



# Apollo Hospitals Enterprise Limited

## Q4 & FY21 Earnings Conference Call

June 24, 2021

---

**Moderator:** Ladies and gentlemen, good day and welcome to Apollo Hospitals Limited Q4 FY21 earnings conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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. Devrishi Singh from CDR India. Thank you and over to you Mr. Singh.

**Devrishi Singh:** Thank you Neerav. Good afternoon everyone and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q4 and FY21 which were announced yesterday.

We have with us on this call today, the senior management team comprising Mrs. Suneeta Reddy – Managing Director, Mrs. Sangita Reddy – Joint Managing Director, Mrs. Shobana Kamineni – Executive Vice-Chairperson, Dr. Hariprasad – President of the Hospitals Division. Mr. A. Krishnan – Group CFO, Mr. C Chandra Sekhar – CEO of AHLL, Mr. Obul Reddy – CFO of Pharmacy Business and Mr. Sanjiv Gupta – CFO of Apollo 24/7.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward looking in nature and may involve risk and uncertainties. Please note the disclaimer mentioning these risks and uncertainties on Slide #2 of the Investor Presentation shared earlier.

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 turn the call over to Mrs. Suneeta Reddy for her opening remarks. Thank you and over to you ma'am.

**Suneeta Reddy:** Thank you. Good afternoon, everyone and thank you for taking time out to join our call. First of all, I hope you and your families are safe and healthy in these difficult times. I trust that you have received the earnings document which we shared yesterday.

We started this year on a positive note, post the slowdown which the country had witnessed due to the second wave. The economy would witness a cyclical recovery in the subsequent quarters.

Coming specifically to Apollo Hospitals and quarter four of FY21, we witnessed a revival in patient footfalls in non-COVID occupancy across the network which translated into a strong financial performance.

Overall, the quarter witnessed reduced COVID admissions. Just to give a perspective on this, COVID discharges in Q4FY21 stood at 5,450 as compared to 14,616 in the prior quarter. Additionally, COVID occupancy reduced from near 426 beds compared to 1,173 beds in Q3 FY21.

In Q4 FY21, surgical discharges continue to gain momentum and grew at a rate of 32% on a sequential quarter basis. The non-COVID discharges during Q4 FY21 registered a 21% quarter-on-quarter growth. Sequential quarter growth on IP volumes was at 9% with mature hospital volumes growing at 12%.

Against this backdrop let me walk you through the financials of the quarter:

Standalone Q4 FY21 revenues grew by 2% quarter-on-quarter to Rs. 2,410 crore, Healthcare Services grew by 4% to Rs. 1,291 crore, SAP revenue de-grew by 1% and was at Rs. 1,119 crore.

Our new hospitals recorded a revenue growth of 16% year-on-year and 1% on a quarter-on-quarter basis, while mature hospitals revenue grew by 2% year-on-year and 5% on a quarter-on-quarter basis.

The post Ind-AS 116 EBITDA for Q4 FY21 stood at Rs. 336 crore compared to Rs. 321 crore in the previous quarter and this after taking a charge of Rs. 25.2 crore on account of marketing costs for the Apollo 24/7, without this cost EBITDA growth was at 12% quarter-on-quarter.

Healthcare Services EBITDA was at Rs. 280 crore compared to an EBITDA of Rs. 248 crore in Q3 of FY21, a growth of 13% quarter-on-quarter. Margins in mature hospitals were strong at 24.2%, 234 basis points improvement on a sequential quarter basis. Margin at new hospitals stood at 15.7 for the quarter.

Our comprehensive cost optimization initiative resulted in saving of Rs. 343 crore, which were realized in FY21. Going forward, we expect to sustain a cost savings of around Rs. 100 crore to Rs.125 crore in FY22.

SAP EBITDA post Ind-AS was at Rs. 81 crore at a margin of 7.3, compared to 6.6 on a sequential quarter basis. On combined basis, the pharmacy platform EBITDA was at Rs. 93 crore at a margin of 6.6%. 118 new stores were opened in the quarter taking the total to 4,118 stores.

Moving on to consolidated results:

During the quarter, we have completed the acquisition of a majority stake in Apollo Medics Lucknow. Results have been consolidated in Q4 FY21. We have also completed the acquisition of the balance 50% stake in our Kolkata Hospital, renamed Apollo Multispecialty Hospital Limited. The results of this hospital will be consolidated from Q1 FY22.

Consolidated revenues grew 4% on a quarter-on-quarter basis to Rs. 2,868 crore. Healthcare Services grew by 7% consolidated EBITDA is at Rs. 412 crore, a growth of 6% on quarter-on quarter basis. Healthcare Services EBITDA grew by 13% and Healthcare Services margins were at 21.1%. Consolidated PAT was at Rs.168 crore. This includes an exceptional item of Rs. 25 crore pertaining to the Apollo Medics Lucknow consolidation.

AHLL recorded an EBITDA post Ind-AS at Rs. 31 crore as compared to an EBITDA of Rs. 16 crore in Q4 FY20. The business has recorded a 26% year-on-year and 7% sequential quarter growth in top line.

Net debt as of 31<sup>st</sup> March 2021 is Rs. 922 crore. We have a debt-to-equity ratio of 0.44.

The Board yesterday approved the formation of Apollo HealthCo, AHL in our transformational journey towards creating India's largest Omnichannel healthcare platform. This will be done through a slump sale of identified businesses undertaking, including:

- a) AHEL's backend offline pharmacy business, excluding hospital-based pharmacies.
- b) AHEL's digital healthcare platform 24/7.
- c) AHEL's investment in retail pharmacy business, Apollo Medicals Private Limited, and
- d) The Apollo 24/7 brand, the Apollo Pharmacy brand, and private labels into AHEL's 100% subsidiary Apollo HealthCo Limited.

This proposed reorganization fully protects the economic interest of all AHEL shareholders and sets the platform for tapping new pools of investor capital that will enable a rapid scale-up of the digital healthcare platform. At the time of capital raise, AHL valuation will reflect current and future growth potential.

Now to present this product and the plans for the future in detail, we have Shobana Kamineni – Executive Vice Chairman and Sangita Reddy – Joint Managing Director, who will walk you through the features of this Apollo Health. Shobana and Sangita, over to you.

**Shobana Kamineni:** Thank you, Suneeta. I think, you clearly articulated what HealthCo is. I will spend the next five minutes answering seven FAQ's that we have been hearing and maybe it would put everything in much better perspective. So the first thing is, everyone says, why is Apollo doing this? Why did they create it? And why should Apollo do it? And what are the promoters going to make out of this?

So, our Chairman, very early if you see our mission statement really talks about bringing International care, affordable care within the reach of every Indian. So, it doesn't matter how many hospital beds, this is something we went in introspected and said it doesn't matter how many hospital beds we put, that we will never be able to satisfy what's required and is it even necessary in this digital day and age where everything is transforming, everything is being disrupted and Apollo is, let me tell you, the only entity not just in India, but we can be proud to say in the world, that is in every point of care for the customer.

As Suneeta explained, we talk to you every quarter about hospitals, about clinics. We used to talk to you about insurance, but we still have the TPA. We talk to you about pharmacies, we talk to you about some of the brands we have, the private label brands we have, about different formats of diagnostics, it's all there, the most awesome collection of doctors. So, it's all there, we said what can we do to move this out and make choice so simple for you. Because that's something that we saw, choice and access was something that we really saw lacking no point in time as much as during this pandemic with that. The day the first wave struck almost 3,000 doctors of ours were just sitting at home with this. Patients had no access to them and at many times it was tough for them to come to the hospital.

What happened during that first wave, I think it was one of the most fortuitous things that Apollo had already launched Apollo 24/7 which digitally enabled in 45 days, 3,500 doctors were on a digital platform that could touch people every day. We had put out a product of the first Corona health check, that health self-assessment scan, 11 million people took it in two weeks. This really gave us a validation that we understood tech, we were agile, and we knew what the customer needed to simplify choice. You have got a slide up there, because sometimes it just defies logic that when your car is spoilt, you don't think to fix it yourself or YouTube or Google it, you take it to a mechanic. If you need anything fixed at home, you either call a plumber or a legal problem call a lawyer, but with health, there's so many torturous ways that we go before we actually come to the right solution. 24/7 is to simplify that and bring within 15 minutes, can you imagine, I am not offering you a hundred thousand doctors. We are offering you 7,000 Apollo doctors, 24/7 available in 15 minutes. And I think leaving that proposition, we also are the only people who are able to offer you, and this is something that even Amazon or nobody can do this around the world, in two hours, you will get the medicine you need, because we realized what is the point in giving if a person needs a medicine, an acute medicine the next day, it's pointless. They can just walk to their nearest pharmacy. So, availability and the fact that you can get it in 2 hours. So, we realized we have the capability to be the best Omnichannel.

Apart from that, the diagnostics capability of having an army, literally an army of phlebotomist who can go to the house now. Remember how frustrating it was to get up on an empty stomach and go to a hospital to get your test or to think that you call another service. Now you can get an Apollo service at your house. I think these three phenomenal propositions put together with the only health stack which is backed by data, just to give you an example, the clinical decision support system that, I'm going to ask Sangita to talk about once I finish the FAQ's, she's put this together, it didn't happen in one year or four years or five years, this is 30 years of data which gets put together to bring the right solutions and the right answers. So that's why the timing is right for something like this. Financial services have been disrupted; e-commerce shopping has been disrupted. We think that healthcare is the one that actually the customer needs most, and Apollo is the one that they will give it to them.

So, what's the potential of this? All we can tell you is that so far in the last 500 days, through our pharmacy network and digitally we have served 270 million people to help them through this pandemic and I think that is serious capability. In the first 16 months of our operation this is what we were called upon to do. But the potential for this is really that there will be a hundred million Indians in over 700 cities in India and in towns and places where they would have just heard of Apollo and thought it's so aspirational, but now it's available on their phone. So, this is the potential of what a

digital healthcare like we are planning to give is there for a hundred million Indians and this is the potential of that, what we believe in 5 years. And thank you for saying this that there are many forward looking statements, but the revenue potential is close to \$2.3 billion and we can assure you that every one of those, because the pharmacy is within this, you have been tracking pharmacy closely, you will be very disappointed and our shareholders who own this Company will be disappointed if we don't have the stellar performance that we bring to you every year, we will continue that, that's a promise that will grow that business, 20% we will grow it with the margins that you all expect. But on top of that, we will create this layer of digital business that will create the hockey stick growth. That is what a digital Company can do. And that's why Apollo decided, so many people asked us, why did you put this into a separate Company? And the reason that Apollo took as it's not at all a calculated risk, but it is the most intelligent decision. Because at this point you have to see, are you on Amazon and just put digital somewhere, or are you a Walmart? And then we realized that actually both are the same. This is the age of Omni, unless you can back digital with physical, there is no future or path to profitability. And I think as a public listed Company, we have responsibility to many shareholders and diverse investors. And this is something that we took seriously. So we do expect by year 3, year 4, we will have EBITDA, by year 5 the EBITDA will be significantly higher than if we were just a standalone pharmacy or doing just standalone consults or digital. So, I think that it became a very interesting point for us.

Another slide that you have available with you is about the physical assets of Apollo. And you will see that this gives you why we will succeed. Please tell me if anyone, now that we are convinced that Omni is the way to go, there is no other player that has the breadth and strength of physical assets with the brand, in terms of hospitals of 10,000 beds, 4,000 pharmacies, 500 diagnostic centers, 200+ plus clinics, the capability of 30 million IPOP that we have managed every year and the digital that we do in managing 5 million plus insurance lives. We know this story and for anyone to create this same footprint, physical footprint if it was even possible, would cost them so much that they knew it can never happen. But this is available for this Company, for Apollo HealthCo will take all of that and layer the digital on top of it.

So, I think that our business model is superior, and we have the capability and many partners that have already signed up and are working with us, where Airtel is one of them, HDFC Bank, the SBI Bank. So, we have serious partners who we will be taking along this journey to make sure that we can service the customer to whatever he wants. This is the new age of digital customer. And this is the platform that you will see that pharmacy today has a 7% market share of pharmacy retail. In the next five years we expect that to be close to 30%. So, in every one of these segments, whether it's the diagnostic segment, whether it's the telemedicine segment, which were already the largest as we say and today, we are even larger than 1MG in terms of the number of deliveries we do every day. So, whether it's digital, whether it's physical, I think that this will be the defining digital health network not just for this country, but probably it will immediately stand out in the world as the most valuable.

So Sangita would you be able to explain a little more about the technical part, just the CDSS or shall we wait for questions?

**Sangita Reddy:**

Whichever way is fine. I'll take a brief minute just to say that this transformational journey is grounded on the concept is serving the customer in the most integrated

manner of bringing together the assets that we have but enhancing the capability and the access to those assets using a digital first approach. So, I think most importantly, every touch point physical, online, website, call center will stem from a consolidated user profile. This consolidated user profile which is grounded in a unique healthcare identifier is also collating all data points into a personal health record. This is a journey we have been following for a few years now which is significantly enhanced by the digital and the combination of the pharmacy retail coming into the hospital database as well. So, this combination and these touch points will evolve into a symptom check, AI, and ML enabled platform of the clinical intelligence engine. This engine has a consumer facing side, as well as a doctor facing clinical decision support. And in one line I will just say that this will enable the latest and the best of healthcare knowledge and information to be available at the touch of a button to all our doctors and all customers who seek our care and this consolidated data points will be available for us to help the user profile get the best possible medical care.

I will stop with this because I am sure you have a lot of questions. And I will end also by saying that all these are really grounded on the best technology stack. We have some of the most powerful engineering brains. We have validated our path forward with global expertise and whether it's the platforms we are using from Mongo to Postgres to our ability to use React Native for our app and Snowflake for our Cloud data warehousing, with all security layers, as well as International standards in terms of HIPAA for patient privacy and confidentiality. That's it from me.

**Suneeta Reddy:** Thank you. Right now, we will open the line for question and answers. Of course, I have Dr. Hariprasad, Krishnan the entire team with me and the team from 24/7. Shobana and Sangita will also be here to take all your questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sayantan Maji from Credit Suisse. Please go ahead.

**Sayantan Maji:** I have two questions. First one is on COVID vaccine administration. How many vaccines did we administer in Q4FY21 and what is the current run rate? Also, the AHL primary care segment consisting of clinic, it witnessed a strong margin expansion in the quarter. Is it because of the vaccine administration or are there any other reasons for this?

**Dr. Hariprasad:** Actually, we have as of now administered more than 2 million vaccines in the last couple of months. And it's been a seamless integration between the different entities within the group starting from 24/7 to the clinics, to the home health care, which has been administering vaccines because we believe it's the responsibility of the group as the largest provider. And we are already the largest private healthcare provider in terms of the number of vaccinations that we have done. We have line of sight of enough vaccines for the next couple of months, the existing vaccines. And we aim to vaccinate another 8 million, that is a total of 10 million people in the next couple of months as we move forward. And we are looking at this as a very important tool in the role of the pandemic and in prevention of the possible third or fourth waves that are on their way. And it is adding to the top line, and we have not added any other additional fixed costs to the vaccination initiative. The staff and the infrastructure is all from within the existing system or it's been provided by partners. So, there's no additional cost. So, despite the capping which has been done by the Government, there will be a margin on the vaccination program.

- Sangita Reddy:** I would like to add that Apollo has done more than 45% of all private vaccination in the country. So, it's actually significant.
- C. Chandra Sekhar:** On the question on the AHLL, which I will answer. The Q4 did not have much of vaccine income, so that doesn't change the profile. It was more of return back to normalcy and the pent-up demand coming back especially in electives and also in the primary care segment and we continue to hold our growth in the other important segment in diagnostics. So, this is a natural growth which does not have much of vaccine as a trigger for a significant growth in the quarter 4.
- Dr. Hariprasad:** I hope all of you are vaccinated, and if you are not yet vaccinated, please walk into any of the Apollo Centers and get vaccinated quickly.
- Sayantani M:** Sure, thank you. My second question is on Apollo 24/7 operating expenses of Rs. 25 crore in 4Q, is this the run rate that we can expect going ahead in FY22 as well?
- Shobana Kamineni:** I think that it's a starting run rate and it comes also from the competitive pressure and as we continue to grow. But what we are looking at is that our cost of acquisition and then the people that really engage within the app are much higher than what we expected. We are running at about 70% of our expenses and I have Sanjiv Gupta here, who's the CFO of 24/7. Sanjiv, can you come in with a little insight on some of those figures?
- Sanjiv Gupta:** Yes Ma'am. I think, what we are looking at is that as we ramp up our business and the traction that we are seeing and almost we are seeing the users coming in and then giving more and more transactions across all the business segments, we may expect slight upward movement on the expenses, to that extent the revenue would also match and on the overall business the unit economics is getting better month-on-month.
- Moderator:** The next question is from the line of Mandangopal Ramu from Sundaram Alternate Assets. Please go ahead.
- Mandangopal Ramu:** First of all, congrats on the excellent platform that you have created, I have used myself and found it really useful, the Apollo 24/7. My first question is on, how do we see this unit economics of this platform? Because the consultancy, so what we pay to the doctors, how the revenue model for the 24/7 is going to be? If you can explain that it will be helpful.
- Sanjiv Gupta:** I think there are 2-3 things that we should be talking about on this. One is that the platform is a feeder to various other entities of Apollo Group. So, be it virtual consultation, diagnostic, as well as the pharmacy line, all these ones would support the entire Apollo ecosystem. So, this would be going to be an incremental business for all the units of Apollo. That is point one. And second, as far as 24/7 entity revenue side is concerned, so this is going to be the commission or the fees that would be charged on every transaction, that is typically an e-commerce platform does. So, we would be having arm's length pricing so that would take care of the commission and the facilitation fees that the 24/7 Company would be charging across the group entities. And you also referred about the unit economics. I would say that at this case, we are positive across all the business segments on the contribution margin level.

**Mandangopal Ramu:** Can you elaborate a bit on how does it look in terms of per user the revenue potential or where we are right now or is it too early to discuss?

**Sanjiv Gupta:** This is too early, sir. But I think maybe in one or two quarters we will come back to you with more details on this.

**Mandangopal Ramu:** And related question, today how many people have really used 24/7 so far? And we have a hospital database, we have a pharmacy database and you have given that in year three we will be probably seeing an EBITDA neutral sort of a scenario. So, how much this number of users is likely to grow in your opinion in your models in the next say 3-4 years?

**Sanjiv Gupta:** So, what we believe is that we should be able to hit 100 million users by FY25. And we have been seeing a lot of participation from the customers who have been coming into various entities of Apollo Group and they have now started using Apollo 24/7 for various services. So, obviously as we stand today with 10 million customer base for 24/7 many of them have come in from the Apollo system and many of them have come from outside our ecosystem. So, I think from the growth potential we should be able to hit anything around 80 million to 100 million customers or the users by FY25.

**Mandangopal Ramu:** Current number is 10 million you said, am I right?

**Sanjiv Gupta:** 10 million.

**Suneeta Reddy:** This is in the last 500 days that we have got 10 million registered users.

**Moderator:** The next question is from the line of Neha Manpurai from JP Morgan. Please go ahead.

**Neha Manpurai:** My first question is on the 7,000 Apollo doctors that were available on the platform. From what I understand from the previous conference calls, we were also planning to induct non-Apollo doctors to sort of get to that 80-100 million users or to tap into that non-Apollo customer base. Are we seeing a traction in that? Do you think that could be a challenge getting the non-Apollo doctors to probably get onto the platform to consult and generate transactions?

**Shobana Kamineni:** Actually, we found them quite eager. So, there are three cohorts of doctors we have. One is the Apollo doctors, and the next is that we have a lot of junior doctors who are available also, during this COVID time we had to set up because of the volume. So, we have that. And the last part is the partner doctors. Over the years pharmacy and Apollo has built relationships with doctors around the country, about 35,000 of them. I think we have that as a pool for us to access as and when, it is about every time we put it out there on this app, it's the quality which is important and to make the choice simple. So, we will use that 15-minute parameter and we will keep adding capacity and also, we will match it to locality. So, it might be that in certain localities they like that local doctor who is also a partner doctor. This is the business rationale that we are using in terms of bringing it to what the customer needs.

**Neha Manpurai:** Currently what would be the proportion of the partner doctor, currently it is largely the Apollo doctors that are there on the platform.



- Shobana Kamineni:** We are able to meet demand and I think that it's really the 15-minute and having the right choice and having excellent capabilities. So, it could become very-very large. If we are going to get 1 million consults a day, like if you look at the only comparable Teladoc or Ping An, they have a huge pool of doctors, and we are getting smarter in terms of using technology also. Sangeeta had explained the CDSS system and the way that we can actually bring the old patient records and bring them together in a cohesive way, all that is part of the experience.
- Neha Manpurai:** My second question is, you mentioned a 2.3 billion revenue potential. I didn't really catch, is that pharmacy plus digital plus diagnostic, tele-consult, what does that include? And a second clarification is the year three year four EBITDA is that the EBITDA for the new entity that is AHL or are you talking just about the digital piece?
- Shobana Kamineni:** It is HealthCo that we are presenting to you as a whole, and HealthCo includes all the assets that Suneeta had explained that we are moving into this and that is the ability for us to give a powerful EBITDA in the shortest time possible. So yes, that's what it means, and it also means that with revenue, 2.3 billion is the revenue of all. It's not a GMV type figures. It's like you are actually getting revenue into the Company and what this Company will make.
- Neha Manpurai:** And this is by FY25, is there a timeline to this target?
- Krishnan A.:** Offline pharmacy piece is different. So, the overall potential is 2 billion that Ms. Shobana said was the overall potential of the digital business that we have.
- Shobana Kamineni:** And backend, Krishnan. Digital and backend. With HealthCo's business model its 2.5 billion in year five.
- Moderator:** The next question is from the line of from Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Before I go to HealthCo, just outlook for your core business which is with your hospital business. What's the outlook for fiscal 2022 and specifically when do you expect the outpatient and inpatients to recover?
- Krishnan A.:** Sameer, we have had a good Q1 as we speak because obviously Q4 was the best quarter for us and we saw that with the opening up and with non-COVID patients coming in, we saw a good realization on the per patient as well. But with Q1, of course, we had a good occupancy where occupancy went all the way to 68%, and we had 71% in the month of May. But as you know COVID realization is a bit lower for us compared to the non-COVID realizations that we have across. So, to that extent there would be a bit of a drop on the overall realization per patient, but we have done well. We continue to do well, and I think the Q2 we hope the COVID doesn't come back, we hope the third wave is probably a bit away. So, we wouldn't guide you specifically, but we definitely want to believe that we will do much better than the Q4 run rate annualized in this year.
- Suneeta Reddy:** I think the important learning here is that we have learned how to repurpose our beds, so while we are looking after COVID patients, we are also looking after the regular patients and therefore the higher occupancy at 71%. And I think this is a learning for

this year. How do we repurpose, create the separation of COVID beds and continue with the regular work by creating the bio-bubbles that we have done.

**Sameer Baisiwala:** And the question on HealthCo is, as a strip one or two sub-parts together, so is it the way to think about all the products that you are offering, I guess, is also there in PharmEasy or 1MG. So, it's a much bigger broader version of that with a lot of resources that you already have. Second is, on journey to take from 10 million registered people right now to 100 million, where would you get all these people from? What is going to be your funnel for this? And third is in terms of monetizing the entity, given your strong balance sheet and internal accruals would you rather wait 2-3 years to build it out and then look for big ticket monetization or you are thinking differently?

**Shobana Kamineni:** One is that, if you look at the names that you mentioned, all those names are now adding on different revenue streams, because they lead from a discount model, and I don't think in the long term that's sustainable. So, you will see that they are going through their own challenges. But having said that for Apollo the funnel is the people having the single UHID that Sangita spoke about. So, anyone that has been anywhere in the Apollo universe now will have a single UHID that can just populate on this 24/7 so you can access your records. So, I think it allows the funnel to open seamlessly and also much larger. If you see the traction today of 10 million in the last 500 days, there's probably only thing that can match that velocity. There is no Indian comparable that has been able to do this in such a short time and its full credit to Apollo, the strength of the name. The strength of the name also has brought us serious partners. So, you asked where you will get the 100 million from. I would think that the 100 million, there maybe 2 or 3 good banks that have put a 100 million digitally savvy customers. There are only 2.5 telecom players, one of course is on their own journey. The other one has chosen us. So, if you look at the Airtel banks, you will find Apollo and they are huge proponents of our loyalty program, the Apollo circle. So, I think that's a serious partnership that will definitely give us the long legs to be able to finish the marathon at the 100 million. And I think at the end of the day, it's really about serving the customer. If we do a good job and I think that during this time we have done a pretty nice job, customers will find other customers, families will join us and I think the whole health proposition of what Apollo has done will just get multiplied in terms of the name, in terms of the trust.

**Sameer Baisiwala:** Last part on monetization.

**Shobana Kamineni:** On monetization, so that's what you see, if you just take the example of the VC, everyone else has been doing free consults. Please don't let me get started, I think that's one of the worst things you can do, you give free consults so you can sell your medicines. Apollo will never do that. It borders on being unethical. People actually pay for almost the same price as a physical consult. If you see it today, our average is between Rs. 600 to Rs. 700 for a consultation. So, I think these are the kinds of platforms and monetization. So, whether we have an insurance product that we have got with the partner that is currently being filed in IRDA, so we have the ability (Inaudible) one of the products, fortunately or unfortunately we come from a parent that reports to shareholders. So, we won't be proliferate in spending money, but a large amount of money. So, we will match dry powder and that dry powder will possibly come that we look for investors. But I think that this entity is so large in itself already that our options are actually enormous of what we can do, but we will match the competitive intensity to grow.

- Moderator:** The next question is from the line of Damayanti Kerai from HSBC Securities and Capital Markets. Please go ahead.
- Damayanti Kerai:** My question is for target revenue of 2.5 million for Apollo HealthCo in the next five years, what kind of investments have been done so far and what are you looking to invest in near to medium term while we wait for external investors to join? I want to know what you have invested so far in the digital platform and what additional investment could be required to reach the revenue target of 2.5 million which ma'am has indicated earlier?
- Krishnan A.:** There are two points, obviously the second point to your question we can't answer it upfront now. To your first point clearly, we have invested Rs. 200 crore thus far on the product and we have a plan to invest another Rs. 100 crore, Rs. 150 crore in the short run. You will see, as Ms. Shobana already said, we have a plan to get large investors, external investors, etc., into Apollo HealthCo as a platform and we will take this gradually up. We know that we have a plan to maturity in the next three years and you will see that we will definitely continue to own dominant majority of that HealthCo even when we get the investors. So, some of that investments I think we will have to defer it for a later date.
- Damayanti Kerai:** I would just clarifying; Rs. 200 crore investment done so far and another Rs. 100 crore to Rs. 150 crore which you might do in the short term, right?
- Krishnan A.:** That is correct.
- Damayanti Kerai:** Okay, my second question is Apollo backend distribution is one of your key strength which is supporting this Apollo HealthCo. So, can you talk a bit about what kind of scale and reach you have there on the backend distribution side?
- Obul Reddy:** As you see that we have almost annual revenues of about 5,000 crore as of now and we expect them to grow at about 18% to 20% and an EBITDA of 6% which will be moving into the two entity and then that will find the HealthCo expansion as well.
- Damayanti Kerai:** But anything on the backend side, maybe in terms of say your network procurement channels and all?
- Obul Reddy:** That's a part of the undertaking that we are transferring, see that economic interest moving to the Apollo HealthCo which will serve the front-end retail business from that as a supply chain entity.
- Shobana Kamineni:** Just to give you a data point during this pandemic I think that we are the only group online and offline that continued to supply almost at 90%. We were serving 700,000 people a day, online, offline, it's because of the backend that we were able to create over the last 30 odd years.
- Moderator:** The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

- Shyam Srinivasan:** Just the first one on the combined pharmacy platform, the growth for Q4 was 4% YoY. So, just trying to understand why the slowdown in the growth and just linking to the previous guidance of 18% to 20%, so how should we look at that?
- Obul Reddy:** The Q4, now if you have to see the like-to-like growth, we have to see what happened in the last year March after the lockdown announcement we have seen about 100 crore sales coming in the last 15 days of March. If I take out that in the corresponding Q4 of last year, the growth is about 10.5% to 11%, that is the first one. But overall, there is a slowdown in the demand coming back in the market not only for us but in the overall market, but 2-3 factors that we have seen in our Q4 on the number side is about 150 stores which we operate in airports and corporate in-house, corporate premises that have not seen fully back into the regular level of sales. And then we have something rollout, we generally close substantial part of our rollout by December which will contribute to the Q4 growth. This year because of first six months, we could not rollout these stores, that rollout happened and travelled into the year end, and these are the 2-3 factors. But structurally we are there, and we will come back on the growth numbers.
- Shyam Srinivasan:** What is the network?
- Obul Reddy:** 4,118 operational stores as on 31<sup>st</sup> March.
- Shyam Srinivasan:** I meant what is the outlook, how many are you potentially adding in fiscal 2022?
- Obul Reddy:** In the last 2-3 years, if you notice that we are adding about 300 to 350 stores. We will continue to add that and maybe we will with 24/7 we will look at new geographies and speed up that number slightly.
- Shyam Srinivasan:** Second question is on some of the metrics for 24/7. So, if we look at the annual report, we put out last year, I am just reading out some of the numbers and if you are in a position to share them as they are today, so we had 1 million weekly active users, we had 2,300 tele-consults per day, we had 3.7 million registered users which you said has got to 10 million. But if you could share some of the active users and related entities, that would be helpful.
- Shobana Kamineni:** It might be tough for us to share exact numbers, but I just want to tell you that these figures have actually gone up. During the pandemic they went up almost 10x. There was a day that we were doing something like 30,000 orders, and now it is settled at about 5x the number that you saw, a little more than that, 6x. So, we are tracking smartly with the five-year plan that we have given.
- Shyam Srinivasan:** The last question, CAPEX outlook, what is the CAPEX you are planning for fiscal 2022 for all businesses.
- Krishnan A.:** At Apollo, the hospital level, we are looking at a CAPEX of Rs. 250 crore to Rs. 300 crore which is our routine CAPEX for the year. That is what we are looking at. And as we have said, we have been open for acquisition opportunities. We have given that we have cash with us, etc., and at the appropriate time we will come back on the right acquisition opportunity that we are looking at, which is a bolt-on acquisition, if in the markets of our interests. On the HealthCo, we said that the near-term CAPEX requirement is around Rs. 200 crore.

- Moderator:** The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.
- Shaleen Kumar:** In terms of your new Holdco, do you have any preference to a strategic partner which can come up with more of a digital capabilities and logistics, or would you prefer a financial backer and there is no preference?
- Shobana Kamineni:** No, preference except the quality of what will be best for the consumer and for this Company.
- Shaleen Kumar:** See again, you will be competing against broad-based e-commerce guys and big corporate houses like with acquisition of 1MG. So, any sense what kind of quantum you think would be needed for this business to begin with at least? What kind of a capital pool do you think you would be comfortable with?
- Shobana Kamineni:** Too speculative.
- Suneeta Reddy:** Unfortunately, we are not able to reveal that at this time.
- Shaleen Kumar:** Understood. In answering the previous participant's question, the diagnostic business we were talking about during our last call, there will be a kind of investment also towards that or will it be part of this new entity?
- Krishnan A.:** Diagnostics is part of Apollo Health and Lifestyle, as you already know, and we are ramping up the diagnostics business independently as well as with the digital leads coming from 24/7. And as Sanjiv already said, 24/7 will be funneling in patients into diagnostics as well as Apollo Hospitals, independent of themselves doing the virtual consultation as well as the pharmacy. So, that business will funnel into the diagnostics which is part of Apollo Health and Lifestyle as of now, and that's how it is intended to continue.
- Shaleen Kumar:** Will there be any additional CAPEX towards that? My question was like, is it becoming a part of hospital or there will be additional something which you will be doing towards it?
- Krishnan A.:** Chandra, you want to answer about the growth of the diagnostics business and how we are looking at it?
- C. Chandra Sekhar:** A primary emphasis on the diagnostics growth we generated nearly about Rs. 180 crore revenue last year. We hope to get a Rs. 300-crore mark this year. But we also are ramping up demand that is coming via the 24/7 platform and to be able to service it, towards which I think the growth will be largely organic. The CAPEX requirements are minimal, except for some regular CAPEX as of now. Interesting inorganic opportunities we are open and alive but at the right valuation. So, we will be looking at that only when we believe that there is value ahead once we acquire and it strategically fits in appropriately into our own ramp up and growth plans. So, we will be opportunistic on that part, but with respect to inorganic CAPEX requirement. But organic growth is underway and at a prolific pace.

- Shaleen Kumar:** And if I can squeeze in last question, on the proton bit. When do you think you will be able to achieve, cost of capital on that, or what kind of return on capital do you foresee on a steady state basis on that and how far is it?
- Krishnan A.:** So we would ideally have achieved that this year itself but because of the pandemic, one is the medical value tourism is not happening and even people within the country are not traveling so much. We have broken even as you know. We would ideally want the business to get to at least Rs. 100 crore of EBITDA next year. That is the plan which is FY23. FY22 we would definitely want the business to give us at least a Rs. 50-crore EBITDA which is what we are targeting and hopefully we will achieve.
- Suneeta Reddy:** Just to add to that, I think we should not look at Proton on an isolation. What we have done is to create oncology as the vertical and we are looking at the growth of the entire vertical, which is we are looking at probably a Rs. 2000-crore revenue at a margin of 30% and this will include revenue from proton and that's the way to look at it, not as an isolated one machine.
- Moderator:** The next question is from the line of Ritesh Rathod from Nippon India Mutual Fund. Please go ahead.
- Ritesh Rathod:** You mentioned you have invested Rs. 200 crore in the digital business, and you are planning of Rs. 150 crore. Can you elaborate what are the areas in which you have invested till date and which areas you plan to invest further?
- Sanjiv Gupta:** Essentially, the investment is towards the technology side of the business, the infrastructure as well as the people, broadly the expenses towards the (Inaudible) side.
- Ritesh Rathod:** Is the platform inhouse developed or this is some third-party platform you have taken, and you have worked upon it?
- Sanjiv Gupta:** This is in-house.
- Ritesh Rathod:** Who are your technology partners?
- Sanjiv Gupta:** We have got a couple of the vendors working with us but essentially (Inaudible).
- Sangita Reddy:** So for the platform is a basis a platform that we had originally created in a standalone Company where the PHR was consolidated and conceived as a federated model where many players can come in and the PHR is the core. There are other critical building blocks and pieces that have been developed by a core technology team. 80% of the work has been done by this core team. This includes people from IIT, those who have returned from Silicon Valley, somebody like that heads the team. We have also had one small external vendor to do small pieces of it to accelerate the pace of development, but the integrated concept and design is very much a part of creating this integrated user experience. We are on a Microsoft platform in terms of CRM. However, the rest of the stack is all Google. So, we are bringing this together, like I said in the beginning, using Mongo for the documents, other related platforms which are best in class, and we have had this validated also by international experts.

**Ritesh Rathod:** Maybe on the future investment you mentioned that you will match up to the competitive intensity of the peers or the competitors. What is your current customer acquisition cost and what kind of your willingness to spend in terms of future customer acquisition cost? And is that number Rs. 150 crore you mentioned is that linked to this thing or that is an independent number for future technology investment?

**Sangita Reddy:** I don't want to get into specifics in terms of CAC because, one is that you must understand that our cost of acquisition is possibly the lowest. Please figure it out. If you do the math, no one is ever got 10 million registered users spending, including technology only a Rs. 150 crore. But having said that, and going forward in future, we do understand, and we have done several experiments in different channels, and those channels that we have learned and failed fast, fixed fast, tried new things, have been able to give us new avenues of growth and opening the funnel. Going forward, we think that the customer acquisition cost will always remain about anywhere between 30%-40% of competition, but we will be spending for sure on this. We will find many adjacencies, but I cannot give you exact figures.

**Ritesh Rathod:** When you mentioned Rs. 150 crore of...

**Sangita Reddy:** It included marketing.

**Moderator:** The next question is from the line of Prakash Agarwal from Axis Capital Limited. Please go ahead.

**Prakash Agarwal:** Question is on the structure, just trying to understand, there's a comment on the presentation which talks about slump sale consideration of Rs. 1,210 crore will be received by AHEL. So this is subject to an external capital raise whenever it comes. So, what is the assumption here in terms of valuation and what percentage stake sale has been considered?

**Krishnan A.:** So I think valuation is not something that we can share for now, but I guess all of you analysts know that the pharmacy business itself is a significantly valued business today, even if you take 30 times EBITDA of FY23, you can yourself figure out what is the, just the offline pharmacy valuation on top of that you have the online pharmacy, on top of that, you have the digital health business that we are planning. So, I guess you can definitely figure out that the valuation is going to be quite a good one as and when we do it very soon. So, we will get this money over the next 3-6 months.

**Ritesh Mathur:** But here you assume some stake sale, right?

**Krishnan A.:** Yes, 3 to 6 months is what we are expecting the money to come in. And yes, there would not be any stake sales because we are only doing a slump sale of the business there and we would be getting the money which is due to Apollo Hospitals Enterprise Limited. When there is a money which is coming in that will be primary infusion and hence there would be a primary capital which should come in and part of that would be used to pay down on this Rs. 1,200 crore.

**Ritesh Mathur:** This Rs. 1,210 crore will come to the main parent Company?

**Krishnan A.:** That is correct.

- Ritesh Mathur:** Understood. And we will have to probably pay some tax, that's fine, okay. Second one is on the vaccine run rate. You mentioned, as of now we did about (+) 2 million what is the current weekly-monthly vaccine run rate you are expecting for June-July?
- Dr. Hariprasad:** In June, as I said, we did about a 1.5 million and with more of Government vaccination programs opening up and stuff like that, despite that being a whole, we are looking at, as I said, a total of 8 million further in the next 2-3 months.
- Ritesh Mathur:** And do you expect this to be a 2–3-month kind of thing by December? A large part of vaccination should be done, or you expect this to be a long ended one?
- Dr. Hariprasad:** It is very unpredictable. We really do not know whether a booster dose is required, whether a new strain will come in and new vaccines will come in. So, it's all very uncertain. But I guess with the knowledge that we have now, I think by December for the current pandemic the vaccination for the country would be on a good platform.
- Ritesh Mathur:** We are charging 150 now versus 300 earlier.
- Dr. Hariprasad:** That is a cap, whatever is the cap prices by the Government we are charging that.
- Moderator:** The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.
- Saion Mukherjee:** On 24/7, we increased the number of customers and one of the key differentiator which you mentioned is the entire backend that is available with Apollo. Now, if we have 10 crore people on the platform, what do you think about the backend infrastructure? Like how many pharmacies would be needed, how many diagnostic centers, how many hospital beds? If you can throw some light in order to match this growth, how much expansion is needed in the Apollo's core business?
- Shobana Kamineni:** That is an interesting question and I think I answered it in what Chairman said that create access for all Indians affordable healthcare, and it could never be done physical, but the fact that we are matching physical and digital. So, just to give you an example, my stores have now the capability of doing almost 30% more because they are also doing online. So, there are different metrics for different stores depending on sizes and growth. So, for 100 million customers we don't need the same number of stores that we had earlier to be able to service them. As more and more go digital, we can cluster stores, cluster pin codes and be able to send this out very intelligently. With video consult it is even easier, where they can be anywhere, and they can consult in the most remote location, and this can be done with a variety of different diagnostics also as and when we get more into connected devices. So, I think that Apollo itself is very cognizant. Sangita has given you the framework that we have the best of technology and as we keep ramping technology, we will find that we can be more and more asset-light.
- Sangita Reddy:** If I can just add one line, I think that what is important in this whole initiative is the fact that we are creating a strong digital presence which is centered around the customer and on strong technology and that the models are going to keep evolving and we are prepared and ready for this transformation of healthcare which is coming around the corner.



- Saion Mukherjee:** This could also mean that you could tie-up with pharmacies which are not part of your network or hospitals which are not part of your network, that is also an option to service a large number of customers.
- Shobana Kamineni:** I think in Apollo HealthCo, the journey of a 100 million customers and giving them what they want will give answers to many of these questions.
- Suneeta Reddy:** Just to add, I think Apollo has head room for growth. In terms of just the number of beds that is more than 50% availability. We have moved into Tier-2, we are also in Tier-3. We continue to grow the managed beds which is one way of making sure that the Apollo quality is delivered across the system. The second is with the creation of Apollo Health and Lifestyle we have developed new formats of care, so day care surgery, clinics, and the birthing centers. So, they are new formats of care, which is in a way low CAPEX, asset light, and with this so the current infrastructure that we have we can certainly grow it to serve 100 million consumers.
- Ritesh Mathur:** One more question. This is just on the numbers for this quarter. You have separated out the 24/7 operating cost. Now this cost would have been there in the previous quarters as well. I mean to that extent this cost must be sitting in pharmacy and hospital which is now separated out. Is that a right thought process here, and that might have expanded your reported margins for this quarter for these segments?
- Krishnan A.:** The earlier quarter costs were very low. It is only from Q4 that we really started spending higher on marketing, etc., and which is why we decided that it is important that we start showing that separately, so that going forward also it's available for you as a separate number. But Q3, Q2 and all were very small number, it was in the region of single digit. It was more CAPEX in the Q2 and Q3. It is only from Q4 that there are more marketing costs and Q1 has a bit more higher.
- Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital Advisors. Please go ahead.
- Nitin Agarwal:** Just two questions. One is on the diagnostic business. One is diagnostic it is essentially be a key element 24/7 and our diagnostic presence right now being relatively limited in terms of our footprints, how are we looking at bridging this potential demand and a full demand which can come through on this business?
- C. Chandra Sekhar:** On the diagnostic business we are mapping our own pin code journey and latlong journey along with what 24/7 team does, so we work very closely. Our expansion, we are very well present in South of India, East of India, parts of central. Our presence in pockets of West and North are what we have already begun to do. We could have done it faster, but for the pandemic across the last year. The second area which is very key, and we are ramping up in a very significant way, literally an army as Ms. Shobana had mentioned in our earlier area is to also build our home collection capabilities, which will be the demand that will come from 24/7. And that is something that we are ramping up. Lab capacities in most of the currently planned mapped pin codes are well placed. Some ramp up required but that is something part of our organic growth plans. It does not require any significant ramp up. Third area where we are consistently constant is on hospital lab management, which is a very known model of diagnostics business, asset light model of diagnostics business. So, we are actively ramping up our hospital lab management contracts whereby we acquire not

just the captive business at the hospital, but also have the provision to use the lab to service our other customers from outside. So, these two strategies. Third, I mentioned very clearly that we will keep our eye open for attractive inorganic strategic fit to come into our play, as and when the demand requires us to, and such opportunities arise.

**Nitin Agarwal:** You did mention a number earlier, what is the growth number that you indicated that we are on an organic growth number we are thinking of for the next couple of years for the business?

**C. Chandra Sekhar:** We have reached about Rs. 180 crore which was the guidance for FY21. We are nearly there, 179 odd for the year. We are hoping to reach Rs. 300 crore in the current year, that is FY22. And our move to FY23 we will be targeting to at least do a Rs. 500-crore business and that is the number that we are aiming to do. And there will be some burns so we will yet not reach this registered EBITDA, but then because we will have consistent growth-related burn, so we are looking at targeting about Rs. 500 crore in the following financial year.

**Nitin Agarwal:** So, I will just push on that, FY20 we were Rs. 120 crore, so we are literally talking of 4x revenues in a period of 3 years.

**C. Chandra Sekhar:** Sorry, can you repeat that.

**Nitin Agarwal:** We were Rs. 120 crore of revenues in FY20, so in a period of 3 years we are talking of literally 4x revenues in the diagnostic business.

**C. Chandra Sekhar:** So, we should not see the old cumulative Rs. 180 crore as the number if we were to clock the March run-rates and the quarter 4 run-rates. We are well poised for Rs. 300 crore for the next year. And on the back of that we have plans for expanding it to Rs. 500 crore the following year. And the second area we definitely will gain a lot from this digital push that the group has taken via 24/7. Our current ability to serve only need to be ramped up. So, I think the growth projections are quite realistic.

**Nitin Agarwal:** Just one more question, on the value unlock in the health core business, the intent of the value unlock or the primary fund raise that will happen in the business would be towards what? In the sense from whatever discussions, we have had so far, it doesn't seem to be a business that will take in too much capital. So, what are we looking to achieve by doing a value unlock at this primary fund raise in this business?

**Krishnan A.:** If you look at it, there will be ramp up costs which are going to be there on the digital business as Ms. Shobana already said. So, what we spoke to you about the CAPEX was the CAPEX which is going to be there for the near term, and which will be until the investors come over the next 6 months. But there will be ramp up cost on the digital over the next 3 years before it eventually becomes profitable as Ms. Shobana said. Second, we will also be looking at acquisitions, etc., on the tech space.

**Shobana Kamineni:** If I can just add a line in that, I think it's to do a capital structure which is appropriate for the type of digital Company which is evolving.

**Moderator:** We will take the last question from the line of Abhishek Sharma from Jefferies India. Please go ahead.

**Abhishek Sharma:** Basically, on 24/7 I just had a basic question. I wanted to understand in teleconsultation will 24/7 have its own doctors or will it only rely on Apollo doctors as well as third-party doctors? Similarly in diagnostics will you rely on third-party labs, or will you just use Apollo labs only, and similarly in e-pharmacy, order fulfillment will be only from Apollo pharmacies, or will you be using other pharmacies as well?

**Shobana Kamineni:** See, like I had said earlier, I think this is a very consumer led question. What we are creating is the best of Apollo that everything that we have requires the stamp of Apollo for quality and if it so happens that right now, we have the full diagnostic capacity, and they will continue to scale. So, I would think that even the pharmacies, in pin codes where they are not available might have partnerships, diagnostics might have partnerships. But the underlying guarantees of quality and availability have to be from the service provider. 24/7 is an agile network that will serve the customer.

**Abhishek Sharma:** And on teleconsultation, is my understanding...

**Shobana Kamineni:** We do have our own doctors, but of course not the level of specialists and super-specialists that Apollo has.

**Abhishek Sharma:** How many doctors will 24/7 have out of these 7,000 that you have on boarded?

**Shobana Kamineni:** At this point we have about 150.

**Abhishek Sharma:** And how will that number ramp up as we go forward...

**Shobana Kamineni:** It would be very difficult to speculate on that. It truly depends on how this will move, but if you look at Ping An today they have 5,000 of their own doctors.

**Abhishek Sharma:** For you, these 150 doctors they serve as gate keepers who can channel the rest...

**Shobana Kamineni:** They do that also. They are double hatting. The importance is for them to be able to give a quality experience in 15 minutes.

**Moderator:** Thank you very much. I now hand the conference over to the management for closing comments.

**Suneeta Reddy:** Thank you ladies and gentlemen for taking time out for this call. FY21 has largely been regarded as a period of disruption caused by COVID-19. Looking back, I am truly proud that our teams have risen to the occasion. We used this time to launch a well curated Omnichannel offering moving closer to the consumer and delivering value to all our stakeholders as well as our shareholders. Thank you for taking time again for this call and we look forward to interacting with you next quarter. And for those of you who would like to have a meeting with the team, please reach us through Krishnakumar. Stay safe, stay healthy.

**Moderator:** Thank you very much. On behalf of Apollo Hospitals Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

---

*Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.*