Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Ltd. Q2 & H1FY21 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 “*” then “0” on your touchtone 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. Good afternoon everyone and thank you for joining us on this call to discuss the financial highlights of Apollo Hospitals for Q2 & H1 FY21, which were announced yesterday. We have with us on the call today, the senior management team comprising Ms. Suneeta Reddy – Managing Director, Dr. Hariprasad – President of the Hospitals division, Mr. A. Krishnan – Group CFO, Mr. C. Chandra Sekhar – CEO of AHLL, Mr. Obul Reddy – CFO of the Pharmacy business and Mr. Sanjiv Gupta – CFO of the Apollo 24/7.

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. Please note the disclaimer mentioning these risks and uncertainties, is on slide no. 2 on the investor presentation shared earlier. Documents relating to our financial performance have been shared with all of you 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 remarks.

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 yesterday.

COVID-19, which began in the fourth quarter of the last financial year, accentuated to a full-fledged pandemic very quickly and necessitated widespread Government-mandated lockdowns and disruption to normal life. It had a huge impact on the hospital sector in Q1FY21. The impact of the pandemic continued into Q2FY21, and affected the hospital sector’s performance. Air and Rail travel continued to be disrupted which prevented people from travelling for their healthcare needs. However, a gradual recovery in volumes and occupancy was visible, especially towards the latter half of Q2. There was visible traction, both in terms of COVID patient flow, as well as volumes in other specialties.
In Q2FY21, our total discharges showed an increase of 30% on a sequential quarter basis. Occupancy also improved to 56% and as we move along in October we have witnessed 65% occupancy and it seems to be gathering momentum in November, this compared to 38% in Q1. Total Revenues increased by 27%. We saw an uptick in Surgical Discharges as well, which grew at 18% on a sequential quarter basis.

COVID contributed to 26% of the Net Revenues, with 36% share of the occupied beds.

This quarter saw a very robust performance from our New Units. While the new units had been gaining traction and posting EBITDA even pre-COVID, this quarter saw them record significant growth, with revenues not just growing 65% on a sequential quarter basis, but also growing 5% against Q2 FY20, which further reinforces the strong clinical foundation that we have laid in these units, which will help us shore up both revenues and profitability further in FY22 and beyond. Mature units continued to face an impact because of the restricted travel and muted OP recovery.

The separation of the front-end pharmacy business into Apollo Pharmacies Ltd. was completed in this quarter, effective September 1st 2020. AHEL now has Pharmacy distribution as its Business segment while continuing to have 25.5% stake in Apollo Medicals Pvt. Ltd. The Combined Pharmacy Business including the front-end retail portion delivered a strong revenue and EBITDA growth in Q2FY21. The business reported a revenue of Rs. 1,474 crore in Q2FY21 as compared to a Revenue of Rs. 1,173 crore in Q2FY20 representing a 25.7% growth, while overall EBITDA expanded to Rs. 97 crore in Q2. AHEL which continues to be the exclusive distributor for Apollo Pharmacies Ltd., reported a 15% growth in Revenues to Rs 1,352 crore for Q2 and EBITDA of Rs. 86 crore – at 6.4% EBITDA margin, as the September month revenues now in AHEL reflect only the backend pharmacy business.

As we have stated earlier, we expect AHEL to capture over 85% of the cashflows on the Pharmacy business and around 80% of the EBITDA as the exclusive supplier to APL.

Against that backdrop, I will walk you through the financials for the quarter.

The Company recorded a de-growth of 2% in standalone revenues to Rs. 2,414 crore, and a de-growth of 3% in consolidated revenues to Rs. 2,761 crore. Pharmacy reported double digit revenue growth at 15% while Healthcare services revenue de-grew by 18% during the quarter.

The Q2FY21 EBITDA Pre Ind-AS 116 stood at Rs. 201 crore, a swing of Rs. 219 crore compared to the previous quarter. Within this, Healthcare services EBITDA was Rs. 114 crore, compared to a negative EBITDA of Rs. 99 crore in Q1. The Post IND AS 116 EBITDA was Rs. 248 crore.

As already mentioned, revenues and EBITDA in our Pharmacy vertical were at healthy levels this quarter with EBITDA higher by 22% against the same quarter.
last year. EBITDA margins are at 6.4%. Sales from Private labels have moved to around 10.0%.

AHLL recorded an EBITDA of Rs. 5 crore as compared to Rs. 3 crore in Q2FY20. The business has recorded a 5% de-growth in top-line, due to the impact on Clinics and Spectra business due to COVID, but the combination of a strong performance in both Cradle and the Diagnostics verticals, as well as focus on tight cost control by the AHLL management enabled the smart recovery of the overall business.

Standalone Net Debt as of 30th September 2020 is Rs. 2,564 crore and consolidated Net debt Rs. 2,837 crore. Debt-equity ratio is 0.80.

Our Board has approved our acquisition of the balance 50% stake in Apollo Gleneagles Hospital Limited, Kolkata, from our Joint Venture Partner IHH, for a consideration of Rs. 410 crore. We expect to conclude the transaction by the end of the month. This acquisition will help us further solidify our strong footprint in Eastern India where we have a high degree of brand salience and the hospital is the largest in terms of both beds and revenues in the city of Kolkata. We have plans to further enhance our penetration in the Eastern region including in West Bengal and Assam, both of which we believe are very promising markets for us.

The Board also approved increasing our stake in Apollo Medics, Lucknow to 51%, by which the Company becomes a subsidiary of AHEL. Apollo Medics reported a top-line of Rs. 90 crore and EBITDA of Rs. 15 crore for the first half of FY21. We believe this development is in line with our strategic plans for North as a region.

For the funding of the Kolkata transaction, as well as for further debt reduction and growth capital preparedness, the Board also approved an equity raise through Preferential issue or Qualified Institutional Placement of up to Rs. 1,500 crore. We will carefully determine the timing and quantum of this issue, as well as the itemized end-use, in the upcoming weeks.

This quarter saw us make significant progress in our objective to move closer to the consumer. Whether it was by accelerating the adoption of our app, Apollo 24/7, or by our intensified efforts in home healthcare, we stayed true to our philosophy of putting the consumer at the center of our work.

In just over six months Apollo 24/7, we have 5 million registered users. Over 2,500 tele-consults are being completed on the app every day. We are working to ensure that Apollo 24/7 evolves to become the nation’s foremost-integrated digital healthcare eco-system with services and features that fulfil every healthcare requirement.

Our effort in the Home care segment enabled us to move into more than 17,900 homes of which COVID care was 9,000 during H1 of this year, and provide medically supervised home isolation services. We believe more and more home-based services coupled with remote healthcare and integrated IOT will be a defining trend and expand our service offering and capability to meet this demand.

From a technology standpoint, we continue to invest in strong consumer facing medical technologies. The Toshiba Aquilon ONE CT scan machine, a 640-slice
scanner with 320 detectors in Chennai that is quick enough to take an image in between two heartbeats, with outstanding precision and quality, and is the best-in-class diagnostic mechanism available for both cardiac and stroke patients was installed in Chennai.

As you know, the Apollo hospitals network performs the highest number of robot-assisted surgeries. We are happy to report that another 30 of our best clinicians are currently undergoing Robotics training, and will accelerate the growth of our Robotics practice across the country. We have also established a country-wide practice in structural and interventional cardiology within our Cardiac COE, where we can see outstanding results.

Before I conclude, I am happy to share that the Times Health Survey recognizing Apollo Hospitals, Chennai as the Best Multi specialty Hospital in India. Three of the top five and five of the top twenty hospitals in the National rankings are part of the Apollo Hospitals Group. I would like to thank our consumers for placing their faith in our hospitals for the last 37 years. This has inspired us to continually innovate and become better at what we do.

So that's it from me. I have Dr. Hariprasad, Krishnan, Obul Reddy, Chandra and Sanjiv with me to take your questions.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** Just the first question on fundraise and Kolkata. So understand the pref. for the QIP Rs. 1,500 crore whereas Kolkata's Rs. 410 crore. So what is the plan ahead, either to expand in Kolkata or the Eastern region or pan India how do we plan to use the remaining cash? And the second part is on Kolkata, if we see the first half HY20, FY20 EBITDA is Rs. 44 odd crore. That is the pre-OMA fee so would the OMA fees change with this transaction or how should we think about the operating performance of Apollo going forward?

**Suneeta Reddy:** Your first question was on the end use of the funds. We have not completely committed to Rs. 1,500 crore but having said that I want to say that Rs. 410 crore will be used for the Kolkata acquisition. We have set aside a portion of the money to invest into 24/7, our digital App. We are also preparing our balance sheet in case there are some bolt-on acquisitions that come our way and with at the right price. The rest of the money will be used to reduce our debt because we truly believe that this will enhance our profitability and also like mentioned earlier, we are looking at some bolt-on acquisition, so this will help to fund that. With regard to Kolkata, you asked about the OMA fees, we have from September onwards, no from the whole year in fact we are not paying the OMA fees so even though the transaction was completed, will complete by the end of November. No OMA fees will be paid to either of the partners.

**Prakash Agarwal:** And lastly, on the occupancy. So I missed your point on what was the exit run rate of September and October I believe you said about 65%?

**Krishnan A:** Yes, you are right. The quarter we gave a 56% for the full quarter. September was around over 60% was the number for September and as we speak in October it is well over 60% as we speak.
Prakash Agarwal: And we used to be breakeven at around 50% if I am not wrong?

Krishnan A: That is correct. Around 50%, yes, that is right.

Prakash Agarwal: Okay and we are currently upwards of 60%?

Krishnan A: That is right. So we are well above breakeven. If you look at Q2 also our results are well above breakeven.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just on the occupancy and the related margins again. If I look at mature hospitals for the second quarter you still have reported like low teens, low double digit margins. So what will take us to get to the historical 21%, 22% margins in terms of occupancy we are clearly reaching I can understand the mix but just the second half in terms of the recovery in the margins especially in the mature hospitals? That is my first question.

Krishnan A: So mature hospitals there is as you know the bulk of some of the mature hospitals like Chennai and Hyderabad and Bangalore also the thing is as you know they are all ‘Centers of excellence’ and they are all large multi-specialty hospitals with also patients coming from out of station. Clearly that is one thing that should pick up. We have seen some pick up happening in out-of-station patients, we have also seen those one odd patients who have now started coming back from West Bengal and Assam to Chennai. So it is picking up. We are seeing that September has been a much better month in both these. I guess you will have to ensure that there is the biggest worry that people still have is this surge in cases which can happen beyond Diwali which people are a bit worried about. So I guess it is more about how the people are going to get more comfortable with the fact that COVID is not going to size again and once they see that some of them will start coming back. So as we said, October month has been at least 20% better than the average of Q2. So hopefully if that plays out, the quarter should be better than Q2 but some of the mature hospitals we will have to wait for some of the outpatients to return as well as the out-of-station patients to return.

Shyam Srinivasan: Krishnan, just following up this 20%. What is the 20% improvement?

Krishnan A: 20% is the increase that we have seen in revenue and occupancy of in October versus the Q2 average.

Shyam Srinivasan: Second question is on the SAP business, the standalone pharmacies. 85% is the economics, you said in terms of revenue and 80% in EBITDA, is that right? Am I hearing that right?

Krishnan A: No, so roughly around 80% will be the EBITDA. That will be captured in the AHEL for now. Revenue we will have to come back because it was the first month that we did the revenue. So depends on how the costs shifts from the backend to the frontend. So if there is a bigger shift of costs from backend to frontend then the revenue number will accordingly shift. So more than the revenue number, I think the EBITDA number would be approximately 80% of the overall EBITDA of the pharmacy business.

Shyam Srinivasan: And just on the network expansion for the pharmacy. We have noticed that about 70 net new additions were there like bulk of the first half additions. So what is the outlook here and just from who decides the network rollout? Is it Apollo? Is it the...
Obul Reddy: This will be decided at the Apollo Pharmacy’s level going forward but whatever is for the current year the plan was envisaged and approved in the last year. Q1 we could not do because of the COVID restrictions and Q2 we are back with the network expansions. Hopefully we will continue in the next quarter given the situation unless the COVID comes back. So we are on track on that. That every decision on the expansion will be at Apollo Pharmacies new (inaudible) level going forward.

Shyam Srinivasan: And my last question is on Apollo 24/7. So if you can, some of the numbers are very impressive but in terms of financial impact, either in revenue or profit contribution if any, I know it might be early, if you can share some numbers please?

Krishnan A: So as of now it is a bit early for us to share any of these. We would like to, it will take us a couple of quarters before we can share of these numbers.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Krishnan, just wanted to get some clarity on this standalone pharmacy business, the re-organizing that we have done. So when you reported like-to-like EBITDA in this quarter was about Rs. 97 crore and this NCLT approval you got from 1st of September and then what you record in EBITDA after this event is Rs. 86 crore. So the gap of Rs. 11 crore I just wanted to understand? So the gap of Rs. 11 crore, does it correspond to one month, then it looks very high? I just could not place this gap of Rs. 11 crore. Can you help me understand that?

Krishnan A: Yes, for this there were certain transition costs in this quarter and also because there was a cost related to the transition which was there in the books of the backend pharmacy which is why you are not able to appreciate that overall number. But broadly as we said it will be around 80% of the overall EBITDA will get reflected in the backend as we move forward.

Anubhav Aggarwal: And the second question was on Apollo 24/7. So I appreciate numbers right now may not be very significant but the revenue and expenses which segment are you recording right now in the numbers? Where does it reflect?

Krishnan A: They are part of pharmacies for now.

Anubhav Aggarwal: It is part of both revenue and expenses both are reflecting in pharmacy?

Krishnan A: That is part of the backend pharmacy.

Anubhav Aggarwal: But are you reporting all the expenses right now or some of them are getting capitalized right now?

Krishnan A: All of them are getting reported. So the capitalization which is related to the technology costs will get capitalized. The non-technology costs and the cost which is not related to creation of the technology is getting is already part of our operating costs.

Anubhav Aggarwal: And last question I had was on the growth capex. This year of course you have been talking about low numbers understandably but when you think about capex
for next two or three years because now you are thinking about equity days also when Suneeta ma’am was talking about she did not talk about organic capex being high for the Company, she was talking about bolt-on acquisition. So what is the plan in terms of organic capex? Are we looking to let us say would we see any of the years there in terms of capex Apollo will be spending about more than Rs. 500 crore, Rs. 600 crore a year on the Company on organic capex?

Suneeta Reddy: No, we would not.

Krishnan A: So that is not the plan. So, organic capex will not be over Rs. 200 crore - Rs. 250 crore. That is what we have been guiding this year at the start and then we brought it down to almost half, so organic capex was that. And inorganic bolt-on as Ms. Suneeta already said we will look at opportunistic investments in the strategic markets that we want more presence there.

Anubhav Aggarwal: Just one related clarification on this. If that is the thought process then this equity raise we could have avoided actually. I can understand it will help strengthen the balance sheet but by any means we will do Ind-AS adjusted EBITDA of Rs. 1,500 crore plus in each year from next year onwards that will give me cash flows of at least Rs. 1,000 crore. That would have been sufficient enough to do this Rs. 400 crore acquisition and take care of anything in future because debt to EBITDA for us is less than 2x in that respect? So what was the urgent need to do this capital raise?

Krishnan A: So as Ms. Suneeta said bolt-on acquisition is one that we will have to wait and see how are there. There are opportunities in select markets clearly we have our focus on increasing our presence now further in North and East. Both of these are attractive markets for us from given that now with us presence in having a 100% investment now in the East we definitely feel East is one that we can further look at enhancing our presence. There are good assets at good prices available. So we will look at it.

Suneeta Reddy: And I said up to Rs. 1,500 crore so it is only by the end of the next quarter that we will decide the absolute amount.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge. Please go ahead.

Tarang Agrawal: Two questions from my side. Is there any debt on Gleneagles Apollo Hospitals’ books?

Krishnan A: No, there are not any debt in Apollo Hospital Gleneagles books.

Tarang Agrawal: The second question is as a business construct once the hospital starts approaching maturity, what is the occupancy standard or the occupancy that you hope that the hospital achieves and consequently the return on capital employed for our mature hospital?

Krishnan A: So the way we look at it if you look at it before the COVID if you look at the mature hospitals, they were at almost around 22% ROCE and that was the ROCE prior to COVID and typically a new hospital we would expect it to get to mid-teens in at least 5 years to 6 years from the time it starts operations.

Tarang Agrawal: And occupancy for your portfolio of mature hospitals is in a steady state without COVID?
Krishnan A: 67% was the overall occupancy without COVID.

Tarang Agrawal: This could inch up to may be 80% as we move forward?

Krishnan A: 75% is where we think it can go up to. Select hospitals can go to 80%.

Moderator: Thank you. The next question is from the line of Shantanu Basu from SMIFS. Please go ahead.

Shantanu Basu: Now if you can share with me the overall Q2 ARPOB and the COVID ARPOB and along with that the COVID debt and the COVID bed’s occupancy percentage? And I would also like to know with regard to the pharmacy distribution segment which you reported as the segment items. Is it for only one month that is for the month of September and consequently the retail pharmacy reporting is for two months that is July and August?

Krishnan A: Our COVID ARPOB is approximately 20% lower than our overall ARPOB that we have reported. That is the first point that you wanted. And our COVID occupancy is around 30% of our overall occupancy for Q2. That is your first point. And the point on pharmacy.

Obul Reddy: That is for one-month separate accounts and two months combined accounts. It is an aggregation of the total for Q2.

Shantanu Basu: So in the pharmacy distribution segment 36,118 lakhs that is for the month of, I am talking about the revenue that is only for the month of September?

Obul Reddy: That is right.

Shantanu Basu: And the retail pharmacy item which is 99,070 lakhs that is for two months, July and August?

Obul Reddy: That is right.

Krishnan A: Which is why the overall growth reflects at 15% because there is a reset in the way we, the accounting has happened from 1st of September. So you will see this aberration for until four quarters till the time the like-to-like starts coming up and showing. But we will give you the combined revenue growth as an annexure for you to get an understanding of how the pharmacy is growing.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: Krishnan, during the previous call when we had about the retail pharmacy you had mentioned that 85% of the business economics will get captured in the listed entity. Today you quoted around 80%. Has there been any change in the terms of the deal or what are we missing right now?

Krishnan A: No, I think 80% to 85% is the number that we will still capture. So as of now it will be 80% because of the costs that are going into the front end pharmacy which has got shifted. But as the ramp up happens and as some of the business ramps up there you will get it to 85% here with time. But around 80% to 85% is the number so there has been some additional costs which has been shifted out there which has to be borne there also. So around 80% there is no major change in the business economics as we speak.
Nitin Gosar: In that case if I may ask what has been the change over last one year because that is the time period that we discussed at 85% and today?

Krishnan A: 85% of the cash will still come here. So at that time it was obviously based on projections. It was based on the projections that we had in the books etcetera. Now as we are rolling it out, it is more about there is the GST adjustment, there is the cost of transfer which we have to do from here to there. So it is more about accounting which is resulting in some of these. The intent is definitely as we said continue all the bulk of the economics in AHEL. That is what is the intent.

Nitin Gosar: And when do you think this 85% can be hit over a period of what time?

Krishnan A: I think over the next one to two years we will get there to 85%.

Nitin Gosar: And second question was on bolt-on acquisition. North as you all know is heavily crowded region when it comes to corporate hospitals. Is that area of a prime consideration for us?

Suneeta Reddy: No, I did not hear the last part of your question but from what I heard about the North I think what we have done now is to put a placeholder in all the senior markets which is what our Lucknow strategy was all about. We also have one coming in Kanpur. So clearly this is something that has been part of our strategy and the fact that these hospitals, Lucknow broke even within 18 months is a proof that we did our investment hypothesis was the correct one. In terms of Delhi, right now it is too early to share any plans. But hopefully we will have a strong presence in Delhi at some time.

Moderator: Thank you. The next question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.

Sriraam Rathi: Firstly, since October we have seen 65% occupancies. So any color if you can provide, I mean how is the traction in the patient coming from different cities to our matured hospitals? I mean has that increased and it is at the level of the of pre-COVID level?

Suneeta Reddy: So I think the important thing to note here is that our local patients have grown dramatically. Earlier 30% of the local, our occupancy only 30% was local patients. Now that has moved to 60% which is a good thing because if anything happens in the future, we have created a stickiness within our local communities. Having said that their travel in India has opened up and we are seeing traction, patients are starting to come which is why the higher November occupancy inching towards 70%.

Sriraam Rathi: And secondly on the personal cost there has been a decline of 7% to 8% on Quarter-on-Quarter basis. Any specific reason for the same?

Krishnan A: So as of now we there has been an exercise where we have been ensuring that there has been productivity linked, we have not increased some of the manpower who have left us. So we have been ensuring that we manage the hospitals without that incremental cost and that we expect will continue into the next year also. Some of that will continue into the next year. We are hoping that the overall cost reduction which should get into FY22 should be in the range of Rs. 120 crore to Rs. 150 crore.

Krishnan A: Manpower and admin put together.
Sriraam Rathi: Okay so this should be the new way that we should look for now going forward?

Krishnan A: Yes.

Sriraam Rathi: And lastly, just to understand I mean this pharmacy distribution revenue this will be classified like this way only right going forward whatever is pertaining to the backend pharmacy?

Obul Reddy: Yes, it will be reported in the same as our distribution segment.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: So I was asking that as far as the expansion is concerned, is greenfield type expansion is totally off the table?

Suneeta Reddy: Yes, for this time.

Sameer Baisiwala: So this cycle is more about bolt-on acquisitions. So just on that point, is it like 200, 300 bed type acquisitions that we are looking at, smaller, bigger if you can just help us with that?

Suneeta Reddy: Yes, certainly smaller because as we look at the reduction in ALOS and the fact that Apollo is really focusing on increasing the surgical volumes. We are also increasing robotic utilizations which means that our ALOS comes down and the ARPOB goes up and the ideal size will be somewhere around 250 to 300 beds in a big city and 200 if it is in a smaller city.

Sameer Baisiwala: And the second question is on the COVID business. It looks like it is roughly about 25% of the total hospital business, if I am not wrong. So what is your trajectory for this business going forward and is there a thinking that this continues to taper down and the core business goes up so net-net the overall growth does not come back as fast as we thought it, it will come back?

Suneeta Reddy: So you are right. This business will taper down, regular growth will back but we feel till December we need to keep a certain beds allocations for COVID in case there is a surge post Diwali.

Krishnan A: But as of now as we said for the month of October Sameer, we are seeing 20% increase versus Q2. So there is an overall increased traction in the overall business. So Q3 should be better than Q2.

Sameer Baisiwala: And one final one. It looks like there has been a fairly significant Quarter-on-Quarter decline in net debt. Roughly Rs. 400 crore, Rs. 450 crore on a consol basis. So what is helping us over here? Is this some onetime thing or do you think this is going to continue?

Suneeta Reddy: No, this is a onetime thing which is the payment of Rs. 500 crore that came from the pharmacy. So we transferred the front-end to Apollo Pharmacy.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question is on the ARPOB increase that we have seen particularly in our AP, Telangana and the ‘Others’ cluster. Given that the COVID realizations are
lower than our average realizations, what is driving this ARPOB improvement? Is it because we are seeing only very high-end work coming which could normalize as full recovery or full normalization happens in the market?

**Suneeta Reddy:** No, I think it is a combination of two. One is that the severe COVID cases that we take is really does contribute to higher ARPOB. Also now that we have started with all the surgical works and we are really focused on the surgical works, the ARPOB has moved up. So it is definitely a combination of both.

**Neha Manpuria:** And my second question is on AHLL. Since you had mentioned in your opening remarks that there has been an improvement, Cradle and Diagnostics have done well. I am assuming there must be a good enough contribution from COVID tests on the AHLL’s business. So if I exclude that part of the revenue or EBITDA, how was the underlying performance of AHLL?

**C. Chandra Sekhar:** I will answer that. The overall contribution of COVID testing to AHLL for the first half was 7%. So the good show and the good performance that has happened has been via a Quarter-on-Quarter significant ramp up across all verticals. We are getting back to near normal in areas which mentions Spectra and Clinics which were very poor in the first quarter are getting back to near normal. It is 7% on a first half basis is the contribution of COVID revenue. In diagnostics alone that number would be roughly around 30%, COVID testing only for the diagnostics. So it is on a comparison on Quarter-on-Quarter, Q2 FY21 is only 5% behind Q2 FY20. We are getting back to normal at an AHLL level.

**Neha Manpuria:** So it is just 5% below the normal levels, is that what you are trying to say?

**C. Chandra Sekhar** Yes, that is right.

**Neha Manpuria:** And my last question is on the matured hospital profitability. Given that we are gaining share in local markets at some point of time let us say even if the outstation patients do not come back in its full anytime in the next six, nine months. Just by increasing the local market share will we be able to see an improvement in the profitability because I am assuming the patients from the local market might not necessarily be surgical procedures or high-end procedures necessarily?

**Krishnan A:** Dr. Hari, you want to take that because especially the local market plans that we have?

**Dr. Hariprasad:** Already we have seen a significant increase in the local market share in each of the major cities that we are present. And I think that is a great thing to happen because that is the stickiness that we wanted. And second thing is because of the experience that they have had with us, most of the patients who were admitted with COVID in the hospitals are local patients. And these patients are going to stick with us and for their regular healthcare needs as they come about. And the third thing which we are noticing is a significant proportion of the patients who were recovered from COVID are landing up with post COVID syndrome which includes major issues like heart attack or a stroke and stuff like that. And that is another thing which we are saying were the patients are coming back and that was one of the reasons that we were the first to launch the recover clinics for the post COVID patients. So all put together we see a positive side for the local market share in increasing the margins and increasing the occupancy levels.

**Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.
Damayanti Kerai: I had three questions. So first if you can provide some update on International patients, whether we are getting some queries at least from the neighboring countries? Similarly if you can provide update on the Proton facility utilization? So that is my first question.

Dr. Hariprasad: On International patients we are nowhere close to coming back to normal. But we have started, the trickle has started in especially from neighboring countries we are seeing patients coming in from Bangladesh and we are seeing some patients coming in from Myanmar into our facilities particularly Delhi and Chennai. But we are still a long way off from the procurement of pre-COVID levels of International patients. But with the travel opening up we are hoping that they will come back sooner than later. That is about the International patients.

Damayanti Kerai: On Proton?

Suneeta Reddy: Proton because of COVID they was definitely a decrease in utilization. The one thing is that; so all the foreign patients dropped off and it resulted in a loss of Rs. 2.3 crore for the quarter. But once the International travel comes back we believe that this will come back very quickly. The other thing that we are seeing is that now that the domestic travel has opened up, people are coming. Those who go abroad for cancer treatment have started coming into our cancer care centers in Chennai.

Damayanti Kerai: Okay so though we are seeing improvement it will broadly depends on normalization of International patient flow for Proton, right?

Suneeta Reddy: In fact we are quite sure that next quarter you will see EBITDA breach even.

Damayanti Kerai: Okay so EBITDA breach even in third quarter or fourth quarter?

Suneeta Reddy: Third.

Damayanti Kerai: Ma’am, another question on costs savings. So you mentioned Rs. 120 crore to Rs. 150 crore kind of costs savings. So can you bit elaborate more on like what are the key levers which would help you to achieve this kind of costs savings given now costs are also normalizing with normalizing operations?

Suneeta Reddy: Okay on, I think the first element of cost is that in variable cost we have reduced the cost of consumables and we have really done this in two ways. One is that we have looked at some of the local suppliers to see if we could replace the import. The second thing that we have done is that there is a huge amount of waste that we have reduced. So our stocking policy has improved, the utilization of consumer bills have improved. And hopefully you will see it in a better contribution margin by the end of the year. In the second part of it. The kitting that was done for surgical procedures is something that will effectively control utilization. The second part of it is, is the part in fixed cost we have looked at the key elements of fixed cost. Among them was HR costs where we have really, we have rationalized the HR costs. Though it is at lesser during COVID, we have really not taken them back. That has brought down the HR costs. The doctor’s guarantee money which we paid out in last year, that is also been rationalized and reduced. The third element which is outsourcing we have reduced the outsourcing cost. The fourth of course is all that has to do with marketing, travel all of these I think COVID has taught us many lessons and among them is the fact that our expenditure has now moved to more of digital marketing away from the regular type of advertising that we used to do. Travel of course has come down. But we have looked at every possible levers including rent to see where we can save money and we truly believe that while we registered Rs. 180 crore of cost saving for the first two quarters we believe that we
will be able to achieve a structural cost savings going forward between 12% to 15%.

**Damayanti Kerai:** That is helpful. And the third and final question. Ma'am, if you can share your thoughts on some of the Government initiative which is currently underway for improved uptake of digital health adoption in India. So that is in context of your uptake for Apollo 24/7. So any thought from your side would be helpful?

**Suneeta Reddy:** So at this time I have Shobana my sister is part of the National Digital Health Mission. So since she is not here on the call I am not able to elaborate but Sanjiv, do you have any insight?

**Sanjiv Gupta:** Not ma'am. At this point of time I do not have anything on this.

**Suneeta Reddy:** And it is also very early to comment on it because it is work in progress and they are looking at this from every side, data privacy etc. So next quarter we will give you more insights into this.

**Moderator:** Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

**Anubhav Aggarwal:** Krishnan, one clarity. On the standalone pharmacy business we used to spend about Rs. 70 crore, Rs. 80 crore capex earlier. Now in the new structure what will be capex on our books, or will there be anything or everything will be done by the front-end?

**Obul Reddy:** Everything will be done by the front-end.

**Anubhav Aggarwal:** So effectively what has happened in the 20% that we losing on EBITDA have been spent by them on the capex?

**Obul Reddy:** Yes, and capex is not about Rs. 70 crore, Rs. 80 crore, it is roughly about Rs. 50 crore.

**Anubhav Aggarwal:** So rest is working capital, right?

**Krishnan A:** That is right. That is exactly the point that I stated there. When the capex is higher there will be some EBITDA which is going to be higher there. So those are some of the things which will happen. But the economics broadly will be captured at Apollo Hospitals. As of now we think it will be around the 80%. That is where we stand.

**Anubhav Aggarwal:** And one question was on the diagnostic business. So excluding COVID we are tracking right now roughly about Rs. 150 crore a year topline. When do you think this becomes about Rs. 500 crore business for us because we have been tracking that you guys have been expanding network very sharply on this. So when do you think Rs. 500 crore is achievable?

**C. Chandra Sekhar:** Organically we are looking at it three years from now. But we are keeping an eye on faster ramp up where inorganic mechanism. But on a pure organic basis it could be two to three years.

**Anubhav Aggarwal:** And what will be the split of that roughly Rs. 500 crore like how much roughly, 70:30 or 40:60 what kind of?
C. Chandra Sekhar: I think our markets where we have invested and we are gone deeper are South and East. So I think even with gradual expansion into, North and West could contribute only up to 30%-35% because our consolidation in deeper regional presence will continue in South and East where we are already committed and we have created the network where in a two to three years timeframe in North and West could be in the region of 30% to 35%.

Anubhav Aggarwal: And just last question was on the utilization for our Tamil Nadu and Hyderabad clusters. So in Q2 we were less than 50%. When you say in October our system utilization is more than 60%. How are those two clusters catching in terms of utilization?

Krishnan A: So I think both the clusters are looking better in October compared to September. And I think Tamil Nadu as in Chennai in particular has to will take another one quarter to pick up because of the outpatient and the outstation dependency as I said. Otherwise both the clusters outside of Chennai is doing well in Tamil Nadu and Hyderabad is doing well.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Suneeta Reddy: Thank you, ladies and gentlemen for joining us on this call. The last few months have been extremely challenging for all of us and we have had to rapidly respond to unprecedented demands; in the process we have treated 22,000 COVID patients, we have done testing for over 2.5 lakhs patients. I believe that the worst we did during the COVID time was not about profitability but more about purpose and I would like to congratulate my team for the incredible work that we have done.

But I would also like to thank all of you for supporting us through two difficult quarters. What I can assure you is that going forward in to the next quarter and the quarter after that we will be back in terms of numbers, we will be back in terms of revenues and I think the version of Apollo that you will see in 2021 will be a sharper version, by the end of 2021 we will be something that is a sharper version of ourselves something that is more patient-friendly moving closer to the consumers and something that can face any challenge which we have learned to fight during this period.

Beyond COVID we have also strongly demonstrated our strategic focus by acquiring the balance stake in our Kolkata asset and increasing our stake in Lucknow which is in-line with that intent to grow our core healthcare delivery services in the northern and eastern regions. We have complete confidence in the future of the business and therefore we have obtained Board approvals for all the strategic moves that we have made this quarter. We look forward to further interactions with you during the quarter and in the next quarter. Thank you again for your support and Happy Deepavali to you and to all your families.

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