Moderator

Ladies and gentlemen good day and welcome to the Q3 FY12 earnings conference call of Apollo Hospitals. As a reminder, for the duration of this call all participants’ lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today’s presentation. Should you need assistance during the conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Dhiraj Rajpal from CDR India.

Dhiraj Rajpal

Good afternoon and thank you for joining us on this call to discuss Apollo Hospitals’ financial results for the quarter and nine months ended December 31st, 2011. We have with us the senior management team.

Before we begin, I would like to mention that some of the statements made in today’s discussion 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 the investor presentation. We will start with Ms. Suneeta Reddy who will discuss the operational highlights for the quarter. Mr. Akhileswaran will then discuss the financial highlights and the progress of 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 emailed to all of you earlier and have also been posted on our corporate website. I now invite Ms. Suneeta Reddy to provide the key highlights of our performance.

Suneeta Reddy

Good afternoon and thank you for joining our call. We are pleased to share our performance which clearly demonstrates the strength of our business model. We have delivered a broad based and healthy revenue growth across all our businesses - healthcare services, standalone pharmacies and insurance. This has been accompanied by higher operating efficiencies and improved profitability. The standalone pharmacy business in particular continues to show expansion in margins enabled by our calibrated expansion with focus on profitability. While on the healthcare services front our new capacity addition in the last fiscal in Hyderabad, Secunderabad and Bhubaneswar displayed good growth reporting increased occupancy and patient inflows.

A look at our numbers shows that consolidated revenue has grown by 20.7% from `1,915 crore in 9MFY11 to `2,311 crore in 9MFY12. Consolidated EBITDA grew by 21.8% to `381 crore from `313 crore in the nine months of last year. Profit after tax grew by 28.4% to `170 crore.

Consolidated revenue for Q3 was higher by 19.5% at `803 crore. Consolidated EBITDA grew by 25.5% to `130 crore. The EBITDA margin improved by 77 basis points to 16.2%. A moderation in interest cost due to the re-payment one of our bank term loans and a write back of forex translation losses provided in Q2 and higher other
income primarily due to treasury income resulted in Q3 PAT of `60.5 crore which was nearly 55% higher than the PAT recorded in the same quarter last year.

On a standalone basis Q3 revenues grew by 19% to `715 crore. This was driven by a near 30% growth in revenues in the standalone pharmacies and 15% in healthcare services. Q3 EBITDA was higher by 25.5% at `118 crore and EBITDA margin improved by 87 basis points to 16.6%.

This was due to improved profitability in our standalone pharmacy segment as well as healthcare services. The standalone pharmacy EBITDA increased from `90 lakhs in Q3FY11 to `4.5 crore in Q3FY12. Standalone company PAT was up by 41.1% to `65 crore and the PAT margin improved to 9% from 7.6 in the same quarter last year.

As of December 31, 2011 we have a capacity of 8,276 beds across 51 hospitals. This consists of 5,888 beds which are owned by us either directly or indirectly through subsidiaries, joint ventures and associates and 2,388 beds which are located in managed hospitals. Of the 5,888 beds in hospitals owned by us, 5,374 beds are operational. Our expansion plan for over 2,860 beds has already been shared with you and is on track, when commissioned this will take our total owned beds to over 8,500 from the current 5,888 level. The number of owned hospitals will increase from the present 37 hospitals to 49 hospitals. The numbers have been made possible due to our continued focus on improving medical excellence by bringing together the best doctors and the best medical practices. Adoption of cutting-edge clinical technology to improve our outcomes and initiatives to incorporate multiple healthcare delivery formats further accentuate our offerings.

I shared with you in the last quarter. We have successfully introduced robotics in Chennai and Kolkata and plan to introduce it across multiple locations in India to provide cutting-edge clinical care and further augment our centers of excellence. During the quarter we launched the Apollo Institute of Robotic Surgery in Chennai in collaboration with the Vattikuti Foundation in the US. This facility will offer the ‘Da Vinci’ system, which is one of the most advanced forms of minimally invasive robotic surgery and is presently being used for treatment in areas of urology, gynaecology, bariatric and cardiac surgery. In doing this, Apollo has proved that we are not only good in adopting new technology but we have the capacity to attract and train surgeons who ultimately use this technology to provide better patient care.

We have also entered into an agreement with Titan Medical, US to test and evaluate their Amadeus Robotic Surgical System which is a forearm surgical platform which provides surgeons with enhanced surgical control and enables them to conduct remote surgeries. Apart from these, the RP7 robotic system used to treat brain stroke patients was introduced in our facilities. The system eliminates the need for the medical expert and the patient to be present in the same location by providing the medical practitioner the ability to control medical devices and transmit medical data from the patient’s location. We are keen to promote the increased use of robotics at our hospitals as these technologies offer significant benefits such as better quality of treatment, shorter hospital stays and better clinical outcomes.

In addition to our thrust on robotics, Apollo Hospitals has introduced the MRI guided high intensity fibroid ultrasound (HIFU) system, for surgery free treatment of uterine fibroids at our hospital in Delhi and Hyderabad. We have also conducted the first ever incision free endoluminal bariatric surgery in South Asia. This was conducted at the Third Annual Bariatric Surgery Conference in Chennai.

The introduction of HIFU and endoluminal surgery reflects exciting innovations in medical technology. These technologies allow for incision free procedures and less invasive surgeries which results in reduced complexities and higher success rates.
They also demonstrate the evolution in surgical techniques from open surgery to laparoscopic surgery and now incision free access.

As part of our retail expansion initiatives we are also rolling out a 100 sugar clinics across the country in the next 90 days. These will augment our existing clinics specializing in areas of child obesity, liver disease, strokes and heart disease. These clinics located in our hospitals will act as additional touch points for our network and augment preventive healthcare service delivery to our customers.

A quick word on some of our corporate developments – Apollo Hospitals, Chennai was ranked as the best private multi-specialty hospital in the country in a survey conducted in November 2011 by The Week-Hansa. In addition our hospitals in Chennai, Ahmedabad, Delhi, Hyderabad and Kolkata were ranked as the best multi-specialty hospitals in their respective cities. Many of the hospitals in our network were ranked in the top ten for expertise in specialties such as cardiology, oncology, orthopedics, nephrology, neurology and pediatrics, which has proved that our focus on centers of excellence is actually yielding results in terms of the public recognizing our superiority in these specialties. These recognitions are a validation of the strength of the Apollo brand and bear testimony to the quality of healthcare that we deliver in each and every one of our hospitals in our network.

We were honored by the presence of our Prime Minister Dr. Manmohan Singh for the inauguration of the REACH hospital at Karaikudi and are happy to state that the hospital has already begun witnessing steady patient patronage.

For the time being that is it from me and I would like to hand over to A. Krishnan, our CFO who will provide you with further details on our financial performance.

A. Krishnan

Thank you Ms. Suneeta. Ms. Suneeta has already provided an overview of the numbers and I shall quickly provide more details on our financial and operating performance. I would like to draw your attention to the standalone company numbers which are on Slide #9, this is part of the investor presentation circulated to you.

The revenue expansion plan remains healthy driven by a focused execution of our business plans. This is evident from the year-on-year revenue growth of 19% for Q3 FY12 and 20% for the first nine months of FY12. EBITDA was up 25.6% to `118 crore in the current quarter. The EBITDA margins have increased by 87 basis points to 16.6% primarily on the back of increase in inpatient and outpatient volumes in our new hospitals added in Hyderabad, Secunderabad and Bhubaneswar as well as increase in profitability from standalone pharmacies as referred by Ms Suneeta. Moderation in interest cost and an increase in other income has enabled faster PAT growth. PAT growth was a healthy 23.6% for the year to date nine months at `251 crore and in Q3 it was 34.7% up at `92 crore.

If you now turn to Slide #10 on our segment performance, you will see that the healthcare services segment grew 14.6% over Q3 last year and by 16.4% in the nine months. While operating beds capacity has increased to 5,374 beds over the nine-month period, revenue growth was also driven by strong volume growth, improved pricing and richer case mix due to focus on centers of excellence like cardiology, oncology, neurosciences, orthopedics, emergency medicine and transplant.

As the pace of new bed additions in FY12 has been lesser than in earlier years, the effects of increasing maturity in some of our emerging hospitals is also showing up in improved margins. There has been a contribution from higher patient volumes, improvements in case mix and a reduction in ALOS. The EBITDA margin in our health care services segment in Q3 FY12 was 23.2% demonstrating the strength of our delivery model. The EBITDA margin from standalone pharmacies has continued its gradual uptrend as our focus on improving operational efficiencies is paying off.
EBIT in healthcare services grew 19% in Q3FY12 and 16% in the first nine months of this fiscal. EBIT growth has trailed EBITDA growth due to increased depreciation on account of new facilities brought on stream. The standalone pharmacy segment has turned around to contribute a positive EBIT in Q3 as well as the first nine months of the current fiscal compared to a negative EBIT in the corresponding period in the previous fiscal. The EBIT margin in healthcare services improved to 18.8% in Q3 FY12 compared to 18.1% in Q3 last year. For the first nine months ended December 31st, 2011, the EBIT margin was steady at 19.1%. This resulted in an annualized ROCE of 18.2% compared to 19.9% in the first nine months of the previous fiscal. The ROCE held up despite an incremental capital employed of ` 430 crore due to investments in our new facilities at Hyderabad, Secunderabad, Bhubaneswar and Karaikudi which we expect to further improve over the next few months.

Now I will turn to Slide #12 which contains the key operating metrics in the Hospital business across clusters. Operating beds increased to 5,374 beds in nine months FY12. There was a net addition of 400 beds over the corresponding period last year which came about through the addition of new beds at Hyderabad, Bhubaneswar and Karaikudi. We also added 169 beds in our JV and subsidiary hospitals at Kolkata, Delhi, Ahmedabad and Bangalore.

Now if you look at the IP volumes, you have seen IP volumes increase by 6.2% for nine months ended FY12 compared to the same period last year which was led by the Hyderabad cluster which registered IP volume growth of 15.7% on a year-on-year basis. IP volumes in the Chennai cluster, however were flat due to impact of the State Elections in Tamil Nadu in Q1 of the current fiscal although Q2 and Q3 have shown an improvement in IP volumes, the overall number for the first nine months still marginally trails the previous fiscal. OP volumes again have been quite healthy across and if you look at it the total outpatient volumes have increased by 11.3% across the network.

On the occupancy front, overall occupancy was slightly lower at 70% due to an increase in the number of operating beds. The Hyderabad cluster reported an average occupancy of 577 beds in the first nine months of this fiscal compared to occupancy of 521 beds in the same period last year. Our standalone hospitals outside of Chennai and Hyderabad also performed well with Bhubaneswar reporting occupancy of 136 beds - 71% utilization compared to 74 beds in the same period last year. Increased volumes and an improvement in overall case mix has enabled healthy increase in IP as well as OP revenues at all our major clusters. Total ARPOB, which is an important metric that we track, across our network increased by over 11% with Hyderabad displaying a higher growth of 14% due to richer case mix and others due to addition of Bhubaneswar.

Slide #16 captures details of our expansion plans for FY12 to FY15 totaling to 2,860 beds across 12 hospitals. The total funds required for these projects is in the range of ` 1,860 crore of which Apollo’s share is approximately ` 1,650 crore. Of this we have already invested ` 225 crore and also have a cash balance of over ` 400 crore from our QIP and promoter warrants conversion. The balance will be around ` 1,000 crore will be funded through a mix of internal accruals and debt. That is it from me. I will now request Mr. Padmanabhan to talk about standalone pharmacies, health insurance and Apollo Health Street.

K. Padmanabhan

Thank you Krishnan and good afternoon everyone. I will quickly walk you through the performance of other businesses in our portfolio. The revenues in the standalone pharmacy segment have grown around 30% from ` 176 crore in Q3 FY11 to ` 225 crore in Q3 FY12. The revenue growth continues to be driven by 1) higher same stores sales as well as 2) expansion in our network of pharmacies.
For the nine months period too, revenues grew by about 30% to ` 623 crore. It is also important to note that along with our improved revenues we have also been able to improve our profitability and have achieved marked improvement in our EBITDA. EBITDA has improved from ` 90 lakhs in Q3 FY11 to ` 4.5 crore in Q3 FY12 and our current EBITDA margin in this business is around 2%. We have been able to achieve this due to 1) consolidation of operations in mature pharmacies, 2) closure of un-remunerative outlets 3) an increase in expansion of private labels and 4) reduction in operating costs.

For 9MFY11 EBITDA which was under ` 1 crore has grown to about ` 10.6 crore in 9MFY12. The EBITDA which was neutral in 9MFY11 has turned to a 1.7% in positive EBITDA in 9MFY12. The EBITDA expansion in standalone pharmacies segment is due to a clear focus on profitable growth to calibrated store additions and expansion in the overall private label product focus in this segment.

We are carefully monitoring the profitability per store and are willing to close down stores which are unprofitable at the EBITDA level. At the same time we are opening stores in newer locations to ensure that we continue to meet our object about expanding our network and also there has been a steady improvement in EBITDA which validates our strategy of re-allocating resources to optimize our pharmacy industry network. In Q3 we added 40 new stores on a gross basis and closed 7 stores resulting in a net addition of 33 stores. For the nine months ended FY12 we added 182 stores and closed 91 for a net addition of 91 stores.

The Slide #14 of our investor presentation contains details of our operational performance of the standalone pharmacies. We have split our network into three categories. Ones that are the prior to 2007 and those which opened after 2008 and the newer stores. It is clear from the three year pie 2007 batch which represents the mature category of stores, continue to demonstrate stable growth in revenues due to the mature revenue base and these stores have posted substantial gains in EBITDA as most of the contributions from incremental revenues flow through to the EBITDA. For Q3FY12 revenues per store grew by about 12.3% but EBITDA per store nearly doubled by 24.4%. These matured stores also constantly increased the bar on sustainable EBITDA margins for this business and it stands currently at 5.8% for Q3FY12 significantly higher than the 5% that we had forecasted for mature stores sometime back.

The FY2008 batch of stores represents those stores that are at the mid maturity level and were opened subsequently. These stores are not as matured as the earlier ones; the EBITDA margins are improving but are yet to reach the levels of matured stores. As you will see the revenue growth has still been healthy for them at about 22%. To sum up our standalone pharmacy business as a whole is performing extremely well and constantly improving both revenues and EBITDA per store. As on December 31st 2011, we have a pan India network of 1,290 stores and we remain confident in the long-term prospects of this business, as well as the strategic relevance to our overall operations.

Apollo Munich Health Insurance has recorded a gross written premium of ` 252 crore in the nine months of this year which represents a growth of 87% over the same period last year. Earned premium has more than doubled from ` 107 crore to ` 232 crore in 9MFY12. Losses at the EBITDA level have declined to 17.3% in 9MFY12 compared to 62% that we had in 9MFY11. The incurred claim ratio has improved to 61% for 9MFY12 as compared to 68% from the last year.

Apollo Health Street which is our BPO company reported an increase of 12.7% in income from ` 328 crore in 9MFY11 to ` 369 crore in 9MFY12. EBITDA has grown 21.6% to ` 56 crore and EBITDA margins has expanded 111 basis points from 14.1%
to 15.2% for the current year. The improvement in EBITDA was driven by improved realization due to currency headwinds and well as focus on cost control. We see an improvement in the operating environment in the US and the market is showing signs of stabilizing. The strengthening of our sales engine in the earlier quarters has worked well for us and we are beginning to see the traction in revenues once again.

To conclude, we are pleased to report growth & improved operating metrics in the non-hospital business, we are focused on growing these businesses further and believe that each of these businesses will add value which is why we are a step apart of our integrated healthcare business model.

This is it from me and we are ready to take your questions.

**Moderator**

We will now begin the question and answer session. The first question is from the line of Kaustav Kakati from PUG Securities.

**Kaustav Kakati**

Of the 15% growth that was there in the hospitals business, how much of that would have come from mature facilities and how much of that would have come from the new beds?

**A. Krishnan**

We would not have the split off hand but if you look at Slide #12, we provide details by cluster and if you look at the clusters, for e.g. in the Hyderabad cluster the number of beds are available and we have gone ahead from 800 beds to 930 beds. If you look at the revenue growth, the revenue growth has still been faster than the bed additions that we have done in the nine months period. So by cluster this is how we provide that information and that is available on Slide #12.

**Kaustav Kakati**

Okay fine I will use that.

**Suneeta Reddy**

Our outpatient, the volumes are also there. So the 25.5% increase in volumes in Hyderabad, 11.3% in outpatients in Chennai.

**Kaustav Kakati**

At Chennai in patient volume you said was primarily affected because of the elections in the 1st Quarter.

**Suneeta Reddy**

Yes, and a bit of seasonality that occurs.

**K. Padmanabhan**

It would be right to say that the bulk of the 15% would have been accounted only by the mature hospitals. Even in Hyderabad although there has been an addition of 500 beds, the actual turnover increase from the newer beds is still to come through and, therefore, a large portion of our revenue growth is still coming from mature hospitals. When I am talking about mature, I presume that you mean hospitals which are more than two years old.

**Kaustav Kakati**

One other question is basically when you talk about operating beds, the 5,174 number that you have given, are those only your owned beds or does it also contain some of the managed beds?

**A. Krishnan**

That is only our owned beds.

**Kaustav Kakati**

One last question that I had was, your tax rate had gone down by about 260 odds bps year-on-year, any particular reason for that?

**A. Krishnan**

One of the important thing that we get from this fiscal the 35AD, the benefit of which is available for our new hospitals, so wherever the new hospital is above 100 beds we get the benefit of 35AD, wherein we do not have to pay upfront we get the accelerated depreciation in the year of capitalization. So that is one benefit that we have. And
overall if you look at it there are certain other accounting steps taken which is also resulting in the tax rate being a bit lower.

**Kaustav Kakati**

Lastly, you said that you have currently about 400 crore from the QIP and warrants conversion and you have already done about 220 crore odd of capex. So the remaining 1,000 crore odd you are saying is going to be a mix of debt and internal accruals or is there going to be further equity dilution?

**Suneeta Reddy**

There will not be any further equity dilution. I think we have adequate capital for our expansion, for what we have planned for the next year. So it will be internal accruals. Some amount of debt at a later date.

**Kaustav Kakati**

So could you just give us a sense of what kind of target that you have for debt going forward in the next couple of years?

**Suneeta Reddy**

Probably about `400 crore.

**Moderator**

The next question is from Kashyap Pujara from Enam.

**Kashyap Pujara**

Basically I have just a couple of bookkeeping questions purely on the capacity front. If you look at your total operating capacity as stated in the first page it stands at 5,374 and the operating performance it stands at 5,174. Even I think in the last period there was a difference of these 200 beds. So just wanted to come up to speed as to what is this difference pertaining to?

**A. Krishnan**

It is the Mauritius facility that we are managing. So that is not part of this.

**Kashyap Pujara**

That is the Apollo Bramwell which is left out in this?

**A. Krishnan**

That is correct. It is moved to an operations and management contract now.

**Kashyap Pujara**

Now from this 5,174 I assume that this now shows all JVs subs as well as associates, right?

**A. Krishnan**

That is correct.

**Kashyap Pujara**

So I strip my associates off, which means if I remove my Apollo Indraprastha Medical at Delhi and Noida that would be around 748 beds, if I am not mistaken?

**A. Krishnan**

Yes.

**Kashyap Pujara**

I would be removing Lavasa also which is around 67 beds?

**A. Krishnan**

Yes.

**Kashyap Pujara**

So total it would be 800 beds that I need to minus out to arrive at the number without associates?

**A. Krishnan**

You are right, for associates it will be Lavasa and Delhi that is about it.

**Kashyap Pujara**

I am having trouble tallying my prior period number because if I look at YTD December 2011, it is 4,770 operating beds versus the same period it was reported about 3,000. So there is a difference of 1,700 then, which is now looking like 800. So just wanted to understand if you could help me restore this?
A. Krishnan

Kashyap, I would request you to take it off-line. If you recollect what had happened was till last time we were not including associates, as part of these numbers, investors had specifically requested us to provide associates as well because Delhi is an important number in this. So it was based on investor requirement that we added it. If you want the break-up of this 1,844 number which is represented by the Subs, JVs and associates, the exact break-up can be provided by Krishnakumar off-line.

Kashyap Pujara

So I will take this offline. This is more pertaining to the way I am modeling it, so I have been modeling it based on what your earlier numbers were like. I will take this conversation off-line.

Moderator

The next question is from Krishnakiran Konduri from ICICI Direct.

Krishnakiran

Just one for clarification, some forex write back was taken during this quarter. In the opening remarks Suneeta was telling about this. It is during this quarter or it was Q1 or Q2?

A. Krishnan

There was a `3 crore write back in this quarter and that was specifically because we had provided for `3 crore in Q2 and subsequent to that there was a change and there was a revised guideline under Para 46(A) of Accounting Standard 11 which had come from the MCA and we made use of that, wherein the forex translation, impact, we do not have to now take it to the P&L.

Krishnakiran

Can I have other income break-up? We have seen a sharp increase in other income?

A. Krishnan

Other income has basically increased because of treasury income, it was from Q3 of last year to Q3 of this year, the predominant increase is because of treasury income because we have a cash and bank balance of almost `400 crore.

Krishnakiran

Just want to continue on the capex side. We are expected to spend around `1,000 crore. Anyway promoter warrant conversion maybe `160-170 crore. So our net level on consolidated basis, is it `400 crore, replying to a previous question, is it fine?

K. Padmanabhan

Yes. This `1,000 crore is over a period of up to 2017 as it stands now.

Krishnakiran

What would be the tax rate for FY13?

A. Krishnan

It will be a similar tax rate. Our current taxes though will come down but our deferred tax will go up, so our tax rates would still be at the same tax rates - 33%.

Krishnakiran

Can you provide us an average occupancy rate for the quarter, over all the Apollo standalone Hospitals?

Suneeta Reddy

The occupancy rate is in the region of 70%.

Krishnakiran

What would be the corresponding previous number?

Suneeta Reddy

73%.

Krishnakiran

This is more kind of additional beds, right?

Suneeta Reddy

Yes, it is on a larger bed base.

Krishnakiran

How does this number stand for ARPOB?
Suneeta Reddy
ARPOB has significantly gone up. It is there on Slide #12.

A. Krishnan
Almost around 11%, from around `18,000 to `20,000.

Krishnakiran
Coming to the pharmacy business, can we look at EBIT margins sustainable on this pharmacy business, may be 1% or what we have seen during the quarter?

K. Padmanabhan
Currently the EBITDA margin is running at 2% for Q3 FY12 and as I mentioned to you the sustainable EBITDA margin for this business on a long-term basis can be significantly higher than what we are currently achieving in the overall pharmacies, it could get closer to the mature pharmacies.

Krishnakiran
How many beds would be added in the Q4 and overall FY13? In the presentation it is more like FY12, FY13, so Q4 and FY13 overall how much would it be? If you can in Q1, Q2, Q3, Q4, how many would be added?

A. Krishnan
Predominantly, they are going to be added only in FY13, that is around 600 beds, that is what we are going to be adding in FY13, Ayanambakkam which is the suburb in Chennai that will be almost by around September, October. We could have Trichy which would go on stream by end of December FY13. But as Mr. Padmanabhan said we already have a lot of beds which we are still pushing for growth from a perspective of the new beds added in Hyderabad, Bhubaneshwar, etc. Still if you look at it there is a lot of headroom for growth because even Hyderabad at this point in time the occupancy is 64% and they are still are approximately around 400 odd beds that we can still put to use over the next few quarters.

Suneeta Reddy
Not only in Hyderabad, but Bhubaneswar and Calcutta where we are adding beds so there is plenty of room for growth.

Krishnakiran
While coming to Hyderabad just reading the papers we have seen there are discrepancies in government hospitals. I know it is not much benefit to our company but have you seen any slight improvement because of these discrepancies of doctors at Hyderabad in the government hospitals, has the footfall increased? In-patient volume has increased because of anything of that sort?

K. Padmanabhan
Definitely there has been some increase but we cannot actually quantify how much.

Krishnakiran
Have you seen a good improvement within our REACH hospitals that is what my question pertains to?

K. Padmanabhan
Yes.

Moderator
The next question is from Perin Ali from Edelweiss.

Perin Ali
My first question is on the pharmacy front, now you have already expanded EBITDA margins by 155 basis points and you said that a large portion of it is also because of private labels. So could you tell me how much as a percentage of overall pharmacy business is from private labels versus the corresponding quarter or corresponding year?

K. Padmanabhan
Currently it is running at about 3% to 3.5% of top-line. It was 1% last year this time.

Perin Ali
What could be the target sales from this business going forward?

K. Padmanabhan
I think it is still under a development stage, I cannot put a number to this at this point of time. But all I can say is it depends on the speed at which we are able to develop more and more items in the private labels. We are making sure that we have the sales space
available to accommodate these private labels by redesigning some of our source but we are also very clear that the private-label will be a cutting-edge of businesses in terms of being able to differentiate with other pharmacy chains. So, yes, it is a strategic focus for us.

Perin Ali
The incremental question is that do you at least 100 basis point kind of expansion over the current level of 2% in the next year, is there a target which management has in mind for the pharmacy business?

K. Padmanabhan
You can look at how we have improved our EBITDA percentages over the last year and year-and-a-half and we will continue to put every effort to do that. I cannot give you a number of what will be the improvement. It will be significant.

Perin Ali
My second question is on the subsidiaries and JVs, the three major hospitals, Ahmedabad, Kolkata and Bangalore. If you could share your operational beds in each of these hospitals, if there has been additions also in this quarter?

Suneeta Reddy
Bangalore EBITDA has grown by 37%, Ahmedabad by 27%.

A. Krishnan
In terms of beds Ahmedabad has 230 beds as compared to 210 in the last year. Calcutta has 500 beds compared to 425 beds last year and Bangalore has around 246 beds as compared to 236 beds last year.

Perin Ali
Incrementally, the EBITDA margins if you separate out the consolidated and the standalone, shows a slight decline in margins on the subsidiaries and JVs. Is it due to the incremental bed additions or is there something else which I am missing in this?

A. Krishnan
There will be nothing specific other than that because Calcutta has performed well, Ahmedabad has performed well as well as Bangalore also.

Perin Ali
I see little bit margin decline, at least 50-60 basis points if you separate out the consolidated and the standalone numbers which will be left out largely with subsidiaries and the JVs which are mostly into these three hospitals. So that is why I just want to understand what is driving the decline in margins in those?

Suneeta Reddy
In Kolkata we receive an OMA fee for the use of our name, so that actually kicked in only this year when it reached a certain level of profitability.

A. Krishnan
That’s kind of coming from the consolidated to the standalone so at the consolidated level it is the same. It is just that there is some shift of EBITDA from consolidated to standalone.

K. Padmanabhan
But at the operating level all these have performed better than the standalone.

Perin Ali
In terms of EBITDA margins, right?

K. Padmanabhan
In terms of everything, yes.

Moderator
The next question is from Princy Singh from JP Morgan.

Princy Singh
My question is on Chennai, if I understood correctly the flat volumes on the in-patient numbers for Chennai are attributed to the elections in Q1. So just wanted to get some sense, how are the volumes looking now and what is the expectation on volumes picking up going forward and is there anything besides the impact of elections which is driving this slowdown in volume growth?
Suneeta Reddy: I think Chennai the volume in last quarter was definitely because of combination of elections and a little bit of seasonality because in December people choose not to do an elective surgery. But we are looking at much better numbers in January and there is definitely traction.

Princy Singh: What is the expectation, if you can share any on the occupancy rates in Chennai picking up over say, next one or two quarters?

Suneeta Reddy: It is actually very difficult to predict except to say that we are quite confident that it will be much better than the 3rd Quarter.

Moderator: The next question is from Ravi Dodhia from CRISIL.

Ravi Dodhia: One is on the Hyderabad cluster, if you look at Q-on-Q occupancy it has kind of declined marginally from 64% to 62% and also the result was visible in the lower revenues in the 3rd Quarter on Q-on-Q basis. So just want to understand this is mainly because of seasonality?

A. Krishnan: This is predominantly because of seasonality.

Ravi Dodhia: Because occupancy was down by only around 2%. My other question is with respect to this pharmacy business, I want to understand your management outlook on pharmacy stores addition going forward say over the next one year and also on the mature pharmacy stores we have looked at margins on the higher side but at somewhere near 6%. So what more upside can one expect from the EBITDA margins in mature stores?

K. Padmanabhan: Mature stores I think are at about 5.8%. I would only say that any improvement in EBITDA margins will largely come only from a change in product mix towards private labels. I do not see more operating efficiencies or leverage coming from mature stores at this point in time. The real upside is in terms of when the other stores can catch up to the mature level in terms of EBITDA margins. Significant portion of our pharmacies are still at negative EBITDA. So we are hoping that this will actually move closer to the EBITDA margins that the mature stores are enjoying in the years to come.

Ravi Dodhia: Even though from this white label goods, EBITDA margin expansion will be another 50 odd bps, right?

K. Padmanabhan: It depends on what is the mix of private label, it can be quite significant depending on what is the level of private label. Currently as I mentioned to you it is just 3.5%, I think on a long-term basis we are looking at taking it to at least 10%.

Ravi Dodhia: What will be margin on these white label goods?

K. Padmanabhan: Significantly higher, very much higher in the order of about 60-70%.

Ravi Dodhia: What is the management's viewpoint in terms of adding new pharmacy stores?

K. Padmanabhan: We are adding around 100-150 net new stores every year at least over the next three years.

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

Nitin Agarwal: Just a couple of questions on the Chennai cluster. If you actually look at the Q3, if I have got my numbers right, there has been a pretty sharp decline in occupancy both in Chennai as well as Hyderabad. At the same time we have seen ARPOBs going up fairly materially in both of these clusters. So what exactly has really happened, is it because we have increased prices and all which has impacted growth to an extent?
Suneeta Reddy: The occupancy, like we said earlier, in the third quarter is mostly because of the fact that there were elections, people could not travel. The second is, of course, seasonality. December we do have people taking vacations and theatre shut downs. So that primarily is the reason why it is a little bit lower.

Nitin Agarwal: Because even on a YOY basis the occupied beds seem fairly low in Chennai. There is a pretty sharp decline on a YOY basis also. The seasonality would have been nullified on account of that.

A. Krishnan: If you look at the admissions, the admissions would not show that much of a drop because the ALOS has also come down. So if you look at the occupancy you might be right but if you derive the admissions, admission would not have seen such a drop.

Nitin Agarwal: Because even in terms of the inpatient volumes also on a YOY basis, there is a decline each year number.

A. Krishnan: Last year to this year there is no decline actually in Chennai. We can connect after the call.

Nitin Agarwal: Secondly, on the dental care, you highlighted some sort of a JV that you have got into. If you can probably share some more plans, how you are looking to scale up this business?

Suneeta Reddy: Actually what we are doing is incubating the model in Chennai but currently we have about 12 dental care centers. We are upgrading some into what we call dental spas where patients would have access to all dental procedures. Then we have dental clinics which would do pretty much which is something that is standardized and dental express which would be at shopping malls, etc., that would actually feed into the spas and the clinics for more critical work but this is really part of our retail foray and we have already made a beginning in the dental space but we realized that the potential is far greater and we have the ability to attract dentists because it is one area that is growing at a large pace. People are becoming more aware of it. So we do have a strategy that we are working on to actually grow the retail dental space but I can give you more details on that maybe in the next quarter.

Nitin Agarwal: How does it work, is it going to be a capex intensive model for us when you say you are going to put up 100 clinics, so does Apollo put up all the capex on these clinics?

Suneeta Reddy: Well, it is a joint venture where Apollo owns 51%. It would again be funded by both debt and equity. I do not think the capex involvement right now is looking extremely large and it is something that we can handle but like I said we would commit to figures only next quarter.

K. Padmanabhan: But basically that business would be able to significantly fund it on its own, so it will not require any funds from the parent.

Suneeta Reddy: Yes, and all the infrastructure is on a leased basis.

Nitin Agarwal: How are our plans for the daycare surgery centers shaping up?

K. Padmanabhan: We have started one daycare center in Chennai.

Suneeta Reddy: It is breaking even right now but we believe that with time it should get far better than this. Capacity right now we are doing only 25% of capacity but it is improving.

Nitin Agarwal: But how do you see the progression in terms of scale up of this whole initiative given the experience?
K. Padmanabhan  That is why I mentioned to you that we just opened the first pilot a few months back in Chennai. We are actually polishing the edges as far as this model is concerned before we scale up. We think there is great potential for day care centers so that it relieves the pressure from the main hospitals for beds. After we have got this model right I think over the next year or so we plan to open another three of them.

Suneeta Reddy  I think in March we will have a complete detailed strategy ready which will include dental centers, day care centers and the expansion of the clinic model. So till then we are not in a position to give you too much about capex, utilization, except to say that we are studying the model, we are testing the model with these centers and we will have a better perspective for you in March.

Nitin Agarwal  Lastly, we have seen some of your peers actually going fairly aggressively in the renal care and standalone diabetics sort of clinics. So what are your thoughts on that. Do you think that is a viable space and are you guys looking at that?

Suneeta Reddy  We have told you that we are adding the sugar clinics, right now what we have done is that it is in-house, meaning it is within our premises, the hospitals and the clinics that we have. We currently have 100 clinics as well. So in the clinics and in the hospitals we are putting up sugar clinics because we believe that there is a huge growth to the diabetic population in India and it is cater to those and it will also act into the feeder into the main hospitals. The standalone dialysis centers we have about seven. All of them are functioning well. It will be part of the retail strategy which I said we will elaborate on in March.

Moderator  The next question is from Nitin Gosar from Religare AMC.

Nitin Gosar  Just wanted to understand the private label strategy, how does it go? You try and alternate the product to a patient only for prescribed one or for the non-prescribed one? How does it really work like?

K. Padmanabhan  Private labels are mostly only generic. They are not in prescription what we are currently doing and they are not necessarily in medicines they are also related products like healthcare products, it could be things like as simple an item as Band-Aids, even fruit juices, etc. So there is a wide range of private labels but they are in the non-prescription area.

Nitin Gosar  Second, just wanted to understand the PAT level losses that are visible on the Apollo Health Street wherein EBITDA has been quite robust. What would be the reason out there?

K. Padmanabhan  It is because of the higher financing cost. You are talking about Health Street, right?

Nitin Gosar  Yes.

K. Padmanabhan  PAT I thought. It is because of higher interest financing cost that this business had and also the PAT that we had a one-time litigation cost that we wrote off.

Nitin Gosar  Just wanted to understand the retail strategy that is the pharmacy chain. What would be the critical size or when it would be the appropriate time for you to bring in an external partner to fund the growth out there?

K. Padmanabhan  Basically we have mentioned that Apollo’s strategy when you look at Apollo two or three years from now, we will be predominantly a health care delivery player. All other businesses we will look at how we can unlock value to enable the healthcare delivery business to grow. So when you talk about unlocking value, we are talking about when valuations are right. When valuations are right and when there is more clarity on FDI
and retail, I think will be the most appropriate time for us to extract value out of these businesses.

Nitin Gosar

So again for you the FDI policy will be a crucial factor to move ahead.

K. Padmanabhan

It could help in getting better valuations.

Moderator

The next question was pertaining to the sugar clinics that you guys are planning to launch around the country in 90 days. So what all geographies are you planning to look at and has it already begun or what is the strategy?

Neha Malhotra

My question was pertaining to the sugar clinics that you guys are planning to launch around the country in 90 days. So what all geographies are you planning to look at and has it already begun or what is the strategy?

K. Padmanabhan

Basically the sugar clinics are really to help the main hospital business. They are our marketing tool for the main hospital business and they have a very insignificant capex outlay and most of them would be set up in our existing clinics and in our hospitals and, therefore, setting up 100 actually could take very little time with little investment and they would come up in the metro cities.

Moderator

The next question is from Vikash Singh from B&K Securities.

Vikash Singh

I just want to understand one thing, if we are talking about the seasonality effect, if we deduct the YTD December number from the Q2 till first half numbers, we will see there is no growth in the Chennai cluster, whereas there is 20% growth in inpatient volumes in the Hyderabad cluster which can be primarily attributed to 15% of growth in the beds but still it has outperformed the number of beds growth. So I just do not understand why the Chennai cluster was stagnant?

K. Padmanabhan

The seasonality does not run across all locations in the same time. For example, the seasonality in eastern zone is different from that of the southern zone. And the seasonality of Tamil Nadu is different from that of Andhra Pradesh.

Vikash Singh

So going forward we can expect some improvement in inpatient as well as outpatient volumes in the Chennai cluster?

K. Padmanabhan

You will see it in the next quarter.

Vikash Singh

One more question, why our interest expenses here are so low this quarter?

A. Krishnan

We have repaid some term loan of around ` 75 crore this quarter because it was high interest rates based on the QIP funds that we had and also as we had said during the call, there is a reversal in Q3 for the ` 3 crore that we have provided in Q2 for the forex translation.

Moderator

The next question is from Princy Singh from JP Morgan.

Princy Singh

One follow-up on these clinics that you are proposing, are they all going be owned by Apollo, or are we looking at any franchisee models?

Suneeta Reddy

No franchisee models, they will be owned by Apollo but they will be on a rented premises. They will all be on leased basis. Are you talking about the clinics or the dental clinics, which clinics are you talking about? Sugar?

Princy Singh

Yes, that is right, the sugar clinics.
Suneeta Reddy: The sugar clinics will be based in the existing clinics and hospitals. So there are no separate standalone sugar clinics that we are planning right now.

Moderator: The next question is from Bhagwan Chaudhary from India Nivesh Securities.

Bhagwan Chaudhary: A follow-up, can you elaborate more on this sugar clinic side. What kind of business model will we have for this?

Suneeta Reddy: The sugar clinics is really to focus on diabetes. It is one of the initiatives that we have planned. They will be located within the hospitals and in our clinics. Primarily what they will do is to send referrals into the main hospital.

Bhagwan Chaudhary: Particularly it is for diabetic patients.

Suneeta Reddy: It is going to be a kind of OPD service?

K. Padmanabhan: Yes, it is OPD.

Moderator: The next question is from Ravi Dodhia from CRISIL.

Ravi Dodhia: I want to understand this cash and cash equivalent balance of around `437 crore odd which is there at the end of the quarter. When will this cash be deployed for your capex plans and any repayment debt has been lined up in the near term?

A. Krishnan: It would be deployed over the next one year. No specific reduction in debt at this point in time that we have planned.

Ravi Dodhia: So debt levels from the current levels, we will not see any decline going forward?

A. Krishnan: Nothing that we have, at this point in time, planned.

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

Perin Ali: Just want to understand why the outpatient volume growth was low in the new hospitals. I see the outpatient volume growth has been only 5% overall in the new hospitals although there are certain new hospitals which we added in the last 12 months. Just want to understand is there any concern over there?

A. Krishnan: You are talking of the other clusters or what is it?

Perin Ali: Yes, the other clusters.

A. Krishnan: The other clusters if you look at it the outpatient revenues have gone up by almost around 29%, that is because the outpatient volumes are only the new registrations. Last we had given that we had Bhubaneswar which was operationalized. Typically in the first year we have a lot of new admissions and then new registrations and then the next year we have all of them coming in mostly as repeat. So repeat volumes actually have been very good in Bhubaneswar, Madurai and Bilaspur, and this is also good for us, and which is why if you look at the outpatient revenues that is very healthy at 29%, that does not reflect in our new registrations.

Moderator: The next question is from Jiten Doshi from Enam Asset Management.

Jiten Doshi: A couple of questions, one is, are you looking at inorganic growth over and above the schedule that you have given us for your expansion plans in all the regions?
Yes, we are always looking at opportunities that might exist in cities where we don’t already have a presence. And, of course, when we make an acquisition it has to be at a price which is accretive and at an ROCE that the company has set its standard to.

So basically at this moment the capex that you have projected is basically all the plans that are there plus over and above that there could be further inorganic initiatives?

Certainly there could be.

What is the comfort level you are derive in terms of your debt-equity where you all look at dilution of equity?

I think debt equity while we can live with 1, 0.6 - 0.7 is the more comfortable space to be in.

But why would that be, because your return on equity numbers are not coming very great, why would you not look at leverage of at least 1.5 to 1, because your return on equity numbers are consistently not showing that kind of…. despite having a superior business, why would you not leverage further?

Because the company is continuously growing. Every three years we have actually expanded capital because of growth, we have grown from 2,000 beds we are already fully funded to add 8,500 beds. That is the primary reason why return on capital is not growing at the same pace. The second is, the bed addition in this time have become slightly more expensive than they were historically. So these are I believe two reasons why return on capital employed has been depressed.

But also the fact that this is a capital intensive business and because the paybacks tend to be a little longer than normal, we have tried to use a different mix of debt-equity. While I agree that return on equity can improve with a greater leverage, it is also on the basis of that we will have to take a lot of short-term hits. At this point of time it is a general call of investors also, that we have a better balance between debt and equity which is why Suneeta was talking about somewhere in the range of 0.6:1.

Yours in the only model in which we are seeing you have not gone even into one to one and your interest cover is very comfortable so why would you not explore that option rather than constant dilutions. I think this is something the management needs to really look into.

Yes, I think it is something that we are definitely looking into. But in the current interest rate regime I believe that we feel confident that we are adequately funded to set up these new 2,500 beds which I think is our first priority.

What is our outlook, let us say medium-term for both the joint ventures that is Apollo Health Street and Apollo Munich. Are we looking at some sort of a dilution there in stake in the next two or three years?

As far as Apollo Munich is concerned we hold about 10% stake and we will continue to hold that 10% stake.

And since the company is planning to breakeven next year I think it is a good position to be in.

What would your contribution be this year in Apollo Munich?

Liquidity infusion would be 5 crore.

That is all?
K. Padmanabhan  Yes.

Jiten Doshi  What about Apollo Health Street?

K. Padmanabhan  Health Street there has been no capital infusion now for about 3-4 years. Currently we own I think close to about 42-43% and there would be no further capital infusion either. We would be looking at getting strategic partners into this business very quickly.

Jiten Doshi  So that is on the cards?

K. Padmanabhan  That is right.

Moderator  Ladies and gentlemen that was the last question. I would now like to handover the floor to the management for closing comments.

Suneeta Reddy  Ladies and gentlemen, thank you very much. Krishnakumar is always available for any offline questions if you might have and we look forward to your enthusiasm and participation. We will reach out to you again in March.

Moderator  On behalf of Apollo Hospitals that concludes this conference.