



Apollo Hospitals

Q4&FY13 Earnings Conference Call Transcript

May 21, 2013

- Moderator** Ladies and gentlemen good day and welcome to the Apollo Hospitals Q4&FY13 Earnings Conference Call. As a reminder 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. If you should need assistance during this conference call, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Vaswani of CDR India. Thank you and over to, Sir.
- Mayank Vaswani** Good afternoon and thank you for joining us on this call to discuss Apollo Hospitals financial results for the quarter and financial year ending March 31st 2013. We have with us today members of the senior management team including Ms. Suneeta Reddy, Joint Managing Director; Mr. S Premkumar – Group CEO; Mr. S Venkataraman – Chief Strategy Officer and Mr. Krishnan Akhileswaran – Chief Financial Officer.
- Before we begin, I would like to clarify that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. For a more complete listing of such risks and uncertainties please refer to our investor presentation. We shall start with Ms. Suneeta Reddy who will discuss the operating highlights for the quarter, Mr. Akhileswaran will then discuss the financial highlights and expansion plans. Following that Mr. Venkataraman will cover developments on the Retail Pharmacy business and Apollo Munich Health Insurance. Lastly Mr. Premkumar – our CEO will provide an overview of the new initiatives that the group is undertaking. Documents relating to our financial performance have been e-mailed to all of you earlier and have also been posted on our corporate website. I will now hand the floor over to Ms. Suneeta Reddy. Thank you.
- Suneeta Reddy** Good afternoon ladies and gentlemen. We entered FY13 with a very well thought out strategy. Our strategy was based on the belief in the strong fundamental demand for health care services. We believe that Apollo Hospital will focus on growth by strengthening and consolidating our presence in Tier-1 cities through quaternary care hospitals where we expect a richer case mix and higher ARPOB. Second by setting up community hospitals within the cities, these will be supported by a network of clinics.
- The second part of our strategy was to create higher secondary care level hospitals in Tier-2 cities.
- The third part was to focus on the profitability of our Stand-alone Pharmacy network through a combination of same-store growth and increased private label share. We will also establish a platform for sustaining growth beyond the short-term through a network of carefully planned hospitals and clinics and among these will be specialty hospitals like the 'Mother & Child' Hospital that we have already started. I believe that we have laid the foundation in this year and we hope that we will show results in the years to come.

Our Healthcare Services business has displayed a strong performance with increased volumes and revenues. We have witnessed healthy occupancy levels across our network hospitals. Our focus on key specialties through our centers of excellence initiatives has benefited the society at large and in turn our performance. Despite the rise in the complexity of cases we are pleased to report that the clinical outcomes are at par with the best in the world and this is being testified when we were conferred the Best Hospital in several locations by The WEEK-HANSA Report 2012 as well as the fact that we are the number one in solid organ transplant. The year 2013 was a milestone for Standalone Pharmacies. The division surpassed Rs.1,000 crore in annual revenues and today we have over 1,500 stores. More importantly the EBITDA margin for the year closed at 3% with plans to further improve the same over the next couple of years.

Our subsidiaries have reported an improvement in their performance. Apollo Munich Health Insurance continues to demonstrate robust growth in earned premium and we have witnessed considerable progress on key strategic initiatives this year. As we shared with you last quarter we entered into an agreement with Sutherland Global Services to divest our stake in Apollo Health Street. This transaction has been successfully concluded this quarter. We plan to deploy the divestments proceeds into our core focus area of health care delivery services to enable us to augment our service offerings and widen our presence.

We have operationalized 200 multi-specialty beds in Ayanambakkam, Chennai in Quarter 4 and 140 beds in the Ortho and Spine specialty hospitals in Jayanagar, South Bangalore. Our focus now is on smoothly commissioning and operationalizing 1,000 beds which is our planned expansion across our network in FY14. The key challenge is to recruit skilled manpower including doctors, nurses and paramedics in all these locations, which has been the edifice of our success. As many of you will be aware we have entered into a long-term lease for the Lifeline Hospital facility in OMR in South Chennai. We are currently refurbishing this facility and plan to commission it in the 2nd half of the fiscal. This facility will be complemented by a 45 bed 'Mother & Child' hospital located in OMR in South Chennai a few kilometers away.

As this is evident our expansion strategy incorporates augmenting our presence even in existing clusters like Chennai where we plan to commission three hospitals in FY14 including the 'Woman & Child' hospital adjacent to our Children's Hospital in Central Chennai.

Bangalore is a cluster where we are currently focusing on growth in the next two years apart from further strengthening our operations in Chennai and Hyderabad. After having recently launched the Ortho and Spine Centre in South Bangalore, work is on for scheduled launch of our 100 bed multi-specialty hospital in North Bangalore before the end of FY14.

Lastly our presence in Tier-II and Tier-III centers through the REACH initiative will see further impetus through the commissioning of 520 beds in the three REACH hospitals in Nellore, Trichy and Nashik.

Coming to our financial performance - FY13 was another year of good growth with consolidated revenue growing by almost 20% from Rs. 3,148 crore in FY12 to Rs. 3,769 crore. Consolidated EBITDA grew by 18.5% from Rs. 513 crore in FY12 to Rs. 608 crore in FY13. Profit after tax in fiscal 2013 was higher by 38.8% at Rs. 304 crore.

Before I close, I would like to comment on the recent initiative from the Ministry of Corporate Affairs which has recommended a 2% spend of every company's net profits towards CSR. We at Apollo have for the past several years forged a rich legacy of social initiatives in the healthcare space. Each year we conduct several healthcare camps, screening programs, cardiac and cancer outreach programs across the country with a

specific focus in the rural areas for early detection and prevention. “Billion Hearts Beating”, “Save a Childs Heart initiative” and the “Society To Aid the Hearing Impaired” are all the examples of highly successful community service initiatives that we will continue to promote and you will continue to see us focus on several more such initiatives in the coming years. I will now ask Krishnan to take you through the details of our financial performance.

Krishnan A

Thank you Ms. Suneeta. As always I shall walk you through our investor presentation which has been circulated earlier and is also available on our website. I would like to begin with Slide 9 of the presentation which contains the standalone financial performance. Standalone revenues grew 18.5% from Rs. 2,800 crore in FY 12 to Rs. 3,318 crore in FY 13. While healthcare services grew by healthy 14.3%, the Stand-alone Pharmacy segment reported a robust 28% growth in revenue. EBITDA grew 19.2% from Rs. 464 crore in FY 12 to Rs. 554 crore in FY 13. The overall EBITDA margin expanded by 10 basis points to 16.7%. We have been able to sustain EBITDA margins despite the cost impact of commissioning two new hospitals at Ayanambakkam in Chennai and then Jayanagar in Bangalore in Q4 made good by an enriched case mix in our matured hospitals as well as improved contribution and operating leverage from hospitals at Bhubaneswar, Madurai, Mysore and Stand-alone Pharmacy. Depreciation is higher due to an increased capacity at Hyderabad, the new beds added in Bhubaneswar and Karaikudi as well as facilities commissioned in Q4 at Ayanambakkam and Jayanagar in Bangalore.

Other income was higher in FY13 due to deployment of surplus funds in income earning deposits and mutual funds. These funds are now gradually being deployed as work on the new facilities progresses. There was also a small gain on divestment of Apollo Health Street. Finance costs have increased by 14.2% as compared to the previous year to Rs. 73 crore. The effective tax rate for FY13 is 24.2% compared to 31.6% in FY12 due to the tax benefits under section 35AD of the Income Tax Act because of the new projects that we can now avail of. As a result standalone PAT grew 34% to Rs. 309 crore in FY13. Those of you who have followed our Q4 performance would have assessed that our revenue growth has been a moderate 14% in the last quarter of the fiscal compared to around 20% in the earlier part of the year.

Stand-alone pharmacies grew 20.3% in Q4 compared to over 30% earlier. Lesser new store rollouts in the first three quarters of this year at 135 stores as compared to 182 stores in YTD December last year was one of the reasons. The other reason was that there were three extended long weekend holidays in Q4 of 3 to 4 days each which impacted revenues in hospitals as well as retail pharmacies. We planned our operation theatre closure for annual maintenance in January at our hospitals instead of December which also contributed to lower revenues. Growth rates have also been impacted by a higher base effect as Q4 last year saw above average volumes due to re-panels of our Chennai hospitals by the GIPSA or PSU insurance companies.

If you now turn to Slide 10 on the segment wise performance, you will see that while healthcare services revenue grew by 14.3%, EBIT in healthcare services sector grew by 16.3% in FY13. Annualized ROCE on healthcare services has dipped to 16.9% in FY 13 from 17.8% in FY 12 due to the incremental capital of Rs. 460 crore deployed on a year-on-year basis. As we continue to invest into new projects in the next two years the ROCE is expected to come down marginally and is expected to contribute as they mature.

I will now take you through Slide 12 which contains the key operating metrics in the hospital's business. The operational beds as on March 31st were 5,549 beds. The year-on-year increase of 396 beds over the period has come to a net addition of 155 beds across hospitals in Chennai, Madurai, Bhubaneswar and Karaikudi as well as 241 beds added in Bangalore, Delhi and Ahmedabad. Overall occupancy has increased to 72% in FY13 on an increased capacity as compared to 71% in FY12. Volume growth has been healthy with double-digit growth in both inpatient as well as outpatient volumes. Outpatient volumes in Chennai grew 11% while inpatient volume grew 3%. At 74% occupancy the Chennai

cluster includes the beds at the new hospital at Ayanambakkam commissioned in Q4 which is just beginning to ramp up. The new outpatient centre block which is very close to the main hospital should be operational in the next 6 to 8 months and should help us create additional 100 beds in the main hospital thereby providing further headroom for growth in this cluster in the medium term. Hyderabad cluster has been seeing some traction on occupancy which is now at 66%. We have specific plans in place to augment the revenues and profitability in this cluster over the next few quarters.

Volume growth at stand-alone hospitals outside of Chennai and Hyderabad like Madurai, Bhubaneswar, Karur, Karaikudi and Vizag was over 20% on a year-on-year basis. The joint venture subsidiaries and associate hospitals also registered a healthy growth in both IP and OP volumes. The average revenue per occupied bed has grown 6.1% on a year-on-year basis and is currently at Rs. 21,700 at a Group wide basis. ARPOB in Chennai grew by 7.7% followed by other stand-alone hospitals at 7.6%. The Hyderabad cluster registered an ARPOB growth of 5.6% while Subsidiaries, JVs and Associate hospitals grew by 8%.

Before closing I would quickly walk you through our expansion plans. In line with our expansion plans we will commission over 1,000 beds in FY14 as Ms. Suneeta has already stated. This includes 300 beds across three hospitals in Chennai including the Lifeline facility, 180 beds at Malleswaram in Bangalore and 525 beds in three REACH hospitals including 200 beds each at Trichy and Nellore and 125 beds at Nashik. Our total planned expansion in the next three years totaling to 2,685 beds has a CAPEX outlay of approximately Rs. 2,234 crore in a phased manner of which we have already invested Rs. 478 crore. As shared earlier our existing cash, internal accruals and debt funding position in addition to sale proceeds from Apollo Health Street will allow us to fund this expansion. Further details on our expansion plans are available on Slide 16 of the investor presentation. That is it from me, I will now hand over to Mr. S. Venkataraman who will walk you through the developments on retail pharmacies in Apollo Munich Health Insurance.

S. Venkataraman

Thank you Krishnan. Revenues from the retail pharmacy business continue their strong trajectory and have improved by 28% from Rs. 861 crore in FY12 to Rs.1,102 crore in FY13. Growth has come through a healthy increase in same-store sales as well as continued expansion of the pan Indian network of stores. While overall sales growth was strong, it would have been better but for the unusually several long weekend holidays in Q4. On holidays the average daily sales get impacted by 25 to 30% chiefly in the non-pharma segment. Further the delay in getting drugs licenses in certain states has meant that we have not rolled out as many stores as envisaged in the first nine months of the fiscal. In fact we opened about 50 stores less because of this. Operating metrics have improved further; overall EBITDA has improved from Rs. 16.4 crore in FY 12 to Rs. 29.3 crore in FY13. The EBITDA margin has expanded 76 basis points from 1.9% in FY12 to 2.7% in the current fiscal. Store category wise EBITDA has also improved. Like-for-like revenue growth has been 16.2% for the mature stores set up before end FY 08. 19.1% for store setup in FY 09 and 23.8% for store setup in FY10. You will also notice in Slide 14 of our presentation that all the stores set up prior to FY10 representing 845 stores are now significantly EBITDA positive. The pre-FY 08 category which contains the mature stores have also reported an EBITDA margin of 5.3% in FY13 compared to only 4.6% in FY12. In FY 13 we made a net addition of 139 stores, we have added 215 stores and closed 76 stores wherever the operations were rendered unviable or we found that they were not viable. We now have a pan Indian network of 1,503 stores as on 31st March 2013.

Coming to insurance, Apollo Munich Health Insurance has recorded a growth of 30% in gross written premium from Rs. 476 crore in FY12 to Rs. 620 crore in the current fiscal year. Total income was also higher by 46.6% at Rs. 485 crore in FY13 as compared to Rs. 331 crore in FY12. The EBITDA for FY13 is only a negative of Rs. 1.3 crore as compared to a negative EBITDA of Rs. 38 crore in FY12 which shows considerable improvement in EBITDA. The company will continue to make progress in this business and has plans to expand it further. It has a network of 50 offices across the country and registered assets

under management of Rs. 547 crore as of 31st March 2013. That is it from me and Mr. Premkumar will provide an overview of some of the new initiatives.

S. Premkumar

I wanted to spend a few minutes essentially talking about what Suneeta was just talking about in terms of strong fundamental demand. I think in the context of the newer capacity that we have created as well as in the context of maturing existing ones, we continue to see the strong fundamental demand. We have done core initiatives in the context of case-mix which touched upon when Krishnan was talking about in one aspect. The second aspect of our connect was also to try and increase our access inside the marketplace and maybe in the context of some of the Q&A that comes up I will be able to touch upon that in greater detail. Apart from it another aspect of change which is really something that we are trying to do in the short-term and in the medium term is to look at our mix from International business which again continues to be a very strong revenue growth space. We have increased our partners internationally, increased our set of activities associated with this as well as in the context of looking at various kinds of technology leverage centers in many parts of the world which is translating itself into appropriate consultations and subsequent participation back here in India. So the core initiatives you could look at is greater access, a significant amount of technology leverage, the case mix that we are talking about and obviously a re-portfolio in terms of our COEs essentially making sure that we try and look at a continuing trend in terms of our ARPOB increase with appropriate COE related activities. Apart from further enhancing what India needs most is essentially in the context of prevention side by a strong set of products that we are launching and tested across the country in the area of health checkups and so on, so more of it as you can get on to the Q&A.

Moderator

Thank you very much. Participants, we will now begin with the question and answer session. We have the first question from the line of Balaji Prasad from Barclays.

Balaji Prasad

Firstly, this with reference to your comments that revenues were affected by holidays, two parts of my questions, when I look at the number of holidays in this quarter and the corresponding quarter last year, they seems to be same, can you help us understand how weekends could have affected this? And also secondly, can you let us know what percentage of your inpatient revenues comes from elective surgeries which can be deferred?

Suneeta Reddy

First in terms of the holidays I think the difference this year was there was a clustering of holidays, there was Thursday, Friday, Saturday, Sunday that came together and people took off on that Friday which was crucial, so there were four days away from work and this happened three times during this quarter. We had three events where people left the cities and were not present in Tier-I and that affected the volume. The second of course is that theatre closure with is generally planned for December, happened in January because many of the doctors and surgeons took their time off because of the conferences that were scheduled in January and we decided that this was the best time to do theatre closures.

Krishnan A

No, we wouldn't have an exact breakup of elective and non-elective at this point in time, we would get back to you on that Balaji.

Balaji Prasad

Secondly on the operating margins, could you help us understand this by addressing it segmentally as in, I guess, the key thing I want to understand is how much dilutive have the margins been because of the 340 beds that you had it this quarter?

Krishnan A

This quarter if you look at, we added, there was cost of almost around Rs. 6 crore which is the part of the EBITDA which has impacted the margins, that is on account of both Ayanambakkam as well as Jayanagar.

Balaji Prasad

Lastly when I look at the updated project list, Mumbai seem to have only Byculla and Navi Mumbai, so Vashi seems to be missing, is it something that is no more part of your expansion plan?

Suneeta Reddy

We did have a JV agreement with Mr. Yash Birla but I think Mr. Birla decided to refocus his business strategy and he is actually using that land for some other business so we are looking for land in Thane or for a partner in Thane but I think we have still maintained the number of hospital beds that we were going to add because they are new beds that we have added and new facilities that we had identified in Chennai, Bangalore and several more that we will announce later. There is no change in the number of beds.

Moderator

We have the next question from the line of Girish Bakhru from HSBC.

Girish Bakhru

First on the occupancy side, although you have explained there were fewer visits this quarter but how has been the decongestion plan in Chennai been working out in the quarter and has that kind of benefited in terms of what kind of growth we can see in the quarters ahead from the Chennai cluster?

Suneeta Reddy

First we have to understand that hospital beds have no shelf life, when we lose a day we have lost that day and it is something that cannot be compensated later on. Having said that in terms of decongestion, yes, this whole Chennai strategy was done with the aim of decongesting the main hospitals which we want to focus on a richer case mix and do quaternary care and move the higher secondary care to the community hospitals which is why we commissioned Ayanambakkam and which is why we have First Med and we are doing OMR. And this continues to be our strategy, we will continue to grow our ARPOB in the main quaternary care hospitals, meanwhile the others will start contributing significantly. At this time I have to say that while we have commissioned Ayanambakkam, we really have not fully operationalized that facility otherwise you would have seen the volume growth. Chennai has reached a certain level where the occupancies are high, asset utilization is high and therefore even if you look at the return on capital figures, margin figures, everything has really reached a certain level which is why creating these new centers is going to benefit Chennai. The second aspect of this is that we are setting up separate buildings for outpatient services to de-cluster the entire space and to add 100 new beds over a period of time in the main facility that will focus on quaternary care.

S. Premkumar

Fundamentally we have really shown the context of trying to move up and decongest and create newer centers within the city, I mean, the specialty hospitals was the first one that we did many years ago, as an extension to that we believe continuously looking at trying to create capacity in the existing one by increasing headroom as we are now talking about creating another 100 capacities over a period of time which essentially rolls out and also positions ourselves because one of the other market factors that we are also seeing today is the need to have greater access in various parts of the city, so the whole community perspective really comes in when we really take out on one side on the Southern side of Chennai and the other getting down to other part of Chennai which is beyond the Central side, so while we do that, another aspect of decongestion which perhaps needs to be touched upon is the fact that we are trying to look at is clearly OP based facilities which should be very close to our main facility in a very short period of time. And Krishnan alluded to it saying that in 6 to 8 months you would have that so that is the another way by we are trying to decongest the main hospital thereby creating additional capacity and ramping that up significantly.

Suneeta Reddy

I think the sum and substance is that we are increasing outpatient facilities as well as inpatient facilities where the convergence will be much better and creating space for inpatients because we have realized that holidays and all will always be a part of our life and that hospital beds really don't have any shelf life.

Girish Bakhru

Just to look like from the perspective, that reason we were decongesting it is because we were facing huge demand and capacity constraint and now that the inpatient volume has kind of struggled to grow, would we see the occupancy levels like 80% that we have seen in the past in that cluster anytime soon?

S. Premkumar

I think the context of the inpatient volume we have to look at it both in the context of ARPOB management, case-mix management and so on. So some of it is actually planned, actually as we go across and look at it in terms of what will decongest into a newer facility and how much of it is really going to be creating incremental demand. It is not the cannibalization of facility A which gets into facility B, it is also the community demand in the second location for example in Southern Chennai which is by itself gravitating into an incremental demand, so there is a planned perspective here and I think that is the reason why you should really not look at it purely in the context of some kind of an inpatient capacity stabilization at 80%.

Krishnan A

To add onto that, if you look at the 74% occupancy this year we have Ayanambakkam as part of that. Ayanambakkam today is only soft commissioned which is at 20 beds occupied today. Hopefully over the next couple of quarters, 2, 3 quarters as that adds up to a 60%-70% occupancy, we will see the 74% on the 1,237 going up to at least 76%-77% but you will have to give us a couple of quarters while we get there.

S. Premkumar

And you have seen that happen in Bhubaneswar in the context of the best practices capacity, migration into maturity, I think you will get some of that coming into some of the larger newer capacities.

Girish Bakhru

And second question was on the Bangalore, given the addition of Jayanagar, it seems like this cluster is probably growing much faster and if you could just give a broad highlight on an overall, what are the number beds in Bangalore and how much ARPOB and occupancy would Bangalore be doing, overall?

Krishnan A

Bangalore this year has gone almost 25% for us, the existing hospital is a 225 bedded hospital and the top line has grown 25% and it is part of the subsidiaries and JVs and associates number. So we are doing almost on Rs.125 crore in hospital revenues alone there and including the hospital based pharmacies etc. we are almost at Rs. 175 crore there and the EBITDA again has grown by almost 40% in this region, it has grown from around Rs. 20 crore to Rs. 26 crore. So clearly at Bangalore that is the reason that we have now added the hospital in Jayanagar in South Bangalore and we already have a set of clinicians who were practicing there. We already have a set of orthopedics as well as neurosurgeons who have begun operations there and today we are at almost on 35% occupancy in that facility of 125 beds. So yes, you are right Bangalore is an interesting cluster that we want to be present in and especially given the geographical, how the spread of Bangalore is, the current facility which is the hub, the other two will help us, Malleshwaram which we are planning in North Bangalore which is 180 beds as well as the South Bangalore one which is the Ortho and Spine Specialty Centre is going to help us. What is not also visible is, as part of the Apollo Health and Lifestyle which is a subsidiary of ours, we also have two 'Cradle' facilities which we have acquired recently, one acquired and one which we have set up in Bangalore, so Bangalore clearly is a cluster that we are focusing on.

Girish Bakhru

Given the change in the Thane plan and there is of course some timeline shift that we are seeing with another project in Mumbai especially Byculla, so are you seeing that there is some kind of change in the way you are looking at Mumbai operations or when do you see that to really come on board?

Suneeta Reddy

Well, there is a slight timeline shift and this has happened mostly because of the delay in getting permission so I think, in our last call we had informed investors that there is a timeline shift, that projects will be delayed some of them have shifted to the next quarter.

In terms of total cost of projects we maintain that those will be the same and we will maintain the same IRR, so financially I don't think there is an impact.

Moderator

We have the next question from the line of Ruchi Vora from UBS.

Ruchi Vora

My first question is on the EBITDA margins, just wanted to get some guidance from the management as to how do we look at margins evolving over the next 2-4 quarters given that we are starting many new capacities over the next one or two years?

Krishnan A

We typically don't guide towards margins but with that said, we can let you know that as the next new capacity comes you should expect some operational cost which should come out of these new capacities till the time they mature, so we have budgeted for around Rs. 20 crore to Rs. 25 crore of cost over in the next year on account of new facilities but with that said, we are also banking on our existing clusters such as Hyderabad to start delivering and giving us the EBITDA fillip, we are also focusing on two other aspects which is one, if you look at last year we had an exceptional increase in our manpower cost because of nursing and that is something that we would not expect to continue in this year because we already have seen that impact last year, so that should start benefiting our EBITDA margins. So broadly if you ask us the current trend which is something that we are looking to continue for a while but there could be some impact of these new hospital beds.

Suneeta Reddy

I think, there is also an initiative within the group so that our fixed cost won't really grow and that we are looking at some of the units having delivered a 3% saving on their fixed cost so this is also part of it which is why we believe that we will try very hard to maintain the existing EBITDA margins.

Moderator

We will proceed with the next question that is from the line of Ravi Dodhia from Crisil.

Ravi Dodhia

If you look at same-store sales growth for pharmacy business up to 2,000 bed stores, in 4th Quarter it grew only by 10%, so just want to get a sense, this is the kind of growth that can be expected from the mature stores going forward?

Obul Reddy

We have grown about 14% for the 2007 batch which is the same-store growth and we will continue to grow at that level next year as well.

Ravi Dodhia

Yes because EBITDA margin also if you look at it, it is kind of say stable at 5.4%?

Obul Reddy

That batch is considered as a matured batch and we are almost 6% on that batch.

Ravi Dodhia

And with respect to the lower occupancy and volumes in all the clusters, Chennai, Hyderabad and also Tier-II cities, apart from the holiday that was there, do you also see kind of competition that is there as in more number of suppliers coming in then which is why some amount of volume is impacted?

S. Premkumar

If you look at it in the context of a broader volume view, I don't think there is any competitive impact associated with this, the brand stands by itself and I think, the context that I said earlier, in terms of trying to look at it to be closer to the community that is why you see that in Chennai, while we de-clustered and decongest and look at it in the context of ARPOB based increase through case-mix, we are also looking at trying to have community centers in South Chennai and in the other parts of the Chennai. So to answer your question directly, I wouldn't say that there is any competitive impact on this.

Suneeta Reddy

If you look at the broader picture of urbanization, cities are developing, so if we had in a city 3.1 bed per 1,000, we are still maintaining the same ratios because the number of people coming into the cities is growing and I'm sure that is a phenomenon that we are

seeing all over India. With regard to the Tier-II cities, I don't think we have competition because Apollo has created a niche for itself especially where surgical care and ICU care is concerned which is why we find utilization where we start with Bhubaneswar or Madurai extremely high.

Ravi Dodhia And with respect to the tax benefit for Ayanambakkam and Bangalore Ortho and Spine, what was the tax benefit that was taken during the quarter?

Krishnan A So for the quarter I wouldn't be aware of the number exactly but for the year if you look at it we have got 150% tax benefit and the CAPEX of both these facilities put together is around Rs. 160 crore.

Ravi Dodhia Correct so to the tune of Q4 benefit on this CAPEX of Rs. 160 crore, that is what you have taken in the current quarter Q4?

Krishnan A We had already taken it in the earlier quarters as well because you estimate the tax for the full year but in Q4 there was an incremental impact because we had a couple of large equipments that we had added on to the hospital which increased the overall capital outlay here, so that is why there was an incremental impact on Q4 but that would probably be to the extent of around Rs.10 crore.

Ravi Dodhia And with respect to the interest that has been capitalized for the full year, what was that amount?

Krishnan A Rs. 21 crore is the interest capitalized for the full year.

Moderator We have the next question from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal In terms of the hospitals that the beds we are adding in the Chennai cluster as far as the profitability is concerned are they going to be in line with the existing cluster profitability?

Krishnan A The existing cluster is a very mature cluster and obviously given that there are outpatient volumes which are very high in the main hospitals that helps a lot as well as cancer hospital has a very high EBITDA margin but with that said the hospital would be in line with our overall hospital margins of 24% to 25%.

Nitin Agarwal And the hospitals the 1,000 odd beds that you are planning to add this year, how many of these would you see getting operationalized by the end of this year?

Krishnan A Around 500 to 600 would be the number. So we would have a calibrated plan there, we would open up slowly, we would start up may be with 50% and then take it higher.

Nitin Agarwal In terms of the CAPEX, what is the kind of CAPEX you did in FY13 and what is the number we are looking in 2014?

Krishnan A The new hospitals next year would be approximately around Rs. 450 crore.

Nitin Agarwal And how much did we spend in FY13?

Krishnan A That is another Rs. 300 odd crore.

Nitin Agarwal And on this Lifeline Hospital in Chennai, is there any upfront payments involved in that?

- Krishnan A** There is a deposit which is there of almost around Rs. 40 crore of which half of which will be refunded and the balance will continue as a security deposit, over and above this Rs. 40 crore our CAPEX would be around Rs. 60 crore.
- Nitin Agarwal** When would these beds be completely available for you?
- Suneeta Reddy** In this year.
- Nitin Agarwal** By the end of FY14?
- Krishnan A** End of the year closer to or more towards the end of Q3.
- Nitin Agarwal** So of the 300 beds we are looking to add in Chennai this year, at least it is going to be spread little across the year because the Lifeline Hospital beds we will get only in the second half of the year?
- Suneeta Reddy** We are fully operationalizing Ayanambakkam, opening Lifeline and Trichy which is Tier-II.
- Nitin Agarwal** Given our cash flows which one can estimate based on the current year numbers, do you see another Rs. 450 crore CAPEX for incremental hospitals, do we see a material increase happening in the debt levels going forward or accruals should be good enough to take care of the CAPEX that we are looking at for the next year or so?
- Krishnan A** Not so much that we will see because we have cash of almost some Rs. 400 crore in our books now.
- Suneeta Reddy** And our debt-to-equity is only 0.2, so we can definitely take though some of it we would not, right now we're not thinking of adding any additional debt.
- Nitin Agarwal** Lastly on the whole, this is the first sort of acquisition that we have undertaken for a while so how are we looking at this whole inorganic growth opportunity? Are we seeing opportunities and when you are looking at these opportunities what are the key criteria's as far as evaluation for us is concerned?
- Suneeta Reddy** I think that we are looking at an inorganic growth, we will probably announce a hybrid soon of a model that works for us. I think the first criterion is that we should not have a presence there already and this sort of limits the hospitals that we can acquire. Second it has to be value accretive because we have a certain thumb rules on cost per bed even when it comes to acquisition. And third the facilities have to be according to our standards which is JCI enabled, so these are the criteria that we are following.
- S. Premkumar** The other part would also be to look at the local availability, the patient mix and the profile that we see and the consultant availability in that state.
- Nitin Agarwal** But the opportunities that you are looking at, most of them do they involve the kind of existing hospitals which you will just take on some sort of not exactly management fee contract basis but it is like a lease basis or you would be buying outright assets, how do you see most of your acquisition really coming through?
- Krishnan A** It is the combination of the all because if you look at it in the Tier-II locations when there are established hospitals we pretty much don't see a lot of acquisition opportunities for 100%, we tend to go with the 51% option route that is the route and then take it to 100. Like Bangalore is a classic case where we had a 51% stake just a couple of years back and now it is at 90% with an option to buy the 10% out as well. So similarly there are a couple of locations where we are looking at Central India where there could be opportunities of 51%. Local players would not want to exit completely as well so that is one

of the things. Secondly when there are options like Lifeline where we see that the facilities available for lease is completely with us and that is the other option that we do. The third option again if you look at a place like Bangalore, the hospital that is coming up in Malleswaram was a structure which is already put up for a non-hospital facility that is being reconditioned and given to us as a hospital bed that brings down the time that we take to get into the market. So there are multiple options, we are not fixated with a 100% acquisition today and then not many 100% acquisitions also might be available out there which would suit us.

Nitin Agarwal When you are looking at some of these assets, have you seen an increase or some sort of decrease in terms of number of potential competitors that you see looking at some of these assets over the last few quarters?

Krishnan A Not really.

S. Premkumar Would really not look at the existing 185 beds at Chennai that we are looking at to be competition to us but in the context of making it an Apollo facility, it creates a completely new product out there.

Moderator We have the next question from the line of Praveen Sahay from B&K Securities.

Praveen Sahay My question is related to pharmacy, like for the last several years we are adding almost 150 stores net addition, so where we are seeing going forward in a similar line?

Obul Reddy This year we added about 170 stores, we are going to continue on that line.

Praveen Sahay And also I had noticed like in the last quarter last year and even in the last Q4 FY13 as well, we had added a gross of around 80 stores as compared to the rest of the year the addition is quite high so what basically is the strategy?

Obul Reddy The reason this year there were some delays in getting license, so in Q4 we opened 80 stores against about 50 stores in the Q4 of last year.

Praveen Sahay About the expanded geographical reach, where are we are primarily expanding, is it more towards the southern region or spread across different parts of the country?

Obul Reddy We are expanding across different parts of the country.

Praveen Sahay Okay, so throughout like?

Obul Reddy We are slightly slow in Maharashtra where rentals are still high other than that our expansion is evenly placed.

Praveen Sahay Earlier in the calls, you mentioned about the international contribution increasing so would you please elaborate more on that?

S. Premkumar I think, International has been a very lucrative space for us. We are continuing to grow our international reach by looking at opening up new countries from which we are looking at strategic tie ups. Apart from it going into deeper penetration in some of the existing countries which are already large catchment areas for us, so the point of presence that we so far had which could really be the information centers and some of our partners there are being augmented, so also the amount of camps and amount of connects that we are really getting down at the clinical level which is almost seeing a 2 to 3 fold increase over the last three or four months and will continue to grow at the same pace over the next 6 to 9 months.

Suneeta Reddy

Just to add on what Premkumar said, I think based on the work that is happening in marketing and other departments total revenues in Indraprastha which is our Delhi hospital which comes from international patients has moved to 15%, so clearly the number of international patients coming in is rising but more importantly is growing in locations where the access and the infrastructure is greater. So Delhi with its connectivity, hopefully Hyderabad with its increased connectivity, these are the type of cities which are actually seeing a larger rise. Ahmedabad with the new connectivity and Bangalore, which are seeing a larger rise in the international patients and of course Chennai.

Pravin Sahay

Just on your hospital business, what exactly is the percentage of hospital pharmacy in the hospital revenue?

Krishnan A

That is approximately 22%.

Moderator

The question is from the line of Perin Ali from Edelweiss.

Perin Ali

My first question is regarding your Hyderabad cluster, we are seeing a continued lower growth in outpatient volumes and even inpatient volumes have not picked up this quarter. You mentioned that you expect Hyderabad to contribute positively next year, so what is the strategy around that?

S. Premkumar

You have to look at it in terms of three or four things that we are trying to do there. One of the aspects of it is essentially we have over the last few months and which is continuing now significantly increased on-the-ground presence in terms of connect at the community level. The kind of programs that we have started off has really translated itself into significant activity to try and increase volumes that is one level. Two is, also in the context of some of the case mix related work that we are getting down to do, that again has translated itself into good results and you would see that as we go forward. The third aspect is we talked about international market space, we have created Hyderabad as a very critical hub in the international space with respect to some of the newer countries that we are now seeing traction and from this traction I think, we definitely believe a good amount of those patients would come into Hyderabad which again have connectivity in some of these countries, that is the third pillar of change. And lastly, in the overall context of point of presence through the number of centers that we really have around the Hyderabad cluster, the overall penetration with respect to some of the referring kind of tie ups and so on has also significantly increased.

Suneeta Reddy

Again to add to this that at this time it doesn't look like 8.3% growth in volumes for inpatients and 1.8 are good figures to look at but we need to emphasize that at Apollo Hospitals we focus on profitable growth. That we are not really looking at numbers for the sake of numbers, so this has been our strategy. Hyderabad and every hospital within the cluster is at a premium to market and therefore it is profitable growth. It might not reflect in huge volumes but let me say that it is profitable and that has been part of our strategy.

Perin Ali

This means that we are facing some pressure from competition in terms of pricing because we have not been able to take a significant price increase in Hyderabad and I think if I remember last quarter, you mentioned that you may be looking at cutting prices across hospitals in Hyderabad to expand on volumes, so has that strategy changed now?

Suneeta Reddy

No, I don't think we ever have said and we have never done that.

S. Premkumar

I think there is no pressure on price, I think you should read that statement from Suneeta more to be stating that we would continue to sustain our price advantage in the marketplace and grow as per the sustained premium pricing that we continue to hold, that is one statement should be seen in isolation. And the second aspect of this is that, I think there is a need to get on to greater penetration in the market place and what we perhaps have to do and we have done now is essentially increasing that level of penetration and

you would see that reflecting in the kind of volumes uptick at the same kind of a pricing strategy.

Suneeta Reddy

Because if you look at the outpatient volumes it is has grown by 1.8%, our outpatient revenue has grown at 13.4%, clearly, we are not talking about bringing down the prices in our facilities there because in terms of the technology, doctors, quality of service, clinical outcomes, we are clearly a leader and this is really what counts and this is the base. This is a central part of our strategy, so I don't think there is going to be a compromise here which means that we don't need to compromise when it comes to prices.

Perin Ali

Just on the international market space which you mentioned in Hyderabad, you have 930 operational beds, so if you could just let me know how many of these are for the international block or which cater to international patients and what is the occupancy in those?

Suneeta Reddy

There are about 100 international patient's beds and there is an occupancy of about close to 70% of that. I have to say this time that it is not only international patients, sometimes the local patients who are willing to pay a high premium are also accommodated in those rooms.

Perin Ali

And a last question on the funding of your CAPEX, I don't know whether I heard correctly, you plan to incur around Rs. 450 crore this fiscal, am I correct?

Krishnan A

That is correct.

Perin Ali

So going forward with the entire CAPEX plan, how much debt we expect today this year and next year?

Krishnan A

The coming year the debt would be close to zero and the year after that we would be looking at another Rs. 500 crore of CAPEX, so predominantly that would come through debt.

Perin Ali

That is in FY15?

Krishnan A

That is right.

Perin Ali

Your average realizations now trend at 6% on a group level and you have been able to do a double-digit kind of increase in ARPOB historically, so do we expect to revert next year to the same level or we will continue to see lower growth or a single digit kind of growth?

Krishnan A

We are targeting similar numbers as what we are targeting and budgeting for.

Perin Ali

Similar high single digit kind of?

Krishnan A

That is correct.

Moderator

We have the next question from the line of Eshit Seth from Anvil Shares & Stocks. Please go ahead.

Eshit Seth

In terms of number of operating beds which will be coming in FY14, there will be roughly 500 to 600 beds out of the roughly 940 beds that we have planned to add in FY14, am I correct?

Krishnan A

That is correct.

Eshit Seth

In terms of revenues, if I look at your overall performance you all have currently operational beds of close to 3,500, additional 500 to 600 beds would mean a growth of roughly 17% on that 3,500 beds plus ARPOB growth that we have, so are we looking at close to 25% 30% growth for FY14?

Krishnan A

We would not be able to guide you towards that and the important thing that we should also see, we have to see the clusters where it is being added. The ARPOB will be different from the ARPOB that we typically have in certain other clusters like Chennai so you cannot just extrapolate into the numbers the way you did, you can get off-line and we can discuss this.

Eshit Seth

In terms of your consolidated performance, I had a couple of questions on the profitability of our consolidated operations, if I look at the standalone and consolidated operations is more or less flat and one of our biggest JV that is Apollo Munich Health Insurance that had reported basically a profit compared to a loss in FY12, so can you give us a break up of where are we making losses in the consolidated level?

Krishnan A

This year we had some new clinics again which we ramped up in Apollo Health and Lifestyle and we had 2 'Cradle' facilities which are the birthing centers that we have also added in this fiscal and they are some fixed costs which are associated to that in the early part of the maturity. So that is something that we would expect to go up as you move into maturity in the clinics as well as credit. So that is one location where we have some losses and there were some write-offs of debts in one other location as well which is a small number.

Eshit Seth

Can I get a break-up of the Apollo Health Lifestyle loss?

Krishnan A

EBITDA was around Rs. 8 crore loss. And as we get into next year we would look at it coming down.

Eshit Seth

If Apollo Health was around Rs. 8 crore loss, we have a profit of even in our associate at Delhi - Indraprastha Medical plus we have another profit for Apollo Munich.

Krishnan A

We can get on that offline because Delhi does not get consolidated at the EBITDA level it is an associate. It gets consolidated as a net income level and we need to yet to understand what gets consolidated at the EBITDA level and what gets consolidated at the net income level to get this split that you are saying but the broad answer is only AHLL which is Apollo Health and Lifestyle, all other companies are profitable.

Moderator

Thank you. We have the next question from the line of Krishna Prasad from Kotak Securities. Please go ahead.

Krishna Prasad

My query is regarding the Chennai cluster. So this year we have had an addition of beds towards the end of the year and we have seen a moderation in ARPOB growth. So if the additional beds are being added for FY14, how do we actually view this ARPOB growth for the Chennai cluster next year?

Krishnan A

See if you look at the number of beds that we had operationalized in the coming year the number of beds are going to be slow. So given that the operationalizing of the new beds are going to be a bit slow, we would still be able to see an ARPOB growth of similar numbers next year. But that said, you are right the overall ARPOB that you expect of the new facility would not be in-line with the ARPOB of the main hospital which is high or a specialty hospital which is high. So we will try to provide you some color on it as we move forward and start reporting numbers.

Suneeta Reddy

I think the strategy however is to see that Chennai main with its 550 beds will move into a higher ARPOB level and higher utilization levels. The key is in the case mix and the fact

that we were able to bring down our loss. But the new facilities will definitely because they are new and we are launching we will have to do it at a pricing which is at a 20% discount to the main facility and that is really the strategy that we follow till people will get used to it and comfortable with the facility and then after that you could see a ramp up in ARPOB.

Krishna Prasad Would it be possible to share a number of how much operational beds would be added in FY 2014 in Chennai?

Krishnan A For Ayanambakkam is around 100 plus beds we have added and by H2 of this fiscal mode towards Q3 end we would add Lifeline which is around 150 beds and the 'Woman and Child' would also be around the same 45 beds in Q3 and in Q4 we would have the 'Woman and Child' next to the children's hospitals of around 65 beds.

Krishna Prasad My other question is regarding the Tier-2 cities, the volume, the inpatient revenue growth for the current quarter where we have actually seen a bit of a slowdown compared to the 20% plus growth that we have seen in the previous quarters. Is it anything specific that has happened in this particular cluster or how do we see the growth going forward?

Krishnan A There is some specific spurt in medical management cases and especially in places like Karur, Karaikudi, Madurai, etc., and that is something that is not there in Q4, some of them especially places like Karaikudi we had dengue which resulted in some increase in the number of volumes so those won't recur in Q4.

Suneeta Reddy Also they have reached quite a high level of occupancy.

Krishnan A Yes, that is right.

Suneeta Reddy But Madurai especially has reached a high level hopefully we are opening actually more beds there also.

Krishnan A That's right. In Madurai is now almost at 80% occupancy on normal week days and we are now also opening up a nursing home. We have a nursing home in the next 6 months we are re-furbishing that and we would be having some day care cases, etc., we should be doing out of that nursing home and that would further give fillip to our volumes in Madurai.

Moderator Thank you. We have the next question from the line of Bino Pathiparambil from IIFL. Please go ahead.

Bino Pathiparambil As you mentioned the Thane project is now called off, was there any CAPEX that we already incurred there?

Suneeta Reddy There was CAPEX but the Yash Birla Group actually contributed to a portion of it.

Krishnan A That is right. We got it back; our portion is back with us now.

Bino Pathiparambil And what is the total of all projects put together CAPEX budget for FY 2014?

Suneeta Reddy Rs. 450 crore.

Moderator Thank you. The next question is from the line of Aditya Khemka from Nomura. Please go ahead.

Aditya Khemka So my first question is on the subsidiary sale - so if I just deduct your consolidated revenue from the standalone health care services revenue, what I arrive at is the subsidiary sales ex the JV part of it. So if I look at that on a sequential basis there has

been a huge drop in sales; It was about Rs. 65 crore in 3Q 2013 and it is roughly around Rs. 36 crore in 4Q. Now I understand with my discussions with you previously that in 2Q and 3Q there was a jump in sales because some clinics were brought under subsidiaries and which is why there was a stiff jump in revenues. So what has really caused the depression in 4th quarter?

Krishnan A See there was a reclassification which was done in Q4 because until Q3 we don't report consolidated numbers. Q4 there was a reclassification because we had reported gross revenues in one of the hospitals whereas we typically report net revenues, net of doctor's fee. So in one hospital which was there we had in the clinics subsidiary which is AHLL again until Q3 we had reported the gross revenues whereas in Q4 we had to report the net revenues and that had an impact in the Q4 numbers but it is just a classification, the EBITDA remains the same, and the profitability remains the same.

Aditya Khemka So am I right in assessing that you would have probably had to take a write-down on the net and gross difference for the previous quarters also in this quarter?

Krishnan A That is correct. Because till Q3 the revenues that was being reported was the gross revenues and then the doctor's fee was going as a cost whereas in Q4 we had to reflect it as net revenues and which excluded the doctor's fee. Other than that profitability and everything has continued. Because we don't report consolidated numbers, it is only for the analyst and investor's at large that we provide the estimates of consolidated numbers. But otherwise it has been in line.

Aditya Khemka So if I just wanted to get further clarity in this, so what would be a more normalized number for a subsidiary sale in the 4th quarter. So had there been only net revenues and you would not have put it in write-back?

Krishnan A We will provide that number to you off-line, you can get it from Krishnakumar. The YTD numbers are correct now. The full year numbers that have been reported are correct. So the impact is not as big. It is probably around Rs. 15 crore or something which had to be reversed.

Aditya Khemka So the FY 2013 number is on a net sales basis, I can look at that?

Krishnan A Exactly you can look at FY 2013 also and that is of net sales only.

Aditya Khemka My next question relates to your ARPOB guidance or rather what you mentioned to an earlier participant so a high single digit kind of a growth in your ARPOB. I mean there are 2 aspects to it – one is definitely an improvement in case mix which is going to increase your ARPOB, the next is obviously passing on inflation in cost and third is whatever improvements you can do in terms of your patient IPD-OPD mix. Countering these 3 tailwinds is definitely the headwind of new launches and how much ARPOB we can generate from the new launches. However, don't you feel that a high-single digit does not really represent the brand strength that we speak of? Because Apollo being a brand should be able to charge a premium in fact that is what we are doing in Hyderabad. So don't you think I mean there is a mismatch there? In terms of how ARPOB should be doing going forward?

Suneeta Reddy Yes, we definitely charge a premium. We are at a significant premium to market. This ARPOB only reflects the growth over last year but it does not tell you that we are already at almost 15% to 20% premium to market in certain segments and the second issue that we have to keep in mind is that the ARPOB also does not tell you the inflation in salaries, overheads, everything that had to be that were absorbing in this ARPOB. So there is a limit to which we can go. The third issue of size. Third and most important issue is that we have been re-empanelled by GIPSA, the insurance companies and to stay with GIPSA I think we have to keep the ARPOB within a certain band, with still at a premium but it

cannot really be out of whack otherwise we will lose the insurance clientele and they will just get used to going to other hospitals which we don't want to happen.

Aditya Khemka So this re-empanelment of the insurance company this is for the Hyderabad cluster right?

Suneeta Reddy No, December it was for Chennai and now its Hyderabad is happening.

Aditya Khemka So given that they have re-empanelled, did you experience higher volume coming from that particular institutional client at your end for the 4th quarter?

Suneeta Reddy Last year 4th quarter, yes.

Moderator We have the next question from the line of Nitin Gosar from Religare. Please go ahead.

Nitin Gosar Just wanted to understand now this pharmacy business which is contributing 22% of your total hospital sales, what happens once the new pricing policy comes into play? There would be some hit on your revenue, right?

Obul Reddy The pricing is not clear from the manufacture as of now unless they determine and decide on that we will not be able to comment. It might take another 45 to 60 days to get a view of that.

Nitin Gosar So by our 1st quarter we will have a better understanding, how things might play out?

Obul Reddy Our expectation is more on the life saving and anti-inflammatory so on the SAP side the impact will be very less.

Moderator Thank you. We have the last question from the line of Shashwat Panda from Pure Heart Capital. Please go ahead.

Shashwat Panda I just wanted to understand that you are going to add 1,000 beds next year and 2,000 beds in all over next 2-2.5 years. How are you planning to do that without starting a price war for talent because my understanding is that talent is the scarcest resource as of now for the industry as a whole?

Krishnan A If you look at our expansion plans you would realize that it's not one stop in one location where there is a lot of competition for skilled man power or talent. That is why if you look at our expansion plan it is well spread out, in a cluster like Chennai we are the dominant hospital network here and we would want to as Prem said we would want to go into other locations like South Chennai and suburban locations where there is a lot of residential units as well which you would want to now cater to. And if you look at all the beds that is being added there is a lot of new Tier-2 and Tier-3 locations where there is not as much corporate hospitals, we are going to be the first corporate hospital in several locations like Indore or Patna, Trichy, etc., you would realize that we are not going after the same talent pool.

S. Premkumar I think we must also appreciate that these are one of the criteria for any of these new expansions which has been based on consultant availability as a whole which is a very core element and based on that I think that is a very high weightage point as you rightly pointed out. So our case mix also in terms of what we are trying to do for example the Bangalore one is orthopedic based where the talent is available and pre-budgeted for in terms of what is going to be there. So I think the whole context is case mix compared and most importantly I mean I think being part of the Apollo network is aspirational in many cases for not just consultants but by a larger perspective. Outside that if you would have noticed that over the last few years we have had a significant inflow of consultants coming

out of India, returning to India either from the US or from the UK and so on. So it continues to be our core catchment area in terms of incremental talent that we are looking at.

- Shashwat Panda** So do you seed the hospital with talent from your current existing hospitals?
- S. Premkumar** Yes, as appropriate and as aspirational for them to be closer where they want to be and also try to look at the right talent which makes our quality standards and clinical outcomes deeper.
- Shashwat Panda** So you do not face resistance from the current man power because if I understand all your top doctors are on revenue sharing basis. Since they are running businesses in their own right it must be very difficult for them to pick up and leave and start in another city.
- S. Premkumar** I mean I guess the relocations are far and few, more importantly we look at newer talent, we look at a few of them being seeded and there are multiple ways where appropriate incentivization is done.
- Shashwat Panda** So you do not think this is going to be a bottle neck at all?
- S. Premkumar** Not in the medium term and our present expansion plans.
- Shashwat Panda** The second question was as you said that Chennai obviously being a big cluster you have a lot of synergies if you open hospitals around Chennai and may be around Tamil Nadu. So do you think you have squeezed out enough or all the juice from that market to actually look at a market like Bombay where you will have 2 hospitals which is a very high cost location and where you will actually have to compete for talent with people like let us say the Reliance Hospital. So does it make sense to enter a place like Bombay vis-à-vis just getting easier business around Chennai in Tamil Nadu?
- Suneeta Reddy** No I think we proved that we could be successful in Delhi, we have done it in Bangalore, we have done it in Calcutta and I do not know why we cannot do it in Bombay. Our doctor retention strategy is completely different from any of the other hospitals. We work on a fee for service basis and most of our doctors in Bombay, unlike most of the hospitals, will be full time Apollo consultants. And a large portion of our doctors are actually doctors that we bring back from overseas who will be committed to working full time with Apollo.
- Shashwat Panda** So why is it that Apollo is able to do this, have this unique retention strategy and other people let us say Fortis have not been able to do it. Because they do it differently that is what I know?
- Suneeta Reddy** No, I think because we are the 1st and we have learnt over the years. Our Chairman was a doctor practicing in the USA who came back with some learning. We started with some learning instead of acquiring hospitals with existing structures so it's made a difference then I think it's worked well for us and sometimes we had to moderate this strategy and give them a guarantee fee in the 1st year which is why the cost are high when we start a hospital in the beginning. We do give them a guarantee feel so that they will stay with us as soon as they come back from overseas and then they move to fee the service but it is a model that works in all our new hospitals.
- S. Premkumar** And almost at the end of the day it is a preferred consumer brand so obviously I mean there are strong weightages of where you want to work depending upon that.
- Shashwat Panda** I mean would you say that the brand spills over to the breakeven period also? Would you say that an Apollo Hospital breaks even faster or quicker than the competition?
- Suneeta Reddy** Well in Delhi the break-even is 18 months. It is an example of what we can do.

- Shashwat Panda** So when you are planning for this, what is the breakeven period that you typically assume for a new hospital?
- Krishnan A** Typically 18 months is what we assume at breakeven.
- S. Premkumar** This is not static we keep improving on it I mean I think we had various bench marks and we have continued to beat those bench marks.
- Shashwat Panda** Should we consider the Bhubaneswar Hospital as a typical benchmark?
- S. Premkumar** It should be a good one to look at to evaluate most of our community expansion hospitals. It should be a good benchmark to keep as a base.
- Shashwat Panda** Again coming back to the Chennai cluster obviously it is a thing of beauty because you have such a high market share, it allows you to dictate prices, that benefit you do not have in Hyderabad or other places so would you not say that it is better that to plan may be 5 years ahead and start developing a cluster like Chennai somewhere else let us say Calcutta is one option where you can look at, where the competition is low.
- Krishnan A** Bangalore is already a cluster that we are working on as we said, it is some 225 beds, you will see it getting to 500 beds quickly and we would also expand Bangalore further to this. Calcutta is another cluster.
- Shashwat Panda** I think in Bangalore you have competition right across the street from Fortis and it is not as virgin a market as Chennai was when you started?
- Krishnan A** That is fine. We are looking at each such market. Competition is real; we cannot look at expanding without competition that is fine.
- Shashwat Panda** But the question is: are you trying to create another Chennai cluster or is it just taking it case-to-case?
- Krishnan A** Bangalore is a cluster that we are creating, Mumbai would be another cluster that we would be creating, Calcutta is another along with East which we are looking at creating. So yes you are right we would be looking at creating clusters around these cities.
- Shashwat Panda** At around what market share do you think that the competitive dynamics change for a given micro market?
- S. Premkumar** No I think to look at it terms of market share at this point, the question is a lot more data points across what kind of segments we address? What kinds of case mix we address and so on. I would not get into the discussion around that while internally I would assure you that we track each of these as per the intelligence that is available.
- Moderator** Thank you. I would now like to hand the floor back to the management of Apollo hospitals for closing comments. Thank you and over to you.
- Suneeta Reddy** Thank you so much for joining and if there are any other questions that you might have, please feel free to call Mr. Krishnakumar, Head of Investor Relations and Mr. A. Krishnan, our CFO, who will be available to answer to them. We look forward to meeting all of you in our facilities and our next conference call.
- Moderator** Thank you. Ladies and gentlemen on behalf of Apollo hospitals that concludes this conference call.