Ladies and gentlemen, good day and welcome to the Apollo Hospitals FY-14 Earnings Conference Call. As a reminder, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "+*" then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani of CDR India.

Thank You for joining us on this call to discuss the Financial Results of Apollo Hospitals for FY-’14 which were announced yesterday. We have with us today the senior management team comprising Mrs. Suneeta Reddy - Joint Managing Director; Mr. SK Venkataraman -- Chief Strategy Officer; Mr. A. Krishnan -- Chief Financial Officer.

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 complete listing of such risks and uncertainties, please refer to our Investor Presentation. We will start with Mrs. Suneeta Reddy who will discuss the “Operating Highlights” for the quarter, following which Mr. Krishnan will discuss the “Operating Metrics,” “Expansion Plans” and “Other Highlights.” Documents related to our “Financial Performance” have been shared with all of you earlier, and have also been posted on the corporate website.

I now invite Mrs. Suneeta Reddy to touch upon the key highlights of our performance.

Thank you for taking time out to join our call. Our results for FY14 demonstrates our continued momentum led by commendable traction in our Centers of Excellence (COE) initiatives in the hospital as well as profitable growth in standalone pharmacies.

Hospitals across our network have witnessed an increase in the incidents of high acuity cases across key specialties such as Cardiology, Oncology, Neurology and transplants which had led to an improvement in the case mix and revenue realization. While the growth of Chennai for the year was at 11%, the growth outside of Chennai at 14% was good. Hyderabad has begun doing well in line with our plans to augment the COE, and it also
reflects the richer profitability from this cluster. Locations like Bhubaneshwar, Bangalore, Calcutta, and Ahmedabad have witnessed strong growth.

The Chennai Main had reached full capacity and we did not have much headroom for growth. With Vanagaram now fully operational we have now rebalanced the facilities in Chennai to channelize some of the PSUs and long stay patients to Vanagaram. The Day Care Facilities have also picked up and has helped in freeing up capacity in the main for high-end treatments and procedures. There was a reduction in some of the long stay, low realization patients, as well as shift in the CABG to PTCA which has reflected in a lower ALOS and seemingly lower occupancy. The capacity so released we believe can be used to attract more high-end customers. It is the development that we hope to fully utilize to improve the profitability at the Chennai Main Hospital.

We also have a team of new doctors in Vanagaram which we believe will help Vanagaram occupancy in crossing the 100-bed mark. We are seeing good traction in Outpatient Volumes and richer case mix from Inpatients in Hyderabad. Outpatient Volumes were positively impacted by our Physician Connect Program. Overseas Marketing Programs, Medical Camps and Specialty Clinics helped to augment international patient flow into the facility. Hospitals outside the major clusters as well as Tier-II hospitals in Bhubaneswar, Mysore and Madurai have reported healthy growth rates. These hospitals have also delivered improvement in EBITDA.

As you go through our numbers you will see the operating profitability of our core operations remains intact despite the challenging economic environment. The established hospitals in our network have reported improved profitability; this is supported by the margin expansion which is in the standalone pharmacies. These have helped us mitigate the anticipated initial operating losses of our new hospitals. While there were some unexpected delays in commissioning and operationalizing some of our new hospitals due to delayed licenses, PSU insurer clearances and regulatory hurdles, we are now witnessing healthy footfalls in both the outpatient and inpatient services.

In FY‘14 we made good progress with our expansion plans. We have added over 500 beds in the last 15-months in Vanagaram, Chennai, Jayanagar in Bangalore, and recently in Trichy. We are now poised to operationalize another 500 beds over the next 12-months including nearly 200 beds in Chennai. We have commissioned Outpatient Services at Nasik in March ‘14. inpatient services will be fully operational in Q1 FY‘15. We will also commission 200 beds at Nellore in Q1 FY15. I am happy to share with you that we have acquired 51% controlling stake in a 125-bedded hospital in Indore in April 2014. This facility will be ramped up to 175 Beds in the next 12-months. This year saw us further scaling up our clinical value proposition by the introduction of several new initiatives across the globe. The first ever surgery on pygopagus conjoined wins and the successful combined kidney, pancreas transplant are first in Tamil Nadu, highlights our clinical focus and our commitment to patient care in excellence.
The patient is at the center of what we do at Apollo and the recently launched personalized health checkup program is further testimony to this. We have successfully completed 500 Robotic Surgeries this year elevating our standards of technology excellence and quality of patient care. We offer a comprehensive suite of oncology-focused treatment technology such as PET-CT, Novalis, TrueBeam, CyberKnife and have drawn our plans to ramp up the cancer care facilities across the network. We continue to be the “World’s Busiest Solid Organ Transplant Center” in the World and enjoyed the distinction of completing 500 Liver Transplants on patients from a single country, being the first organization in India to do so.

Clinical monitoring review forms a very key ingredient of our clinical excellence focus. The smart leveraging of technology has enabled us to sustain excellence in clinical outcomes while also delivering positive results towards our efforts to reduce length of stay in network hospitals. We have worked on reducing length of stay and have used differential pricing across facilities to incentivize low complexity cases away from the tertiary care facilities to day care facilities and other secondary care centers.

Now, coming to the specifics of our “Financial Performance”, standalone revenue grew by 16% from Rs.3,318 crore to Rs.3,862 crore in FY-14 which includes 13% year-on-year growth in revenues from Healthcare Services alone and 24% year-on-year growth from standalone Pharmacy. Standalone EBITDA grew 11% from Rs.554 to Rs.614 crore in FY-14 and the standalone EBITDA margin for FY-’14 is 15.9% as compared to 16.7%. New facilities which are in the initial stage of operations including the recently commissioned “Trichy” had operating losses of Rs.21 crore. Excluding new hospital losses, existing business margins were at 16.7% in FY14 as compared to 16.9% in FY13 due to SAP revenue mix being higher at 35% of revenues now as compared to 33% in FY13. New hospitals need a period of 18 to 24 months to breakeven and efforts are underway to achieve profitability much sooner at these facilities. The Hospital in Jaya Nagar Bangalore has already achieved EBITDA breakeven by the end of Q3. “Vanagaram”, Chennai which has seen some augmentation of specialty mix is rapidly approaching breakeven. “Trichy” which was launched in October 2013 has made good progress in the first 6-months.

In our standalone Pharmacy business, EBITDA has grown 53% from Rs.29 crore to Rs.45 crore. Our success on this front has come through a combination of factors including the increasing maturity of store network, rationalization of loss-making stores, and the increase in the proportion of private labels in the product mix. The EBITDA from standalone pharmacy expanded by 63 basis points to 3.3%. On a consolidated basis revenues grew 16% to Rs.4,384 crore. Consolidated EBITDA grew 10.6% to Rs.673 crore. All of our subsidiaries JV hospitals in Bangalore, Calcutta, Ahmedabad, and Delhi have reported healthy year-on-year growth rates. All these facilities delivered good growth in EBITDA with Ahmedabad and Bangalore registering the sharpest improvement in EBITDA performance. We have implemented similar strategies in these hospitals to augment specialties, optimize case mix as well as enhance our focus on cost management. We are now beginning to see the benefit of these strategies from the improved profitability at these centers. As part of the consolidated operations, the operating loss of Rs.17.5 crore from Apollo Health and
Life (our retail subsidiary) , came about due to two new clinics and two new cradles.

As we enter into another exciting year we have plans ahead to roll out a set of new patient-centric initiatives both at our hospitals and clinics. The roll out of Sugar Clinics as well as further expansion in both our Lifestyle birthing centers and dental centers will enhance our retail health initiative. We are cognizant of the challenge of the rising disease burden primarily NCDs that the country is faced with and are gearing up to enhance our pan India network. We strongly believe that a combination of technology and clinical advancement coupled with early screening and disease protection will be essential to meet this challenge. All the constituents of the healthcare system will need to coordinate to rise up to meet this daunting challenge and we believe that the mandate of a stable and progressive government may herald forward-looking regulations which will encourage further growth in this sector. Our Chairman has spearheaded the formation of ‘NATHEALTH’ which is a health care industry body which would serve as an industry body and think tank to coordinate and optimize efforts for the healthcare industry in India. Now over to Krishnan our CFO for details of our Financial Performance.

A. Krishnan:

While Ms. Suneeta has already provided you with the financial and operational highlights of our performance I will quickly take you through the operational performance of the hospitals and the segment wise performance of our key businesses. Slide 7 and 8 provides you our standalone financial performance which is split between existing and new facilities.

While overall revenue grew 16.4% to Rs.3,862 crore, Healthcare Services grew 13% from Rs.2,216 crore to Rs. 2,497 crore. Existing Healthcare Services grew 11% while EBITDA margins expanded from 24% to 24.1% in FY14. Standalone Pharmacies grew 24% from Rs.1,102 crore to Rs.1,365 crore in FY14 while margins expanded to 3.3% from 2.7%. New hospitals in the initial stages of operations have an operating loss of Rs.21 crore in FY14. Consequently, the overall EBITDA was Rs.614 crore, up 11% year-on-year. PAT grew 7% from Rs.309 crore to Rs.331 crore due to impact of higher depreciation and interest on account of new facilities added during the year. On Slide 9 ,you would notice that the Healthcare Services ROCE in FY14 is at 14.6% as compared to 16.9% in FY-‘13. Rs. 428 crore of capital is being employed for our new hospitals which is Vanagaram, Jaya Nagar, Trichy and Nasik and they are yet to begin contributing to the ROCE. Excluding these new hospitals, ROCE of the other existing healthcare services is at a healthy 18.2% in FY14 as compared to 18.7% in FY13. Standalone Pharmacy ROCE has significantly improved from 6.3% last year to 10.3% in FY14, and is on track to further improve going forward.

Slides 11 and 12 provide you a consolidated financial performance. Consolidated revenues grew 16.3% to Rs.4,384 crore. Healthcare Services grew 13% and existing healthcare services grew 11% while EBITDA margins expanded from 23.2% to 23.6% in FY14. Apollo Healthcare and Lifestyle reported EBITDA loss of Rs. 17.5 crore as compared to a loss of Rs.8.6 crore in FY13 which was due to the addition of two new birthing
centers and clinics added in the last fiscal as also increase in corporate overheads.

Apollo Munich reported an EBITDA loss of Rs.3 crore due to higher claims ratio. Consequently, the overall consolidated EBITDA was Rs.672 crore, up 11% year-on-year. PAT grew 4% from Rs.304 crore to Rs.317 crore, primarily due to higher depreciation, interest and PAT in Apollo Health and Lifestyle and Apollo Munich.

Slide 14 provides details of operational performance by hospitals. In Chennai, the seemingly low occupancy of 72% was primarily due to reduction in long stay patients and shift to day care surgeries reflecting in lower ALOS. IT volumes witnessed a growth of 4.6%. New OP volume growth of 6.7% is indicative of steadily rising footfalls at Vanagaram which in turn has led to 13.2% growth in OP revenues. The Average Revenue Per Occupied Bed (ARPOB) at Chennai grew 11% to Rs.33,561. The focus in Hyderabad in this fiscal was to reduce both low complexity and low paying government cases and thereby enhance the overall case mix, revenue realization and profitability. This strategy paid off well as we were able to successfully attract good volumes of high acuity cases which reflects in higher IP revenues by 10.5% for the year. The successful General Physician Connect Program has enabled higher new outpatients footfalls by 6% on a year-on-year basis and 15% increase in overall outpatient revenues. Hospitals outside of Chennai and Hyderabad which form part of the ‘others cluster’ and account for 1,585 beds have delivered revenue growth of 24%. This has been driven by 28% growth in OP revenues as well as 24% growth in IP revenues. In comparison, OP volumes have grown 19% and growth in IP volumes have been under 10%. The growth in IP revenues, which is nearly 2.5x the growth in IP volumes validates our strategy of focusing on centers of excellence. Consequently, ARPOB has increased 17.4% even as the occupancy percentage has declined due to addition of new hospitals in Jaya Nagar and Trichy during the period. In the subsidiary hospitals, OP revenues were higher by 18% aided by strong growth in repeat outpatients. The occupancy has been stable at 74% as IP volumes grew 5.5%. This has led to a near 10% growth in IP revenues.

Slide 16 provides you details of about the batch wise performance of standalone pharmacies which continued its growth momentum with 24% increase in revenues and 53% growth in EBITDA on a year-on-year basis. Despite the DPCO pricing policy impacting revenues by 1.5% and EBITDA by 30 bps the overall EBITDA margins improved by 63 basis points to 3.3% in FY14. The increasing proportion of sales from private labels and increasing maturity of our store network has helped EBITDA to continue on its upwards trajectory. The batch wise margin indicators are favorable with the FY-2007 batch of stores reporting a margin in excess of 6% while the 2008 batch has a margin of 5.6%. We added 206 stores and closed 77 stores in FY-’14 for a net addition of 129 stores. Our store expansion plan of around 150 to 200 stores every year is on track and we are confident of further improvement in our EBITDA margins in this segment.

Coming to Health insurance -- Apollo Munich Health Insurance reported an increase of 12% in gross written premium at Rs.693 crore. Earned premium has increased by 23% to Rs.543 crore; however, a rise in the
incurred claims ratio and investments towards network expansion have led to a higher EBITDA loss of Rs.29 crore and the loss at the PAT level was Rs.37 crore in FY-‘14. During the year, Apollo Munich introduced unique and innovative plans including the first of its kind plan focused on diabetic patients. The assets under management as of March 31st 2014 stood at Rs.653 crore and the business continues to make progress towards scaling up which will enable it to begin contributing positively in the near future. That is it from me, we can now take your questions.

**Moderator:** The first question is from the line of Praveen Sahay from B&K Securities.

**Praveen Sahay:** There has been an increase of around Rs 270 million in the existing expansion plan of the CAPEX. Will it be right to assume that there would be an addition in the number of beds which were planned earlier for FY15 and FY16?

**Suneeta Reddy:** We have the capacity to add 1,000 beds next year. Our intention is to achieve EBITDA breakeven faster rather than just adding beds and therefore we would be prudent in adding these beds. This will make us rationalize how many beds we operationalize, and I believe that next year we can look at a figure of around 500 beds.

**Praveen Sahay:** Out of the planned beds of around 1,080, 200 beds in Nellore have already been commissioned in the first quarter?

**Suneeta Reddy:** It is a very soft commissioning, from now it is fully operational this year.

**Praveen Sahay:** Is it right to say that in FY15, 200 beds would be added in Chennai?

**Suneeta Reddy:** We would be adding 150 beds. In Chennai, the outpatient area is very crowded and therefore we are adding outpatient facilities to a significant level of 30,000 square feet.

**Praveen Sahay:** The overall ARPOB has shown an increase of 9%. How much increase has been from ‘tariff’ and ‘case mix’ in a year?

**A. Krishnan:** Approximately around half of the increase would be from case mix and the other half would be from tariff increase.

**Praveen Sahay:** Is it for overall? Is it the same for all the location in the entire cluster?

**A. Krishnan:** In a place like Chennai Main, the tilt would be more towards case mix. In other locations it would be balanced between the two.

**Praveen Sahay:** There has been an addition of 1,427 employees and around 129 net additions in stores in the Pharmacy segment for FY14. This leads to a higher employee per store like 11 employees per store as compared to 6 to 7 employees per store in general. Why is the high in in FY14?

**Obul Reddy:** We have added some backend facilities where we have taken those employees. During the year we have rolled out some bigger pharmacy stores where employee strength will be higher.
Praveen Sahay: Have the employees of bigger stores also split our numbers?

Obul Reddy: Yes.

Moderator: The next question is from the line of Balaji Prasad from Barclays.

Balaji Prasad: Q4FY14 has shown weak earnings growth for the Company and the revenue growth has been mostly in lower double-digits. Apart from the sporadic reasons like insurance patients, Hyderabad going through issues, and newer hospitals coming on board, are there any big structural changes happening in the healthcare industry? Have the patients started paying less or is there a down trading to local hospitals?

Suneeta Reddy: I do not think that there are structural issues facing the industry. Hyderabad has shown improved performance. The Company is calibrating its strategy in the sense of creating quaternary care centers which will take more of quaternary care patient and moving the secondary care in the long stay patients into newer facilities where the ARPOB is a bit less. This strategy would take a little time to actually get off the ground. We are also increasing beds as we do not want to lose market share. The city is growing and we were not present in the areas that are seeing tremendous growth. I believe that the strategy is correct and it will take 12 to 18 months to deliver on the bottom line.

Balaji Prasad: It seems that you are more leveraged towards pharmacies to deliver the revenue growth, while the hospitals revenue growth seems to be declining?

A. Krishnan: In FY13, the overall growth in Healthcare Services has been 13%. There has been 16 to 17% growth in healthcare services in the earlier years. We expect this growth rate coming back once some of the new hospitals start operating. We expect to see a growth rate of 18% plus levels next year and especially the year after. This year as we are consolidating, adding new beds, therefore we expect that healthcare would be contributing towards the revenue growth. Once some of the new beds come on stream, the EBITDA growth on account of the new healthcare facilities will be higher, and it will actually help in the profitability faster as well.

Suneeta Reddy: In Hyderabad, we have rationalized our customer base in terms of government insurance schemes, etc. So, the volumes that you expect to see on an all-India basis will not be seen. But we know whom we are catering to in terms of who our consumer is and who is paying and that is one of the reasons why our bad debts remain only at 1%.

Balaji Prasad: In Hyderabad, currently how much have the government insurance patients come down to as a percentage of revenues?

A. Krishnan: The Government patients are now less than 10%.

Balaji Prasad: What are the financials with respect to the acquisition of the 200 bedded facility in Indore?

Suneeta Reddy: It is actually 150 beds facility, which we are making into a 170 beds facility.
A. Krishnan: It is a 3 year old hospital with an overall top line of approximately Rs 10 crore and has achieved breakeven in its EBITDA level. From here, we plan to expand it. Indore was one of our target markets and we had planned to do a Greenfield activity. But then this acquisition at the Indore facility came up we decided to go ahead with it and invested 51% which is around Rs 28 crore. We are open to look at some of these bolt-on acquisitions. We are considering North East and looking for similar opportunity in another hospital as well and we believe that this would help us to go to the market faster.

Balaji Prasad: Does this change your strategy or is it purely an opportunistic move?

Suneeta Reddy: We are growing the number of beds on a pan India basis, but when we would find that an acquisition is cheaper and the opportunity calls for an acquisition we would go ahead with it. We will continue to rationalize our strategy.

Moderator: The next question is from the line of Neha Manpuria from JP Morgan.

Neha Manpuria: It has been mentioned that we have seen EBITDA improvement in Hyderabad given our initiative. Is there a potential for further EBITDA improvement in Hyderabad. Is it just a beginning? Could you elaborate a little more with respect to the differential pricing which is being practiced across your facilities?

A. Krishnan: Yes, there is further leverage possible on the EBITDA in Hyderabad. Currently the region is 67% occupied and the mix of occupancy within the hospital is also known to us. The secondary care hospitals in Hyderguda and Secunderabad are 50% occupied. Jubilee Hills being our main hospital stands at 75%. So as some of those hospitals improve in occupancy, which is what we are now focusing with our COEs and everything else, the EBITDA margins can further improve as we move forward in FY14 as well as in FY15. There has been an increase in the number of international patients in Chennai and Hyderabad. There has been a growth of 15% in the overall international patient volumes in Hyderabad last year with patients coming from Africa, Tanzania, etc. Therefore, we believe that there is going to be a further ability to move our margins in Hyderabad.

With respect to differential pricing I would like to state that we have used differential pricing in our new facilities. We have started new facilities in and around Chennai given the fact that we are looking to get into the local market in order to increase our market share in them as well as in the regional market. The price at Vanagaram is almost 25% lower than the price in the main hospital. Even in daycare centers, the operation theater pricing is a bit different especially for surgeries which are for one day and two days ALOS. So if you look at the average length of stay of some of these surgeries, which we are shifting there, if it is for a day or two, it goes to the daycare, and the benefit goes to the patient. As a consequence the bed that gets released in the main hospital gets utilized for high end work.

Neha Manpuria: Do you think the economics of tier 2 and tier 3 cities make it difficult to achieve our plan of achieving a breakeven in new hospitals within 12
months? Or will have to wait and watch given we have just commissioned Trichy six months back?

**Suneeta Reddy:** Bhubaneshwar is a good example of how one can expect it to pan out. Today, it is at 80% occupancy, and we are using this model in all of the tier-2 cities. Therefore, I expect that Trichy will definitely pick up, as the Apollo brand name is very strong. I think that it is one of the factors we used when we select a city for tier-2 expansion.

**Moderator:** The next question is from the line of Girish Bakhru from HSBC.

**Girish Bakhru:** What is the ARPOB number of Main Chennai? Currently how much is the percentage case mix coming from COE?

**A. Krishnan:** The COEs are contributing to almost around 70% of our revenues especially in Chennai Main. The ARPOB in Chennai Main today is almost north of 40,000.

**Suneeta Reddy:** This is without doctor fees.

**Girish Bakhru:** Bed additions being limited, would there be any significant leverage one could expect from Chennai especially in the next fiscal besides the regular bed editions outside the Main Chennai?

**Suneeta Reddy:** Yes, we are adding 30,000 square feet of outpatient area as our outpatient was extremely crowded, and it was getting increasingly difficult to grow the outpatient space. I think with this, our convergence into inpatient will subsequently increase. Though we plan to add 150 beds, we could expect to see significant growth coming from the Chennai cluster next year onwards.

**Girish Bakhru:** The outpatient has been consistently declining. Is it because of the congestion or there are some other reasons which are driving the de growth?

**Suneeta Reddy:** It is not declining. There is an increase especially in new footfalls. But, this being a weekday business, we are taking initiatives to drive weekend business. The outpatient definitely needs more space to grow.

**Girish Bakhru:** It was mentioned earlier that the Company has done more than 400 robotic surgeries. What is the ARPOB in Robotics vis-à-vis non-Robotics? Is there significant difference?

**A. Krishnan:** If you look at the Robotic versus the Non-Robotic Surgery, the difference in price for the customer will not be more than 15% higher. The overall ARPOB for a robotic surgery changes depending from specialization to specialization and procedure to procedure. For example, if it is urology it is different. We have also used robotics even in cardiac. From the customer’s perspective it is approximately around 10 to 15% higher than the normal non-robotic price.
Girish Bakhru: Why is it that only a higher revenue of 10 to 15% is made from the robotic versus the non-robotic surgery?

Suneeta Reddy: No. The important thing is to realize the future of all the types of surgeries that are being done by robotics. In future, 100% would switch to robotics. So we need to claim that pole position and it is an important aspect of the strategy. Currently it is only 15% and in the future it is going to be 40% to 50% as the patients preference would be for an experienced robotic surgeon rather having it done in a traditional way.

A. Krishnan: The outcomes in robotic is higher. Also looking from the customer’s perspective, it has many benefits like taking faster time to recover, less blood loss etc. Therefore, instead of looking at it solely from the price perspective we are looking at it from the future perspective of the market.

Girish Bakhru: You have not installed it anywhere expect Main Chennai?

Suneeta Reddy: No. We already have five in operation.

Girish Bakhru: In FY13, the pharmacy store stood at 139 and this year it stood at 129. Ideally you have been guiding at some 150 odd number. Why has there been some decline in the store addition?

Obul Reddy: FY13 and FY14 is part of the planned phasing manner for consolidation, and we will be again moving towards adding 200 stores. Next year we are also adding bigger format stores.

Suneeta Reddy: The next question is from the line of Ravi Dodhia from CRISIL.

Ravi Dodhia: The inpatient volumes across hospitals have been under pressure in Chennai, Hyderabad and even in others category. Is there any particular reason for that?

A. Krishnan: The inpatient volumes in others have actually been quite healthy (almost 9% increase year-on-year) if you look at it from a full year basis and not on a quarter-on-quarter basis. Every quarter there is seasonality, element of festivals or holidays and therefore we cannot compare it on a quarter-on-quarter basis. Places like Chennai had limited headroom for growth. After ‘Vangaram’ we are now looking at a higher possibility of growth in inpatients on back of some of the new beds that we have added.

Ravi Dodhia: Though the growth is limited in the main facilities, the ‘Vangaram’ facility volumes have also been on the lower side when compared on a quarter-on-quarter basis. Is ‘Vanagaram’ having issues in ramping up?

Suneeta Reddy: No, it has taken us a little time. Getting the PSU on board in the new hospital takes time. We have understood that it is important to react faster when a new hospital is opening up. I think you will see definite growth in volume in Vanagaram.

Ravi Dodhia: What number of clinics and birthing centers you have planned to add over the next 1 to 2 years?
A. Krishnan: For the next year we have two cradles, that is additionally being planned.

Ravi Dodhia: These facilities would be taking how much time to break even?

A. Krishnan: It will take almost around 15 months to break even.

Ravi Dodhia: What portion of interest you have capitalized in FY14?

A. Krishnan: Almost around Rs.34 crore.

Moderator: The next question is from the line of Anubhav Aggarwal from Credit Suisse.

Anubhav Aggarwal: It was mentioned earlier about the commissioning of 500 beds in next year. Could you give a split with respect to this? It was mentioned that 150 beds are from Chennai. You have several projects like one project in Vizag and one in North Bangalore. Do you count Nasik and Nellore in that as well? Can you give some more granularity to this?

A. Krishnan: Nellore would be 200 beds. The ‘Lifeline’ Hospital in South Chennai which we have taken over would have 150 beds. Both these two hospitals are going to be commissioned and operational in the first half of the year. Nashik would be 125 beds, where we have already commissioned the outpatient facility in March. These are the three hospitals that would be coming up as of now. ‘Malleswaram’ which is a 200 bedded hospital would be coming up more during the latter half of the year. But we would be operationalizing around 100 beds to begin with. Vizag will also be in the latter half of the year along with Mother & Child, which is going to be in Chennai would be a 60 bedded facility.

Anubhav Aggarwal: Can we assume that North Bangalore and Vizag would effectively contribute only in FY16?

A. Krishnan: Yes.

Anubhav Aggarwal: In Q4FY14, the personnel cost, selling and distribution as well as the other expenses have been very high. Is there any one-off item in them? Is there any particular reason for the rise in cost or is it just a fourth quarter phenomenon?

A. Krishnan: The number of pharmacies that we have added in the fourth quarter has been higher than the normal addition during the year. This is one of the reasons that the overall costs have been higher in Q4 as compared to the other quarters.

Anubhav Aggarwal: Is the rise in cost only driven only by pharmacies? As the costs are very high, I believe that it has been higher on the established hospital rather than pharmacy.

A. Krishnan: No. There has been some marketing cost increase in the existing hospitals especially on the newer hospitals. But the margins on the overall existing hospitals have been static and not really decreased. There was some marketing cost.
Suneeta Reddy: We started a new program called “Physician 360”, which is really getting in touch with our local physician and accelerating GP referrals.

A. Krishnan: Starting of “Physician 360” would be one of the reasons especially on the main hospital. We have commissioned operations in third quarter in Trichy and it started only towards the end of third quarter. Therefore, full impact of this would have come in the fourth quarter. All these factors along with the combination of pharmacies have led to the increase in the costs.

Anubhav Aggarwal: Since you gave P&L of new hospitals, where it is possible to separate out the total expenses for the new hospitals; Trichy will fall in one of that space. Sequentially from Q3 to Q4 the expenses for new hospitals only increased by Rs.3 crore.

Suneeta Reddy: The head office cost, is also responsible for this. But we can take it offline for launches, etc.

Anubhav Aggarwal: With respect to the acquisition done at the Indore facility, why has the Company done a 51% stake? Do you have a clause that you can take 100% or will it always remain like a 51% stake for you?

A. Krishnan: There is no clause at this point in time to get to 100%. We generally go with a 51% to begin with, we ramp up the facility, we ensure that it becomes profitable over a period of time, and thereafter gradually increase it to 100%.

Suneeta Reddy: Just to add to what Krishnan said, that sometimes when we add on quality, cardiac and some high end specialization, promoters at that time generally will not want to contribute to bring in cash. At that time I think there will be an opportunity for us in Indore to increase our shareholding as it happened in Bangalore.

Anubhav Aggarwal: What is the name of the hospital that you acquired in Indore?

A. Krishnan: It is called Raj Shree Hospital.

Moderator: We will be taking the last question from Ruchi Vora, UBS.

Ruchi Vora: I want some clarification on the new hospital starting in the beginning of the next year and I understand Vizag and North Bangalore will be in the second half. Could you brief me upon the Chennai ones?

A. Krishnan: Chennai ones is “Lifeline” which will start in the first half with 150 beds followed by “Women and Child”.

Ruchi Vora: Will the “Lifeline” start in Q1?

A. Krishnan: It will be more in Q1 and Q2 and later there would be “Women and Child” facility which is a 60 bed facility next to the children’s hospital which is expected to start in the end of Q3. There is another Woman & Child which we are doing in South Chennai, which will be starting in Q2.
Ruchi Vora: What is the status of the projects in Mumbai? Could you give us a quick update on where we do stand for Navi Mumbai in terms of the land and other facilities, and what is happening with Byculla?

A. Krishnan: We believe at this point of time that Navi Mumbai should start operations, in the first quarter of FY16 since the construction is going well and we are now starting to do some of the interior work, etc. The land lease of Byculla had ended and the Government has asked money for extending the lease which gives the right of occupancy. Thereafter we commence the building work there which will take 2 years from now, once we start in the next three months hopefully.

Ruchi Vora: There is some potential that it could probably be in the fag end of FY17 versus early that year?

A. Krishnan: You are right, because this is still not fully crystallized.

Ruchi Vora: Is the occupancy trajectory been in line with our expectations and has the EBITDA breakeven with respect to the new hospitals started in FY14? What are our expectations for new start-up costs in terms of the EBITDA impact for FY15?

A. Krishnan: It had been in line with our expectations and could have been faster by 2 or 3 months. That side the trajectory is good. We have already breakeven on Jayanagar which is already at 50% occupancy and we hope that it will contribute to almost Rs.5 crore of EBITDA in the next year. That is our plan for Jayanagar.

Ruchi Vora: Is that for the full year?

A. Krishnan: Yes. If you look at Vanagaram for the full year, the occupancy was 30 to 35, but in the last two to three months the occupancy has been around 70. We were planning to break even in that now. Having said that, we have some star doctors already working in Chennai in cardiac and other key specialties, which would help us over a period of time, and that has extended the breakeven by at least a couple of months. So by the end of this quarter we should be seeing the breakeven in Vanagaram.

Ruchi Vora: Do you mean end of Q1?

A. Krishnan: Yes, by the end of Q1. Trichy will breakeven during this fiscal.

Ruchi Vora: Probably, mid of this fiscal?

A. Krishnan: Yes, should be more around that time.

Ruchi Vora: Given that you have meaningful capacity which is coming in FY15, what is the new hospital start-up cost that we should expect for FY15?

A. Krishnan: It should be around the same number as last year; around Rs.20 to Rs 25 crore.
Ruchi Vora: I understand that your margins versus regional hospitals are quite good in the healthcare services. So what is the upside in healthcare services ex the new hospitals in your existing facilities, and what will be the catalyst for that?

A. Krishnan: The EBITDA margins especially as we said in places like Hyderabad can still see an increase, and that is where we have headroom for growth and at some of the existing hospitals. Places like Ahmedabad have done well even outside the standalone. Even Kolkata has done very well last year by achieving 15% growth. We have seen some good traction coming in places like Bangalore. So as we move forward, all of these factors should help us to improve EBITDA in our existing hospitals. Though we do not have a number that we can share with you, we still think we can continue to expand on that as we move forward.

Suneeta Reddy: I think we have two levers for growth. One is definitely in terms of outpatient facilities and the checkups that we are creating. We should see higher footfalls in OP and conversion into IP. The second is, if you look at the formats that Apollo has created we have actually simplified the delivery of healthcare and created higher clinical excellence. So there is a concentration of COEs in the main hospital. It is really hard to get very high volumes there because really sick people should be coming there. Hence, our occupancy and utilization of our assets is high. These are the important things to factor in. Second, with the Mother & Child and the Cradle, we are also catering to what we believe is not sickness but good moments. We are also doing COEs which focus on pediatric care, diabetes, and I think it is a whole ecosystem that is geared towards both the preventive lifestyle, early screening, conversion into inpatient, and looking after patients, both in the secondary care and in the tertiary care segment where we have made that rationalization. We cannot cater to all of India meaning that we cannot handle all the Government schemes etc. There are 200 million Indians who will have access into this system and will use it.

Ruchi Vora: Touching upon your ARPOB in each cluster, I understand that half of it is driven by pricing and the other half is by case mix. So what is the kind of sense that you have for FY15 and FY16 in terms of the ARPOB increase in terms of pricing basically?

A. Krishnan: Pricing is something that we would still be able to do approximately 4% to 5% even in this fiscal and that is the plan. And case mix we will have to see how the overall impact is going to be as we move forward.

Ruchi Vora: In the ‘Others’ cluster your ARPOB increase has been quite good. So should we continue to model that? How do we view the ARPOB increase in the others cluster?

A. Krishnan: The others cluster has gone up well. If you look at the overall ARPOB was around 11,000 odd and then that has gone to 13. We think the others cluster should continue to do a 10 plus percent on ARPOB. So we do not want to really give any trajectory towards that. This is the broad plan, but overall as the ARPOB increases you would realize that it is not going to be easier for us to continue the ARPOB growth at the same percentage levels as some of the others which are not at that higher ARPOB.
Moderator: I now hand the conference over to Ms. Reddy for her closing comments.

Suneeta Reddy: I hope that we have adequately explained Apollo story. It is in our mind, I think the next year looks extremely good. It has been a challenging year, but I think that is the past, we look forward to much better performance in the next year, and this will come from our new beds and better utilization of our existing facilities. Thank you all for joining the call.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Apollo Hospitals that concludes this conference.