Apollo Hospitals Enterprise Limited

Q2 FY16 Earnings Conference Call Transcript
November 16, 2015

Mayank Vaswani: Good afternoon and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q2 & H1FY16 which were announced on Saturday. We have with us the Senior Management Team comprising Ms. Suneeta Reddy – Managing Director, Dr K. Hariprasad – President, Hospitals Division and Mr A. Krishnan - Chief Financial Officer

Before we begin, I would like to mention that some of the statements made in today's discussions may beforwardlooking in nature and may involve risks and uncertainties. For a complete listing of such risks anduncertainties, please refer to our investor presentation.

We will start with Ms. Suneeta Reddy who will discuss the operating highlights for the quarter followingwhich Mr. Krishnan will discuss the operating metrics, expansion plans and other highlights.Documents relating to our financial performance have been shared with all of you earlier and have alsobeen posted on our corporate website. I now invite Ms. Suneeta Reddy to touch upon the key highlightsof our performance.

Ms. Suneeta Reddy: Good afternoon everyone and thank you for taking out time to join our call.

Before we begin, on behalf of Apollo Hospitals let me convey our greetings for the festive season and wish all of you a prosperous new year.

I am pleased to share with you that the positive momentum that was built into the business in Q1 of this fiscal has been carried over into Q2. Performance in both standalone and consolidated have been impressive for the Half year, especially seen in the background of tough prevailing economic conditions.

Our standalone revenues during H1FY16 grew 19% on a year-on-year basis. This was accompanied by an EBITDA growth of 14%. Some of our newer facilities are on lease rentals and hence, if we look at EBITDAR, the growth has been 16% year-on-year. This performance was driven by growth of 11% in the hospital services revenues and a strong 34% growth in our Stand Alone Pharmacy business.

The new hospitals have reported 83% growth in revenues on a year-on- year basis aided by healthy volume traction in the in Vanagram, Jayanagar, Nashik, Nellore & OMR. We have been able to recruit a good set of highly skilled doctors in Nashik, OMR & Nellore in line with the local demand dynamics which we believe will further augment our patient footfalls & occupancy at these hospitals over the next 2 quarters. While the new hospitals have reported higher EBITDA losses in H1FY16 their EBITDAR as you will notice has improved from Rs 26 million in H1FY15 to Rs 77 million in H1FY16. The EBITDA losses are mainly due to lease rentals of new hospitals – OMR, Karapakkam& Nellore, all which were commissioned in FY15. Vanagaram&Jayanagar reported a positive EBITDA of Rs 8.6 Crore in H1FY16.

The Existing hospitals revenue grew by 6%. EBITDA margins for existing health care services have improved on a year–on–year basis to 24.4% from 23.5%.

Revenues in the Chennai Cluster grew by 13% with volume growth of a healthy 9% while ARPOB grew by 13%. Our focus on increasing our customer share with enhanced offerings in Cardiac Sciences, Neurosciences & Oncology has seen positive traction with increased volumes in these specialties in the southern region. We also witnessed healthy volumes in Robotic surgeries & radiotherapy volumes on the newly added True beam equipment at Apollo Specialty hospitals in Chennai.

In the Hyderabad Cluster we continued with the initiative of rationalizing the low yield cases which has resulted in lower IP& OP volumes, however the revenues grew by 7% and ARPOB grow by 15%. Competition in Hyderabad has gone up significantly during H1 with a further addition of 500 beds. This is apart from acquisitions by large healthcare players in the region. The prevailing market dynamics have had the effect of competition lowering their tariffs in this region adding to the steep tariff reduction by CGHS and allied corporates. In this scenario we had to differentiate and we decided to focus on retail patients, international patients and insurance patients through our COE strategy. Although we did lose out on occupancy and volumes, there was a significant improvement in ARPOB, earnings per patient and EBIDTA margins. We will continue to work on filling capacity with higher tariff patients in H2 also.
The Bangalore region, including Mysore has seen good growth aided by strong pick up in the local client base which augurs well for us especially as the Hospital Network widens in this cluster. We will be adding one more hospital with 180 beds at Malleswaram in Bangalore in the current Quarter which will further widen our presence in this region.
We have two different strategies for growth which we have now rolled out at the existing hospitals & new hospitals. The teams at all our mature hospitals are working on greater operational efficiencies with the twin objective of both reducing costs as well as augmenting our clinical capabilities and service quality. In the new hospitals the focus is on having a strong diverse set of clinical offerings in line with the demand assessment and the specialty gaps that we have identified.

The Standalone Pharmacy Business sustained its momentum and reported 34% growth in revenues on a year-on-year basis. The EBITDA margins were at 3.65% in H1FY16. This was after absorbing costs of Hetero pharmacy operations following its integration as well as from the ongoing efforts to rationalise costs which have yielded results. Excluding the Hetero network the EBITDA margin was 4.0% in H1FY16.

Standalone profit after tax grew 6% to Rs. 185 crore in H1FY16.

In addition to the growth in the Stand Alone operations, growth in key subsidiary hospitals like Ahmedabad, Bangalore & Kolkata have been good and have contributed to the improved performance of the consolidated financials.
Ahmedabad, Bangalore & Kolkata reported year-on-year revenue growth of 11%, 13% & 6% respectively. Kolkata too rationalised on low yielding cases, adjusted for which the LFL growth was over 12%. Indore reported y-on-y revenue growth of 68% albeit from a small base.

Apollo Munich our Joint Venture Company clocked 35% growth in Gross written premium at Rs 405 crore in H1FY16. The PAT for H1FY16 was Rs 2 crores as compared to Rs 2 million in the previous year.

The total income for our retail health care vertical which includes the Clinics & Specialty hospitals housed under Apollo Health and Lifestyle grew by 50%.The business reported an EBITDA loss of Rs 17 crores in H1FY16. We now have separate business heads for each of the businesses in this vertical with separate growth plans and strategy for their respective businesses. The team is looking to raise the necessary resources to expand our portfolio of clinics and cradles as well as build out capabilities in the fields of diagnostics and homecare.

We also strongly believe that a strong digital presence will be essential to remain at the forefront of the evolving healthcare landscape. We are building specific platforms addressing both the mobile as well as the web to enhance service offerings and patient access. We do believe that over time the mode of healthcare delivery may evolve but the fundamental values in terms of quality of care, clinical excellence, the patient experience and the overall value proposition will continue to weigh very strongly in the decision making process for patients.

This fiscal will see us adding another 895 beds across 3 locations. Post this we will look to consolidate our operations by focusing on operationalizing the addition of about 35% capacity added in the past 24 to 30 months and consolidate our leadership position in these markets in FY17 & FY18.

I trust that many of you are aware that in Sep 2015 Apollo Health City, Hyderabad has won the award for Best Tourism facility in India for the year 2013-14. This is the third time that it has been selected as the winner of this prestigious award.

Before I close I would like to share with all of you that the Standalone Pharmacy business is ready with an online presence for wellness products and supplements and are operationally ready for medicines and OTC drugs as well. We are also working on reassessing our corporate strategy and identifying the focus areas for growth beyond 2018. I hope we will be able to share updates on these fronts with all of you during the course of this year.
Now I will ask Krishnan, our CFO to share further details of our financial performance.

Mr. A. Krishnan Thank you, Ms. Suneeta. Standalone revenues have grown 19% in H1FY16 to Rs. 2,632 crores. EBITDA grew by 14% to Rs. 374 crore in H1FY16. The blended EBITDA margins as you would notice were 14.4% in H1 this year, a dip of 70 bps from the EBITDA margins of 14.9% in H1FY15.

If you deconstruct the EBITDA margin, you will notice that the contribution of revenues from the Standalone Pharmacy segment to total revenues continues to rise and is now at 42% this year compared to 37% in H1 last year. As Pharmacy EBITDA of 3.65% is lower than Healthcare Services EBITDA, consequently this leads to a lower EBITDA margin on a blended basis. You should also notice that the existing healthcare serves EBITDA margins are a healthy 24.4% in H1FY16 as compared to 23.5% in H1FY15.

Other Income of Rs. 9 crores in H1FY16 was 40% lower than H1FY15 primarily due to a one time income accruing from the transfer of sugar clinic business to AHLL which was recorded in the same period last year.

Finance costs for the half year have increased by 48% to Rs. 58 crores due to new hospitals commissioned in the last year.

The Effective tax rate in H1FY 16 was 21.1% as compared to 22.8% in H1 last year due to the applicability of 150% depreciation u/s 35AD of Income Tax on new Projects.

Slide 9 of our 'Investor Presentation' provides the split of existing and new units' performance as well as details of the performance of the Standalone Pharmacy segment. The key takeaway from this slide is the strong revenue growth of 83% from the new hospitals which has translated into a strong EBITDAR of Rs 77 million. Hospitals at Jayanagar and Vanagram which were launched in FY13 have registered a 30% increase in revenues from 61 crore in H1 last year to Rs. 79 crore in H1 this year. The remaining 61 crore of Revenue is from hospitals in Trichy, Nasik, Nellore and 3 locations in Chennai which were launched in FY14/ FY15.

While the total EBITDA loss on new hospitals was Rs 4.4 crores in H1FY16, Jayanagar and Vanagram have reported a positive EBITDA of 8.6 crore in H1 as compared to Rs. 1.3 crore last year. This demonstrates the effectiveness of the strategies deployed by us for accelerated breakeven and improved profitability. The other new hospitals reported an EBITDA loss of Rs. 13.0 crores.

If you turn to Slide 10, ROCE in the Healthcare services shows a dip from 15% in H1FY15 to 13.2% in the current year. ROCE has been constrained by the additional capital deployment of about Rs. 900 crores on new hospitals which are yet to meaningfully contribute to EBIT. If we exclude that the existing healthcare services ROCE was at 19.0% in H1FY16 as compared to 18.6% in H1FY15.

Slide12 and Slide 13 provide details of our consolidated financial performance. Consolidated revenues grew 18.1% to Rs. 2,973 crore in H1FY16.
Consolidated EBITDA grew 12% to Rs. 409 crore. The EBITDA margin was 13.8% in H1FY16 as compared to 14.5% in H1FY15. The compression in the margins is due to higher costs and rentals of new facilities, higher revenue mix from the SAP segment in the Stand Alone financials and a negative EBITDA of 17.1 crore in Apollo Health and Lifestyle.

Let's now turn to Slide 15, which covers the operational performance by clusters.
You would notice that the revenues in the Chennai cluster grew by 13% aided by robust volume growth of over 9% in IP volumes while OP volumes have increased by 10%. The rebalancing of cases between hospitals in the Chennai cluster coupled with a reduction in ALOS has resulted in a lower occupancy of 63%. We have been able to drive a reduction in ALOS in Chennai from 4.25 days in H1FY15 to 3.95 days in H1FY16. The ARPOB at Chennai including new hospitals grew 13% to Rs. 39,315.

In Hyderabad our strategy of consciously pulling out of low yielding patient segments and our focus on growing volumes in retail, insurance & international has paid off. This is visible in the significant improvement in ARPOB by 15% to Rs 25,254. The EBIDTA margins in this cluster has also improved by over 200 bps.

The "Others cluster" which account for 1,814 beds have reported a growth of 15% in net revenues. This cluster includes our newer hospitals in Jayanagar, Nashik & Nellore apart from established hospitals in tier II locations. The growth in this cluster was aided not only by good growth in new hospitals but also from established hospitals in Mysore & Madurai in particular. The positive momentum is reflected in both IP and OP volumes which have grown in double digits. This combined with richer case mix has led to a growth of 14% in IP revenues and 20% growth in OP revenues. The occupancy is at 63% on a larger capacity as compared to the previous year. ARPOB in these hospitals was higher by 10.6% as compared to the previous year.

Our Joint venture & Subsidiary hospitals in Ahmedabad, Bangalore and Kolkata have performed well with strong revenue and occupancy numbers. Revenue grew by 8.3% and ARPOB grew 11% to 29,581.

Slide 17 contains details about the performance of the Standalone Pharmacy segment. Growth momentum remains strong as revenues grew by 34% on a year-on-year basis to Rs. 1,103 crore in H1FY16. The overall EBITDA margin was at 3.7% in H1FY16 as compared to 3.2% in H1FY15. Excluding Hetero network the overall EBITDA margins for the existing network of stores was at 4% aided by over 15% same store growth for the pre 2010 batch of stores as well as the increased proportion of sales from private labels which was at 6.32% in H1FY16.

The batch wise performance indicators continue to be strong with FY08, FY09 as well as the FY10 batch reporting high double digit growth in revenues and expansion in EBITDA margins. The FY08 batch reported margins of 6.6% for the first time implying ROCE in excess of 20%. We added 117 stores and closed 26 stores in H1FY16 for a net addition of 91 stores. The total network of stores including the Hetero network of stores is 2,217 stores as on Sep 30, 2015.

That is it from me; we are now ready to take your questions.

Moderator Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Neha Manpuria of JP Morgan. Please go ahead.

Neha Manpuria Sir, first question is on the existing hospital growth, that seems to have slowed to around 5%, is there a one-off element in the quarter because most of the festivals have actually shifted to the third quarter this time or have the tariff hikes been delayed, what drove the muted growth in existing hospital cluster?

Suneeta Reddy First I would like to say that we should not really look at hospital performance on a quarter-to-quarter basis especially when we are building up new facilities. But I really do want to answer your question, but we did have, last year we had a tariff impact which in quarter two we did not have it this year, therefore the revenues do look much less than they should. Volume growth is in line with our new hospital commissioning and as you go forward you will have to focus on the overall trend which is you are seeing increased volumes and that I think is the most important thing to do because very soon we will come out with a market share document and our intention is to really capture a large market share.

Mr. A. Krishnan So that is the main thing, if you look at the healthcare services in Q2 of last year there was a price increase and this year we have not taken any price increase in Q2 of this year.

Suneeta Reddy And also I think we spoke about the fact that we are rationalizing in the sense who are our customers, so we have actually dropped out a lot of the low yielding patients and are focusing on the high end.

Moderator We will take our next question from the line of Girish Bakhru of HSBC. Please go ahead.

Girish Bakhru Actually I had a similar question, so any comment on what sort of reduction would have happened in the Hyderabad market, have you taken any price reduction there?

Dr. Hariprasad There was no price reduction there but there was rationalization of the low paying patients there, we did not take in some of the corporates which do not pay us the same tariffs as others, so that is how you see a little bit of a stunted growth in terms of volume.

Suneeta Reddy But please recognize that ARPOBhas grown by 15% in Hyderabad and 13% in Chennai.

Girish Bakhru Yes, that is quite healthy and I was trying to understand that even from the occupancy parameter this quarter looks better than the last quarter but somehow on the revenue side it looks like there is a miss, so I am just trying to understand if this is because of certain price rationalization or what has happened.

Mr. A. Krishnan So there has been no price rationalization, there could be this, one is as we said is the pricing impact of the base effect of last year which had the pricing impact in Q2, second, there have been some case mix changes in a few hospitals, we have seen that as we have also been pushing on high yield cases, there has been a specific focus that we have had on some of the non-COE segments also in some of the hospitals, the new hospitals as well as the existing where the occupancy now is we have beds to occupy, we clearly are pushing that strategy which is also paying off in higher revenues, though on a per bed basis it would be a bit lower than the tertiary care cases. So all of that is actually playing out in the numbers, as Ms. Suneeta said it will be difficult to look at it quarter-on-quarter and answer those variations.

Suneeta Reddy See, everything we open a hospital we look at local market dynamics and I think the push is for occupancy, in the first one year we just look at filling up the beds and covering fixed cost, so you might not see proportionate revenues of high intense COE there in the new hospital, but definitely occupancy will move up.

Girish Bakhru What is the average COE percentage for the Group, I mean when the hospital basically becomes mature what is the target COE?

Mr. A. Krishnan It is north of 60%, if you look at the tertiary care revenues as a percentage of total, it is north of 60% that we have, in very mature clusters it is even as high as 65.

Girish Bakhru And would you say, I think this may not be very relevant to you but would larger outbreak of dengue would impact COE in the quarter?

Mr. A. Krishnan Yes, it will impact COEs in the quarter, we have seen dengue cases also impact the percentage.

Suneeta Reddy It impacts the occupancy and yes the percentage of COE.

Girish Bakhru And just lastly on the overall outlook, when you talk from a consolidation point of view post FY16, would it be possible for you to throw some color on what kind of occupancy and ROCEs would the Group return to before it begins investment back in FY19?

Mr. A. Krishnan So I think on the ROCE we have a clear roadmap that we have by facility and given that each of these facilities have been commissioned at different times, it is not going to be easy for us to kind of give you one specific number that the Group is looking towards achieving in the next one or two years, but with that said we are very cognizant of the fact that all the facilities will have to achieve at least 16% ROCE by year five, that is what we are all focusing on and then move it upwards, our target continues to be 20%, so year five target of 16% continues as a roadmap that we have and that is what each of the unit CEOs are working towards as well.

Moderator Thank you. Our next question is from the line of Chunky Shah of Credit Suisse. Please go ahead.

Chunky Shah So first one is AHLL, what is the total capital employed in that business and what would be the CAPEX requirements and the plans for expansion here?

Suneeta Reddy 300 crores is the total capital employed and the CAPEX required now is 400 crores for expansion.

Mr. A. Krishnan So that is for the next round of expansions for which as you are aware we have said that we are also looking at rasing money eternally as equity because we have said that Apollo Hospitals at this point in time given that we have other funding requirements including hospitals, etc., we have asked the team to look for a private equity raise and we have also given that to the stock exchanges, so they are actively now engaging with private equitie funds to kind of figure out how they can raise equity to channelize their growth.

Chunky Shah So this 400 CAPEX would be say over a period of two years or three years…

Mr. A. Krishnan Yes.

Chunky Shah On existing Chennai hospital, so what would be the like-for-like volume growth and price increases there?

Mr. A. Krishnan the like-for-like volume growth has been, if you look at overall it has been 10.7, but if you look at the like-for-like it has been almost around 4.

Chunky Shah 4% of volume growth in the Chennai main hospital?

Mr. A. Krishnan That's correct.

Chunky Shah Despite no price increases, right?

Mr. A. Krishnan That's only volume growth we are talking for.

Chunky Shah And what about price increases there?

Mr. A. Krishnan So price increase there has been in the range of almost around 3%.

Chunky Shah So the reason why I was asking this question, if you look at Chennai cluster as a whole and we look at the total occupied beds right, so in the last year Q2 the total beds into the occupancy, so that gives me a number of 964 beds which were occupied which has fallen to 953 in this quarter despite the beds going up.

Mr. A. Krishnan So that is because, if you look at the average length of stay, there has been a marked reduction in the average length of stay across Chennai cluster with we have been focusing on bringing down the average length of stay in certain cases, it has happened through certain advancements, use of robotics, a whole bunch of reasons that average length of stay has come down. So actually the admissions and discharges still continue at a healthy level, though our focus is to still further accelerate that but we are focusing today as a cluster and not really focusing as only an existing or a new, because as a cluster if you look at, Chennai cluster growing in established market at 11% is certainly a good number.

Chunky Shah But the main hospital occupancy would still be remaining higher, right?

Mr. A. Krishnan Yes.

Chunky Shah Because last time you had said that it would have decreased a little as we were trying to shift patients from the main hospital to Vanagaram.

Mr. A. Krishnan That's correct, it is still remaining high and we are figuring out how we can further accelerate that.

Chunky Shah And then my third question is on CAPEX, so basically in the last two years we say that we have set up 1,300 beds but out of which only half or around 670 have been operationalized, as we progress we would be operationalizing more, so does that have any CAPEX implications?

Mr. A. Krishnan Not significant, there would be only minor CAPEX implications with regard to some of the equipments and the beds, etc., but the civil and the 65%, 70% of the CAPEX is being civil has all been incurred and the operational cost of course will be there.

Chunky Shah Say around 20% of your CAPEX cost would be pending right, as more beds come….

Mr. A. Krishnan Not even that much.

Suneeta Reddy Less than 20%.

Chunky Shah And my last question was on your online pharmacy initiative, has that already begun in terms of prescription products also or it is only restricted to wellness and OTC now? And if it has begun for prescription, what is the net price to customers, so whether in the online and offline mode did net amount that the customer pays does it remain the same?

Obul Reddy We have some legal issues around prescription drugs, so we are examining that to go into the market and it is mostly at this point in time it is wellness and OTC drugs.

Chunky Shah So we have not started with prescription drugs?

Obul Reddy Prescription drugs we are now starting.

Chunky Shah And for wellness and OTC, does the price remain the same or is there a difference?

Obul Reddy The price discount is around 15%.

Chunky Shah So if you buy from online you get 15% discount.

Obul Reddy If it in line with other online retailers.

Chunky Shah Sorry, I did not get the last part.

Suneeta Reddy It is in line with other retailers.

Moderator Thank you. Our next question is from the line of Prashant Nair of Citi. Please go ahead.

Prashant Nair I have a question on the pharmacy business, so how far are we now with integrating the Hetero business into our own? And do we see that business also settling down in the same margin range as the business we have or will it take a bit longer there?

Obul Reddy At present we have integrated in Q2 the Hetero into our main business and we have rebranded them as Apollo Store, we have completed that by September end and the revenue numbers are much lower than Apollo, we are working to increase that and currently they are at about 3% negative EBITDA and we are aiming to achieve in the next three to four quarters positive numbers on that segment. As we have explained earlier, they carry lower cost because the backend is handled, the stores are mainly in Andhra and Telengana where the backend is handled from our Apollo main network. So we expect them to reach the positive numbers at a faster rate.

Prashant Nair And on your own pharmacies, so the earlier batch pharmacies are at about 6.5% plus margins and still growing reasonably well, where do you see this number peaking, I mean what could peak margins at least for…?

Obul Reddy The normal range is about 6% to 8% if you notice from the presentation almost about 40%, 45% of our pharmacies are in that range, that is up to 2010 batch.

Prashant Nair And one last question on this, so going forward say over the next two to three years that you may have plans laid out for, how many net store additions would you have in this business?

Obul Reddy We are currently adding about 200 stores every year, I expect at least next two, three years we will continue on the same phase.

Prashant Nair And one question on the hospital side, especially on the pricing front, now that you have a reasonably large number of beds that have been commissioned reasonably recently, is there any change in how you look at pricing or would you continue with the normal price increase that you take every year?

Suneeta Reddy No, I think that what we do is from region to region we look at local market dynamics, that is point number one. The second is that, having opened out new beds I think there will not be significant pricing increase that will happen till we see a little bit more traction.

Moderator Thank you. Our next question is a follow-up from the line of Neha Manpuria of JP Morgan. Please go ahead.

Neha Manpuria Apologies my line got disconnected. My other question was, if I look at like you mentioned that the margins in Hyderabad has improved about 200 basis points, if I were to just do some rough calculations based on the 60, 70 basis points improvement that we have seen in the existing hospital, is it fair to say that the Chennai existing hospitals have seen some margin pressure or are they flat year-on-year on a first half basis?

Suneeta Reddy I think the margins have improved.

A. Krishnan There is a marginal improvement in the Chennai existing business margins, but there has not been any pressure on the margins.

Neha Manpuria So then the margin dilution is coming from the other cluster in that?

Mr. A. Krishnan That's correct, a bit because of that because we had certain places where for example in Bilaspur where we had a tie-up with Coal India facility, the volumes there have come down and because of that there has been some lowering of EBITDA margins etc, the unit is now focused on increasing the cash and the retail patients, etc., so there have been one or two such cases, but otherwise broadly if you look at the existing established clusters, the margins have actually improved or have been at similar levels.

Neha Manpuria And my next question was on the expansion that we have delayed, you mentioned that you have been consolidating our position in key markets, even if I look at the hospital which are supposed to commission in FY16, for example Navi Mumbai, that was supposed to happen in the first half but now we have pushed to end FY16, any particular reason for the delay of that hospital? And also the other that we are dealing with FY19 is that a deliberate strategy to slow the next phase of expansion?

Suneeta Reddy No, I think it is not a deliberate strategy to go slow, some times we have to reconfigurate the number of beds and in Navi Mumbai we have actually increased the number of beds. So it is taking a little bit longer to open up that hospital, but it should be ready by the end of the year.

Moderator Thank you. Our next question is from the line of Manoj Garg of DSP Merrill Lynch. Please go ahead.

Manoj Garg Sir given the fact that in the second half of this fiscal year we are going to open 890 beds and for the next two years obviously our focus will be to operationalize all the new facilities which we have put together, so if I look at in FY17 and FY18, what kind of margins are we looking at, given the fact also that anyway the pharmacy contributions are also increasing?

Mr. A. Krishnan Manoj, we would not want to guide for any specific numbers here, as we have stated in the past as well we would continue to work on increasing our EBITDA margins in the existing healthcare services, certainly we have achieved if you look at the H1 we are at north of 24, so we will try to see how we can continue to accelerate the increase there. More importantly, our focus is going to be on new hospital growth and see how we can increase the volume growth in the new hospitals because there is a lot of headroom there to be able to grow and that is where the focus is going to be to see how we can grow that and that can release the pressure to the EBITDA margins quite well because most of them have a lot of fixed costs associated with them including lease rentals as you have seen and that is where every incremental revenue increase and also there are guaranteed money doctors there in the system whom we are paying income guarantees, etc., so an increase in revenues there will flow through quite well on the EBITDA margins for new hospitals which will start reflecting in the overall margins as well. SAP of course is growing quite well and that growth will continue. So if that growth continues at a faster pace than healthcare, the overall standalone EBITDA margins will continue at the same levels or could even be a bit more muted. But as you know we look at it by segments and by segments each of the margins are going to be at higher levels than current.

Manoj Garg And just second question related to this, with 890 beds addition in the second half, even your new hospitals, do you see that most of those new hospitals will start contributing profitably at least by first quarter of FY18?

Mr. A. Krishnan First quarter of FY18, it is year after next?

Manoj Garg Yes.

Suneeta Reddy I think all those that we opened this year will definitely do start contributing, but next year again we have significant ones coming on stream.

Mr. A. Krishnan So the New Bombay ones, etc., the one which is going to be at New Bombay will still take some time, Malleshwaram we should be able to breakeven by FY18 first quarter, but certainly you will have to give some more time for New Bombay.

Manoj Garg And the last question from my side sir, on AHLL when do we start seeing breakeven kind of scenario out there?

Mr. A. Krishnan I think it is going to take some time on this, because it is a business that we have taken more from the medium-term perspective which is where you will have to give them at least six quarters before they start showing good traction in EBITDA.

Suneeta Reddy See this is building out an entirely new business, we started with only some 34, 40 clinics and then we acquired 11 day care centers, set up five cradles and they are actually doing more of cradles and more of clinics and getting into diagnostics. So I think for the business as a whole you need to give them at least 24 months before they start showing some positive EBITDA.

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

Girish Bakhru Can you share what is the current market share in Hyderabad market for Apollo?

DrHariprasad It would be around 20%, in the COE areas it could be a little more than 20%, but otherwise it is around 20%.

Girish Bakhru And when you say there has been a significant step up in competition with addition of more beds, is it coming from the bigger entities or the local entities?

DrHariprasad No, these are all larger entities which you are building and there has also been consolidation of some of the hospitals into larger groups.

Girish Bakhru But when there is significant addition, I mean I would assume the market is still lucrative from a potential opportunity perspective, right, I mean why would there be more investment in the zone?

DrHariprasad No, we have not seen traction for any of the new investments that have gone in the competition or competitive hospitals, at least in the last two three years the hospitals which have started there have not been doing well.

Girish Bakhru And in terms of Mumbai, what would be your target market share eventually?

Mr. A. Krishnan I think it is quite preliminary now to kind of comment on that, I think it is a large hospital that we are opening in that particular region, that region requires a lot of, we know that there are certain, we clearly have assessed the demand there and we know that there are specific specialties like trauma, neuro, cardiac, etc., where there is a good demand, pent up demand and which is where we are trying to focus on. So I guess we would have to answer this a year from now when we operationalize the hospital.

Girish Bakhru Right. I mean one point of course from Navi Mumbai, you had initially mentioned also location gives an added advantage given there is not a bigger hospital in that area, but when you say enter with Byculla, is there overall strategy in place to basically capture the market in this higher COE segment?

Mr. A. Krishnan Yes there is, we have specific, every market that we have entered in the past as well as currently that we are entering in, we do a robust demand assessment report, we look at the demand supply situation and then focus on what we have the specific specialty areas. For example, in Byculla I can state that we are going to be having one of the best oncology specializations as well as and when it starts, or even before the Byculla hospital starts we may even start oncology. So we know that there is almost around 100 beds of oncology demand in that side of town, so similarly we have looking at what are the specialty that we need to build up in Byculla which will be different from New Bombay.

Girish Bakhru And just lastly, I mean I know it is difficult for you to answer at this juncture given the facility has not yet started, but I had previously also asked this, would Mumbai have potential to give you highest ARPOB in the Group, eventually?

Suneeta Reddy It should, yes. I think if you look at Chennai, Delhi they have really shown significantly high ARPOB we do not see why Bombay will not have that paying capacity.

Moderator Thank you. Our next question is from the line of Chunky Shah of Credit Suisse. Please go ahead.

Chunky Shah Sir my question was actually the continuation of the earlier one, while I was asking the difference, so you said that 15% difference is with other retailers but what about when you buy online versus offline OTC drugs as compared to Apollo Pharmacy, will that 15% discount still continue or would that be a lower number?

Obul Reddy Instores we have some loyalty schemes and the discount at the stores will be according to that loyalty scheme and we have some tie-ups with the customers.

Chunky Shah So based on the loyalty on an average what would be the discount?

Obul Reddy That ranges around 10% to the loyal customers.

Chunky Shah So on a store wide basis it would be, some customers who are not part of the loyalty program, so on a holistic basis it would be between 5% to 10%, right?

Obul Reddy That is right.

Chunky Shah And for online it would be 15%?

Obul Reddy For specific products.

Chunky Shah So this could lead to a margin impact in the long-run, if the percentage of…

Obul Reddy We are closely watching how this ecommerce business will develop for other retailers also and then we will take whatever steps are required on that.

Mr. A. Krishnan And again , the target customers on the online are going to be very different on the target customers on offline stores, because the offline if you look at the loyalty customers we have done an age group analysis of that and the pattern of that, that is very different from what we expect online.

Chunky Shah And my second question here was on the Byculla hospital, so in terms of what is the update there, FY19 is when we are trying to start it but has that lease issue solved or any update that you can provide there?

Suneeta Reddy On the Byculla hospital I think we need another quarter before we can give you all the information on that.

Moderator Thank you. Our next question is from the line of Nitin Agarwal of IDFC. Please go ahead.

Nitin Agarwal One quickly on the, we have about 64-odd beds which are operational right now in terms of our own beds, typically what will be the breakup between the mature and the newer ones as you sort of classify them which you have opened over the last three years?

Mr. A. Krishnan Nitin, I think you will have to take this offline because we do not have that handy, Krishnakumar can give you that number. We can say that the mature hospitals I think the ones which are above five years will still probably be only around 60% to 65% of our total beds, but let Krishnakumar confirm that.

Nitin Agarwal And in Chennai, similarly I just want to dig a little bit more in Chennai, I mean if you have some sort of split in terms of newer beds to come up in Chennai of the 1500 which are there right now?

Mr. A. Krishnan So that split also, there are no newer beds that are additionally planned, of course the capacity in Vanagaram has not fully been used, so that will get added, so maybe Krishnakumar can give you that number, the number of new beds that probably can further be added in Chennai might only be in the range of 100 or 125 because of primarily Vanagaram and some bit of OMR. Otherwise most of the new beds have been added.

Suneeta Reddy Otherwise the next round post 2018 when we set up specialty or oncology centers.

Mr. A. Krishnan It is when it will get added, especially in that OMR region when the proton comes up in 2018 or 2019 is when you will see additions in beds.

Nitin Agarwal And in general across, while it will be different across markets but very broadly speaking what are the changes you have seen in the pricing dynamics or the pricing power that the organized hospital chains like yourselves have had over the last two, three years, have there been some major changes in those dynamics?

Suneeta Reddy Well, I think that if you look at the market, the hospitals have been very aggressive about not really pricing in all costs, so their customer base is different, they are looking at filling up volumes so they have been pretty aggressive in that place whereas we have always looked at rationalizing our customer looking at achieving a certain ARPOB so it has sort of set us apart, the reason why we succeed is that our clinical outcomes are far ahead of competition and which is why patients are coming to us despite the fact that we are at a premium to market.

Mr. A. Krishnan And some of those pricings in local market we believe are not even sustainable over a long-run and that is what even Dr. Hariprasad spoke about the hospitals in Hyderabad, we have seen a few hospitals who have gone with some strategy like pricing it low for a long time and they have not yielded any results on the profitability or ROCE front, they are up for sale, you would see that as newer buyers emerge and paying top dollars for some of these hospitals we will hope that some of this pricing issues will be solved because they cannot continue with the same pricing for at least two three years from now. So yes in the short-term we have to go through this, we are cognizant of this and we are focusing on outcomes and our strategies on COE, etc., but we think over a period of time they will have to start pricing what is economically viable.

Nitin Agarwal	I mean apart from Hyderabad which I guess you have alluded to a lot of time in the past also, which are the other markets where you have seen instances or irrational pricing coming through?
Mr. A. Krishnan	So we have not seen many such markets apart from Hyderabad quite honestly.
Nitin Agarwal	And how is the, while you have an associate sort of set up in NCR, does the market also witness the same set of dynamics?
Suneeta Reddy	No, in NCR I do not think, the only difference is that the other hospitals take CGHS patients which we do not. So their volumes will look higher and the way they have structured doctor fees, I believe as a percentage of revenue it is higher in the other hospitals.
Mr. A. Krishnan	So it is not the pricing issue there as much as the overall net EBITDA issue which is where if you look at some of the hospitals in NCR there are high guarantee fees which they have paid to some of the doctors and that has resulted in lower EBITDA margins, but that is okay, that is not something that is so worrisome.
Nitin Agarwal	One more hygiene question, depreciation for our network right now what would typically be our annual maintenance CAPEX?
Suneeta Reddy	Maintenance CAPEX is usually equal to our depreciation.
Nitin Agarwal	That includes upgradation cost also which is required?
Suneeta Reddy	Yes.
Moderator	Thank you. Ladies and Gentlemen, that was our last question. I now hand the floor back to the management for closing comments.
Suneeta Reddy	Ladies and Gentlemen, thank you for joining this call. As you can see the team is totally committed to delivering better performance along with financial performance we look at clinical quality very carefully and I think this is really what has kept us ahead of the rest of the pack. In addition to that, Apollo is also committed to delivering on new formats which is the clinics and new businesses. Third aspect is that we are looking at a digital interface because we believe that if a patient two years from now will look at a digital interface with the hospital. So these are three initiatives that we are working on and I hope to share more information with you on our next call. Thank you for joining us today.
Moderator	Thank you. Ladies and Gentlemen, on behalf of Apollo Hospitals that concludes this conference. Thank you for joining us and you may now disconnect your lines.