Apollo Hospitals Limited

Q4 & FY15 Results Conference Call Transcript
May 29, 2015

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Apollo Hospitals Ltd Q4 & FY2015 Earnings 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 this 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 Vaswami of CDR India. Thank you and over to you, sir.

Mayank Vaswani: Good afternoon and thank you for joining us on this call to discuss Apollo Hospitals financial results for Q4 & FY15 which were announced yesterday. We have with us the Senior Management Team comprising: Ms. Suneeta Reddy – Managing Director, Mr. S. K. Venkataraman – Chief Strategy Officer, and Mr. A Krishnan - Chief Financial Officer. We also have with us Ms. Preetha Reddy, Executive Vice Chairperson.

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 now invite Ms. Suneeta Reddy touch upon the key highlights of our performance.

Ms. Suneeta Reddy: Good afternoon everyone and thank you for taking out time to join our call. In understand that today is a particularly busy day as you'll be attending a lot of healthcare calls today. I am pleased to take you through the results for FY15 as well as the quarter 4 results during what has been an eventful year for the group, marked by a series of new hospital commissioning and a couple of acquisitions. We have commissioned 5 hospitals & took a majority stake in Indore totaling to over 700 beds in FY15.

This year we also saw a growth of about 20% in medical value tourism which has been aided by visa on arrival. Another landmark that we achieved was the 60,000 health checkups that we have managed to do across the Group. Standalone Revenues grew 19% on a YoY basis to Rs. 4,593 crore in FY15, while Standalone EBITDA grew 10.5% to Rs. 678 crore. Although Revenue growth has been 19% for fiscal year 2015, the growth rate in Q4 FY15 was 21% on a YoY basis. This is broadly in line with our expectations, despite delays in new hospital commissioning. Further, the increased momentum towards the end of the year augurs well for the year ahead.

Revenue performance was driven by continued strong performance of the Standalone Pharmacy Business which reported 30% growth in revenues on a YoY basis. Same stores sales growth was17% for the stores of 2010.

In the Hospitals business, revenue growth was also driven by volume growth of 10%. Among our newer facilities, the FY13 Hospitals at Vanagaram & Jayanagar have nearly tripled revenues from Rs. 47 crore in FY14 to Rs. 132 crore in FY15. Further, the FY14-15 New Hospitals including Trichy, Nashik, Karapakkam, Nellore, Perungudi and Women & Child at SMR are still in the initial stages of operations and have reported revenue of Rs 44 crore in FY15.

Coming to Standalone EBITDA which grew 10.5% on a YoY basis, I would like to point out that some of our new units such as Jayanagar, Karapakkam, Perungudi and Malleswaram are leased out premises that would depress EBITDA until they scale up. We hope to present you performance of these hospitals with an additional disclosure of EBITDAR from next fiscal, in order to make the comparison more meaningful.

In Standalone Pharmacies, EBITDA grew at a similar pace as revenues at about 29% for the year and we ended the year with an EBITDA margin of 3.3%. The Hetero acquisition has now been completed and will be fully integrated into the Hospital business and financials in Q1FY16.

Coming to our consolidated performance, Revenues for the year have crossed the milestone of Rs. 5,000 crore in FY15. Full year Consolidated revenues grew by 18% at Rs. 5,178 crore. In addition to the growth in the Standalone operations, growth in key subsidiary hospitals like Ahmedabad, Bangalore, Kolkata have performed well and have contributed to the improved performance of the consolidated financials. Apollo Munich our joint venture company registered 24% growth in Gross written premium at Rs. 861 crore in FY15 compared to the industry standard of 16%.

In line with our stated objective of creating additional capacity rapidly, we have added 9 hospitals and created a capacity of 1,300 beds in the last 24 months. This includes beds added in Vanagaram, Jayanagar, Trichy, Nashik, Nellore, Indore, Karapakkam, Perungudi and Women & Child at SMR. The operations team across all these locations are currently working on augmenting our clinical capabilities in these facilities in line with each of the micro market requirements by adding the requisite medical teams to accelerate patient volumes and growth. For the coming year, the expansion plans are on track and you will see us adding another 800 beds across 3 new hospitals. At the end of the year, this expansion program in FY16, we would have created 30% 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.

In addition to our organic growth plans, we have also completed the Nova acquisition by our subsidiary Apollo Health and Lifestyles (AHLL) and these centres will not only work as day surgery centres but also as short stay surgical centres. The Hyderabad unit of Nova is being converted into our maternity care format called Cradle, while the Chennai unit has already stemmed a significant part of its EBITDA losses. The Retail Healthcare team under AHLL which now houses primary clinics, sugar clinics, cradle and Day care surgery centers are putting together a strategy road map to consolidate all our retail healthcare service formats including dental clinics into this structure. We believe that we have the potential to garner meaningful market share in this segment as well. Total Income for retail healthcare services was Rs. 1,074 million in FY15 compared to Rs. 743 million in FY14, a notable growth of 44%.

Before I close I would like to touch upon a key development of our Q4 results. Our Board has approved a rights issue to raise upto Rs 750 crore. The purpose of the rights issue is to ensure we have the capital we need to pursue opportunities for investment in new facilities or potentially for any acquisition opportunity that may come our way. This would also help us create further headroom for future debt during a period of low interest regime as we continue on our growth path. We have historically felt comfortable in maintaining our debt level in a comfort zone of a debt/equity ratio at 0.5 and a debt /EBITDA at about 2.5 times. As we go forward Apollo Hospitals will remain committed to managing growth with profitability. Our main focus on clinical outcomes remains uncompromised at every location that we set up our hospital in. And it remains the primary focus and we absolutely believe it is core to this business.

Before I close, I would like to share with all of you that our Board has recommended a Dividend of Rs. 5.75 per share. Now over to Krishnan, our CFO, for further details of our financial performance.

A. Krishnan: Thank you, Ms. Suneeta. We are pleased to report year-on-year growth in revenues of 19% for FY15 and at 21% in the fourth quarter. This growth has come from robust momentum in new centres especially Vanagaram & Jayanagar, as well as continued strong growth of 30% in the standalone pharmacy business and a steady performance at some of the mature facilities.

Standalone EBITDA grew 10.5% from Rs. 614 crore in FY14 to Rs. 678 crore in FY15. The EBITDA margin has compressed by about 110 basis points to 14.8% from 15.9% in FY14. The change in the EBITDA margin is attributable to three reasons. Firstly, the share of revenues from the Standalone Pharmacy business has increased to 39% of standalone revenues in FY15 from 35% last year. The pharmacy EBITDA of 3.3% is lower than healthcare services EBITDA; the same reduces the overall blended reported margins. Secondly, the EBITDA margin in the existing healthcare services business has been impacted marginally by increased costs and ongoing rebalancing of customer segment across hospitals, resulting in a bit of cannibalization in the places like Chennai.

Thirdly, the Total EBITDA loss from the new hospitals has been Rs. 7.5 crore in FY15. Vanagaram and Jayanagar have reported a positive EBITDA of Rs. 6.8 crore which has been offset by the combined EBITDA loss of Rs. 14.3 crore from our facilities at Trichy, Nashik, Karapakkam, Nellore, Perungudi and W&C SMR. The high initial fixed costs would be absorbed and recovered as we grow our revenues in the new hospitals.

I would like to bring your attention to Slide 8 of our Investor Presentation which breaks up the standalone numbers into the performance by existing hospitals, standalone pharmacies and new hospitals. The key takeaway here is that revenue from the new facilities have picked up pace. As Ms. Suneeta mentioned, hospitals at Jayanagar and Vanagaram which were launched in FY13 have registered sharp increases in revenues from Rs.47 crore last year to Rs. 132 crore this year, while Rs 44 crore of Revenue has come from the batch of FY14-15 hospitals in Trichy, Nasik, Nellore and 3 locations in Chennai all of which have been launched recently.

The EBITDA loss from the new hospitals have improved from Rs. 21 crore in FY14 to Rs. 7.5 crore in FY15. Jayanagar and Vanagaram have reported a positive EBITDA of 6.8 crore in FY15 in the second full year of operations and validates our strategies deployed for accelerated breakeven. Both continue to improve on their EBITDA trajectory. The other new hospitals, still in the initial stage of operations, reported an EBITDA loss of Rs. 14.3 crore. The focus now is to get Trichy, Nashik & Karapakkam to breakeven by the next fiscal with strengthened medical teams and a stronger thrust on local market referrals.

On slide 9, let me take draw your attention to the ROCE, which has dipped from 15.1% in FY14 to 13.6% in FY15. 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 of Rs. 801 crore of Capital deployment are yet to begin contributing to ROCE. ROCE from our existing hospitals is at a healthy 18%.

The Profit after Tax grew by 5% from Rs 331 crore in FY14 to Rs 347 crore in FY15. The low PAT growth was due higher depreciation on account of expansions & higher depreciation rates as per the new Companies Act. We also had a CSR spend of Rs 7.5 crore in FY15 which is not tax deductible and contributed to higher taxes. The new hospital we had planned in Malleswaram has now been shifted to FY16. All of this has resulted in an effective tax rate of 25.8% in FY15 as compared to 21.3% in FY14.

Slide 11 and Slide 12 provide details of our consolidated financial performance. Consolidated revenues grew by 18.1% to Rs. 5,178 crore in FY15. In Healthcare services, revenues from existing facilities grew 8% on a YoY basis to Rs.3,048 crore, with contributions from hospitals in Ahmedabad, Kolkata and Bengaluru. The consolidated performance has been supported by Apollo Munich which reported 21% growth in revenues. AHLL has reported revenues 44% higher than last year on the back of Day surgery centers and cradles being rolled out. Consolidated EBITDA grew 9% to Rs. 735 crore with an EBITDA margin of 14.2%. AHLL reported an EBITDA loss of Rs 29 crore whereas Apollo Munich reported an EBITDA of Rs 1 crore as compared to a loss of Rs 3 Crore in FY14.

Moving on to Slide 14, which covers the operational performance by clusters, you will notice that there has been encouraging growth in both inpatient and outpatient volumes on an overall basis. In Chennai, inpatient volumes grew by 8% while outpatient volumes have increased by 9%. This has come about through healthy volumes at our new facilities and encouraging numbers at existing facilities. The occupancy was at 67% on an expanded bed base of 1,491 beds. Increase in high acuity cases in Vanagaram have resulted in a marginally higher ALOS of 4.43 in Chennai for FY15. The ARPOB at Chennai including the 4 new hospitals grew 2% to Rs. 34,266. Excluding the impact of Vanagaram, Karapakkam, Perungudi, W&C-SMR the ARPOB actually has grown YoY by 11% to Rs 38,038.

At Hyderabad, the rationalization of low paying customer segment, focus on high value cases and increased flow of international patients has paid rich dividends. While Inpatient volumes grew by 2% and outpatient volumes grew by 6% resulting in decline in occupancy to 63% in FY15 from 67% last year, revenues have however increased by 8% in FY15 with an expansion in the EBITDA margin. ALOS has reduced from 4.49 to 4.15 and the ARPOB at Hyderabad was higher by 15% to Rs. 23,081.

The hospitals which form part of the “Others cluster” and account for 1,821 beds have reported growth of 17% in net revenues. Inpatient Volumes grew by 11.5% & Outpatient Volumes grew by 11.3%. The occupancy is at 63% on a larger capacity as compared to the previous year. This also includes 3 new hospitals added in FY13 or later. While Jayanagar which was added in FY13 has ramped up very well, the hospitals in Trichy and Nashik are still in initial stages of operations. ARPOB in these hospitals was higher by 9.5% as compared to the previous year.

Our Joint venture & Subsidiary hospitals in Ahmedabad, Bangalore, and Kolkata have performed well with strong revenue and occupancy numbers. OP revenues were higher by 13.4% aided by 11.4% growth in OP volumes. IP revenues have increased by 9.8% and IP volumes by 4.7% indicating a richer case mix. ARPOB grew 7.5% to Rs 27,506.

Slide 16 contains details about the performance of the Standalone Pharmacies segment. Growth momentum remains strong as revenues grew by nearly 30% on a YoY basis to Rs. 1,772 crore in FY15 with an EBITDA growth of 29%. The EBITDA margin was steady at 3.3%. The EBITDA margins were subdued due to the renewed pace of new store additions as well as the impact of the Drug Price Control Order (DPCO). However, this impact was largely mitigated by the increased proportion of sales from private labels which was at 6.34% in FY15 compared to 5.64% last year.

The batch wise margin indicators were favorable with FY08, FY09 as well as the FY10 batch reporting improved EBITDA margins with the FY08 batch reporting EBITDA margin of 5.9%. We added 53 stores and closed 15 stores in Q4FY15 for a net addition of 38 stores. For the year, net addition was 190 stores on a net basis. The total network of stores as on March 31, 2015 is 1,822 stores.

In addition to the organic growth, the network of 321 stores acquired from Hetero Pharmacy is in the final stages of integration. These will be added to our network in Q1FY16 taking the total number of stores to over 2,100 stores on a pan India basis.

Coming to Health Insurance, Apollo Munich Health Insurance reported an increase of 24% in gross written premium at Rs. 861 crore in FY15. There was a reduction in the incurred claims ratio from 65.6% in FY14 to 63% in FY15. The Company has reported a positive EBITDA of Rs. 9.6 crore for FY15 compared to a loss of Rs. 29 crore last year. The Company has reported a positive PAT of Rs 7 million as compared to a loss of Rs. 37 crore in FY14.

That is it from me, we are now ready to take your questions

Moderator: Participants, we will now begin with the question-and-answer session. Anyone who wishes to ask a question, please enter '*' and '1' on the touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use only hands while asking a question.

We have the first question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: First in the existing hospital margins, I would assume with the price hike that we took in Chennai, we should have seen margin improvement on a quarter-on-quarter basis, especially seasonally third quarter is a weaker quarter. So anything that you would like to point out, is there any one-off cost, etc. in the fourth quarter numbers for the existing hospital?

A. Krishnan: Rs.5 crore cost on account of the CSR expenses is actually part of existing healthcare services, that is one one-off cost. Second, there was a marketing effort that we had launched specially in Chennai, it is approximately a 4 crores cost which is also part of our existing hospital services in this quarter.

Neha Manpuria: So this marketing effort in Chennai is a one-off this one or it is more than ongoing exercise that we are undertaking?

A. Krishnan: It is a combination of both, if you look at it this quarter we had a pronounced spend. We will continue to spend on marketing, but this quarter clearly saw that coming as a higher number.

Suneeta Reddy: Yes, we will add new hospitals; as the need to market new facilities is becoming very important in this market.

Neha Manpuria: And ma'am, the second comment that was made earlier about how the newer facilities are probably cannibalized from little bit especially in Chennai given the addition you would have seen could you give us some more color as to have you already started seeing impact of with this increase as we move into FY16 and when would we see this impact, would it just be restricted to volumes?

Suneeta Reddy: It must be viewed in the light of our cluster strategy in a city, where we have created one hospital that delivers quarternary care services and highly specialized services. Being universal to the city and urbanization happening in each of these clusters, we realized the need to create community hospitals where some tertiary care and higher secondary care would be made available. If we did not capture this space, someone else would have because commuting time and the availability of emergency medical resources has become very important in choice of hospitals. We have also diverted all PSU business and low end cases to these new hospitals. So that amount of cannibalization has happened.

Neha Manpuria: My second question is on the pharmacies, two part question here. First, very good margins that we have seen in this quarter, any specific reason there or it is just our ongoing efforts on our customer loyalty and private label penetration? And my second part is on Hetero, from what I understand we were supposed to complete this acquisition in this quarter, any specific reason for the delay, is it related to approvals, etc., or this is just integration delay?

Obul Reddy: First on the margins, it is because of the revenue growth which is at 30% and we have a focus on loyal customers which is contributing to both revenues and margins.

Coming to Hetero, we have signed the MoU somewhere on June 25th and during the second stage reorganization happened and for about four months back there was no clarity on regulatory approvals. Post that we have started and cleared the regulatory approvals. And since it is not an equity acquisition it is under slump sale basis. Finally, regulatory authorities advised we should get drug license for each store, which means we have to make some 324 applications and get 324 drug licenses. That's what has delayed the process. We are on track and we are getting those numbers integrated in Q1 this year.

Moderator: Our next question is from the line of Girish Bakhru from HSBC Securities.

Girish Bakhru: The margin in standalone has stayed at the level similar to what it was in Q3, but consolidated margins have come down which seems to be largely brought down by cradles. Is there a seasonality in that business and why has the sales growth been strong but losses have increased in AHLL?

Suneeta Reddy: The Nova acquisition is now part of it and I think that it will take time before you will see the margins improve. There is a strong element of rentals which is a fixed cost. Thus, we could look at creating an EBITDAR format.

Girish Bakhru: From what time frame will it give you a steady margin ?

Suneeta Reddy: In the next two years I think you will see.

Girish Bakhru: So the AHLL is right now entire retail format, does it cover entire next cradle, day care, dental care?

Suneeta Reddy: Yes.

Girish Bakhru: In long-term, where would this say be in terms of the overall share in the Apollo, can you give some color on where would it be in terms of size and what are the peers that are exactly like who are competing with Apollo? I understand that there will be lot of unorganized sector, but in the organized space?

Suneeta Reddy: I think you could look at Rs. 2,000 crore broadly and by the year 2020. But it is a retail format and we believe that healthcare is developing in such a way that this creates easy access for the consumer. Apollo Hospitals does not want to lose out because we do not have an access, a reference system into the main hospital which is why we are continuing to back the growth of Apollo Health and Lifestyle.

Girish Bakhru: Right. Second question was on the Hyderabad entity, basically strong ARPOB increase? I understand part of this is because of increasing case mix but what is exactly driving and where would this growth basically settle in terms of ARPOB increase?

A. Krishnan: You are right, the ARPOB from 20,000 levels have almost gone to 24,000, 25,000 levels which is a significant increase, specifically because we have been able to weed out some of our low paying cases and the focus there is clearly now on the high end patients as well as international. The international market especially from Africa has also seen significant growth especially in this cluster along with of course Chennai. So we are seeing this ARPOB which was going to continue to be positive that will help us in our overall EBITDA margins which is what is our focus in this cluster, more than the occupancy because we would want to really ensure that the occupancy is profitable for us.

Girish Bakhru: How much is the international contribution in the overall hospital services?

A. Krishnan: Now it is approximately around 15% to 18%.

Girish Bakhru: Lastly on FY16 front, I understand lot of new beds addition has been happening in FY15 and FY16. Looking from margin trajectory I would understand that it will dip perhaps in FY16 and form a new bottom. FY17 seems like a very low investment phase, is that a right way to look at FY17 - will you probably bounce back to margins?

Suneeta Reddy: Yes, I think that that's when we will start consolidating our performance and the margin should start improving by then.

Moderator: Our next question is from the line of Anubhav Agarwal from Credit Suisse.

Anubhav Agarwal: Just want some clarification, first, about Navi Mumbai project. When do you plan to start that, the first phase?

A. Krishnan: Around December 2015 is when we would expect to start it.

Anubhav Agarwal: Can you explain almost a year delay from what you were initially expecting, because I visited this project a year back, the building was ready, Still why is there so much of delay?

Suneeta Reddy: I think living in Bombay you must understand that it is not as easy to get, we need 74 licenses to actually commission a hospital, so it has been a little bit of a challenge that has caused the delay.

Anubhav Agarwal: What is the plan now, how many beds you will commission and what is it more focused, oncology or what are the territories that you are starting?

A. Krishnan: We will start off with 150 beds and ramp it up to 350 beds, that is the plan and we will not start off with oncology to begin with, we will get into oncology over a period of time. That is the plan now and we will start with cardiac and secondary care, pediatric and the other specialties. We are doing a detailed market study to find out the gaps which exist in that market and cater to that.

Preetha Reddy: I am Preetha here, so working very closely on the Bombay project. That location is really one of the best in terms of trauma care. We are evolving it into one of the best trauma care centers in the country. I think that will be the USP because all the highways kind of converge in that location. We are also in the next quarter where we are planning on sending people for training at best centers globally. This will make a huge difference. Bombay, typically the way it is located and the traffic issues for somebody to get into a city hospital when they have a trauma or incident on the highway has particularly been a huge problem. We studied and understood that and that’s why the center has been completely designed as one of the centers of excellence to do a lot of work in the trauma area.

Anubhav Agarwal: How many beds you plan to dedicate to casualty or trauma here?

Preetha Reddy: The beds commissioned will be 150, but the ER has been designed so that each day has about 12 beds for different areas and then there is a triage center which itself has 10 beds to handle trauma and quickly move it. There are dedicated operation theaters only to have the trauma operations. So it has been designed by some of the best centers globally to be equipped for trauma.

Anubhav Agarwal: Regarding the existing hospitals in this quarter, we shown a top line of 9% YoY, can you just help explain that out of the 9% how much is the volume growth?

A. Krishnan: So out of the 9% volume growth has been approximately 6%.

Anubhav Agarwal: So price plus case mix is 3% over there?

A. Krishnan: Correct.

Anubhav Agarwal: And which is where large part is contributed by Hyderabad?

A. Krishnan: As well as Chennai.

Anubhav Agarwal: Chennai will be how much of the price plus case mix?

A. Krishnan: Chennai in the fourth quarter we did see the volume growth of approximately 10% actually. So Chennai also was grew well.

Anubhav Agarwal: I am talking existing hospitals, you are talking about new commissioning or existing?

A. Krishnan: No, I am saying existing also grew well in Q4, Q4 Chennai growth was good.

Anubhav Agarwal: About 10%?

A. Krishnan: That's correct.

Anubhav Agarwal: In terms of volume growth?

A. Krishnan: Yes.

Anubhav Agarwal: And how much would have been numbers for the case mix plus price increase?

A. Krishnan: That would be approximately around 3%.

Anubhav Agarwal: About this right issue of Rs. 750 crore, I just want to understand the background here, I mean the question is not about the mechanism here, question is that about the Rs.750 crore and not Rs. 250 crore or Rs.1,000 crore. So what is in the background, I am sure this is equity portion you will be, eventually when you plan to use it you will be mixing some debt with it, so you have 400 beds acquisition in mind, 800 acquisition in mind, what is the reason? That is first question.

Secondly, why go with right issue, like some of the companies in the past will do it, you acquire an entity, do a bridge loan and then do a right issue, so the investor knows exactly what acquisition you are making and then he can make a right decision to whether he wants to participate in right issue or not.

Suneeta Reddy: We are not really guided by what other companies do, we do what is good for us. If you look at our debt to equity is 0.5, we believe that we need little bit more headroom because there are lot of acquisitions happening in this space. This will give us the ability to do an acquisition. The second part of it is that we are investing in growth. Five years ago I think all the analysts told us there is no headroom for growth, today we are telling you that we are creating new capacity and I believe this will give us a healthy balance sheet. And why Rs. 750 crore, because we want to ensure the return on capital employed that we have always promised. We want to reach the 20% level and can only do that by being very careful in how much capital we employ in the business.

Anubhav Agarwal: So let's say when the Rs.750 crore is raised from right issue, whenever let's say an acquisition is made, the debt equity mix here will be 70:30, 50:50, I am just thinking of what the acquisition size we have in mind?

Suneeta Reddy: Yes, we cannot put a finger on the acquisition size at this point.

Anubhav Agarwal: No, no it is just I was thinking of what could be debt equity mix, should we assume like 50:50 percent mix here?

S. K. Venkataraman: No, I do not think we should comment on that, we really do not have anything on the cards.

Moderator: We have the next follow-up question from the line of Neha Manpuria from JP Morgan.

Neha Manpuria: Ma'am, on the ROCE question, if I heard correctly, in your opening remarks you said that the existing hospital's ROCE is close to about 18%. Am I right to assume that bulk of this is coming from Chennai and therefore there is room for improvement in our existing Hyderabad and existing other clusters even if I exclude the new operations?

Suneeta Reddy: Yes, absolutely.

A. Krishnan: That is correct, we are focused to 18% to 22% over a period of time. Hyderabad is doing well and so are other clusters, Bhubaneswar is also now doing very well.

Suneeta Reddy: Bangalore has started to take off the new facility is now contributing to EBITDA, so yes, over a period of time you will see this.

Neha Manpuria: And second question related to this, if you look at your expansion, specially the larger expansion of Bangalore, Vizag, Patna or even Mumbai, how do you see long-term sustainable return in those operations, would it be fair to say that they would be lower than the company average given cost of capital is higher, your investment cost is higher, your margins could be lower in some of the newer formats?

Suneeta Reddy: I think what is really higher is the cost of land, so in a certain sense we have actually captured the land value already; we have already paid for the land. So going forward Apollo story has always been its ability to scale, what we have done in Chennai, across the country and I believe that even though that Chennai is really it is a gem in the Apollo Network, if you look at it in the balance sheet but yes we do hope to reach those margins and we do hope to reach those ROCEs because markets are maturing and people are prepared to pay a premium for the quality of care that they receive.

Neha Manpuria: And my third question is on AHLL, is it fair to assume that these losses would only increase for the next two years before we see them coming down because we are continuously investing in building that business?

Suneeta Reddy: Yes, I think retail format will because they will rapidly expand their footprint in the next two years, what they have started today will start contributing to EBITDA after two years. So they are in a rapid growth phase and five years is a good time to really start looking at how much they can contribute. And the referrals are never captured on the P&L, the reference into the system will be substantial.

A. Krishnan: But with that said, Neha we also expect that the EBITDARs that we will start presenting you from the next quarter will see continuous improvement on QoQ basis. This is because we are ramping that business already and the rent if you keep it aside for a while you will see that EBITDAR will start showing good progress.

Neha Manpuria: On the EBITDAR part, there are four hospitals which are leased out amongst the new ones, one was Jayanagar, Malleswaram and which were the other two facilities that you mentioned?

A. Krishnan: Two in Chennai, one is in Vanagaram and the one in Perigudi is also leased.

Moderator: Sir we have the next question from the line of Nishant Sharma from HDFC Bank.

Nishant Sharma: I just wanted to understand what is the reason for increase in tax rate this quarter? And going forward for next two years what kind of tax we would be looking at?

A. Krishnan: So the tax rate in this quarter has gone up because we had anticipated tocommission one of our hospitals in Bangalore this year which is Malleswaram which actually moved into year. So if you look at it next year we should see favorable benefit out of taxes. This year we were at 24% effective tax rate, last year was 21%. We hope that if we are able to commission all the hospitals as planned, we should be able to get our tax rates closer to 20% or even lower.

Nishant Sharma: This quarter, what was the loss from the new hospitals on the EBITDA front?

A. Krishnan: For the new hospitals, it was around Rs.14.5 crore.

Nishant Sharma: So, do we have a capacity target of about 800 beds?

A. Krishnan: That is correct.

Suneeta Reddy: Yes.

Nishant Sharma: are these expected to be EBITDA positive in a year's time or 1.5 years' time?

Suneeta Reddy: some will be in 1.5, some will be 2 years but conservative is 2 years.

Moderator: Thank you.

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.