



## Apollo Hospitals Enterprise Limited

### Transcript of Q1 FY19 Earnings Conference Call

### August 11, 2018

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**Moderator:** Ladies and gentlemen, good day and welcome to Apollo Hospitals Ltd. Q1FY19 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mayank Vaswani from CDR India. Thank you and over to you sir.

**Mayank Vaswani:** Good afternoon everyone and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for first quarter of FY19 which were announced yesterday. We have with us on the call the senior management team comprising Ms. Suneeta Reddy – Managing Director, Dr. Hariprasad – President of the Hospitals Division and 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.

Ms. Reddy will briefly cover the operational progress and financial performance for the quarter following which we shall open the floor for Q&A.

Before I handover, would like to remind everyone that documents relating to our financial performance have been shared earlier and these are also available on our corporate website. I now invite Ms. Suneeta Reddy to cover the highlights of our performance for the quarter.

**Ms. Suneeta Reddy:** Good afternoon everyone and thank you for taking time out to join our call on a Saturday. I trust all of you have been able to refer to the earnings documents which were shared earlier.

We are pleased to report a strong start to Fiscal 2019 with the first quarter’s performance clearly demonstrating increasing growth momentum and above all an all-round operational improvement.

All of you are aware that as we entered this fiscal year, we were impacted by a combination of Government regulation on stent pricing and knee implants followed by GST implementation alongside the investments we made in ramping up medical teams at both new and established centers. As we transitioned from those

headwinds, we had committed to deliver on both top-line performance and enhanced margins.

It is clear from this quarter's numbers that our strategy around service pricing as well as cost optimization has begun to show results. Mature hospitals EBITDA margins have improved from 20.4% in Q1 last year to 21.6% this quarter, an increase of 118 bps. We stay committed to continue on this trajectory to further improve these margins over the next quarters. We have also begun to see an increased off-take in our 'Assured Pricing Plans' across units and believe that this, while providing certainty to patients on cost, also recognizes the intrinsic value of the delivered service itself, rather than individual inputs.

We continue to drive case mix calibrations with a focus on moving from volume to value and this is predicated upon our strategy of enhanced focus on COEs. We have made significant strides in elevating clinical differentiation in Transplants, Neurosciences and Orthopedics in recent months. We have successfully commenced the transplant program in Vizag, Nashik, Trichy and Nellore, and completed 1,500 Bone Marrow transplants in our Oncology COE. We have extensively leveraged digital and AI capacity to sharpen and nuance our clinical offering, and are well-differentiated in the market. We have launched a global online clinical opinion service for cancer patients, which will be empowered by AI as well the inputs of expert Apollo clinicians.

We will intensify our efforts towards building strong COEs with a comprehensive approach encompassing ramping up medical teams, clinical pathways and the latest technology, both medical and digital, and remain focused on growing complexity and quality of our clinical work, volumes and revenues.

The other aspect of our business improvement plan is cost and efficiency. The initiatives towards design-to-cost and cost optimization are progressing well in both our flagship units at Chennai and Hyderabad. The outcomes of these initiatives, we hope, will lead to protocols and pathways that will enable us to be competitive at multiple price points and open up new possibilities given the developments across the landscape in healthcare inclusion as well as regulatory interventions. Alongside these initiatives, we are prioritizing asset utilization and improving system efficiencies. Here too, we are heartened by the initial results.

Against this backdrop, I will run you through our results for the quarter which we believe reflect the resilience of our business model which is well diversified across specialties, geographies and maturities.

**Standalone Revenues** grew 16% on a year-on-year basis to Rs. 1,910 crore. Within standalone revenues, 'Healthcare Services' grew 12% driven by volume growth. New hospitals reported 23% year-on-year revenue growth at Rs. 212 crore aided by volume growth, while existing hospitals revenues grew by 10%. Standalone Pharmacies reported 20% growth this year.

Q1FY19 EBITDA was at Rs. 227 crore as compared to Rs 173 crore in Q1FY18 – growing by 31% over the same period in the previous year. Healthcare services EBITDA grew 31%, aided by positive traction in New Hospitals EBITDA. New hospitals reported a positive EBITDA of Rs. 10.8 crore in Q1FY19 as compared to a negative EBITDA of Rs. 8.7 crore in Q1FY18. This is after absorbing the Navi Mumbai loss of Rs. 1.6 crore.

**On the Operations front**, overall occupancy across the Group was at 65% for Q1FY19. The occupancy in mature hospitals was at 67% and New hospitals had an occupancy of 62%. ALOS was 3.92 days, compared to 3.91 days in the same

period last year, ARPOB in Q1FY19 improved by 4% to Rs. 33,715. AHLL business delivered 24.4% growth in revenues for Q1FY19.

**Now to give you all a brief overview of the Region wise performance of our hospitals:**

**Tamil Nadu:** Revenues grew by 13% aided by Inpatient Volumes growth. ARPOB grew by 6% to Rs. 43,391. Overall occupancy in the cluster was 56% at 1,188 beds as compared to 1,120 beds last year.

**AP, Telengana region:** Revenues grew by 7%. IP volumes grew by 4%. ARPOB of Rs. 31,694 was higher than last year by 7%. Overall occupancy in the cluster was at 60% at 810 beds versus 805 beds last year.

**Karnataka region:** recorded promising revenue and volume growth. Malleswaram recorded IP volume growth of 29%, while Bangalore and Jayanagar grew by 11%, and 12% respectively. Occupancy in the cluster was at 72% at 511 beds compared to 500 beds in the previous year.

SAP revenues grew by 20.1% year-on-year. On a GST-adjusted basis, the growth was 26%. SAP EBITDA grew 30% to Rs 41.7 crore in Q1FY19. EBITDA margins were at 4.7%. As more stores within the network gain in maturity and break-even, we expect EBITDA margins to improve further. We have added 64 stores net of closures in this quarter. We plan to build on this momentum in order to further enhance our dominant presence Pan-India with the aim to be the undisputed leader in this space, even as the market share of organized pharmacy chains in the domestic industry is still miniscule. The ROCE in this business is now over 15%.

Q1FY19 Standalone PAT increased by 71% to Rs. 60 crore Y-o-Y, as interest costs increased by 12% Y-o-Y at Rs. 62 crore and Depreciation increased by 12% Y-o-Y at Rs. 72 crore on account of additional capex in new facilities.

The effective tax rate for Q1FY19 was 36%, on account of a one-time provision of Rs. 4 crore relating to a prior assessment year. Adjusted for this, effective tax rate would be at 32%. The present net debt as of 30<sup>th</sup> June 18 is Rs. 2,864 crore.

We are happy to announce our partnership with a strong Clinical team, by way of acquisition of a 50% equity stake in the 330-bed Medics Super Specialty Hospital in Lucknow, which will be operational in November. The acquisition will help Apollo Hospitals take pole position in UP, Bihar and Jharkhand – all very promising and under-served markets, and consolidate our position in North India.

We believe the elements of our strategy are well in place as we look ahead to the rest of this fiscal. We are well capitalized for growth. Of the total 7,000 + operating beds (excluding AHLL & Managed beds) that we have Group-wide, 13 hospitals with over 1,650 operating beds are new, and increased occupancy in these, will deliver an uptick in our volumes and top-line. There is also a room for an incremental occupancy of upto 10% in our mature units. This will drive operating leverage, and margin expansion (as fixed costs have already been absorbed), and when combined with our extensive efforts on cost optimization and efficiency improvement, we will be able to deliver healthy EBITDA growth, out-pacing top-line growth.

Given the conclusion of our current capex cycle, we expect to generate robust cash-flows which will then allow us to focus on the next aspect of operational

strengthening, i.e. rationalizing the leverage on our balance sheet to strengthen the organization for the next round of initiatives.

It is our strong belief that we have built the most diversified and responsive business model, and we see this borne out in the dynamism and adaptability we have displayed in a challenging, changing external environment. We have made the internal changes we needed to position ourselves strongly to leverage the tailwinds from the sector, from local demand, the roll-out of NHPS and from increasing numbers of medical value travelers. We remain quietly confident about our prospects in the quarters to come.

I now open the floor for questions. Dr. Hari Prasad, Neeraj Garg and Krishnan are here with me to take your questions.

**Moderator:** Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Saion Mukherjee from Nomura.

**Saion Mukherjee:** My first question is on the Lucknow acquisition where you have spent around Rs. 90 crore for your stake. So what additional investments would be required? Also, could you share some of your expectations on ARPOB, margin over a period of time from that hospital?

**Suneeta Reddy:** In terms of additional investment, there is no other additional investment required into Lucknow because this is looking at it as fully operational and this is the only amount of capital that is required.

**Krishnan A:** This has even taken care of the initial first year loss funding which will be a small loss which will be there in the facility. With that said, the facility will be beginning with a set of doctors because this has been built by a set of doctors in Lucknow itself, doctors of repute including the cardiologist, internal medicine, emergency care all of this is kind of already been taken care of. The ARPOB that we expect in this facility is around Rs.18,000 to Rs. 20,000 as we start and moving up to Rs. 25,000 to 26,000 in the next 2 years.

**Saion Mukherjee:** My second question is on AHLL where it seems that there has been some improvement. Could you particularly give some details on Diagnostic business which seems to have seen a significant expansion? How should we think about margins here because typically we see margins in diagnostic business north of 20%? Secondly, on your Specialty care 'Cradle' and 'Spectra', again there seems to be some improvement. So if you can throw some color on the occupancy there and how should we see this segment improving over the course of the year and overall your guidance for breakeven at the EBITDA level for AHLL, I think you mentioned first half of next year, is that something which you are still holding to?

**Krishnan A:** So firstly on Specialty care; there are two businesses specifically around Specialty care in that. One is the Apollo Spectra which is the short-stay surgery model and the day-surgery model. The second one is the Cradle which is the birthing center. We have seen a significant increase in utilization in the day surgeries and the short-stay surgery models this quarter and this has helped us in our overall EBITDA for the quarter. As you know both these models have significant fixed costs in it including lease rentals etc. and we are quite sure of getting the utilization even higher from here on to be able to then start contributing positively to the EBITDA over time which is the next 2-3 quarters. The utilization in Cradle currently is a bit lower at 45%, but there is clearly a plan to take it to 60%-65% in the next 2-3 quarters. In Spectra, the utilization is over 50% now and that also has good potential to grow even from here on because all of these have a lot of OTs in them

and as the model picks up you will see that the operating leverage will significantly keep kicking in.

And with that said, in the diagnostic business we are still on initial rollout because there is still some rollout cost which is there because of which obviously while the revenues are growing at a healthy 33% pace even now, there have been some rollout costs of collection point centers etc. which are still initial and we are ensuring that we do not roll it out in such a fast manner that the EBITDA gets impacted because we have committed that we will get to EBITDA breakeven by FY20 for Spectra as a whole and yes we are looking at, hopefully by first half of FY20 to get there. This year as you can see, we are already at Rs. 19 crore EBITDA loss number for the 1<sup>st</sup> quarter and the plan is to hopefully get to between Rs. 65 crore to Rs. 70 crore as we end the year.

- Moderator:** The next question is from the line of Anubhav Aggarwal from Credit Suisse.
- Anubhav Aggarwal:** I just need a clarity on previous question. For breakeven at Cradles and Spectra, what utilization you need?
- Krishnan A:** The utilization actually for this can be quite especially in the Spectra model as it is more of day surgeries same-day discharge etc. The utilization of the OTs is at 35% and the OT utilization at 50% will become profitable for Spectra. When I said 50% utilization of beds is what I meant when I spoke of at the start. So, 50% OT utilization will make it profitable and beyond that you will certainly see all of that flow down to the margins.
- Anubhav Aggarwal:** And what about Cradle?
- Krishnan A:** Cradle also would be approximately around 55% is what we think it would be at to become breakeven.
- Anubhav Aggarwal:** So, you were saying that over the next 2 quarters you can take it to 65%. So you expect Cradle to breakeven before the end of this year itself?
- Krishnan A:** So, first Spectra would become breakeven by the end of this fiscal, i.e the first thing that we will definitely get to, even before the end of the fiscal. Cradle also we have plans to make it breakeven by Q1 of next year.
- Anubhav Aggarwal:** So then, your larger losses are sitting at Specialty care itself, then largely you guiding that by first half you should breakeven in AHLL?
- Krishnan A:** So, that is what our aim is. So first half is what we are aiming for. That is exactly what we have said and we are planning to see and we are also working on cost optimizations etc. to figure out how we can bring that closer to the breakeven by first half next year.
- Anubhav Aggarwal:** On the diagnostic business when you mentioned about rollout; so is it a franchise model or you have your own collection points?
- Krishnan A:** We have both the models. We have our own models as well as franchisees. We are now moving with the franchise model. In certain core locations we started with our own centers and while we are expanding we are now using the franchise model which is where you will see that you will not see so much of burn happening as we grow these collection points.

- Anubhav Aggarwal:** I have one question on the new hospital segment. If I just exclude Navi Mumbai from that new hospital segment, we roughly have around 1,200 beds over there. I just have couple of queries on this. What percentage of these 1,200 beds is EBITDA positive or vice versa i.e what percentage is not EBITDA positive today? Because I am aware that Jayanagar and Vanagaram are always EBITDA positive, so what else is there?
- Krishnan A:** Leaving two hospitals, the others would be profitable. Nasik could be one which would not be profitable still and Mumbai is not profitable. So, Mumbai we have now become profitable again as we speak in July, it has broken even as well. So, it is leaving Mumbai and Nasik the others are already on...
- Suneeta Reddy:** And Mumbai is already from this month, from June onwards it has been profitable.
- Anubhav Aggarwal:** So, effectively now leaving Nasik, which will be how many beds, 200 to 250?
- Suneeta Reddy:** 125 beds.
- Anubhav Aggarwal:** So, largely we are profitable in all the hospitals, in Navi Mumbai, it is just that the margins at each of the hospital is very low which gives us consolidated margin of high single digit?
- Krishnan A:** Yes, you are right.
- Anubhav Aggarwal:** So, what is the plan here? Utilization here has been ramping very slow, so let us say four quarters down the line or a year down the line what kind of in-patient growth are you seeing over here? Are you seeing like a double digit in-patient growth here, high single digit, low single digit?
- Krishnan A:** So, we will see double digit. As of now it is 23 because obviously we still are seeing very good traction in Navi Mumbai. But we are still confident of doing high teens growth in this business even as we move forward which is what we are pushing for. Within this of course there are one or two facilities as you rightly said like Vanagaram in particular which is also gotten into double digit EBITDA margin.
- Anubhav Aggarwal:** Your comment on high teen's growth is for Navi Mumbai or is for the entire new hospitals?
- Suneeta Reddy:** I think the whole cluster will move into double digit growth. It is now that they have their doctors in place it will take one year for it to do that.
- Moderator:** The next question is from the line of Prashanth Nair from Citigroup.
- Prashanth Nair:** My first question is on the Government's proposed National Health Care Plan. I think we have heard that there is disconnect in pricing in what the industry is comfortable with and what the Government proposes. Have we come closer to some kind of agreement there or are we still quite far apart?
- Suneeta Reddy:** I think we are getting there. We have had detailed discussion with officials of Niti Aayog, and we have told them that they need to make some compromises. So, we have shared the details of a cost study with Niti Aayog. But simultaneously we have commenced work on differentiated cost models and pathways to increase our internal preparedness so that we can offer a certain number of beds for this scheme and most of them will be in the tier 2 and tier 3 cities. So, we believe that on a marginal costing basis we do not think we will lose any money.

- Moderator:** We take the next question from the line of Kashyap Pujara from Axis capital.
- Kashyap Pujara:** You had mentioned on your earlier calls and this one that we are reaching to the end of the CAPEX cycle and our focus would be on basically utilizing the assets that have been created going forward. Having said that, I have one question with regards to the capital employed. If I look at the return on capital, the existing hospital assets and the pharmacy both are doing very healthy return on capital at over 15% and there are a segment of investments which is new hospitals, CWIP and some other investments like AHLL etc. which comprise half the capital employed and are yet to earn meaningful returns. Now given that the CAPEX cycle per se has come to an end and the focus is on utilizing existing assets, how do we see our blended return on capital over the next few years? What is the roadmap that you have in mind about by when we can actually see blended 15% ROCE on the Company?
- Krishnan A:** You are right. One is yes, even on the healthcare services the existing, we are aware of this split and obviously we have provided that also for that so that you understand that we are working on two things. One is the existing healthcare services itself, you know there is still a headroom for growth which is there in the existing healthcare services which itself is currently at 18.5% ROCE and has the potential to get to 22% over a period of next two years, which is one point that we are working on. Standalone pharmacy is currently at 4.7% EBITDA margins. We have plans to take it to almost around 6% over the next couple of years. But at 6% it will be a significant ROCE at almost around 22%-24%, which is a significant ROCE which can come from there. Healthcare services, obviously our whole perspective is first to get a Rs.100 crore EBITDA overall from this business from the current numbers where we are at Rs. 10 crore run rate which is Rs. 40 crore for the year. Our first focus is to get this to a Rs. 100 crore EBITDA and then the potential to get to Rs. 300 crore over time is real. So, this is where we will get to almost around 12% to 13% ROCE in the next 3 years which is what is the focus. So clearly, we are focusing on all the three areas separately and you will then realize that overall as the ROCE for the Company would be very-very healthy.
- Kashyap Pujara:** I completely agree because the hospital model clearly has a 15%-20% ROCE on a sustainable basis at a hospital by hospital basis. So if the CAPEX comes to an end, probably the Company should end up moving closer to that target overtime. Now this 12% to 13% ROCE you mentioned, you mentioned for the block of new hospitals in 3 years?
- Krishnan A:** Yes, that is right. That is exactly what we are aiming for.
- Kashyap Pujara:** Okay, so the current hospitals which are existing and the pharmacy moves to 20ish and the new hospitals come to 12% to 13% over the next 3 to 4 years.
- Krishnan A:** Yes, that is right.
- Kashyap Pujara:** Which means that we will go back to the phase of 15%-20% earnings growth that we reported for 30 quarters in a row; we might be just getting into that phase because it is all about growth and utilization.
- Krishnan A:** So, it is a combination of both, right. One is the growth and other is also cost optimization that we are working on internally which is the other thing you would see especially given that as you have seen that there is a significant number of hospitals that we have within each cluster now including Chennai. So, we are also figuring out how we can optimize on resources, how we can ensure that the resources in the Chennai main hospital is also used in other hospitals. So, some of that work has already started and as we said our whole focus now is just operating

leverage and ROCE. So, it will be a combination of both growth and margin expansion. It may not be only growth; it will be a combination of both.

**Kashyap Pujara:** Great and finally which means that once the CWIP i.e the announced CAPEX which is yet to go through like Proton, etc., is done like from FY20 to FY23; we should be able to see meaningful reduction in debt purely from internal cash flows given that CAPEX intensity will not be as high?

**Krishnan A:** On a lighter note, yes, I have not put the expansion slides from this quarter, I am sure you have noticed because we do not have expansion plans. So, clearly it is only the proton therapy which is there and which is a Rs. 300 crore which is the balance CAPEX which is there and apart from that there is nothing much which we have plans for. Even the Mumbai hospital is going to take at least 2-3 years before which time we will start seeing a good cash flows to come in.

**Suneeta Reddy:** Free cash flow to fund it.

**Moderator:** The next question is from the line of Chandramouli M from Goldman Sachs.

**Chandramouli M:** My first question is on ARPOB. We have seen a steady 6% to 7% growth across our key home markets – Karnataka, Hyderabad, and Tamil Nadu. Can you just provide us some perspective on how you have been able to drive such a step up ARPOB growth Y-o-Y at these key clusters?

**Dr. K. Hariprasad:** Yes, this is a combination of one case mix where we were looking at our centers of excellence to contribute more and we have seen a healthy growth during the quarter on the centers of excellence. That has contributed to the higher ARPOB and the second is the choice of patients that we take in. We have taken a conscious decision to not take in patients where the tariffs are below a certain level or minimize the number of beds that we allocate to that. So, both these put together have actually led to an increase in the ARPOB.

**Chandramouli M:** My second question is on standalone pharmacies and kind of on similar lines. So EBITDA per store seems to have grown much more than revenue per store. So, looks like there is some kind of efficiency benefits happening in there. Could you just give us a little more perspective on that as well?

**Obul Reddy** Straightaway case where volume growth is now contributing to the EBITDA, we are still growing at about 20% plus on the revenue. So, we should continue at that rate and contribute significantly going forward to the EBITDA growth.

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

**Neha Manpuria:** My first question is on Navi Mumbai. If I look at the beds, we have been at about 125 beds in terms of occupancy. Now if we were to add more beds to the existing operational capacity, do you think we will be able to maintain a breakeven target or there is a risk that gets delayed as we add new beds particularly these would require improvement in specialty mix in that case?

**Dr. K. Hariprasad:** Addition of beds has been done based on the current occupancy levels and the likelihood of the new beds being occupied. It has been done in a very measured manner to ensure that it does not impact the breakeven target set for the Navi Mumbai facility. So, we will ensure that the expansion happens in line with what is being projected in terms of the EBITDA margins for the facility.

- Krishnan A:** And even now as we speak the numbers, the resourcing and staffing that we have is for a higher number of beds of almost around 175 occupied beds, as compared to the 125 beds that we have.
- Neha Manpuria:** No, the 125 number is the total occupied bed, right? The total beds commissioned is about ...
- Dr. K. Hariprasad:** No, right now today it is about 140.
- Neha Manpuria:** Okay. Would this number go to about 300 beds in the next let us say 1 to 2 years or would it take longer for you to ramp up?
- Suneeta Reddy:** No, I think definitely by 2.
- Neha Manpuria:** Also you have mentioned that you did a lot of cost efficiency programs that you have in place for Chennai and Hyderabad essentially to allow you to operate at lower price points. Does that mean that should give you better margins even in the existing hospitals, right? This is because these are standard procedures that you could roll out through your network? When do you see that happening on existing hospital network basis assuming the environment remains tough, can we still see margin improvement from these initiatives? And two, do you think that participating selectively in Aayushman Bharat could impact how Apollo is perceived as a premium service provider to existing patient pool?
- Suneeta Reddy:** To your first question, I think we can only see margins improving. We have shown a 143 basis point improvement in margins, and going forward we believe that with this cost optimization we should be able to achieve somewhat the same every year. So, we are clearly on track. We have started in Chennai and Hyderabad which are our two biggest geographies and we will take this across India.
- To your second question on NHPS, I think it is important that we participate with the Government because there is a lot of give and take between the Governments. And hopefully that we expect that they will also do things that are good for the sector because they will realize that infrastructure is key for them to deliver on their promise. So, in tier 2 and tier 3 where we have capacity and where we have the ability to do so, I am sure that it will make a positive impact on not just the Government but on the brand.
- Neha Manpuria:** Ma'am, how much of the capacity in tier 2 and tier 3 city out of the 7,000 beds that we have?
- Krishnan A:** It is part of the 'Others' obviously. Maybe around 50% of the 'Others' capacity.
- Moderator:** The next question is from the line of Swati Madhabushi from East Capital.
- Swati Madhabushi:** I had a question regarding the volume growth. So it has been pretty strong for Tamil Nadu cluster and also for the Hyderabad cluster but a little weaker for the Karnataka cluster I guess. But is this growth just due to base effect or are you seeing some other factors such as healthcare spends going up or are you gaining market share, is it just base effect or other factors are at play?
- Dr. K. Hariprasad:** If you look at our Karnataka cluster, we have 4 hospitals, 3 in Bangalore and 1 in Mysore. The one which is seen in lower revenue per patient has been in Mysore because there are some corporates there where the tariff structure is much lower than our Bangalore hospitals. While the Bangalore hospitals have all shown an

uptick in the ARPOB, it is only the Mysore hospital which is contributing to a dip in the ARPOB and that is reflecting on the entire region.

**Swati Madhabushi:** Yes, I mean I was just talking more about the in-patient volume growth in Tamil Nadu and Hyderabad which has been very good. Is it just base effect or is there any structural change with respect to market share?

**Dr. K. Hariprasad:** I think, one is, there has been a lot more focus on certain segments of the market particularly the insurance and the private sector market which give us good margins. The volumes in these two segments have improved, and the walk-ins have improved and for Chennai segment, the International patient sector has contributed significantly to the growth.

**Swati Madhabushi:** Okay, so the International patients are coming back now.

**Dr. K. Hariprasad:** Yes.

**Swati Madhabushi:** Is it from the Gulf mainly?

**Dr. K. Hariprasad:** No it is from multiple regions, I mean all our traditional markets like Africa, Gulf and other Countries in the sub-continent are contributing.

**Swati Madhabushi:** I have one clarification regarding the Lucknow acquisition. I think earlier a question was asked whether there is any incremental CAPEX is needed and you mentioned that at Lucknow, no, but you also talked about Bihar and Jharkhand, I mean.

**Suneeta Reddy:** No. We said that, yes, the Lucknow hospital will provide drainage. It will become a referral center for Bihar and Jharkhand.

**Swati Madhabushi:** Okay. Also does the starting date of our Proton center remains the same?

**Suneeta Reddy:** December-January.

**Swati Madhabushi:** Okay and Gleneagles has also shown good improvement like now it is breaking even. So, do you have any guidance for Gleneagles for the year?

**Krishnan A:** It will continue to do well.

**Suneeta Reddy:** We will keep up the momentum that they have shown in the first quarter and they should improve by the last quarter. With the current Government in place, it will take 2 years to reach what it was in 15/16.

**Swati Madhabushi:** Okay, my last question is on AHLL. So, do we understand that you will not be opening anymore Cradles or Spectra till you attain some kind of EBITDA margin? Is that something we can say?

**Suneeta Reddy:** Yes. I think that it is a correct assumption.

**Swati Madhabushi:** Okay, is it going to be EBITDA breakeven or is it going to be certain level of EBITDA margin or if you just breakeven and then you will again start adding more or?

**Suneeta Reddy:** No, I think we have to see some EBITDA margin.

**Moderator:** The next question is from the line of Rohan Dalal from B&K securities.

- Rohan Dalal:** I had a question on the operating profitability. Just wanted to understand whether the margins that we see this quarter which were really good, will they sustain for the year or will there be any dips in the new hospitals? And also on that point AHLL, was the guidance for EBITDA breakeven or PAT breakeven?
- Krishnan A:** So, on the EBITDA margins we are quite confident that we should be able to maintain it at the current levels even as we move forward and obviously the focus is to grow it also in the new hospitals in the next 2 quarters. And even in the existing hospitals we are looking at certain cost optimization opportunities etc. which should again help us. So, clearly it is sustainable and on AHLL it was EBITDA breakeven, it was not PAT breakeven.
- Moderator:** The next question is from the line of Charulata Gaidhani from Dalal & Broacha.
- Charulata Gaidhani:** My question pertains to the Karnataka region. Why is there a de-growth in volumes? And is there any specific reason for that?
- Dr. K. Hariprasad:** If you actually look at it there is no degrowth in terms of the patients or tariffs which gives us a good margin. And as I told you we were very conscious about generating margins more than the volumes. So we did take off some of the low paying corporates which were not providing us the margins. That was one. And the second one was as I just told you, Mysore was one where we saw de-growth in the volumes which actually adds up to the Karnataka region.
- Charulata Gaidhani:** Okay. And overall, are you seeing a lower volume growth compared to the previous years?
- Dr. K. Hariprasad:** No, we have seen significant growth in Chennai cluster in the rest of hospitals in Bangalore. In Hyderabad we have seen volume growth, double digit volume growth.
- Charulata Gaidhani:** Okay. Also with the Ayushman Bharat coming in, do you think that there will be pressure on ARPOBs coming down? Or will there be a pressure on occupancy in terms of the high-margin business?
- Suneeta Reddy:** No, I don't think we will compromise the high margin business with the Ayushman Bharat. It will be, mostly, we do have the tier 2 and tier 3 cities that we can do it. And we will cap the number of beds that we could do because it is a learning phase for all of us, without risking the main strategy.
- Moderator:** The next question is from the line of Nitin Agarwal from IDFC Securities.
- Nitin Agarwal:** On the improvement of profitability which is there in the existing hospitals, you talked a bit about the cost optimization measures, you have taken in Chennai and Hyderabad. Can you sort of throw some more light on the kind of measures that you have been talking about? And what kind of incremental potentials some of these things have for these clusters as well as for the network per se?
- Dr. K. Hariprasad:** Yes, it is not the single measure that we can tell you on this call. It is a combination of measures and as an example I can tell you we started kitting for surgical procedures that means that we create a kit and give it to the operating team to make sure that there is no wastage of material used for a particular procedure. That is just an example but we are working on multiple fronts in each of the hospitals including materials, including pharmacy, including human resources on all fronts and there are multiple projects which are in progress at this point of time and we are seeing good results to begin with and we are hoping to not only sustain it in

Hyderabad and Chennai but to take across these learning's to the other units in the Country.

- Nitin Agarwal:** Okay. And secondly on these mature hospitals seasonality wise, where is Q1? I mean Q1 is a relative; the Q2 and Q3 are relatively bigger quarters for us, right?
- Suneeta Reddy:** Q2 will be better, yes.
- Nitin Agarwal:** So, ideally we should see a sequential pickup in the EBITDA contribution in the older hospitals as we go through the year?
- Suneeta Reddy:** Yes.
- Nitin Agarwal:** Okay. And secondly on Lucknow, while we are obviously looking to consolidate now with our expansion that we have had in the past. But I think there is a lot of turmoil in the hospital sector, in general, across the Country. And so what is your sense in terms of when you are looking at assets or evaluating assets incrementally, in terms of whatever proposal evaluation you are doing, has any comparative intensity in terms of bidding for assets gone down? Are there lots more attractive deals on the table than they were probably 2-3 years back for you guys?
- Suneeta Reddy:** Yes, definitely there are a lot more attractive deals at good price available.
- Nitin Agarwal:** And that is largely because of the PE interests have gone down or it is probably competitors are most...
- Suneeta Reddy:** No, I think that we predicted this a long time ago that individual doctors setting up hospitals is quite challenging. I speak from my own experience. But having an experienced managed team is key for sustainability and I think that we have managed to get that right. And also having doctors on board, multiplicity of doctors, a pipeline of doctors that will move which will provide clinical differentiation every year.
- Nitin Agarwal:** Fair enough. And just onto the other point, presumably, if your opportunities like for example the Lucknow opportunities come your way, we still would be open to evaluating those things on an objectives basis?
- Suneeta Reddy:** I think it is on a case by case basis but I think we have almost completed our geographical footprint. So, you would not be seeing any big CAPEX investment from us for some time.
- Moderator:** The next question is from the line of Nitin Gosar from Invesco Mutual Fund.
- Nitin Gosar:** On the Ayushman Bharat scheme, I just wanted to understand how will the list work, like you will have a typical empanel list of hospitals where a patient can join and can get operated. There should typical be the medical procedure functions but in this case you are saying you will be more selective in being available in tier 2, tier 3 and not in metros and tier 1, is that the way?
- Suneeta Reddy:** So I think, one, we are allowed to make a choice whether we want to empanel ourselves and I think we are clear about that. Second, unit by units will be empanelled and so while we will empanel Karaikudi or Trichy, these are, we will select but we will first need to see the details of Ayushman Bharat before we come out with our own strategy on which hospitals we will empanel.

- Nitin Gosar:** Okay. Just a minor bit more on this. So, do you have some kind of analysis on how a patient behave or how the brand behaves if there is a selective empanelment in terms of negative publicity if a patient is coming at doorstep and if there is any denial for admission, it may lead in to some kind of escalation?
- Suneeta Reddy:** No, we will just have to say that these are not empaneled to do it.
- Krishnan A:** So, when the unit is empaneled we will empanel the entire unit. It is not as though we are going to be selective within the unit on patients.
- Nitin Gosar:** I got the point on unit by unit cost. My understanding was more on the corporate image how if this can ...
- Dr. K. Hariprasad:** Actually we are already doing it for some of the State Government schemes. For example, in a place like Hyderabad where we have four facilities, one of the facilities or two of the facilities are empaneled for the Government schemes while the others are not. So, we are not refusing a patient, but we are allowing the patient to use a facility which is empaneled. So, we will not get a negative image in the community.
- Krishnan A:** And the Government also understand this because this is at the rollout and the implementation of the NHP has also is going to be at the State level, you know because while the program is going to be at the center, it is going to be a State level rollout and the State level reimbursement. So, clearly State Governments understand this.
- Nitin Gosar:** And second question is pertaining to the retail pharmacy. Where are we in terms of penetration levels and when is it that the management will take a call on monetizing those assets?
- Krishnan A:** So, it is early time still because if you look at it currently as we said we are continuing to grow this potential for the pharmacy growth is very real and we are continuing to look at a 20% plus growth for the foreseeable future. The number of stores from 3,000 can become even 6,000 over time. So, clearly there is a plan and the EBITDA margins can go to 6%, ROCEs can be higher. So, we have said at the right time we will monetize it we will come with a structure to help us do so as well and take a call from that.
- Suneeta Reddy:** And I think just to add on to what Krishnan said we are also looking at a digital strategy to expand the number of consumers that we have.
- Nitin Gosar:** How we do that like is it online pharmacy that we are targeting?
- Suneeta Reddy:** Yes, something like that.
- Moderator:** The next question is from the line of Kumar Saurabh, an individual investor.
- Kumar Saurabh:** I have two questions. One, looking at the debt in the last quarter we thought that this is going to be maximum debt but now also the debt has increased. So, is this the peak and now we can expect the reduction? And second on the pharmacy space what we see is like I mean this is playing to by one of the competitors it looks like there could be some structural change in terms of the offline, online model. So, what is the long term view about this whole pharmacy structural model how it will play out and what are your plans?

- Krishnan A:** So, on the debt level, the CAPEX which is fine but the balance is still there the Rs. 350 crore of proton. So, that will take the debt to the peak level and after that it will start coming down. The second point about pharmacy.
- S Obul Reddy:** As Mrs. Reddy just said we are preparing ourselves for our plans on the digital platform and we are prepared for that.
- Moderator:** The next question is from the line of Saion Mukherjee from Nomura.
- Saion Mukherjee:** I had one question on the volume growth. I mean in one of the response you mentioned that you are seeing good volume growth in some of the hospital at double digit. But the numbers that we see on the presentation are like in Tamil Nadu 4.3%, Telangana 3.9% and in Karnataka there was a negative growth in patient volume. I understand this is may be because you are focusing on high value patient and that there is some kind of a rebasing which is happening. So, I mean when the base effect comes in play, do we see double digit volume growth let us say in fiscal 20? Is that a right assessment first of all?
- Dr. K. Hariprasad** Yes, actually if you look at our current quarter also you would realize that there is a significant change in the way the patients have been treated currently. Number of them who are being treated as inpatients are now being treated as outpatients and as daycare patients. So, when you actually put those things together you would see a double digit growth in the current environment also. But as we go by I think the double digit volume growth is very much on the card.
- Saion Mukherjee:** Okay. And my second question is on the margin. If you see the existing hospitals which has been in operation, you are doing like 21% odd EBITDA margin. How is the spread like? Let us say if you take 3,000 odd beds, you know old beds that you have what is the spread like what is your maximum EBITDA that you generate in the hospital and what is the lower EBITDA margin? What is the range?
- Krishnan A:** That would be between 18% and 26%.
- Saion Mukherjee:** And if I look at your cost items, it seems like though the margins have expanded, the material cost to sales and employee cost to sales have remained steady. I mean they are growing in line with the total revenues. So, is it the other expenditure item where you have lot of these initiatives which are able to give you that leverage?
- Krishnan A:** No, even in these two we have had the leverage definitely because one is it will not exactly show up in the overall P&L because at the unit level you have the benefits which are there because if you look at the unit especially in the mature units because some of these when you see it in aggregate at P&L level has the new units also. Hence you are not able to see that impact of EBITDA margin expansion. With the existing units you would be able to see that. It is actually in the material and in the manpower.
- Saion Mukherjee:** And like one expense like doctor expenses when you are opening up these hospitals they were ramping up much faster. So, now the total doctor expense increase let us say for this year on a standalone basis. Is it possible for you to share what is the kind of increase Y-o-Y you are seeing in this quarter for doctor expense?
- Suneeta Reddy:** Actually the guarantee amount keeps coming down as the hospital matures. So, it is highest in the first two years of operation.

- Saion Mukherjee:** So, if you have a 15% revenue growth, the doctor fee increase would be lower than that? That would be a right assessment?
- Suneeta Reddy:** Yes.
- Krishnan A:** In the new hospital, yes.
- Moderator:** The next question is from the line of Anubhav Agrawal from Credit Suisse.
- Anubhav Agrawal:** My question is on Chennai main hospital. What is the utilization that we are doing there?
- Suneeta Reddy:** 62%.
- Anubhav Agrawal:** And this is lesser than last year I remember last year we were doing about 54% or thereabout, right?
- Krishnan A:** So, two things in Chennai main is, the ALOS has also come down. The average length of stay now in the Chennai is almost around 3.2%. And even we have started using a lot of daycare procedures...
- Suneeta Reddy:** 30% of our procedures are now daycare and also we have moved out the gynec, which is into mother and child hospitals.
- Anubhav Agrawal:** Okay. And ma'am, just the spread on this 62% among the different specialties is there anything which is really dragging it down or is it like do we have any specialty where we have 50% or less?
- Dr. K. Hariprasad** Actually it would have been more than 62% if you take it on a Quarter-on-Quarter basis with all the factors remaining constant. But what happened there is we moved out the mother and child from the main hospital to the mother and child hospital. So, there was a significant volume which moved out from there and that is why you are seeing a 54% to 62%. Actually if you had mother and child in place it would have been around 66%.
- Anubhav Agrawal:** And my second question is on proton. Once we start it how many years will it take us to breakeven that unit?
- Krishnan A:** So, the proton facility itself should breakeven in 18 months; only the proton equipment. The hospital will take two years to breakeven. But we do not anticipate huge losses coming out of the facilities.
- Anubhav Agrawal:** But if you combine the two I mean what kind of EBITDA loss are we talking about let us just to put a number to it are we talking about annual with Rs. 30 crore - Rs. 40 crore kind of number or just Rs. 10 crore, Rs. 20 crore kind of number?
- Krishnan A:** It won't be very high. It should not be more than Rs. 20 crore.
- Anubhav Agrawal:** Both beds and equipment put together?
- Krishnan A:** Yes.
- Anubhav Agrawal:** And my last question is on CAPEX. How much CAPEX we have done this quarter?

- Krishnan A:** So, this quarter CAPEX was almost around, can you take this offline we will provide this number because I have the recurring CAPEX is almost Rs. 55 crore which is the routine CAPEX that we have. The new CAPEX is not something that I have offhand. It may be around Rs. 60 crore.
- Anubhav Agrawal:** See I was asking because our debt increased by Rs. 130 crore in this quarter?
- Krishnan A:** That also includes Lucknow acquisition.
- Anubhav Agrawal:** That is already paid Rs. 90 crore over there?
- Krishnan A:** Yes.
- Moderator:** The next question is from the line of Chandramouli M from Goldman Sachs.
- Chandramouli M:** My first question is on prices. So, I was just wondering if you have been able to take any price increases in the market, in this quarter?
- Suneeta Reddy:** Yes, we have around 3%.
- Chandramouli M:** And just the last one on the housekeeping on CAPEX. So you have mentioned the Rs. 55 crore recurring CAPEX this quarter. With the proton plus maintenance CAPEX included, what would be the outlook for this fiscal year?
- Krishnan A:** So, maintenance CAPEX as we have said it should be between the Rs. 150 crore to Rs. 170 crore range, which is what we would continue to be on and the proton as we said the balance will be Rs. 300 crore to Rs. 350 crore because there are certain equipment's which are being looked at and so it should not be over Rs. 350 crore.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.
- Suneeta Reddy:** Thank you, ladies and gentlemen for joining us. Today as you have seen Apollo has a consumer base of 25.4 million consumers. Not only do we stand up as a clinical differentiator, but we challenge ourselves by creating the entire ecosystem from clinics to day care to hospitals and pharmacies. More importantly what we are doing today is to build the digital backbone that will enhance the stickiness of not just our patients but also our consumers. This I believe will be disruptive for the sector and we look forward to having you in the exciting journey that we see ahead. Thank you, ladies and gentlemen.
- Moderator:** Ladies and gentlemen, on behalf of Apollo Hospitals, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
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