Ladies and gentlemen good day and welcome to the Apollo Hospitals FY11 earnings conference call. As a reminder for the duration of this conference all participants’ lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. 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.

Thank you Melissa. Good morning and thank you for joining us on this call to discuss our financial results for FY2011. We have with us the Senior Management Team of Apollo Hospitals Ltd.

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 of such risks and uncertainties please refer to the investor presentation. We will start with Ms. Suneeta Reddy who will discuss the operating highlights for FY11, Mr. Krishnan Akhileswaran will then discuss the financial highlights and capex 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 would now invite Ms. Reddy to provide key highlights of our performance.

Thank you and good morning to all of you who have joined our call. It has been an excellent end to the year FY11 at Apollo Hospitals. We have reported strong growth on both a standalone as well as on a consolidated basis. Before discussing the financials highlights, I would like to mention some of the key operational highlights.

Our consolidated annual revenues have crossed the landmark of Rs. 25 billion. We have ended the year with 54 hospitals which have a bed capacity of 8,717 beds of which over 5,800 are owned beds and the balance are managed beds. As of March 31st, 4,665 beds are operating beds. During the last 15 months we have added 700 beds across our
hospitals in Bhubaneshwar, Hyderabad, Karaikudi, Lavasa, and Secunderabad. We are among the largest healthcare groups in the World on the basis of existing capacity.

We conducted our 1,000th tissue transfer surgery in April. Additionally, Apollo Hospitals New Delhi crossed the milestone of 500 liver transplants in February, 2011. Apollo Chennai has completed a 100 liver transplantation surgeries, crossing a milestone in the group’s own performance, as well as in the larger context of the State and National Transplantation Program. We have performed over 775 organ transplants for the year 2010, and we are pleased to share with you that we are among the worlds’ busiest Solid Organ Transplants Program in the world. The increasing volume and complexity of treatment indicates a high level of trust in our abilities and the trust that we receive from patients around the world.

We have always maintained the clinical excellence is the backbone of Apollo and integral to our brand. This is apparent from the fact that surgeons at Apollo are committed to doing the most innovative surgeries that you can see in India. Among them surgeons at Apollo Hospitals conducted a hip resurfacing program using the iPad for navigation which increased the effectiveness of the surgery. A rare cosmetic surgery was performed in Dhaka for the repair of Atrial Septal Defect. We had an Iraqi patient last quarter who came to us with Cervical Dystonia and after visiting various hospitals in Europe and Middle East with no success. Doctors in Apollo Chennai conducted a deep brain stimulation, which has enabled significant progress towards his treatment. This is only the second such surgery to have been conducted in our country.

We have also invested in new technology during the quarter with the inauguration of the Full Field Digital Mammography at Apollo Speciality hospital. The equipment is the first of its kind to be installed in South Asia and will help us offer the latest treatments for breast cancer. We have also set up East India’s first dedicated comprehensive Bone Marrow Transplant Unit which was inaugurated at Apollo Gleneagles Cancer Hospital.

I would also like to introduce our new CFO to you, Mr. Krishnan Akhileswaran. I am sure some of you have already interacted with him. Mr. Venkatraman who has been with us for many years, has now been elevated as our Chief Strategy Officer and I am sure that his years of experience would contribute to defining Apollo’s new strategy.

Coming to the financial performance for the year, our consolidated revenues were higher by 28.6% at Rs. 26 billion. Consolidated EBITDA was higher by 39% at Rs. 4.2 billion. The EBITDA margin improved from 14.9% in FY10 to 16.1% in FY11. This has come because of strong growth in core operations as well as improved performance in our retail pharmacy segment. PAT was higher by 33.7% at Rs. 1.8 billion.

On a standalone basis our revenues were higher by 27.7% at Rs. 23.3 billion. Standalone revenues include hospitals, retail pharmacies, and consulting. Standalone EBITDA was higher by 34% at Rs. 3.7 billion and the EBITDA margin improved 76 basis points to 16.2%. Standalone PAT was up by 19.5% at Rs. 1.8 billion.

Our Board of Directors has recommended a dividend of Rs. 3.75 per share on the now split face value of Rs. 5 per share.
We continued to deliver strong performance this fiscal as well as in quarter 4. We are able to deliver this growth in our hospital services from our existing facilities, which are mature facilities because of better operating metrics and asset utilization as well as larger volumes which have started to show in our new hospitals. Further, our businesses like the retail pharmacies as well as health insurance also continue to contribute to growth. We have now delivered in excess of 25% for the past 25 consecutive quarters, clearly a track record to be proud of. We are confident that we are in a position to continue to deliver such momentum as we go forward.

Our Hospital business continues to be the backbone of our performance. We were able to realize an increase in patient volumes with over 26% growth in OP volumes in our standalone hospitals and over 19% growth in our significant subs and JVs. There was also a healthy increase in IP volumes by 13.4%, in standalone hospitals by 17.7% and at significant subs and JVs. This has helped to increase occupancy levels in all our major hospitals except the Hyderabad Cluster where we increased bed capacity by 200 beds. ALOS has declined over the year and this along with a better revenue mix has resulted in an increase in average revenue per bed across the hospitals.

We have also seen strong momentum in our retail pharmacy business as revenues were higher by 36% at Rs. 6.6 billion in FY11. We have ended the year with a positive EBITDA of Rs. 30.9 million. Our consolidated performance was also helped by the progress made by Apollo Munich and Apollo Health Street.

Krishnan and Padu will provide you with further details of financial performance later in the course of the call.

As before, we have been fortunate to receive some accolades and awards this quarter, including the "Best Tourism Facility for 2010" by the Ministry of Tourism and Government of India for Apollo Health City, Hyderabad.

To sum it up, FY11 has been a year of very strong growth for Apollo Hospitals. There have been several innovative new treatments as well as recognition. The business, both on the hospitals and the pharmacies front remains strong as we continue to focus on improving operating efficiencies further. We also have in place a strong pipeline of new hospital projects into FY14.

We will look to continued growth at our mature facilities and also anticipate improving metrics from the facilities that we have recently set up. The REACH hospitals will begin to contribute in FY12 and we also await further progress from the retail pharmacies division.

Now let me hand it over to Krishnan who will now provide you with further details of our financial performance.

Krishnan Akhileswaran

Thank you Ms. Suneeta for the introduction. Good morning to all of you. As mentioned by Ms. Suneeta, we have been able to deliver strong growth on a standalone as well as at a consolidated basis.

I would like to bring your attention to Slide #21 of the investor presentation which has the consolidated numbers. Revenues for the year grew by 28.6% to Rs. 26 billion in FY11. EBITDA grew 39% from Rs. 3 billion in
FY10 to Rs. 4.2 billion in FY11. The EBITDA margin has improved by 121 bps to 16.1% for the year. The expansion in consolidated EBITDA margins has been greater than the expansion in the standalone EBITDA margins aided primarily by better performance from our subsidiaries and JV hospitals. Consolidated PAT was higher by 34% at Rs. 1.8 billion from Rs. 1.4 billion in the same period last year. Our consolidated debt as of March 31, 2011, was Rs. 9.6 billion and our total cash balance at the end of the quarter was Rs. 1.8 billion and there was an additional investment in liquid mutual funds of Rs 0.8 billion.

Coming to the standalone financial performance – Please refer to Slide #9 of the Investor Presentation. Standalone revenues for fiscal 2011 expanded by 27.7% to Rs. 23.3 billion. EBITDA was higher by 34% from Rs. 2.8 billion in FY10 to Rs. 3.8 billion in FY11. The EBITDA margins continue to show an improvement as they expanded by 76 basis points to 16.2%. This was driven by improved operating metrics for the hospitals business as well as an improving contribution from retail pharmacies. EBIT again was higher by 35.1% despite increased depreciation on account of new facilities brought on stream. The deployment of funds for expansion resulted in lower other income and an increase in the interest costs. Despite that, PAT was higher by 19.5% from Rs. 1.5 billion in FY10 to Rs. 1.8 billion in the current fiscal.

If you now turn to Slide #10 on the segment-wise performance, you would see that the revenue growth has been led by a strong performance from standalone pharmacies which registered growth of 36.4% on a year-on-year basis. Growth in Healthcare Services was also healthy at 24.6%. The EBIT margins in Healthcare Services have trended up marginally from 18.1% in FY10 to 18.6% in FY11. Retail Pharmacies had an improved EBIT in FY11. Though the EBIT was negative for the year, it was positive in Q4 of FY11 at Rs 6 million. The annualized ROCE for Healthcare Services has increased to 15.5% from 13.4% in the same period last year. Excluding capital work-in-progress of Rs. 3,524 million, the Healthcare Services ROCE is 18.7% now. Capital employed during the same period has increased from Rs. 18 billion as of Mar 31, 2010, to Rs. 20 billion as of March 31, 2011.

Slide #12 has the key operating metrics in the Hospital Services segment. Our Hospitals Services segment continues to report strong growth in both outpatient and inpatient volumes. The facilities in the Chennai Cluster and Hyderabad Cluster have reported healthy 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 have grown 23% in IP volumes and near 47% growth in OP volumes. This increase is primarily due to growth witnessed in Madurai, Karur, and full year impact of Bhubaneswar which actually went on stream last year. The subsidiaries and JVs primarily driven by Kolkata, Bangalore, and Ahmedabad have also reported strong growth in IP volumes which have grown 17.7% on a year-on-year basis. The growth in OP/IP volumes has helped increase our occupancy levels at all centers. Occupancy at our standalone hospitals was 75%, with the Chennai Cluster being at 82%, Hyderabad at 65%, others at 73% and significant Subs and JVs at 74%. The occupancy in our Hyderabad Cluster was much lower primarily due to addition of beds.
The ARPOB (average revenue per operating bed) was up by 12.9% at Rs. 20,063 for standalone hospitals and higher by 15% at Rs. 13,278 in significant Subsidiaries and JVs. We were also able to improve ARPOB at our mature facilities with the Chennai Cluster ARPOB growing by 10.9% to Rs. 23,907 and the Hyderabad Cluster growing by 14.2% to Rs. 15,114.

Our expansion and capex plans are provided in the slide as well. The total funds for this will be in the region of Rs. 13.2 billion of which Apollo’s share is approximately Rs 11 billion. Of this, Rs 2.8 billion has been already invested by us and the balance of approximately Rs 8.2 billion 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

Thanks Krishnan. Revenues in the standalone pharmacy segment have grown 36.4% from Rs. 4.85 billion in FY10 to Rs. 6.6 billion in FY11. While revenue per store for our mature stores increased 16.6%, the increase in revenue per store on an overall basis was 19% indicating that the relatively newer stores displayed also strong revenue growth. More importantly we reported an EBITDA of Rs. 30.9 million for FY11 of which Rs. 24 million was generated in Q4 itself. So this is our first year and third consecutive quarter of our positive EBITDA underlying the fact that this business will continue to perform strongly in the years to come.

If your refer to Slide #14 of our presentatio, you will notice that, our mature stores have performed even more creditably with an EBITDA margin of 5.15% for FY11 and this is way ahead of our stated target of 5.0% for the year. For Q4 itself the mature stores have had an EBITDA margin of 5.44%. The total number of operational stores on 31st March, 2011, was 1,199 stores. We added 57 stores on a net basis in Q4FY11 as we have resumed the expansion of our network of retail pharmacies. We will continue to review our pharmacy network and close down unprofitable stores so that our overall profitability of the pharmacy business improves as we go along into the future. We remain optimistic about this business and we consider this to be an integral part of our business. We are confident that we will be able to improve profitability even further as the newer stores begin to mature.

Coming to Apollo Munich Health Insurance – It has recorded a Gross Written Premium (GWP) of Rs. 2.8 billion in FY11 which is way ahead of our stated target of Rs. 2 billion. The total income has more than doubled from Rs. 0.7 billion in FY10 to Rs. 1.65 billion in FY11. Losses at the EBITDA level declined from negative Rs 921 million in FY10 to negative Rs. 705 million in FY11. The combined ratio was brought down to 126% from 198%.

Apollo Health Street was able to report a steady performance in FY11. While revenues growth was muted largely due to currency fluctuations, there was a significant improvement in the EBITDA due to cost control. The improvement in EBITDA was driven by the cost control through the implementation of Project Lean which has helped us to identify and significantly reduce operating costs. We have simplified our operating structure and will look to build on the opportunities from the regulatory impetus to control healthcare costs in the US.

That’s it from me and we are now ready to take your questions. Thank you.
Moderator

Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Vikas Singh from B&K Securities. Please go ahead.

Vikas Singh

I wanted to know about your Rs. 900 crore fund-raising plan. Can you throw some light, how much of this will be NCDs and then the warrants?

K. Padmanabhan

At the moment we just have shareholders approval to raise Rs. 900 crore in a combination of debt and equity. We have not decided on the timing of the issue and when we will do it. And therefore we have not actually decided on the mix of the debt and equity.

Vikas Singh

Regarding the equity warrants issued to Dr. Prathap Reddy of 3.3 million, how much of this has been actually converted into equity?

K. Padmanabhan

There are 6.2 million warrants outstanding and it will get converted by FY 2012.

Vikas Singh

Regarding your pharmacy business the last four quarter was at the top-line rise for Pharmacy. So going forward, do you believe that now the Pharmacy business will give a positive contribution at the EBIT level?

K. Padmanabhan

As I mentioned that during the last year and then continuing to go forward, we will review the profitability of the Pharmacy business and we are looking at closing down unprofitable outlets and replacing them with more profitable outlets and therefore we believe that the steps that we have taken in the last three quarters and the steps that we continue to take going forward will help us further improve our Pharmacies profitability.

Vikas Singh

Sir, your employee expenses has also seen a significant jump from the last year, so do you think that going forward this trend will continue?

K. Padmanabhan

Last year we had a long-term settlement that actually increased the employee cost on a one-time basis. We do not think that is going to affect us over the next two or three years.

Moderator

Thank you. The next question is from the line of Ajay Nandanwar from UBS.

Ajay Nandanwar

Could you give us some light on what hospitals are commissioned during this quarter and during the year apart from Secunderabad and Karaikudi?

Krishnan Akhileswaran

We have added around 700 beds in the last 15 months and in the last quarter we added Karaikudi which is approximately 100 beds and over the year we have added Secunderabad and we have also added in the last quarter of the last fiscal Bhubaneswar, so which means FY10 March when we started Bhubaneswar and Hyderabad is a cluster where we have added substantial beds as well.

Suneeta Reddy

But I think those contributing to revenue in terms of operational beds have been about 320 beds.

Ajay Nandanwar

That includes beds in JVs or that is standalone?

K. Padmanabhan

Only standalone.
Sir, on standalone basis, I have seen the bed count go from 2,829 to 3,028 which is 200 beds, if I do Q4 to Q4 comparison?

K. Padmanabhan

Because Bhubaneswar was accounted in the previous year.

You used to give EBITDA margins for clusters earlier for Chennai, Hyderabad and other clusters. Would it be possible for you to share that information again?

Krishnan Akhileswaran

No, we are not sharing the EBITDA by clusters at this point in time, we will evaluate if we can share it at a subsequent point in time.

I finally discussed briefly earlier, the current position on debt and cash investments?

Krishnan Akhileswaran

The current debt in the standalone books is approximately Rs. 740 crore, and cash in hand is approximately Rs. 229 crore including the mutual fund investments that we have in liquid funds.

Does this Rs. 740 crore includes debt on the Rs. 279 crore that you have already invested?

That is correct.

And going forward, given that your Hyderabad cluster at least in beds is growing substantially at Secunderabad and now you are adding the international expansion or which is in progress or I guess has already commissioned as per your listing here. Do you see that sort of pressuring up, sort of new beds and startup cost, etc., how do you see the occupancy in Hyderabad cluster over the next 12 months or so?

Regarding the Hyderabad cluster, last year was not a very good year for them because of the Telangana bandh. Going forward, we are quite confident that utilization of beds in Hyderabad will improve. We have in terms of on the ground developments got together a number of key doctors and they have opened new facilities including an international patient block. So we are very confident that occupancy will improve in the forthcoming year.

In fact we have noticed that the occupancy drop is on top of a larger base from 670 to 810 beds.

Of course, the in-patient volume has gone up 10% in Hyderabad, but occupancy has been low throughout the year. It has been in the mid-60s throughout the 4th Quarter this year, despite of Telangana issue having stabilized almost a quarter ago.

We believe that the occupancy in Hyderabad is now picking up. In fact in the Heart Jubilee Hills it is fairly high, which is the main facility and in the newer facilities they are beginning to pick up, and we believe that it is not going to be a big issue going forward in the next year.

And added to that is the fact that we were not taking this cashless facility for insurance patients for a part of this year and now we are moving towards a resolution on that.
Ajay Nandanwar  Has the resolution been done already?
Suneeta Reddy  Yes.
Ajay Nandanwar  And was this issue prevalent across all clusters or only Hyderabad cluster?
K. Padmanabhan  This was a problem across all the clusters. Further, Hyderabad accounted for a larger percentage of insurance business.
Ajay Nandanwar  When was this resolved?
K. Padmanabhan  As far as Hyderabad is concerned we have resolved, Ahmedabad we have resolved, Chennai, we are in the process of resolving.
Ajay Nandanwar  And does this mean that your cashless payers have negotiated rates, I guess this is probably what your conversation was about, how would this impact your realizations and profitability?
K. Padmanabhan  No, what we have done is that the resolution was in terms of being able to offer more packages to the insurance business not so much in terms of actually discounting, so therefore we do not think it will have a serious impact on bottom line.

Moderator  Thank you. The next question is from the line of Perin Ali from Edelweiss.

Perin Ali  Your Pharmacy business margins at EBITDA level is now 0.5%. What kind of restructuring have you done over the last year? And also if you could throw light on how you see margins expanding from this base?

K. Padmanabhan  As I have mentioned that one of the things that is very critical for the Pharmacy business apart from actually controlling cost, is being able to get adequate operating leverage and that invariably comes with maturity of the store. What we have also done and I mentioned this earlier is that we are on an ongoing basis reviewing pharmacies that are not ramping up fast enough and then deciding to close down some of these unprofitable pharmacies and replacing them at better locations. We hope all this combined with being able to control greater cost and being able to have an increased percentage of own brands private-label in our stores will bring about increased EBITDA across our pharmacy line.

Perin Ali  How much contribution of private level revenues was in your Pharmacy business this year versus FY10?

K. Padmanabhan  Currently, it has just moved from about 2% to 3%. And we hope to take it up to about 10% within the next three years or so.

Perin Ali  And how many pharmacies you wish to add, like what is the long-term plan in terms of per year pharmacy additions? And do you wish to now constrain that and focus more on profitability? What is the strategy around that?

K. Padmanabhan  For FY12, we are planning to open 200 pharmacies and close down about 100, bring about a net increase of 100 pharmacies.

Perin Ali  Do you wish to add more pharmacies going forward or you will concentrate at this level or maintain the Pharmacy business as it is?
On a long-term basis we would continue to look at opening between 100-150 pharmacies a year, given that over the last 3-4 years, we have significantly ramped them up and until we bring the entire business into very strong EBITDA, we do not think we will aggressively increase network at this point of time.

Do you have any target EBITDA margin vision for the Pharmacy business for say next 3-4 years?

As I mentioned that our mature pharmacies are already giving 5% to 6% that is what we will aim to achieve.

Also just want to understand that when you mention your mature pharmacies, you always mention 2007 batch. Just want to see that how many years it takes or what do you account for when you say mature pharmacy. Do you mean that 2008-2009 pharmacies are not yet mature or what could be the margins of those pharmacies?

That is right, it takes between 2 to 3 years to reach those levels.

Okay, so you mean to say that even 2008 pharmacies will now be mature and will be having 5% to 6% EBITDA margins which is 2007 pharmacies?

Broadly, that is the direction.

As you have mentioned in the earlier comment, your one-off employee expense in this FY11, could you quantify that and tell the nature of that employee expense?

I mentioned to you there was a long-term settlement, three-year settlement in major hospitals and that increased the employee cost on a one-time basis by almost 22%.

How much was the incremental impact on your employee expense this year because of this one-time settlement?

We will get back to you on that separately because the 22% is only for the select employees, who are in the staff cadre, so we would have to assess the overall impact on our total employee bill, so we do not have that number off-hand.

I want to understand, how much medical tourism contributes to your overall revenues for Hyderabad hospitals and also for overall Apollo Hospitals standalone entity?

For Hyderabad international patient revenues contribute to about 15%.

For international patients and overall for AHEL it is about 10%.

Thank you very much, sir. I will get back in the queue.

Thank you. The next question is from the line of Jiten Doshi from Enam Asset Management.
Jiten Doshi: What sort of return on capital employed do you really see going forward for the entire operation?

Krishnan Akhileswaran: As you see that the ROCE for us has been growing and we have been steadily increasing the ROCE from last year’s 15.8% for the healthcare services segment it has grown up to 18.7%. If you look at the overall company ROCE, it has been impacted because of SAP which until last year was an EBIT negative of Rs. 10 crores which has now come into a Rs. 3 crore positive as well. So given that we would steadily be looking at improving the ROCs as SAP starts contributing more to the EBIT as well.

Jiten Doshi: Do you have any target ROCE?

Krishnan Akhileswaran: Not anything specific that we would want to share with you now.

Jiten Doshi: Okay, so where do you think really this can go, if you just give us an idea, can you see your ROCE hitting 25% to 30% band within next 3 to 4 years?

K. Padmanabhan: We currently have a weighted average cost of capital around 17% and we expect to be well over that as it goes forward.

Jiten Doshi: Can you throw more light on the Apollo Health Street, on what your plans are going forward?

K. Padmanabhan: As far as Health Street is concerned, we did in fact srow some unprofitable lined which is why revenues were also affected to some extent. We are looking at containing cost and consolidating the business so that we are able to significantly improve on the EBITDA compared to what we have been able to achieve in 2010-11.

Jiten Doshi: Would you be looking at divesting this business at some stage?

K. Padmanabhan: Many of our non-core businesses on a long-term basis we would be looking at how to extract value out of that.

Jiten Doshi: So in any near-term target you can provide us with profitability, how you would look at Apollo Health Street going forward, let us say 2 to 3 years profit target?

K. Padmanabhan: We think that is a business that can deliver anywhere between 17% to 18% EBITDA margins.

Jiten Doshi: What about Apollo Munich Health Insurance, where you hold 11% stake?

K. Padmanabhan: We have a very small stake at this point of time in Apollo Munich, I think currently it is about little less than 13%, I do not think it will have any impact on us.

Jiten Doshi: Do plan to hike your stake?

K. Padmanabhan: We have ring fenced our investments, so we would not be putting any further cash other than the 20 crores that we have already put in.

Jiten Doshi: Okay so no more commitments for the next 2 or 3 years?
K. Padmanabhan: We have very specific one-time Board approval to make an investment of Rs. 20 crores, we have not participated in their loss funding or in their equity infusion, which is why we got diluted from 20% to currently below 12% or 13%.

Jiten Doshi: Would you be looking at divesting this at some stage?

K. Padmanabhan: No, this is a strategic stake. I do not think we are looking at divesting it but what we will do is, we believe it is a strategic stake and we will be at least a strategic investor in that business.

Jiten Doshi: Then would you consider with a 12%-13% stake as a strategic investment or would you like to hike it in the future?

K. Padmanabhan: Given the fact that we are a healthcare player and Munich is a health insurance business, I do not think percentage alone will give us the strength, the fact that we are there along with the promoters in this business, gives us some strength in partnering with that business.

Jiten Doshi: What would be our vision for 2015 in terms of total number of beds owned as well as subsidiaries, JVs, associates and managed? Do we have any target which you can share like in the next 3-4 years how do you see the growth in terms of addition to beds?

K. Padmanabhan: No, we can tell you what we have in terms of owned beds that we have planned, which is in the public domain. We will be adding another 2,400 beds over the next 24 to 30 months and we will be investing an additional Rs. 800 crore or so thereabout.

Jiten Doshi: What about the other, are you scouting for acquisitions?

K. Padmanabhan: We are always looking at acquisitions, but if they come at attractive terms we will look at them.

Jiten Doshi: And anything outside India you are looking?

Suneeta Reddy: We are only looking at Management contracts overseas.

Jiten Doshi: Like the ones you have in UAE and things like that?

K. Padmanabhan: That is right, we would not be looking at investing outside India.

Jiten Doshi: Okay, thank you very much and I wish you all the best.

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

Nitin Agarwal: For next year in FY12 we do not have too many incremental beds coming through. So what do you see is going to be the driver for the business really speaking going forward? Do we see a substantial improvement in the occupancy rates for the current network or ARPOB improvements, how do we see this growth really coming forward the next year or so?

K. Padmanabhan: Our average number of beds on a full-year basis available for FY11-12 will be in the order of about 500-600 beds including the ones that will come
through in Hyderabad and Secunderabad, plus we are also having one additional Day Surgery center which is coming up, which has already commenced in Chennai. And we may get may be towards the last quarter an additional 200 beds coming up in Chennai. But that may only be operational only towards the end of last quarter. The mature business will continue to deliver on the basis of how they have been doing in the last few years.

Nitin Agarwal
So about 24-25% thereabouts sort of a growth of revenue on the base business?

K. Padmanabhan
We have been growing at that rate.

Nitin Agarwal
And this Chennai expansion, is it there as part of the expansion that you talked about in the list?

K. Padmanabhan
Yes, it is actually Ayanambakkam, that is actually a suburb of Chennai,

Nitin Agarwal
Sure you are expecting it to come towards the end of FY12?

K. Padmanabhan
That is right.

Nitin Agarwal
On the fund-raising bit, we did about Rs. 420 crores EBITDA for the year and even if I discount the equity dividend and the tax outflow, we have got Rs. 250 crores of operating cash before capex. And I guess since we are going to grow our numbers as we go forward we are looking at Rs. 250-300 crores of accruals every year. And what we are really looking to put in the Rs. 800 crores of projects that you will be putting in over the next 3 years. So what is our need for external funding? Can you help me put that in perspective?

K. Padmanabhan
I think it is also an issue of timing, in terms of how the cash flows will come and how the investments are phased. And also these are only known investments, I believe there would be some opportunities that may come up.

Nitin Agarwal
In the sense of inorganic growth opportunities?

K. Padmanabhan
No, it could be acquisitions or any opportunities that are attractive enough.

Nitin Agarwal
So the Rs. 800 crores that you have to spend on the expansion plan that you highlighted, by when would you be looking to invest this money?

K. Padmanabhan
We are not in a hurry really, because as Krishnan was mentioning, we have about Rs. 200-230 crores now, so we could be doing any time from now to let us say beginning of next year.

Moderator
Thank you. The next question is from the line of Rahul Gaggar from Centrum Broking.

Rahul Gaggar
Just a couple of questions on the Healthcare Services business. First of all, obviously, year-on-year we have seen improvement in the EBITDA margin from 13.4%-odd to 15%-odd. My question was if you see quarter-on-quarter we achieved a high of 17% in Q2 of this year. And since that we have progressively declined to 15.2% this quarter. Any particular reason for that?
K. Padmanabhan: One is of course, the fact that the second quarter tends to be one of the best quarters. But apart from that, at the end of the 2nd Quarter is when we had the one-time employee cost increase also, which gradually we are trying to recover through additional tariff. We also had a fairly large advertising campaign “The Billion Hearts Beating” campaign which came during Q3 and Q4, which is again discretionary expenditure. So we will have to look at some of this going forward.

Rahul Gaggar: If you were to go into the segmental business or part of it obviously again the same problem in a sense, we achieved 19.3% in the hospital division which has come down to 17.3% this quarter. So the reasons would be the same?

K. Padmanabhan: Yes.

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

Vikas Sonawale: Bhubaneswar facility is about a year old now with 290 planned beds, how many beds are operational. How are the ARPOB levels? Are they very close to the company level ARPOB of about 20,000? How many months are still awaited for the breakeven point?

Suneeta Reddy: In Bhubaneswar, 100 beds are fully commissioned, there will be an addition of another 100 this year, average revenue per bed is around Rs. 8,400.

K. Padmanabhan: I think towards the end of last quarter we are EBITDA positive.

Vikas Sonawale: Okay, the base case hospital of about 100 beds, super specialty either in metro or Tier 2 city, can we assume about 14 to 17 months of BEP?

K. Padmanabhan: Yes.

Vikas Sonawale: The second question is on Secunderabad facility, so out of 150 planned beds, how many beds are operational now?

Krishnan Akhileswaran: The Secunderabad facility has just become operational in this year, and we have approximately around 100 beds operational there.

Vikas Sonawale: Any response there in terms of occupancy?

Suneeta Reddy: It has just opened.

Vikas Sonawale: Okay, third question is, Bilaspur Onco facility, though it is very small in terms of number of beds, is shifted from September 11 to September 12. Is it a specific issue with this particular facility or is it more of a macro call about demand coming in from the smaller towns?

Suneeta Reddy: There were some regulatory issues with our partner, SECL, we are in the process of resolving it, and once that is done I think we will go ahead with it.

Moderator: Thank you. The next question is from the line of Priti Arora from Kotak Institutional.
Priti Arora  
Firstly, to understand your EBITDA margin profile better, if you can just quantify the number on “Billion Hearts Campaign,” I think which you have incurred this year?

Krishnan Akhileswaran  
Roughly, we have spent approximately Rs. 5 to 6 crores on Billion Hearts campaign this year.

Priti Arora  
This would not recur next year or are you planning to spend some more?

Krishnan Akhileswaran  
It would not be to this extent, certainly, we will have to continue with the campaign, but it would be substantially lower.

Priti Arora  
And were there any such similar one-off marketing expenses last year as well, in FY10?

K. Padmanabhan  
Nothing specific from a marketing perspective, we had some legal and professional costs which were there on account of some consultants that we had hired. Obviously, there were some marketing costs because of Bhubaneshwar Hospital which has gone live last year and obviously a startup on account of that is there. But some of these are normal in our course of businesses and we will continue to spend some of those for our new hospitals as well.

Priti Arora  
Okay. My next question is can you give us a diluted share count please, post the recent warrants which were issued in February?

Krishnan Akhileswaran  
Existing shares is approximately 12.47 crore. To this 12.47 we should add 0.62 million shares.

Priti Arora  
So it should be around Rs. 13.09 crore?

Krishnan Akhileswaran  
Yes

Priti Arora  
How much of the recent warrant money has come in?

Krishnan Akhileswaran  
We have received approximately 25% and that would approximately amount to Rs. 68 crore.

Priti Arora  
Any forex number included in your interest cost for this year?

K. Padmanabhan  
What are you specifically asking here, we do not have any specific extraordinary forex cost here.

Priti Arora  
In your total interest cost on the consolidated book of Rs. 81 crores, there is no forex number?

Suneeta Reddy  
No, even though we have got a line from IFC, it is fully hedged.

K. Padmanabhan  
We do not have anything exposed at this point in time in forex.

Priti Arora  
I think this was asked earlier. Your capital requirement is Rs. 800 crore spread out over the next, at least two years and you have raised debt by Rs. 600 crore over the last quarter, quarter-on-quarter, we are just not able to understand in light of warrants money still pending which will come in and strong internal cash flow generation. Why the significant increase in
debt which will obviously translate into higher interest costs and affect your profitability because hospital beds will come up only over the next 2 to 3 years and as we see number of beds coming up in FY12 is a little muted. So why this significant increase of debt, if you can just help us understand that?

K. Padmanabhan  
Firstly, we have proposed to raise between Rs. 600 to Rs. 900 crore. Our total investment is in the order of about Rs. 1,300 crore to complete the whole set of projects that we have. The balance required to complete is another 800 crore. So these are investments that have taken place in this project and balance Rs. 840 crores is to complete investments that have already been underway. And as I have mentioned there is also an issue of timing. So we have chosen to raise debt to part finance the Rs. 1,300 crore of expansion. The balance required is Rs. 840 crores which we may do in a combination of some debt and equity.

Suneeta Reddy  
And having said that you should know that most of the debt was contracted at below 10.5% and it is all long-term debt over a 10 year debt. So I think we contracted it at the time which was really good, and at a cost which we cannot hope to see in the near future.

S. Venkataraman  
And to add to that we are currently quite under leveraged so we actually wanted to take the leverage up so that we can enhance the return on equity. It is totally in line with our plan.

Priti Arora  
Would it be fair to say that no more leverage will come through in the next 2-3 years?

K. Padmanabhan  
I think there is scope for improving leverage and we think that if it is appropriate we will do that rather than use equity.

Priti Arora  
On the Dental Clinics foray which you are planning to set up around, I think 100 clinics, can you just help us understand how quickly will they break even at the EBITDA level and your plans out there?

K. Padmanabhan  
Dental clinics are a very insignificant portion in terms of investment and each of these clinics cost about Rs. 2 crores or so to set up. Dental clinics have typically have EBITDA margins in an excess of about 50%.

Suneeta Reddy  
And they break even in 18 months.

K. Padmanabhan  
But they are not a significant part of our total investments.

Priti Arora  
But you will be investing around Rs. 50 crore, right?

K. Padmanabhan  
No, this is not dental clinic, I think you are talking about Apollo Health and Life?

Priti Arora  
No, I am talking about dental clinics which you plan to set up in two years along with Trivitron Healthcare under the name Alliance Medicorp

K. Padmanabhan  
Right now, we have about 6 or 7 dental clinics which have been folded into that company. And we are now trying to establish that concept so this is only at this point of time an intention only, but we have to really study how the pilots are going to do.
Priti Arora  In your press release you clearly mentioned that that both the partners will invest 100 crores in setting up 50 dental clinics in two years?

K. Padmanabhan  At this point in time, this is the plan for the business. Right now we have not really identified how we are going to expand that. So we are actually looking at the business model and the partnership model at this stage.

Suneeta Reddy  Right now, what we are actually growing is around clinics, the clinics division.

Moderator  Thank you. The next question is from the line of Krishna Prasad from JM Financials.

Krishna Prasad  On this FCCB issuance to IFC, if you can help me with what are the terms of the FCCB, $15 million that has been done recently?

Krishnan Akhileswaran  It is a convert at Rs. 605 and actually effective, so at Rs. 605 for the Rs. 10 and we have $15 million of FCCB which we had.

Krishna Prasad  And when did this come up for?

Krishnan Akhileswaran  Half has already been converted this year, the balance is still to be converted, $ 7.5 million.

Krishna Prasad  You have given a detailed capex plan for your Hospital business on the new hospital which will come up. But just on the existing hospital what would be your maintenance capex for let us say FY 12-13?

Suneeta Reddy  That usually equals to depreciation, the amount that we spend on maintenance capex.

Krishna Prasad  On your Hyderabad business, you mentioned the drop in occupancy because of the increase in beds, is there a sense of where it could get maybe this year and the year after that?

Suneeta Reddy  It can only get better because Hyderabad has recruited a number of new physicians and they have put a strategy in place which is focusing on several specialties. So keeping all that in mind we are quite confident that Hyderabad numbers will only improve.

S. Venkataraman  And having said that to add to that this is in line with the normal experience that it takes a couple of years before we reach our usual occupancy levels of 75% to 80%.

Krishna Prasad  You had mentioned earlier about a bit of oversupply situation in Hyderabad. Is that the thing you are still experiencing or has that improved in any way?

K. Padmanabhan  This is of course bound to happen in all markets, when investments get kind of bunched up, then you will see for short periods of oversupply and they do get corrected over a period of time. The point here is, whether we are able to actually be able to grab market share even at this point of time and I think we will be able to do. As Suneeta mentioned that it is our newer facilities that have a lower occupancy not our older facilities. Our older facilities are quite full actually.
Krishna Prasad: Just one more thing on the Capex plan, in the slide that you have in your recent presentation I see a few of your REACH projects have been delayed. Is there any specific rethink on the strategy or is it just a question of phasing your investments there?

K. Padmanabhan: You are talking about REACH, is it?

Krishna Prasad: Your Nellore facility and also Nasik. I see a bit of you have delayed some of those projects in terms of completion, is there any anything?

Suneeta Reddy: We have already started construction on all those projects. We did take little time to get permission, licenses, we have to get 74 licenses before commissioning, but all of them will be commissioned in 2013.

Moderator: Thank you. The next question is from the line of Ramakrishna from HSBC.

Ramakrishna: On the Healthcare Pharmacy segment just wanted to understand maybe a general question. What is the time it would take for a unit to actually break even between metro cities and Tier 2 cities, if you could give some information on that? And what would be the cost of establishing one pharmacy outlet?

K. Padmanabhan: Normally, a pharmacy will move to an EBITDA positive within 18 months. And then if it does not happen then we will have to review why those pharmacies have not, and if we are not able to rectify then we will look at closing them and opening them in a better location. Normally it is an issue of location that a pharmacy cannot break even before 18 months.

Ramakrishna: It will be any location right, Tier 1 or Tier 2?

K. Padmanabhan: It costs anywhere between Rs. 12 to 15 lakhs to open a new pharmacy and cost about Rs. 3 lakhs to close it down.

Ramakrishna: Anywhere between 16 to 18 months is the breakeven time?

K. Padmanabhan: That is right.

Moderator: Thank you. The next question is from the line of Ravi Dodhia from CRISIL.

Ravi Dodhia: Just one question to the management about what will be their strategy on the recruiting new doctors for their new hospitals, whether it will be on pay-per-service basis or it will be on the rolls of the company?

K. Padmanabhan: As far as our existing facilities is concerned that is not an issue at all. So as far as new facilities are concerned we have at all points of time better bank of doctors both from India and abroad, who want to come into our facilities. When we are about to commissioning of the hospital, we actually get these doctors to come and join us. If they are coming from abroad some of those doctors may join us initially on a guaranty money concept and will transit or will move into the fee-for-service model which is the Apollo model. We have not so far seen any great issues as far as attracting doctors to the Apollo facilities.

Moderator: Thank you. The next question is from the line of Kaustav Kakati from PUG Securities.
Kaustav Kakati: My question is again related to the Pharmacy business. You have said that one of the key reasons for the pharmacies doing well was the operating leverage because of the maturity factor. What I have seen is that, some of your pharmacies which have not entered the maturity stage have also done well on the EBITDA front. So what could be the reason for that?

K. Padmanabhan: Location is also a very important issue. The dominant reasons will be that mature pharmacies do well after a point of time because of operating leverage also. Location plays a very important role. There are pharmacies which even break even in the first 3 to 6 months itself because of some very, very good locations but it is not always possible to be very, very correct in terms of how you choose your pharmacies.

Kaustav Kakati: Okay and sir, just looking at the turnaround that has been happening in the Pharmacy business. What are the plans going forward, are there still plans of hiving it off?

K. Padmanabhan: No, we consider our healthcare delivery as the core business of Apollo, and all other businesses we will look at how we can extract value at the appropriate time.

Kaustav Kakati: Okay, so no definite decision has been taken yet?

K. Padmanabhan: No.

Kaustav Ganpati: One last question. The pharmacies expansion that you were talking about 100-odd each year, would they be mostly owned by you or would you be franchising them out?

K. Padmanabhan: No, it would not be owned by us, they will be on leased premises but run by Apollo. They are not franchised. They are our own.

Kaustav Ganpati: So that is the model which you follow for almost all the pharmacies?

K. Padmanabhan: In fact for all.

Moderator: Thank you. The next question is from the line of Ajay Nandanwar of UBS.

Ajay Nandanwar: I have one more question about changes in tax treatment. There is some 35 AD tax treatment that is applicable to you right now. I was wondering if you could give, if this were to apply in FY 11, how it would impact your cash tax payments. How much cash tax you paid in FY 11, how much would you actually pay if this benefit was available in FY 11?

Krishnan Akhileswaran: Current taxes is the reflection of the tax payment for the year and the deferred tax is a separate line which is provided there. So obviously depending on how much new hospitals, if we are able to commission any new beds in the coming year, 30% of that benefit will straightaway, because of the capital employed is say Rs. 100 crores next year, 30% of that approximately Rs. 30 crores we can bring down our current tax by. So that is the rough equation but it all depends on how much new hospitals or new beds we can commission in the coming year. So the current tax for the current year is what is being reflected as the current tax line item in the P&L.
Moderator  Thank you. The next question is a follow-up in the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal  Just want to understand the owned beds are close to 3,600 but our operational beds are only 3,000. So how do you see this increase in operational beds going forward?

Suneeta Reddy  The beds that we are adding will come under owned beds and that is 2400 beds and it will end 2013 before it is fully operational. Meanwhile we have new facilities that we added in this year are not fully operational, out of the new facilities that we added only 300 are operational and 300 will get operational going forward in the next few months.

Krishnan Akhileswaran  We still have capacity in Hyderabad for example, which has not been put to use to use around 200 beds which Bhubaneshwar around 160-170 beds. We have capacity in Delhi, Ahmedabad, Karaikudi, Kolkata, and Bangalore as well. So if you look at the total capacity versus the operating beds, the drop of around 800 to 900 beds is coming from these locations. As we increase our occupancies in these locations we will slowly increase the operating beds there.

Moderator  Thank you. Ladies and gentlemen, we will take the last question from the line of Priti Arora from Kotak Institutional.

Priti Arora  Unlike some of your peers most of the beds which are coming on stream will be on your own balance sheets, so what are your thoughts on sort of leveraging the JV and subsidiary routes in a more effective manner going forward, because you just only one facility, Thane which is through that route and I think Belapur is also on your own books. So if you can just share some thoughts on that front?

K. Padmanabhan  JV and subs will expand separately, like, for example last year Calcutta increased beds from 325 to 425. Bangalore has just completed an expansion of 50 beds and are looking at expanding by another 200 beds. Those are actually investments done by those JVs and therefore they are not brought into our investment schedules. Similarly Delhi had increased its bed strength by about 150 beds this year. Those that are being funded by themselves are not being brought into this.

Priti Arora  What about the fresh forays into newer geographies through the JV route? Apart from Thane we do not see that happening in the future capex plans which you have given us.

Suneeta Reddy  I think our preference is that where we can do it independently we would rather do it independently. And if we had the opportunity to get maybe land and buildings on lease, rather than investing in real estate that would be our preference. But JV route is not our first option. Unless the JV partner bring something critical to the entire space. If it is a good brand, adds value to the place, then of course, we will consider a JV partner.

Moderator  Thank you. I would now like to hand the floor back to the management for closing comments.

Suneeta Reddy  Ladies and gentlemen thank you for joining us on this call. We look forward to any questions which you might have. You may address your questions to
Krishnan and to Krishnakumar, both of them will be available to answer any questions that you might have. Thank you once again and good day.

**Moderator**

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