Apollo Hospitals Enterprise Limited

Q3FY2016EarningsConference Call Transcript
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MayankVaswani: Good afternoon and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q3 & 9M FY16 which were announced on Friday. We have with us on this call the Senior Management Team comprising, Ms. Suneeta Reddy – Managing Director, DrHariprasad – President Hospitals Division, Mr.S.K.Venkataraman – Chief Strategy Officer and Mr. A. Krishnan – Group CFO.

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

We will start with Ms. Suneeta Reddy who will discuss the operating highlights for the quarter following which Mr. Krishnan will discuss the operating metrics, expansion plans and other financial highlights.

Documents relating to our financial performance have been shared with all of you earlier and have also been posted on our corporate website. I now invite Ms. Suneeta Reddy to cover the key highlights of our performance.

Ms. Suneeta Reddy: Good afternoon everyone and thank you for taking out time to join our call.We are extremely pleased to report a good set of numbers this quarter despite the prevailing economic conditions. The momentum that was built up since the start of the year has helped us to absorb the impact of the floods in Chennai and we continue to deliver revenue growth.When viewed from a risk diversification perspective having a Pan India presence in multiple hospitals facilities we realized it clearly helps to insulate us from such developments.Despite the pressure of increasing cost and challenges in scaling up the medical team as we roll out several new facilities we are satisfied with the way the execution has shaped up over the 9M fiscal period.

Our standalone revenues during 9MFY16 grew 18% on a year-on-year basis. This was accompanied by an EBITDA growth of 11%. Some of our newer facilities are on lease rentals, and hence if we look at EBITDAR the growth has been 14% year-on-year. Growth in Standalone EBITDA has come from all three segments of the business, viz. existing hospitals, new hospitals and the standalone pharmacy.

Healthcare Services reported a growth of 10% in revenues for the nine months. This growth was despite the impact of the floods which impacted the revenues in the Chennai cluster by Rs 20 crore. It is hearting to note that the revenue growth of 10% was largely led by an increase in volumes by 8% over the nine month period, which we believe is highly encouraging.

The new hospitals have reported a robust growth of 86% in revenues in 9MFY16 aided by healthy volume traction across hospitals. Vanagram and Jayanagar, in particular, have seen a very good offtake involvement in both IP & OP volumes and are already into positive EBITDA trajectories and poised for further improvement in the next few quarters.OMR, Nashik, W&C Karapakkam and SMR have also seen great momentum build up in operations aided by the new leadership & the new doctor teams. We hope to see all these hospitals deliver positive EBITDAs too over the next 2 quarters.Trichy& Nellore are progressing a bit slower than expected. We are however beginning to see traction in numbers of patient admissions having recruited a good set of new doctors with local connect in these locations, and are confident that this should help further augment occupancy at these hospitals.While the new hospitals have reported an EBITDA losses at Rs 20 lakhs in 9MFY16 the EBITDAR as you will notice has improved from Rs 3.6 crore in 9MFY15 to Rs 18.6 crore in 9MFY16. Some of the new facilities are on lease and we are confident of driving improvement in EBITDA on the back of operating leverage as these facilities progress towards maturity. Vanagaram&Jayanagar which were launched in 2013 have reported a positive EBITDA of Rs 13.4 Crores in 9MFY16 and are now conclusively profitable at the EBITDA level.

The Existing hospitals revenue grew by 5% in 9MFY16. EBITDA margins for existing health care services have remained unchanged on a year–on–year basis at 23.8% despite the Chennai floods which impacted EBITDA by Rs 10 Crores. Chennai and surrounding areas witnessed an unforeseen event as excessive rainfall resulted in flooding and devastation bringing the city to a standstill. I am extremely proud of our Apollo family members who, despite the circumstances and of their own accord, went beyond their call of duty to be available 24/7 and our hospitals were fully functional to cater to not only our patients but patients from other hospitals as well. We had also started a helpline and information via Facebook.Our Standalone Pharmacies despatchedessential drugs for patients diabetic as well as baby food free of cost at times.Not only did we deliver babies, 17 babies at Apollo but through the hospital, its pharmacies and the ambulance division, I think we made a huge impact during that period. More importantly all of our Apollo Hospitals as specially with the training they have had with the JCI has made us prepared for any disaster and calamity which should have occurred in any state or any city.

Revenues in the Chennai Cluster grew by 11% with volume growth at a healthy 9%, while ARPOB also grew by 9%. 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 as well as in radiotherapy volumes on the newly added True beam equipment at Apollo Specialty hospitals in Chennai.

In the Hyderabad Cluster we continue with the initiative of rationalizing the low yield cases which has resulted in lower IP & OP volumes. However, revenues grew by 8% despite lower volumes due to the improved case mix. Given the competitive dynamics in Hyderabad, we had to differentiate and decided to focus on retail patients, international patients and insurance patients through our COE strategy. Although we lost outon occupancy and volumes, there has been a significant improvement in ARPOB which grew by 14%. We however continue to explore opportunities on filling capacity with higher tariff patients going forward.

The Bangalore region including Mysore have displayed a healthy revenue growth. Bangalore and Mysore revenues grew by 10% and 25% respectively. We witnessed a strong growthin the local client base which augurs well for us as we open Malleswaram in North Bangalore in the next quarter. Post commissioning this region will have 850 beds.

In addition to the growth in the Stand Alone operations, growth in our JV & subsidiary hospitals have also contributed to the performance momentum. Ahmedabad,& Kolkata reported year-on-year revenue growth of 12% & 8% 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 52% albeit from a small base. The Standalone Pharmacy Business sustained its momentum and reported 32% growth in revenues in 9MFY16. EBITDA grew by 56% while EBITDA margins came in at 3.8% in 9MFY16 on a combined basis. Excluding the Hetero network of stores, the EBITDA margins were at 4.1% in 9MFY16.

Apollo Munich achieved a Gross Written Premium of Rs 641 crore in 9M FY16 against Rs 479 crore achieved during the same period in the previous year representing a growth of 34%. The PAT for 9M FY16 was Rs 3 crores as compared to a loss of Rs 3.4 crore in the previous year.

Apollo Health and Lifestyle comprising Cradles, Clinics and Specialty hospitals reported an EBITDA loss of Rs 25.4 crore as compared to loss of Rs 12.4 crore in 9MFY15. This was due to the investment made in the rollout of new facilities. The dental clinics have been transferred to the AHLL network during the quarter even as it continues to further expand its network of other formats. The success of the retail healthcare formats is not limited to India alone, as AHLL has linked a pact with Malaysia-based Ramsay Sime Darby Healthcare to offer diabetes care through the clinics format in Malaysia. There is significant opportunity for the portfolio of formats and a clear position available in the marketplace for delivery of high-quality retail healthcare.

It has always been our endeavour to leverage the best skills and knowledge from top global institutions. Apollo Hospitals has signed a MoU with Health Education England to promote cooperation and interaction in healthcare education between India and England. With this collaboration, we will be establishing one of the foremost platforms to train the healthcare workforce of the world. This will help upskill talent in the country and help bridge the gap between current availability and the anticipated requirement of medical talent both internationally and in India. We have also signed a MoU with U.S based Varian Medical Systems, an educational partnership; to introduce a program that will help train radiation technologists in the country.

This fiscal will see us adding another 495 beds across 3 locations. We will launch new hospitals in Vizag and North Bangalore. Apollo has also taken the responsibility to develop the Chittoor Government Hospital in a phased manner. Our Mumbai hospital is on track to be commissioned in the first quarter of the next fiscal. This we will conclude bring to an end our 3 year expansion plan which will have added about 35% capacity. The immediate focus will then be to consolidate our operations by increasing volumes and bed utilization at new hospitals while optimizing bed usage in existing hospitals. The added capacity in existing strong centers will help to consolidate our leadership position in these markets in FY17 & FY18.

During the quarter, the Group launched the Apollo homecare operations in Chennai, Hyderabad and Delhi. This initiative aims to make high quality integrated healthcare accessible to a larger audience and will also solve a growing need from patients recovering from a surgery as well as from elderly and chronically ill patients. Homecare is emerging as an attractive proposition as the continuity of care is fundamental for better outcomes in healthcare and it is convenient and comfortable for patients and their families. For service providers, the reduction in the Average length of stay will help improve operating efficiencies. Quality of care can be guaranteed through trained personnel and improved technology which enables remote monitoring of patients and essays a significant role in home based healthcare services. By the end of next year, Apollo Homecare will rapidly spread its operations to 13 more cities.

Before I close I am delighted to share with all of you that the recent Best Hospital Survey 2015 by the Week and Nielsen, ranked Apollo Hospitals, Chennai as the best private multi-specialty hospital in the Country for the second year in a row. The hospitals is then also the top ranked hospital in Chennai and was joined by Apollo Gleneagles in Kolkata and the Ahmedabad Hospital as the top ranked hospital in each of their respective cities – I would like to highlight here that all three of these hospitals have retained their No. 1 ranking from last year. Hospitals in Hyderabad and Delhi were in the top 3 of their respective cities while Bengaluru was in the top 5 clearly showcasing that our facilities in all corners of the country are of outstanding quality and delivering best-in-class patient care.

Now I will hand over to Krishnan, our CFO to share for further details of our financial performance.

A.Krishnan: Thank you Ms. Suneeta and a very good afternoon to all of you. Standalone Revenues grew 18.4% for the first nine months of FY16. EBITDA grew by 11% during the period from Rs 504 crore in 9MFY15 to Rs 557 crore in 9MFY16. The EBITDA margin is 13.9% and has declined by 98 basis points from 14.9% in the same period last year.

The dilution in the EBITDA margin is also due to the increasing weightage of the SAP business to overall revenues which is at 43% in the current period compared to 38% in the previous year. Revenues from new hospitals have also increased their weightage to about 6% of overall revenues from 3.7% of overall revenues in the corresponding period last year. Since the margin profile of the Standalone pharmacies and new hospitals is lower than that of the existing healthcare business, the dilution in the blended EBITDA margin is in line.

Depreciation has increased by 20% on a y-on-y basis as hospitals at Hospitals at Perungudi, SMR and Nellore have been commissioned over the last 12 months.

Other Income includes a onetime income of Rs 47 crores accruing from the transfer of Alliance Dental Care Limited and Apollo Dialysis Private Limited to AHLL in Q3FY16. Against this there has been a one off provision of Rs 26 crore, Rs 14.4 crore towards bonus for last year i.e. FY15 due to the retrospective amendment to the bonus act and Rs 11.2 crore provided for diminision in valueof investments.

Finance costs for the nine months have increased by 48% to Rs. 90 crores due to new hospitals commissioned in the last 12 months. The Effective tax rate in 9MFY16 was 19.2% as compared to 23.2% in 9M last year due to the applicability of 150% depreciation u/s 35AD of Income Tax.

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. Revenues from existing hospitals grew by 5% and Revenues from SAPs grew by 32%. New hospitals reported a revenue of Rs 227 crore a growth of 86%, in the first 9 months of this year aided primarily by Jayanagar and Vanagaram which grew by 28% and reported a of revenue Rs 123 crore. The remaining FY14 / 15 batch of hospitals Trichy and Woman & Child OMR, Perungudi, SMR, Nashik and Nellore reported a revenue of Rs 104 Crores. The point to note in this slide is that the strong growth in revenues at 86% in the new hospitals have translated into a strong EBITDAR of Rs 18.6 Crores.

Existing Hospitals EBITDA margin remained unchanged at 23.8% despite being impacted by more than Rs 10 crores due to the floods in Chennai. EBITDA from New Hospitals is at a Rs 20 Lakh loss for the nine months as compared to a loss of Rs 6.5 crores in the previous year.

Vanagaram and Jayanagar have reported a positive EBITDA of Rs. 13.4 crore in the nine month period which has been offset by the combined EBITDA loss of Rs. 13.6 crore from other new hospitals. High initial fixed costs including lease rentals and compensations to doctors would be absorbed and recovered as we grow our revenues in these new hospitals.

Standalone Pharmacies continue to deliver improved EBITDA margins which were 3.77% in 9MFY16 compared to 3.2% in the same period last year.

Moving to slide 10, ROCE in the health care services dipped from 15.1% in the previous year to 12.6% in YTD Dec 15. This is primarily due to the additional capital deployment of about Rs. 911 crores on new hospitals which are yet to turn RoCE accretive. Excluding the new hospitals the healthcare services RoCE was at 17.8% in YTD Dec 15 as compared to 19.0% in YTD Dec 14.

Slides 12 & 13 outline the performance on a consolidated basis. Consolidated revenues grew 17.3% to Rs.4,527 crore as compared to Rs 3,860 crore during YTD Dec 14. This growth came from improved performance by our subsidiary and Joint Venture hospitals at Bangalore, Ahmedabad, Kolkata and Delhi. Indore has delivered very strong growth although off a lower base.

The consolidated financials include a 16.6% growth in revenues by Apollo Munich Health Insurance. Apollo Munich has reported a positive EBITDA of Rs 11 crore in YTD Dec 15 compared to Rs 2 crore in the same period last year.

Apollo Health & Lifestyle revenue stood at Rs 94 crore in YTD Dec 15. However, there has been an EBITDA loss of Rs. 25 crore during the period due to higher fixed overhead costs and addition of new clinics and cradles which are yet to contribute to profitability.

Moving on to Slide 15, which showcases the operational performance of our hospitals. In Chennai, inpatient volumes grew by a robust 9%, whereas outpatient volumes grew by 4%. Occupancy at the Chennai cluster was at 64% utilization on 1,521 beds in YTD Dec 15 as compared to 69% on 1,383 beds in YTD Dec14. The ARPOB at Chennai including new hospitals grew 9% to Rs 38,475.

Hyderabad Cluster revenues grew 8% while Inpatient volumes dropped by 3% with OP volumes remaining stagnant. However our Strategy of enhancing the yield and case mix is paying off with improved revenue realization and profitability. Overall Occupancy was at 60% in Hyderabad. The ARPOB grew by 14.4% to Rs. 25,767.

The hospitals which form part of the "Others cluster" and account for nearly 1,822 beds have reported revenue growth of 13.5%. While IP volumes have grown by 12.5%, OP volumes have grown 11%; together with a richer case mix have translated to a growth of 13% in IP revenues and 17% growth in OP revenues. The occupancy is at 63% on an expanded capacity as compared to the previous year. The growth was driven by both the New & existing hospitals especially Madurai & Mysore. ARPOB in these hospitals grew by 11% to Rs. 16,756.

Our joint venture, subsidiary and associate hospitals have also performed well; IP volumes grew by 3.2% while IP revenues grew by 8% reflecting a superior case mix, OP revenues grew by 13.3% with a 5.3% increase in OP volumes. ARPOB grew by 9% to Rs. 29,579.

Slide 17 covers the batch wise performance of Standalone Pharmacies whichwitnessed a revenue growthof 32.4% for the 9 months ending Dec 15. EBITDA continued grew by 56.3% in 9MFY16. EBITDA margins expanded from 3.2% in the 9MFY15 to 3.8% in 9MFY16. The pre 2008 batch of stores have an EBITDA margin is now 6.7%.

Sales from Private labels is now at 6.43% as compared to 6.28% in previous year. We added 137 stores on a net basis in YTD Dec 15. We now have 2,263 stores in Standalone Pharmacies as of Dec 31 2015. The Capital Employed is at 618 crore and RoCE for the SAP business is now at 10.8%.

Coming to Slide 19 which outlines the hospital expansion plan – In the last 24 months we have commissioned 1,300 beds in 9 locations. The Commissioning of the Navi Mumbai hospital in the Q1 of the next fiscal will conclude our current wave of expansion plans through which we will have increased capacity by 35%. This does not include our referral Cancer Centre with proton therapy in Chennai which is expected to be commissioned in FY19.

The total CAPEX estimated for this expansion plan is Rs 1,762 crore. Of this, an Investment of Rs 755 crore has already been made. The balance will be invested by a mix of internal accruals, fresh equity capital and debt. That's all from me, we are now ready for questions.

Moderator: Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Neha Manpuria from JP Morgan.

Neha Manpuria: My first question is on the Chennai situation. Post the floods, did we see the normal flow of business recover or is the patient flow still impacted particularly from outstation patient flow that we see into Chennai usually?

Suneeta Reddy: Yes, it has definitely recovered. All of December was very dull because even after the floods had receded, communication channels, transport channels to the Chennai were all blocked. So December was very challenging. I think we were back on track in January.

Neha Manpuria: So now the patient volume that we usually see is back on track even including outpatient patients?

Suneeta Reddy: Yes.

Neha Manpuria: Second, again on Chennai, if I do a simple math of the total revenues divided by the total volumes there inpatient/outpatient, I see a very sharp jump in that number, which essentially average revenue per patient. Is that because we have taken some price hike or what is it that has driven that sharp increase in ARPOB patient?

A. Krishnan: ARPOB YTD December is 38,475 which has increased only 9%,which is in line with what we have planned.

Neha Manpuria: The other question I had was on Pharmacies. A very strong improvement quarter-on-quarter, particularly on the margin side. What drove this improvement even including Hetero we are doing 4% margins which is very strong?

Suneeta Reddy: Two things I would say were responsible – one was that the increase in private label share, the second is we are really doing some smart stocking, the SKUs are really been looked at very carefully and looking at the number of prescriptions that they can completely fill. So customers are generally more satisfied going into Apollo Pharmacy because the prescription folio is much higher than in any other pharmacy.

Neha Manpuria: What is the share of private label in the quarter?

A. Krishnan: 6.43%.

Neha Manpuria: In the opening remarks, you mentioned that we are seeing challenges around building doctor teams as we roll out new hospitals. Is that the reason why we are seeing that the hospitals that we have commissioned ex-Vanagaram and Jaya Nagar should achieve profitability in let us say two years, versus they have already been operational for a year, so we would have expected them to be profitable next year?

Suneeta Reddy: Yes, I think you can say that.

Neha Manpuria: Would you do anything differently for the four facilities that we are commissioning in the next quarter?

Suneeta Reddy: I think we are planning much ahead of opening the hospitals, working on to keep the doctors teams in place, which is quite challenging because they need to keep earning revenue, they cannot wait for the hospitals to open once we engage them, but we have already engaged doctors for Malleswaram and for New Mumbai, they are already in place, let me say the key specialties are already in place, so from the day they start, they should kick off, which means they should reach EBITDA breakeven much faster.

Moderator: The next question is from the line of Girish Bakhru from HSBC.

Girish Bakhru: First again on Chennai, despite December being a dull month, I still see your occupancy has not dipped in Chennai. Why was that?

Suneeta Reddy: The other hospitals in Chennai also did well those who are not completely affected by the floods. You must realize that now in Chennai we are looking at market share. I believe that the teams have worked strongly on seeing that in two ways – we have strengthened our doctors in all the COEs to see that we are the best in the city; second is that marketing is very focused on seeing that the referrals are very high; and third, we have been working with corporates and GIPSA insurance patients. All this has resulted in a higher market share and we should start seeing greater benefits from this in the next quarter as well.

A. Krishnan: What happened was also the outpatients if you look at it, outpatients actually slipped quite a bit in Q3 as compared to our inpatients which got helped by some of these factors, the outpatients if you look at it, we had a lot of outpatients' volumes coming down from outside of Chennai which directly impacted our revenues.

Girish Bakhru: In Chennai, say you have five-six facilities if I recall. The main hospital has how much percentage share of say total outpatients?

A. Krishnan: We do not have that handy now but 50% of our overall volumes would be from main.

Girish Bakhru: Your capacity expansion plan shows that there are more and more now beds added in Navi Mumbai; it is 480 from 400 was the number last quarter I think.

A. Krishnan: Yes, that is right, earlier plan was a very different plan and now it has 480 beds, because we are also planning to add Oncology which was not part of the plan earlier, which is why if you look at the cost, the costs have also gone up because there are a lot of new equipments, because Oncology we understood there is a gap in Oncology in that particular area and we intend to start Oncology as well in the next 6-8-months.

Girish Bakhru: So barring say I think Transplantation, you are adding every specialty in Navi Mumbai, right?

A. Krishnan: Yes, in fact, Transplantation is also there, it is going to be a full-fledged multi-specialty hospital.

Girish Bakhru: When you say the EBITDA breakeven can be faster what kind of timeframe are you looking at?

A. Krishnan: EBITDA breakeven will take time. It is not that we have said that it is going to be faster, because we will have to look at the market conditions because we are looking at adding quite a few specialties there including Trauma and Transplants, etc., So we do anticipate that the EBITDA breakeven is going to be in the second year.

Suneeta Reddy: About Navi Mumbai we are not looking at it as a Tier-II city, we are looking at it as a whole new market that has a viable patient population and therefore we created an institution with all the marquee specialties. So it is not a small hospital. You should view it as one of the city hospitals where the CAPEX is considerably more and the procedure intensity is also more. So EBITDA breakeven could take a little time here.

Girish Bakhru: One suggestion, if you could separate Bengaluru out from next quarter onwards because size is almost equivalent to Hyderabad now in terms of the beds, right?

A. Krishnan: We would want Malleswaram to come back and start delivering numbers before we start doing that, Girish. Your point well taken. Give us a year more before we start doing that. We will be putting Bengaluru and Mysore into one cluster.

Moderator: The next question is from the line of Dr. Harit Ahamed from Spark Capital.

Harit: This is Harit here from Spark. I was just looking at the AHL revenue numbers and sequentially it has declined on a quarter-on-quarter basis from around Rs.43 crore to Rs.31 crore. What would be the reason for that?

A. Krishnan: There have been two new Cradles which have got added, if you remember, one of the things was the Cradle cost and fixed overheads related to the new rollout of Cradle was one of the reasons that the EBITDA actually has worsened. As we said, this is going to take some time,we think it will take another year before we start showing better numbers in AHLL.

Harit: No, I am looking at the top line of AHLL, not EBITDA?

A. Krishnan: There were guarantee money to doctors which were paid and that was also netted off against revenues.

Harit: On the bed addition in FY16, I see there are around 500 beds coming in Q4. So how many beds would be operational out of the 495?

A. Krishnan: Almost around 300.

Harit: Just a broader accounting related question; all the hospitals chains that we look at now, a few of them are listed, they all include the consultant charges as part of their expenses which is slightly different from the way we report. So is there a difference in the relationship that we have with the consultants doctors compared to other larger hospitals like Fortis or Global Hospital.

A. Krishnan: Yes, there is because if you look at significant portion of our doctors are fee-for-service doctors who are professional, who are practicing with us on a professional fee versus a guarantee money or a salary and that is a predominant percentage of our doctors and they are not really employees, whereas in the other cases maybe there are more employees and less of such doctors. There can be arguments for to provide both gross as well as net, but our auditors have suggested including Deloitte have suggested that we are fine with going with the net as it stands today.

Moderator: The next question is from the line of Rohan Pandya from Batlivala & Karani Securities.

Rohan Pandya: On the maturity profile of the beds, if you could highlight that for me please?

A. Krishnan: Maturity profile we do not have handy now, if you can probably get in touch with Krishnakumar after this call, he can provide you by years.

Moderator: The next question is a follow up question from the line of Girish Bakhru from HSBC.

Girish Bakhru: If you could just again give a split on Retail versus Insurance in Hyderabad cluster, how much is it right now?

Dr. K. Hari Prasad: Hyderabad cluster Retail plus the Insurance would be about 65-70% and Retail would be about 35-40% and the remaining would be Insurance.

Girish Bakhru: So Insurance has come down significantly, is that the right understanding?

Dr. K. Hari Prasad: No-no, the volumes of insurance are going up, it has not come down. The only thing which has happened on the Insurance front is GIPSA has come in and a lot more procedures which were done as open billing have gone under the GIPSA packages. So there will be slightly lower realization from these patients who are under the GIPSA package but otherwise absolute volumes of insurance patients have gone up. What has come down is the low paying corporates and we have the state insurance schemes which are low paying. Those are the two sectors which have come down. Otherwise, our cash, insurance and international patients have gone up.

Girish Bakhru: So what would this mix be like say two years ago before all the initiatives started in Hyderabad?

Dr. K. Hari Prasad: Almost 65% of them is to be the corporates and 35% used to be the cash and insurance, it has actually reversed in the last two-three years.

Girish Bakhru: Is that the increased cost from Proton or from South Chennai?

A. Krishnan: Proton is in Chennai and the cost increase in Proton is because there is now a referral cancer centre also along with Proton which is being put up. Earlier, South Chennai Hospital which was there is now being merged and it is going to be a comprehensive referral hospital with Proton. So some of the equipments that we are now putting up there is state-of-the-art and also the beds are going to be almost around 200 of beds there, which has resulted in a cost increase.

Moderator: The next question is a follow up question from the line of Neha Manpuria from JP Morgan.

Neha Manpuria: If I look at the Hyderabad occupancy, while our ARPOB seems to be improving, our occupancies have not really inched up. When do we start seeing occupancies actually pick up in Hyderabad given we have been doing quite a bit of work in that cluster?

Dr. K. Hari Prasad: Hyderabad, as you would know, is the most competitive market, first, and second thing is, we have taken a strategic decision not to get into the low paying bed and that is one of the reasons our occupancy have come down and you would notice that despite a decrease in occupancy our ARPOB and EBITDA have gone up significantly. We believe that this is the right strategy to differentiate from the rest of the competition and we will push ahead on this. With this strategy, even 5% increase in occupancy, would add significantly to the revenues and more importantly the EBITDA. So we are going to continue to push with that strategy of rationalization of patient mix with a focus on cash and insurance and international patients in the COE areas.

Neha Manpuria: So how much time would we take to sort of complete this rationalization processes; is there a threshold we are looking at, I am trying to understand that when we do we start seeing an uptick in occupancy and therefore more profitable revenue coming into Hyderabad?

Dr. K. Hari Prasad: The first thing which is very clear with the results that have come out is that strategy is working and it is the right strategy for that market which is definitely the most competitive market and we are looking at 5% occupancy growth to reach about 70% in the next one to two years.

Moderator: The next question is a follow up question from the line of Harit from Spark Capital.

Harit: I just wanted to understand your thoughts on the Reach set of hospitals that you have commissioned. I believe we have had a few quarters of operations at Nasik, Nellore, Trichy. So what is the kind of ARPOBs we are at, if you could give a broad range and what is the kind of ARPOB potential of the Reach set of hospitals?

A. Krishnan: If you look at the ARPOB for Reach typically it starts at around Rs.7,000-8,000 and it can go up to Rs.12,000. If you look at the other cluster now, other cluster has significantly Reach and that is around Rs.16,000 today. So clearly, Reach while starts slow, it will go up to Rs.15,000-16,000 as it matures. Nasik has started doing well. A couple of Reach Hospitals that we said is playing out a bit longer is Nellore and Trichy. Both of them because we had to get a local set of doctors there because the market especially Nellore being only three hours from Chennai, a lot of these patients are actually coming to Chennai for treatment and they wanted a very strong doctor base for them to be able to go to the Nellore Hospital versus come over to Chennai which is something that we are now working on and also working on a doctor program which has a very strong local connect. So once that is solved, hopefully, Nellore should come back into play. We have seen other Reach Hospitals for example, Mysore this year has seen extremely good performance and if you look at the ARPOB there now it is almost close to Rs.15-16,000 whereas earlier it was around Rs.12,000. All the Reach Hospitals that we have, if you look at Bhubaneswar, Mysore, if you look at even Madurai, all of these are doing very well, it takes some time to establish the doctor teams here specifically which is where I guess once those come in, we do well.

Harit: If you could comment a bit on how the acquired assets of Hetero and Nova have performed post your integration?

S. Obul Reddy: The Hetero we completed the acquisition process in Q3 this year and we have seen some good revenue growth and we will be working on the next steps to improve the EBITDA on that segment.

A. Krishnan: Nova integration is now done. We are now looking at each of the locations to see how we can integrate some of the doctors at hospitals with Nova. It is taking some time to move some of these doctors to start performing at Nova, I guess it will take another 6-9-months, we knew it is not going to be an immediate short-term result for us even when we picked up Nova, it is an important asset from a medium term perspective for healthcare strategy in India especially as insurance grows, and as consumers start going into day care as opposed to coming into hospitals. So it is more a medium term strategy for us. So we will take another one year at least before we see traction in Nova.

Suneeta Reddy: Some of the Nova were converted to Cradles because the demand for birthing centers were extremely high. So the mix in that sense has changed. Like Krishnan has said, I think next year we can hope to see better performance from that unit.

Moderator: The next question is a follow up question from the line of Rohan Pandya from Batlivala & Karani Securities.

Rohan Pandya: Just wanted to understand from a broader perspective that our competitors are going ahead with the Robotic Surgeries and things like that, are we taking any kind of initiatives in such areas?

Suneeta Reddy: We were the first in Robotic Surgery. I think we have the largest number of Robotic Surgeries within the group. So, from heart to the really small ones, the Gynec procedures, Gastric Bypass, all of it is being done by Robotics nowadays.

Rohan Pandya: Just wanted to understand, it is one of the newest things that is coming in India which is the Proton Beam Therapy, right. So what kind of volumes are we looking at because it is one of the first things that is coming in India and it is a very new thing and how would that play out?

Suneeta Reddy: I do not have the report with me right now but our understanding is that the type of cancers treat in terms of throat, pediatric, brain, this is the best form of treatment and in terms of options, we have created an option for these patients because as you know the Proton Beam Therapy attacks only the site. It does not create another cancer because it is a therapy. I am sure that doctors will appreciate that. Volumes for each of these cancers are growing in 16%. The time Proton comes, I think we will have a large patient base that can afford this type of treatment.

Moderator: The next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: My question is more on the expansion. How do we look at the next two-three years in terms of expanding some of the current hospitals, what kind of operational capacity we see getting added on in the current network?

Suneeta Reddy: I think we have stated that we are adding 500 beds in the next few months, but beyond that I think when you look at 2017 it is going to be more a year of consolidating and filling up all the beds that we have added in the past three years and the opening of Navi Mumbai. The third area that we are really looking at is asset utilization in terms of medical technology, what have we done and how well it is being used. So, I would think that beyond 2017 Apollo is not really going to be investing in hard infrastructure, instead you will start seeing better utilization and I think therefore better margins and profitability.

Nitin Agarwal: We are not really looking to add any incremental capacity even in the existing hospitals?

Suneeta Reddy: We have got lots of capacity, in fact, in Chennai, we are adding a new OP Wing. So we are looking at OP and we are looking at conversion so that occupancies improve, OP margins are also extremely high. So we are looking more at the OP space, we do more checkups, we do capture patients do conversion. Our expansion really makes us the single Largest Healthcare Player In all these regions In Chennai, In Hyderabad, In Bengaluru, right now, we are looking at opportunities in Kolkata. By the time we have really finished 2020, we have really flushed out our program for Mumbai, we should be one of the largest healthcare providers in that region as well.

Moderator: The next question is from the line of Chunky Shah from Credit Suisse.

Chunky Shah: One clarification on Chennai; the volumes this quarter were very strong. Because of the floods did we see any adverse case mix also that a lot of casualties were there because as you rightly mentioned, the outpatient volumes were lower, therefore, ARPOB was lower, but at the same time, volumes have been very-very high.

A. Krishnan: There were a lot of medical cases; deliveries which as Suneeta already said, that was on a rise, we also had some ICU stabilization cases which were moved from other hospitals and we have moved them back to the other hospitals after the care was done. So a lot of the other hospitals shut down whereas we were the only hospital who were doing well here which is what saw an uptick in the volumes, not in the revenues as much.

Chunky Shah: Ma'am, you mentioned about you are trying to increase market share by increasing Insurance penetration. Will it affect our ARPOB growth from here that we see more volume growth than ARPOB growth from hereonwards?

Suneeta Reddy: I do not think so because we are just providing access to people who need these types of surgeries, especially the case mix that we are focusing on into our hospitals which we did not have earlier. So, without affecting ARPOB, I think positively it will impact volumes. Realizations from GIPSA is very good.

Chunky Shah: They are similar to our ARPOB or less than the ARPOB?

A. Krishnan: They are similar to our ARPOB.

Chunky Shah: On the Pharmacy business, actually I have been positively surprised by the sequential improvement in the margins. You mentioned that you have increased the private label usage. First of all, can you mention that quarterly how much would that have changed? I assume quarterly for such a sharp variation would be difficult but the margins have really inched up.

Obul Reddy: One is private label. But we also worked on the product mix in such a way that we increase the GP by rationalizing our stocking methodology also we have worked particularly the employee cost. So everything contributed to the growth in the margins.

Chunky Shah: Can you a little expand on that -- are you meaning that the gross margin let us say the Pharmacy business…?

Obul Reddy: It is about 50 basis points increase in the corresponding period which has translated into EBITDA growth.

Chunky Shah: No, I am talking more sequentially actually. You are right, there is a very sharp increase year-on-year, but let us say if we talk September versus December quarter?

Obul Reddy: That is only about 27 basis points. Various things happening on the cost and also the margins so as a result of it.

Chunky Shah: But do you see this as our base now because we have seen steep change in our margins?

Obul Reddy: We are still working to improve on that.

Chunky Shah: Yes, but at least now this is a floor for us around that we have?

Obul Reddy: Should be, we should stay at that and then improve further.

Moderator: The next question is from the line of Prashant Nair from Citigroup.

Prashant Nair: I have a follow up question on the Pharmacy side itself. So if you were to look at the more mature pharmacies, what level of ROC would these be at or if you were to even tell what could be the mature state ROC for a Pharmacy store or where this business can finally go to?

Obul Reddy: When you define mature store at say 6% plus EBITDA we should be having ROC of about 20-25%.

Moderator: As there are no further questions, I now hand the conference over to Ms. Reddy for closing remarks.

Suneeta Reddy: Thank you, Ladies and Gentlemen for joining in on this call. I think against a backdrop of India where the growth is bit around 3.9%, the company grows at 17% shows that Apollo does have a deep understanding of Healthcare and of the challenges that we continue to face. We stay committed to creating smart infrastructure that will address acute shortage of healthcare in our country. In

Apollo, it is not only about the amount of money that we have invested in beds, but in doctors and technology but also in new formats that will keep us future ready. I am confident that the growth of Apollo will continue in spite of uncertain economic environments. Our focus on doctor engagement, patient outcome and asset utilization will result in superior performance as we continue to expand our network. Thank you, ladies and gentlemen for being with us on this call.

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.