label adoption faster and better in some of these stores compared to the past.
- Shyam Srinivasan:** And then just last question is on the presentation. I think Slide 8 or 9, you have actually given us some impact on P&L over the lease period. Could you just explain those two charts, please?
- Krishnan A:** So, if you look at the chart, what we are saying is, typically, if you do enter into what is happening with the IndAS clearly one of the perspective that we wanted to provide you was that the IndAS 116 is clearly an accounting impact. It is not a commercial impact at all. I am sure all of you have already known that. But the chart actually provides the perspective that if you look at the hospitals, typically given that the hospital leases are over up to 30 years lease because given that we need certainty and we do invest on the equipment etcetera there and there is even though it is asset like there is still a significant investment that the hospitals do and we need continuity there. The typical commercial contract is on a 20-year period. In the pharmacy, typically it is not high it is between 9 to 12-year period. So, what happens in the hospitals because the tenure is high, the present value of the lease rentals the way we negotiated, if you look at the line, the line that shows the operating lease. So, operating lease line is commercially actually aligned to inflation, and that is the way that it actually ought to be and which shows in the line graph in that slide. Whereas, unfortunately, with the IndAS 116, what it does is it the first 5 years, the depreciation and the interest impact is almost as high as 80% over the lease that it will be providing. In the 6 to 10 years, it is even 60% higher or 57% higher. Between 11 and 15 years, it is still 35% higher. And it is only after 20 years that we get the benefit of the depreciation and interest reflecting in the P&L. Which is where, I guess somewhere the Ind AS 116 is going to be a very important metrics that we are going to be continuing to provide you because clearly that is the real EBITDA also. The EBITDA, unfortunately, this gets reflected now under the P&L. Though we call it EBITDA, it is obviously does not have an operating lease charge at all. So, to that extent, we presume, if I would think all of us would agree that it is not the real EBITDA which the post Ind AS 116 provides. So, we will continue to provide you with a pre-Ind AS 116 and this chart gives you the perspective of why we will be able to continue to provide you that.
- Shyam Srinivasan:** So, just related to the 25% margin for mature hospitals that we aspire, that is a pre-Ind AS number?
- Krishnan A:** The 23% is a pre-Ind AS number.
- Shyam Srinivasan:** No, our aspirational target for reaching 25%?
- Krishnan A:** That is correct. That is a pre-Ind AS target. But we did not say 25%. We said 23% is our first is what we would like to achieve. Just to be on the same side of what we.
- Moderator:** Thank you. The next question is from the line of Neha Manpuria from JPMorgan. Please go ahead.
- Neha Manpuria:** My first question is on volumes. If I look at the total existing hospitals growth, it is very strong at about 13%, 14%. I think ma'am mentioned that the volume growth was high single digit. But if I look at the cluster volume growth so inpatient that is

still sort of low single digits. So, where is the mismatch in terms of the volume growth?

**Krishnan A:** So the one thing is the overall volume growth is what we are seeing there on the slide. Maybe what we alluded to is more on the perspective of the overall volume. If you look at the within the patient segment, we have seen double-digit volume growth within certain specifics like insurance and oncology and international, et cetera. That is what we would have alluded to. But in spite that the overall volume growth is what we are seeing there...

**Suneeta Reddy:** Just to add on to what Krishnan said, in the International, we have the 29% volume growth. But we must recognize that this was an election quarter and a very hot summer. So, because of this, the movement of people into a lot of our facilities was restricted. So, that impacted the volume growth.

**Krishnan A:** But again, specifically if you look at certain regions like Karnataka, we saw very good growth, right? If you see 10.1% inflation volume, it is good of course it is mature plus view. But even though it is new some of them have been there for 3 years. So, if you look at it, I think that 10.1% in Karnataka has been very good though we were not able to see Navi Mumbai, which is quite good. Of course, that is not mature, but I am still saying we did see good growth in some of these also coming in.

**Neha Manpuria:** So, sir, in the 14% existing hospital growth that we are seeing, would it be fair to assume that the volume growth will be about 7%, 8%?

**Krishnan A:** Yes. It should be around 4% to 5%.

**Neha Manpuria:** Okay. And the rest would be ARPOB mix, case mix and patient mix, et cetera, that you talked about?

**Krishnan A:** That is correct. Case mix will be a significant number here.

**Neha Manpuria:** My second question is on the restructuring of the SAPs. Is that on track to get completed by the end of this year?

**Obul Reddy:** We expect to complete by end of the Q3.

**Neha Manpuria:** Okay. By December?

**Obul Reddy:** We expect that to happen by end of Q3.

**Krishnan A:** It should be up for shareholder's approvals before.

**Obul Reddy:** In the month of October.

**Neha Manpuria:** And my last is on the AHLL performance. If I look at quarter-on-quarter, obviously, there is some moderation in performance, particularly in our Spectra and Cradles. Would it be related essentially to election? And we are not concerned about the small loss. Would that be the correct reading?

**Krishnan A:** Chandra?

**Chandra Sekhar:** Yes. The growth on a quarter-on-quarter basis from the Q4 to Q1 is I think what you are alluding to. Am I right?

- Neha Manpuria:** Yes. That is what I mean.
- Chandra Sekhar:** That is especially the elective piece in Cradles have shown a growth of about 4.5%, 5% on quarter-to-quarter, Q4 to Q1, and about 6% on quarter 4 to quarter 1. So, in our belief and our budget I think this is going on the right stream. We also expect a little faster Q-o-Q growth on Q1 to Q2 and thereon.
- Neha Manpuria:** Okay. So, second quarter onwards a stronger ramp up?
- Chandra Sekhar:** Yes, a little bit more, but then there is growth between Q4 and Q1 as well.
- Neha Manpuria:** And my last question, I have asked this in the past also, but we are not really seeing the kind of addition to new beds given we are seeing profitability improve in the beds that we have commissioned. I know, ma'am, you mentioned that our focus is on profitable volume. Is it fair to assume that the increase in new beds will be therefore very gradual over the next few quarters?
- Suneeta Reddy:** So, we have the ability to increase to 10,000 beds, but we do not want to incur any other fixed costs because we believe that we really need to reach that EBITDA margin of 20% to 21%. So, there will be gradual. And I think this depends on each of the regions. See, Navi Mumbai, for example, will improve; we will add 100 new beds this year. So, it is clearly depending on the region and the regional demand that we are doing it. But within the system has the potential for 12,000 beds. Half of it is linked to our loss. The other part of which is of course that we have the physical capacity to do so. And we will, you know, I think we will calibrate it over this quarter.
- Moderator:** Thank you. Next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.
- Kashyap Jhaveri:** Just two questions. One, if I look at your operational performance on Slide #20 and 21, where you have given region wise. In outpatient department, the revenue growth across the board is significantly ahead of volume growth. Same is for inpatient also, which could be because of ALOS. So, in outpatient, what is the reason for such a far outpacing revenue growth versus volume growth?
- Krishnan A:** So one of the things that we have been over the last six, seven months focusing on some of the leakages that we have been having in the system. And clearly, there have been leakages in certain hospitals, which we have been able to address effectively. That definitely shows on higher outpatient revenue per patient, point number one. Point number two is also oncology is something that we are seeing good growth around as we already said. And oncology does not have you know some of the oncology work will increase the outpatient volumes. That is the other because many of them will come under the outpatient setup. So, these are the two reasons that we would see outpatient revenues go up more than the volumes.
- Kashyap Jhaveri:** Okay. And so this would also include when you say oncology, this would be radiation?
- Krishnan A:** That is correct.
- Kashyap Jhaveri:** And within oncology, in terms of let us say..
- Krishnan A:** Chemotherapy also comes there.
- Kashyap Jhaveri:** Sorry?

- K. Hariprasad:** Some bit of Chemotherapy also comes there.
- Kashyap Jhaveri:** Okay. And in terms of oncology, in terms of, let us say, the surgeon availability for surgeries or, let us say, the machines that are probably already there are in order with the OEMs, is there any competition which could be probably the concern going forward?
- Suneeta Reddy:** So, right now, we are very confident about our strategy in oncology. We are expecting to see 20% growth in the COE's, and I think we are on track to achieve that growth.
- Kashyap Jhaveri:** Okay. And second question is in terms of AHLL. Now if I look at our gross and net revenue excluding commissions of the order, whatever we call it, that proportion versus, let us say, 33% in same quarter last year, we ended quarter 4 last year with about 30% and now it is down to about 29%. Is there any further improvement which we can retain over here?
- Chandra Sekhar:** Yes. So, in terms of gross margins, we have moved from 45% last year same quarter to about 50% this year. And we believe that we will maintain it at this level. There could be an incremental 100 basis points somewhere but not significant. We have managed to get most cost effective at this point.
- Moderator:** Thank you. The next question is from the line of Prashant Nair from Citigroup. Please go ahead.
- Prashant Nair:** My question relates to, taking the Ind AS transition impact, so on the ROCE numbers that you have shared in the presentation for say Healthcare Services of 23.1%, these are also pre-Ind AS, right?
- Krishnan A:** That is correct. That is pre-Ind AS.
- Prashant Nair:** And would you be sharing this on an ongoing basis? Or can you give us some sense of how this may change and how the balance sheet changes with the IndAS transition?
- Krishnan A:** So, we will give this on an ongoing basis because we will continue to do the pre Ind AS because that is the right way of looking at it. But at the same time, this balance sheet that is provided to you in Slide #11, which states that the right-of-use assets, which is the asset has increased Rs. 11,990 million. But from an ROCE perspective, it would not significantly impact because the right-of-use assets are Rs. 1,199 crore or Rs. 1,200 crore as of June end increase. Lease liabilities have increased by Rs. 1,425 crore. And the ROCE is done, both of that will actually netted off. So, given that both of that will be netted off from a capital employed perspective, we should not see so much of a difference. It is only a small number to the balance sheet number. But we will anyway be giving you the pre-Ind AS number as well, as we go forward.
- Prashant Nair:** Okay. So, basically, you let off the 14 yes, Rs. 1,199 crore from Rs. 1,425 crore.
- Krishnan A:** Correct. But EBIT will still not be the correct EBIT. You know if you do a post-Ind AS number, so, it will not give you the right resultant ROCE.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

- Sameer Baisiwala:** Suneeta, you are not too far from your 23% EBITDA margin target for the existing or mature cohorts. I guess you reach there pretty soon now. So, what are the updated thoughts on these peak margins?
- Suneeta Reddy:** Like I said, we are focused on achieving that target. And because it is the same levers that we have mentioned earlier that are working for us, the focus on centers of excellence and therefore clinical excellence driving superior margins, the focus on the quality of revenues that we get, so we are taking the one with higher profitability. And of course, cost savings which we believe will be which we will deliver on this year, which will take us to that 23%.
- Sameer Baisiwala:** No, you are already at 22% plus, if I am not wrong.
- Suneeta Reddy:** 22.2%.
- Sameer Baisiwala:** Yes. So, you should be reaching this within next few months; or maybe within a year?
- Krishnan A:** So, we would not want to be so aggressive about it because we will see increments coming, staff increments has to be taken. We will have to be looking at obviously it is a services industry, we will see service costs going up. So, because of that, we would not want to be so aggressive about that. But yes, we will get to that 23% over the next 12 months.
- Sameer Baisiwala:** Sure. No, I get that. My question was 3 to 5 years out, do you think that you will be moving this to 25% or more or is this where it will stabilize?
- Krishnan A:** I think that will definitely happen because clearly there is headroom for growth within each of our facilities which you can see. The occupancy, 66%, point number one, even of the mature hospitals. So, second is that as Ms. Suneeta already said, the average length of stay is coming down, which means that we can still take more patients to increase the overall capacity of the hospitals. Three is we are also seeing daycare work is increasing. For example, in a place like Chennai, Chennai Main, this is among the most complex hospitals we would think in the system today in India. We are seeing 35% plus of daycare. 35% of our admissions are on daycare. Now the daycare also impacts us, helps us in our margins, etc. So, yes, there are levers, we would want to believe that we can go to 25% clearly in the next 2 to 3 years.
- Sameer Baisiwala:** And just on Proton, what is sort of a revenue roadmap over next 3, 4 years? What could be the peak margin potential from here and your breakeven year on this?
- Krishnan A:** So, if we look at, I think you have to give us a quarter before we come back to you on that because the whole Proton startup is really just starting the Proton now in July, as we said. The EBITDA margins are going to be high. But in any case, as we said, mostly we will be going ahead with the SPV and an investor in that shortly. We will be very close to that and we are probably get there soon. But the outlook is good because if you look at it currently, we have, as Ms. Suneeta said; there is a waitlist of the patients. I do not know whether you have followed it last just last quarter, MD Anderson in U.S. has actually gone ahead and expanded their Proton to 8 from the current, 4. And last year, they have seen over 800 patients just on the Proton in their facility. Our business case requires only 800 patients from the whole of this part of the world in India to be able to get to the full capacity of Proton. And we are confident that Proton is a good investment.

- Suneeta Reddy:** So, Proton has become the new standard of care. And I think we are fortunate that we were able to deliver on this format.
- Sameer Baisiwala:** Okay, one final question with your permission. And that is on any updated thoughts on inorganic expansion? Any geography where you think you want to be present? And to tie it up with that, I mean thoughts on multi-specialty versus single specialty? Do you think you got any COEs, which lend themselves to single specialty format?
- Suneeta Reddy:** So, with regard to inorganic expansion, we have an open mind when we see an opportunity, we will look. We have looked at it like Lucknow. And with regard to, I mean right now, I think we have a significant presence in all geographies except Mumbai and Delhi. Delhi is a little bit more challenging because we find the bed density ratio is exceptionally high and with the fact that we have opened up in Lucknow into the seeder market we think that patient flow in to those markets could be risky. Having said that, I think that we are beyond we do not have to look at any further capital expansion.
- Sameer Baisiwala:** Okay, single specialty versus multi?
- Suneeta Reddy:** Single specialty we have done oncology. And it is been very successful because oncology, means end-to-end servicing. And we have also done pediatrics. So, there are some specialties where it is good to really separate it from the rest, but otherwise, I think we have created these models where the institute comprise are there so that we do have end to end in the specialty residing within a single business.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you.
- Suneeta Reddy:** Thank you, ladies and gentlemen for participating in our call. This quarter, in spite of the challenges that we faced in the form of elections and a really hot summer, we have maintained our momentum. Going forward, I am hopeful that our twin focus on the health of every individual and a healthy balance sheet will benefit all our stakeholders. We look forward to your continued participation. Thank you.
- Moderator:** Thank you very much, members of the management. Ladies and gentlemen, on behalf of Apollo Hospitals Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.
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