Moderator: Ladies and gentlemen good day and welcome to the Apollo Hospitals Q3FY11 earnings conference call. As a reminder for the duration of this conference all participant 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. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Mayank Vaswani from Citigate Dewe Rogerson. Thank you and over to you, sir.

Mayank Vaswani: Thank you Moderator. Good afternoon and thank you everyone for joining us on this call to discuss our financial results for the third quarter of financial year 2010-2011. We have with us the senior management team of Apollo Hospitals Limited.

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

We will start with Ms. Suneeta Reddy who will discuss the operation highlights and progress on the hospitals. Mr. Venkataraman will then discuss the financial highlights and capex & expansion plans and Mr. Padmanabhan will discuss highlights of the pharmacy operations, Apollo Munich Health Insurance, and Apollo Health Street.

Documents relating to our financial performance have been E-mailed to all of you earlier and have also been posted on our corporate website. I would now like to invite Ms. Reddy to provide key highlights of our performance for the quarter.

Suneeta Reddy: Thank you. Good afternoon it has been another good quarter for Apollo Hospitals. We have reported strong growth on a standalone as well as consolidated basis.

On a year-on-year basis we have grown 29% and on a Q2 to Q3 basis there has been a 36% growth in EBITDA. However, the reduced PAT margin is a result of investing in growth and consequent higher interest cost and reduced treasury income. For the quarter standalone revenues were higher by 25% while consolidated revenues were up by 22%.
For the nine months the growth was even better as standalone revenues were higher by 27% and consolidated revenues increased by 28%. However, we have a number of new facilities that have become profitable and their performance will continue to add to our consolidated profit.

The patient volumes touched 8 lakhs and we continue to increase volumes at both our matured facilities as well as our new facilities. We have seen significant traction in patient volumes and facilities other than Chennai and Hyderabad clusters. This has led to an overall improved occupancy as well as better pricing. When combined with the focus on reducing average length of stay and the ability to increase average revenue per bed and revenues from all our centers. This is more credible because it has been done with the addition of 900 beds at locations like Bhubaneshwar, Hyderabad, Secunderabad, Kolkata, Karakudi, and Lavasa.

The other key highlight for this quarter has been increasing contribution from our non-hospital businesses, which is why consolidated revenues, have reported higher growth rates. Retail pharmacies have reported very strong topline growth while Apollo Munich has more than doubled its earned premium for the first nine months of this fiscal.

I will let Mr. Venkataraman and Mr. Padmanabhan throw some more light on their performance but the key takeaway here is the strong growth both in the core business as well the allied businesses especially in retail pharmacies and health insurance. We were also privileged to win some accolades and awards this quarter. Before I mention the details I would like to share that the growth and recognition is the outcome of our focus on the four pillars of excellence and the importance that we have given to designing a process that we will strive to replicate across all our facilities and businesses.

We were voted as India’s most preferred hospital in the viewer’s choice awards of CNBC TV-18. Further, as shared with all of you last quarter the Week Magazine ranked Apollo Hospital Chennai as the second best multi-specialty hospital in the country after AIIMS, New Delhi. In a ranking of hospitals in metro cities, we were ranked No 1 in Chennai, Hyderabad and Ahmedabad while we were ranked second in Delhi, Calcutta, and Bangalore. Our “Billion Hearts Beating” Campaign in conjunction with the Time of India won the Campaign of the Year Award at the World Brand Congress in 2010 and it has been a runaway success and we have been able to achieve over 2 lakh pledges.

This has also resulted in greater awareness of cardiac ailments and has been a key contributor to growth and volumes for cardiac surgeries and related treatments that we have seen across our hospitals.

Our focus on key specialties and our center of excellence strategy continues to pay rich dividends. We have identified Cardiology, Oncology, Neurology, Critical Care, Orthopedics and Transplants, as the focus areas and growth drivers for our healthcare services. When supplemented by awareness and initiatives like “Billion Heart Beating” and the “Save India” campaign we are able to increase the growth across the specialties resulting in greater volumes and better occupancy.
CRISIL Equities has rated us 5/5 in their rating which indicates that our business performance as well as the potential to grow remains exceptionally strong. We are only the second company in India to receive such a rating. While we are pleased with what we have achieved, we are already looking ahead of what can be done to further improve the delivery of healthcare in India as well as the goal of touching more lives.

I am pleased to share with you that this quarter alone we have touched over 350,000 lives across all our facilities. We have also launched the Apollo Cosmetic Clinics during this quarter. There is a great need for emerging lifestyle and wellness related treatments in India. These state-of-the-art-clinics will be the centers of excellence offering comprehensive treatments for a range of cosmetic enhancements. We believe this market holds tremendous potential and by leveraging our skill sets and decades of experience we can create this as a significant value add to our mainstream healthcare services. We continue to invest in new technologies and treatments like the 3-D electro anatomical mapping systems. The latest mapping system in resolutionary imaging technology, which will help in guiding and increasing accuracy in the catheter ablation therapy.

We have also launched a new cancer treatment facility in Delhi comprising of the Novalis Tx and bone marrow transplant units. We have undertaken path breaking treatments with a team at Apollo Hospital, Chennai implanting biodegradable stents in two patients as part of the last phase of human trials. These stents are designed to dissolve in the body in two years and this is a revolutionary treatment in this field.

We have also conducted the first allogeneic bone marrow transplant this quarter. It has been a fairly eventful quarter with continuous growth, introduction of new technologies, innovation in treatments as well as recognition and accolades. While the outlook for our business remains as strong as ever, we have scope to improve operating efficiencies further at our more mature facilities while simultaneously bringing those at new facilities up to speed.

We also have in place strong pipeline of new hospitals and projects up to FY2014. Lastly, the improving contribution from the non-hospital businesses improves the attractiveness of the opportunity and we are carefully monitoring the progress to realize their potential. I will now ask Mr. Venkataraman to walk you through the financials.

S. Venkataraman: Thank you Ms. Suneeta. I will start with slide 9 of the investor presentation. Standalone revenues for the nine months of fiscal expanded by 27.4% to Rs.17,106 million. EBITDA was higher by 29.2% from Rs. 2,184 million in the nine months last year to Rs. 2,822 million in the nine months of this year. EBITDA margins have improved by 23 basis points to 16.5% for the period aided by margin expansion in healthcare services and standalone pharmacies turning EBITDA positive during this period.

PAT was higher by 9.6% from Rs.1,228 million in nine months FY’10 to Rs.1,346 million in the current period. The PAT margin is lower due to deployment of funds for expansion as earlier pointed out by Ms. Suneeta. This is reflected through a higher interest cost due to increased
borrowings as well as lower contribution from other income, being that we dissolved the mutual funds that were available for projects.

I request you to turn to slide10; you will see that the revenue growth has been led by a strong performance from the standalone pharmacies, which registered a growth of 36.4% on YTD nine months basis. Growth in healthcare services was also healthy at 24.2%. The EBIT margins and healthcare services have slightly dipped due to higher depreciation on account of commissioning of new facilities; however, as you would notice at the bottom of the same slide that the annualized return on capital employed for the healthcare services has increased to 16.4% from 15.7% in the same period last year.

Capital employed during the same period has increased from Rs.16,384 million as of December 31, 2009 to Rs.19,128 million as of December 31, 2010.

Moving on to the consolidated numbers in slide 21. Total revenues including shares and JVs for the first nine months for the fiscal year were Rs.18,997 million. This is an increase of 27.4% from Rs.14,913 million in the same period last year. EBITDA expanded by 32.8% from Rs. 2,374 million in nine months FY’10 to Rs. 3,152 million in nine months FY’11. The EBITDA margins improved by 68 basis points to 16.6% for the period. The consolidated EBITDA margins have expanded more than the standalone margins aided by better performance from our subsidiaries and JV hospitals.

Consolidated PAT was higher by 17% at Rs.1,304 million from Rs.1,115 million in the same period last year. Our consolidated debt as on December 31, 2010 was Rs.8,959 million. Our total cash balance at the end of the quarter was Rs. 1,554 million.

I request you to turn to slide 12, which is slide on key operating metrics in the hospitals business. We continue to report strong growth in both outpatient and inpatient volumes. The facilities in the Chennai and Hyderabad clusters have reported high single digit growth in IP volumes indicating that there is still adequate growth available even at mature facilities. OP volumes at these facilities are also growing well thereby contributing to continued growth in IP volumes. Our standalone hospitals outside of Chennai and Hyderabad showed 23.8% growth in IP and 51.2% growth in OP volumes. This increase is primarily due to commissioning of new hospitals in the cluster including Bhubaneshwar and Karur and strong growth in Madurai.

The subs and JVs primarily given in the Kolkata and Ahmedabad have reported strong growth in IP volumes, which have grown by 13.4% on a nine month-to-nine-month basis. The growth in OP and IP volumes have helped increase our occupancy levels even with an increased number of beds. The Chennai cluster and Subs / JVs have witnessed an increase in occupancy level while Hyderabad cluster and other standalone hospitals have seen a dip in occupancy due to expansion of capacities, which is in line with our expectations.
Our standalone average length of stay has reduced from 5.07 days to 5.01 days while the ALOS in such JVs has reduced from 4.84 to 4.61, so higher volumes, increased occupancy level, and reduction in ALOS have resulted in increase in average revenue per operating beds across our operations. ARPOB was up by 10.8% at Rs.19,680 in the standalone hospitals and higher by 13.1% at Rs.12,940 per day in sub JVs. On our expansion and capex plans, I invite your attention to slide 16, which has the project wise details of our approved plans till the end of FY’14. Total funds required for the projects will be in the range of Rs.13,900 million of which Apollo’s share is approximately Rs.11,700 million. Of this, Rs.3,000 million has already been invested by us and the balance of approximately Rs.9,000 million will be funded through a mix of internal accruals, equity and debt. That’s it from me. I will now request Mr. Padmanabhan to talk about pharmacies, Health Insurance and Apollo Health Street.

K. Padmanabhan: Thank you Venkat. Let me quickly run you through the performances of the other businesses in our portfolio. The revenues in the standalone pharmacy segment have grown by 36.4% from Rs.3,514 million in the nine months ended 2010 to Rs.4,790 in the nine months ended 2011. Further, we have achieved EBITDA breakeven in this segment in the last quarter and continue to be EBITDA positive in the current quarter as well.

If you refer to our slide 14 of our presentation you will notice that our mature stores have performed even more creditably with an EBITDA margin of 5.05% for the nine months of this fiscal in line with our internal targets. For the quarter, the EBITDA margins for this batch of stores are 5.23% compared to 3.42% in Q3 of 2010.

The revenue per store has increased by 24% compared to the same period last year. This is despite the addition of 99 stores on a net basis over the last 12 months. Of this 32 pharmacies were added on a net basis during the last quarter. The number of operational stores on December 31, 2010 was 1,142. We slowed down our expansion to focus on profitability. We remain optimistic about this business and consider it to be one of the important parts of our business that has a potential to be unlocked in terms of creating value to Apollo Shareholders.

Apollo Munich Health Insurance has recorded a gross written premium of Rs.1,402 million in the first nine months of this fiscal. This represents a strong growth of 75% over the same period last year and we are confident of reaching our target of Rs. 2 billion that we set for 2011. More importantly the earned premium has expanded at a faster pace and was up by 103% from Rs. 475 million in the nine months ended 2010 to Rs.963 million in the nine months ended 2011.

Other income was higher by 41% and the total income for nine month ended 2011 increased by 95% to Rs.1,067 million. Losses at the EBITDA level declined to 52% for the nine month ended 2011 from 91% in the nine month ended 2010. The combined ratio was brought down to 141% from 175% and we are confident of improving this further. We have added one more office during the quarter and we now have 40 offices across India. We continue to expand our base of agents and employees to drive growth in operations.
Apollo Munich was felicitated during the quarter with the Celent Model Insurer Asia 2011 award in the policy administration system category. The above recognizes excellence in technology and best practices at insurers across Asia in various categories. Next I will talk about Apollo Heath Street which has been reporting strong momentum in the payer and provider space. New contracts wins during the quarter include a five year partnership to provide its full office business program to the Roxborough Memorial Hospital in Philadelphia. We also won contracts from Grady Memorial Hospital in Atlanta, Georgia and Neosho Memorial Regional Medical Center in Pennsylvania. In order to sustain growth in revenues, we have augmented our offerings as well as our sales teams. While revenues were impacted by currency fluctuations we were able to significantly improve operating performance due to the implementation of project LEAN, which has helped us to identify and reduce operating cost by $400,000 annually.

This has reflected in the 20% drop in operating expenses in the nine months to nine months period. We have also simplified our structure and looked to build abundant opportunities from the regulatory impetus to control healthcare costs in India. That is it from me and thank you and we are now ready to take your questions. Thank you.

Moderator: We have the first question from the line of the Ranjit Kapadia from HDFC Securities.

Ranjit Kapadia: My question relates to these cosmetic clinics. How many clinics have we opened? What is the margin for this clinic and what is the critical mass we want to take in the future?

Suneeta Reddy: Right now we have only one clinic that we have opened and since it is only six months old, we are just examining how the module would work. Our strategy is to actually take it to the existing hospitals and create a centre of excellence within that without disturbing the other centres of excellence. Margins would be in the range of 35%.

Ranjit Kapadia: So that is not going to dilute the margin?

Suneeta Reddy: No, it would not dilute the margin.

Ranjit Kapadia: What is the critical mass that you want to achieve in two years' time or five years' time?

Suneeta Reddy: To actually establish it in all the Tier 1 cities where we have a network of plastic and cosmetic surgeons to do this.

Ranjit Kapadia: My second question relates to the pharmacy business, we have already broken even in the last quarter. This quarter again the EBIT margin is negative, is there any specific reason or just because 32 pharmacies were added, there is a pull down in EBIT margin?

K. Padmanabhan: No actually in the last quarter we had a write back of excess bonus provisions of about Rs. 200 lakh and therefore it appeared that the last quarter results were better, but after adjusting for normalizing the Rs.
200 lakh both absolute EBITDA and EBITDA margins have actually improved.

**Ranjit Kapadia:** Any plans for divesting this pharmacy business in the near future?

**K. Padmanabhan:** It is subject to valuation. We will look at the right opportunity to do that. I think we still have lot of headroom for growth in terms of improving operating parameters, so we will look at when is the right time to do that.

**Moderator:** The next question is from the line of Rahul Gaggar from Centrum Broking.

**Rahul Gaggar:** The Belapur property would be the new Bombay property right you are talking about, and isn't that a 60% subsidiary of yours?

**K. Padmanabhan:** Originally it is meant to be, we are looking at the whole Bombay opportunities to be captured at the AHEL level and therefore we have decided to take all the Bombay project under AHEL.

**Rahul Gaggar:** That is why the amount of investment has gone up right?

**K. Padmanabhan:** That is right.

**Rahul Gaggar:** If you do the back calculation, the rentals as a percentage of sales in the pharmacy business, have dropped drastically in the last year and a half and now they constitute roughly 9% of the sales. What is your internal target or what you do think it can fall down further too?

**K. Padmanabhan:** I think as a percentage of revenue in a growing business you will expect to keep dropping. These are around 35%-36% so rental will be expected to grow; we hope that on a steady state basis we will reach about 5%

**Rahul Gaggar:** Do you follow a revenue sharing model or fixed lease model can you give highlights on that?

**K. Padmanabhan:** As far as standalone pharmacies are concerned they are all fixed rental model.

**Rahul Gaggar:** This is in regards to an item in your annual report for previous year regarding the Apollo Health Street. It says on page 117 that you have a goodwill carrying value of roughly Rs. 600 Crore. You are not written it off. That is a very sizable number compared to the overall size of the balance sheet. So can you explain exactly what isthe reason?

**K. Padmanabhan:** This is as a result of acquisition of Zavata and therefore we have paid a price of $154 million for Zavata, which is on the basis of cash flow. So the difference between assets and what we paid is what is captured as goodwill here.

**S. Venkataraman** It is nothing but accounting goodwill.

**Rahul Gaggar:** Any plans to write it off or something?
K. Padmanabhan:  We will amortize it over a period of time.

Gaggar Moderator: The next question is from the line of Manish Taneja from Fidelity.

Manish Taneja: What is the capex you think you will be doing per bed for the new hospital?

S. Venkataraman: Well you can go to the slide 16 it roughly works out to be around Rs.60-70 lakh.

Manish Taneja: How is it divided between civil structure and equipment?

S. Venkataraman: No whatever we have said in the slide includes everything.

Manish Taneja: I am asking you if would be in position to divide it between the civil structure and the equipment so out of Rs.60 lakh does equipment cost Rs.25 lakh?

S. Venkataraman: It is about Rs.12-20 lakh. Normally it costs around Rs.40 crore of equipment for a standard hospital, but the average is 12% in that range.

Moderator: The next question is from the line of Perin Ali from Edelweiss Research.

Perin Ali: My question is regarding EBITDA margins on standalone numbers, EBITDA margins have declined to 15.7%, Now I see your selling expenses have increased significantly by 96% YoY. Can you elaborate what is the reason and is this the run rate that we can assume for the next quarter as well?

Suneeta Reddy: The selling expenses have increased. This can be attributed to our ‘Beating Hearts Campaign’. It has contributed to additional revenue in Apollo and also when we launch new facilities we expect marketing expense will be slightly higher so we have added 900 beds and there has been some marketing cost attributed to that.

S. Venkataraman: But going forward this may not repeat itself, to answer the second part of your question.

Perin Ali: Can you quantify how much of that expense would have been from the campaign?

S. Venkataraman: No that we can talk off-line I do not think we can into those details now.

Perin Ali: My second question is regarding the increase of 120 operational beds in your Hyderabad overall facility, how can you breakup in different facilities in Hyderabad?

S. Venkataraman: No basically we added it in two facilities, one is in Jubilee Hills and the other one is Secunderabad. The Secunderabad is around 150 beds.

Perin Ali: So much how are the operational beds in Secunderabad facility?
S. Venkataraman: All the 150 beds are now operational.

Perin Ali: The international block, which you mentioned in the presentation, out of the 100-beds, how many beds are operational?

S. Venkataraman: All beds are operational.

Moderator: The next question is from the line of Bhaskar from CRISIL.

Bhaskar: On the pharmacy, what is the general the gross margin that you make and how does it compare between private labels and otherwise?

S. Venkataraman: No these are actually commercially sensitive information so we can discuss off-line.

K. Padmanabhan: At a gross level we make about 20%-21% margin. The private label of course is significantly higher.

Bhaskar: On the interest cost, obviously interest cost is increasing because of your capex is going up and therefore debt is needed to support it but the interest cost that is incurred for these projects, do you capitalize that or how does it happen?

K. Padmanabhan: The point of capitalization is when we will actually show the interest cost, so Rs.13 Crore which is something that you see is the latest interest cost for the quarter. Interest cost is really after capitalization.

Bhaskar: After capitalization. Will it be possible for you to share as to what amount of interest has been capitalized?

S. Venkataraman: We can discuss offline.

Moderator: The next question is from the line of Vinay Paharia from Religare Mutual Fund.

Vinay Paharia: I wanted to ask about the fund-raising program. We have taken an enabling resolution to raise up to Rs.900 Crore, so is there a timeline for that?

S. Venkataraman: We have passed the resolution in December and the resolution is valid for a year. We have also appointed a committee of directors to advise us on the correct timing. So at this point in time there is not enough clarity to share with you at what time it will happen, but as and when it happens we will certainly let you know.

K. Padmanabhan: But certainly we will look at timing it properly, we are not in a hurry to actually do the deal, so it depends on how the markets are and how the markets will receive an issue.

Vinay Paharia: Specifically any timeline for pharmacy monetization in the form of transferring to subsidiary unlocking value for shareholders?
S. Venkataraman: Clearly there is an embedded value today and as Mr. Padmanabhan earlier referred that we are looking at valuation and provided the value is right then the question of just divesting it appropriately. So it is a function of valuation.

Moderator: The next question is from the line of Nitin Agarwal from IDFC securities.

Nitin Agarwal: I just wanted to check on the Hyderabad cluster, the occupancy rates has dipped from 70% to 64% YTD. Is it just because of the additional 120-bed during the quarter or there is something else beyond this?

Suneeta Reddy: Yes, this is because of the additional beds, from 670 beds last year we have moved to 809 beds and in addition to that I think there was a period of time because of the Telangana issue, movement within Andhra Pradesh was actually not possible, so there was lower occupancy.

Nitin Agarwal: What was the occupancy rate for Q3 at Hyderabad?

K. Akhileswaran: I think we will have to get back to you offline, we do not have that off hand.

Nitin Agarwal: Would it be possible for you to quantify the ARPOB for Chennai and Hyderabad clusters for Q3 only not for nine months?

K. Padmanabhan: Year-to-date numbers will run through because there would not be too much of difference in terms of the relationship between the two.

Nitin Agarwal: I did try to back track the numbers, but the number was overshooting, so I just wanted to check with you.

Moderator: The next question is from the line of Vikas Sonawale from Religare Capital.

Vikas Sonawale: First question is on the Rs.900 crore fund raising program. If you were to postpone QIP, then logically speaking we should be going for debt. So the Rs.900 crore incremental amount that we are looking at can we assume that it will be funded through debt?

K. Padmanabhan: Certainly, for the next six to seven months we can actually manage with whatever cash we have on hand plus internal accruals, but beyond that if we think that we cannot raise equity because the valuations are not right then we will look at some kind of bridge financing.

Vikas Sonawale: And the Rs. 300 crore infusion through warrants, that is on track right?

S. Venkataraman: If you are talking about promoters warrant that is on track.. As far as NCD plus warrant is concerned we are still looking at what type of instrument it should be.

Vikas Sonawale: The bed additions going ahead for the next one to three years are not structurally poised, so can we assume significant capex only in FY’13 or largely it will be in FY’12 and then a small part in FY’13?
S. Venkataraman: We have given the actual number of beds getting on stream.

Vikas Sonawale: Number of beds for FY’12 are 175.

K. Padmanabhan: The significant amount will be in 2013-14. It is around 1,000 in 2013-14; it is precisely 1,005 and 950.

Vikas Sonawale: So when you spend money, that money will largely be moving into second half FY’12 or FY’13 only?


Vikas Sonawale: On the pharmacy business, what are the numbers that we are looking for additions in FY’12-13?

K. Padmanabhan: We are probably looking at adding another 100-150 pharmacies per year.

Moderator: The next question is from the line of Perin Ali from Edelweiss Research.

Perin Ali: First question is just extending your fund raising plans, you mentioned in one of your presentations earlier that you have a plan to raise around Rs.200 crore from International Financial Corporation. Are you on track? When do you plan to raise this debt?

S. Venkataraman: That has already been done. We planned to raise US$ 15 million and that has been done and in fact the money has come inside.

Perin Ali: So in your consolidated debt of around Rs.890 crore or so, which you have mentioned in your presentation?

S. Venkataraman: Yes it is also included. Except 10 million, which will be the last tranche.

Perin Ali: $40 million is included in that.

S. Venkataraman: Yes right.

Perin Ali: Can you also share what is the overall capex we have done year-to-date and what will be your overall capex for FY’11?

K. Padmanabhan: Overall capex year-to-date is about Rs.140 crore including the maintenance capex.

Perin Ali: What will your overall capex be for this year by the year-end?

K. Padmanabhan: We will need to add another Rs.25 or 30 crore.

Perin Ali: I could see that your other cluster hospitals or the new hospitals are doing pretty good, in terms of ALOS, which has also reduced this year to date, just want to understand how is the specialty mix in these hospitals different from your Chennai and Hyderabad clusters? What is the strategy in the tier II hospitals?
K. Padmanabhan: In the tier II hospitals they tend to be a high secondary and therefore tend to have relatively lower ALOS, because they would not do very high level of complex work to start with, but as the business grows they will also start doing more complex work, but in the initial three to five years, they will have relatively lower level of ALOS and also relatively lower level of revenue per bed, but the model is designed like that.

Perin Ali: What specialty is the major focus for most of these other hospitals?

K. Padmanabhan: General surgery, Gynaecology, General medicine there is a little bit of cardiac.

Perin Ali: On your margin performance, at the consol level you have been able to improve your margins, although there has been some margin pressure on standalone level, now which of the subsidies of the JVs you see are turning around or are really accretive at a consol level?

K. Padmanabhan: All of them in fact have done better Kolkatta, Bangalore, and Ahmedabad, in fact right now most of our newer hospitals have also turned around, so they have all contributed positively.

Perin Ali: Just to elaborate another big corporate like Fortis has just opened up a big hospital in Calcutta, do you think you could see some margin pressures in that particular JV?

K. Padmanabhan: I do not think, there are facilities which have come in many cities, whether it is Fortis or some other players, but basically healthcare business is still at a perpetual state of growth and therefore I do not think that this is an issue today, but it could become an issue if the growth in the business slowdown.

Moderator: The next question is from the line of Kaustav Kakati from B&K Securities.

Kaustav Kakati: My question is that you have around 4,194 operational beds and at the end of FY’11 what will this number go up to?

Suneeta Reddy: We will add 538 beds.

Kaustav Kakati: But, I guess some of them have already been added right?

K. Padmanabhan: You mean for the balance portion of the year it will be just about 120 beds.

Kaustav Kakati: How many of them will be REACH?

K. Padmanabhan: 120 beds will be REACH.

Kaustav Kakati: Your current debt position is somewhere around Rs. 890 Crore and what will be the cash in hand right now?

S. Venkataraman: Rs.1,554 crore, I read out the figure also.
K. Padmanabhan: Sequential okay, as I had mentioned to you earlier that there was a Rs.2 crore write back in Q2 and therefore EBITDA margins and absolute EBITDA which was higher. Once you adjust and normalize for that Rs.2 Crore, which was the excess bonus provision that was reversed then you will find that actually EBITDA margin even on a trailing basis has improved.

Priti Arora: So, this Rs.2 Crore of last quarter was not adjusted in EBITDA, EBITDA of 2% was excluding this Rs.2 Crore?

K. Padmanabhan: Yes, you can say that once you normalize for that because it was reversed in the Q2 of last year, so once you normalize for that actually the EBITDA margins and absolute EBITDA has improved in Q3 over Q2 of this year.

Priti Arora: On the slide where you have the division by each cluster, the Subsidiary / JV ARPOB number is down quarter-on-quarter quite significantly by Rs.3,000-odd? Q3 on Q2?

S. Venkataraman: There were three festivals, plus also we do theatre closure during Q3, so obviously we have lesser number of surgeries and it is bound to dip, and it is a planned theatre closure and seasonality is there in Q3 in all hospital across the country.

Priti Arora: How many of the 900 beds that you have added year-to-date how many of these are operational, which are included in your operating beds of 990?

S. Venkataraman: We have added in Hyderabad, Bhubaneshwar, Kolkata, Lavasa, Secunderabad and Karaikudi, all of them are operational, in fact in Karaikudi we have soft commission just now.

Priti Arora: So all these 900 are mostly standalone right except Lavasa may be?

S. Venkataraman: Lavasa is separate that is right. Kolkata is also separate, it is a JV.

Priti Arora: So year-to-date that number of operating beds has gone up by 300-odd beds?
S. Venkataraman: No but we have beds added during the last 12 months which is different from the period that you are comparing. There is a timing difference actually.

Priti Arora: So you are saying 900 beds are added during the last 12 months and how much would that be except the ones in Calcutta, Lavasa

S. Venkataraman: Calcutta is 125, Lavasa is close to 70. Secunderabad is around 150 beds or 300, but in the last 12 months Bhubaneshwar was added, Hyderabad was added, so you will have to reconcile between 9 months and 12 months. If you want we will send you that figure.

Priti Arora: Because it is not adding up.

S. Venkataraman: It has to add up; it is only a timing difference.

Moderator: The next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: Any update on your Day Care Hospital, how is that thing is progressing?

Suneeta Reddy: Day Care is progressing well. In fact next month we will inaugurate our first center in Alwarpet, Chennai. Second one will be in Hyderabad.

Nitin Agarwal: How do you see the ramp up happening in this segment is it going as per your plans or is it as anticipated earlier?

S. Venkataraman: We have plans to start three day care centers over the next one year, evaluate the performance of the centers and then decide how we will ramp up, as Suneeta mentioned we have opened in Chennai, now we are working in Hyderabad and the third one possibly could be in Bangalore, and once we have done that, we will evaluate and then we will see how we can ramp it up. Ramping up can be fairly rapid. Each of the centers will cost, excluding the value of land because all will be leased properties, anywhere between Rs. 8 and 10 crore per facility.

Nitin Agarwal: Now that you have mentioned leasing, I just wanted to check if the new hospital that we are setting up over the next three year, are any of them coming around leased properties or they are all at leased buildings and rather leased land and building or all of those assets are essentially owned assets?

K. Padmanabhan: We are looking at a combination of owned and leased assets.

Suneeta Reddy: The Hyderabad Hospital is a leased assets in fact.

K. Padmanabhan: One of the facilities in Hyderabad is a part leased asset and then you know now we are looking at one facility in Mumbai, which will be a leased asset, couple of them which we are doing in Chennai are also leased assets.

Nitin Agarwal: But going forward you are not looking at the mix in large is going to remain more towards owned assets over the leased assets and is that where the business is shaping up?
Suneeta Reddy: When we have asset to lease, the price that we keep is one which keeps our margins intact, of course we will go for the leased model.

Moderator: The next question is a followup from the line of Vikas Sonawale from Religare Capital.

Vikas Sonawale: My question is on doctor fees and overall staff costs, so how do you see these numbers going into FY’12 and FY’13?

K. Padmanabhan: As far as doctor’s fees are concerned it is not captured in our revenue statement, because they are fee for service doctors and are paid separately. That number will range between somewhere around 18%-20% of grossed up revenue.

Vikas Sonawale: Earlier it was 23% I believe right?

K. Padmanabhan: I told you it’s a range, because it is still a range of 20%-22%, and 18%-20%.

Vikas Sonawale: Average at the company level?

K. Padmanabhan: At the company level, we do not actually capture this and we do not even report that.

Vikas Sonawale: Yes but the number if I were to back calculate that number was roughly be about 23% right?

K. Padmanabhan: 23% of net revenue or 18% of grossed up revenue.

Vikas Sonawale: How do you say that number going in the future?

K. Padmanabhan: That number will remain more or less steady, I do not feel that.

Vikas Sonawale: Don’t you face pressure from competition because suddenly we see so much of expansion coming in FY’10 and FY’11?

K. Padmanabhan: It shouldn’t rise, because what happens is lets say I have moved to Mumbai where the salaries are 30% higher, the doctor gets 20% of the 30% higher tariffs, so exactly there is a built in model for the doctors that is why it remains fairly static for Apollo for the last 15 or 16 years, because they even capture the revenue tariff increases right.

Vikas Sonawale: Yes, last five years and next two years are going to be drastically different, so will doctor’s fees or other staff costs or price be negative?

K. Padmanabhan: Are you saying that the tariffs will come down?

Vikas Sonawale: No I am just saying will you able to pass on the staff cost rise.

K. Padmanabhan: I just was referring to the doctor’s fees.

Vikas Sonawale: I mean both doctors as well as staffs separately.
K. Padmanabhan: We will deal with staff cost separately. Doctor’s fees are the percentage of revenue, whereas the staff is paid an absolute salary. As far as staff is concerned, this will depend on your ability to actually get some leverage in terms of how much you are able to do in overhead spread. So the staff cost has been and will continue to grow anywhere between 10% and 14% a year and therefore your ability to increase your revenue per bed and your absolute revenue at least by that much to keep your employee costs as a percentage of revenue reasonably constant and I think at the company level when you look at the portfolio of investments, existing investments and new investments you will see that we are expanding in tier 2 towns, which have relatively lower revenues but also relatively lower staff cost. The combination of which I believe that we will be able to maintain the employee cost fairly reasonable within the range.

S. Venkataraman: In fact this July and the last July we had a settlement at Chennai and Hyderabad respectively and it goes to what Padu has been saying all along - quite contained.

Vikas Sonawale: How much Capex would we assume for FY’12 and FY’13?

S. Venkataraman: That is given on slide 16.

Vikas Sonawale: There will not be much Capex in FY’12 and that will be insignificant?

S. Venkataraman: Correct.

Moderator: The next question is from the line of Ranjit Kapadia from HDFC Securities.

Ranjit Kapadia: My question relates to the building company’s assets, is there any possibility of transferring to real estate investment trust and divesting it and making it an asset light model?

Suneeta Reddy: We have actually examined that, if we look at today’s current scenario I do not think that we will be able to do this in all our properties and the reasons for that being #1 stands the cost of the stamp duties and the second is the service tax on lease rental which is in the range of 10% to 11%.

Ranjit Kapadia: This is across India?

Suneeta Reddy: Yes. That will definitely affect our EBITDA.

Ranjit Kapadia: At what range is the Stamp duty?

K. Padmanabhan: Stamp duty will have to be anywhere between 7% and 10% depending on the state.

S. Venkataraman: But you should be very happy because you have got an embedded RIETs option.

Suneeta Reddy: Unless it ranges in that we would not be able to consider the leased model at this time.
Moderator: The next question is from the line of Prateek Tholiya from KJMC Capital Markets..

Prateek Tholiya: I just wanted to ask Ms. Reddy whether the industry has any expectation from the budget what is the budget wish list from the industry perspective?

Suneeta Reddy: Well of course our wish list includes being included in the priority sector but quite frankly I do not think we are going to get anything in terms of lower taxation because we have already been given the tax holiday for new hospitals for 100 beds, but the benefit that we are also asking for is lower interest rates for hospital projects which we are quite confident that something will be done in that direction. Third is like we spoke about earlier the REIT that the government gives us some leeway in terms of service tax on property that is leased to hospital companies.

Moderator: The next question is from the line of Prakash Agarwal from RBS.

Prakash Agarwal: What is the actual issue with this stamp duty for leasing the properties out, you already own the assets in your books, i.e Apollo Hospitals balance sheet, so would it be a transfer of assets to a separate investment trust and hence the stamp duty or what are the steps involved can you give some details?

K. Padmanabhan: Basically what will happen is that a REIT company would want the property to be transferred to them and then they will want to enter into a long term lease agreement with the hospital to ensure that they will get the lease rentals which presumably will cover the cost of capital or whatever and therefore that entails stamp duty in most of the states.

S. Venkataraman: But we are examining it more closely in order to see whether there are any better structures.

Prakash Agarwal: These stamp duties range from what 5% to 7%?

K. Padmanabhan: On the capital value yes.

Prakash Agarwal: Of the book value or the current capital?

K. Padmanabhan: Value at which it is going to be transferred, registered value of the property, so current market prices. Obviously it will be closer to the market price, because we would not like to transfer property at below market price.

Prakash Agarwal: May be the ready reckoner rate which the state follows and that.

K. Padmanabhan: Maintenance value exactly, it cannot be lower than that.

Prakash Agarwal: Second hurdle is basically the service tax you are talking about, unnecessarily you will end up paying extra taxes?

K. Padmanabhan: Transaction costs are very high.
Suneeta Reddy: You will also pay capital gains when you transfer.

Prakash Agarwal: Do we see a ramp up of your expansion plans in terms of more O&M and lease rental models or you would stick to your preferred capex model?

K. Padmanabhan: Some five or six years back thereabout, we had actually preferred the operation management model, but we have now decided that as far as Indian markets are concerned we will run the ownership model preferably through the leased route, but not the O&M operation management model within India, but outside of India we would look at running the operation management agreement which is what we are now concentrating on and we have several international projects that we are currently looking to do.

Moderator: The next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: I just wanted to check in terms of once we are done with expansion for the 1,000 odd beds that will probably come in by FY’14, how do you see the space expansion going thereon. Is it physically possible to assume that typical expansion level will continue to go up beyond that you will probably add more than 1,000 beds per year or 1,000 beds is something like a practically possible number that one can really operationalize in a year and beyond that starts becoming difficult?

K. Padmanabhan: I think there will be challenges and we will look at how we build our organization to manage the growth and it finally know it is a question of ability to manage growth which means getting the manpower, the doctors, etc. We do not believe that given our performance that capital will be a constraint, but certainly we will look at how we can make sure that by going after market share we do not sacrifice profitability.

Nitin Agarwal: The point is if we go beyond 1,000, because the one issue where investors are concerned is that actually we are in this persistent capex mode, which depresses the return ratios?

K. Padmanabhan: I think it will depend on the speed that which we are able to consolidate as we grow our business, if we are not able to consolidate our expansion plan then I think obviously we cannot grow our business as fast as we would like to do. So therefore we will have to look at how fast our investments are paid off and therefore whether there is enough investor’s confidence in us pursuing an even more aggressive growth strategy.

S. Venkataraman: Having said that our expansion plans will continue to be a fraction of our current portfolio and not as sizeable as they used to be when we started out.

Nitin Agarwal: So 1,000 beds or thereabout is like an optimal current expansion phase?

S. Venkataraman: We think so, could be in that order, but that is only a rough sort of guidance.

Moderator: The next question is a follow-up from the line of Bhaskar from CRISIL.
Bhaskar: Could you share the ARPOB and occupancy rate that is going in Bhubaneshwar?

S. Venkataraman: ARPOB is around Rs. 9,000 and occupancy is hovering between 70% and 75%, but we are continuously adding more beds, so next year we will be adding another 150 odd beds and I think the occupancy should be in the region of say 140-150 beds.

Bhaskar: Current year how many beds are operational?

S. Venkataraman: Close to 120 beds.

Bhaskar: What is the total capacity?

S. Venkataraman: 290.

Bhaskar: This 120 you said will move to?

S. Venkataraman: May be to 170, but technically we do not provide forward-looking statement but this is very rough guidance that we can give you.

Moderator: As we have no further questions I would like to hand the floor back to the management for closing comments.

Suneeta Reddy: Ladies and gentlemen, thank you for attending this conference. For those of you who have questions that we still need to answer you can contact us offline. K.K. is available for any other questions that you might have. Thank you once again.

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