Apollo Hospitals Enterprise Limited

Q1 FY17 Earnings Conference Call Transcript
September 2, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to Apollo Hospitals Q1 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Snighter Albuquerque from CDR. Thank you and over to you sir.

Snighter Albuquerque: Good Afternoon and thank you for joining us on this call to discuss the Financial Results of Apollo Hospitals for Q1 FY17 which were announced yesterday. We have with us the senior management team comprising, Mrs. Suneeta Reddy -- Managing Director, Mr. S.K. Venkataraman – Chief Strategy Officer & Mr. A. Krishnan – CFO and.

Before we begin, I would like to mention that some of the statements made in today's discussion maybe forward-looking in nature and may involve risks and uncertainties. For a complete listing of such risks and uncertainties, please refer our 'Investor Presentation'. **Ms Suneeta Reddy will discuss the performance for the quarter along with the** Operating Metrics, Expansion Plans and Other Highlights, following which we will open the floor for Questions. Documents relating to our financial performance has been shared with all of you and have also been posted on the website. I would now like to hand over to Ms. Suneeta Reddy to provide Highlights of our Performance. Over to you, ma'am.

Suneeta Reddy: Good Afternoon, Everyone, and thank you for taking time out to join our call. Before I start with the performance for the Quarter, I would like to remind you of the "Four Imperatives" that we have stated for this fiscal and beyond to continue our pre-eminent space in Indian Healthcare. The first, of course is to accelerate growth in the core business through strengthened consultant engagement, focus on speciality forays and clinical differentiation through advanced medical treatment. The second is to create and implement a strong digital strategy to enhance patient outreach and access, customer experience and loyalty. The third is to create high visibility around clinical outcomes and leverage the same. The Fourth is to increase international business by 2x over the next three years through a focused strategy on key target markets. At Apollo Hospitals, we have always believed that our efforts at Innovation, Clinical Expertise, Medical Excellence and tender Loving Care are not just restricted to treating a particular symptom, disease or patient but rather to holistically improve the overall health quotient of our patient. It was this principle of ours which led us to consolidate all our clinical assets in Oncology into an independent integrated speciality practice under the Apollo Cancer Institute. These institutes will function from a common platform based on standard protocols which will ensure uniform quality of care for patients while elevating the track record and knowledge bank of specialists across the network.

I would like to share with you our pride in having received the CNBC TV18- ICICI Lombard Best Cancer Hospital Award for our Cancer Hospital in Chennai a few days ago. Our Cancer

Specialty Practices across the network have been ranked as leaders in their respective geographies by several similar awards and accolades. I am also pleased to state that Apollo

Hospitals Greams Road, Chennai won the Best Multi-Specialty Hospital in the country at the same award function. Earlier during the year, Apollo Hospitals was also recognized under the best Multispecialty Hospital category and Apollo Life under the Health and Wellness category at the Economic Times Best Brands Award 2016. All this has come through because of our relentless focus on continuously enhancing the level of clinical care while optimizing the case mix at all our facilities. Our objective is to strengthen our clinical dominance in all existing clusters and core markets which should automatically translate into long-term sustainable volume growth and profitability. As we are currently doing with Oncology, we are simultaneously evaluating the potential to similarly elevate the Cardiac Sciences Practice, the Neurosciences Practice and Transplants as we gear up to meet the challenge of tackling the increasing incidents of patients being afflicted by these NCDs.

Given this backdrop, I will now take you through the key highlights of our performance this quarter: On a standalone basis, our revenues grew by 12% for Q1 on a year-to-year basis to Rs.1,465 crore, while consolidated revenues grew by 15% to Rs.1,656 crore. The Healthcare Services witnessed a growth of 10% on a consolidated basis while Standalone Pharmacy grew 22%. Standalone EBITDA grew by 5% to Rs.187 crore, EBITDAR growth however was higher at 8% as some of our newer hospitals are on leased facilities. Reported EBITDA margin were at 12.8% for Q1 FY17 as compared to 13.6% last year primarily due to change in revenue contribution mix. Standalone Pharmacies which has lower EBITDA margin was 43% of total revenues as compared to 40% last year. Additionally, new hospital revenues which now account for 15% in Healthcare Services revenues or Rs.128 crore still has a lower EBITDA margin of 1.4% due to unabsorbed initial fixed cost. PAT degrew by 18% due to higher depreciation and interest on account of new hospitals CAPEX. The growth in Healthcare Services has been led by strong momentum at several of newer facilities as new hospitals reported 56% growth in revenues on a year-on-year basis to Rs.128 crore driven by strong growth in volumes. The interventions undertaken at centers like Nasik Women & Child SMR and our new hospital OMR in Chennai have delivered positive results with sharp increases in volume and footfall. Within our new hospitals, Vanagaram and Jayanagar continue to report an improved performance with double-digit volume growth. These are already in positive EBITDA and are poised for further improvement in the coming quarters. Women & Child Hospitals at SMR Chennai has also moved into positive EBITDA during this quarter. While in the short-term the election have affected our performance this quarter, especially in the Chennai cluster, however, our July and August performance is quite heartening. We can look forward to a better performance in Q2. But we will continue to strengthen our cluster presence because we believe that the structural demand for healthcare still exists, I do think that the Apollo Hospitals story of having an all India presence is extremely important and is being leader in Healthcare, we continue to follow this strategy.

I now open the floor for questions. A.Krishnan, our CFO and SK Venkataraman are here with me to take your questions.

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

Neha Manpuria: In your release you mentioned about creating a restructuring committee to sort of look at reorganizing your businesses. Just wanted your thoughts on the reason for this committee and how are you looking at restructuring the businesses…how will Apollo look like say five years down the line, any specific reasons for constituting this committee now?

Suneeta Reddy: If you look at Apollo, we have incubated a lot of businesses; we also believe that the format in Healthcare could change over a period of time. So we need to be ready for the future. Also, as we incubated our businesses, the Pharmacy has grown along with the Hospital business with different margin profiles. So each of the different businesses have different aspects not only with margins but in terms of the talentand formats that are required. Keeping this in mind, the Board has created a committee to look at restructuring our current assets to enable growth for the future.

Neha Manpuria: Ma'am, what is the mentioned plan here, would we see different businesses let us say AHLL, Pharmacies, etc., which have gained scale, probably get listed separately, what is the eventual plan…?

Suneeta Reddy: I think it is too early to say. Let the restructuring committee meet. It will take some time for us to come back with the answers. The committee has to meet and we will get back to you at the appropriate time.

Neha Manpuria: My next question is on the Chennai cluster. Obviously, this quarter was impacted by the elections. Will we see that growth recover as we move into the second quarter?

Suneeta Reddy: Yes, certainly. The reason I mentioned the Chennai cluster is because if you look at Bengaluru, that cluster grew by 24%, Hyderabad grew by 10%. So it is not like growth was not evident in Apollo Hospitals if you look at all our hospitals. It was only Chennai which got deeply affected by the elections.

Neha Manpuria: My last question is on Hyderabad. I see that we have shut down 100-beds from the 930 level. Have we sort of exited some beds in that market?

Suneeta Reddy: No, the unit has been restructured and what we were focusing on with the higher ARPOB and to do that we added five Operating Theaters, four additional Diagnostic and Consulting Rooms and reconfigured a few beds to include Lithotripsy and Dialysis which led to the restructuring. So you will see that even though we have reduced the number of beds, ARPOB has moved up significantly.

A. Krishnan: Neha, there is also focus on international patients there specifically there is a lot of patients coming from Africa and that is where we needed to improve the overall infrastructure and that is something that also resulted in the beds getting lowered. But as you know the ARPOB for that cluster has grown by 17% yoy

Suneeta Reddy: Currently, it is Rs 32,564.

Neha Manpuria: So this is just pure reconfiguring of beds to improve our ARPOB and the focus segment that we are trying to grow?

Suneeta Reddy: Yes.

Moderator: Thank you. We have the next question from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: First, actually just on the results, besides the JV comment that you have made on the presentation regarding Clinicals, can you just highlight the main areas where IndAS accounting has impacted the quarter?

A. Krishnan: There are three areas. One thing which has happened this year is in the consolidated numbers, we are given that Apollo Gleneagles is a joint venture, we were earlier doing 50% proportionate consolidation of the revenues, EBITDA and PAT, now that is not getting consolidated, it is being done on an equity method. So because of which the revenue and EBITDA is not getting consolidated and which is where if you look at the numbers, we have provided you separate slide on Gleneagles providing you the numbers on the top line and the

EBITDA of Gleneagles. So if you look at the Q1 numbers of Gleneagles, it is Rs.90 crore revenue and Rs.20 crore EBITDA or an annualized Rs.80 crore EBITDA which is not getting consolidated now… or it might even be Rs.100 crore. That is one thing which has happened. Second thing, Apollo Health & Lifestyle, earlier there was a 49% subsidiary of Apollo Health & Lifestyle which was Nova acquisition which was housed there because there were investors as well and was held 49% by AHLL that was not required to be consolidated under the Indian GAAP because they were not holding 51%. Now, under the IndAS, you are requiring that to be consolidated though you own only 49% of that subsidiary, 100% of the EBITDA of that subsidiary is getting consolidated, so which is what is happening if you look at the EBITDA there it is Rs. (-27) crore loss though we hold only 49% effective interest in that subsidiary. So at the PAT level, the minority interest is getting removed. So these are the two important changes from the consolidation perspective which has happened. On the standalone side, there were the fixed fee salary doctors where we pay them guarantee money, that was earlier being netted off from the revenues,that alone is being grossed up from the revenues and being shown as a cost. What that does is on both sides, last year as well as this year, EBITDA margins have been restated to the extent of 1%. It is only an optical restatement of the EBITDA margins, not the EBITDA number itself. The standalone pharmacies also we had a small loyalty discount which was earlier being done, there were some unexpired loyalty discounts which under the IndAS you have to estimate the liability of the same and provide for the same which also has been done in this quarter. These are the four major changes which have happened in IndAS.

Girish Bakhru: Just to follow up on that; one, if I look at the standalone quarter, other expenses have gone significantly very high at Rs.254 crore and also I think staff has sort of come down. What is going on there?

A. Krishnan: Other expensesis where that guarantee fees to doctors which are paid which was earlier being netted off against revenues. That has now been grossed up with revenues and shown separately under the other expenses.

Girish Bakhru: This guaranteed money, I thought this was in a few hospitals like Vanagaram and all. What is the extent of this?

Suneeta Reddy: In all our new hospitals, we have doctors on guarantee money and that has always been part of our strategy that when we create new hospitals we need to have such arrangements because we move doctors from different cities from different towns and we take them to these new hospitals, whether it is Trichy and Nellore. Its part of the strategy.

A. Krishnan: It is around 20% to 25% of our overall doctor fees would be guarantee money.

Girish Bakhru: One clarification on the split that you have shared on the new hospital standalone, and consolidated. The fourth quarter and first quarter show the new hospital numbers different for standalone and consolidated which was usually the same. So that difference is coming from what, acquisition? If you see this quarter, your consolidated new hospital is something around Rs.165 crore and in standalone that is Rs.127 crore.

A. Krishnan: So that is correct, the number includes the consolidation of the subsidiaries that we have which is including Guwahati and Indore both of which are also new hospitals for us which are subsidiaries under the consolidated.

Girish Bakhru: So this has only come from fourth quarter, right, the difference, because earlier it should be the same?

A. Krishnan: We have added these hospitals only then.

Girish Bakhru: Again, on slide #13, when you say health services group new and others, what is others in that?

A. Krishnan: Others includes Home Healthcare also which we have now a company where we are also doing the Home Healthcare Services, that is also part of this, that is the only thing which is others.

Moderator: Thank you. We have the next question from the line of Shweta Karia from B&K Securities. Please go ahead.

Shweta Karia: Just one question on Slide #5 wherein you have mentioned about the Chennai growth was muted because of election. If you could just explain why and in what context?

Suneeta Reddy: In Chennai about 30% of our patients come from out of town and because they are walk-ins, they are cash patients. With election, they were unable to move around with cash to pay for surgery. So this really impacted our patient volumes. We are seeing it come back in July and August. It was a temporary phenomena, but it happens every election period.

A. Krishnan: From a flat quarter, we are looking at almost 4% to 6% volume growth in Chennai in this quarter in the first two months.

Shweta Karia: One more question on the maturity of the beds. Of the total 9779 beds that we have, if you could just give numbers on how many beds are operational, how many are mature within the timeframe of 2.5 to 3-years?

A. Krishnan: I think you can take this offline but if you broadly look at it, we have said that almost around 2,000 beds in any case are new which are being presented as new. Even within the existing cluster, if you look at it, almost around 25% would be lesser than five years. Even within the existing hospitals that we have said, maybe around 20% to 25% would be less than five years. You can take this offline with Krishnakumar and he can provide you the details.

Moderator: Thank you. We have the next question from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Just one clarity on this guaranteed doctor fees. Based on your 1Q'16 disclosures, the number is very less for Chennai. Is that for the old doctors that you do not have the system but the number is very-very high for Hyderabad. So, the Hyderabad hospital that number is almost 18% difference.

A. Krishnan: Market-to-market it will vary, you are right about that, in Chennai, we have a lot of fee-for-service doctors and we have lesser guarantee money doctors relatively.

Suneeta Reddy: Just to add on to that, Hyderabad has taken a new Cardiothoracic team which we believe will strengthen our presence in that market especially in the Cardiac space.

Anubhav Aggarwal: On the Chennai cluster, if I exclude Vanagaram or the OMR, what kind of growth overall volume plus price growth effectively basically sales growth we are looking from, how do you see this growing at 8% to 10%, is that doable, can we touch double-digit or mid-single digit is what we should aim for?

Suneeta Reddy: No, I think 7% is something that you can expect to see because if you look at what we have done in Chennai, we have also created Children's Hospital, we have got Mother and Child, Cradle which is its own hospital now, we have also got the specialty. We have taken out a lot of specialties. Chennai Main will actually have 4 to 5 which is Cardiac, Neuro, Transplant, , Orthopedic etc, so it has become a quaternary care center. So when that happens, we can look at growth coming from four to five specialties against ten specialties which was earlier the case. But the ARPOBs will continue to be high. Keeping that in mind I think 7% to 8% should be reasonable.

Anubhav Aggarwal: On the restructuring exercise, just to understand, this is excluding hospital business, all the business that we have now is the aim of the exercise is to see which business to grow to next level which business to drop, portfolio rationalization or is that what the thinking is about ex-hospital business?

Suneeta Reddy: Yes, it is about portfolio rationalization for sure and how to effectively see that we allow each of the businesses to grow.

Anubhav Aggarwal: Just one small point on the pharmacy. Your presentation very clearly says how much was the impact from the points under IndAS. But from NLEM impact on the Pharmacy how much was that impact on the margins side?

Obul Reddy: It is about 10 to 15 basis points on the margin.

Anubhav Aggarwal: This 10 to 15 basis points will continue for us for this four quarters…?

Obul Reddy: Four quarters it will continue.

Moderator: Thank you. We have the next question from the line of Prashant Nair from Citigroup. Please go ahead.

Prashant Nair: A couple of questions more in the nature of clarification. So, for the doctors' fees that are now grossed up, this just relates to the fixed guarantee fee for service consultants where you pay, you still net that off from revenue, is that right?

A. Krishnan: That is correct.

Prashant Nair: The second question is in the light of how you now treat Gleneagles, etc., in the consolidated snapshot that you provided in the presentation, the net profit is after minority interest and any share of profit in associate?

A. Krishnan: Yes, it is.

Moderator: Thank you. We have the next question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: The Pharmacy business on Hetero, it seems that the losses have increased from the last quarter. Is it on account of the accounting changes, I am talking about EBITDA loss and NLEM impact or is there any one-time there?

Obul Reddy: It is both accounting changes as well as in the last two quarters to restructure that business, we have closed about 30 stores. So there is a revenue loss to that extent which we are going to gain in the coming quarters. The closure is one of the reasons for that.

Saion Mukherjee: The capital employed in the new hospitals seem to have come down, the numbers that you are reporting. So is there a reason for that?

A. Krishnan: There were certain adjustments which were done under IndAS also because of which there were certain cost of assets which were start-up cost which they had to recapitalize from those assets which we have done and which is the reason for the capital employed to have come down.

Saion Mukherjee: Certain costs were capitalized which are now not capitalized as part of the capital employed, is that what you are saying?

A. Krishnan: Yes.

Saion Mukherjee: So you have netted it against the reserves?

A. Krishnan: That is correct, small number though. What has also happened is on the existing hospitals also they have fair valued the building. So there were some increase in the building value by almost around Rs.200 crore which is something that has also increased the overall capital employed of the existing hospitals which has shown a lower return on capital employed of 15% now as opposed to 17% that we were reporting earlier that will get corrected as the EBIT keeps increasing.

Saion Mukherjee: My final question on the expansion plan now. So in terms of the operating beds in Chennai and overall, how should we think about that going up over the next three years?

Suneeta Reddy: I think in Chennai, definitely we have completed our expansion plans, we have a very strong cluster in Chennai and I think we are the leaders in market share with the market share of around 23%. This is clearly what we aim for in all the markets that we are present. Bangalore showing 24% growth is proof that we can achieve this, Hyderabad with its three hospitals, definitely can garner this market share. So our intention is now to look at the west and see what we can do. I think over the next two quarters we will open the Mumbai facility. Navi Mumbai is the place where there is a market for facility of our kind what is even better is that because of the new highways, highly accessible to part of old Mumbai and I think that we can develop this cluster in the west, we also have our own hospital in Nasik, we are present in Delhi through Indraprastha. It will end with close to 10,000 beds by the end of 2018.

Saion Mukherjee: In Navi Mumbai, how much would be the initial operating beds?

A. Krishnan: So out of the 450 beds where we will be operationalizing around 200 beds starting Q3 this fiscal.

Moderator: Thank you. We have the next question from the line of Nitin Agarwal from IDFC. Please go ahead.

Nitin Agarwal: On our expansion, I guess we have got a couple of hospitals coming up for expansion sometime towards the end of this year and then our expansion is only around in FY'19, primarily including the Proton Therapy unit. Beyond this, how are we looking at growth over the next two to three years, are there some more Greenfield Hospitals on the table or are we still looking at inorganic growth options or the idea is to consolidate whatever we sort of put up over the last two to three years?

Suneeta Reddy: So let me put it in the order which is our perspective; first is to consolidate what we have already created to make sure that we fill up these beds so that you will see better EBITDA, better bottom line. We do have these two ongoing projects which I think for this decade they should be definitely the last of the Greenfield that you will see. If there is an opportunity for inorganic like we have done in Assam and Guwahati, which we got at the cost of Rs.30 lakhs per bed, we definitely will look at that because if it is going to augment our presence and help us achieve this market share of 25% in that region, it is something that we will look at. So, hopefully I have answered all your questions. So our focus right now is really on consolidating and filling up the new beds that we have created.

Nitin Agarwal: In the three markets, have you witnessed any changes in competitive dynamics or in a way some of the other competitors are competing, have you seen a little more intensity in terms of price based competition that has been there or a little more pressure which is coming from the

Health Insurance side, are there any changes in the dynamics in key markets over the last two to three years?

Suneeta Reddy: I think there are two – one is that while we have 25% of our doctors on guarantee money, the amount that competition is spending on guarantee money is far higher and that creates competitive pressure because the service is not reflected in the pricing. So that is one of the issues. But beyond that, with regard to Insurance, we are seeing growth in Insurance Patients and the industry as a whole is growing at 14-15% but I think that as Apollo Hospitals, we are not price takers, we have managed to get prices which are really at a 5% discount to our rack rates. So, I think we are in a very good place where Insurance is concerned.

A. Krishnan: The demand situation if you look at some of the demand that exists in some of these clusters that we are present in is also robust, if you look at for example you can see that in our hospital growth like Bengaluru as we said, the cluster has grown 24% this year in the first quarter, Malleswaram which we started in Q4 now the occupancy is already close to 50 beds, Vizag where we started the hospital in Q4 again the hospital occupancy is close to 50 beds. So, I guess, yes, there would be some short-term pain but the medium to long term is still looking quite strong.

Suneeta Reddy: If you were to imagine what we are creating in the next five years and we did have 23% of the market share in the Healthcare space because there is a demand/supply gap, I think we would be in a very strong position and this is probably the time to acquire and create these assets before competition gets ahead of us and decides to do the same.

Nitin Agarwal: Just to sort of pick up on the point you mentioned, how does it play out, when you say there is a greater amount of pressure in the competitors in terms of giving higher amount of guarantees to the doctors, how does this dynamic play out in terms of pricing competition in the market?

Suneeta Reddy: In our eyes, there is no correlation between the amount that they pay for guarantee and that the price they are charging for the service. There should be some sort of balance whereas at Apollo I think there is a balance that is created in the initial years, yes, it is quite challenging because in the new hospitals we do have some doctors on guarantee money but eventually they all move to fee-for-service. The second thing that I would like to say is that having been here for 25-years, we have created a pipeline of doctors, for example, our Cardiac Surgeon, Dr Girinath has trained a 100 Surgeons, these surgeons are in Mysore, they are in Trichy, they are in different hospitals. I think we have this huge advantage that we have created a pipeline of surgeons. Because we have been in the business for a long time and we encourage that.

S.K. Venkataraman: To give an added perspective, we are actually sitting on a lot of assets which historically been well entrenched. So we are actually charging prices which are rational and realistic, whereas if you look at the competition, one of the key things that we look at is the return on capital employed. So they will be actually charging yesterday's prices on today's assets. So we need to actually keep that in mind while comparing competition. These prices are quite remunerative to us, but I doubt whether they have the same amount of profitability especially with the point of guarantee money coming in, whether they will get the same ROCEs that we are regularly clocking.

Nitin Agarwal: On the new hospitals, QoQ, if I look at the revenues if I have my numbers correct, revenues moved up from Rs.103 crore to Rs.165 crore on a QoQ basis. So is there some accounting adjustment to it, what are the major units that would have contributed to the very sharp growth over the last quarter?

A. Krishnan: Two things: One is there is also accounting, right, because if you look at guarantee fees, we are looking at Q4 which is Indian GAAP and Q1 which is IndAS. I do not know the number off hand but that is one thing which is also there. Apart from the fact that Assam has also come in now.

Nitin Agarwal: Assam got consolidated from Q1 onwards?

A. Krishnan: Yes, there is a good top line, Assam hospital annualized Rs.100 crore top line which we have with almost Rs.10 plus crore on EBITDA.

Nitin Agarwal: The Gleneagles Hospital, we would have been reported in the existing hospital group?

A. Krishnan: Earlier yes, not now.

Moderator: Thank you. We have the next question from the line of Pratik Chheda from CRISIL Research. Please go ahead.

Pratik Chheda: My question is on the expansion plan. Just wanted to know the status of the Byculla Hospital and how is the development been progressing at that site?

A. Krishnan: We are currently still discussing with them on the finer aspects of the lease because the trust actually is looking at being whether we can take the number of years, we have still reported a number of beds at 300, they are wanting to see whether we can do higher number of beds and they are happy to do even 450 beds first phase, we are looking at seeing how we can factor some of those and put that into the lease because it is an attractive asset which is going to be quite asset light for us as well and it is a very good market, that will also strengthen and deepen our presence in Mumbai. So we are working on the finer aspects, we will come back to you in the next quarter hopefully on when we see it because by then the lease would have got finalized and after that I guess it will take another three years.

Pratik Chheda: My next question is on the Pharmacy segment. Last quarter you spoke about your tie-up with the Holland & Barrett. Just wanted to understand what sort of …?

Obul Reddy: We have started selling their products in our stores that in store format, their products are available in the stores now.

Moderator: Thank you. We have the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: I had just a couple of questions. I missed your initial commentary. So just wanted to get on the capital employed. If I look at your unallocated liabilities that increased quite a bit. So could you just explain what exactly is the nature of the negative capital employed there?

A. Krishnan: I think you can take this offline, the IndAS classification, now the way we look at it the debt is part of unallocated liability. So when you look at a segment asset and segment liability, you should restrict yourself to healthcare and pharmacy and others. The unallocated assets and liabilities now include MAT credit that we have in our books, it also had deferred tax liabilities and loans.

Kashyap Pujara: The Healthcare revenues are more or less flat. So essentially we have not seen scale up in In-Patient volumes on overall basis and I think I heard in certain commentary. So what was the impact in Chennai regarding?

Suneeta Reddy: There was a 4% growth in total volumes. So I do not think it was across India that you could say that volumes didn't grow. In fact, Bengaluru grew very well and so did Hyderabad, only in Chennai because of the election, and the fact that people could not travel, as you know 55%

of our payments come in cash. So people were not allowed to carry cash and therefore 55% of our market could not really come to Chennai for treatment.

Moderator: Thank you. We have the next question from the line of Nitin Agarwal from IDFC. Please go ahead.

Nitin Agarwal: Coming back to the restructuring, what are the timelines that the restructuring committee is looking at for coming back with a proposal?

Suneeta Reddy: One year.

Moderator: Thank you. We have the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: On the Nasik, Nellore and Trichy, have we seen performance improve in these hospitals because sometime last year we were seeing issues especially related to doctors there?

Suneeta Reddy: Yes, Nasik, we have got good set of doctors and I think occupancies are slowly moving up. Trichy, there was a change of doctors which actually one of the reasons why we could not get to EBITDA positive but I think next quarter we should be able to achieve EBITDA positive. Nellore is a little bit of challenge and I think I explained that last time, because it is very close to Chennai, they have built a highway, that connects it, so in two hours you are in Chennai. So lot of the patients are still coming to Chennai and it will take a little time for the patients to get used to the doctors that we have put into the Nellore facility. We expect that one will take a year, but the others will definitely turn EBITDA positive within the next three to four months.

Neha Manpuria: My last question is on Mumbai. Now that you are so close to commissioning, obviously, you have done some work. Ma'am, what is our expectation, when do we see this hospital, one, breaking even and two, achieving sustainable ROCE?

A. Krishnan: We think that we have done a good demand assessment there and we feel that there is a strong demand which can come from Insurance, in particular, and corporates in that location, which in many corporates are quite happy to get associated with us, Insurance demand is also very high. So, we think that our first objective both before the EBITDA and ROCE is to kind of ensure that we get 50 beds filled up in six months and 100 beds in 12 months. That is the first goal that we have. Once we get to the 100 to 150 beds occupied, occupied we will see that we will become EBITDA neutral also. So we should probably think of getting EBITDA neutral in 18-months from launch hopefully if things go on as planned.

Moderator: Thank you. We have the next question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Just a few questions: In the 'Annual Report', you mentioned In-Patient discharges and adjusted discharges. What is the difference between the two numbers?

R. Krishnakumar: Basically, what we do is we actually do equivalent of Outpatients to Inpatients.

A. Krishnan: This is how some of the international hospitals report and I think you should take it offline to understand from Krishnakumar.

Saion Mukherjee: My second question was, in the annual report, there are some related party transactions which has seen a significant increase. So these are all related to purchase of medicines for pharmacy?

A. Krishnan: Yes, you are right, it is on purchase, it is on the pharmacy medicines from KeiMed.

Saion Mukherjee: Neelkanth Drugs and Palepu Pharma?

A. Krishnan: Those are subsidiaries of KeyMed and earlier they were supplying to us also even earlier but they were not subsidiaries of KeiMed and KeiMed has actually acquired them and they are now subsidiaries of KeiMed. So the distribution is something that is getting strengthened on the backside as well.

Moderator: Thank you. We have the next question from the line of Nitin Agarwal from IDFC. Please go ahead.

Nitin Agarwal: In the press release, you mentioned about Oncology offerings. So can you help us understand more in terms of the growth the way this segment has grown for us and how do we see this thing going forward?

Suneeta Reddy: 15% growth is something that you can expect because that is how it is growing. I think because of Apollo's Screening Programs we have, including our Preventive Health Checkup where we have introduced DNA Testing, we have also tied up with London Oncology Center. So in the light of what we see in terms of prevention, in terms of treatment, in terms of detecting it early, we believe that there is great potential for Oncology. Chennai will become very comprehensive center because of the Proton where we will be able to treat targeted tumors in a much better fashion than any other facility in Asia and this should give us an edge over anything that is in the cancer space. But in all our other hospitals we have established very good Oncology centers. These will act as referrals into Chennai also.

Nitin Agarwal: Ma'am, which are the new centers where the new cancer specialties are coming up?

Suneeta Reddy: We are already in Delhi, each of our large hospitals have Oncology, among the tier-2, only Madurai has an Oncology center and we are planning to put one in Bhubaneswar. So what they will do is do some primary treatment, they will be able to do some Radiation and Chemotherapy but for the advanced protocols, people will come to Chennai for treatment.

Nitin Agarwal: Oncology would be now our second largest business after Cardiology I presume?

Suneeta Reddy: Yes, I think so and also we are growing in the Transplant space where our Liver Transplant program has really picked up, it is the largest Liver Transplant Program in the world.

Moderator: Thank you. We have the next question from the line of Rohit Joshi from Dion Global Solutions. Please go ahead.

Rohit Joshi: My question is, in the presentation you have mentioned that number of pharmacy stores on a net basis you have 57 stores. So do you still maintain the target of opening more than 200 stores in FY17?

S.K. Venkataraman: We are planning to do that, we are in that phase already, if you see the Q1 numbers it is almost in line with that.

Moderator: Thank you. We have the next question from the line of Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: The question was around your Cancer Centers. What was the rationale behind carving this out in a separate entity?

Suneeta Reddy: No-no, there is no carving it out into a separate entity. What we have done is it is housed in a different building, but it is not a separate entity, it is only because we believe that comprehensive cancer care those patients sometimes we do not want to mix it with the main facility and we have seen that format works well. So if you look at what we have done in Kolkata, we have got a different building for Oncology, but it is not a separate SBU.

A. Krishnan: It is just the clinical assets which have got consolidated under Apollo Cancer Institute. There is a centralized treatment protocol, there are centralized tumor boards, there are centralized clinical norms that are being put in place. All of that will ensure that clinically you will get some of the best treatments in any cancer hospital that you walk into our centers.

S.K. Venkataraman: If you think that we are coming out a separate legal entity, we are not.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to the management for closing comments. Thank you and over to you.

Suneeta Reddy: Ladies and Gentlemen, I hope that we have answered all your questions. I would like to thank all of you for joining the call. We hope that we at Apollo are committed to the long-term growth of the institution and to see that we consistently provide Quality Healthcare to all our consumers and I think the proof of that is that clinical outcomes have continued to show improvement, we have done things that we have taken the best processes from the west to see that we remain ahead in terms of what we do clinically. We have also increased our reach by moving into Tier-2 cities. We have created new formats to make patient access much easier and we continue to forge relationships with the insurers, with our referral doctors, and all of this is really to create healthy return on capital employed. Thank you for joining us today.

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Apollo Hospitals, that concludes this conference. Thank you for joining us and you may now disconnect your lines.