Apollo Hospitals

Investor/Analyst Conference Call Transcript
November 10, 2010

Moderator

Ladies and gentlemen good afternoon and welcome to the Apollo Hospitals Q2 and H1 FY11 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 at the end of today's presentation. Should you need any assistance during this call, please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Vaswani of Citigate Dewe Rogerson. Thank you and over to you sir.

Mayank Vaswani

Good afternoon and thank you for joining us on this call to discuss our financial results for the 2nd Quarter of FY2011. We have with us the senior management team of Apollo Hospitals Limited. 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 more complete listing of such risks and uncertainties please refer to the investor presentation hosted on our website. We will start with Ms. Suneeta Reddy who will discuss the operational highlights and progress on new hospitals. Mr. Venkataraman will then discuss the financial highlights and CapEx plans and Mr. Padmanabhan will discuss the highlights of the pharmacy operations, Apollo Munich Health Insurance as well as Apollo Health Street. Documents relating to our financial performance have been emailed to all of you earlier and have also been posted on our corporate website. I would now like to invite Ms. Suneeta Reddy to provide key highlights of our performance for the quarter.

Suneeta Reddy

Good afternoon. We are very pleased to share a strong set of numbers with you this morning. For the quarter consolidated revenues are up by 30%. EBITDA is up by 43% and PAT is higher by 67% for the first half of the fiscal year. Consolidated revenues are up by 30%, EBITDA is up by 37% and PAT has expanded by about 25%. This quarter is about continued growth on top line and profitability with improvements in our operating margins. We are excited about the way our business is shaping up and very pleased with the sustained pace of growth. More importantly through innovative business and doctor engagement models, Apollo continues to dominate the healthcare landscape.

Our focus on key specialties through the CONCORT initiative has started to pay rich dividends. We are witnessing robust growth in these areas with orthopedics growing by 52%, cardiac sciences by 13% and 97% growth in transplants. In fact, we have performed 619 solid organ transplants across the nation in the first nine months of the calendar year 2010. This is showing up in our operating performance as increasing complexity of cases is resulting in higher average revenue per bed day while making it more challenging to reduce our average length of stay. Patient volumes continue to increase at the mature facilities as well as the facilities that we have set up recently. Chennai and Hyderabad have reported a growth of 14% and 11% respectively in inpatient volumes, while outpatient volumes have increased by more than 20%. The newer hospitals have reported sharper increases in IP and OP volumes and we are pleased with the progress made in these facilities.

An important development that I would like to share with you today is that the Week Research Survey has ranked Apollo Hospitals Chennai as the second best hospital in the country after AIIMS, New Delhi. Our hospitals in Chennai, Hyderabad and Ahmedabad have been rated as the best multi-specialty hospitals in these cities. We have also been ranked as the best private sector hospital in cardiology and diabetology, areas in which India is expected to be the disease capital of the world. Lastly, we are ranked as the second best private hospital for treatment in oncology. These achievements are but recognition of the strong systems and processes we have put in place with all our hospitals. The focus on qualities and emphasis on parameters like clinical excellence helped us achieve this rank and we will ensure high standards are maintained even with the increased number of hospital beds. As an organization we work collaboratively with physicians to ensure superior clinical outcomes.

On the hospital expansion front, we have launched an Apollo Hospital in Karaikudi this quarter. Apart from this, redevelopment activities are largely completed at four major hospitals including Mumbai, Chennai, Nasik and Nellore. We hope to commence work on these hospitals in the near future. We are also trying to create greater awareness of preventive healthcare in India. Due to the lack of healthcare infrastructure in the country, the focus has always been on increasing access and improving the availability of curative healthcare. However preventive healthcare requires equal focus as it can be instrumental introducing the needs for curative healthcare and it could be worth twice as much as an increase in capacity. Our "Billion Hearts Beating" Campaign which was launched last quarter in association with the Times of India Foundation to create awareness of heart disease has evoked tremendous response. This quarter we launched the SAVE India Campaign, a drive to increase awareness of ailments like stroke, aneurysms and vascular disease. We will continue to drive awareness of the key elements in our efforts to imbibe a culture of preventive healthcare in the country

On the medical education front, we entered into a MoU with British Medical Journal to provide the latest information and developments in the medical field to our doctors and patients within the Apollo network. To address the shortages in availability of nurses and paramedical staff, we inaugurated the Madurai Apollo Nursing College.

We recognize the need to leverage technology to redefine the healthcare landscape in the country. We have launched a unique tele healthcare program called Aircel Apollo Mobile Healthcare Center. The collaboration with Aircel will allow us to offer healthcare services through the phone medium enabling us to expand the reach and accessibility to high quality healthcare in the country. Apart from this we have signed a memorandum of understanding with the Union Government to set up a central government health scheme for Apollo Dialysis Clinics. This is our initiative to explore the public, private partnership space to expand access to healthcare. Our continued focus on Tier II cities and the development of the REACH model will soon pay rich dividends. Our latest hospital in Bhubaneswar will definitely be EBITDA positive at the close of this year, proof that our Tier II strategy is not only successful but sustainable.

On the leadership front we have recruited Mr. Vikram Thaploo who will join us as CEO of Apollo Tele Health Services. He has rich experience in retail and his knowledge of consumer preferences bodes well for us. Krishnan Akhileswaran joined Apollo Hospital as Senior Vice President Finance during this quarter. Krishnan has a strong pedigree in finance with over 14 years of experience in organization such as First Source and Mahindra and Mahindra. George Jacob has joined us as Chief People Officer. Jacob has 13 years of experience in both Oberoi and Emirates.

To conclude, this has been a quarter of revenue growth, improvement in profitability, awards, capacity expansion, augmentation of the management team and innovation in delivery format. Well, that is it for me and I would now like to hand it over to Venkat who will take you through the financials.

Venkataraman Thank you Ms. Reddy. I will take you through the financials following which I shall handover to Mr. Padmanabhan who will share development on pharmacies Apollo Munich Health Insurance and on Apollo Health Street. A quick overview on the numbers. Standalone revenues for the first half expanded by 29% to 11,097 million, EBITDA was higher by 33% from Rs. 1,407 million, the H1 last year to 1,879 million in the first half of this year. The EBITDA margin improved by 62 basis points, PAT was higher with 13% from 789 million in H1 last year to 888 million in the current period. The PAT margin has been impacted as we have deployed funds into hospital expansion resulting in both increase in interest cost and corresponding reduction in contribution from other income. The expansion of hospital capacity has resulted in an increased in capital employed from Rs.15 billion to Rs.19 billion. Despite this large increase, our healthcare services ROE remains steady at 17%. This I think is creditable given the large amount of incremental capital invested.

On a consolidated basis our revenues for the first half were 12,710 million this is an increase of 30% from 9773 million in the first half last year. EBITDA expanded 37% from 1,538 million in H1 FY10 to 2,110 million in H1 FY11. EBITDA margin improved by 86 basis points from 16.6% for H1. PAT was higher by 25% at Rs.888 million from 712 million in the same period last year. The strong EBITDA performance has come from momentum in the core business as well as significant improvements in pharmacies, health insurance and Apollo Health Street. Interest has trended up sharply during the first half as we have increased debt to fund our expansion plan. Total debt as on September 30th 2010 was Rs. 6,755 million compared to Rs. 4,774 million in the previous year. Other income has reduced following deployment of liquid funds into Capex expansion as earlier stated by me. Our total cash balance at the end of the quarter was Rs. 1,667 million, enhanced capacity has also driven up the depreciation charge in our books.

Coming to the slide 12 of the investor presentation talking about key operating metrics, strong traction in OP volumes in major hospitals in Chennai and Hyderabad, delivering over 20% growth in volumes, which is commendable given the fact that these are mature facilities. Newer standalone hospitals have reported nearly 30% growth in OP volumes and the subs and JVs have grown 35%. This is resulting in strong growth in IP volumes, standalone hospital 17.4%, newer hospitals within standalone hospitals is at 29% and subs and JVs at 16.9%. The strong OP and IP volumes are resulting in increased occupancy which is higher in all hospitals except the Hyderabad cluster where we have seen an increase in capacity and that accounts for the relatively lower occupancy. We have also added successfully reduced ALOS across the hospitals except Hyderabad. This is despite an increase in complex cases like transplants and cardiac cases which require a longer period of hospitalization. So, greater volumes, pricing and hiring complexity are drawing up the average revenue per operating bed, which was up 10% at 19,376 in the standalone hospitals and higher by 14.6% to 15,027 per day in significant subs and JVs.

Now a quick word on expansion and CapEx plan. We inaugurated the Karaikudi Hospital in the quarter as mentioned by Mrs. Suneeta Reddy. We will commence work on our hospitals at Mumbai, Chennai, Nellore and Nasik quite soon. Within our existing facilities we augmented offering through the launch of the Apollo Gleneagles Heart Institute in September 2010 in Calcutta. The liver transplantation unit at the Apollo Sugar Clinic, were launched in Apollo Hospital Chennai during the quarter. The Apollo Emergency Cardiac set up was launched at Ashwini Hospital, Tirumala in September 2010.

We have shared with earlier that we have adequate funds to carry out our expansions and I want to then mention that, one of the key indicators of our capacity utilization, the asset turnover ratio has increased from 75% to 85% a clear increase of 10% points which is quite commendable. The other thing is the interest cover, though 10 quarters back we were at a lower level of debt, we are close to 700 crore now. Our risk cover is within a very comfortable range of around 6.5. This is being published tomorrow in all the newspapers and it has been sent to the stock exchange. So this just reinforces our view that we prudently use leverage to enhanced ROE. That is it from me. I would now request Mr. Padmanabhan to talk about pharmacies, Health Insurance and Apollo Health Street, over to you Mr. Padmanabhan.

Padmanabhan I will quickly take you through the performance of our other businesses in our portfolio. The pharmacy operations delivered excellent growth during the quarter; revenues expanded 41% from 1,177 million in Q2 FY10 to 1,663 in Q2 FY11. Further, we have reported a positive EBITDA of about Rs.30 million this quarter compared to the negative EBITDA in earlier quarters. On the category of mature stores performance was even more creditable with an EBITDA margin of 5.26% for the quarter. This has surpassed all our internal targets of our long-term EBITDA of 5%. The mature stores provide a more accurate perspective of operating metrics and we have displayed continuous growth in revenue per store and EBITDA per store. This is due to the higher growth as well as discontinuation of stores that were unable to perform to the required standards. During the quarter we added 44 new stores on a net basis and a total number of operational stores on 30th September 2010 was 1,110. We are very optimistic about this business and we considerate this as an important part of our integrated healthcare operations. We are confident that we will be able to improve profitability given further as the new stores begin to mature.

Coming to our insurance foray, Apollo Munich Health Insurance has recorded a gross written premium of Rs. 875 million in the first half. This is a strong growth over the previous year and we are confident of reaching our target of the Rs. 2.0 billion for FY11. More importantly the earned premium has expanded at a faster pace and was nearly at Rs. 600 million in the first half. The expenditure, however, continues to increase since we were still in an investment stage. In the first half we have added four new offices as well and have expanded our base of the agents and employees to drive growth in operations.

Health Street has reported an increase in revenues in dollar terms. In rupee terms the revenues have been impacted by currency fluctuation. We have grown dollar revenues sequentially due to healthy sales momentum with new contracts revenue increase to amounting to $1.4 million in revenues. We were able to significantly improve operating performance due to the implementation of Project Lean which has helped us to identify and reduce the operating cost of US$ 400,000 annually. Our operating performance was impacted by the high litigation legal expenses incurred during the quarter and effects of increased interest rates as per our loan agreement for restructuring the debt

The new businesses during the quarter included a contract from Healthcare Corporation in Hartford, Connecticut to perform a third party insurance for our project in conjunction with the zero balance recovery audit as well as an agreement with Neosho Memorial Regional Medical Center, a critical access hospital in Kansas to manage payments and revenue collections. We remain optimistic on operations of these business as healthcare reforms in the US have mandated greater regulation in compliance and is expected to increase a volume of work outsourced to India. That is it from me and we are now ready to take your questions.

Moderator Thank you. Our first question comes from the line of Rahul Gaggar from Centrum Broking, please go ahead.

Rahul Gaggar What is the target number of pharmacies we could see in the next couple of years from the current 1,100 odd?

Padmanabhan I think we will move to about 1,400 to 1,500 pharmacies over the next 2 to 2.5 years on a net basis, which means there will be some pharmacies that we will close.

Rahul Gaggar Yes, obviously based on your performance right.

Padmanabhan That is right.

Rahul Gaggar When you decide to close on a pharmacy what are the operational parameters you look at in that respect?

Padmanabhan Well, one of them is whether it has reached the targeted revenues per day for the store and secondly in terms of how the operating expenses are behaving in that store with respect to the revenue growth because some of them may have high rentals or are hoping to get high revenues and if it does not actually happen then we will look at evaluating them and closing them down if need be.

Rahul Gaggar What would be the mix of sales in the pharmacy store? Do you sell more of branded generic drugs or third party FMCG products?

Padmanabhan About 80% to 85% of our sales are pharmaceutical products, the balance 15% to 20% are in private label, generic and FMCG.

Rahul Gaggar Okay, so private labels would command a higher margin right?

Padmanabhan Yes, the private labels are essentially our own private labels, which are branded as Apollo and B Positive brands. They now constitute about 2% of revenue but have a gross margin of about net sales of 60%. Going forward when you look at a 5 years perspective, we are looking at taking this private label to at least 10% of revenues if not more.

Rahul Gaggar Okay and yesterday on television I heard Ms Suneeta Reddy saying volume growth of 17%, so exactly can you clarify what is that volume in terms of patients?

Suneeta Reddy Yes, it is patient volume.

Rahul Gaggar Okay and what is the total Capex till FY13?

Venkataraman Till FY14 we are looking at an addition of around 2,668 beds for which we expect to deploy to around 1,200 crore of which we have already spent around 275 crore, so the balance will be funded as a combination of promoter warrants, debt and internal accruals.

Rahul Gaggar And there is this Western Hospital in Mumbai,. I think it is a subsidiary or associate; can you clarify that for me?

Padmanabhan Currently it is a subsidiary.

Rahul Gaggar When would it be operational?

Padmanabhan That is nothing but our Navi Mumbai project.

Rahul Gaggar That is like a 350 bed thing, right Belapur?

Padmanabhan That is right.

Rahul Gaggar Okay, in the steady state what would be the margins for the Apollo Health Street that you would look at?

Padmanabhan Currently the EBITDA margins are all around 14.5%. We are looking at taking it to about 16% to 17%.

Rahul Gaggar And that would probably be in a couple of years time?

Padmanabhan Yes that is right.

Rahul Gaggar Okay, which were the hospitals which should come on line this year ?

Venkataraman Well, in the first quarter we actually commissioned 100 beds in Hyderabad and also in Karaikudi and I think these two will be the main thing and probably in February we will add another 150 beds in Hyderguda in Hyderabad.

Rahul Gaggar Okay. Sir and the Thane hospital, that also will be in FY14?

Venkataraman That is right.

Rahul Gaggar Okay thank you very much.

Moderator Our next question comes from the line of Rashesh Shah from ICICI Securities, please go ahead.

Rashes Shah Is the company getting revenue from clinical trials?

Venkataraman See, right now there are no revenues from clinical trials in Apollo Hospitals.

Suneeta Reddy We are actually just in the process of setting it up, there is revenue but most of it is going to the doctors, which is independent doctors who are doing clinical trials in Apollo, but we are in the process of changing that.

Rashes Shah Okay.

Moderator Our next question comes from the line Souvik Chatterjee from PUG Securities, please go ahead.

Souvik Chatterjee I wanted to know the conversion rate from outpatient to inpatient in this quarter?

Padmanabhan They vary across hospitals but generally they are in the order of about 1:10.

Souvik Chatterjee Is that run rate that has been going on, because I believe the run rate was quite previously high on the conversion?

Suneeta Reddy But the numbers of outpatients have increased significantly.

Souvik Chatterjee Right, and the conversion rate from the outpatient to inpatient I believe it was higher than what we have recorded in this quarter?

Suneeta Reddy It varies from hospital to hospital.

Venkataraman To talk in terms of a range it could be between 8 to 12, 1:8 or 1:12, so we took a midpoint and told you that.

Shouvik Chatterjee Okay and yesterday the media quoted that you are planning to raise some $300 million through debt and equity, am I right $300 million or is this 300 crore?

Venkataraman Which media reported that?

Souvik Chatterjee I believe it is CNBC.

Venkataraman As far as we know, I do not see any such thing.

Suneeta Reddy No, and I was one who did CNBC I clearly did not say that we would raise 300 million.

Venkataraman $300 million is a lot of money, right Rs. 1,200 crore.

Suneeta Reddy Well, I said that we were setting up 2,600 beds and the cost of those beds would be 1100 crore. That was the statement that was made.

Souvik Chatterjee Okay, but I believe they have missed the run rate. They also said that there is possible liquidity dilution, so I was wondering why would that be because you have ample of cash.

Moderator The next question comes from the line of Priti Arora from Kotak, please go ahead.

Priti Arora You have mentioned 4,563 operating beds. Can you give us a breakup because on page 12 I only see 2,800 across standalone and around 1,000 across subsidiary JVs, so where is the balance?

Padmanabhan Associates are there, which is another 900 or 1,000 beds

Priti Arora This will basically be Delhi right?

Venkataraman That is right.

Padmanabhan Delhi, then Mauritius.

Priti Arora Okay. If I remember correctly the REACH Hospitals were supposed to come on track by FY12, so there has been delay in that sense, is that correct and I do not see Karaikudi running but there was another hospital at Sriperumbudur so has that been dropped?

Padmanabhan Basically, we have already had a couple of Reach Hospitals coming on stream in Karimnagar and we have had in existence these kinds of hospitals in Mysore and Bilaspur. so the concept has been established and I think they are by and large going as per schedule. And really the Tier II hospitals is what we are saying is the REACH concept. Even Bhubaneswar, the hospital is in a Tier II town and has a REACH plus tertiary care offering.

Priti Arora Okay and this Belapur plan is our own project, or is it was under a JV?

Venkataraman No, for all practical purposes it's our own.

Priti Arora Okay and what is the update on the South Mumbai project?

Padmanabhan We are in the advance stage of finalizing our agreement and we should be able to really look at starting in perhaps 6 to 7 months from now, assuming that we get all the approvals in time.

Priti Arora So, this cost is not part of 1,100 crore?

Suneeta Reddy No.

Venkataraman It's included in there because it costs only 140 crore because it is on a lease basis.

Priti Arora Can I have the number for the Ahmadabad profit house that is shaping up because you have given us for Bangalore and Kolkata?

Venkataraman We made a PBT of three crore loss compared to around 3.9 last year so it is flat and we expect it to turn around in the coming couple of years. And this year's budget is around 80 crore, so we expect that it will take another couple of years before we start showing positive EBITDA and PAT. EBITDA is already there but at a PAT level.

Priti Arora Suneeta, you mentioned you are positive about 30% growth on a consolidated level in the second-half, we can understand that but how do you want us to look at sales growth as we enter FY12, because as I see you will have a strong base and you do not have many hospitals coming on stream in FY12 as compared to what you have year to date?

Venkataraman I think this is a forward-looking statement and I do not think we should engage in that discussion at this point but I think whatever Ms Suneeta Reddy said it would be true.

Priti Arora Okay thank you.

Moderator Thank you. Our next question is from the line of Kaustav Kakati from B&K Securities.

Kaustav Kakati I missed out on the revenue mix, which was quoted earlier during the call. Can I have the revenue mix according to the various specialties?

Suneeta Reddy I think we spoke about growth in several areas, orthopedic is expanding by 52%, cardiac science is growing by 13% and growth in transplant 97%, nearly 100%.

Kaustav Kakati Alright and so what would have been the management fee component for the quarter?

Venkataraman Management fee component for the quarter was about 5.5 crore.

Kaustav Kakati What has been primarily responsible for the turnaround in profitability of the pharmacy business?

Padmanabhan See, on the pharmacy business I want to talk about both the quarter and the half yearly. We have had a positive EBITDA in the pharmacy business but also there was an element of other income of approximately two crore, but even after you adjust for that we would have a positive EBITDA in the pharmacy business. So, this is largely because expansion of margin is for matured pharmacies that have delivered much higher EBITDA than we had actually anticipated.

Kaustav Kakati Alright. On the standalone level your other income grew by more than 200% from about 2 crore to about 6.8 crore?

Venkataraman There was an exchange gain plus we had parked some funds with the bank, so because of that IFP money had come.

Suneeta Reddy And also dividends in the first half.

Kaustav Kakati Alright and what would have been the exchange gain figure roughly?

Venkataraman Two crore.

Kaustav Kakati Thank you.

Moderator Thank you. Our next question comes from the line of Ritesh Shah from IDFC Securities.

Ritesh Shah I wanted EBITDA numbers for standalone Chennai, Hyderabad cluster and others as well. What is your strategy on day care surgery centers, what is the number right now and how do you plan to ramp up the numbers going forward and how would it complement to your existing structure of hospitals?

Venkataraman See EBITDA on Chennai and Hyderabad clusters unfortunately we cannot share at the moment because last time we had changed the format, so we could probably discuss this offline. As far as day surgery centers are concerned our board has cleared setting up a four day surgery center wherever our hospitals are located so each would come up at a cost of around 10 crore and the first of which should be operational in a year from now.

Ritesh Shah Okay and currently we have around three day care surgery centers, is that right?

Venkataraman No, we do not have day surgery centers. We do a lot of day surgeries within our hospitals.

Suneeta Reddy No, but in Calcutta we have a separate day care center and we are setting up another one in Chennai.

Ritesh Shah Okay and lastly, what would be the tax rate going forward considering you have a lot of beds coming up in Tier II, Tier III cities, so you keep the same guidance of 33-34% tax rate going forward or you see it reducing going forward?

Venkataraman See, the combined tax rate including current tax and deferred tax should be in the region of 30%, but as you know that Section 80 has this holiday for Reach, to that extent I think it will come down and more importantly when the direct tax code fix in from next year, so you will find that all our future hospitals are going to be almost zero tax, so to that extent it will definitely come down.

Ritesh Shah Okay thanks a lot.

Moderator Thank you. Our next question comes from the line of Perin Ali from Edelweiss Capital.

Perin Ali My first question relates to your healthcare margin performance. If I derive your healthcare services EBITDA margins it is an expansion of around 100 basis point this quarter, this is despite the fact that you have actually launched several hospitals in the last five to six months, can you just qualitatively let me understand what was driving this margin expansion and do you see this to continue in the balance of the year?

Padmanabhan It is basically the result of some of the newer hospitals turning around and also the fact that we have been able to shift some of the low ranging specialties out of the mature hospitals into new locations and therefore both the revenue per bed and absolute EBITDA margin has actually increased in both set of numbers.

Suneeta Reddy And also I think case mix has contributed because it’s more transplants, etc where the margins have improved.

Perin Ali So, this 100 basis point improvement is both because of mature clusters or your other Tier II hospitals also had an improvement in margins?

Padmanabhan That is right.

Perin Ali But on a consolidated level you have expanded by 150 basis points. Do you also attribute this to your improvement in JVs and subsidiaries?

Padmanabhan For example, Bangalore last year was close to negative EBITDA and that has now moved to positive EBITDA, but I had talked about newer hospital turning around, I am talking both including the hospitals within the AHEL as a company, the division of AHEL as well hospitals in JVs also.

Perin Ali So do you expect this is trend of around 16% to 17% for the balance two quarters, because last quarter was generally a low margin? So overall do you expect a better margin outlook this year than what was in the previous year?

Padmanabhan No, you will see that in the healthcare business, they are not so seasonal really and, therefore, you will not see the margins getting contracted because of seasons. Seasons may at best or at worse only affect revenues but we have really not experienced such a thing because we have continued to be in the growth pace.

Perin Ali So, can I then say that you can expect a similar margin performance at least 16.8% on consolidated basis over the net balance of the year?

Padmanabhan You will not be wrong.

Perin Ali	Okay. Can you discuss the strategic roadmap which you have for your pharmacy business in terms of divesting it or delisting it and what could be the timelines for that?
Padmanabhan	Pharmacy business we have mentioned several times, at some point of time we would look at being able to extract value out of that business, so that AHEL as a company concentrates only on healthcare delivery and that is a long-term goal of Apollo Hospitals in terms of being able to concentrate only on healthcare delivery. So we will extract value out of this business at an appropriate time.
Perin Ali	What is your average interest rate for this quarter?
Padmanabhan	For this half it was around 8.6%.
Perin Ali	Is this an increase, since last year it was around 7% or so?
Padmanabhan	Yes, you have seen the increase in rates following a certain trend, so we have to actually correlate to that trend.
Perin Ali	And could you tell me the CapEx outlook for this year overall, only for FY11?
Padmanabhan	We had budgeted around 90 crore of which we spent half.
Perin Ali	For FY11 it is 90 crore?
Padmanabhan	Yes.
Perin Ali	Alright thank you..
Moderator	Thank you. Our next question comes from the line of Dinesh Harchandani from JP Morgan.
Dinesh Harchandani	I just want to understand about the dynamics of the Tier II cities? How are they if you compare them to Tier I cities? Are costs lower, margins higher in those cities? The CapEx per bed is kind of insignificantly lower for the Tier II cities and the breakeven is much faster?
Padmanabhan	Yes, for Tier II cities basically we should be looking at hospital between 100 to 150 beds and, therefore, because of the pure number of beds, we reach higher levels of occupancy fairly quickly, but also because of the relatively lower intensity of case mix, you will expect to see lower revenues per bed, although because of lower material costs, you will see a higher contribution and consequently higher EBITDA margins. Normally, material cost in the Tier I city because of the nature of the work that we do material cost tends to be around 34%, whereas in Tier II towns material cost tends to be about 24%.
Dinesh Harchandani	Are you looking at the lease model for these kind of cities or do you want to own the building and the land on which build the hospital in these areas?
Padmanabhan	If we have a choice we will go for the lease model, whether it is in Tier I or Tier II. We think that is financially more attractive, but right now what we have planned is predominantly all Greenfield own model.

Dinesh Harchandani Okay I think you have given your insights for the pharmacy business, what are your long-term plans for the other two kind of major ventures which is Apollo Health Street and Apollo Munich? Is there a plan to take them out from the hospital business as well and do a separate entity?

Padmanabhan As far as insurance is concerned, we have kept our investment at 20 crore. No further investments will take place and we have always maintained that the Apollo Hospitals investment in insurance as one which is really strategic in nature in terms of being able to really help drive that business up to healthcare delivery business. As far as Health Street is concerned, we do not consider that core to our business and we would again look at an appropriate time when markets in the US improve to look at how we can actually divest our stake.

Dinesh Harchandani Okay thanks very much.

Moderator Thank you. The next question is from the line of Vikram Mahajan from Bay Capital.

Vikram Mahajan One repeat question on the addition of beds in this quarter in various clusters?

Venkataraman We added around 85 beds this quarter in Hyderabad.

Vikram Mahajan Okay and on your CapEx guidance of 12 billion for 2,668 beds by 2014, can you provide the breakup of the kind of investment this entails?

Venkataraman It is there in the presentation. Slide 16.

Vikram Mahajan When you planned this CapEx, what is the incremental IRR that you look at or is it different for different set of hospitals?

Venkataraman No, generally we look at our IRR of around 18% at least.

Vikram Mahajan Thank you so much.

Moderator Thank you. Our next question comes from the line of Rahul Gaggar from Centrum Broking.

Rahul Gaggar Where would the Masina project be located?

Venkataraman I do not know who mentioned Masina at all. No, that is a South Bombay project that we earlier talked about.

Rahul Gaggar Where is it located geographically?

Venkataraman Byculla.

Rahul Gaggar Okay and the number of shares pledged are pretty high. Does it have a particular reason as to why?

Suneeta Reddy Right, we are about to redo that and restructure. We are looking at the number of shares that have been pledged. We are in the process of restructuring our whole debt.

Padmanabhan Yes, but basically the shares were pledged when the share prices were much lower and the margin calls were much higher and it was pledged only to fund the warrants of the promoters in Apollo Hospitals.

Rahul Gaggar Okay, so going forward it would be restructured that is what you are saying, right?

Venkataraman That's right.

Rahul Gaggar Do we have a Reach in Chittoor?

Suneeta Reddy We have got land in Chittoor.

Venkataraman We have a small trust hospital.

Rahul Gaggar So, would we be making it a bigger hospital?

Venkataraman Well, this is actually a community kind of hospital, it is just 60 beds.

Rahul Gaggar Okay, thank you.

Moderator Thank you. Our next question comes from the line of Shouvik Chatterjee from PUG Securities.

Shouvik Chatterjee What is the average revenue per operating bed for this quarter? You have provided the half year, can I have for this quarter?

Venkataraman It will be around the same, because as Mr. Padmanabhan said earlier business is not as seasonal as people make it out to be, so the average for quarter-on-quarter will not be much different.

Shouvik Chatterjee Okay fine, how many Reach projects are you planning to set up by FY14? How many hospitals are you planning to set up?

Venkataraman In that sheet itself we have outlined what is Reach, so if you look at that you will probably have an idea.

Shouvik Chatterjee Basically Tier II, Tier III city hospitals?

Venkataraman Till 2014 it is about six or seven.

Shouvik Chatterjee And what is the target contribution of these hospitals to your overall sales? Do you have any projects? If I am not wrong it has been around 15%, 16% of the total sales from this hospitals?

Venkataraman See, we normally get an asset turnover ratio of 80% and per project it is around 40 crore, so you can do the maths yourself and you will come to a number after that.

Shouvik Chatterjee Okay and is there any correlation between the increase in your insurance business driving revenues for the hospital business?

Venkataraman Because it is between 20%-25% of our revenues and definitely as the health insurance business grows certainly we would expect this ratio to go up.

Shouvik Chatterjee Okay and all your CSR projects, the Billion Hearts Beating and other projects, are these only for CSR projects or do you expect it to translate into any sort of revenue?

Venkataraman We are a commercial organization and Billion Hearts Beating is meant to raise awareness of diseases and because we are leaders in cardiac we hope to gain by that.

Shouvik Chatterjee Since there are other non-listed players so any sort of incremental markets in cardiac that you are planning to have?

Padmanabhan I think Suneeta mentioned that cardiac grew by about 13% or so, actual rate that growth related to this campaign.

Suneeta Reddy Prior to that we had an orthopedics campaign and orthopedics grew by 52%.

Venkataraman And the thing is whether any of you have taken that pledge on the website.

Shouvik Chatterjee Okay thanks.

Moderator Thank you. The next question comes from the line of Bhaskar B from CRISIL.

Bhaskar How is the Bhubaneshwar hospital doing in terms of occupancy and the ARPU?

Venkataraman We had budgeted the revenue per bed at about 8,200 or so, currently it is running at about 10,600 and we have been able to commission about 120 beds and we are running it around 85% occupancy there.

Bhaskar Okay and when do you see full commissioning of the beds?

Venkataraman It will be done within the next four to five months.

Bhaskar Do you expect this hospital to breakeven by end of this year?

Venkataraman We were EBITDA positive for this year which is actually a significant achievement.

Bhaskar Okay, it will be EBITDA positive at the end of year.

Venkataraman It is already EBITDA positive in the first half.

Bhaskar Okay, that is it from my side.

Moderator Thank you. Our next question comes from the line of Pranjay Kaushal from STCI Securities.

Pranjay Kaushal My question is related to the margin in the pharmacy business. It has been observed that the small pharmacy has a huge margin, they make about 20%, 25% and Apollo has not been able to do that. What is the strategy going forward to improve the margins?

Venkataraman Well, basically our gross margins are around 23% to 24%. Now, if you look at the pharmaceutical product margins are around 25% and FMCGs are around 18%. So it depends on what is your blended mix of sales between FMCG and pharmaceutical products, what will be your average margins in the pharmacy business. But our pharmacy margins are at least two to three percentage points better than what you would expect to see in most of the pharmacies.

Kaushal Okay thanks.

Moderator Thank you. Our next question comes from the line Ritesh Shah from IDFC Securities.

Ritesh Shah We had issues of insurance companies happening in the earlier part of the year. Has that impact been completely taken care of and has it really had a positive or a negative impact in terms of how the business is really shaping up for organized hospitals like yourselves?

Padmanabhan I think it might have impacted somewhat but the real proof is that you have seen our results and that does not seem to indicate such a big impact but if there has been an impact, we could feel it so severely as perhaps others and subsequently, of course, everything is opened up so I do not think there is any issue as far as the insurance is concerned.

Ritesh Shah But directionally does it help players like you in terms of the insurance companies becoming a little more proactive or it is something as a long-term trend going to be a bit of a negative impact factor for organized hospitals like yourselves?

Padmanabhan Now, obviously if anybody has buying power, they would like to exercise that and therefore to that extent large hospitals and smaller hospitals could be affected, but then it is also your ability to be able to say that you will be a preferred provider because people would like to be treated in hospitals like Apollo and, therefore, it is a two way thing where we will have to deal with it as it comes.

Ritesh Shah And lastly you have clearly laid out the expansion plans for next three years, so from the management perspective how do you look at the opportunity? The 2700 beds that you are planning to put up, the constrained here is your capability to put up in terms of the management bandwidth to successfully scale up these hospitals or is it that the opportunity which the market offers is what the constrains are or rather defines the scale up should be to the extent of 3000 beds over the next three years? So if it were to move beyond these kinds of scale ups in a material manner, what is it that is holding us back in terms of stepping up the pace of expansions?

Padmanabhan Basically we cannot have too large number of investments which are bunched up because then it could affect performance in the short to medium term as a company and the overall company's performance. And although the demand side is not an issue, we would like to space out our investments in such a way that we do not have too many hospitals going on stream which are actually having negative EBITDA or marginal EBITDA. To that extent we are spacing it out but it is not a demand size issue or an ability to manage growth.

Ritesh Shah Okay, so largely you want to smoothen out the expansion and that would essentially be the key driver and that is the key thought in terms of the expansion plan the way you played it out?

Padmanabhan Obviously, we also want to also restrict the amount of equity dilution that we will do as we grow the business.

Ritesh Shah Okay thanks very much.

Moderator Thank you. Our next question comes from the line of Perin Ali from Edelweiss Capital.

Perin Ali The revenue per bed day for the first half has grown by around 10%, although all the major classes like Chennai, Hyderabad, as well as other Tier II hospitals, there has been good performance in the revenues per bed day. Why is the consolidated level looking as only 10% and what could be the outlook for the rest of the year in terms of revenue per bed day growth?

Padmanabhan I think I will need to get back to you on that set of numbers.

Perin Ali Okay thank you.

Moderator Thank you. Our next question comes from the line of Arun Gopalan from ULJK Securities.

Arun Gopalan What is your take on the outlook on your non-core activities, which include your consultancy business, your health insurance and you also have a small BPO running, so what is your outlook on these, are you going to focus on your insurance business through your outlets or how is it going to go and what sort of tie-ups do we expect to expand on your health insurance side as well?

Venkataraman The insurance business is strategic in nature, our investment is 20 crore in that business and it is capped at 20 crore. It is primarily in that helping drive the growth of health insurance in the country and be able to actually participate in that growth and Apollo is not a unique client to them, they cover all other hospitals also and that business will grow fairly rapidly but our investment in that is actually capped at 20 crore. As far as the medical BPO business is concerned, we expect that business to do revenues of about $100 million plus this year with an EBITDA of about $14.5 million during the year. And as far as the pharmacy business is concerned we will be EBITDA positive for the year.

Arun Gopalan In your Hyderabad cluster you have got this platinum award concept which is actually I think the margins are quite good on that. So do you intend to expand further on that and what sort of revenues do you expect from your platinum award concept or is it only located to your Hyderabad cluster do you expect to expand that outside of that area?

Suneeta Reddy Actually we got platinum award set up in all the Tier I cities out of which three are already functional in Chennai, Delhi and in Hyderabad and the margins in that are much better and you can see that acceptance on that is high because as you can see the outpatient growth has been 20%. Half of it has been contribution from this cluster award.

Arun Gopalan Okay, thanks.

Moderator Thank you. Our next question comes from the line of Aditya Shah from Euromax Capital.

Aditya Shah The segment revenues in healthcare services for this first half year, you were doing 804 or so, I would like more clarity on that based on how much is from the hospitals or how much is from the hospital based pharmacies and how much is from consulting?

Padmanabhan We normally cluster the standalone pharmacies as a separate segment which is around 29%, so 71% or 72% is a combination of healthcare services and hospital based pharmacies and that is how we disclose it, we are not able to go into further details at this moment. We stop with that.

Aditya Shah Alright and on the slide 12, you have mentioned that your revenues are net of doctors fees. How much would be the doctors' fees normally?

Venkataraman You can top it up with about 20% to 25%.

Aditya Shah 20% to 25% on net revenues, right?

Venkataraman Yes.

Aditya Shah Thanks.

Moderator Thank you. I would now like to hand the floor over to the management for closing comments.

Suneeta Reddy Thank you ladies and gentlemen for your questions, if there are any other questions that you have and might come to you please feel free to contact Krishna Kumar and we will be very happy to answer them. Thank you for your interest in Apollo Hospitals, we look forward to communicating with you in the near future. Thank you.

Venkataraman And take the Billion Heart pledge.

Moderator Thank you. On behalf of Apollo Hospital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.