Apollo Hospitals Limited

Q3 FY15 Results Conference Call Transcript
February 16, 2015

Moderator Ladies and Gentlemen, Good day and welcome to the Apollo Hospitals Q3 FY'15 Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani of CDR India.

Mayank Vaswani Thank you for joining us on this call to discuss the Financial Results of Apollo Hospitals for Q3 & 9M of FY'15 which were announced earlier. We have with us today, the senior management team comprising Ms. Suneeta Reddy – Managing Director; Mr. S.K. Venkataraman – Chief Strategy Officer and Mr. A. Krishnan – Chief Financial Officer.

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 complete listing of such risks and uncertainties, please refer to our Investor Presentation.

We will start with Ms. Suneeta Reddy who will discuss the "Operating Highlights" for the quarter, following which Mr. Krishnan will discuss the "Operating metrics", "Expansion plans", and "Other Highlights". Documents relating to our financial performance have been shared with all of you earlier and have also been posted on our corporate website.

I would now like to handover to Ms. Suneeta Reddy for the key highlights of our performance.

Suneeta Reddy I am pleased to inform you that our business grew by nearly 20% which demonstrates the robustness of our business model. Revenues from Healthcare services have grown 12% and Standalone Pharmacies grew by 32% in Q3 FY15. EBITDA grew by 11%. The overall EBITDA margins dropped due to losses in the new units and higher contribution of Standalone Pharmacies (SAP). However it is heartening to note that existing healthcare services improved their EBITDA margins from 24.31% to 24.34% in Q3FY15.

Performance of our new hospitals have been particularly good, i.e. hospitals at Vanagaram, Chennai & Jayanagar, Bangalore. Overall new unit revenues have grown from Rs 34 crore to Rs 122 crore for the nine months ended Dec 14 reflecting an over 3X growth. While both Vanagaram & Jayanagar have now become EBITDA positive the focus of the operations team in Trichy, Nashik & Karapakkam currently is to strengthen our medical teams in these locations as well as work on strong local market referrals so as to fast forward the breakeven of the unit's next fiscal.

We have added 900 beds in 6 locations in the last 12 - 24 months (This includes Vanagaram 260, Jayanagar 140, Trichy 200, Nashik 125, and Karapakkam 60 & Indore 120). Despite bunching up of many units coming up almost one after another Management has demonstrated its ability to manage growth, in particular the human resources required to start so many units at almost the same time. We are in the final stages in the current wave of capacity expansion and will add another 1300 beds in 6 locations in the next 12 - 15 months (Nellore 200, OMR 170, W&C 60, Malleswaram 180, Chennai Main 30, Navi Mumbai 350, and Indore 65 & Vizag 250). At the end of this wave in FY16 we would have created 35% additional capacity for future growth and our focus now is on operationalizing the new capacity and consolidating our leadership position in these markets in FY16 & FY17.

Our existing facilities reported good growth on the back of sustained volume growth and rebalancing of case mix. Our continued efforts at bringing down the average length of stay in our existing units have resulted in releasing capacity across mature facilities. While in the short run it may seem to affect occupancy, it improves the ARPOB and creates capacity for higher acuity care as we move forward. We continue to maintain a keen focus on clinical differentiation and outcomes by pioneering latest procedures, front - line technologies such as Robotics as well as Minimally Invasive surgeries and Daycare work.

The Standalone Pharmacy business continues to reflect strong momentum. Revenues were at Rs. 471 crore in Q3 FY'15 an increase in 32% over the previous year. EBITDA grew by 24% in Q3FY15. The EBITDA margin was at 3.2% in Q3FY15.

As all of you are aware, during the quarter, Apollo Health & Lifestyle acquired 11 Day & Short stay surgery centers from Nova Specialty Hospitals with footprint in 8 cities across India. Given the immense potential and the need for quality healthcare delivery closer to the home, this acquisition will enable AHLL to significantly expand its' footprint and will catapult it into a leadership position in this segment of healthcare. The format has strong potential and Apollo plans to leverage its brand equity combined with deep hospital expertise and its doctor to significantly grow this business in the next few years. This acquisition will also mark the entry of Apollo in new markets such as Mumbai, Jaipur and Kanpur.

The quarter also witnessed AHLL formalizing the partnership with Sanofi, a global leader in diabetes management. Sanofi acquired a 20% stake in Apollo Sugar Clinics. The partnership is on course to set up 100 such clinics in the first wave of expansion. This is an encouraging start towards Apollo's vision of offering a multi - faceted Diabetes management programme in India which will provide a new approach to Diabetes care to benefit patients in India and other parts of the world. As we embark on our strategic review and plans for the future, I would like to articulate how we have seen our strategic thrust thus far. While many of our large existing investors are aware, I thought it will be useful to spell out this to those who may be new to Apollo.

Our businesses fall in to 5 clearly defined areas as follows:

1. The tier 1 high end tertiary care multi-specialty hospitals in the top cities in India and the suburban expansion in these cities through a cluster approach

2. The REACH hospitals in Tier 2/3 cities.

3. Our retail expansion into Clinics, Short stay surgical centres and Cradles.

4. Exploring and penetrating the single specialty business such as oncology, especially in the Metros/Mini Metros.

5. Our business of retail pharmacies.

These opportunities carry not only different risk/ rewards but calls for a balanced approach between our growth aspirations and profitability. Our strategic direction has been based on trying to arrive at how to optimize both, the entrepreneurial drive for growth and a professional approach to managing the expansion has made Apollo a stand out performer over the last decade. Our strategic plans for 2016 onwards will build on this, particularly in the light of changing consumer demographics, institutional businesses, higher International patient flows which have grown by 20%, competition for consumers and human resources, increased capital costs and government policies.

We completed 3 acquisitions during this year and are in the process of completing one more in the next 3 months in North - East. As I stated, we acquired the short stay surgical centres of Nova, the 300+ network of retail pharmacies from Hetero, and a majority stake in Indore for a 150+ bed hospital. We continue to look at both organic and inorganic growth strategies, asset light options through leased facilities, brown and green field expansions. The decision to follow competing opportunities is based on our view of how we balance growth vs. profitability and the risk /reward profile of the options. Towards achieving this, we have made a few internal organisational changes. I welcome Ms Anne Marie Moncure who joined us last month as CEO - Southern Region. Anne is not new to Apollo as she was the Managing Director of our Indraprastha Delhi hospital from 2004 to 2006. Anne brings decades of healthcare knowledge across America, Europe and Asia. We now have 4 regional CEOs for 4 regions that we are currently based out of – Southern, Central, Eastern and North. We continue to be accredited with several international and national awards recognizing quality and innovative nature of our healthcare services. Apollo continues to be regarded as the Best multispecialty hospital in the private sector across Chennai, Hyderabad, Kolkata and Ahmedabad in 'The Week - Nielsen Best Hospital Survey 2014.

Now, over to Krishnan – our CFO for details of our financial performance.

A. Krishnan Thank you Ms. Suneeta and a very good afternoon to all of you. On a y - on - y basis, Revenue growth has sustained its upward trajectory at existing hospitals by over 8% and in our standalone pharmacy segment by 29%. New hospitals have displayed a growth of over 260% in this year aided primarily by Jayanagar & Vanagaram both of which have transitioned to positive EBITDA as per plan.

As always, I will take you through the key slides sharing thoughts on the financial performance. Our Q3FY15 Standalone revenues grew 19% from Rs. 993 crore to Rs. 1,183 crore in the same period last year. Our Standalone EBITDA was at Rs. 175 crore from Rs. 158 crore in Q3 FY14, a growth of 10.7%. The EBITDA margin was 14.8%, a dip of 111 basis points. Change in EBITDA Margin is attributable to two reasons – firstly, the contribution of revenues from the standalone pharmacy segment to total revenues has increased from 36% in Q3 last year to 40% in Q3 of the current year. As Pharmacy EBITDA of 3.2% is lower than healthcare services

EBITDA, the same reduces the overall blended Reported EBITDA margins. Secondly, the Total EBITDA loss from the new hospitals has been Rs. 2.5 crore in Q3FY15. Vanagaram and Jayanagar have reported a positive EBITDA of Rs. 2.4 crore this quarter which has been offset by the combined EBITDA loss of Rs. 4.9 crore from our facilities at Trichy, Nashik and Karapakkam. The high initial fixed costs and guarantee money to doctors would be absorbed and recovered as we grow our revenues in the new hospitals.

YTD Dec 14 Standalone Revenues grew 18% to Rs. 3,389 crore and EBITDA was higher by 8.6% at Rs. 504 crore. Slide 8 of our Investor Presentation provides a split of existing & new unit's performance. Moving to the next slide, slide 9, let me take your attention to the ROCE number which has dipped from 15.3% in YTD Dec 13 to 15.1% in YTD Dec 14. RoCE has been impacted by a mix of reduced operating profit margins and an increase in depreciation due to the revised provisions in the New Companies Act. Further, the new hospitals added in FY13, FY14 & FY15, Vanagaram, Jayanagar, Trichy, Nasik & Women & Child Karapakkam with Rs. 493 crore of Capital deployment are yet to begin contributing to ROCE. ROCE from our existing hospitals is at a healthy 18%+.

Details of our consolidated financial performance are presented in slide 11 and 12. YTD Dec 14 Consolidated revenues grew 18% to Rs.3,860 crore. Of this, Revenues from existing Healthcare Services business grew 9.1% on a year‐on‐year basis. This includes a strong performance by our subsidiary and Joint Venture hospitals at Bangalore, Ahmedabad and Kolkata.

The consolidated financials include a 23.7% growth in revenues by Apollo Munich Health Insurance. Apollo Munich has reported a positive EBITDA of Rs 2 crore in YTD Dec 14 compared to a loss of Rs 19 crore in the same period last year. Apollo Health & Lifestyle revenue grew 21% from 54 crore in YTD Dec 13 to 65 crore in YTD Dec 14. However, there has been an EBITDA loss of Rs. 14 crore during the period due to higher overhead costs and addition of new clinics and cradles which are yet to contribute to profitability.

Moving on to Slide 14, which showcases the operational performance of our hospitals. In Chennai, inpatient volumes grew by 7.2%, supported by good growth in Vanagaram which now has an occupancy of over 100 beds. Similarly, outpatient volumes were higher by 7.6%. We have seen a dip in occupancy at 69% on an expanded bed base of 1,383 beds in YTD Dec 14 as compared to 74% in YTD Dec 13. As mentioned by Ms. Suneeta, we are working on rebalancing the cases across the various centres in Chennai, which is reflected in the lower ALOS and higher ARPOB by 6.1% at Rs 35,304. We have made deliberate efforts in the Hyderabad Cluster to minimize both low complexity and low paying subsidized cases with a view on enhancing the case mix. The results show that the strategy is paying off with improved revenue realization and profitability. Inpatient volumes increased by 3.6% whereas inpatient revenues grew 7.4%. Due to the initiatives undertaken the occupancy dipped to 64% in Hyderabad with a noticeable reduction in ALOS as expected. The sustained momentum from the GP Connect Program has resulted in an improvement in OP footfalls by 10.6%. This has helped to push the Hyderabad ARPOB by 13.6% to Rs. 22,523.

The hospitals which form part of the "Others cluster" and account for nearly 1,700 beds have reported revenue growth of 17.4%. While IP volumes have grown by 9.9%, OP volumes have grown 8.3%; together with a richer case mix have translated to a growth of 17.6% in IP revenues and 16.4% growth in OP revenues. The occupancy is at 66% on an expanded capacity as compared to the previous year.

ARPOB in these hospitals was better by 14% at Rs. 15,159 when compared to the previous year. Our joint venture, subsidiary and associate hospitals have also shown an encouraging performance; OP revenues improved by 14.8% with a 11.6% increase in OP volumes. IP volumes grew by 5.3%, IP revenues were higher by 10.9% once again reflecting a superior case mix. Occupancy rates marginally dipped to 75% and ARPOB grew by 7.5% to Rs. 27,140.

Slide 16 covers the batch wise performance of Standalone Pharmacies which sustained its growth momentum with 29% increase in YTD Dec 14. Consequently, EBITDA grew by 28% over the previous year. EBITDA margins was at 3.2% in YTD Dec 14. Within this, the pre - FY2008 batch of stores has hit an EBITDA margin of 5.8%. The revenue per store of the pre FY2010 batch of stores in YTD Dec 14 is 17% with an EBITDA per store growth of 25%. We added 67 stores on a net basis in Q3FY15 and 152 stores in YTD Dec 14. As of Dec 31, we have 1,784 stores. The Hetero acquisition would add 320 stores and take the total tally of stores to over 2,000 stores on a pan India basis, subject to due diligence and receipt of statutory approvals

Slide 18 has details on projects and new capacity. The hospitals in OMR (170), Nellore (200) are scheduled for launch this year. The current expansion plan envisages 2,020 beds up to FY18 at an investment of Rs. 2,050 crore. Of Rs 1,993 crore which is Apollo's share of the capex plan Rs. 906 crore has been already spent towards these projects. The balance would be funded through a mix of internal accruals & debt.

Anne Moncure Quite honestly, our priority is in gauging our leadership position and making sure that each of our medical facilities has the medical staff dedicated to the services they provide, optimizing the clinician engagement model and imbibing the connect between administration and consultants, reignite employee passion by engaging and attracting top talent, instill a culture of accountability, efficiency and sharing of best practices across the group, reorienting ourselves to the ruthless customer centricity that put us where we are today and articulate and start implementing a strategy for the Chennai region, i.e. Centers on Excellence that will drive industry leading growth and regain local premium paying patients and really outperforming through innovation, technology, digital communication, operational efficiency to drive profitability.

Moderator: The first question is from the line of Praveen Sahay of B&K Securities.

Praveen Sahay: The first query related to Pharmacy business. In the last nine months we had aggressively added like 152 Stores versus last year total net addition of 129 Stores and further 320 Stores are going to be added from the Hetero acquisition. So, if I see that our ROCE is somewhere like reducing with the start of a new stores. So I just wanted to know like whatever the benefit from the rationalization we did in the last two years, we are again so aggressively adding more of these Stores and increasing our scale, so going forward what is our strategy on this particularly, Pharmacy business?

Obul Reddy: We have during the year worked on the both revenue growth and revenue mix and thereby increasing the high margin products within the segment. Going forward, yes, private label is our key performer and we are now focusing on the Branded Generics for bringing higher margin. If you see numbers in the corresponding period last year we have absorbed the DPCO impact of about 50 basis points and we have during the year worked on loyalty programs and increasing the loyal customer base which has some costs during the year. The volume growth from that is expected to contribute to the profit in the next two, three quarters. So, we are constantly working on the strategy and Hetero expansion is in line with our thought and it is happening in the territories where we have strong logistic support and presence. So this is where we are in the Pharmacy growth.

Praveen Sahay: Just wanted to check, what kind of growth you will continue with?

Obul Reddy: Yes, if you notice that from the previous year 23%, 24% revenue growth we are back to 30% level, where we have constantly worked on that number, and moving forward that growth should contribute to the profit.

Suneeta Reddy: I think the bottom line is that as we have the large number of pharmacies, so what we will do is focus on profitability and improving EBITDA margins.

Praveen Sahay: Can you give us some sense what percentage of revenue comes from the private label?

Obul Reddy: It is about 6.5% at present and we are constantly working to improve that further going forward.

Praveen Sahay: Also, regarding the Hetero, it is kind of in process to be consolidated?

Obul Reddy: In the process of acquiring the regulatory approval which we expect maybe by end of March or early April and showing those results in our numbers.

Praveen Sahay: Is Hetero stores are similar to Apollo Pharmacy Stores?

Obul Reddy: Yes.

Praveen Sahay: Also we have some pharmacy inside the hospital, so…?

Obul Reddy: Hetero do not have any inside hospital pharmacies, they are all standalone pharmacies, and out of 300, close to 200 are in the city of Hyderabad.

Praveen Sahay: On the expansion plan of the Hospital Beds, in this quarter I can see that we had changed the plans, like commissioning year we have a changed the way forward like somewhere around five Hospitals and changed quite earlier now it is way forward, so just wanted to check, is change in the plan is going to incur or attract some more CAPEX further?

A. Krishnan: The changes as you know it will be three hospitals in particular — one was the South Chennai facility along with the Proton which is now expected to be open more at around FY18 and that is because we did not receive AERB approval for the Proton for long and we are expecting to get that soon. It is only after the AERB approval for both the machine and the site that the work on the site can actually begin. So once that begins, then the proton has to be imported and also set up, which itself takes almost around 18 months. So clearly we are expecting the Proton to come in only by end of FY18 as it stands now, and there the project costs is not increase so much because one is we got a positive impact of the Euro; the Euro has now come to Rs.70 to a Euro as opposed to Rs 76, Rs 77 when we actually started the project. So we have a positive benefit there. On Byculla Mumbai, we are in discussions with them too, because there is a possibility of increasing the size of the project there and we are in discussions with them to see how we can phase out our expansions there and it could be a larger project as it stands today, we will probably give you more color around it once we get the finer details over the next quarter. So that is the reason that that has got pushed out to FY18 as well. And the third one which is Patna again. There has been a delay from the government to allocate the land to us and that has resulted in that project going to FY18. The project cost has not changed as of now because we do not have any additional insights around that. So these are the three projects which is going into FY18. So as you will see FY17 pretty much does not have any of the new hospitals commencing from this current wave. So FY16 and 17, we will use to consolidate our position in the hospitals that we would have opened between last year and this year.

Suneeta Reddy: Yes, I think you should see that as a positive thing, because it will give us time to consolidate what the existing new hospitals that we have started and prepare for new expansion.

Praveen Sahay: So we can expect like controlled expansion is going to improve our returns?

Suneeta Reddy: You can say calibrated expansion.

Praveen Sahay: We had seen 12% YoY growth in the revenue and as mentioned in 'Presentation', 9% from the volume and 3% from the case mix and the tariff, so can you give us some details on the tariff, like we have increased somewhere throughout our Hospitals?

Suneeta Reddy: Most of it was case mix, and some of it was definitely tariff.

Praveen Sahay: So majorly we have not taken much hike in the tariff this quarter?

A. Krishnan: We have taken almost around 4% to 5% in this year in some of our developments. What has also happened is that if you look at it, it is including the new hospital, so because of which if you look at the new hospitals, some of the case mix in the new hospitals pretty much are not towards the higher end as we start off, those are some of the secondary care cases which will take time to show in case mix. So, some of them partly gets absorbed with the price increase which is not reflecting fully. So otherwise we have taken a price increase in this year of almost around 5%. We continue to think we can take 4% to 6% increase even as we go forward.

Moderator Next question is from the line of Neha Manpuria from JP Morgan.

Neha Manpuria: My first question is on the existing Hospital margins. We have seen some good improvement coming in there. So, should we assume that trend should only improve from the current quarter levels when it comes to our existing hospital margins?

Suneeta Reddy: I think you have a full commitment that existing hospitals will see an improvement in EBITDA margins, but you have to understand that it is also blended, if you look at the new hospitals that are coming down it will have a slight impact on the EBITDA margin, but as you can see because two hospitals turned EBITDA-positive, margins will start looking better. As we add Hospitals the margin profile of the old ones get better.

Neha Manpuria: On the Hyderabad cluster, we have been doing some good work on the ARPOB there. Is the bulk of the sort of improvement behind us, I mean, should occupancies and ALOS settle at this level and occupancies improve from here gradually, as you know, we focus on filling up the Beds that we have moved from the low paying to higher paying sort of procedures, how should we look at the process, where are we in the entire process?

Suneeta Reddy: I think definitely that is our focus at 64% current utilization, there is headroom to grow and that is exactly what we plan to do. ARPOB has improved because we took out the low paying cases to improve the case mix. So I think that slowly the ARPOB will also increase. So you will have both volume and ARPOB increase coming on from the Hyderabad cluster.

Neha Manpuria: On the strategy, that you mentioned, thanks again for giving that clear break-up as to what our focus areas are in the longer-term. On the Single Specialty Bed that you mentioned, Oncology is one area that you talked about, do we have any specific plan to set up standalone Oncology centers or would this be probably part of our expansion what we have outlined that we have segregated areas for Oncology, how do we look at Single Specialty?

Suneeta Reddy: I think it is both; you would not see us in Madurai set up a separate Oncology center right now, but in the big cities we actually do have an MoU with a specialist Oncology provider which will enable us to set up independent centers in the Tier-I cities.

Neha Manpuria: So would this be in our plans for let us say over the next 2-3 years, have we included that in?

Suneeta Reddy: Yes.

Neha Manpuria: What is the CAPEX run rates currently and what are we estimating our CAPEX to be for the next two years as it sort of slowed our expansion especially in FY17?

A. Krishnan: It would be around Rs.400 to 500 crore in the next year the CAPEX plan that we have. So if you look of the Rs.2,000 crore, Proton is going to be more coming in FY17 and FY18, South Mumbai again will be predominantly after FY16. So as this stands, we expect another additional CAPEX almost around Rs.500 crore in the current fiscal.

Moderator The next question is from the line of Damayanti Kerai from HSBC.

Damayanti Kerai: My question is related to Nova Specialty Hospital acquisition. Can you indicate its current operating margin for Nova Group of Hospitals? And how do you see Nova is contributing to overall Apollo profitability**?**

Suneeta Reddy: I think the current operating margins are irrelevant at this time because what Apollo is going to do is actually change the way these function in two ways — One is that because we have Surgeons who are experts in Minimally Invasive Surgery, we will really increase asset utilization dramatically. We also plan to do some amount of Preventive Health Checkups, and therefore the referral into from OP to IP will be much higher, because of the GP Connect that we have in each of these cities, referrals from the outside doctors should be higher. The third most important thing is that some of these are being converted to Cradles to Birthing Centers, where we have already established a proof-of-concept and we believe that the demand is there, margins are also much better in the space. So I think the way that the new Nova will function will be completely different.

Damayanti Kerai: My second question is regarding some of the key projects getting pushed to FY18, say Byculla, South Chennai and Proton. So do you see any delay in margin accretion during FY16-17 period?

A. Krishnan: No, we do not see that impacting FY16.

Damayanti Kerai: But earlier we assumed that if these projects would have commenced in FY17 period, we would have seen much faster margin accretion in near-term, now some of the key projects being pushed to FY18?

A. Krishnan: In fact, it is the other way around, because in the first 12 to 18 months as you know we incur a lot of fixed cost, and this actually gives us some more time to consolidate our New Bombay expansion, because we would be now going into New Bombay in this fiscal, it gives us time to actually establish our presence there, have relationship set with doctors and consumers and like, and then move into taking South Bombay as well. So it is actually good. In some ways it was not planned, because it was something that the partners also wanted a higher number of Beds to be set up by us. So that is what is happening there. In fact the delay is not necessarily in higher, let us say CAPEX or OPEX, if you look at it, it is only the CAPEX is going to be impacted there, and even there the CAPEX is not higher.

Damayanti Kerai: If I look at Q2 earning update and Q3 update, I see that the total number of beds remain constant. Can you give us some color like how the beds were rationalized across cluster during this quarter?

A. Krishnan: Would you take this offline with Krishnakumar please? He will give you the answers by hospitals.

Moderator: Next question is from the line of Praveen Sahay from B&K Securities.

Praveen Sahay: Just a follow-up question: As we had segregated the Sugar Clinic, so can you give the total number of Sugar Clinics currently we have and the future plans?

A. Krishnan: We have 25 Sugar Clinics that we have started as part of the entity. The plan is to take it to over hundred by the end of next year or early year after that. So that is the first plan. Even before that the team is also working on setting up the protocols and the processes on the diabetes management itself because this is something which is going to be a lot of consumer-oriented exercise and for that we really need a very strong process, which is what we are working on currently, after which the roll out will be faster.

Praveen Sahay: So out of these 25 Sugar Clinics, all are inside existing hospitals?

A. Krishnan: It is a combination of both Hospitals and Clinics.

Praveen Sahay: And that is a part of 68 Clinics which we had mentioned under AHLL?

A. Krishnan: That is correct.

Praveen Sahay: The next question is as in the press release related to medical tourism, government decision to put in a place mechanism to accelerate the process for granting medical visas. So what exactly is that, like what mechanism?

Suneeta Reddy: I think we have requested that, one, that they do this 'visa on arrival' which has actually happened to many, and we have also said from the countries, from where we actually get a lot of the drainage areas, the visa process be speeded up.

Moderator Our next question is from the line of Chunky Shah from Credit Suisse.

Chunky Shah: I just had a couple of questions: One was on the growth trajectory for the existing beds. So, in the current year we have grown by around 7% odd. So what is the outlook for the couple of years per se? On Nellore, we have started the OPD six-seven months back. So when do we expect to start the Hospital and what is the reason for delay here?

A. Krishnan: So on the first question which is on the existing hospital growth, yes, we would expect that the growth should be better as we move forward, and that is the whole aspect at which we are now working towards because even as you have seen we have now been rebalancing our Beds across Chennai and we have with the lower ALOS and the higher ARPOB now it has given us and the new hospitals that we have set up in Chennai it has now headroom to grow and the focus now is to see how we can grow both local markets as well as international markets, even in Hyderabad the focus is to see how we can increase international markets as well as cash patients and we hope it will reflect in the next year or so. On the second question about Nellore, there were certain equipments which were critical to inpatients which not yet started and which is where we had to delay the inpatient setup for a while and we are now starting that off in this quarter.

Chunky Shah: Just a follow-up; I understand that new Beds will contribute, but my question was mainly towards the existing healthcare franchise that we have or the existing beds, when can we expect double-digit growth from there? On Chennai specifically, on the Main Hospital have we taken the price increases because I understand that till last quarter we had not taken the price increases?

Suneeta Reddy: Yes, I think existing Apollo has shown 11% increase in revenue, it is definitely double-digit and we are looking at 20% increase in revenues which is why we have got the new CEO in place and I believe that when we start filling up the new beds that we have added, new doctors who are coming on board, we will definitely be able to show 20% increase in the next 24 months. Last month we have taken the prices increase in Chennai.

Chunky Shah: What would be the quantum there?

A. Krishnan: 3%.

Moderator: The next question is from the line of Neha Manpuria from JP Morgan.

Neha Manpuria: There were some concerns raised by one of our peers about how regulatory clearances are becoming an issue especially in Tamil Nadu. Given we have quite a few of our expansion planned there, including a few lined up, do we see such issues in other states also like you mentioned Patna, allocation of land by the government, is that possibly delaying our expansion to longer than what we would have anticipated?

Suneeta Reddy: I think that is something of the past, we are not facing any such problem now. With what we had in Chennai was more of the atomic energy approval. And Patna sometimes we want to make sure that our legal agreements are tight and in our favor so that sometimes causes a delay.

Neha Manpuria: On Byculla, you mentioned that we are planning to increase the size of the project. If you look at the market by itself, there are significant standalone Hospitals so to say. Given how saturated metro markets are becoming, does it make sense for us to look at metro expansion especially in metro markets like Bombay at the scale at which you are planning or does it make large sense to go more the suburban route there?

Suneeta Reddy: No, we believe that there is place for a high quality clinical care provider in that space in Byculla and that there will be demand for the type of services that Apollo will be able to bring there.

A. Krishnan: And again the way we are planning the Byculla facility is an asset-light model per se, because we would not be investing the CAPEX and so that gives us the ability to focus on ROCEs faster.

Moderator: The next question is from the line of Amit Kadam of LIC Nomura.

Amit Kadam: What is the EBITDA margin maximum what we can achieve for a hospital which is more than 5-years old?

A. Krishnan: We have the Healthcare Services if you look at the existing margins that we have is almost around 24%, so north of 20% is something that we can get to a hospital which is over 5-years old.

Amit Kadam: So what I see is in your presentation is that somewhere between 23% that is what we are making, but it is on the entire Hospital chains, it has everything, right?

A. Krishnan: So there are hospitals which are even higher than 25%, 25% to 30% also.

Amit Kadam: So I just wanted to understand that when do we achieve that particular EBITDA margin of 25% to 30%?

Suneeta Reddy: I think beyond the timeframe which would definitely be five years is also the case mix, both are important, it is a function of both.

Amit Kadam: Can you give me an example where we have been making an EBITDA of 30 years and what was the case mix and what was the age of that Hospital?

Suneeta Reddy: Yes, there is the Chennai hospital, there is a Specialty Hospital in Tondiarpet, there is Bhubaneswar which is going to get there, there is Kolkata which is doing 30%.

Amit Kadam: So this 23% and something as we go higher in terms of our life cycle at that particular Hospital, it tends to increase?

Suneeta Reddy: Yes.

Amit Kadam: On your pledge shares, because I have not got an idea on this, our promoter holding is 34% or somewhere around that, of which 64% is pledged. So any specific reason from your side why is there such higher amount of pledging?

Obul Reddy: It is not entirely the pledge, we have some structured transaction where we have even NDO obligation have to be disclosed.

Amit Kadam: But then any specific reason why we have that particular thing on a promoter side?

Suneeta Reddy: As you know promoters have maintained 34% of their shareholdings, sometimes we have had to pledge our shares to make sure that we do want to consolidate our shareholdings and keep it that way.

Amit Kadam: Sorry, I did not get this particular part, but anyway I will just take it offline sometime.

Suneeta Reddy: Yes, I think that is better.

Moderator: Next question is from the line of Nitin Agarwal from IDFC Securities.

Nitin Agarwal: My question is on the inorganic growth activity that we have undertaken in the current year. What is the whole broader thought process in terms of how we look at the inorganic growth initiatives for the business going forward? We have seen activities happening across the different pieces of the business. Where do we see opportunity incrementally for inorganic growth and how important is it for the business growth going forward?

Suneeta Reddy: I think there is an opportunity to consolidate our position, and in markets where we are not present we are definitely looking at some of the inorganic growth opportunities which is why we did the acquisition of Nova, Hetero only strengthens our presence in the southern market. So if you look at our philosophy behind it, one is that we are not present in that market which is available at a price which is accretive to us, and we see an opportunity to improve EBITDA margins to improve ROC, we will definitely look at all these opportunities.

A. Krishnan: And one more thing which is to be added is we are very cognizant about the valuation that we paid for some of these, we ensure that it is accretive to the shareholders as well as the business in general.

Nitin Agarwal: But typically, what is your norm in terms of the internal IRR benchmark that we use for some of these acquisitions?

Suneeta Reddy: Minimum 20%.

Nitin Agarwal: In terms of our previous experience with some of these acquisitions, are there any examples where the turnaround have been successfully achieved or this is something that you started out?

Suneeta Reddy: We did Kolkata, then we acquired a hospital in Chennai which is doing extremely well, there is Kakinada, there is Mysore, Bangalore, Madurai, quite a few.

Nitin Agarwal: In terms of the competition that encounter now, when you are going around, looking for these assets, how would you qualitatively sort of assess, has the competition come off or are there more suitors of some of these assets when you go about looking for them now?

Suneeta Reddy: It is hard to generalize, but I think that some of these assets are for sale because they are not doing well, and I think it is a perspective that you should also look at. Also, there is quite a bit of money chasing Healthcare. I think it is also important to see that we make it profitable and that we achieve the ROCs and, like Krishnan said earlier that is accretive to the shareholder.

Nitin Agarwal: We have been looking at least for the last couple of years our mature part of the portfolio is growing at about 7-8%. I guess as we get to a stage where our bed additions begin to slow as a proportion of our mature hospital bed base, what kind of sustainable growth for the business on a medium-term are we really looking at given the fact that the mature part of the business is probably growing at about 7-8%?

Suneeta Reddy: I think we have shown for five years 20% growth. When we reached a position like you said mature hospitals not having headroom, we created that headroom. We have shown you a plan where we have till 2017, we have created capacity for growth in excess of 20%. We have also showed you opportunities that will mature in 2020. So I think till 2020 for sure and getting back to the mature hospitals, within a new technology we are able to reduce average length of stay and by improving case mix, we have also showed you ARPOB growth. So there is an opportunity for volume as well as price.

Nitin Agarwal: Structurally, is anything changing in the environment which sort of capping the growth of the existing hospitals, this is not for you, but for this industry in general compared to what used to be in the past?

Suneeta Reddy: No, no I think there is more that is enabling us to grow it, because if you look at in Chennai, everyone said there is no headroom for growth, we took on Pediatric and we created it into a Specialty. So we actually created more room for growth, then we added Robotics, now we are discharging patients faster and the ARPOB is much higher. So in the same fashion that many years ago we took on Oncology. So I think the experience as a group really comes into play where we are able to take out Specialties and create Specialty Hospitals around that.

Moderator Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Suneeta Reddy: Ladies and Gentlemen, thank you for spending this hour with us. I am very optimistic when we started this call, we started with headlines on various papers saying that this has been a very cold quarter for many companies, I think that Apollo has shown that it has the resilience to actually withstand whatever happens in the rest of the economy, yes, there have been many holidays, yes, it has been quite a tough economic situation to operate in, but in spite of that I am extremely optimistic that with the new team on board that we would be able to deliver not only on growth, but on profitability as well. Thank you for being part of this call.

Moderator Thank you very much, members of the management. Ladies and Gentlemen on behalf of Apollo Hospitals that concludes this conference call.