Apollo Hospitals

Q1FY14 Earnings Conference Call Transcript

August 08, 2013

Moderator Ladies and gentlemen good day and welcome to the Apollo Hospitals Q1FY14 Earnings Conference Call. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani from CDR India.

Mayank Vaswani Good afternoon and thank you for joining us on this call to discuss Apollo Hospitals' financial results for the 1st Quarter of FY2014. We have with us today the senior management team comprising Ms. Suneeta Reddy – Joint Managing Director; Mr. K Padmanabhan – Group President; Mr. S Premkumar – Group CEO; Mr. S.K. Venkataraman – Chief Strategy Officer and Mr. Krishnan Akhileswaran – Chief Financial Officer.

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

As always we shall start with Ms. Suneeta Reddy who will discuss the operating highlights for the quarter, Mr. Krishnan will then discuss the financial highlights and expansion plans following which Mr. Padmanabhan will cover developments on the retail pharmacy business and Apollo Munich Health Insurance. After that we will be available to take your questions. Documents relating to our financial performance have been emailed to all of you earlier and have also been posted on our corporate website. I will now hand the floor over to Ms. Suneeta.

Suneeta Reddy Good afternoon everyone and thank you for taking time out to join our call. I will give you a quick overview before handing it over to Krishnan, our CFO. As I shared with you earlier we are in the midst of an interesting phase at Apollo Hospitals. The next 12 to 24 months will see us scale up of course in terms of capacity, capabilities, and a focus on new formats. In the current year itself we planned to operationalize 1,000 new beds in Chennai, Trichy, Nellore, Nasik and Bangalore. We are also simultaneously making steady progress on several initiatives ranging from doctor engagements to physician connect programs and enhancing our retail healthcare presence through clinics and 'The Cradle'. Along with capacity creation the healthcare deliveries state in our country is witnessing a rapid revolution driver by consumer need and awareness. Rapid urbanization coupled with the rising disposable income, middle class expecting better healthcare and lifestyle healthcare needs at birthing centers and outpatient clinics provide us with multiple opportunities and options.

This brings me to the other point of capability building. As some of you know and must be aware we have a very clear focus on areas to build and enhance our capabilities. The COE initiative is one such focused strategy which has allowed us to positively influence case mix to include a greater proportion of high acuity cases in all our tertiary care hospitals. In addition to that we continue to be early adopters of new technologies in the quest for better clinical outcome for our patients. The rapid rollout of robotic technology at major urban centers across our network and the continued emphasis on key oncology treatments centers such as PET CT, Novalis, TrueBeam, Cyberknife and the recently announced Photon Therapy Center are some of the initiatives that we are already taken.

Now coming to our financial performance, our standalone revenues grew by 15.1% from Rs.777 crore in Q1 last year to Rs.895 crore in Q1 of this year. While the growth for this quarter has been in line with analysts' expectations, personally, I believe that the volumes will pick up as we move into the next few quarters especially from our new facilities. EBITDA for our existing businesses grew 16.6% aided by a margin expansion both in healthcare services and standalone pharmacies. New hospitals in Ayanambakkam in Chennai and Jayanagar in Bangalore had operating losses of Rs. 6.3 crore in this quarter as they are in the initial stages of operations. Reported EBITDA hence grew 12% from Rs. 130 crore in Q1 last year to Rs.146 crore in Q1 this year. Profit after tax is up by 13% to Rs.79 crore.

I would like to specifically highlight that existing hospitals continue to perform well. A combination of robust volume increase in hospitals like Bangalore, Bhubaneswar and Mysore as well as a richer case mix in our mature facilities in Chennai and Hyderabad, a reduction in average length of stay has enabled margin expansion from existing healthcare services business. Our plans to focus on growing Bangalore as a cluster are progressing well and the initial results are heartening.

Coming to standalone pharmacies – The standalone pharmacy business has delivered 23% year-on-year revenue growth accompanied by an improvement in profitability. The pharmacy business is gradually moving up to its long-term sustainable EBITDA. I would like to add today that we run a network which has over 80% of its stores as EBITDA positive. The strength of the existing operations combined with the aggressive expansion plans being rolled out indicate the momentum of the business remains intact. The next few quarters should result in the materialization of efforts and provides a strong foundation for future growth.

A quick word on CSR before I close – Apollo Hospitals has undertaken several efforts to assist in the rehabilitation of the victims in the Uttarakhand Floods. Apart from offering medical supplies, Apollo Hospitals across the network readied medical facilities in teams of doctors, nurses, paramedics and pharmacists to provide support to the victims. Our hearts go out to those who have been displaced by this tragedy. That's all for me right now, I will ask Krishnan, our CFO, to provide you with further information on our financial performances.

A. Krishnan

Thank you Ms. Suneeta. Good afternoon and thank you for joining us on the call. I trust all of you have received our Q1 earnings presentation which has been circulated yesterday and has also been uploaded on our website. Ms. Suneeta has provided an overview of our standalone performance and I would like to quickly run you through some of the highlights of the consolidated financial performance.

Consolidated revenue growth has been healthy at 16% with revenues for Q1 FY14 totaling Rs.1,022 crore. EBITDA has grown 8.6% to Rs. 161 crore. While the EBITDA margin has softened by over 100 bps to 15.7%. If we are to adjust for the impact of the new hospitals that are in Ayanambakkam in Chennai, Jayanagar in Bangalore and the two new cradles which commence operations in Bangalore recently, the consolidated EBITDA margin has actually increased by 13 basis points to 17.2% in Q1FY14.

Slide #12 has our business performance for the quarter broken up into existing and new. This improvement in consolidated EBITDA has been driven primarily by further improvement in the Healthcare Services, existing business EBITDA which has improved from 23.7% to 24.5%. Contribution from our subsidiary and JV hospitals in Bangalore and Ahmedabad as well as steadily improving performance of Apollo Munich. PAT growth has been 2.7% primarily due to higher interest and depreciation costs in Apollo Health & Lifestyle, our 100% subsidiaries which houses the primary clinics and cradles as well as higher tax provision in Calcutta and losses relating to the new hospitals. The EBITDA margins on existing operations continue to expand given the focus on high acuity cases in our urban centers and the increasing maturity of hospitals like Bangalore, Mysore and Bhubaneswar. Healthcare Services' ROCE stays at 17.1% for the quarter on an enhanced capital employed which includes Jayanagar and Ayanambakkam capital employed of Rs.204 crore. Both these facilities have still to being contributing to EBITDA and hence ROCE. Excluding the new hospitals, ROCE of existing Healthcare Services is at 20.1% in Q1FY14 as compared to 19.2% in Q1FY13.

I will now walk you through Slide #14 which contains the operational performance and key operating metrics in the hospital's business. The operational beds as of June 30, 2013, was 5,648, the net increase of 430 beds over the same period last year has largely come up through the launch of new hospitals in Chennai and Bangalore. There have also been bed additions at our standalone hospitals in Madurai, Mysore, Karimnagar as well as Delhi and Ahmedabad. Overall, inpatient volumes grew by 6% and outpatient volume by 10%. Total occupancy was 70% in Q1 FY14 at 3,952 beds as compared to 74% in Q1 FY13 at 3,863 beds. You would notice that the overall occupied beds have still increased from 3,862 to 3,952. The lower occupancy in the current year is due to the new bed additions. The inpatient revenue growth has been faster than the inpatient volume growth indicating that the case mix is getting richer in favor of higher acuity cases. Outpatient volume growth has been healthy at Chennai and in the other clusters. Our initiative and focus on daycare surgeries have begun to pay off and this is evident by the lower ALOS across clusters. The ALOS in Q1FY14 was 4.53 as compared to 4.70 in Q1FY13. The IP volume growth as a result was moderate due to day care conversion at the hospitals.

Slide #18 has our expansion plan for the next three years and the related CAPEX. Of the total planned expansion of 3,000 beds over the next three years about 1,000 beds at seven locations will be added in the current fiscal. Over 500 of these beds will be at the three REACH Hospitals at Nasik, Nellore and Trichy, the rest will be added in Chennai and Bangalore. As mentioned earlier our funding for these expansion plans will be through a combination of debt and internal accruals in a phased manner. That's it from me. I will now hand over to Mr. Padmanabhan, who will walk you through the development of retail pharmacies and Apollo Munich Health Insurance.

K. Padmanabhan Good afternoon everyone, the performance of the standalone pharmacies have been impressive in the healthcare business, we're continuing our long-term objective of expanding our standalone pharmacies business in a calibrated manner with a focus on continuous margin expansion through a combination of higher volumes in our mature stores as well as overall increase in contribution from our private label products.

We added 49 stores and shut down 26 stores resulting in a net addition of 23 stores in Q1 FY14. This takes our Pan India network of pharmacies to 1,526 stores as of June 30th, 2013. The revenue growth remains strong at 23% going from about Rs. 248 crore in Q1FY13 to Rs. 304 crore in Q1 of the current fiscal. The same-store revenue growth was healthy, the revenue growth in the batch prior to 2008 was 13% and the 2009 batch is 14% while the 2010 batch was 17%, the post 2010-11 batch has been even more impressive. We have in our network over 1,250 stores which are now EBITDA positive. Our overall EBITDA is higher by 47% from about Rs. 6 crore to Rs. 9 crore in the current fiscal. The EBITDA margins for the entire network of stores has expanded by 49 basis points to 3% this quarter and is steadily moving towards our targeted margin of 5%. This is largely driven by the increase in private label sales which now constitutes 5% of our total pharmacies turnover. The EBITDA margin for our pre-2008 batch stores stands at 5.6% implying that there is still significant potential for us to achieve this in the balance of our network.

Coming to insurance – Apollo Munich Health Insurance has recorded an increase of 30% in total income during the quarter. It has been EBITDA positive for several quarters now and is gradually turning PAT positive. The growth in this business appreciation from customers, apart from some innovative health plan reiterate our belief that we can make a positive difference in this industry. That is it from me and we are now ready to take your questions.

Moderator Ladies and gentlemen we will now begin with the question and answer session. Our first question is from Ravi Dodhia of Crisil.

Ravi Dodhia One is I want to know if we look at ARPOB growth across all the clusters it has been more than 10% in Chennai, Hyderabad and others I just want know the reason for the same?

A Krishnan If you look at the ARPOB growth in a place like Chennai as we said the benefit of outpatient volumes being higher was one of the benefits that we had and second the day case surgery that we said the daycare surgeries have been on an increase and which is where if we look at the inpatient ALOS also it has come down to 4.35 from 4.63 that is because of some of the one-day surgeries that we earlier had, we have been able to convert them into daycare as well and that helped us in bringing down the ALOS and that has enabled the ARPOB in a place like Chennai.

Suneeta Reddy There has been a tariff increase.

A Krishnan There has been a tariff increase that is the normal tariff increase that we do every year that impact does comes to us. If you go to a place like Hyderabad, again the acuity cases in Hyderabad has been on the rise, we have been able to increase the COE volumes something that we have been focusing on in a place like Hyderabad and as we have been able to increase the acuity of the cases we have been able to see the ARPOB increase in a place like Hyderabad. The others in general inpatient volumes as well as the outpatient volume increase.

Ravi Dodhia If we look at particularly the Hyderabad cluster, inpatient-outpatient volumes have actually declined if we look at QoQ basis similarly occupancy is also down and ALOS is also down but still ARPOB is up by around 10%, so can we say that in Hyderabad tariff increase is more than 10% in the current quarter?

A Krishnan As I said it is the case mix in fact it is not about tariff increase, tariff increase is not something that we have taken a 10% in Hyderabad. The tariff increase across every hospital that we do year-on-year is around 4% to 5% so it is more about the case mix, case-mix is what is impacting us favorably in a place like Hyderabad. And we cannot look at it on a quarter-on-quarter basis because for example in the next quarter we would have some of these fevers and other cases also coming in so on a quarter-on-quarter basis the volumes might not be very indicative.

Ravi Dodhia Just wanted update on the Byculla Hospital, at what stage it is and whether it will come on stream by FY16?

K. Padmanabhan As far as Byculla is concerned, as we mentioned earlier we had the issue in terms of getting the lease deed to be signed and because some of the documents could not be traced in Mantralaya in Mumbai, we are now gone to a stage where some of the details have been got by the landlords and now we are looking at signing those deed. It is still early days and while there is certain amount of time delay on that. I do not think we can commit a date on when we can actually start Byculla.

Moderator Our next question is from Girish Bakhru of HSBC.

Girish Bakhru First on the Chennai side, the outpatient volume, does it have some seasonality because first quarter is typically very low, tends to fall off sharply from the 4th Quarter?

A Krishnan Typically, if you look at it there is some uplift in the volume that we see in the 1st Quarter that is something that comes up and 3rd Quarter typically because of the holidays that exist and the festival season now some of the people do not travel to Chennai so we see an uplift in the outpatient volumes but yes this quarter has been better than last quarter for sure.

Girish Bakhru And when do you see the new beds that have been added turning profitable so that overall occupancy also kind of improves, when do you see that trend changing in Chennai?

A Krishnan As we said in any new hospital that we set up, outside the cluster we have always been saying that it will take at least 18 months for it to become EBITDA positive, it is not going to be easy to recover some of the fixed costs while in our existing clusters we still expect it to be probably between the 12 to 18 months. In places outside of existing clusters it will extend beyond 18 months. So that is the reason that we have begun, giving the split between the newer hospitals and the existing hospitals so that investors and particularly at a time that we are adding 1,000 beds, it is important that we see that in that context and also realize that there is traction which is being achieved incrementally over quarters that is what we will try to do.

Girish Bakhru And Lifeline 170 beds will also get added by Q3 only, that timeline is there?

A Krishnan It is correct, by Q3 we are hoping that we should be able to break even on our Jayanagar facility atleast in Bangalore that is the plan, that is one thing that should get to breakeven EBITDA because it is an existing cluster and we have plans to get it to breakeven by Q3 for sure and place like Ayanambakkam would take couple of quarters after that to get to breakeven EBITDA.

Girish Bakhru Just on the REACH side, you said Karaikudi is now EBITDA positive, what about the other Karimnagar, Karur and with 500 beds addition in the REACH overall are you satisfied with these initiatives, where do you think that is going?

Suneeta Reddy Yes, I think all those hospitals that we have opened are now EBITDA positive, Karaikudi has also turned EBITDA positive.

A Krishnan We are doing very well and even this year if you look on a QoQ basis, a places like Mysore has grown almost around 20%, we have good growth in Bhubaneswar, so we think that if we are able to get good doctors, this is what we are working on in all these locations, we think we should be able to do well in some of these REACH locations as planned.

Girish Bakhru One question on the Robotic surgery, I just wanted a broad-based cost split if you can give in terms of normal open surgeries versus robotic surgery, where does the hospital versus the doctor cost, how the split is and what kind of margin premium would typically a robotic surgery have over the open surgery, can you give a broad idea on that?

S. Premkumar We would not get into the basics of the price differential and how the pricing breaks up across the various cost elements like consultants and so on, but very broadly at a very high level I could say that it depends on a case to case, it depends on which specialty we are talking about, I mean, what is there in urology will be quite different from what is there in OB or Gynaec. At a very broad level it could be stated that the differential would be anywhere between 60% to 120% depending upon where you are with respect to the differential between a like-to-like, laparoscopic or whatever you talk about. So given that as the basis, it will again be dependent upon the specific case and the kind of activity that we are doing.

Girish Bakhru But I am just trying to assess patient would have elective option whether to choose robotic or open surgery?

Suneeta Reddy Yes, certainly.

S. Premkumar Certainly, it is the choice of the patient and the recommendation basis the actual case in terms of what the consultant sees practicality and the need for it. Typically if you have situations where an ability of a person or a need for a person to get back faster, ability to look at it in the context of the minimal invasiveness, all these play a role and those are the recommendations the consultant makes but the choices is obviously of the patient and the caregiver.

Moderator We will take a next question from Kashyap Pujara of Axis Capital.

Kashyap Pujara My question is largely related to the ramp up of beds that is happening, we are ramping up close to 1,000 beds this year and we would be having a similar run rate to add up close to 2,700 odd beds and we are seeing some amount of cost in terms of preoperative costs actually denting our consolidated performance, while on a like-to-like basis we are still seeing growth, the trajectory on the consolidated numbers is slightly softer, so could you give some light as to what is the kind of preoperative costs or that you see going forward over the next couple of years for us to actually gauge what kind of earnings trajectory we can anticipate considering that you have been growing traditionally at 20% to 25% over 30 quarters now?

A Krishnan You will have to discuss this off-line with Krishnakumar on the modeling front. As I said, broadly it will take 12 months to 18 months for us to become EBITDA positive in our existing clusters and new clusters around 18 months, so typically because we have a calibrated expansion plan, as I said by the end of Q3 we should hopefully become breakeven on Jayanagar and then we would be starting one more facility in Chennai, so there are going to be costs which can come from Chennai and then Aynambakkam hopefully in the next few quarters will become EBITDA breakeven, so hopefully there is not going to be lumpiness this year. Next year, of course as some of these hospitals go on stream, there will be some costs which will come in maybe another Rs. 25 crore to Rs.35 crore. Today the quarterly run rate is around Rs.7 crore so we are hoping we should be able to restrict it to Rs. 25 crore to Rs.35 crore sort of number for the year.

Kashyap Pujara And hopefully since this is not recurring in nature whenever the hospital's comeback, basically on a like-for-like basis we are still managing that growth, so that is encouraging. Having said that can you give me some more light on the Cradles piece that is Apollo Health and Lifestyle as to what are the kind of plans we envisage there?

K. Padmanabhan The Cradle is actually part of our clinic business which is 100% subsidiary. In fact since you referred to the consolidated business, one of the things was that be opened two Cradles during the quarter which is actually what has got consolidated EBITDA down, but basically the Cradles are the new concept which earlier we had established on a franchise basis and now we are doing on our own basis. The two that we have already done has shown great promise and therefore we are actually planning for two more, the investment are around about Rs. 20 crore or so and are capable of getting EBITDA positive by the 12 months.

Suneeta Reddy Just to state that of the Cloud Nine chain of birthing centres, the first one was a franchisee of ours.

Kashyap Pujara Just one more comment is that your earnings update is pretty informative so the questions are limited to that extent.

Moderator Our next question is from Bino Pathiparampil of IIFL.

Bino Pathiparampil We have a solid expansion plan for this year and next year. Have we started thinking beyond that given the stressed implementation timelines I would guess there we need to start planning now for beyond FY15, what are our plans, where could we possibly look at for further expansion?

Suneeta Reddy I think we have plans in place till 2016 and beyond that I think we need to spend two years and just consolidating because our plans are not just about adding new beds but also on creating new formats and at that time you will see that there will be a change in Healthcare delivery formats. It won't be about just building tertiary care large-scale hospitals but the smaller ones, the movement into Tier-2 cities and maybe little bit in Tier-3 cities, these will become areas of focus. The new formats that includes Daycare and Cradle again will become new areas of focus, so we are actually looking at not really how we are going to increase number of beds but how are going to improve realization per bed and the formats through which we do that and thereby gain market share.

Bino Pathiparampil So any expansion beyond FY16 is more likely to be in the smaller format, more distributed?

Suneeta Reddy At this time I think that is correct.

Bino Pathiparampil I was looking at the current investment plan, you have about Rs.1,600 crore more to invest for current expansion plans and you have about Rs.700 crore on balance sheet, while some may come from operating cash flows, you might need to take some debt on as well, so once this investment is complete over the course of next two years, what kind of debt equity are you looking at?

A Krishnan The current debt-equity is around 0.3 and as you will see from the current Rs. 700 crore of net debt we would be going up to Rs. 2,000 crore over the next three years, so we will have internal accruals of almost around Rs. 500 to Rs. 600 crore which will be deploying on our new hospitals. And again as we have said at the appropriate time we would be looking at unlocking value on our pharmacy business and we also have other plans which we would look at to see how we can bring down our debt over a period of time but yes, over the next three years we would get to almost around 0.6 debt to equity but EBITDA again as the new hospitals start doing well, we are very confident of ensuring that the debt EBITDA levels are good as well as DSCRs are very comfortable.

Bino Pathiparampil Finally a question on the disclosure on promoter pledging, in the last quarter it has gone up quite a bit. Was it any way related to Apollo Hospitals' business or is it related to something else, your comments please.

Suneeta Reddy There is no real increase in pledged shares.

Bino Pathiparampil In the last quarter?

Suneeta Reddy Actually there is some restructuring that is going on but there is no increase in pledged shares.

Moderator Our next question is from Praveen Sahay of B&K Securities.

Praveen Sahay My question is on the pharmacy segment this time we had added 49 stores, we had closed 26 stores, so I just wanted to know about these 49 stores and even in the past we had added stores, so which location in India we are more focusing on or what is basically the CAPEX per store at the current stage?

K. Padmanabhan Basically the stores have been added in the South and National Capital Region and the CAPEX per store is around about Rs.2 million.

Praveen Sahay Can you give any guidance on what would be the net addition for a year?

Suneeta Reddy 150 to 200 stores will be added this year.

Praveen Sahay You had given 12 stores you had closed which are opened pre-2008, I would just like to understand what is the strategy going forward is that going forward in the similar pattern because in the last 1 to 1.5 years we are doing so and still we have left with is loss-making stores and higher expenses stores?

K. Padmanabhan Basically we review store performance on a continuous basis and as you know the urban landscape keeps changing and because of which some stores which have been positive also can turn negative and so therefore we have to continuously review them to see that the stores are profitable and because we are not really in a significantly long-term league we have the flexibility and at very low cost we are able to close and open in new location without any disturbance, so it is not that there are still loss-making stores, it is just that change in landscape may force us to close some of the stores.

Praveen Sahay Just a next question on the expansion side, I see this Chennai cluster is going to add 305 bed in this financial year and REACH hospital somewhere around 525 beds, so would you please give some highlights on the timings on the addition like Lifeline coming in the 3rd Quarter, so how is the rollout looking?

K. Padmanabhan We will have Lifeline coming at about 170 beds in the 3rd Quarter, we will have 60 actually coming towards the fag end of this quarter and then we will have Nashik and Nellore coming to us in the fag end of 4th Quarter. You can say that we will have an average of around 700 beds coming this year.

Moderator Our next question is from Ruchi Vora of UBS.

Ruchi Vora My first question is on the ARPOB, the pricing for the new capacity, it will be great if you can throw some color on how they would compare let us say in Chennai versus existing beds and also in your REACH format?

K. Padmanabhan The ARPOB in REACH will be about anywhere between Rs.8,000-Rs.10,000 and in the hospital in the existing clusters they could be somewhere around Rs.12,000-Rs.13,000.

S. Venkataraman Slide #14 gives you a good picture of that.

Ruchi Vora Which is a significantly lower number than our existing hospitals, right?

A Krishnan So the 8,000 to 9,000 number that Mr. Padmanabhan said was net of hospital-based pharmacies including the hospital-based pharmacy it will be more like 11,000 and this is in sync with what we have under the others.

S. Venkataraman It is on Slide #14. It will give you a good idea.

A Krishnan If you'll look at the Chennai cluster you are today at 33,000, you have the 33,000 has a big impact off the main hospital as well a place like Lifeline would be more like a 22,000 to 24,000 is what we are expecting Lifeline to be at and a place like in other is going to be more like 10,000 to 12,000.

S. Venkataraman But the important being here is you should also look at the EBITDA margins. The EBITDA margins could be significantly comparable, that is of more important is than ARPOB which is a unidimensional way to look at it.

Ruchi Vora And my next question is on the Hyderabad cluster, I understand that going forward it is not going to be a significant revenue contributor but it will be great if you run us through the key catalysts for occupancy improvement and also what is the kind of headroom available for improving margins in that cluster?

S. Premkumar Divide that into two or three segments, the first level of the segment would be really what are the demand generation, demand augmentation area that we are working on, so I think one of the key context was just to give you a perspective here the overall brand survey translated itself into an 81% recall for the brand in Hyderabad cluster with that as the perspective the one dimension that we need to look at is the enablement that is being done because the primary care network today is a key enabler to this whole thing, so we have set forward a bunch of activities which translates itself into augmentation of foot falls and in terms of trying to increase the case-mix as a part of it, so in the two contexts, two catalyst that you would see is an augmented footfall through the primary physician care network expansion and connect. The second part of it is that there are three bunch of international countries which have been hard aligned with our Hyderabad cluster which essentially means that the number of these newer countries that are getting into from go-to-market prospective are getting addressed by the core team from Hyderabad which is expanding that network and looking at bringing in traffic into Hyderabad which is also facilitated by a better connectivity today that we have into Hyderabad. The third aspect that we touched upon earlier is further expansion and a greater amount of acceptance with respect to areas of technology like the robotic element, so there has been a manifold increase in the number of robotics across the previous two quarters and coming this quarter and the projections going forward in the subsequent quarters. Similarly, with respect to what we have done on the corporate side which is translating itself into greater amount of direct tie ups and focus around almost doubling in the last two quarters the amount of preventive and health checks and so on which as you would see has also got a surrogate entry into other IP and OP related possibilities.

Ruchi Vora My next question is, I think over the last 10 years if we see the capital raising trajectory of the group, there has been a significant investment by the controller shareholders into the company - just wanted to hear your thoughts if that is going to be an option over the next few years we understand you are well funded but do you think is there a possibility of controlling shareholders continuing to invest in the business?

Suneeta Reddy The business requires it, I think and we have an option to do so, definitely it is an option that we would like to exercise but I think that we have identified different ways of capitalizing the growth that we have on hand. As Krishnan explained earlier that divesture in the pharmacy will bring cash into the company, creation of business trust will help fund future growth, so I think it is one of this is probably the third option that we will look at.

Moderator Our next question is from Aditya Khemka of Nomura.

Aditya Khemka First of all this new pharma pricing policy in India, we understand that the pricing policy also puts some pressure on the retailer's margins in terms of putting up a cap on the NAVM drugs at the retail stores, so what has been your experience thus far, do we see a significant impact of this pricing policy on our pharmacy margins?

Suneeta Reddy You know at this point a lot of manufacturers have gone to court and there is a stay so the actual impact is difficult to predict at this time but we do anticipate at least 0.5% impact on the margin.

Aditya Khemka 0.5% of your EBITDA?

S. Venkataraman This is our best estimate at this point of time.

Aditya Khemka The next question is I may be repeating this, the price hikes that you have mentioned that you have taken across clusters, so could you give us the quantum of price hike taken in this quarter?

A Krishnan The price hike is not an event that we have done now that is something that we do always, it is part of our normal thing we do and annual price increase at around 3% to 4% and in certain other locations we do 5% to 6%, so depending on location to location we do almost 4% to 6%, so it is something that has been done in one or two locations, we will continue to do that may be in the next quarter in some other location as well, so it is part of a process there is nothing specific, there is no one-offs.

Aditya Khemka What I wanted to understand what is has there been a price hike taken across say taken across Chennai cluster so when you look at location you are referring to clusters or referring to particular facility?

A Krishnan In Chennai we have done, across the cluster, in a place like Hyderabad again we would be doing it now, so as I said it is something that we do depending on cluster to clusters.

K. Padmanabhan But I think it is also related to the cost increase that we have.

Suneeta Reddy Yes the input cost that we have.

Aditya Khemka So what was the extent of the price increase in Chennai cluster this quarter if we could just get a ballpark?

A Krishnan It was around 4%.

Aditya Khemka And another question was I missed it you said there is some facility that would be launched in this quarter, in the second quarter of FY 14?

K. Padmanabhan Trichy.

Aditya Khemka If you look at your past quarters in terms of revenue growth, the top line growth for your stand-alone entity, so for a long time in the North of 20% but for the last two quarters that is 4Q of FY13 and 1Q of FY14 we have kind of dipped below 20% and my understanding is that this could largely due to some slowdown in terms of ARPOB growth and could be simply a base effect, how do you see revenue growing say for the next 3 to 5 years, would we be able to maintain the mid-teen growth that we have done for the past two quarters or there is still scope for some decline in the absolute growth rate given that the base keeps accumulating?

K. Padmanabhan The growth on a stand-alone basis if you look at was because health care services business was growing at 15% and the stand-alone pharmacy was growing at 30% flat and if we consolidate that stand-alone pharmacy is now growing at 22% to 24% and the health care services is now growing around the same 15% to 16% so therefore the overall growth appears muted compared to what it was but the healthcare services continues to maintain that growth of 15% to 16% there is no significant slow down as such. The growth in the stand-alone pharmacy is a function of our expansion of our network, at the moment we are expanding at around 150 pharmacies to 200 pharmacies which is on a higher denominator it is about 1,500 pharmacies.

Aditya Khemka Actually my question was more from our three-year prospective, so if you take a three year call standing today, would you say that you will be able to maintain the mid-teen?

K. Padmanabhan I think 3 year basis you will see that our long-term growth trajectory actually contracts and we should be able to get there.

Suneeta Reddy And I think that is what we are really building out for, to make sure that we have the capacity to grow.

Aditya Khemka In summary is that we are going to maintain a mid-teen level of growth or is there a scope?

K. Padmanabhan I think we have enough capabilities to keep doing that.

Moderator Our next question is from Atul Rastogi of CIMB.

Atul Rastogi Firstly on Hyderabad, just wanted to check if ARPOB growth that we are seeing this kind of ARPOB of 20,000+ is sustainable going ahead?

A Krishnan Yes, so it is sustainable, one of the reasons that if we look at the Hyderabad cluster and the occupancy it is inching up slowly only because we are selective in the cases that - as Mr. Prem Kumar also indicated, so we are very selective in the kind of cases that we are doing there, we are increasing and improving on the case-mix, the acuity of the cases are going up, so all of this is resulting in the ARPOB increasing and we will continue to focus on ARPOB in the Hyderabad cluster.

Atul Rastogi I know you do not discuss cluster wise margins but I guess Hyderabad EBITDA margins would have significantly improved because of this also?

A Krishnan Yes, the Hyderabad EBITDA margins are improved.

Atul Rastogi And secondly just on the rollout, most of the 1,000 beds this year will come in the 4th Quarter or it will be kind of evenly spread out?

A Krishnan It will be evenly spread out we will start maybe Trichy and Lifeline to begin with first and then we will do Nellore maybe after that in the end of Q4 or around that.

Moderator Our next question is a follow-up question from Praveen Sahay of B&K Securities.

Praveen Sahay Just on our tax rate, this time also due to MAT we had a lower tax rate so will the expansion will continue like this?

A Krishnan That is right, we have a 22% effective tax rate in this quarter and we should expect to do that in this year and next year a game we should be again probably getting the benefit of the other facilities as well, so we would expect tax rate to be in the region of 22 to 24 over the next three years.

Praveen Sahay Just a question on your slide #14, you had mentioned that you had reclassified outpatient volume, like what have you excluded, the volumes from the clinics?

A Krishnan That is correct, in Q1 of last year we had clinics which were part of the stand-alone hospitals business, so we had transferred that in July, this is part of the consolidated numbers, so from our like-to-like prospective we have excluded clinics for the like-for-like growth.

Praveen Sahay Just on a clarification - from the Chennai cluster only you had reclassified and not from the other clusters?

A Krishnan No, it is only the Chennai cluster.

Praveen Sahay We have a clinic in the other cluster as well?

A Krishnan That is a single clinic that not like it is part of the Calcutta operation, so we don't run the clinic, the AHL does not transact clinics, it is the Apollo Health and Lifestyle, it is part of the hospital.

Moderator Our next question is a follow-up from Bino Pathiparampil of IIFL.

Bino Pathiparampil With respect to the question that was just asked in your consolidated presentation that you give for the Chennai cluster do those numbers include the clinic numbers?

A Krishnan The Chennai cluster number does not have clinics, none of the cluster numbers have clinics now, the clinic is part of the consolidated numbers it is outside these clusters.

Bino Pathiparampil But in the presentation you give the consolidated numbers, right?

A Krishnan No, it does not have the clinic numbers at all now.

Bino Pathiparampil Just coming back to my earlier question I was looking at your earnings release it shows that the pledged shares has gone up from 40.72% as of March 31st to 54.87% as of end of June?

A Krishnan That was a temporary phenomenon as of that date, on which we had to release that so after that it has changed as Ms. Suneeta said, so which is as of the reported date.

Bino Pathiparampil So it has come back to 40.72%?

A Krishnan There are changes now, but it is more or less at that number.

Moderator Ladies and gentlemen that was our last question. I now like to hand the floor back to the management of Apollo Hospitals for closing comments.

Suneeta Reddy Ladies and gentlemen thank you again for your time and your patience. We at Apollo Hospitals are committed to not only giving an excellent patient care but growing this entity. Please feel free to contact Krishnakumar who will answer any of your questions offline and thank you again for your time.

Moderator Thank you members of the management team. Ladies and gentlemen on behalf of Apollo Hospitals that concludes this conference. Thank you for joining us.