Melissa: Ladies and gentlemen, good afternoon and welcome to the Apollo Hospitals Q3FY10 Conference call. As a reminder for the duration of this conference all participants’ lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Mayank Vaswani from Citigate Dewe Rogerson.

Mayank Vaswani: Thank you Melissa. Good afternoon everyone and thank you for joining us on this call to discuss our financial results for the third quarter of financial year 2010. We have with us today Ms. Sunita Reddy, Executive Director of Finance, Mr. K Padmanabhan, Group President, Mr. Venkatraman, CFO, Mr. Obul Reddy, who is in charge of the pharmacy operations, Mr. Krishnakumar who looks after Investor Relations, and Mr. Venugopal from the Finance team. Before we begin, I would like to state that some of the statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties. For a more complete listing of such risks and uncertainties please refer to our investor presentation. The call is structured to start with Ms. Sunita Reddy who will discuss the operational highlights and progress on new hospitals, Mr. Venkatraman will then discuss the financial highlights and capex plans, and Mr. Padmanabhan will discuss highlights of operations regarding the pharmacy, insurance, and BPO. Documents relating to our financial performance have been emailed to all of you earlier and have also been posted on our corporate website. I would now like to invite Ms. Sunita Reddy to provide key highlights of our performance for the quarter.

Sunita Reddy: Good afternoon and thank you. Overall it has been a very successful quarter for the organization. We have been able to sustain our growth momentum in revenues and therefore enhance our profitability. This has been made possible by a very clear strategy that we identified and have put in place by the team at Apollo. We have identified certain areas of the value chain which we would like to focus on. These include the key specialties that enjoy the right mix of value and volume and have coined the acronym CONCOR to represent this group. These include cardiology, oncology, neurology, orthopedics, radiology, and they will be supported by gastroenterology, imaging, trauma, transplantation, minimally invasive surgery, and renal medical surgery. With this focus in mind we will ensure high levels of execution by providing the right mix of world class infrastructure, expert medical professionals and efficient management professionals. We believe that this arrangement will deliver world class outcomes. I think with the revenues this quarter we have also proved that by increasing the number of doctors who are now joining Apollo that we can create the volumes that we can expect to see and guarantee maximum asset utilization.

There is a long-term plan in place and we are monitoring the progress on a quarter to quarter basis. Essentially the success rates, the operating metrics, and the clinical outcome are comparable to the best global hospitals around the world. In order to maintain a very high standard of clinical efficiency, we have a clinical excellence model which is called ACE @ 25. This is a clinical balanced scorecard covering 25 areas which focuses on providing evidence based quality care and it has been extended to 23 of our locations.
On the operational front, Apollo Indraprastha has completed 268 organ transplants and the number of transplants within the group is growing tremendously. Apollo Bramwell has been commissioned in Mauritius and within the first 100 days they have done innovative work in neurology, general surgery, and orthopedics. We have commissioned an Apollo Children's Hospital which is the first standalone quaternary care pediatric hospital. It has already achieved a milestone of thousand surgeries since inception in July 2009. It has also become EBITDA positive. The children's hospital has been a revelation. It has shown us that there is an unfulfilled need in this segment and we will seek to replicate the children's hospital in many more locations. We also have added an innovative service offering which is the Apollo Knee Clinic. The Apollo Knee Clinic will be offered across the country to our clinics and to our hospitals. The idea behind this is to get the volumes into the outpatient segment and then convert it into the inpatient. Apollo has also started to refocus on the primary healthcare segment to creating its own branch of own clinics. We are committed to opening more of these clinics that will handle screening in all the places where we have hospitals. As part of this strategy, the children's hospital and the knee clinic will enhance our outpatient volumes and therefore our conversion. Since the pre-treatment and post-treatment is undertaken at the clinic level, the average length of stay or duration of stay at the main hospital will be reduced, resulting in better operating efficiencies.

The other aspect of our strategy is continuous investments in technology and to that end we have obtained the CyberKnife™ and that has started operation. We have already seen a large number of people who have shown interest and have used this equipment. The doctors especially are extremely happy because we are now able to provide 360 degree cancer care in the oncology space. The Novalis™, the world’s most powerful neurosurgical versatile platform for noninvasive image-guided radio surgery has already been installed in Hyderabad. All our initiatives fit in with our core strategy of being a 360 degree provider of healthcare services. We have adopted a holistic approach to the healthcare industry and are present in different parts of the spectrum ranging from specialty to insurance to pharmacies. We believe that there are great synergies in our portfolio and we are sure that as we go forward we will gain benefits due to an increase in scale. This about sums up our approach and to consolidate our presence in the healthcare space I would now ask Mr. Venkatraman to talk about our financial performance.

Mr. Venkatraman:

I will take you through the consolidated financial performance then I shall handover to Mr. Padmanabhan who will share the developments on the pharmacy, insurance, and on the Apollo Health Street BPO business. A quick overview of the consolidated numbers, we had a very strong quarter in terms of financial performance. The revenue for the quarter ended 31st December, 2009, was Rs. 551 crore. This is an increase of 29% from the same quarter last year. EBITDA grew at 45% to Rs. 83 crore and PAT was up 64% to Rs. 42 crore. There has also been a margin expansion at the EBITDA level as well as the PAT level. Revenues for the nine months ended 31st December, 2009, were Rs. 1,534 crore. This is an increase of 26% from the same period last year. EBITDA grew at 36% to Rs. 237 crore and PAT was up 57% to Rs. 118 crore. So the key highlights of the financial performance, strong growth on all lines, revenues, EBITDA, EBIT and PAT. We have achieved a record profit after tax this quarter. Margin expansion has been registered at both the EBITDA level as well as the PAT level. Growth rates in consolidated EBITDA and PAT have been sharper than standalone growth rates. I think this is worth noting down.

We have also seen our expenses increasing in line with business growth. Depreciation has trended up this quarter as also interest because we have added and invested in new facilities and new equipment like the CyberKnife and some marginal expansion in our existing facilities. Interest has also trended up during the
quarter and there has been increase in debt. We have roughly Rs. 600 crore as consolidated net debt. We still have an undrawn US$ 30 million facility from IFC. We have a cash balance of around Rs. 78 crore as of 31st December. Now within our overall growth we will briefly analyse growth from different areas of business. The segment wise performance shows that revenues from healthcare services grew 21% for the quarter and 19% for the nine month period. While revenues from standalone pharmacies grew 55% for the quarter and 50% for the nine months. Other income represents the dividend from our liquid investment. At the EBIT level, we have seen a significant improvement from the healthcare service segment which has been published. There has been an expansion of nearly 1.6% in the EBIT margin which is I think quite commendable. We have also been able to further reduce the losses at the EBIT level from the standalone pharmacies by at least 5%, even with the addition of new stores. So this shows that the turnaround is happening at the standalone pharmacy level. Coming to the hospital services performance, you can see that there has been good growth in inpatient volumes and the outpatient volumes have really increased sharply. Now we are focusing on how to convert the increased outpatient volume to drive inpatient growth which is actually the backbone of the business. What is important is that our initiatives towards reducing the ALOS, that is average length of stay, are showing good traction and we have been able to reduce ALOS in most areas. The inpatient revenues have also risen sharply and this has helped to drive the revenue per bed day all over. A quick word on expansion and CAPEX plan, we have planned to add around 2,100 beds in the next three years, that is, in this year F11 and FY12, for which the outlay will be around Rs. 760 crore of which we have already spent around Rs. 210 crore. So the net outflow will be around Rs. 500 crore, which we are planning to fund through debt, of which we have already tied up with IFC around Rs. 233 crore. So the balance debt also will be tied up quickly. So we will be able to take more questions on the capex and expansion plans at the end of the session.

We will be opening a 300 bed multi-speciality hospital tertiary care in Bhubaneshwar which is expected to be commissioned in the first quarter of 2010. We also inaugurated the Apollo Lavasa Health City which was inaugurated by the Honourable Chief Minister of Maharashtra Mr. Ashok Chavan who also promised all support to all our hospitals in Maharashtra. This is it from me for now. I request Mr. Padmanabhan to talk about the standalone pharmacies and operational performance besides Health Street.

Mr. Padmanabhan: The pharmacy operations continue to grow steadily. We are pleased with the way this business is developing and we are confident that this segment of the business will begin to contribute to profits very shortly. During the quarter, we added about 70 stores and the total number of operational stores now stands at around 1,035.

From this total of 1,035 we identified those stores that were operational by March 31st, 2007, and map the progress of these stores as a subset to provide a sense of how the business can progress. We have about 321 stores in this subset which we call as mature stores.

The like-for-like growth for the stores up to March 2007, i.e. the mature stores, was 19.3% on a year on year basis. The mature stores are showing increase in profitability as this segment has seen a six fold increase in EBITDA with a much improved EBITDA margin of 3.42% in Q3 FY10 versus 0.55% in Q3 FY09. On a nine months basis, the operating losses of EBIT level have also been reduced to 14.2 crores from 15.5 crores for the same period last year. We are very excited with this business and consider it a very important part of our integrated healthcare operation. The pharmacies are complementary to our core operation and they help us to drive up our volumes in the main hospitals. Our customers in the pharmacies
can set up appointments with consultants at our hospital through the pharmacies. We are also exploring other ways to leverage our extensive network of pharmacies.

Next coming to our insurance foray Apollo DKV Insurance will now be known as Apollo Munich Health Insurance Company Limited. This is in keeping with the organizational changes that have taken place with our JV partner Munich Re. During the first nine months of FY 2010 the company achieved a gross written premium of Rs. 80 crore against the full year premium of Rs. 48 crore in FY09. There has been an overall positive trend in the top line with improvement in the operating parameter. The company has currently 28 offices with plans to open three more offices in the current fiscal. The company also expects to achieve a premium of around Rs. 100 crores in the current year.

Apollo Health Street continues to make steady progress. While revenues and profits have dipped marginally, the company has been able to complete the restructuring of its debt. The integration of the Zavata business is also now complete. We remain bullish on the opportunities for this business as the regulatory pressures faced by US healthcare industry will drive them to reduce the cost and in the process, we expect outsourcing also to increase.

A quick word on some corporate developments. It has been a quarter of awards and recognitions for Apollo and we are pleased to share that with you that earlier this week on the occasion of the Republic Day the founder of Apollo Hospitals Group Dr. Pratap C. Reddy was honoured with the Padma Vibhushan, one of the country’s highest civilian awards for his contribution towards the development of healthcare in India. Mr. Narayanan Vaghul, an independent director of Apollo Hospital and former chairman of ICICI was awarded with the prestigious Padma Bhushan award.

The Government of India honored the Apollo Hospital Group with a release of a postage stamp on November 2 recognizing the group’s contribution to the nations health. The Week-IMRB annual survey of the best hospitals in the country had Apollo Hospital Chennai and Apollo Hospital Delhi in the top ten-list of hospitals. Apollo Chennai was rated the best private hospital in India while Apollo Hyderabad and Apollo Calcutta were rated the best hospitals in their respective cities. Apollo Hospitals is the only healthcare organizations to achieve the super brand status in India. That is from me and we are now ready to take your questions.

Moderator: Ladies and gentleman we will now begin with the question and answer session. The first question is from the line of Balaji Prasad from Goldman Sachs.

Balaji Prasad: The first question that I wanted to ask, which was about the dynamics of outpatients and the inpatients, typically I would associate an increasing in outpatients to lead to an increase in inpatients, so I am just not able to contextualize the 35% increase that you have in OPs with just a 14% increase in IPs. Any thoughts on this and how could we see this going forward?

Mr. Padmanabhan: Yes. Normally, there is a fair amount of correlation between changes in the OPs to changes in IPs, but as you know that in most of our hospitals we have reached fairly close to full capacity in IP now. But, people in Chennai main and also Hyderabad main, we are releasing some capacity shortly because of additions in beds in Hyderabad.
The second issue is also that because of our extensive marketing on screening, we have also been able to increase our OP, which may not be so closely correlated to IP at this point.

Balaji Prasad: If I understood right, you are saying that you are increasing the screening to take in only the relevant patient is it right?

Mr. Padmanabhan: Yes.

Balaji Prasad: So with the additional capacity that you plan to release by adding this when could we expect to see a kind of project ramp up in this and percentage in terms of beds coming on stream and this plan leading into greater IPs.

Mr. Padmanabhan: The problem areas of hospitals being full in the standalone facilities, is with Chennai main and Hyderabad. Hyderabad has already got 35 beds operational now and will have another 100 beds by the middle of next year and within another 18 months they will have another 300 beds taking it up to about 400 beds. As far as Chennai city is concerned, I think it will be another 18 months before we get another 250 beds. Until that time, we will remain fairly tight in terms of beds being available.

This is in spite of the fact that we commissioned another 60-70 beds in Children's Hospital. And therefore, we are able to shift some beds over from the main to Children's Hospital. Calcutta, of course, we have added another 100 beds. Bangalore, we proposed to add another 150 beds within the next 18 months.

Balaji Prasad: My second question was on your pharmacy outlet. It is good to see that some of mature outlets are now delivering on the margins. I saw on the presentation that you are looking at target EBITDA of around 5%. Is this the peak margins that can be achieved with the pharmacy outlets?

Mr. Padmanabhan: We can look at a steady state EBITDA about 5 to 6% percent in the mature pharmacies. I think the other strategy that we are looking in terms of our pharmacy retailing itself is the extent of own brands that we will have vis-à-vis the normal brands that we will market, so private label won’t buy a brand. I think in about three years from now, we will be targeting to get to somewhere about 20% of revenue, so really this changes the dimension of our pharmacy retailing itself.

Balaji Prasad: And, I just wanted to understand now in terms of your growth plans, you probably will have greater visibility in 2010 and 2011, could you just give a look at what number of beds you are planning to be by the end of 2010 and maybe in a three-year time span, how much of these would be owned by Apollo?

Mr. Venkatraman: We are looking at FY10 something like 500 beds being added. FY11 and FY12 800 each.

Balaji Prasad: All of these will be owned beds?

Mr. Venkatraman: Yes. Some of this is joint venture, but most of it is owned.

Balaji Prasad: Last question is on your gearing on your CAPEX plans. It seems that the gearing has increased as presumed that this was deployed for your project. What is the net CAPEX that you are expecting for this year and the next?
Mr. Venkatraman: The total CAPEX for the next three years looks like a 942 crores of which the JV partners will be funding around 66 crores, so AHELs state will be around Rs. 760 crores. Of which we have already spent 200 crores. So, the net outflow would be 500 crores which we are tying up debt of which International Finance Corporation will be funding around 233 crores.

Balaji Prasad: So that number has been changed anyway in this quarter then?

Mr. Venkatraman: Yes, as it is, there is no change.

Balaji Prasad: Okay.

Mr. Venkatraman: But the other thing, which I want to just highlight, is on Page 12 of our presentation where we have talked about the capital employed. The healthcare services segment. Last year it was around Rs. 1,233 crores. This year, it is Rs. 1,638 crores. A net addition of 400 crores. But, we have maintained our return on capital employed, which shows that the return on capital employed is fairly well protected as far as healthcare services is concerned. Because this remains the point of discussion in all investor conferences that people go by the published number, I am actually reading out of the published number that we gave to the stock exchange yesterday. So, our ROCE is quite high at 16% in spite of the fact that we added Rs. 400 crores from last year.

So, this is something which I want all the people hearing this conference to actually register because there is a false perception that the ROCE is low at 11%. And the CAPEX is a concern, so we are totally on top of the situation. And, the CAPEX is done in a very calibrated manner. You know that we have an investment committee and very strict board, so we pay a lot of attention to the return on capital employed and this time I am just reading out to you from what has been actually published, it is just a matter of taking a calculator and I have done that in Page 12.

Balaji Prasad: Thank you very much and good luck for 2010.

Moderator: The next question is from the line of Prashant Nair from Citigroup.

Prashant Nair: One clarification first that the hospital in Bhubaneshwar will come up in the first quarter of 2010 so is that the January to March quarter or are you talking about the fiscal year?

Mr. Venkatraman: We are talking about the fiscal year.

Prashanth Nair: So, this is first quarter of fiscal FY11 right?

Mr. Venkatraman: Yes.

Prashanth Nair: The other question was related to the Children's Hospital at Chennai, is this a part of the main hospital or is this a separate unit?

Mr. Venkatraman: It is a separate division.

Ms. Sunita Reddy: Yes, it is a separate division but part of the AHEL. Revenues are consolidated in Chennai main.

Prashant Nair: And, finally just one question on the numbers that you have given in the presentation, now the average revenue per operating bed for the significant
hospital subsidiaries, there seems to be some major variation from one quarter to the other. So, last quarter, you had given some Rs. 16,638 per bed as a number and this quarter it has gone down to Rs. 11,117. So, any reason why this should fluctuate majorly across from one quarter to the other.

Krishnakumar: Last time, what we had done is a small change. Last time, we had included the consultancy fees in the revenue per bed.

Mr. Venkatraman: Yes, but it is comparable with last year.

Mr. Venkatraman: It was Rs. 10,361 per bed last year and now it is Rs. 11,117 per bed.

Prashant Nair: So, that is the rough range that we should look at and not Rs. 16,000.

Mr. Venkatraman: Yes.

Prashanth Nair: I understood. Thanks a lot.

Ms. Sunita Reddy: No and I think this is a consolidated revenue for bed because if you were to look at only the tertiary care hospital it would be higher.

Prashant Nair: I was just looking at why the same number fluctuated from one to the other.

Moderator: The next question is from the line of Grishma Shah from Envision Capital.

Grishma Shah: If you could me tell me the number of beds currently that we have and how much would be owned and how much would be through JV?

Mr. Padmanabhan: We have totally 7,834 beds. Of which, we own 5,094. And, we manage 2,740.

Grishma Shah: And going ahead as you said 500, 800, and 800. So of which only 200 or 300 would be owned by JV. Is that understanding correct?

Mr. Padmanabhan: Correct. 235 beds would be JV.

Grishma Shah: And, if I have to understand of the 7,834 beds, how much would be in the specialty and how much would be in the non-specialty of the common of this thing or everything that we do is specialty?

Mr. Padmanabhan: No, as Ms. Sunita told you in the beginning of her speech. All of it will be, you know, consolidated in those five or six co-specializations, so all of them will be a specialty of hospital.

Grishma Shah: No the current 7,834 beds that we have. So, is everything specialty?

Mr. Padmanabhan: Yes. All of them are tertiary. Only minority of them are secondary and acute. But if you want what I we will do is we will give you a detailed breakup of how many are in the secondary and how many are tertiary, but we normally deal in tertiary care. So, they are typically specialty hospitals, high-end hospitals.

Moderator: The next question is from the line of Himani Singh from Elara Capital.
Himani Singh: My question pertains to your pharmacy business. I wanted to know of the 1,035 centers that we have. How many would be based out of hospitals and how many would be standalone?

Mr. Obul Reddy: In fact, 1,035 is standalone.

Himani Singh: How many do we have for within our facilities?

Mr. Obul Reddy: Hospital based, we have about 45.

Mr. Padmanabhan: Yes. The hospital-based pharmacy is actually reported in segmental reporting as a part of healthcare services.

Himani Singh: The next question was that around one and one and a half years back Apollo Hospital, when they initiated this pharmacy business, there was a understanding that once we cross a substantial base a threshold level of case of above about 1,000 centers, we would be looking at divesting some stake in this business or moving it into some subsidiary where somebody else invests. What is the management's focus or game plan for the pharmacy business since it is a kind of EBITDA margin decreotive for the total healthcare business and it also brings ROCEs down. From investor community perspective, there would be a lot of interest to know what the game plan is for pharmacies?

Ms. Sunita Reddy: I think you are right we were actually incubating the pharmacies till they got to a level where they were EBITDA positive like Mr. Padmanabhan said earlier we believe that they can give us an EBITDA margin of 5%. This last quarter we were actually focusing on consolidating performance as you have seen we have already reduced the losses, going forward I think we want to see it reach that level of 5%, add a few more pharmacies before we actually look at divestiture because we believe we will get a better valuation for it then.

Himani Singh: And, the next question would be on the lines of the insurance business that we have started. What is the focus there and what scale is the management planning to have in this business and basically what is the whole game plan for this one?

Mr. Padmanabhan: We have actually had McKinsey advising that on how to actually grow the insurance business and as part of that strategy they have actually advised us that we should increasingly concentrate on retail network so that we are able to ensure at the retail level rather than at group corporate level and so this is one of the reasons why we are also in a fairly large expansion spree in terms of number of cities that we will have our offices in. As I had mentioned earlier on the call that this year we will achieve about Rs. 100 crores in gross premiums and the year afterwards is when we will actually aggressively grow this business, perhaps at the rate of well over 100% a year.

Himani Singh: What is the CAPEX that we are going to allocate for the growth of this business?

Mr. Padmanabhan: Basically, as for as Apollo is concerned, we have invested 20 crores and we have ring-fenced our investment. If the business requires additional investment, it will be brought by the other shareholders, which include DKV and the promoter family of Apollo Group.

So, in effect all Apollo Hospital will get diluted as you know that our original intention of putting the 20 crores was really to incubate that business and give it a
fillip, but now we will be a provider network to DKV, like we have been a provider network to any other insurance company.

**Himani Singh:** So, basically correct me if I am wrong, we would not be investing much going ahead that might lead to kind of slight liquidation of Apollo's stake in the JV.

**Mr. Padmanabhan:** Already, actually we have come down from about 20% to 19%.

**Ms. Sunita Reddy:** And just to add to what Mr. Padmanabhan said there has been an additional investment of 45 crores into that company this year. The company is also getting several other products cleared by IRDA. When those products are cleared, I think, you know, you will see more of the focus on the retail strategy.

**Himani Singh:** My last question would be on our core business that is healthcare. I wanted to know once looking at occupancies we are already running choc-a-bloc and we have given good top line growth numbers, so wanted to know how much of the growth number is from volume and how much of the growth number is from value and due to the change in the mix that we have in terms of beds for various specialties and what is the scope of outward expansion since occupancies cannot expand further significantly. What is the outward expansion that the company is looking going ahead?

**Mr. Padmanabhan:** Over the last three to six months, and this is reflected in the results that you have seen, that in spite of the fact that there have been high levels of occupancies, we have actually grown our revenues quite aggressively that's largely because of reduction in average length of stay and improved case mix and also increase in outpatients, which has actually resulted in growth in overall revenues. We will continue to focus on these areas to make sure that we grow in spite of these high levels of occupancy at the rate of what 20% to 22% even in our mature hospitals. Of course, because we are at our peak levels of occupancy, we are actually moving out some of our minor specialties outside, out of the main hospitals into smaller hospitals, like we have done in the case of children's hospitals and there will be some expansion of capacity that will also take place in some of the cities in the near future.

**Himani Singh:** My one part of the question is that what is the kind of ARPOB expansion that you can, you think that it is sustainable in future?

**Mr. Padmanabhan:** Revenue per bed, let me take you through some figures, last year our revenue per bed in the Chennai main hospital was around 16,000. This year, we have about 19,000 something. That is as a result of the factors that I mentioned earlier which is, you know, better case mix, reduced average length of stay and to some extent, you know, the kind of changes that we have been able to do because the pricing power that we enjoy in many of the cities that we are currently in, so we believe that will continue to help us in the future as well. So we expect that our revenue per bed will grow at about 18 to 20% in line with our revenue growth itself.

**Himani Singh:** What is the optimal ALOS that the company would be targeting.

**Mr. Padmanabhan:** Currently you know the best ALOS that we have achieved in tertiary care is about 4.1 and in secondary care is about 3.2. The blended average ALOS of our tertiary care hospital is still at a high of 5.5 and I think there is considerable headroom for us to actually take it down.

**Himani Singh:** Any targets that you would place for three years.
Mr. Padmanabhan: Yes, I think at the rate of about half per year is what will look at in the first two years.

Moderator: The next question is from the line of Krishna Kiran from Capital Market.

Krishna Kiran: My question is related to standalone pharmacies. Like you have mentioned 71 stores were added during the quarter. The number went from 972 to 1,035. It is 63 in all – does that mean we have closed eight stores in this quarter.

Ms. Sunita Reddy: Yes, we have closed.

Krishna Kiran: Regarding one more thing like EBITDA margins, you said that pharmacy business in Q4 can be breakeven, is there any chance to breakeven this quarter or will it be delayed further?

Mr. Obul Reddy: We expect to breakeven next quarter.

Krishna Kiran: The target of 1,200 stores is on track or are we planning to add more.

Mr. Obul Reddy: We will continue to add more pharmacies and in the next 12 months we plan to add at least 250 pharmacies.

Krishna Kiran: My next question comes regarding medical tourism like when I met Ms. Sunita Reddy some time back you had mentioned that the company has signed up with WellPoint Insurance Company for medical tourism. That time it was affected with global meltdown and terrorist attacks and now have the inpatients started?

Ms. Sunita Reddy: As you know, the inpatient is a percentage, foreign patients as a percentage of total patients remains the same. In some hospitals, it is higher than the others but this is driven mostly by proximity to airports with international connections, so therefore hospitals like Delhi, Chennai, Hyderabad, and now Bangalore as you know do have significant growth in that from last year to this year.

Krishna Kiran: Regarding Western Hospital Corporation JV can you just update us?

Mr. Padmanabhan: The Western Hospital Corporation was supposed to put the hospital in Belapur. We also have a separate JV to put up a hospital in Thane with Birlas. As a result of two hospitals coming up with different levels of ownership, we are actually rethinking in terms of whether the Bombay hospital should actually be put up by Chennai itself, and that is AHEL itself, and we will have the joint venture in Thane but you know at this point of time, the work in constructing the hospital is going on. In terms of how it will be structured, you know, we will take a decision in the next three or four months.

Moderator: The next question is from the line of Rachna Tiwari from FirstCall India.

Rachna Tiwari: Congratulations for the excellent growth numbers and results. What I need to ask you is that what are the constraints as a healthcare industry would face that you foresee in the future.

Ms. Sunita Reddy: Constraints. I think one of the biggest constraints is, you know, the availability of skilled manpower and to that end Apollo has been proactive. We have currently, you know, 11 colleges of nursing. We are setting up more nursing colleges. The second is I think in the field of medical education where you know there is a dearth of doctors. So this I think is being addressed at government level where they are
allowing the privatization of the medical universities so that they can move to private sector and can be corporatised but skilled manpower is just one area. The second I believe is the cost of land and how it is appreciated over a period of time. So that has actually driven up project costs and it holds us to be very careful on the way we handle our own capex.

Moderator: The next question is from line of Kaushik Poddar from KB Capital Markets.

Kaushik Poddar: I had been to Apollo Chennai. I had taken my daughter for a scoliosis surgery under Dr. Hegde. I was very satisfied with the way the operation was conducted and all, but there I saw a lot of people from eastern region, I happen to be from Kolkata, so to my mind Apollo Chennai as a brand seems to be much bigger than Apollo as a brand so I mean because of that probably the realization or the number of patient inflow to other hospitals may not be as much as in Apollo Chennai, so can you just elaborate on this how Apollo as a brand can be bigger than Apollo Chennai.

Mr. Padmanabhan: Yes you know, it is a fact that Chennai is the flagship hospital of the Apollo Group so to that extent it’s more closely identified with Chennai. You must also realize that Chennai was opened in 1983 and Hyderabad came in 1987 the next big hospital really came only in 1996. And Calcutta is really only 2002, Bangalore 2005, and in the fact you know just to give you an idea that in 1996 Apollo Hospitals had a turnover of just 50 crores which was just Chennai and Hyderabad. So you know significant increases have taken place since then. So I think it is a matter of catch up as far as other cities are concerned and I only disagree to the extent that in Hyderabad also, we are seen as a very, very important centre, we get patients from all over the country also into Hyderabad, it is not only Chennai that we get.

Kaushik Poddar: My short point is that people from eastern region be they from say Kolkata or Tripura or Assam. Why do they have to go to Apollo Chennai and not to Apollo Kolkata.

Mr. Padmanabhan: I think, this is a feeling amongst patients that Chennai doctors are really world class.

Kaushik Poddar: I can tell you that Dr. Hegde who operated on my child I don't think we have anybody of that capability in Calcutta and that’s why we went there, so how do you plan to develop many more Dr. Hegdes so that they can take over the orthopedic surgery in other places rather than Chennai.

Ms. Sunita Reddy: You know we are in the fact, we are developing, especially in the area of orthopedics, neurology, oncology, like I said earlier these are areas of focus for us. We are attracting doctors from overseas. It takes a little time for them to get settled in a new hospital, say take Calcutta for example.

Ms. Sunita Reddy: And this is where Chennai has the lead over the others. The second issue especially with Calcutta is that we have not yet developed, certain specialties especially oncology. Orthopedics, we have done recently. So we will start specializing, like Hegde is a specialist in spine.

Ms. Sunita Reddy: We might have orthopedics. We will do subspecialization over a period of time.

Kaushik Poddar: See people like Dr. Hegde are they asked to train people so that they can become Dr. Hegdes in another hospital. Do you have something like that?
Ms. Sunita Reddy: Yes certainly. Each of our specialists has four consultants with them. These are salaried doctors, they are four assistants with them and over a period of time they become consultants and the most of these consultants are sent to new hospitals that we have.

Kaushik Poddar: That’s what I wanted to know, how you develop good doctors.

Moderator: The next question is from the line of Karan Vasani from Crisil.

Karan Vasani: Just one thing if you could give me an update on the performance of the reach hospitals in Karimnagar and Karur and number two is if you could, give some update on the capex plans in the reach hospitals?

Mr. Venkatraman: As far as reach hospitals are concerned Karimnagar is doing quite well. Though we expected a budgeted revenue per bed per day of around 5,000, it is actually doing around 3,200. So we are working on ways to see how we can bridge the gap of the Rs. 5,000 that we budgeted. And Karur has just started. It is just three months old and the signs are that it is doing well. We are getting some doctors to do some high-end surgeries in Karur. We are also inaugurating the facility so that there is a local perception that Apollo is really there, so I think the both the reach hospitals are doing pretty well. And as far as the new reach hospitals are concerned we are thinking of putting them at Nellore and one more in Ayanambakkam in Chennai. Bhubaneshwar is also some sort of a reach and Karaikudi also we are putting up a reach hospital. So we have planned to put up around four or five. One in Nashik also. That I covered that under the capex plan.

Karan Vasani: The 3,200 that you mentioned, does that include pharmacy revenue or is that excluding the pharmacy revenue?

Mr. Venkatraman: It is net of pharmacy revenue and doctors.

Karan Vasani: And also in one of your earlier investor presentation you have mentioned that Karaikudi was due to be commissioned by December 2009. So what is the status of these projects?

Mr. Padmanabhan: This will be opened in FY first quarter 10-11.

Mr. Venkatraman: We are looking at commissioning it; it will take another 18 months. The construction has started in Karaikudi. So it will take another 18 to 24 months to actually commission the project.

Karan Vasani: What about the ones in Nellore, Trichy, Ayanambakkam, and Nashik. When are these likely to commence?

Mr. Venkatraman: Nashik, the drawings are ready. So the construction should start in the next three months.

Mr. Venkatraman: And typically, 18 months is the construction time. Nellore also drawings have been approved, so that will again take 18 to 24 months. So as I said earlier, by FY12 everything should be, you know, completed and ready for commissioning.

Karan Vasani: And just about this money that you are raising from IFC which is 233 crores. What is the interest rate on that debt?

Mr. Venkatraman: Fully hedged is 9.7, no it is close to 10%.
Ms. Sunita Reddy: Yes, fully hedged is close to 10%.

Mr. Padmanabhan: And the hedge is for a 10-year period.

Karan Vasani: 10-year period. Fine that is all from my end.

Moderator: The next question is a follow up from the line of Prashant Nair from Citigroup.

Prashant Nair: Just one thing on this, can you just once again clarify the Bombay plans? Which is he one you are thinking of doing on your own now. Is this the Belapur one?

Mr. Padmanabhan: Basically, Belapur was supposed to be a joint venture and we are also having couple of other projects coming up in Bombay. Before you know we have to now re-look at whether there would be any conflict of interest situation on the shareholdings of the different hospitals that are coming up and therefore, we are in fact rethinking in terms of how our investment should be done at Belapur.

Prashant Nair: The second was on Apollo Health Street. How are you addressing the risk of possible rupee appreciation given that this is an entirely dollar-denominated business. Do you have any hedges here?

Mr. Venkatraman: Yes, because significant portion of our expenditure also takes place in the US now and of course, all our billing is in the US, so we partly hedge our forex exposure but not fully.

Prashant Nair: So what is your net exposure and how much is hedged?

Mr. Padmanabhan: Approximately about 90 million dollars.

Prashant Nair: Have you hedged all of that or it will be hedged lower than that?

Mr. Padmanabhan: No, no, the 90 million dollars is fully hedged now.

Moderator: Next question is from the line of Preeti Arora from Kotak Securities.

Preeti Arora: My question is on the Chennai Hyderabad cluster. You have reported a very good margin improvement y-on-y and as well as q-on-q in this quarter. So, if you can just take us through how are you able to do this you know with revenue? Do you firstly think revenues have peaked out? What sort of cost restructuring measures have you put in and, you already had 32.5% in Chennai. Do you think you will be able to maintain that?

Ms. Sunita Reddy: Yes, just on the revenues, I think there has been a margin improvement for several reasons. The first reason is the focus on case mix.

Ms. Sunita Reddy: The second is that we have been able to get some premiums in this space because of the big inelastic demand in the specialties, in several specialties. The third is that we have actually like Mr. Padmanabhan said earlier, we have moved out things like pediatric and some of the other work, so that we have created more space in the tertiary care segment and therefore, it has reflected on our case mix and our margins. We have also rationalized our customer base in terms of you know credit terms to the public sector companies and this has resulted again in better revenues. We have also focussed on getting more doctors in cardiology, orthopaedics, and oncology, where the margins are higher and this is again reflected in higher occupancy and higher asset utilization.
Preeti Arora: And out of your total hospital revenue, how much do Chennai and Hyderabad account for now?

Mr. Padmanabhan: On a standalone.

Preeti Arora: Yes standalone.

Mr. Padmanabhan: Yes standalone, it represents almost 80%.

Preeti Arora: One more question, on your consolidated revenues which you have reported, can you just highlight how much is roughly coming from consultancy projects which you deal in and how does the revenue sharing happen on that and what sort of margins do you make on that etc.?

Mr. Padmanabhan: Consultant income for the year will be somewhere in the order of around 26 or 27 crores, gross income.

Mr. Padmanabhan: And EBITDA margins are on the order of about 55%.

Preeti Arora: This is 27 crores, year to date?

Ms. Sunita Reddy: Actually, the nine-month figure is 14 crores and the EBITDA margin is around 50%.

Moderator: The next question is a followup from the line of Kaushik Poddar from KB Capital Markets.

Kaushik Poddar: Yes, this Apollo clinic income, where do you account for? Is it part of pharmacy or is it part of the healthcare segment?

Mr. Venkatraman: No, we have a subsidiary called Apollo Health and Lifestyle Limited.

Kaushik Poddar: How much of it is owned by Apollo Health, Apollo, the listed company?

Mr. Venkatraman: We own close to 88%.

Kaushik Poddar: And how are the financials of that company?

Mr. Venkatraman: The revenue model there is we get 4% of topline, and 20 lakhs per pharmacy. So that is reported as small profit in this quarter.

Mr. Venkatraman: So, if you want we can discuss this offline.

Kaushik Poddar: And, what is the turnover you said?

Mr. Venkatraman: For nine months, it was 6 crores.

Kaushik Poddar: And the name of the company is Apollo Lifestyle, what did you say?

Mr. Venkatraman: AHLL, Apollo Health and Lifestyle.

Moderator: As there are no further questions I would like to hand the floor back to Ms. Sunita Reddy for closing comments.
Ms. Sunita Reddy: Well, thank you. I think we had a very interesting one hour and please feel free to contact Krishnakumar if there are any other questions that you would like answered. Thank you again.

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