Apollo Hospitals H1 FY13 Results

Transcript of Conference Call
November 15, 2012

Moderator Ladies and gentlemen good day and welcome to the Apollo Hospitals H1FY13 Earnings Conference Call. As a reminder all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Vaswani from CDR India.

Mayank Vaswani Good morning everyone and thank you for joining us on this call to discuss Apollo Hospitals financial results for the quarter and half year ended Sept 30, 2012. We have with us the Senior Management Team. Before we begin, I would like to clarify that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. For a more complete listing of such risks and uncertainties, please refer to our investor presentation.

As always, we shall start with Ms. Suneeta Reddy who will discuss the operating highlights for the quarter, Mr. Krishnan Akhileswaran will then discuss the financial highlights and progress of expansion plans following which Mr. Padmanabhan will cover highlights of the Pharmacy operations, Apollo Munich Health Insurance and 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 will now hand the floor to Ms. Suneeta Reddy to provide key highlights of our performance.

Suneeta Reddy Good afternoon and thank you for joining our call. I would like to take this opportunity to wish all of you a very Happy Deepavali.

I am happy to report another quarter of sustained growth in revenues & profitability. Our healthcare services business has performed well aided by a combination of richer case mix in our mature hospitals and rapid volume growth in our newer hospitals. There has been a marked increase in the volumes in specific specializations like cardiology, orthopedics & oncology aided by a focus on complex treatments through the Centers of Excellence Initiative. We continue to pioneer the adoption of technological advancements for patient care excellence and extended the application of Robotic techniques into the area of spinal surgery.

The standalone pharmacies segment performance continues to be outstanding. Our Health Insurance business has reported its first quarter of positive PAT and a strong performance by some of our subsidiary and JV hospitals has ensured that it has been a quarter of balanced growth. Now, to provide you a quick update on our clinical and operational achievements.

We are pleased to share that we have completed over 130,000 heart surgeries since our inception which makes us, by far, the largest cardiac program across the world. Our success rate of 99.6% against the backdrop of such large volumes places us amongst distinguished global players.

Apollo Hospitals was awarded the healthcare service provider company of the year with revenues above ₹ 1,000 crore at the 4th Annual India Healthcare Excellence Awards 2012 by Frost & Sullivan.

Apollo Hospitals was also declared a winner in four categories at The Asian Hospital Management Awards 2012 at Hanoi, Vietnam. Over 800 delegates from 25 countries participated in the event.

We are the first healthcare organization in the Asia-Pacific region to offer the Renaissance™ Robotic System which is a surgical guidance system for minimally-invasive spine surgery. Apollo Hospitals is the first in the region to introduce this advanced technology. Within just 10 days of the launch of this system, we completed 12 successful spine surgeries which further reaffirm our commitment to medical excellence.

Our offerings now include robotic surgery based solutions in the areas of cardiac surgery, pediatrics, head and neck surgeries and the newly introduced spine surgery. We will equip more and more of our facilities across India with robotic systems in a calibrated manner to ensure that a greater number of patients will have access to the latest technology.

The rapid integration of these treatment methodologies in our healthcare offerings has had very encouraging results for our patients. While patients benefit from better quality of treatment, experience less pain and have quick recovery, the hospital benefits from better clinical outcomes, higher value offerings and quicker turnaround times.

Now to our financial performance, we continue to report strong growth with Consolidated Revenues expanding 22.2% from ₹ 1,508 crore in H1 last year to ₹ 1,843 crore in H1 of this year. Consolidated EBITDA expanded 25.0% from ₹ 248 crore in H1 last year to ₹ 310 crore in H1 this year. Profit after Tax was higher by 48% to ₹ 163 crore.

The Stand Alone pharmacy business continues to grow with 32% y-on-y revenue growth in H1. The increased scale in the business has enhanced buying efficiencies and operating leverage. Our Health Insurance business has reported its first ever quarter of positive PAT. While the regulatory framework has become more conducive for both the standalone pharmacies as well as health insurance, we expect both these businesses to continue growing profitably further positioning us to realize the long term potential of these businesses.

Our expansion plan envisages setting up of 3,140 new beds over the next 3 financial years. This will take us from our current capacity of close to 6,000 beds in 36 owned hospitals to over 9,000 beds in 51 owned hospitals by FY16.

Our new hospital in Chennai at Ayanambakam is poised to commence operations in Q4. The hospital is located in a suburb of West Chennai with a total capacity of 250 beds. We believe this will strengthen our presence in the Chennai region and allow us to grow volumes. The initial operating capacity will be 100 beds. We expect to further augment our healthcare services offering in Chennai in line with our strategy to maintain our leadership position in the City. We also have a 200 bed hospital in Trichy scheduled to be launched later this year.

We also plan to extend our network of neighbourhood clinics post the transfer of the Chennai Clinics by AHEL to AHLL. All the clinics are now housed and managed under our 100% subsidiary Apollo Health & Lifestyle Ltd. There is a separate management team who are currently in the midst of formulating an expansion strategy for this business.

We have also signed a MOU with Afro-India Medical services to set up 30 Telemedicine units in East and West Africa in line with our strategy to focus on this region for international patients.

Now let me hand it over to Krishnan, our CFO, to provide you with further details of our financial performance.

K Akhileswaran Good afternoon everybody Thank you Ms. Suneeta. Good afternoon and thank you for joining our call. I trust all of you have gone through our investor presentation which has been circulated earlier and is also available on our website.

I would like to refer to slide 9 of the presentation which contains the Standalone Financial Performance. Standalone revenues grew 20.4% from ₹ 1,341 crore in H1 last year to ₹ 1,614 crore in H1 of the current fiscal. This was driven by 15.5% growth in revenues from Healthcare Services and growth of 32% in revenues from standalone pharmacies.

Consolidated revenues – slide 7 – grew even faster by 22.1% from ₹ 1,415 crore in H1 last year to ₹ 1,727 crore in H1 of the current fiscal aided by strong growth in Bangalore, Kolkata, Ahmedabad and Apollo Munich.

The Healthcare services business has witnessed an increase in consumables due to the depreciation of the rupee and increase in employee cost driven primarily by increase in entry level salaries for nursing. Despite this, EBITDA grew 23.1% from ₹ 223 crore in H1FY12 to ₹ 274 crore in H1FY13. The overall EBITDA margin has expanded by 38 basis points to 17%.

Consolidated EBITDA grew 25% from ₹ 248 crore in H1FY12 to ₹ 310 crore in H1FY13. This has been helped by case mix improvements as we continue to benefit from our 'Centres of Excellence' focus as well as operating leverage derived from higher volumes. EBITDA contribution from the standalone pharmacy segment too has further expanded and is currently at 2.7% in H1FY13.

Depreciation is higher due to the addition of capacity at Hyderabad, Bhubaneswar, Vizag, Hyderguda and Karaikudi. Financial expenses have been contained due to the refinancing of debts through debentures and new loans. We currently have Cash & Cash equivalent of over ₹ 400 crore as at 30th Sep 2012, with total borrowings of ₹ 800 crore.

Other income in H1FY13 increased to ₹ 18.4 crore from higher treasury income from funds which were raised in the QIP in July last year and from the issue of warrants to promoters.

The effective tax rate is lower this quarter as we have availed the benefit of Section 35 AD of the Income-tax Act which allows for 150% depreciation on new projects. As a result, Standalone PAT expanded 43% to ₹ 153 crore in H1FY13.

If you now turn to Slide 10 on Segment wise performance, you will see that EBIT in the Healthcare Services segment grew by 19.3% in the first half. EBIT from standalone pharmacies has expanded from ₹ 2 crore to ₹ 9.7 crore in the same period. Strong growth in EBIT from Healthcare Services has resulted in the annualised ROCE on Healthcare Services has improving from 18.4% in H1 last year to 18.9% in H1FY13

I will now take you through slide 12 which contains the key operating metrics in the hospitals business.

The Operational beds as of Sept 30, 2012 were at 5,265. The net increase of 167 beds over the period has come through the addition of 84 beds across our standalone hospitals in Bhubaneshwar, Madurai, Karaikudi, Mysore and Karimnagar and as well as 104 beds across key subsidiaries in Kolkota, Bangalore, Delhi and Ahmedabad. Overall occupancy has increased to 76% in H1FY13 compared to 72% in the same period.

We continue to report strong double digit growth in both inpatient and outpatient volumes. Volume growth during the period has been driven primarily from hospitals outside of Chennai and Hyderabad like Madurai, Bhubaneswar, Mysore, Karimnagar & Karur as well as from the JV and subsidiary hospitals.

Inpatient volumes grew 1.8% in Chennai while outpatient volumes grew 8.9%.IP volumes grew 8.7% in Hyderabad as we started to see higher volumes at our new international patients block. Outpatient volumes were a bit softer this year primarily due to the Telangana issue.

However, revenue growth continues to be strong at all our facilities. Chennai delivered 14.7% growth in IP revenues despite registering only 1.8% growth in IP volumes due to enhanced pricing and an improved case mix. IP revenues grew over 30% at ‘Other’ standalone hospitals followed by 17.5% growth at Subsidiary & JV hospitals. OP revenues also grew appreciably with Subsidiary & JV hospitals reporting a 28% rise. Hyderabad, reported 20% growth in OP revenues despite a marginal dip in OP volumes.

ARPOB has grown 12% on an overall basis with Chennai and the ‘other’ standalone hospitals reporting a 12.1% increase in ARPOB followed by Hyderabad at 9.4%. ARPOB at the Subsidiary & JV hospitals has risen by 6.4%.

Ms. Suneeta has already discussed Slide 16 which covers our expansion plans till FY16. The planned expansion will require an outlay of approximately ₹ 1,815 crore in a phased manner of which we have already invested ₹ 413 crore. The additional funds required will be met through existing cash, internal accruals and debt.

That’s it from me. I will now handover to Mr. Padmanabhan who will walk you through developments on Pharmacies, Health Insurance and Apollo Health Street.

K. Padmanabhan The Standalone Pharmacy business continues to grow strongly with revenues expanding 33.2% from ₹ 208 crore in Q2FY12 to ₹ 278 crore in Q2 this year. For the first half, revenues were ₹ 525 crore, an increase of 32% over revenues of ₹ 398 crore in H1 last year. While there has been an increase in the overall number of stores, a large part of the revenue growth in the pharmacy business is from growth in same store sales.

The operating profile of the business continues to get better. EBITDA has improved from ₹ 3.8 crore in Q2 last year to ₹ 8.2 crore in Q2 this year. The EBITDA margin itself has increased from 1.8% in Q2 last year to 2.9% in Q2 of the current year. This has come about through rationalization of the store network, buying efficiencies due to increasing scale, operating leverage and increasing contribution from private labels.

If you refer to slide 14 of our presentation, the analysis of the Pharmacy business demarcates our stores into 3 categories, stores set up in FY08 and earlier, stores set up in FY09, stores set up in FY10 and the total metrics for all categories of stores.

Like-for-like revenue growth has been 17.5% for the mature stores set up before end FY08, 21.6% for stores set up in FY09 and 24.1% for stores set up in FY10. The EBITDA performance continues to improve for each category. You will also notice that all the stores set up till FY10 batch representing over 850 stores are now significantly EBITDA positive.

The pre FY08 category which contains the mature stores has reported an EBITDA margin of 5.3% in Q2FY13 compared to 4.7% in Q2FY12. In fact, within this category, stores which have been set up before FY07 have reported an EBITDA margin of 6% this quarter.

Over the last 24 months we have shut 48 stores in Delhi and Mumbai where the high rentals were rendering operations unviable. However, the expansion continues to move forward and in Q2, we added a net of 42 stores during this quarter, giving us a pan India network of 1,399 stores as on 30th Sept, 2012.

As we have always maintained, we plan to scale up this business and are open to a strategic partnership with a global player who can not only invest but also add value to the business. The regulations governing FDI in retail are encouraging. We are focused on growing this business profitably as we move forward from here and will be evaluating on how we can unlock value at an opportune time.

Apollo Munich Health Insurance has recorded an increase of 38% in Gross Written Premium (GWP) from ₹ 155 crore in H1FY12 to ₹ 214 crore in H1 of the current year. Total Income is higher by 54% from ₹ 145 crore in H1 last year to ₹ 225 crore in H1 this year.

We are pleased to report a positive EBITDA for the first time in this business as H1 EBITDA was ₹ 2.4 crore compared to negative ₹ 12 crore EBITDA in the same period last year. Similarly, in Q2, we have reported our first ever net profit of ₹ 0.4 crore while there been a loss of ₹ 1.8 crore at the net level in H1.

Apollo Health Street reported an increase of over 9% in Total Income from ₹ 244 crore in H1FY12 to ₹ 267 crore in H1FY13. Focused sales and marketing efforts have helped us increase business volumes and this has been further helped by favourable trends in currency exchange rates. Cost optimization has led to an increase of 27% in EBITDA from ₹ 38 crore in H1 last year to ₹ 48 crore in H1 of the current year. The EBITDA margin for H1FY13 is up 243 basis points to 17.8%. We have also reported a net profit of ₹ 5 crore for the first half of this year compared to a net loss of ₹ 8.4 crore in the same period last year.

This is all from me and we are now ready to take your questions. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from Farzan Madon from Axis Capital.

Farzan Madon Just one question is that your expansion for around 3,140 beds is coming all over India, now where exactly are we on course basically, especially in the Bombay region?

Suneeta Reddy I think in the Bombay region we have been delayed slightly in getting some permission. But we will be fully operational in the year 2015-16.

Farzan Madon Since you'll coming up with such an expansion program, is it possible that we can end up with MAT, the minimum alternative tax of around 17, 18%? Or do we still continue to be at around 27%?

K. Akhileswaran The MAT is the cash flow mechanism and we are currently at the MAT. But if you look at the 150% and the 50% additional that we have, the effective tax rate now is around 26%. It depends on how many hospitals and the CAPEX that we add every year. This can vary each year from 24 to 27% as we see now. So this year it is around 26%, but even if we are paying MAT, the effective tax rate will still be around this number.

Moderator Thank you. The next question is from Aditya Khemka from Nomura. Please go ahead.

Aditya Khemka My first question is on the stand alone pharmacies. The total number of pharmacies that we have added in the first half is around 35 net stores. If I remember correctly, the idea was to add around a 100 stores every year. Would that guidance still stand?

Padmanabhan Yes. We are scheduled to open about 100 to 120 stores for the year. We have actually opened 42 stores in the first half.

Obul Reddy Net addition after closing about 45.

Aditya Khemka So that 100 to 150 store is the net store addition right? So we should expect the second half to be much more aggressive than the first half of FY13?

Obul Reddy Yes that is right.

Aditya Khemka Dr. Reddy was quoted on a television interview saying that the Apollo standalone pharmacy operations will be about 2,000 stores strong in 3 years' time. So if we take that number to be a guidance, then the net addition per year would have to be in the region of around 200 stores over the next 3 years. Would you comment on that?

Obul Reddy Generally we plan to add about 250 new stores and close about 50 to 60 old non-performing stores. We stand there approximately at that number.

Suneeta Reddy I think our Chairman was looking at the macro picture were we plan to add 500 because we always look at locations for 500 stores. We open as many as we think are feasible and eventually we end up closing down some stores. If you look at net additions, it is below the number quoted by Chairman.

Aditya Khemka So if I look at the Chennai cluster for quarterly performance for this quarter, the second quarter from the first quarter in the ARPOB growth, the number that I am looking year over year in ARPOB is close to 9% as compared to something like 20% in the first quarter. So can you just elaborate on that a bit, what is driving that?

K. Akhileswaran So you are saying that Q2 over Q2 of last year is 9% compared to Q1 over Q1 of last year. I think that is to do majorly with the case mix that has been a bit different in Q2 of this year. But I do not think that is going to be continuing as we move forward and we should be able to see that pick up.

Aditya Khemka So when we are expecting ARPOB growth, what kind of expectations can we build into our models? You think we could build a teen kind of an ARPOB growth or should we just remain close to 10% kind of an ARPOB growth, in a longer term period, I am talking about 3 to 5 years? So what kind of ARPOB growth will you foresee in mature clusters like Chennai and Hyderabad?

K. Akhileswaran When you look at it 3 to 5 years, it is a pretty long term view that you are taking. If you are talking of a quarter, close to double digit is fine. But if you are looking at 3 to 5 year period, as we are going to be seeing a lot of changes in the dynamics in the Chennai cluster itself. As you are aware, we have been managing this as a cluster and you would see that the Ayanambakam facility which will be opened up in the next quarter, that would add another 200 odd beds, that would enable us to shift some of the specializations as well. We will be able to rebalance our portfolios in some of our other hospitals. So we have plans in the Chennai cluster to further augment the revenues as we move forward and as we get closer to that we could share that with you. But I think a double digit growth is something that you can still factor in for the ARPOB over the next 3 to 5 years. It could be 12 to 14% also.

Suneeta Reddy I think it is important to realize that our mature hospitals were able to maintain this 12% like we have done in Chennai. But it will get calibrated because in the next 3 years we would be adding 30% of our volumes that would come from new beds which will be at a slight discount to the current tariff. So I think that is what you need to factor in. So when Ayanambakam comes in, it would be at its slight discount to what we are doing in the mature hospitals.

Aditya Khemka Actually my question was that, in this quarter there is no Ayanambakam and despite that we are doing quite a single digit growth in ARPOB year over year. But I understand your point. If the management is comfortable with something like double digit growth over 3 to 5 years that will be good enough for me. The next question was can we assume a similar kind of ARPOB growth in other clusters? Primarily in Hyderabad cluster seeing that there is limited capacity addition going forward and the occupancy rate has not really picked as I look at it, it has been in the mid-60s for some time now. So the only thing driving revenues in this cluster has been the ARPOB growth. So should we think in a similar manner, when I think of the Hyderabad cluster going forward? Would it also do something like a double digit in 3 to 5 year horizon?

Padmanabhan I just need to clarify what this ARPOB comprises of. It combines tariff increase, case mix and an average interest rate. These are the three factors that go into creating the ARPOB growth. It is possible that during periods of high inflation you can have very high levels of ARPOB growth and if you combine it with ALOS improvement then you will find equally large increases. And the converse is also true that is at low inflation you can see some subdued ARPOB growth. It has been our experience and that is what Krishnan was trying to say. It could be in the range of 8 to 12% of ARPOB growth. In newer facilities, for example you will find that ARPOB growth will continuously increase as we scale up volumes but this may not make a significant impact in terms of overall ARPOB at company level.

Aditya Khemka Sir, my question was about the Hyderabad cluster which is obviously a mature cluster. So when you were discussing the Chennai cluster I think Krishnan mentioned it was 12 to 14% kind of an ARPOB that could be expected. In Hyderabad do you think 8 to 12 would be a better number to look at or would 12 to 14 also stand for Hyderabad?

Padmanabhan About 40% of Hyderabad clusters actually are also newer beds. Out of the 930 beds we have in Hyderabad, about 400 to 450 are mature beds and the balance are actually newer beds. One will have to see that. But you will find that because of the newer beds, you will find that the ARPOB growth will also mimic what has happened at the Chennai level as we go forward with an increase in occupancy.

Aditya Khemka What is the outlook that we are seeing on the Indian plans as far as inorganic growth is concerned? I know we always have maintained that we are looking at evaluating opportunities and we will do something. So what is the scenario right now? How is the expectation and what is the quality of facilities that you are looking at? And connected to this question another question would be, beyond FY15 how many beds can we see ourselves adding each year if I look at say, a 10 year horizon, how many beds can we add each year beyond FY15?

Aditya Khemka No, what is the merger and acquisitions scenario right now? What is the kind of facilities that you are evaluating, is there anything interesting available in the market? What is the outlook on any inorganic opportunities?

Padmanabhan At the moment as we have said we have on hand about 3,100 plus beds that will get commissioned over the next 3 years or so. Beyond that we do get any interesting opportunities for investment and we think that if they are attractive enough, then this could be taken as additional beds. But right now what we have is what we actually disclose. But we are always on the lookout and you will see that even compared to 6 months back, we have looked at some newer facilities including in the city of Bangalore. So as and when these opportunities come we do also an additional look at that.

Aditya Khemka Has there been any material change in your outlook on the M&A front over the last year? Have things improved as far as valuations are concerned or have the expectations remained where they were 12 months ago? Has there been a change?

Padmanabhan I think the benchmark valuations have been set up by Apollo itself. To that extent people do expect rich valuations in this sector. We on the other hand look at what is it that we can afford to pay and how they would add value to our financials if we were to actually do M&A with some of these and they are attractive enough if we still look at. There are some available. We are still discussing on some of these things. But they have to come at a value that is attractive. I do not think we would make any strategic acquisitions for the sake of making acquisitions.

Aditya Khemka How many beds do you see yourselves adding beyond FY15? If you are looking at a 10 year horizon period, what is the kind of number of beds that one can expect Apollo would add beyond FY15?

Padmanabhan As you know our base itself will go significantly up by FY15 and therefore we would be in a position to take on more additional newer beds, because the portion of our current bed capacity at that time will be a smaller portion, which is what drives us in terms of determining how fast we grow. To that extent we will be a little bit more aggressive as we go forward.

Aditya Khemka Given FY13 to FY15 you are adding about 3,000 odd beds, would you think a 1,000 bed run rate a year is a reasonable expectation to have from Apollo going forward beyond FY15?

Padmanabhan We would like to do a measured growth. We do not like to strain our financials too hard. And we also like to be able to be sure that we deliver the kind of output that we stand for in terms of medical quality and medical outcomes. So to that extent we all will be measured in our outlook in terms of what we plan to do unless of course as I mentioned to you, something very significant comes up which is very attractive.

Aditya Khemka I was talking about organic addition of beds. So organically can we expect Apollo to add 1,000 beds?

Padmanabhan Organic additions of beds may happen only post '14, '15 where we have ability to add even within our existing facilities where we have land, where we can actually increase the number of beds. That includes Bangalore, Calcutta, Ahmedabad, even Hyderabad. But I think we will wait till about '13 or '14 before we make plans with that.

Moderator The next question is from Praveen Sahay from B&K Securities. Please go ahead.

Praveen Sahay I have a question regarding that in the hospital business, the revenue from Karimnagar and Karaikudi has increased quite significantly in this quarter. I just wanted to know how many operational beds are in these hospitals and what is the occupancy rate?

K. Akhileswaran Karimnagar and Karaikudi are relatively low now. If you look at the number of beds that are now operational in Karaikudi it would be almost around 50 beds, but it is a 100 bed hospital. We would be over a period of time increasing the Karaikudi operational beds. And the number of beds that we today have in Karimnagar is approximately 100 and it is almost around 66% occupied and it is at 72 bed occupancy now.

Praveen Sahay What is the ARPOB level? In the category wise slide, if I see, the 'Others' have an ARPOB of ₹ 11,000 or thereabouts?

K. Akhileswaran ARPOB in the tier 2 clusters and if you look at cities like Karimnagar, Karaikudi etc. would be in the range of ₹ 7,000 to 9,000.

Praveen Sahay Currently we are seeing an overall occupancy level of some 76%, so how we are seeing in the current quarter, like in the past quarter it is quite good overall? So is this going to improve or it is improving? What is the trend in overall hospitals?

K. Akhileswaran We have reported a good Q2 and as we speak the occupancies continue to be good.

Praveen Sahay My last question is related to the pharmacy business. We had added 56 new stores and discontinued 14 stores. I just wanted to know what type of formative stores are these, the new additions? And what is the CAPEX related with that?

K. Akhileswaran It is in line with the existing roll outs. We have a large format store roll out which is being planned but that is still being studied because there are rentals and other things also which we have to factor in before we expand in that exact format. The format of stores that we have added now is predominantly the smaller format stores that we continue to roll out.

Praveen Sahay This 14 which we had closed is of which batch, the older ones which are loss making?

Obul Reddy Most of them are loss making obviously and predominantly belonging to 2008-09 batch.

Moderator The next question is from Eshit Sheth from Anvil Shares & Stock Broking. Please go ahead.

Eshit Sheth One is on the equity front of it. Basically our equity has increased from almost 67.23 crore to 69.56 crore which represents almost 2.33 crore of higher equities. So if we are going to see the preferential allotment to the promoters, it was for 3.27 million shares at Rs. 472 which I assume has been converted for this quarter. Am I correct? Apart from that, that translates into an equity addition of almost 1.63.

K. Akhileswaran The balance is because of this IFC. We have this FCCB from IFC which is now been converted also and the balance is because of IFC conversion into equity shares. We do not have any outstanding FCCBs at this point in time.

Eshit Sheth And we do not plan to dilute our equity any further as of now?

K. Akhileswaran Yes. Not now.

Eshit Sheth Apart from that, question on the CAPEX which we are incurring for our Bombay cluster, what we see is the estimated cost for 300 beds for Byculla Hospital in Mumbai is around 140 crore. That translates into roughly ₹ 40 lakh a bed and for other hospitals it is nearly ₹ 1 crore a bed. What is the difference in the model? Are we leasing out the hospital at Byculla?

K. Akhileswaran Yes. Byculla is a leased model.

Eshit Sheth And the other two will be owned by us correct?

K. Akhileswaran Yes. That is correct.

Eshit Sheth Sir, just a question on the Chennai cluster, basically we were talking about adding 40 beds in the OMR part of Chennai. So has that been operational now?

K. Akhileswaran That is on course to begin operations in the next 6 months. The work is on and we need to complete the finishes, etc. So in FY14 we would be adding this is what we have stated. It would be another 6 months away before we start at the operations there.

Eshit Sheth How do you see the overall Chennai cluster? In-patient volume if you see, they have just grown by 1.8%. Now the volume will come only once we add new beds?

Padmanabhan At the moment the Chennai hospital is quite full. All the hospitals in Chennai are full and which is one of the reasons why our growth has been restricted to 1.8%. Over the next 6 months we have plans to decongest Chennai and move some of the out-patient facilities out of the main hospitals so as to create greater number of beds in the main hospital in Chennai. We will also do the same in the specialty hospitals. We hope if all goes well in the next 6 months or 8 months, we will have another 160 to 180 beds coming between these two centres alone in addition to what we will have in Ayanambakam and the 40 beds that we talked about in OMR. So I think the next 6 months to 2½ years there will be a heavy Chennai focus in terms of increasing capacity here.

Eshit Sheth Sir, one more question on the pharmacy side. Till today the model on the pharmacy side is small store pharmacy that we have. We hear from news reports that we are planning to scale up on the size of pharmacies to 800 to 1,000 square feet. Is that correct?

Obul Reddy That is correct. We are working on that format. These are only flagship stores.

Eshit Sheth How many do we plan to start off with?

Obul Reddy Currently studying the concept. We are yet to come out on the numbers, we will be rolling out by year end.

Eshit Sheth What will be the CAPEX per store for those stores?

Obul Reddy It will be roughly in the range of 30 to 35 lakhs as against the current 15 lakhs.

Eshit Sheth FDI got passed in multi brand retail, any update we have on that?

Obul Reddy We are watching for the final outcome in the parliament next week.

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

Ravi Dodhia Just wanted to understand, currently what portion of interest is being capitalised?

K. Akhileswaran If you look at the work in progress that we have today, the number is around ₹ 400 crore and if you look at interest which has been capitalized is approximately around ₹ 20 crore in the first half of this year.

Ravi Dodhia With respect to the hospitals in Tier 2, Tier 3 cities like Bhubaneswar, Madurai, Karimnagar, currently what are the ARPOB levels and also the return on capital employed for these locations?

K. Akhileswaran Bhubaneswar is already doing a 20% EBITDA. So the Bhubaneswar volumes have seen very healthy growth and now we are almost at a ROCE of 7 to 8% in the Bhubaneswar facility. As you know our target ROCEs in the 4th, 5th year is around 18 to 20%. Bhubaneswar is currently in the 3rd year. In Madurai we are already at a target ROCEs of 20%.

Ravi Dodhia Sir, currently they are in what range?

K. Akhileswaran ROCE of 20% is what Madurai is. If you look at the REACH hospitals typically like our tertiary care hospitals in the urban centres as well, the models factor in an 18 to 20% ROCE by the 5th year.

Ravi Dodhia What about the facilities at Karimnagar and Karaikudi?

K. Akhileswaran Karimnagar is almost at around 14 to 15% ROCE now and Karaikudi is still not yet at positive ROCEs.

Ravi Dodhia Where do you see occupancy at the Hyderabad cluster, because since last 1½ years we have been seeing it is hovering at around 60, 65%. So in the near future within 1 to 2 years, where do you see occupancy at this cluster?

Padmanabhan I think the additional beds came only last year, which is why occupancies actually dropped about 60 to 65%. We are now building up occupancies in the newer facilities. The Hyderabad main facility is actually quite full. It is the newer facilities that need to get occupied. I think over the next two quarters we expect occupancy to go up significantly in the newer facilities as well.

Ravi Dodhia Say 3 years down the line can we see it actually nearing the Chennai cluster?

Padmanabhan Yeah. It was so about 18 months back, close to levels of about 77 to 80%. That is what we expect to see in Hyderabad within the next 2 years or so.

Ravi Dodhia What is the contribution of private labeled goods in the pharmacy business?

Obul Reddy About 4.5% approximately.

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

Perin Ali Sir, my first question is on the margin front. As we have seen sequentially margins have been very robust in standalone hospitals as well as standalone pharmacy business. This is despite the fact that Telangana issues were there in Hyderabad and out-patients volume growth was negligible. Also we see that the joint ventures and subsidiaries have expanded very well sequentially as well as yoy. But still at a consolidated level, we see EBITDA margins at hovering around 16.8%. Now are we seeing pressure in the subsidiaries and JVs and how do we look at the numbers given this?

Padmanabhan I think it is primarily because standalone pharmacies are growing at about 33%, hospital business is growing at about 15 to 17%. Since the EBITDA margins on standalone pharmacies are significantly lower which is why you see that overall EBITDA has gone up only by 0.4% even though there has been a significant increase. So that really is just mathematics.

K. Akhileswaran And if you look at it versus last year, you will realize that the consolidated numbers are significantly better than the last year consolidated numbers, which has been aided by the growth in these hospitals that we have in the consolidated segment.

Perin Ali But sir going forward given that the currency is also appreciating now and probably in a scenario where the currency may not hover around 55, 56 levels, also with margins improving in pharmacies and new hospitals, do you see now margins significantly expanding in the second half on a consolidated basis?

K. Akhileswaran I think we would still look at the margins to be in this range as we speak. Over a period of time, as we are able to increase our occupancy in clusters like Hyderabad and other hospitals like Bhubaneswar and also with some of the things that Padmanabhan said about the Chennai cluster, we would be seeing the EBITDA margins improve as we move forward over the next 12 to 18 months. But over the next 6 months we would still continue to look at margins around this number.

Perin Ali My second question is on your strategic decision of getting a partner for the pharmacy business, as you mentioned in your opening comments. I just wanted to know what kind of strategic partners we are basically in talks with. And also what kind of synergy strategic partner would get through Apollo standalone pharmacies? Given that multi brand FDI retail is to be taken up next week as you mentioned, what kind of regulatory hurdles do you see that you could face in getting this deal passed through if it happens?

Padmanabhan Basically when we talk about strategic partners, we mean people who are in the business of pharmacy retail. Currently we are at about 1,400 stores out of a total universe population of 600,000 stores in India. So we are still an insignificant player from that point of view. And we think there is a huge scope for expansion in the pharmacy business. Given that our core competency is health care delivery, but having brought up the pharmacy business to this level, we believe that a strategic partner will help to not just financially unlock value but also create more values for this business itself which will obviously help the shareholders of Apollo. We are just looking forward to the opening of FDI retail because then it gives us a great opportunity to look at players from all over the world.

Perin Ali Sir, what I was trying to understand is how we offer a synergy to the strategic partners?

Padmanabhan Obviously Apollo is a very strong brand. Secondly we are spread across the country so we offer infrastructure. We also offer a very strong supply chain logistics. But from the fact that the hospital network itself we will continue to also keep feeding patients into the standalone pharmacies. So therefore there are large synergies that the chain can offer, which is one of the reasons why several strategic partners are talking to us at present.

Perin Ali If there is FDI in retail in whichever form it comes, what kind of regulatory hurdles you could still see, or strategic partners could see in probably entering into this business in India even through you or through any other entity? If you could just throw some light on that?

Padmanabhan We do not know really. At this point of time, we will have to see whether there are any preconditions to how this is going to be passed in Parliament. But otherwise we do not see any major regulatory hurdles for anybody either partner with us or partner with anybody else.

Moderator Thank you. The next question is from Prashant Nair from Citigroup. Please go ahead.

Prashant Nair Firstly, your ARPOB numbers are after netting off what you pay the consultant doctors. Is there any estimate you can give us for the gross number?

Padmanabhan It will be about 22 to 25% you should gross it up.

Prashant Nair Second question relates to Apollo Health Street. How much debt would Apollo Health Street have on its books?

K. Akhileswaran Apollo Health Street on its books has approximately about $ 90 million of debt.

Moderator Thank you. Ladies and gentlemen we will take one last question from Krishna Prasad from Kotak Securities. Please go ahead.

Krishna Prasad One of the speakers talked about some of the restructuring which is being planned in Chennai. We also have this expansion of 30 beds in the Chennai main facility and another additional 60 beds for women and child. So are these parts of the same restructuring initiatives?

Padmanabhan Yes. Chennai currently has about above 600 beds in the main, about 260 beds in Specialty, 100 beds in First Med and other 40 beds in smaller facilities in Sowcarpet and Thondiarpet. And we have just done the 250 beds out of which 100 have been commissioned in Ayanambakam. We have another 65 beds in the

	children's hospital. That is where it stands now. We are planning to do the women's hospital which is about 45 beds which will come in about 18 months' time. I mentioned to you that we will be shifting the out-patient to another facility close by, releasing about 140 beds in the main. We will also shift partly the out-patient facilities in cancer facility Specialty which will release another 40 beds adding up another 180 beds. All of this will come into the Chennai facility. So there will be a very significant increase in beds apart from the 40 beds I talked to you about in OMR which is going to be a cardiac facility. From a longer term point of view, which is another 24 months or less than that from now, is another 300 bed hospital that we are planning to open near the Tidal Park in Chennai.
Krishna Prasad	So this 30 bed expansion that you are talking about for FY13 in the Chennai main, that will be an addition to this 180 beds?
Padmanabhan	Yes. That is right.
Krishna Prasad	Is there any specific speciality where this 30 would be added?
Padmanabhan	30 is a very small number. There would be just an addition of beds which will be available for all specialties.
Krishna Prasad	My second question is about the Hyderabad facility. I think for the past few quarters now we have seen this number to be around 930 operational beds. Would you share what is the actual number of beds which is available?
Suneeta Reddy	It is 930 beds.
Krishna Prasad	That are the operational beds right? Is there additional capacity left there that can be expanded to?
K. Akhileswaran	There is capacity which we can be added in the main hospital but that is not something we are focussing on now.
Padmanabhan	We mentioned that we will probably look at that in 2014-15.
Moderator	Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Ms. Suneeta Reddy for closing comments.
Suneeta Reddy	Thank you ladies and gentlemen for joining in on this call. We are optimistic about the future. We understand that there are challenges ahead of us in implementing projects because of certain issues. We are very confident of delivering growth as we have promised to all our investors and I think that the whole team is committed to delivering this growth. I speak not only behalf of the hospital services but the pharmacy division and also the insurance verticals. So thank you again for listening in on this call and we look forward to any questions that you might have. You can contact Mr. R. Krishnakumar for any other additional information.
Moderator	Thank you very much. On behalf of Apollo Hospitals that concludes this conference call.