Apollo Hospitals Q2 FY12 Earnings
Conference Call Transcript
November 09, 2011

Moderator Ladies and gentlemen good day and welcome to the Apollo Hospitals Q2 FY12 earnings conference call. As a reminder, for the duration of this conference, all participants' 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 assistance during this conference call, please signal an operator by pressing * and then 0 on your telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you and over to you Mr. Vaswani.

Mayank Vaswani Thank you. Good afternoon everyone and thank you for joining us on this call to discuss Apollo Hospital's financial results for the quarter and half year ended September 30, 2011. We have with us today the Senior Management team.

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 operating highlights for the quarter, Mr. Akhileswaran will then discuss the financial highlights and progress on expansion plans, Mr. Padmanabhan will then take us through highlights of the retailed pharmacy operations, Apollo Munich Health Insurance and Apollo Health Street.

Documents relating to our financial performance have been e-mailed to all of you earlier and have also been posted on our corporate website.

I will now invite Ms. Suneeta Reddy to provide key highlights of our performance.

Suneeta Reddy Good afternoon and thank you for joining our call. The results for the quarter have been good and we have been able to deliver strong results aided by sustained revenue growth. We have established a strong foundation in our healthcare services delivery model which is reflected in our performance. Our strategy to focus on Centers of Excellence in key specializations has begun yielding results and our plan to introduce robotics in 17 locations to provide cutting-edge clinical care will further augment our Centers of Excellence and set new standards in medical technology. Clearly, the advantages of using robotics include shorter hospital stays, higher revenue per patient and better clinical outcomes. Just looking at the enthusiasm of the doctors who have joined this program, I am sure that it will make a significant difference not only in clinical outcomes, but in the volumes that Apollo will achieve with the advantage that we have with robotics.

As of September 30, 2011, we have a capacity of 8,513 beds across 52 hospitals. This consists of 5,888 beds which are owned by us, either directly or through subsidiaries, joint ventures and associates, 2,625 beds are managed. I am happy to state that we plan to further add to two new hospitals in Chennai and one in Patna, totalling 650 beds in addition to ongoing projects of over 2,200 beds, pan India. When commissioned, this will take our total owned beds to over 8,500 from 5,800. The number of owned hospitals will increase to 49 from the present 37. As a group we have been adding and will continue to add Greenfield health care capacity to bridge the demand-supply gap for health care infrastructure in India. As we move to partner, we come one step closer to our goal of creating an intelligent pan India network.

With this backdrop, we will now provide you with a quick snapshot of our performance. Consolidated revenues for H1 FY12 increased by over 20% to Rs. 1,508 crore. EBITDA increased by 19.9% to Rs. 251 crore, PAT grew by 17.4% to Rs. 110 crore. Adjusted for forex translation, PAT grew 21.5% to 113 crore. Consolidated revenues for Q2 FY12 were higher by 20.4% at Rs. 785 crore. Consolidated EBITDA grew by 18.6% at Rs. 131 crore. PAT was higher by 6.8% at Rs. 55 crore. Adjusted for forex translation charge of over Rs. 3 crore, in quarter 2 PAT grew by 18.5% to Rs. 58 crore.

On a standalone basis Q2 revenues were higher by 19.3% at Rs. 700 crore. Standalone revenues included health care services and pharmacies. This was driven by over 25% growth in standalone pharmacies and 17% in healthcare services. Quarter 2 EBITDA was higher by 20.2% at Rs. 120 crore. EBITDA margins improved by 13 basis points to 17.1%, due to improved profitability in hospitals as well as in retail pharmacies. Standalone PAT was up by 12.5% to Rs. 56 crore. Adjusted for unrealized forex translation charges, PAT grew by 25% to Rs. 59 crore.

The key take away from the numbers, is the continued double-digit growth in both revenues and profitability in healthcare services and robust positive EBITDA traction in standalone pharmacies. We have been able to grow our consolidated profits despite significant investments and ramp-up costs on account of new beds, over the last 18 months. It is our belief at Apollo there is a large unfulfilled need for quality health care in many areas across the country. We are confident that, patients will continue to repose faith in our network as we continue to build hospitals with the best doctors, practices and technology coupled with high quality globally comparative clinical outcomes. This belief drives us to offer the very best to our patients as we continue to pioneer the use of new technology, in various areas of treatment for high end surgeries and cardio thoracic, urology, laparoscopy and gynaecology. We also introduced revolutionary treatment in the areas of bariatric surgeries as well as regenerative medicine technology. We are also among the first hospitals in India to use the MRI guided high intensity focused ultrasound in Chennai, Delhi, Kolkota and Hyderabad. We plan to gradually take these technologies to our network hospitals across the country.

Another important development was the re-accreditation of Indraprastha Apollo Hospitals, New Delhi by JCI during the quarter. In addition to Delhi our hospitals in Chennai, Hyderabad, Bangalore, Calcutta, Ludhiana and Dhaka are JCI accredited. As a group, we have the largest number of accreditations anywhere in Asia.

During the quarter, we expanded our capacity in Delhi with the addition of 53 beds. Last quarter, we added beds in Hyderabad in the international patients block and a new facility in Hyderguda with a capacity of 150 beds. The performance of the Hyderabad cluster reflects the benefits of an enhanced capacity.

Our goals to significantly enhance the patients experience has really shown in increased volumes. Of the last 15 months, we have been seeing improved volumes especially in the COEs like cardiology, neuro sciences, orthopedics and oncology. This has been possible because of our highly competent doctors and the deployment of cutting-edge technology and significant improvement in overall service levels. Our focus on profitability in standalone pharmacies has led us to close 55 underperforming stores this quarter. We have added 92 stores to the network taking the total number of stores under operation to 1,257 as of 30 September, 2011. Standalone pharmacies reported an EBITDA of 6 crore in H1 FY12 from a loss of Rs. 26 lakh in H1 FY11. Our track record of clinical outcomes and best in class service levels, ensure that patients continue to repose their faith in us resulting in healthy occupancy levels across all hospitals.

We continue to attract doctors largely from the UK as well as from the US aided by our engagement model, which offers them a conducive operating environment which is focused on operational excellence. We are also increasing our international presence through hospital management contracts. The group is currently evaluating a 250 bed hospital management agreement in Rwanda, Africa after announcing a JV with the Government of Tanzania to set up a 250 bed hospital in Dar es Salaam. This will broaden our presence in the African continent. We are also engaged in a 250 bed hospital management project in Chittagong, which will build the group's second hospital in Bangladesh.

That is it from me, for now. I will hand it over to Krishnan, our CFO who will provide you with further details of our financial performance.

A. Krishnan

Thank you Ms. Suneeta. Good afternoon, to all the participants and thank you for joining us in this call. Ms. Suneeta, has already provided an overview of the numbers and I shall provide you more details on the performance of our healthcare services business both on a standalone basis as well as our key subsidiaries and JVs.

I would like to walk you through the standalone numbers which are on Slide 9- Robust growth demonstrated by revenue expansion of 19.3% for Q2 FY12 and 20.8% for H1 FY12. Revenue growth was driven by continued strong performance by healthcare services which grew 17% and augmented by another strong quarter by the standalone pharmacy business, which grew by over 25% in Q2 FY12. EBITDA was higher by 20.2% from Rs. 100 crore in Q2 last year to Rs. 120 crore in the current quarter. The EBITDA margins have increased by 13 basis points to 17.11%, in spite of adding new beds in Hyderabad, Hyderguda, Bhubaneswar and Karaikudi. Standalone pharmacies EBITDA continues to display healthy traction with the current quarter netting Rs 3.8 crore in EBITDA as compared to Rs. 2.5 crore in Q2 FY11. EBIT was higher by 18.6% and this placed revenue growth due to increased depreciation on account of new facilities brought on stream.

There has been a marginal increase in other income as QIP funds were invested pending(12:10) deployment. However, interest costs have risen sharply due to the higher interest rate regime, coupled with increased borrowings for funding ongoing new projects. Further, we have booked the unrealized forex translation charge of Rs. 3 crore this quarter due to Rupee depreciation. Despite this, PAT has grown by 12.5% to Rs. 56 crore. The EBIT margin in healthcare services was 19.4% in Q2 FY12 compared to 19.3% in Q2 last year. Standalone pharmacies had been fairly improving every quarter with EBIT in Q2 at 0.8% now. The annualized ROCE for healthcare services remains strong at 18.7% for H1 FY12 compared to 19.5% in the same period last year. You will have to look at this in light of the 320 crore that we have deployed in our facilities at Hyderabad, Bhubaneswar, Chennai and Karaikudi over the last 12 months.

Now I will turn to Slide 12 on key operating metrics in the hospitals business. We are seeing improved volumes as IP volumes were higher by 5.8% in H1 FY12 compared to H1 last year. OP volumes have increased by 10% over the same period. Overall occupancy was slightly lower at 72% due to increase in the number of operating beds. ALOS has come down marginally from 4.87 days in the H1 last year to 4.84 days in first half of this year. Combined with increased in IP and OP revenues, average revenue per operating bed for H1 FY12 has increased to Rs. 19,809. In the Chennai cluster, IP volumes were marginally lower in H1 FY12 compared to H1 last year. However, we have seen a healthy growth in Q2 FY12, after a soft Q1 due to state elections in Tamil Nadu and West Bengal. OP volumes were higher by 8.1% in H1 FY12. Revenues, the average length of stay, richer case mix on tariff improvements have led to an increase in IP revenues by 8.4% in this cluster, while OP revenues were higher by 9.6%. The average revenue per occupied bed was higher by 12.3% to Rs. 26,362. Hyderabad cluster has reported a strong performance in H1 FY12. There has been an increase in the number of operating beds from 809 last year to 930 beds this year. The average occupancy has been 591 beds in Q2 FY12. This is higher than Q1, where the occupancy was 560 beds and Q2 of last year which had occupancy of 521 beds. We have also had strong growth in focused COEs like oncology, which grew 52% in this cluster, neuro sciences which grew 36% and cardiology which grew 25%. These focus areas have improved the case mix and led to an increase in IP revenues by 27% in H1 FY12.

Other hospital clusters outside of the Chennai and Hyderabad cluster displayed 7.1% growth in IP volumes and flattish OP volumes. Further traction was witnessed in Bhubaneswar with average occupancy of 152 beds in Q2 FY12 as compared to 102 beds in Q1 FY12 on the back of continuous increase in inpatient admissions. Overall revenues for this cluster displayed a 23.7% growth. Our REACH hospitals at Karimnagar and Karur have also performed well with revenue growth of 23% and 57% respectively.

The subsidiaries and JVs have reported 6.4% growth in IP volumes and growth of 10% in OP volumes. Kolkata and Ahmedabad have demonstrated robust performance on a year-on-year basis with Kolkata growing 30% and Ahmedabad 27% respectively. Our growth at Delhi and Bangalore has been reasonably healthy at 12% and 16% respectively. Our efforts to reduce ALOS have been successful as most of our major clusters other than the significant Subs and JVs have reported reduced ALOS . Further, inpatient revenue growth has outpaced growth in inpatient volumes at all our facilities implying that our strategy to focus on COEs in areas like cardiology, oncology, neurosciences, orthopedics, emergency and transplant, have begun paying dividends.

Coming to our expansion in capex plans - Slide 16 has the update on project-wise details of our approved plans for the next three years. Our Board approved capex including the recently planned 650 beds in Chennai and Patna totals to 2,860 beds till FY15. The total funds required for these projects will be in the range of Rs. 1,850 crore of which Apollo share is approximately 1,650 crore. Of this we have already invested Rs. 150 crore and the balance Rs. 1,500 crore will be funded through a mix of internal accruals, equity and debt. Our QIP issue in July netted us Rs. 330 crore and we have outstanding warrants from the promoters which should net us another Rs. 200 crore. Together these represent the equity funds that we will require for the 1,500 crore, the overall capex requirement.

That is it from me. I will now request Mr. Padmanabhan to talk about retail pharmacies, health insurance and Apollo Health Street.

K. Padmanabhan Thanks, Krishnan, I will quickly walk you through the performance of our other businesses in our portfolio. Revenues in the stand-alone pharmacy segments have grown by 25.4% from Rs. 166 crore in Q2 FY11 to 209 crore in Q2 FY12. Revenue growth was driven by increase in same store sales as well as expansion in network of pharmacies. We have steadily increased the number of stores while closing down stores that were not performing up to the desired levels. This has helped us improve operating metrics and post a steady increase in EBITDA. We reported an EBITDA of 3.8 crore in Q2 FY12 compared to 2.5 crore in Q2 FY11. The EBITDA margin improved by 30 basis points to 1.8% in the same period.

If you refer to Slide 14 of our presentation, you will notice that our mature stores continued to demonstrate improvement in profitability with EBITDA growth of 24.8% during the quarter and an improvement of 61 basis points in EBITDA margin to 5.9%. We have by far exceeded our target of long-term sustainable EBITDA margin of 5% on mature stores and have demonstrated that this business can be profitable. We have strategies in place to expand margins even further. This quarter we have introduced an added metric of stores set up post March 2007, but prior to 2008. These stores are in the mid-maturity stage and indicate the progressive improvement in the operating metrics of stores, as across the incubation period. We have further expanded the network with a gross addition of 92 stores during the quarter and we've closed down 55 underperforming stores and the net addition of our network was 37 stores in Q2 FY12. As of September 30, 2011, we have a pan-India in network of 1,257 stores.

Coming to Apollo Health Street, Health Street has reported an increase of 10.2% in total income from Rs. 221 crore in H1 FY11 to 244 crore in the first half of this year. EBITDA expanded 16.6% to 27.6 crore. The EBITDA margin itself expanded by 85 basis points from 14.6% in H1 last year to 15.4% in H1 of the current year. The improvement in EBITDA was driven by cost control measures through the implementation of project lean which has helped us to identify significantly reduced operating costs. The net income has been impacted by a one-time litigation expense as well as higher interest costs. Though the operating environment is challenging in the developed markets especially in the US, we are seeing healthy traction in business due to favorable regulations in the healthcare industry. Further, a stronger sales engine is helping us to drive revenue growth and a weaker Rupee with result in better realizations as we go forward.

Apollo Munich Health Insurance, has recorded a gross written premium of Rs. 155 crore in H1 of this year which represents a growth of 77% over the same period last year. Losses at the EBITDA level have declined to 16.8% in H1 FY12 from 48.3% in H1 FY11. The incurred claims ratio improved **to** 60% in H1 of the current year compared to 57% of H1 of last year. This was driven by improved pricing and increased prudence in underwriting. We opened one new office in Q2 FY12 and now have a network of 50 offices across the country.

To conclude, we are pleased to report strong growth and improving operating metrics in the non-hospital business. The prospects of each of these businesses are promising which is why they area part of our integrated healthcare model.

That is it from me and we are now ready to take your questions. Thank you.

Moderator Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Perin Ali from Edelweiss Securities. Please go ahead.

Perin Ali Congratulations on a good set of results. I just want to understand a couple of things, first is, that your inpatient volume growth in Chennai, as well as other hospitals have been single-digit. Is there any reason why the inpatient volume growth has not expanded to the extent of operational bed capacity?

K. Padmanabhan: As far as the Chennai facility is concerned, the Chennai main hospital in fact had a closure of about 30 beds for re-engineering the facilities to accommodate liver transplant and to that extent, the number of beds available got reduced by 30, although we added 20 new beds at the end of September in speciality, therefore, showing a resultant net increase of beds of about 10. Largely this has resulted in lowering of number of inpatients and I do not think as we go forward, this is an area of concern for us.

Perin Ali But for Hyderabad and other new hospitals where there has been significant bed capacity additions over last 12 months, it is not somehow reflective in the inpatient volume growth which you are seeing in those clusters. is there any specific reason?

K. Padmanabhan : The capacity that we talk about is the point to point capacity, they are not average capacity. So when we talk about occupancy, it is occupancy on the point to point capacity. So if the capacity has gone up from 810 beds to 940 beds, it doesn't mean it went up 940 beds on day one. The beds have been increased over the period of time whereas when we calculate occupancy we take the occupancy as a percentage of the total beds available. It is not weighted average capacity increase.

Perin Ali Do we expect improvement in the inpatient volumes going forward? If you could give some understanding of what could be the inpatient volume target for you in terms of growth for this year once you exit FY12?

K. Padmanabhan: The inpatient volume is a function of ALOS also and, therefore, if you have reduced ALOS, you will see some increase in this thing as long as the occupancy is steady or keeps going up. So we do think that given that we can achieve some real growth of about 8% to 9% and nominal growth of about 17% to 18%, I do not think it is a major area of concern.

Perin Ali My next question is on your outpatient revenues in the newer hospitals where the outpatient volume has been almost flat and if you do a back calculation the 2nd quarter outpatient revenue declined. Any reason why the growth was so low in the outpatient revenues in the new hospitals?

K. Padmanabhan : You are talking about the 'Others' clusters, right?

Perin Ali Yes, exactly.

K. Padmanabhan : I think there is some reclassification in the numbers in the Others, so you will see that the revenue growth has actually been fairly significant, both in terms of outpatient and inpatient in the 'Others'. So I will just have to get back to you in the classification of the outpatient and inpatient numbers on the 'Others'. You will see that the growth has in fact been in the order of about 23% in the case of inpatient and almost 28% in the case of outpatient. So there has been some number classification between new registrations and we will get back to you on that offline.

Perin Ali Just a small question on the pharmacy front. Thanks for actually mentioning the FY2008 batch which gives more clarity on the maturity profile of pharmacy. The difference of EBITDA margin between FY08 batch and FY07 batch is significantly high, also in terms of maturity there is only a 1 year difference. So if you could explain to us of why is there a significant imparity between the two EBITDA margins?

K. Padmanabhan: I think this will be a combination of the geographical locations of pharmacies in FY08 and what has happened in the previous year. So it is not just the difference of year alone. So we may have to actually get into what are the geographical differences of the pharmacies that are opened prior to 2007 and post to 2007. There could be some EBITDA differences because of the geographical differences of the mix.

Perin Ali What would be the geographical mix of your pharmacies as of now?

Suneeta Reddy Currently, I think a large part of the pharmacies are in the Southern region. We have about 60 in the NCR region and we are expanding in the Western region.

K. Padmanabhan : I think overall about 60% of our pharmacies are in the South, 40% outside South.

Moderator Thank you. The next question is from Deepa Puttur from Quantum Mutual Fund. Please go ahead.

Deepa Puttur I have a couple of questions from my side. First is relating to the bed capacity. I was looking at Slide 4 and then Slide 12. So the number of capacity given here is 5,298 beds but the number is very different in Slide 12. So I just wanted to know which is the right number to look at?

Krishnan The only difference between Slide 4 and Slide 12 is 200 beds which we have in Mauritius which is not part of this Slide 12. So the 5,098 is fine.

Deepa Puttur Also why is that difference of 5,888 beds and 5,298 beds, so what happened to the remaining beds? Why is it not coming in the operational beds?

A. Krishnan It did not get operationalized over the period of time, that is exactly what Ms. Suneeta said during her opening remarks. If you look at it, for example, the total capacity of the Bhubaneshwar Hospital is around 290 beds, one has to do the current operational beds is around 190. So another 100 beds will get added over the next two quarters. So similarly, there are other hospitals where we have capacity, whereas the operational beds are a bit low.

K. Padmanabhan You can actually say that in the short to medium term offers the headroom for growth.

Deepa Puttur Regarding the pharmacy business, past two years, we have been seeing that company has been adding 100 pharmacy stores every year. So going forward will this kind of expansion continue or you will slow down the expansion here?

K. Padmanabhan I think what we wanted to establish both internally and with the investors was the fact that the pharmacy business can intrinsically be profitable. I think as we expanded this was actually getting somewhat hazy in terms of how profitable is the pharmacy business. So we went through a phase of consolidation where we added only 100 beds each year, because at the same time we were weeding out some of the unprofitable pharmacies. As we go forward, we will be more measured in our approach in terms of growth, but will be probably little bit more aggressive than the 100 pharmacies we have been opening a year.

Deepa Puttur Do you have any plans to divest this business going forward from your main healthcare business?

K. Padmanabhan Basically it is not a direct healthcare delivery business. So we will be looking at opportunities as and when they come.

Deepa Puttur Also, last time you were talking about Apollo Clinics being now run by Apollo itself, not as a franchisee model. So could you just throw some light on what is happening on the Clinic front?

Suneeta Reddy On Clinic space, actually there are some franchisees that we have acquired and we are not going in for any more franchisees. In fact what we are doing is opening our own Clinics.

Deepa Puttur Currently how many Clinics do we have?

K. Padmanabhan : 28 of our own Clinics and about 65 Clinics are franchised.

Deepa Puttur So over a period of time this 65 will be taken over by Apollo itself, right?

K. Padmanabhan : Not all of them. What are available because only if they are willing to sell, but what are available for sale we will be selectively looking at acquiring provided the valuations are okay. But as we go forward within the next couple of years, we hope to be well over 100 Clinics of our own.

Deepa Puttur What kind of capex is involved in Clinic vis-à-vis a hospital?

K. Padmanabhan : It is about 2.5 crore (31:42)at maximum. So by and large you will see the range of Clinics in smaller cities will be about 1 crore to 1.25 crore and the larger cities could be about 2 to 2.25 crore.

Deepa Puttur In terms of performance revenue, is it comparable to a hospital bed?

K. Padmanabhan : Anyway clinics have better EBITDA margins and a better return on capital employed.

Moderator Thank you. The next question is from Kaustav Kakati from PUG Securities. Please go ahead.

Kaustav Kakati My first question is related to your hospital growth. I just wanted to know the like to like hospital growth and the growth that would have come from the new beds?

A. Krishnan We would not have that number offhand. We would probably give it to you, you could call us and we can get you know that.

Kaustav Kakati My second question is relating to the improvements in the EBITDA margin. Now this has come in spite of you adding new bed capacities in your Hyderabad cluster. So I just wanted to know, is it more to do with the improvement in the profitability of the pharmacy segment or have you done something in your hospital segment also wherein you see that kind of improvement?

A. Krishnan As we said, the impact is safest to do about in operative segment we have now, if you look at Hyderabad the case mix has been very favorable. We have been concentrating on some of the high end cases on the COE and the focus COE's is like cardiology, neurosciences, onco, ortho, etc., have grown very well for us. We have added very good consultants there and this is actually paying off as well. So it is about hospital services and growth which is helping us.

K. Padmanabhan One of the things what we are looking at is how to improve the case mix and intensity of work that we do in the older locations and how to look at increasing market share and volumes and feeding markets through the new locations.

Kaustav Kakati Would it be possible for you to just give a brief breakup of the cases in terms of various streams?

K. Padmanabhan : In terms of the breakup between cardiology and this thing ?

Kaustav Kakati Yes.

K. Padmanabhan : I think we can give you that offline. Cardiology roughly accounts for about 30% of the inpatient volumes.

Kaustav Kakati My last question is you mentioned the forex translation charge. Is that actually accounted for in your 'Other' expenses, because it has not been shown separately?

A. Krishnan It is shown in the finance charges.

Kaustav Kakati So it will be a part of the interest?

Krishnan Yes.

Moderator Thank you. The next question is from Priti Arora from Kotak. Please go ahead.

Priti Arora Good morning, Mr. Krishnan, in your opening remarks you mentioned why depreciation, interest and other income has increased. If you could just repeat that, you were too fast actually.

A. Krishnan Our finance charges, it has moved up from 13 crore to 20 crore and if you exclude the 3 crore of this finance which is the translation, the interest has actually gone up from 13 crore to 17 crore. So around 4 crore has increased in interest which is specifically because of new facilities which we have added and also interest rates which have almost increased in the last one year by around 200 bps. So other income has kind of remained flat because last year other income had the translation gain of around 2 crore whereas this time in the other income, we have deployed a QIP fund in treasury, in liquid funds which has helped us gain some income. If you exclude that the other income has been flat. Depreciation again has gone up because of the new facilities which have been in Hyderabad, Bhubaneswar, and Karaikudi.

Priti Arora Any particular reason for your selling cost doubling Y-o-Y and is that expected to continue moving forward?

A. Krishnan Selling cost has some reclassification from operating cost to selling cost in the pharmacy segment where the discounts which were loyalty discount which are part of operating cost, is now forming part of the selling and distribution cost this fiscal, which is around 3 crore in number. So if you exclude that and then look at it, this would not be so high an increase.

Priti Arora So you are saying 3 crore of expenses has got reclassified into selling from….

A. Krishnan Operating cost which is on the pharmacy wherein the loyalty discounts were earlier treated as operating expenses which is now being treated as selling cost.

Priti Arora Your advertisements on TV, where do these get accounted for?

A. Krishnan That is part of this as well.

Priti Arora My other question is relating to Chennai. In the past at least in FY11 the growth was much higher. So although sequentially there has been improvement, still we are not clocking double digit growth rate in volumes or in value terms in revenues.

K. Padmanabhan I mentioned that about 30 beds have been re-engineered for liver and was not available during this half of the year and those 30 beds were all in Chennai, so they add significantly in terms of value turnover decrease that comes as a result of reduction in number of beds that were available. As we go forward you will see that Chennai Main will catch up now that the beds have become available. So we will get back to the kind of growth rate that we have had in the past.

Priti Arora So why were these beds not available?

K. Padmanabhan We are doing re-engineering to do that liver transplant. As Krishnan was mentioning we are increasingly focusing our old locations to do higher end work and, therefore, this re-engineering was necessary to bring in the higher end work and, therefore, the beds were not available till that was done.

Moderator Thank you. The next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal One is on this Africa arrangement that you have talked about. Are these all management contracts or we will be investing equity into these projects also?

K. Padmanabhan These are all management contracts.

Nitin Agarwal What is the rationale for undertaking these management contracts considering that we have fair bit of hands full in terms of our own Greenfield hospitals?

Padmanabhan Basically these are locations from where we are getting a fair amount of patients coming into our hospitals in India and the fact that we will be there to help run them better there, will help us in getting them down for the high end cases to come into India

Suneeta Reddy These not only act as a referral but post surgery patients have confidence because they know that Apollo is present in these locations.

Nitin Agarwal So these would be the typical 4% to 5% revenue share sort of agreements?

Padmanabhan That is right.

Nitin Agarwal Do we see that scaling up in a material manner, this whole strategy in terms of doing a lot of these management contracts across Africa and Bangladesh?

Suneeta Reddy It depends on the location. it is location specific and also to see our ability to send doctors and manage those locations effectively.

Nitin Agarwal That is something which is now like a big focus area per se, unless and until it is very strategic?

Suneeta Reddy Yes, it is more strategic.

Nitin Agarwal	Generally, what has been the sort of price hike on an average that you have taken over the last six months or so across the business for treatments?
A. Krishnan	Approximately around 6%.
Nitin Agarwal	That has been the price hike for the treatments on an average?
A. Krishnan	That is correct.
Nitin Agarwal	And that is a sustainable sort of a number around this ballpark that you can assume for a sustainable period?
A. Krishnan	6% to 8% is something that is sustainable.
Nitin Agarwal	On the non-core businesses what is the capital that is employed right now on the ex-hospital businesses, the overall put together?
A. Krishnan:	Other than healthcare services, right?
Nitin Agarwal	Yeah, other than healthcare.
A. Krishnan:	If you look at pharmacy at this point in time the capital employed in the pharmacy segment is approximately 240 crore and the others are investments which we have and Health Street is approximately around 180 crore and the capital work-in-progress for our new projects of approximately 130 crore.
K. Padmanabhan	Yeah, if you include the pharmacies then it is 400 odd crore.
Nitin Agarwal	Do we see any of this capital getting unlocked over the year or so?
K. Padmanabhan	I think, as we have mentioned many times now, being a focussed healthcare delivery company and it is a subject of valuation that we should see how we can unlock value in Apollo.
Suneeta Reddy	Yeah, I think the timing is the issue and the structure by which we do it.
Padmanabhan	We are clear the values have to be unlocked. That capital hasto be provided to grow the healthcare business. I think it is a timing issue.
Moderator	Thank you. The next question is from Bhagwan Choudhary from Indianivesh Securities. Please go ahead.
Bhagwan Choudhary	Just a question that if I estimate it slightly in the last quarter we were having 38 hospitals. This quarter have we shut down any hospital, it is 37 as per your calculations?
A. Krishnan:	One hospital which is not there is the managed hospital which is not there with us now, we stopped doing that managed hospital.
Bhagwan Choudhary	What is the revenue from the pharmacy business in this quarter, pharmacies which are linked with the hospital?
A. Krishnan:	Standalone pharmacies is 208 crore, pharmacies linked with hospitals is part of the overall turnover of the hospitals.

Bhagwan Choudhary So how much is from that, for pharmacies and doctor fees?

A. Krishnan: We do not track that separately or report that separately.

Bhagwan Choudhary One more question from the standalone pharmacy side, what kind of business model do we have there, for supply purpose do we directly buy from the stockist or from companies?

Suneeta Reddy We get it from distributors.

K. Padmanabhan That is the normal system of the manufacturers through the distributors, they sell to the retail, although we negotiate prices directly with the manufacturers.

Bhagwan Choudhary From other distributors or directly from the….. is there one common entity in between which supplies to all your pharmacies or every pharmacy buys it individually?

K. Padmanabhan There are various distributors with different pharmaceutical companies which supply us.

Moderator Thank you. The next question is from Ravi Dodhia from CRISIL. Please go ahead.

Ravi Dodhia I have two questions, one is, I was looking out in the outpatient volumes of Chennai cluster. If you look at the Q-on-Q growth in the current quarter as in Q1 to Q2, there was a significant growth in the outpatient volume as well as revenues. So what was the reason for that, though inpatient declined, outpatient has grown significantly?

A. Krishnan What we said we had a Q1 which was a lackluster Q1 because on the back of elections in Tamil Nadu and West Bengal, typically people do not travel so much and there was pent up demand as well and hence Q2 volumes have looked up in this cluster.

Ravi Dodhia But we were averaging around 55,000 to 60,000 of outpatient volumes. In the current quarter it has increased to more than 1 lakh outpatient volumes.

A. Krishnan As I said it is because of the pent up demand which is there and that is the reason. So we will have a normalized trend going forward.

Ravi Dodhia For the Hyderabad cluster inpatient revenues have grown significantly. But there outpatient revenues, they are having varied trend. As in 1st Quarter it is around say, 8-10 crore. So just want to get a sense why is there a fluctuation in outpatient revenues?

A. Krishnan You are right, typically Chennai has been having a very high outpatient dependency as well compared to Hyderabad and taking the dynamics of each of the hospitals and each of the markets, this is different, so Hyderabad, yes, it is more IP dependent than OP dependent.

Moderator Thank you. The next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal Thanks for taking the follow-up question. Just one on the upcoming hospitals schedule that you have given there are a couple of delays right now noticed in terms of FY13 shifting on to FY14. Are these small delays or there are some major issues with execution generally against some of the timelines that you were talking about earlier?

A. Krishnan These are very slight delays. It is just going from one fiscal to the next fiscal because a moment by two months.

Nitin Agarwal On the capex plan, there are share of capex that you have talked about now about 1646 crore. I think we must be talking about 157 crore or something that you have already spent, but I thought we were talking about a larger number of close to 300 crore odd till about the last quarter in terms of what we have already invested. So how do we explain that?

A. Krishnan Those have already been capitalized. If you look at last quarter hospital expansion plan we have an international block in Hyderabad which was part of it, we had Karaikudi, so we have already capitalized around 815 beds and so that is why since that is gone, so that is not part of the total. So if you look at total project estimated cost column, you will see the difference there between last quarter and this quarter.

Nitin Agarwal Of this 1,646 crore, what is going to be our equity component?

A. Krishnan Approximately 330 crore is already done by the QIP that we did recently in July. There is an outstanding warrant on the promoters of around 200 crore, so both put together would be approximately 530 crore. So 530 crores would be the equity component and the balance would be debt and internal accruals.

Nitin Agarwal So you are going to be funding these projects on a 50 to 50 basis? Is that approximately how you see them getting funded?

A. Krishnan Our debt-to-equity currently is only 0.3. So we have a lot of room to get it to 1:1.

Nitin Agarwal The point I was really trying to understand is for an incremental plan our equity that you talked about a 530 crores odd, that is going to take care only of these expansions. Or do we have the bandwidth or rather room right now to sort of plan for incremental expansion beyond what we have already outlined?

K. Padmanabhan Are you talking about the incremental debt to incremental capital incurred?

Nitin Agarwal We are talking about this 2,860 beds being put into place by FY15 and the visibility that we have of the equity component to be put in so does that take care of these expansions? If we have to go beyond further expansions, what is the plan?

K. Padmanabhan If you take some 400 crore of internal accruals plus another 530 crore whereabouts of current equity that that is available and the balance will be through debt.

A. Krishnan So 700 to 800 crore approximately would be debt, for a period of 4 to 5 years.

Nitin Agarwal In terms of the incremental expansions, I think in most of the expansions that we will talk from here on will be FY15 and beyond or there is a possibility of squeezing in some major expansions before that also?

Suneeta Reddy FY12 to FY13 we will add about 700 beds. FY14 we will add 1,200 beds.

K. Padmanabhan But a very big chunk will come in FY13 and FY14 and then FY14 and FY15.

Nitin Agarwal Incrementally, if we take a 4-5 year view of things, so where do you see typical average or new bed addition being sort of normalizing at? 700 to 800 beds per year is something that we will probably stabilize at or is it possible to….

K. Padmanabhan I think depending on how the market is but we would say that the number of new beds to total beds, obviously now the percentage will keep coming down and, therefore, the strain actually reduces as we go along. Currently we are adding a very large proportion to our existing beds. As we go along it is probably going to be about 700 to 800 beds.

Suneeta Reddy : As we cover the major geographies the number of beds that we need to add will significantly come down.

K. Padmanabhan But as you know a lot of beds are now being added even in existing cities now.

Nitin Agarwal The point that I was trying to make is from a management side what do you see like an optimum size as there is constraint on finance or any of those things. In terms of the number of beds that optimally you would like to add per year and beyond that starts becoming too much of an issue in terms of effectively scaling or operataniolize those many beds?

K. Padmanabhan I think new beds should constitute something like 10% to 12% of the total beds available.

Moderator Thank you. The next question is from Dinesh Pathak from Goldman Sachs. Please go ahead.

Dinesh Pathak Just on your operational performance for different clusters that you put out on Slide 12 for H1 FY11, you are talking of Chennai cluster having an occupancy of 79%. Is there a restatement that we have done of the operational performance because if I look at corresponding presentation for the last year we talked about of an occupancy of 84% and similarly occupancies of other clusters as well do not match.

A. Krishnan There could be some reclassifications that could have been done because we had done this QIP and based on the QIP there were some reclassifications suggested. So if you can get offline we could help you with that, the numbers are correct as it has been presented on Slide 12. Is the number of operating beds being shown as a higher number there?

Dinesh Pathak This quarter’s presentation you have shown operating beds at 1,167 for H1 FY11 and last year's corresponding presentation you showed it at 1,083.

A. Krishnan So that has been some addition in the number of operating beds.

Dinesh Pathak But back data cannot change, right?

A. Krishnan Yeah, so that is why. So there were some re-classifications as I said. There were a couple of beds which were not appropriately classified. One or two facilities which were there which were not included in the Chennai cluster, then it was being looked at earlier which has now been included here.

Dinesh Pathak So correspondingly speaking let us say for Hyderabad, this year’s presentation we are talking of operating beds at 809 for H1 FY11 and corresponding presentation for last year was 689. So just as investors for us it is helpful if we can maintain the consistency of data to compare operational performance.

A. Krishnan It will be taken care of going forward. As I said there were some reclassifications and we can help you understand what that was.

Dinesh Pathak Just for my understanding inpatient revenue and outpatient revenue you said you do not include doctors' fees but hospital based pharmacies, where are revenues from that stream included?

A. Krishnan That is part of inpatient revenues.

Moderator Thank you. The next question is from Perin Ali from Edelweiss Securities. Please go ahead.

Perin Ali If you could just again give us what number of beds you will be adding in the second half and then FY13, FY14, FY15, if you could just give us that number?

A. Krishnan In FY14, we would be adding approximately 1,500 beds, FY15 around 600 beds, FY13 around 600 beds.

Perin Ali And the rest of FY12 any bed additions will you be doing?

A. Krishnan Yes, we have some bed additions which should come up and more than that as Suneeta said in the call there would be this new beds which is already operational from the capacity which has come in, for example, Bhubaneswar there could be something which can come in by the 1st Quarter of FY12 and also something from Hyderabad.

Perin Ali It would be helpful if you could give us a recap of how many hospitals you have added in the last 12 months and beds, if you could just state that?

A. Krishnan We have the numbers with us, you can call Krishnakumar after the call and he can exactly tell you the numbers.

Perin Ali A second question I have on the amount of capex you have incurred till date in the first half?

A. Krishnan Over and above the capex for the projects is what you are saying?

Perin Ali Total how much capex has been incurred in the….

A. Krishnan The routine capex has been approximately around 40 crore.

Perin Ali Including the projects?

A. Krishnan Project is going to be part of the project plan which is approximately as we said in this presentation it is around 1800 crore over the next few quarters. So that is going to be dependent on how much projects come and the requirement happens, etc. It is approximately I think 60 crore.

Perin Ali 60 crore in the first half you have incurred for the projects?

A. Krishnan That is correct.

Perin Ali Any target capex you will be having for FY12, if you could give us a guidance for FY12?

A. Krishnan Going forward there is going to be substantial capex on the new projects. Our routine capex is approximately around 80 crores, whereas the project capex is going to be dependent on the facilities coming up and the milestone completion on each of the projects. So that is continuing to be approximately around 100 crore a quarter, I guess.

A. Krishnan That is after the next quarter. From Q4 we should be seeing some 100 crore per quarter coming in.

Perin Ali Just last question is you have opened one day care center in Chennai which you mentioned in the last quarter's conference call. If you could just help us understand how many day centers you are planning in various city clusters?

A. Krishnan That is again dependent on each of the cities today we have one day care center as you have seen in Chennai, we are evaluating maybe a Bangalore and Hyderabad also but there is nothing specific that I can share with you today.

Moderator Thank you. The next question is from Kaustav Kakati from PUG Securities. Please go ahead.

Kaustav Kakati Sometime back I was just reading this report about Apollo actually planning to sell off the stake in Health Street. Has that been confirmed, has there been any development on that front?

A. Krishnan As and when there is a development we would share that with you. Nothing specific to share with you on this regard now.

Moderator Thank you. The next question is from Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi Congratulations on a good set of numbers. Wanted to just ask you that by the time you complete your entire 1,800 crore expansion, do we believe that you will go for another dilution?

A. Krishnan No we would not.

Jiten Doshi So up to what point you do not foresee a dilution.

A. Krishnan As we have said in the call also we would be looking at other ways of unlocking value through the pharmacies through the Health Street and other things over a period of time. And at this point in time given the current expansion plans our debt equity itself will be able to…. we can take up additional 700 crore without any problem.

Jiten Doshi So you do not foresee dilution for about another 18 months?

A. Krishnan Another 5 years.

Suneeta Reddy I think we have given you how we are planning to fund our current expansions and future expansions like Krishnan said, we will be creating, we will unlock value for both pharmacies and from Health Street, that will fund future expansions.

Jiten Doshi So far one can expect no dilutions in the immediate future?

Suneeta Reddy Yes.

Krishnan In another 18-24 months?

Suneeta Reddy Yes.

Jiten Doshi Ultimately whether you think you can see the EBITDA margins in the next two or three years?

A. Krishnan The EBITDA margins is also a function of how the standalone pharmacies have been performing. Standalone pharmacies now are doing very well and we expect that to be able to get to a steady towards 2% to 3% EBITDA number over the next few quarters and that should enable our EBITDA. Also as you have seen we already have our new beds on stream now in Hyderabad, Bhubaneswar, with 400 beds still not occupied and used in Hyderabad. So some of these will help us in our overall operating leverage. So we should be seeing around traction of 200 bps over a period of time.

Jiten Doshi As you are expanding occupancy you will always have beds which are not occupied but as you go forward from operations you will be able to improve by about 200 basis points?

A. Krishnan Yes, as I said the combination of both standalone pharmacies and hospitals, if you look at standalone pharmacies itself you will realize that standalone pharmacies itself can give us a good kicker. You can do the math and you can call back if you have a query.

Jiten Doshi So the hospital side where can the margins go?

K. Padmanabhan In the hospitals, for example, if you take a mature hospital they can go in the range of 27% to 30%, but we are currently in the range of somewhere between 33% to 12%. 12% at the lower end and 33% at the other end of the spectrum.

A. Krishnan Averaging around 23.

K. Padmanabhan So we should be reaching to 25-26% at the hospital level. The standalone pharmacy which is currently at about 1.8% in the 2nd Quarter, over a period of two years and as a group can move to about 3.5% at least.

Jiten Doshi What is your target return on capital employed going forward?

K. Padmanabhan Our target return on capital employed is to be in excess of 20%.

Jiten Doshi Currently you are doing about 16% to 17%.

K. Padmanabhan That is right.

Jiten Doshi So over what period do you believe we can get to 20%? Is this more aspirational?

K. Padmanabhan Within the next couple of years.

Jiten Doshi If you quantify about three years?

K. Padmanabhan Less than that, maybe about two years.

Moderator Thank you. The next question is from Shashwat Panda from Pure Heart Capital. Please go ahead.

Shashwat Panda Sir, congratulations on a good set of numbers. My question was more with respect to the competition that you see in the Hyderabad market and the Delhi market because both the markets have seen a lot of capacity expansions in the form of the tertiary care segment. So how do you see that being panned out and how does Apollo plan to defend its competitive position?

K. Padmanabhan As far as Hyderabad market is concerned this overcrowding of the market is not a new phenomena at all. It has been in existence as far as I know at least for the last 10-15 years. We have chosen to expand even further aggressively into this market in spite of the competitive nature of that market because we believe that critical mass is something that we should aim for in the each of the markets that we go forward. As far as Delhi is concerned, yes, in the last couple of years there have been a lot of new facilities that have come in. We are ensuring that we keep our costs in control and we keep pushing forward revenue growth and we believe over the period of time we will be successful in both these markets.

Shashwat Panda Any thought from the Kolkata market with the Emami Group also getting into the hospital business?

Suneeta Reddy See they have already been there for a few years now. I think what is important is across India. It is not really about the number of beds in competition but where we really compete is being able to actually secure the best doctors and, therefore, deliver better clinical outcomes. And I think that is the area where we have been very successful which is why we continue to grow even in markets in spite of competition. The brand and the ability to attract patients continues.

Shaswat Panda : Just one last question about the Chennai cluster. As it is very obvious that Chennai has performed very well and one of the reasons is because it is the oldest and the most established cluster that Apollo has. So in future the kind of operational model that Apollo looks for, is it replicating the same kind of market dominance in other geographies or is it more opportunistic?

Suneeta Reddy I think it is our desire to do so to create in every Tier-1 city. It is to create a tertiary care hospital surrounded by higher secondary hospitals and clinics.

Shashwat Panda What kind of numbers do you expect to see from Chennai cluster for the next five to 10 years. Do you expect the ROE and EBITDA margins to be in the same range?

A. Krishnan The Chennai cluster with our expansion plans, we are going to be adding one more hospital in Ayanambakam. So we are looking at it as a cluster and certainly as a cluster we will be seeing good growth even going forward. Ayanambakam which is a suburb in Chennai we are adding 200 beds by H1 of next year. Just now the Board has approved a plan to add one more hospital in south Chennai and then also another hospital which we are planning which is the Woman and Child hospital in central Chennai again. So if you look at it we are adopting a cluster approach here as you rightly said to ensure that we have dominance here and that will ensure that we free up beds in the main hospital to do centers of excellence work like cardiology, orthopedic, etc., while shifting out some of the works like gynaec, into the Woman and Child, some of the general medicine work into Ayanambakkam. So we are adopting a cluster approach to this market. And this would help us see a growth for a sustained period of time from the next year.

Shashwat Panda What would be the numbers? Given your expectations what kind of ROEs and margins we expect to see in the dominated clusters in the Chennai cluster?

A. Krishnan ROCEs in the Chennai cluster today is north of 30% already. And once the new facilities come the ROCE will kind of blip a bit but overall we are targeting north of 25% ROCEs in this cluster.

Shashwat Panda The margins would be consistent?

A. Krishnan Yes.

Moderator Thank you. The next question is from Miten Shah from SMC Global. Please go ahead.

Mitesh Shah I just have one question that could you give the current quarter occupancy rate?

A. Krishnan Current quarter, across you are saying or you are saying for a particular…?

Mitesh Shah It would be great if you can give for all the clusters and the total.

A. Krishnan Can you get offline with Krishnakumar and he can provide that to you because we have H1 numbers with us.

Mitesh Shah Okay, no problem. Thanks a lot.

Moderator Thank you. The next question is from Nishit Sheth from Anvil Share & Stock Broking. Please go ahead.

Nishit Sheth Congratulations on a good set of numbers. I had a couple of questions, if you all could share with us the number of foreign patients we have as a percentage of our inpatient total volume?

Suneeta Reddy Actually it varies from facility to facility. Chennai is around 7%, Delhi is higher, it is 15%, Hyderabad is around 10%. So on an average it is close to about 10%.

Nishit Sheth Also in terms of your pharmacy business, actually I am a little new to this sector so if you could share with me the model, how is the pharmacy model? Do we own the entire 1257 stores that we have?

Suneeta Reddy Except for about maybe 9 or 10 which are situated in the clinics, it is an owned model it is not a franchise model.

Nishit Sheth All these pharmacies are mainly in Tier-1 cities, right?

Suneeta Reddy Some of them in Tier-2 cities as well and the smaller cities.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to the Apollo Hospital management for their final remarks.

Suneeta Reddy Ladies and gentlemen thank you for participating in this call. As usual it is always a pleasure to answer your questions on Apollo Hospital. We believe that the next quarter, we will continue to deliver strong performance and please feel free to contact us if there are any other questions that you would like answered.

Krishnakumar,Krishnan, Padmanabhan and myself will always be available. Thank you again.

Nishit Sheth Thank you very much. On behalf of Apollo Hospital that concludes this conference call.