



Apollo Hospitals Limited

Q4 & FY19 Earnings Conference Call Transcript May 31, 2019

Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Ltd. Q4 FY19 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 Devrishi Singh from CDR India. Thank-you and over to you sir.

Devrishi Singh: Good afternoon everyone and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for the fourth quarter and full year 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.

Documents relating to our financial performance have been shared with all of you earlier and these have also been posted on our corporate website. I would now like to handover the floor to Ms. Suneeta Reddy for her opening comments.

Suneeta Reddy: Good afternoon everyone and thank you for taking time out to join our call. I trust all of you have received the earnings documents which we shared earlier.

Many of you are aware that we entered FY19 in the final stages of a multi-year capacity expansion program. Our strategic priority at the beginning of the year was to ensure a ramp-up in asset utilization and profitability of our new units, while ensuring healthy growth at our existing facilities. Alongside, it was important to insulate our business model from regulatory headwinds, and focus on the impending business restructuring for pharmacy and improve our performance on the retail healthcare business.

We are pleased to report that our efforts on all these fronts have been reflected in our strong performance, as for the first time, the EBITDA for the year has crossed the landmark number of Rs.1,000 crore. We are also heartened that our investments in New Hospitals have started yielding positive results, and they closed the year with a 7% EBITDA margin. Mature healthcare services margins for the quarter improved to 22.1%, an improvement of 129 basis points, which is an outcome of our strong focus on efficiency, asset turns and cost.

Against that backdrop, I am pleased to share with you our financial and operating highlights for Q4 FY19 and the year FY19.

Q4 Revenues year-on-year grew 16% to Rs. 2,167 crore; aided by Healthcare services growth of 15% and SAP growth of 18%. Within healthcare services, New hospitals reported revenues of Rs. 256 crore, representing a 25% year-on-year growth, while mature hospitals revenues grew 12%.

The overall healthcare services growth for the quarter was aided by higher surgical volumes at both the mature and the new hospitals. This performance is a reinforcement of our strategy for these hospitals, of focusing on COEs, higher quality of case mix and pricing for services.

Q4 total Inpatient volumes grew by 7% on a year-on-year basis, supported by 18% IP volume growth in new units. Overall Q4 FY19 occupancy across the Group was at 4,990 beds or 69%, compared to 5,017 beds - 70% in Q3 FY19. The occupancy in mature hospitals was at 3,841 beds or 70%. New hospitals had an occupancy at 1,149 beds or 64%.

Q4 Overall EBITDA was at Rs. 266 crore as compared to Rs. 214 crore in Q4 FY18, a year-on-year growth of 24%. Within this; Healthcare Services EBITDA grew by 21% to Rs. 210 crore. Healthcare services margins were at 18.3% in Q4 FY19 vs. 17.3% in Q4 FY18. As we have emphasized, Mature hospitals EBITDA margins have improved to 22.1% this quarter, well on the way to our 23% target over the next few quarters. EBITDA margins for new hospitals have improved to 7.0% from 4.0% in the same quarter last year. These hospitals are expected to achieve double-digit EBITDA margins very soon, and will then deliver ROCE well in the mid-teens over the next three years. The Proton Outpatient services were commissioned in Feb 2019 and reported a revenue of Rs. 50 lakhs and EBITDA loss of Rs. 4.7 crore for the quarter.

On SAP, the revenues grew 18% on the back of 156 stores added during the quarter taking the total to 3,428 stores. SAP EBITDA grew 37% to Rs 56 crore. EBITDA margin was at 5.5%. SAP ROCE is now at 21%. Private label sales are at 6.6% and rising.

Net Debt as of 31st Mar 19 is Rs. 2,949 crore. We have a Debt equity ratio of 0.83 and Net Debt to EBITDA of 2.9 times.

Mature Hospitals ROCE has crossed the 20% threshold and has reached 22% in FY19. SAP ROCE is at 21%.

Consolidated performance outpaced the Standalone financials reporting 19% Revenue growth and EBITDA growth of 51% in Q4.

Apollo Health and Lifestyle recorded revenue growth a shade under 30% for Q4 and for the full year FY19 and is maintaining its growth momentum across all formats.

The Pharmacy Restructuring is ongoing, and we expect it to be complete in the next 4-5 months.

We believe that these results have reinforced our position as India's foremost private healthcare provider, and with the capacity we have already created, we believe there is a significant top-line and EBITDA upside that will accrue in the

forthcoming years. Our focus on cost optimization and asset turns will continue, and EBITDA growth will continue to out-pace top-line growth.

Our Centres of Excellence are well-established now, and dedicated National Service Line Managers are driving clinical innovation and differentiation across each of the Centers of Excellence, along with facilitating knowledge sharing on best practices across the network. We believe our differentiated clinical value proposition in each COE's will continue to drive higher acuity cases into our mix, which will result in further expansions of our margins.

The Apollo Proton Cancer Centre was formally inaugurated in January 2019, started out-patient operations this quarter and will be fully commissioned over the next six months. Our investment in this first of a kind, along with a 150 bed integrated cancer care hospital is a statement of our intent to cement our position as the foremost provider of comprehensive oncology care in the country and indeed in this part of the world. This centre is positioned as the hub of our Oncology vertical, which with 9 centres, 3 in progress, over 200 medical, surgical and radiation oncologists, and highly skilled nurses and technicians, the vertical will be a key focus of our future strategy.

We will seek to grow network revenues in oncology to over Rs. 2,000 crore over the next 3-5 years and harvesting our outstanding clinical balance, cutting-edge technology, hub and spoke network, National Tumor Board, and Internationally benched clinical protocols and world class outcome. Our efforts would also be to position India as a preferred destination globally for oncology.

Our belief in the evolving nature of the sector and investments in formats of the future are starting to show encouraging results. AHLL has reduced its EBITDA losses dramatically. There is a clear, vertical-based strategy in place for this entity, and it is on course to achieve EBITDA break-even by mid FY2020, and thereafter deliver healthy returns.

Our Home Health and Digital programs address growing consumer expectations for transparency, autonomy and convenience. We believe that we are adopting technology ahead of the curve, and will continue to strengthen our access platforms, and also engage with each consumer, across the care lifecycle.

We believe we have an important role to play in pivoting the national conversation to good health and prevention, while continuing to treat illness. We are therefore, setting up a long-term focus on preventive health and wellness, supported by digital, AI and predictive risk.

We have, over the last 18-24 months, built a successful model of delivering Digital-enabled Primary Health Care through Urban and Rural Primary Health centers under the PPP mode in several Indian States. We look forward to expanding our network in this space, and supporting State and Central Governments in their efforts.

Before I close, I would like to share that our Board has recommended a dividend of 120%, at Rs. 6 per share.

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

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Pritesh Chheda from Lucky Investment Managers.

Pritesh Chheda: I just wanted to understand on the cash flow side. This year, we haven't seen repayment of any debt and in fact, there is some increase. So, just on the cash flow side, what was our utilization? Also next year, do we have a case for a debt repayment and what kind of capex estimation we have?

A Krishnan: So, on the cash flow side, clearly coming in the past last year, as you know, we were in the last phase of our capex addition. The Proton therapy cancer center, which is the integrated cancer center that we had that had a consumption if you look at last year we had almost around Rs. 250 crore that we had to invest in that center. And apart from that, we had bought Medics Internationals which is we had invested in Lucknow which was around Rs. 90 crore that we had invested in that. We had around Rs. 80 crore of investment SPV which we had in Apollo Health and Lifestyle. Apart from that, our routine capex, which have always been to the extent of around Rs. 200 crore including the pharmacy additions that we have. So, that has been the deployment last year which is why obviously the debt has gone up. But coming to the next year, I think we will see a reduction in our net debt, clearly, because two things you will have to remember. One is as the Pharmacy restructuring happens, the front-end pharmacy will be into a separate SPV, and the capex of the front-end stores will also be taken care of by that SPV. Clearly, we think that, that will bring cash to AHLL to the extent of at least Rs. 350 crore. And apart from that, as you are aware we also are looking at a liquidation of one of our investments which is something you are aware of, which should bring us incrementally another Rs. 200 crore or Rs. 250 crore. So, combination of both that itself should bring our debt to lesser than Rs. 2,500 crore by the next year-end which is our expectation from the current Rs. 3,200 crore including the free cash flows. So, clearly there is a significant net reduction that is going to happen in the next year as you rightly assessed.

Pritesh Chheda: So the cash flow operationally; cash flow next year, what will be the capex? And what will be the debt repayment, if any, from the operational cash flows?

A Krishnan: So, operational cash flows, routine capex will be around Rs. 200 crore for hospitals. That is now the routine capex that we have for all our hospitals every year. So, you can pencil in that Rs. 200 crore to your number. Working capital increase always has been in the range because there is an increase in insurance patients to the business. There is an increase in credit patients, etcetera from PSUs etcetera. So, that will be another Rs. 150 crore that we will have because of the working capital. And you can obviously look at the interest and taxes etcetera. So, you will still see that we will have a free cash generation from operations of at least Rs. 300 plus crore versus which is something which will also be used for reduction.

Pritesh Chheda: And you do not have any growth capex for bed addition now?

A Krishnan: Well, as of now, we do not have any specific capex plans. We are always open for doing any bolt-on acquisitions like Lucknow that can come our way, which is why if you look at it, Rs. 2,500 crore is something that I have given as a number whereas the number could even be a bit lesser than Rs. 2,500 crore.

Pritesh Chheda: And just one more question on the mature cluster growth rate side which is a double-digit growth rate. And when I look at the presentation on slide 15 on inpatient volume, which is a low single digit growth rate in most of the clusters. The difference if you could explain between the two numbers and some time back the hospitals in general were reeling under price cuts on knee replacements and stents

and all. So, are we past that phase? Do we see a sustained high single-digit growth rate in the mature hospitals for us?

A Krishnan:

I think you are right. So, clearly, if you look at the overall difference of 15% versus 7% volume growth, the balance 7% comes from a combination of acuity, especially if you look at the Centers of Excellence that we have you know - cardiology, oncology, orthopedics, neurosciences, ICU those have been segments that have been growing at faster rates than some of our secondary care segments. There obviously the ARPOB is higher, our average realizations are higher, etc. Clearly the case mix impacted by at least 3% to 3.5% in that overall 15% number that we have for the quarter, or for even for the year which is almost around 14%. So, the balance of almost 3%-3.5% is caused because of prices.

Suneeta Reddy:

So, just to amplify a little bit on that. You know in all our existing, the more mature units, we have changed our case mix significantly towards more surgical work. So, we are focusing more on surgical work than the fevers. The other thing is the reduction in ALOS. So, because of this, the occupancy would come down. But with regard to volume, we are taking more of the surgical cases rather than the fevers because the quality of revenue is better with that.

Moderator:

Thank you. We move to the next question from the line of Neha Manpuria from JP Morgan.

Neha Manpuria:

Ma'am, could you give us an update on the release of the pledge, please?

Suneeta Reddy:

Okay. We actually reduced the pledge by 10%. We are currently at 68%. Going forward, we expect that there will be a liquidity issue that will occur sometime in September-October. And at that time, it will come down by another 40%-45%. So, we would have brought it down to 50%. By the end of the year, we are looking at removing the entire pledge. So, you can be rest assured that next year this time, there will be no pledge issue.

Neha Manpuria:

Okay. So, the liquidity in September, October you said, would reduce by 40% to 50%?

Suneeta Reddy:

Yes.

Neha Manpuria:

Understood. That is helpful, ma'am. And second, if you look at the regulatory environment, we have a little bit of impact from the cancer drug cap. There are also talks about potential capping of trade margins which could impact pharmacies. Should we be concerned from a regulatory point of view, if not for hospitals, for pharmacies also?

Suneeta Reddy:

I think that we have learned over the past two years how to deal with regulation and still see that value is created both for the hospital and the patient. So, with regards to oncology, which you first mentioned, clearly there was a cap on oncology drugs. But the way that Apollo has looked at it is that because of this cap in the lower price, we are seeing that the volumes are improving significantly. Patients would go to distributors to actually buy and some of the distributors would supply. But now we believe the volume will make up for the absolute amount of EBITDA. So, while EBITDA margin might be slightly is this is what is happened. I also want to say that in spite of everything that is happened in the last year, our EBITDA margin actually grew to 5.4% and we believe that the channel margins will continue to improve like they did by 60 basis points. We are also speaking to manufacturers because of the large volumes that we, buy we expect that we might get some additional discounts. The third thing is that Apollo has always been pricing for services. Over the last 18 months, we have moved to pricing for services

that helps us retain the 20% margin that we will continue to have for all our procedures and for everything that happens within the hospital.

Neha Manpuria: So, ma'am, then how do we look at margin expansion for mature hospitals? Is it capped at probably 22% to probably improve a little bit more? How do you see that trending forward?

Suneeta Reddy: So, our margins has already mature hospitals is at 22.3%, it has improved from, I think 21 point by 90 basis points sort of improvement. And I think we will continue to see that margin expansion. We promise to show 23%. We are on track for the 23%. Margin expansion will come because one, we are seeing a growth in volume. The second is the case mix is very important. We are moving towards more surgical work. And three, there is a lot of cost containment that we are doing in terms of keeping our consumables for surgical procedures. So, that is enabling us to enhance our margins.

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

Anubhav Aggarwal: One, I just need a clarity on the capex front. For fiscal '20, you did not include the balance capex on Proton and you still mentioned the operational cash flows will be there. My understanding is if I include the Proton capex, there will be no operational cash flows?

A Krishnan: So, if you look at the operational cash flows which is why I did not bring it down significantly from the Rs. 2,500 crore if you looked at the number. I said Rs. 600 crore between standalone pharmacies and the other ones which will bring it to from Rs. 3,200 crore to Rs. 2,600 crore. From Rs. 2,600 crore to Rs. 2,500 crore is what I have considered to bring it to Rs. 2,500 crore. So it is only Rs. 100 crore reduction. So, the operational cash flows of Rs. 300 crore, almost around Rs. 200 crore can be used for balanced Proton. So, that will still leave Rs. 100 crore with us.

Anubhav Aggarwal: So, the capex that you are expecting for next year will be Rs. 200 crore routine capex, Rs. 200 crore for Proton?

A Krishnan: That is correct. And on Proton, I would also want to say here, as we speak, that is what we are looking at. But I think you would hear back from us over the next 30 days on we are in very advance stages of an SPV, creating an SPV on Proton and we are in very advance stages of getting us an investor there which will be a very long-term tenure investor. And you will hear back from us over the next 30 days once we have the final details on the same. Once that happens, you would realize that, that will be a further positive to the overall balance sheet of AHEL. But we are as of now, I am not taking that into consideration pending finality of the same.

Anubhav Aggarwal: On the AHLL side, the Spectra and Cradle actually the EBITDA turned positive in this quarter and that was very sharp turn from third quarter to fourth quarter. What is the change? Is there a one-off over there or now you are positive?

Chandra Sekhar: No, there has been a robust growth and we have managed to turn around actually, most of the network has always been positive in Spectra barring a couple of centers which were dragging it down into the negative EBITDA zone. So, those have been specifically worked on to find solutions on improvement of occupancy and surgeries. And what we are seeing is a systemic improvement. We also have added income from some asset light expansions which we have done for Spectra. And we will continue that as a strategy for the next year.

- Anubhav Aggarwal:** What do you mean by added income from asset? What asset, sorry, I missed that.
- Chandra Sekhar:** So, we have incomes coming in from operating and management of other assets. That is what we are trying to do.
- Anubhav Aggarwal:** So, is Cradle still EBITDA negative? Or Cradle also has turned EBITDA positive?
- Chandra Sekhar:** Cradle, for the quarter, is positive.
- Anubhav Aggarwal:** Okay. And is this now going to continue? So, for quarter 1, quarter 2 we should see this Cradle and Spectra as a segment being positive EBITDA positive from here?
- Chandra Sekhar :** Yes. We will have some annualization of course in the first quarter which may put it down a little bit. But then by second quarter, we will see that they will be in the positive zone.
- Anubhav Aggarwal:** Okay. And just one clarity on the hospital clusters. Have you taken any price increase specific in this quarter in any of the clusters?
- A Krishnan:** Not in this quarter.
- Moderator:** Thank you. The next question is from the line of Andrey Purushottam from Cogito.
- Andrey P:** I wanted to ask two questions. One is related to occupancy. So, in your mature hospitals, what is your breakeven as far as occupancy is concerned on EBITDA or PAT base whichever basis you can give us. The second thing is that what can these occupancies rise to and if you have any comparable figures with any other private hospitals in India, how would you compare on that? So, that is as far as the occupancy is concerned. And my second question is on case mix. So on the case mix I was just curious as to how can you control the case mix that you handle? Is not the case mix a function of the prevalence of disease or whatever problems exist in the population?
- Suneeta Reddy:** Okay. With regard to hospitals, you did mention occupancy in mature hospitals? Is that right?
- Andrey P:** Yes. So what is the breakeven?
- Suneeta Reddy:** So, breakeven, I think we are so far past the breakeven. When we are delivering an ROCE of close of 22.3%, it is difficult to determine what would be a breakeven because all of them are contributing to margins. Having said that, we do concentrate on case mix and asset utilization and the reason that we do it is that having seen that we have a certain steady occupancy, we need to improve the quality of the revenues and the margin profile. So, clearly, we are at 70% occupancy in our mature hospitals. At 70% occupancy, we are delivering margins of 22%. Anything as we go further, there is only 10% headroom for occupancy or volume growth. So, we must make sure that 10% is all about case mix and surgical volumes. So case mix is certainly a reflection of the NCDs which is non-communicable diseases for which we make sure that we have the best doctors and the best surgeons. So, our case mix is focused on orthopedic. It is focused on oncology, which we spoke extensively about on cardiac work, on neuro work, on general surgery. And we also look at a lot of neurosurgery. So, these are the five Centers of Excellence plus the general surgery that we are looking at and this clearly improves our margins. I hope I have answered your question.

- Andrey P:** Yes. If I can just get an elaboration; what is the breakeven on your new hospitals in?
- Suneeta Reddy:** 50%.
- Andrey P:** And you are basically saying that you control the case mix by creating a reputation by having the best doctors, etcetera and service in the areas that you think are more profitable. Is that what you are saying?
- Suneeta Reddy:** We spoke about the COEs where we have service line managers. So, we look at Apollo, the whole Group and set up a cardiac practice or an oncology practice, but that is now across 30 or 40 of our high-end institutions. So, this includes you know; how do we improve clinical outcome, how do we bring in new technologies and innovation. And all of that is driving greater margins. And that is how we have this plan in oncology, for example, to grow to Rs. 2,000 crore. So, we have moved beyond just thinking of Apollo as a cluster. We have moved to thinking about these Centers of Excellence where we believe we can get Rs. 2,000 crore of revenue in each of the Centers of Excellence by very good technology, very good surgeons and great doctors.
- Moderator:** Thank you. The next question is from the line of Pranit Banwat from ICICI Bank.
- Pranit Banwat:** My question has already been covered.
- Moderator:** Thank you, sir. The next question is from the line of Shyam Srinivasan from Goldman Sachs.
- Shyam Srinivasan:** In your opening remarks you talked about oncology revenues and that you will target to reach Rs. 2,000 crore over the years. Did I hear that right?
- Suneeta Reddy:** Yes.
- Shyam Srinivasan:** So, ma'am, what is that today? In FY19, what is the equivalent number that we have already done?
- A Krishnan:** Around Rs. 850 crore is the gross number.
- Shyam Srinivasan:** Rs. 850 crore is the gross number. And this Rs. 2,000 crore, we think it is a 3 to 4 year kind of a journey?
- A Krishnan:** Yes.
- Shyam Srinivasan:** So, ma'am, just on this part, so I think you touched upon it in the opening remarks on oncology. So, can you just give us more color? Would it be efforts like Proton or will it be; I mean what can help us get this number? I think if you can elaborate on that.
- Suneeta Reddy:** I think it is a combination. First is the right technology. So, we have got technology and we have created hub-and-spoke models. So, there is Linacs in a lot of hospitals and the referrals that will come into Proton. So, we have created in terms of technology getting the best technology but with it getting really good doctors.
The second part of what we have done is that while focusing on clinical outcomes, we have recruited I think the best doctors, the best surgeons in India who are now with Apollo. So, this we have actually seen oncology growth grow at somewhat in fourth quarter at around 18%, the growth in oncology. So, it is proof that we have the strategy right. Like I said earlier, it is about technology, it is about

doctors, it is about working. We have tumor boards now that work with foreign institutions and people like MD Anderson. So, clearly, in terms of first opinion, second opinion, we are really there. In terms of clinical oncology also we set up very good teams. We have day care chemotherapy centers in each of our hospitals. So, there is the complete service offering, which is a combination of great technology, great doctors and the holistic thing of having the Proton which provides the ultimate 360-degree care.

Shyam Srinivasan: If I just do the math on Rs. 850 crore divided by the total hospital services, it is about 20% of your revenues are now coming from oncology. And you look like you will probably expand this in the next few years, it looks like.

A Krishnan: Well, Rs. 850 crore is the gross revenue, it includes the doctor's fees. The way that you have looked at it, you have looked at it at net. So, probably, it can be a bit lower than that. I will have to come back to you on the net revenues. The reason I said the gross is because if you are comparing this with some of the other players in the market, you will kind of get the numbers from their perspective. So, from our perspective, I will have to come back on the Group's revenues on oncology.

Shyam Srinivasan: And my second question is on the pharmacy. We have added about, I think, 407 stores net, right? So, what is the expansion plan for next year?

A Krishnan: But before that, I just close out on the other one also. Just also remember that in our consolidated results Kolkata is not consolidated and Delhi is not consolidated. So, to that extent, it is not consolidated in the numbers that you are seeing. So, Rs. 850 crore divided by even at console this will not give you the correct number on core revenues. Anyway we will get back to you on the correct number.

Chandra Sekhar: We expect to have around 350 stores to 400 stores year-on-year as you have seen this year and in last year what we have done and we continue to do that.

Shyam Srinivasan: Okay. 350 stores, right?

A Krishnan: 350 stores.

Shyam Srinivasan: Yes. And the private label numbers is about 6.6%, right? Do you think this is..?

Chandra Sekhar: Yes, 6.6% and this year we have done lot of isolated in that portfolio. We could see improvement in the coming year.

Shyam Srinivasan: And last point on pharmacy. The margins we saw good expansion about I think 60-70 bps. What are the key drivers? Is it just operating leverage? Is it just private label? And what is the visibility for fiscal 2020?

Chandra Sekhar: It is a combination of private label, volume and cost rationalization. We next year, we expect to continue the same level of growth but we cannot put any number to it. Hopefully we will continue the same level of performance.

A Krishnan: And clearly, two specific areas that we are focusing on. One is there are efforts that we have across the system for better prescription fulfillment. Clearly that means that we have a better inventory management which is online; we do a proper assessment online of what is happening, what needs to be stopped, etc. And second is we have been trying to upsell some of our FMCG products, etcetera, which we have. Both of that is something that is helping the overall sales per store as well.

- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley.
- Sameer Baisiwala:** Suneeta, what is your outlook for the topline growth for both existing as well as new hospitals for this year?
- Suneeta Reddy:** So, this year, we are looking at 10% for the existing and 30% for the new ones.
- Sameer Baisiwala:** And both of these would be coming with some 100-200 basis point margin improvements?
- Suneeta Reddy:** Definitely. Yes, I think margin improvement is key.
- Sameer Baisiwala:** And Krishnan, second question is on the Protons facility. So, what kind of equity transaction that you have in mind and? Also if you could share some ballpark size?
- A Krishnan:** It is better if we wait for a couple of weeks on this. I think we are probably by the next 30 days as I said we should be in a better position to give you better color on this. So, clearly it would be an SPV, as I said. It could be something that we will have a long-term investor who will come in for 10 years into that SPV, and we will have a joint control from our side. It will not be consolidated into the P&L of Apollo. Also it will have debt as well on that books from our books. So, it is something that will help us. Also, the second point, strategically also it will help us bring in other; it will give us an opportunity in the future to bring in other strategic investors if required. It will also provide a platform which can probably be looked at for future to see what else can be added there. So, it is just that we are still at stages and I will probably come back to you in the next 30 days.
- Sameer Baisiwala:** Okay. And another question is on the operating beds. Would you be adding some more over here from your latent capacity?
- A Krishnan:** Yes. We should be. I guess, especially in couple of the new hospitals we will be looking at adding, operationalizing a few of those beds. So, maybe at least in the coming year we should be operationalizing maybe 150 to 200 beds.
- Sameer Baisiwala:** So the liquidity event, Suneeta, you have in mind around September is Apollo Munich?
- Suneeta Reddy:** Well, it is silent period for us. Excuse us from answering that question, please.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global.
- Kashyap Jhaveri:** One question on Apollo Health and Lifestyle. If I look at this quarter, quarter 4 versus quarter 4 of last year, our revenues went up from about Rs. 123 crore to about Rs. 160 crore and our losses have significantly reduced from about Rs. 40 crore to about Rs. 10 crore. So, are the incremental margins in this business so high? Is that right assumption?
- Chandra Sekhar:** Yes, that is margin enhancement.
- Kashyap Jhaveri:** Sorry, I did not get that?
- Chandra Sekhar C:** It is margin enhancement.

- Kashyap Jhaveri:** Okay. And would it be primarily driven by what we get as gross revenue and take home as net revenue, or would that be the primary driver?
- Chandra Sekhar:** No we have improvements in doctor payout and also in consumption. And all that is added to our gross margin improvement. From last year 43% was the gross margin, it has improved to about 51% this year.
- Kashyap Jhaveri:** And that would be driven by as you said doctor payouts efficiency and cost optimization, both?
- Chandra Sekhar:** And consumption.
- Kashyap Jhaveri:** Right. And second question is on pharmacy. When this transaction in terms of Apollo Medicals Private Limited and consequently Apollo Pharmacy, the other key investors whatever money they put in will be sufficient for additional expansion which we have there or Apollo Hospital will have to also chip in money out of whatever we get from that particular business?
- Chandra Sekhar:** We will be raising debt at the Apollo Pharmacy Limited level and using that for paying this some sale consideration for Apollo. So, that will be independently servicing that debt.
- A Krishnan:** And on a go-forward basis, as you know, almost around 15% of the cash flows or EBITDA is going to be there which will take care of the requirement for the new capex etcetera.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities.
- Nitin Agarwal:** Sir, can you help us understand in terms of the progress on the Navi Mumbai Hospital, and how do you see this asset over the next couple of years?
- A Krishnan:** I think the Mumbai Hospital has come up very well in this year, as you are aware. Clearly, we have now crossed the milestone of over Rs. 200 crore in overall revenues from this hospital now. And it is already operationally positive. The EBITDA from there is almost around Rs. 6 crore - Rs. 7 crore as we speak in this year. Going forward we are quite positive; all the incremental revenues we will see it coming down to the EBITDA at almost 5% to 50% levels. And we are quite hopeful that it crosses the 200 bed occupancy by end of next year.
- Nitin Agarwal:** What was the total bed occupancy for this year for the hospital?
- A Krishnan:** Around 150.
- Nitin Agarwal:** Which you are seeing is going to go to 200 by next year?
- A Krishnan:** That is correct.
- Nitin Agarwal:** And the EBITDA contribution should increase meaningfully, right, because of the leverage that is going to come through?
- A Krishnan:** That is correct.
- Moderator:** Thank you. The next question is from the line of Vikas Sharda from NT Asset.

- Vikas Sharda:** Could you comment on your plans for e-pharmacy? Because you see a lot of players have now scaled a bit pretty significantly?
- A Krishnan:** So, I think there are certain regulatory concerns as you are aware of, which is something that we are getting more clarification from the Government because we are as you are aware we are large players in the segment and we do not want to do something which is not correct. There obviously has been some; there have been Court Orders in the same. But we are clearly configuring our e-commerce segment. We know that currently we have; the more important thing is we know that the fulfillment rate of our orders is something that we are focusing on. And especially given our focus which we have across many of the geographies, this is where we get our orders from; almost around 80% of the orders we would like that to be delivered on the same day. That is going to be a significantly different offering compared to most of the other e-commerce players. We are working on the same. I think you will have to give us six months to get there because of the regulatory issues.
- Moderator:** Thank you. The next question is from the line of Harith Ahmad from Spark Capital.
- Harith Ahmad:** The CWIP of Rs. 800 odd crore that is there in your March balance sheet, which facility is this pertaining to?
- A Krishnan:** A significant amount of that will be for Proton and there are a couple of; there is a brown-field cancer in Vizag and Bhubaneswar, both of that is also part of that.
- Harith Ahmad:** Okay. And what would be your EBITDA loss guidance from the Proton center for next year? Should we be looking at the current run rate?
- A Krishnan:** So, I think clearly the hospital we are putting that whole hospital will be ready by maybe the end of this year because clearly the first Proton there is the first treatment room, the second and the third. The third comes in by almost around December and the third treatment room. So, there is the phased ramp-up that is going to be happening of the Proton Therapy Center and the hospitals will also probably be between the August and December time frame. The current year losses we do not expect it to be more than Rs. 25 crore to Rs. 30 crore as we stand.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global.
- Kashyap Jhaveri:** Just one question. Would the cash flow conversion in pharmacy business as a percentage of EBITDA be significantly higher or equivalent to what we do in hospital business?
- A Krishnan:** Yes, it will be higher.
- Kashyap Jhaveri:** Would it be significantly higher?
- A Krishnan:** It is significantly higher.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments.
- Suneeta Reddy:** Ladies and gentlemen, thank you for participating in our earnings call today. As was evident, at Apollo we are focused on delivering outstanding clinical outcomes which will result in a healthy financial performance. Apollo is the only integrated

healthcare player that includes hospitals, pharmacies, AHLL with its new formats of care. We believe that each of these businesses will continue add value to both patients and our shareholders. Thank you again for joining this call.

Moderator:

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