Moderator: Good Day, Ladies and Gentlemen and Welcome to Q3 & 9M FY17 Earnings Conference Call of Apollo Hospitals. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mayank Vaswani from CDR. Thank you and over to you sir.

Mayank Vaswani: Good Afternoon and thank you for joining us on this call to discuss the Financial Results of Apollo Hospitals for Q3 & 9MFY17 which were announced yesterday. We have with us the senior management team represented by Mrs. Suneeta Reddy – Managing Director, Mr. S.K. Venkataraman – Chief Strategy Officer, Dr. K. Hariprasad – President, Hospital Division & Mr. A. Krishnan – CFO.

Before we begin, I would like to mention that some of the statements made in today's discussion maybe 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’. Mrs Suneeta Reddy will discuss the performance for the quarter along with the Operating Metrics, Expansion Plans and Other Highlights, following which we will open the floor for Q&A. Documents relating to our financial performance, have been shared with all of you earlier and have also been posted on the corporate website. I would now like to hand over to Ms. Suneeta Reddy to cover the key highlights of our Performance.

Suneeta Reddy: Good afternoon everyone and thank you for taking out time to join our call. We are pleased to share that we have crossed the milestone of 10,000 beds capacity across our pan India network with the commissioning of the Navi Mumbai Hospital in this quarter.

The Navi Mumbai hospital is our first tertiary care facility in the City. With the addition of the Navi Mumbai hospital, we have now 13 new hospitals with a bed capacity of over 2,400 beds with a capital employed of Rs 1,700 Crores. Some of the hospitals have started contributing to our revenues & EBITDA. We expect to see good traction across the next 12-18 months in these facilities. We believe that given our Pan-India presence and the headroom for growth that we now have across both our mature facilities as well as the new ones we are well positioned to take advantage of the rebound in the Indian economy.
As you are aware, we have always been focused on ROIs in each of our business segments and while the mature hospitals now are at a 17% ROCE, we are pleased to report that the ROCE of the Standalone pharmacy business has now crossed the 15% ROCE threshold and is poised to further strengthen in the future. We are quite confident that the company should get to the 18%-20% ROI levels in the next 5 years, including the investment in the new hospital too, as the demand for healthcare delivery services in India remains intact.

Q3FY17 presented multiple one-offs that impacted our revenues & margins. The impact of demonetization, the 75 day long hospital stay of the Hon'ble Chief Minister of Tamil Nadu in Chennai Main Hospital and the impact of Cyclone Vardah in Chennai adversely impacted our healthcare services revenue performance in Q3 by Rs. 25-30 crores with approximately 15 Cr impact on EBITDA. This impact was predominately felt in the Chennai Cluster as this cluster has approximately 30% revenues coming from outstation patients including from the East & North East, most of whom use cash to settle their bills. The startup costs of our Navi Mumbai Hospital too impacted our EBITDA by Rs. 8 Crores in Q3FY17.

Our focus is now on elevating the performance of the New Hospitals added in the last 3 years by enabling the right mix of specialties, strengthening the Medical teams and reinforcing the local market connect.

We are witnessing aggressive marketing efforts by competition. Star Doctors are in high demand and have shown willingness to move across various players resulting in high level of churn within the industry. There is also a rush to fill in beds by a few new players by focusing on low profitability segments & government schemes. In this backdrop I am pleased to state that we have been able to stay our course focusing on clinical differentiation as our mainstay. We have further increased our levels of engagement with our doctors and are proactively managing our doctor pipeline to ensure that the best doctors are recruited and retained by Apollo Hospitals. We are strengthening our International marketing efforts as well to ensure that we maintain our leadership position in this market.

We realise that the Indian consumer is value conscious and digitally connected. Our investment in the Ask Apollo Platform should help us strengthen our digital connect with our patients. We have consolidated our direct-to-patients e-health assets into a One Apollo m-health platform Ask Apollo which offers appointment services, virtual consult, patient health records and pharmacy services. Traffic to the platform has been increasing at a healthy pace for the last 3 months and we see that the platform has the potential to help us engage strongly with the digital savvy consumer. We continue to work strongly on the payer side as well as we have a launched a zero interest EMI based financing Scheme with Bajaj Finserv across the country.

Apollo Hospitals, furthering its drive for preventive healthcare and wider access, has partnered with the State Government of Andhra Pradesh in a PPP model to set up 164 Electronic Urban Primary Health Centers (eUPHC). The first such center was set up in November and will enable poor and marginalized patients to access specialists through telemedicine and diagnostics in their neighborhood. This first of its kind initiative will leverage the benefits of digitalization of healthcare.

Now let me take you through the developments and achievements in this quarter.

IFC along with its associates acquired a 29% stake in Apollo Health and Lifestyle limited for an investment of Rs. 450 crore. The proceeds will be utilized by AHLL to expand its network of clinics, cradles and diagnostics centers across India.
Apollo Hospitals won as many as 15 of the 20 nominations for the British Medical Journal South Asia Awards 2015. The categories include healthcare quality, medical education, technological innovation and research and clinical excellence.

In the WEEK-Nielsen Best Hospital Survey, 2016 our facilities at Chennai, Delhi and Hyderabad were among the top 20 Hospitals in India – with 3 facilities being recognized we have the most by any healthcare group in the country. Hospitals at Chennai, Kolkata and Ahmedabad were also selected as the top facilities in their respective cities while Bangalore, Delhi, Hyderabad and Bhubaneswar were also rated highly. Other Hospitals within our network were also well ranked on the basis of specialties.

I will now take you through the key highlights of our performance for the quarter and nine months:

Consolidated revenues for the nine months grew by 17% to Rs. 5,422 crore. Standalone revenues for the nine months grew by 15% to Rs. 4,780 crore, while our revenues in Q3 grew by 18% on a year-on-year basis.

Within Standalone Revenues, Healthcare Services grew 9% for the nine months enabled by volume growth of 5% y-o-y and improved case mix. New hospitals reported an impressive 53% year-on-year growth in revenues to Rs 421 crores.

The Stand Alone Pharmacy reported revenue growth of 24% for the nine months ended 31st Dec 2016.

Standalone EBITDA grew by 7% to Rs. 604 crore. EBITDAR growth was higher at 9% as some of our new hospitals are on long term leases. The Healthcare business EBITDA grew by 2% to Rs. 511 crores while the Standalone Pharmacy Business EBITDA grew by 55% to Rs. 93 Crores.

Pharmacies which have a lower EBITDA margin and now represent 45% of standalone revenues as compared to 41% last year. Additionally, revenues from new hospitals now account for 16% in Healthcare Services revenues or Rs. 421 crore in the first nine months and have a lower EBITDA margin of 3.7% compared to mature facilities due to unabsorbed initial fixed cost.

Depreciation increased by 17% to 178 crores on account of expansion and bed additions and the interest costs were higher by 59% at Rs 143 Crores for the nine months ended 31st Dec 2016.

PAT before extraordinary items, de-grew by 6% to Rs 237 crs. Last year PAT included a one off gain of Rs 47 crs for transfer of the Dental and Dialysis business to AHLL which reflected in a higher PAT.

The growth in Healthcare Services has been led by strong momentum at several facilities. The Chennai division was on an improved performance trajectory this year but was impacted by recent one-off developments. Other mature centers, most notably Hyderabad, Bangalore, Kolkata & Mysore have witnessed improvements in performance metrics on the back of augmented medical teams and strengthening of specialty mix.

Slide 9 of our presentation shows EBITDAR growth and the EBITDA turnaround in the new hospitals. Within our new hospitals, Vanagram and Woman & Child – SMR have seen good volume growth of 15% and 28% respectively and are into positive EBITDA and poised for further improvement. OMR, Trichy and Woman & Child –
Karapakkam have grown 23%, 9% and 19% and turned EBITDA positive. Navi Mumbai has started off well with occupancy of 64% of the initial capacity. In fact, except Nellore, Malleswaram and Navi Mumbai, all of the new hospitals are at breakeven or positive EBITDA. After adjusting for 19.3 crore of startup losses in these 3 facilities the entire batch of New Hospitals delivered a positive EBITDA of 15 crore.

In spite of the one off developments, the Chennai cluster registered positive growth in both IP and OP volumes for the nine month period. Overall revenues in the Chennai Cluster grew by 4% with 12% growth in ARPOB. Occupancy at Chennai was at 59% given new hospitals and beds added in recent quarters.

Hyderabad has continued with the momentum that you have seen in recent quarters and the strategy implemented over the last 6-8 quarters is reflecting in good results. If you look at the operating metrics, the shift in case mix and quality of medical programs is apparent. There has been double digit growth in both OP and IP revenues due to better patient mix supported by a decline in ALOS. This has enabled a 17% growth in the ARPOB.

The Karnataka region which includes hospitals in Bangalore & Mysore has also performed well and witnessed good growth this year. Malleswaram hospital commissioned recently has seen good ramp up in volumes. The overall occupancy in the cluster improved from 428 beds in the previous year to 479 beds in the nine period ended 31st Dec 2016.

We have witnessed a good volume growth in hospitals outside our key clusters. We are very pleased with the improved ALOS and continued growth in ARPOB.

Having added beds at multiple locations and expanding our presence in important clusters, we now have adequate headroom for growth. We also anticipate improved profitability from higher occupancy levels and a richer case mix. So from a growth and profitability perspective we are poised for a strong run over the next 3 years.

Standalone pharmacies while continuing to grow at an overall 24% YOY reported EBITDA margins of 4.4% in the nine month period – this is in line with our strategy for sustainable and profitable growth. I am happy to report that the Standalone pharmacy segment is at 15% RoCe for the nine months and over 18% based on annualized Q3. We are confident of sustaining this momentum going forward.

The EBITDA margins of the pre-2008 batch of stores achieved a new high of 7.4% in YTD Dec 16. There was a net addition of 76 stores in Q3FY17 taking the total number of stores in our network to 2,506 stores on a pan India basis.

Apollo Munich reported a 25% increase in revenues in the nine month period and has seen sharp improvements in profitability given the operational progress. EBITDA multiplied to 57 crore for the nine months of FY17 from 10 crore last year. Further, PAT of Rs 49 Crore was substantially higher than the PAT of Rs 3 crore in 9MFY16. That's it from me, we will open the floor for questions.

**Moderator**

Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Neha Manpuria from JPMorgan. Please go ahead.

**Neha Manpuria**

Ma'am, in your opening comments you mentioned that because of various issues the revenue impact was about Rs. 25 crore to Rs. 30 crore, this is the consolidated
revenue impact of this is just the revenue impact that you saw in the Chennai center because of the various issues?

A. Krishnan: This was the consolidated revenue impact and of course more than half of that was in Chennai.

Neha Manpuria Okay. When we look at while a lot of these are probably one-off and I guess not relevant any more but in terms of demonetization have we seen particularly in Chennai? Have we see the outstation patient flow normalize to the levels pre-demonetization and also in other clusters have things normalized in terms of surgery that had got either push back or in-patient flows normalizing?

Suneeta Reddy Well, to be absolutely frank, we have definitely seen growth in all these hospitals post DeMo. But I think, it will take time for it to completely normalize like in any other industry because patients were used to paying cash, it was their way of doing it. We have put a digital payment system in place. But it will take time for them to get familiar with it and I believe you should really give us another quarter to expect to see us get back on track post the impact of demonetization.

Neha Manpuria Got it. And ma'am and in case of Navi Mumbai, what has been the experience so far? Is it tracking our expectation in terms of the initial patient flow we have seen and how are you seeing the ramp-up of new doctors coming on board and therefore the bed addition. Just a little bit color there would be helpful.

Suneeta Reddy It is at 50% occupancy of operational beds and that is in line with the budget. With regard to doctors, we have a great set of doctors there. We have got doctors who have come back from the UK, who are now practicing at Navi Mumbai. We also have the visiting star consultants. So, I believe that we have a good mix of anchor doctors who are there full time plus the visiting star consultants. So, it will definitely start attracting more patients. The good thing that we are seeing is that patients from South Mumbai are also coming here for care because of the quality of both the infrastructure and the doctors.

Neha Manpuria And we are still maintaining our target of sort of breakeven in 18 months to 24 months, as we reach 150 beds?

Suneeta Reddy 24 months, yes for sure.

Moderator Thank you. Next question is from Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal Just one, for the Chennai cluster we have utilization of about 59%, 60% what will be utilization for the Chennai main hospital?

Suneeta Reddy 61%.

Anubhav Agarwal This is not so different from cluster utilization. The question was what are the activities now because there were many one-offs for last four quarters we had different reasons for the weak utilization and weak patient volume number in Chennai main hospital as well. What are we doing specifically to make sure that the ramp-up of at least the outpatient volume growth picks-up which hopefully will transplant into inpatient volume? Is there something we are doing different? I know you are alluding to the fact that competition has increased and doctor poaching is on but specifically how we are addressing this problem?
Suneeta Reddy

So, what we are doing is we are adding a pipeline of new doctors and I think if you were to think about it, what happened is that in Chennai by creating new facilities by expanding our base we actually took away many of the patients who were coming to the main hospital because the ease of access to the other facilities enable them to go to another facility which was still an Apollo Hospital. So, if we had not built it someone else would have taken that position. For example, what we have in OMR, what we have done in Vanagaram. So what we have done now is to bring in a separate set of visiting consultants who will now start contributing to admissions. The second thing that we are doing is creating this one Apollo concept where the clinics will act as a gateway for patients, the pharmacy will also act as a gateway. The pharmacy actually touches 1 million lives. So through the pharmacy and through the clinics patients will be encouraged to book appointments in Apollo. We have also set up a very strong digital presence and as you know the industry people are moving towards digitalization, they are booking appointments online, they are getting information online. So, I think our online presence is very very strong. We have also established TeleMedicine connectivity with our core market besides adding centers in those markets where our doctors are going for COE programs. So, this is actually bringing back referrals and of course, our international marketing we have strengthened in a huge way, we have now appointed someone for international marketing. We have set up centers in Africa. We have one in Oman, we will do more in the Middle East. But I think that post what happened in the U.S. we can expect to see patients from these areas coming to India now.

Anubhav Agarwal

That is helpful, ma'am. But just one follow-up on this thing. See, effectively you correctly said that in 2015 if I just multiply operational beds into utilization so actually filled beds for our Chennai cluster they are same today in 2017 versus 2015 so effectively we only increased our fixed cost in the system that is why our margins have suffered dramatically for our existing hospitals as a segment. So, with the approach that you just lined out when do you really see this will start showing to us in numbers in terms of outpatient volume and in patient volume growth showing let’s say almost 4%, 5%, growth?

A. Krishnan:

See, your point is right but you should realize, that the average length of stay during this period has come down by almost around 10% so, what it does is it gives us headroom for growth. Our fixed cost actually has already been incurred and it is behind us now. And of course Chennai from a state perspective you know it has been a bit slow on urbanization, there has been slower inflow of certain immigrant population, etc. We are hoping that some of this will also get connected and we are actually very well placed to take advantage of this as we move forward. As Ms. Suneeta said, we have three or four initiatives that we are planning specifically around high end tertiary care work which we think will easily fill another 50 beds over the next 12 months to 18 months. But we are working on that. We have a plan to get there and you will see us fill them and get to higher volumes in the next 12 months.

Anubhav Agarwal

So, effectively in the next 12 months we should see, but sir, 50 beds will only be another 3%, 4%.

A. Krishnan

In Chennai main I meant, Yes, And of course, the other facilities in December will do better as well.

Suneeta Reddy

See, the other thing is that we are also opening up facilities in the suburbs now, we are opening it up to scheme patients because like you said we have addressed this issue of cost so, we are still making profits for example in Madurai. If you look at Madurai we are still able to make reasonable profit on the scheme patients. So, I think that we have addressed this cost thing. We have within the system – a whole
approach to cost which we call Wow and we have already seen considerable savings. So, I think next year you will see the impact of that.

Anubhav Agarwal And same if you can address the same issue about the volume growth in the patients in the Hyderabad cluster as well I know, we have changed our strategy, I am just trying to understand that, we so far with the benefit of change in strategy, we have seen a significant improvement in ARPOB when would we see the actual utilization picking up in Hyderabad cluster?

Dr. K. Hari Prasad Yes, Hyderabad the cluster as a whole is much more competitive in nature compared to the rest of the places and there are a lot of newer hospitals also coming up. So, a couple of quarters, ago we had actually taken a decision to get rid of all the low paying corporates in this state and this region. Actually both the neighboring states have a government scheme called Aarogyasri where almost 90% plus patients are enrolled under that scheme and that is a lower paying scheme and we have not subscribed to that scheme. So, we are not really pushed on the volumes but we are rather pushed on the quality of patients and focused on high margin patient mix in this cluster. But, we do realize the fact that we have head space here, we have empty beds here. So, now we are beginning to look at how to push the occupancies up and Q4 is showing a better traction compared to Q3 in terms of occupancy levels and we hope to show at least 10% increase in the next quarter.

Anubhav Agarwal Just one clarity on this then I will join back the queue. If you leave the patients scheme out then out of the addressable population that we have in let us say hypothetically 10 kilometers, 15 kilometer radius of hospital, what do you think will be our market share of the addressable population, we leave the scheme patients out today in Hyderabad?

Suneeta Reddy So, if you were to look at, I do not have all the regions but in Chennai it is around 20% to 25%; in Bangalore we are at 15%; in Kolkata (Calcutta) we are also at around close to 20%. Hari, you want to talk about Hyderabad?

Dr. K. Hari Prasad Hyderabad, if it is the addressable population or leaving out the scheme patients it will be close to 25%.

Moderator Thank you. Next question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru Question on the recruitment of doctors and the engagement program that you have been talking about for even Navi Mumbai, most of these doctors that we are hiring more are they on the people service model?

Suneeta Reddy No, they are actually the ones that are the anchor doctors or on a guarantee model basis which is why they said our fixed cost are going up. It is just that the system has changed from before and as part of the new accounting standards earlier doctor’s fees used to be grossed up. But now, it comes as part of our operating cost. So, yes, in administrative cost the guarantee money is configured into that and Navi Mumbai does have a lot of doctors on guarantee fees and most of the ones from the UK need to be on that at least in the next 18 months.

Girish Bakhru Right. So, overall in the network can you give us split how much guarantee versus non-guarantee?

S. K. Venkataraman We will take it offline; we will give you those details.
Girish Bakhru: This would have changed materially as a ratio right, over the last year or so?

Suneeta Reddy: I think with every hospital that we add, we do have a certain number of doctors on guarantee money because these are the doctors that we bring from out of the city and they will work with, they will need a guarantee money model. Also in a way this healthcare system has changed sometimes when we bring a star doctor from another institution we do pay some guarantee money. But eventually a lot of the doctors go off the guarantee money within an 18-month period. It’s a hybrid model that we are following right now.

Girish Bakhru: Right. I am asking as the presence in say larger metros including in Navi Mumbai you have to rely on guarantee more that is a right…

A. Krishnan: Not on the metros per se, it is more about the new hospital because it is more linked to the new hospitals then to the metro. So, even now in places like Chennai we have significant fee for service consultants and doctors do prefer to go into fee for service over a period of time as well.

Girish Bakhru: Okay. The other question on Navi Mumbai itself, so when you say break even in 18 months, 24 months. Can you share some operating benchmarks where you call it breakeven like what occupancy and what kind of ARPOB?

A. Krishnan: We said around 150 beds is when we will get to the breakeven and we estimate that we will get 150 beds in 18 months to 24 months.

S. K. Venkataraman: And full details you can contact Krishna Kumar he will be able to give it to you.

Girish Bakhru: Okay. And AHLL just any update on how much additional investments since the last update that you gave particularly I am also curious to know how Nova care turnaround has been shaping up?

A. Krishnan: So, on the additional investment the money that has come from IFC we have part paid the debt, so we have decided that we will go slow on the expansion for now. We will focus on consolidating our presence and the numbers in each of our Nova Hospitals. Nova has been shaping up well, we are hopeful that the overall losses should come down in AHLL in the next year by at least 25% to 30% as it stands and because the fixed costs are all into the business and we are doing quite well on Nova and Cradle in particular.

Girish Bakhru: The current plan includes the Day Care Center in Pune and Mumbai and all that that has not basically being shelled off right?

A. Krishnan: There is already a Day Care in Mumbai. There are two Day Cares in Mumbai one in Tardeo and one in Chembur. It is just that we have decided that we will first focus on getting this to a profitable level before expanding.

Moderator: Thank you. Next question is from Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: Sir, if you can throw some light on this Navi Mumbai project especially in terms of what is the kind of offering that you will have to do initially because Mumbai being a new market for you and it is also fairly competitive in its own way because if I actually look at your project cost it looks like your cost I mean the CAPEX per bed is significantly higher than probably what your competitors or even yourself what you have done in the past.
A. Krishnan

So, I think you should allow us this full quarter for us to come back to with details because this would be the first full quarter of our operations, we are still ensuring that you will get the full understanding of the fixed cost, the guarantee money that we are paying by the end of this quarter. So, allow us to come back to you by then. On the fixed cost per bed if you look at it the land prices of course we still got it we still are though the price has been high there are two reasons it is 450 bed hospital and the whole thing has been constructed. Typically, we would do it in two phases we would typically not do the whole thing on the first phase itself. Here we have done the whole thing on the first phase and we have plans oncology is something that we are starting off soon, typically we would not do oncology up to 1.5 years, 2 years whereas now we will be starting oncology, there is a demand for at least 250 beds as we are seeing to begin off with. So, we are working on it so, I guess over a period of time you should see us do well in this market.

Suneeta Reddy

And I think that significantly if you look at international patients the quality of connectivity into Mumbai is very high. And it is only 30 minutes from the airport for them when they arrive in the night so, I think we are going to market Navi Mumbai because of the quality of infrastructure which contributed to the high cost per bed. We are really going to market Navi Mumbai for international patients.

S. Padmanabhan

If my understanding goes then would it be something like on comparable Chennai main as far as your ARPOB goes because if my understanding is right when you offer more of oncology and more of international facilities, you would obviously charge significantly higher than probably what you are charging in other areas.

Suneeta Reddy

Well, first we do not offer oncology in Chennai.

S. Padmanabhan

No, I am talking about the Mumbai.

Suneeta Reddy

But you are right in the sense that yes we will offer Quarternary Care; we have already got a transplant unit also functioning in New Bombay. So, I think that the potential for New Bombay is very high which is why we wanted to create really good quality infrastructure there and we believe that we can attract patients from South Bombay as well because of the new flyover that is there and we have seen patients coming there for surgeries.

S. Padmanabhan

And just housekeeping question on, on annual basis how much would be the incremental depreciation and interest cost on account of this Navi Mumbai project?

A. Krishnan

So, I guess now you have already seen almost the full impact of depreciation coming in there will be probably incrementally only Rs. 2 crore, Rs. 3 crore per quarter that you are going to be seeing now. And if you look at the quarter, the interest cost is already Rs. 50 crore and we are getting the benefit of the lower rates regime, we are seeing that our overall cost of debt earlier was 9.5 now it is coming lower than you know it is now 8.9. So, we are seeing benefit of a lower interest cost which should be visible in the next year completely. So, we do not think the interest cost will increase significantly.

S. Padmanabhan

Okay. So, more or less it will be in line with the third quarter kind of benchmark what we are seeing?

A. Krishnan

May be Rs. 50 crore to Rs. 55 crore.

S. Padmanabhan

Okay. And depreciation should also be more or less in line with the jump that we have seen on a quarter-on-quarter basis?
A. Krishnan  Yes.

Moderator  Thank you. Next question is from the line of Harith Ahmed from Spark Capital. Please go ahead.

Harith Ahmed  I am looking at the consolidated net debt figure and comparing the December net debt with the March 2016 net debt. There has been a significant increase of around Rs. 400 crore Rs. 450 crore and this is despite the equity infusion into AHLL. So, will this be a stable number or will there be an increase from this level as well?

A. Krishnan  There are two projects that we are investing in, one is of course Bombay which we had to invest and we have commissioned it only in Q3 and beyond that if you look at the expansion plans we still have Proton which is still not completely invested. So, you will see the net debt increase over this year as well.

Harith Ahmed  Okay. And what would be the CAPEX for FY2017 and is there a guidance for FY2018?

A. Krishnan  Typically a CAPEX of Rs. 100 crore - Rs. 125 crore routine and maintenance and which typically come out of free cash flows but if you look at the project requirement it is almost Rs. 350 crore in this year.

Harith Ahmed  Okay. And I missed the EBITDA loss figure you mentioned for Mumbai for the quarter can you repeat that please?

Suneeta Reddy  Rs. 8 crore.

Harith Ahmed  Okay. And lastly on AHLL, we are tracking around Rs. 100 crore of EBITDA loss for the full year and is there a target when we are looking at achieving breakeven by when should we see the EBITDA achievable?

A. Krishnan  So, they are focusing at 24 months to get to breakeven between again, that is what they are looking at and the team is focused towards getting it to around to breakeven in 24 months.

Harith Ahmed  Okay. And lastly, if I may how many beds have we operationalized in Mumbai currently?

Suneeta Reddy  100 beds.

Moderator  Thank you. Next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal  Ma’am, we have had a pretty aggressive comprehensive expansion over the last two years, three years, now when we look at over the next two years to three years, barring of proton project and a couple of other assets which are there which are schedule to get commissioned, what are the operational and strategic priorities for the management what are the milestones that we as investors should be tracking over the next two years to three years from a company perspective?

Suneeta Reddy  I think first priority is to see that occupancy increases. The second is to see that our case mix is richer and therefore we deliver the type of ARPOB. The third is to see that our ROCE which at our mature hospitals are around 17% that they move up to the 20% level. I think these are the three most important without sacrificing what we do in terms of seeing that we remain best in class when it comes to clinical quality.
Okay. And secondly on the debt level we are almost about three times EBITDA, more than three times EBITDA on FY 2017 basis, what level of debt leverage are we comfortable with and does it sort of constrain us in terms of pursuing expansion going forward?

So, two things, one is we are focused on the EBITDA to go up. So, clearly you know 3 is what we are also comfortable with. You will see it marginally go up before it comes down back to the 2.5 levels and even lower over the period of time and there are other plans that we can look at to see on an asset-light model for example, the South Bombay project that we are looking at we are talking of doing a 400 bed hospital also there over a period of time which should be at a very low cost where someone would be putting the CAPEX and we would be doing a revenue share. So, we have other models which we can work on the expansion but right now. If you look at it in the next two years we are focused on seeing how we can drive the volumes and growth in our existing facilities.

And the new ones.

Right. Lastly, on AHLL we talked about, we have plans for diagnostic business. Can you just share some plans for the business I mean how are we looking at opportunity given the fact that, I mean are we late to this business?

I do not think it is ever too late for Apollo because we have an existing brand and we have been in the diagnostic business for a long time. The only thing that we have never done is separated it out and given it a separate focus which is what we are doing now. So, like I said with the pharmacy when you already have a captive population of 1 million consumers I do not think that it is too late. I think it now depends on how aggressive we are in establishing those collection centers and I am sure that the team will work on this because there is also potential to use some of the pharmacy to become collection centers. Central lab is already established plus we have the advantage of having labs in each of the cities, in each of the metros. So, they can deliver results the turnaround time will be extremely fast.

And this business typically has been more for regional business, the people have been strong in the regional sort of footholds is that the way we see the business going for us also, we probably start with South India over the next two years to three years and then we move on from there or we starting with a pan India sort of growth plan right from the word go?

We are now pan India hospital but yes, we are strongest in the South. So, I think we will kick start it in the South with more confidence because the brand really has a big impact there. But we will become pan India.

Thank you. Next question is from Shweta S. from Batlivala & Karani Securities. Please go ahead.

Just wanted to ask you on SAP that we have seen a phenomenal growth on the top-line as well as our operational performance and we also heard in the commentary that one of the reasons the acceptance of old denomination, so if you could give some guidance as to how has it shaped out? And regarding network rationalization are we done or is it still to go some guidance on the numbers for this particular segment?

The demonetization really helped in Q3 but if we see overall in the last few quarters we have been improving our performance. So, we are confident that we will continue the same. But Q3 definitely demonetization helped. We will see that it is maintained in the next quarter. Store opening continues to be same we have
retained the plan to add about 200 stores every year, this year in the first nine months we have opened about 180 stores after adjusting for the closed stores and we will continue that in that range over the next two years, three years.

**Moderator**

Thank you. Next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

**Anubhav Agarwal**

Actually on pharmacy just help us that your sales if we just look at sequentially versus the September quarter our sales in the pharmacy business were up 10% sequentially but margins were down and the split up that you gave this sequential decline in margins were available FY 2011 batch, FY 2012 batch and thereafter typically business do have higher cost what led to this margin decline?

**Obul Reddy**

If you see that margin difference in Q3 versus Q2 is about 30 basis point, we have in the demonetization phase very good growth in our loyal customer sales and as per the accounting standards we have to make provision that has some impact on the quarter margins otherwise we are on the same page. And in the demonetization phase there is more FMCG sales which have slightly lesser margin other than these two we do see anything and going forward we will be seeing the same numbers without these impacts.

**Anubhav Agarwal**

Okay, that is helpful and just taking that question further that if you think about, you mentioned that in outlook for pharmacy business you can still add about roughly about 200 stores in next two years, three years, each right. Now, I just one trying to understand this that when you plan for this business what kind of visibility you have means like opening a new store in a state actually in a particular area in a city requires full panning, right how much is the captive market, what you can get and all, what rent will work out or not. So, that kind of detail planning you would have done out of this outlook for 200 stores we will have idea about next two years, next six months some color will be useful how you think about this pharmacy business when you plan to open a store in an area?

**Obul Reddy**

We keep a detail location ready and then do that at the time of budgeting state wise how many stores and then work on that it is a detail plan may be offline I can explain to you.

**Anubhav Agarwal**

Yes, but in terms of visibility do you have clarity that in next two years, these 400 stores you are going to open or do you have clarity 100 stores for next six months these are the ones which I am going to do?

**Obul Reddy**

Every year we plan about 200 stores which we have been executing over the years if you can see that numbers even the past numbers suggest that and what we are planning is not away from that.

**Anubhav Agarwal**

Okay. One more clarity on the Rs. 450 crore that you infused money in AHLL so, you mentioned, you partly paid so the debt at AHLL which was there has been repaid now and rest of the money have earmarked for AHLL business or you can give through some way in Apollo Hospital as tool?

**A. Krishnan**

It is an AHLL capital raise and it will used exclusively for the AHLL business.

**Anubhav Agarwal**

And when will we be able to give clarity because it is a portfolio of assets you mentioned that you will do a call on AHLL and you will take us through which business you want to make much bigger among portfolio of assets that you have it there.
A. Krishnan  In this quarter we will come back certainly.

Moderator  Thank you. Next question is a follow-up question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal  Just a housekeeping question on the AHLL debt the money just got infused in AHLL does it reflect in our consolidated numbers or does it get counted in associate and how does the accounting work for that?

A. Krishnan  Yes, it will get reflected because as of now if you look at the numbers, the numbers are taking a full impact of the EBITDA.

Nitin Agarwal  Okay. So, the AHLL cash infusion or whatever debt it has is reflected in the consolidated numbers that we give out?

A. Krishnan  Yes.

Moderator  Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Suneeta Reddy  Thank you all for your interest in Apollo Hospitals. In spite of the challenges that existed in this country in the past quarters, I am extremely happy to see that we were able to report a growth of 18%. I would also like to emphasize that the structural demands for healthcare in different formats still remain strong and I think this is all the more evident if you look at the growth in certain what we call center of excellence which is in the cardiac space, the oncology space, the transplant space, the general surgery space, the orthopedic, the emergency, and the podiatric care, all in which Apollo have excelled and I believe that we will capitalize on these trends going forward. We look forward to speaking with you with better results in the next quarter. Thank you ladies and gentlemen.

Moderator  Thank you very much members of the management. Ladies and gentlemen on behalf of Apollo Hospitals that concludes today’s conference call. Thank you all for joining us and you may now disconnect your lines.