Apollo Hospitals Enterprise Limited

Q4 FY 2017 Earnings Conference Call Transcript
May 31, 2017

Moderator: Ladies and Gentlemen, good day and welcome to the Apollo Hospitals Q4 & FY17 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mayank Vaswani from CDR. Thank you and over to you sir.

Mayank Vaswani: Good afternoon and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q4 and full year FY17 which were announced yesterday. We have with us the Senior Management Team represented by Ms. Suneeta Reddy – Managing Director, Mr. S.K.Venkataraman – Chief Strategy Officer, Dr. K. Hariprasad – President, Hospital Division 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.

Ms. Suneeta Reddy who will discuss the financial performance for the quarter along with the operating metrics, expansion plans and other highlights following which we shall open the floor for Q&A.

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 to cover the key highlights of our performance.

Suneeta Reddy: Good afternoon everyone and thank you for taking out time to join our call. FY17 was a monumental year for Apollo Hospitals. Two key highlights stand out for the year:

1) We surpassed 10,000 beds capacity across our pan India network.

2) Our annual consolidated revenues in FY17 crossed the milestone of US$ 1 billion.

We were able to achieve this because of our good management team and our great clinical work. 260 doctors joined us this year. I think it also validates our investments strategy, where we have strengthened our presence in key markets. However across the industry, all the healthcare players have been impacted this quarter. We in particular have felt that the onetime impact of 70 days VIP admission and demonetization has severely impacted both our EBITDA and our bottom-line.

With the commissioning of the Navi Mumbai facility in Q3FY17, it now marks the end of this phase of sizeable capacity expansion which we had undertaken over the past 3 years. We have added 2,400 beds of which 1,500 are operational at 13 locations and it represents a30% capacity addition. In addition we have also have also acquired hospitals in Indore and Guwahati. We have also made sizeable investments in Apollo Health and Lifestyle Ltd. to more than double our network of clinics, diagnostics centers, cradles and daycare centers to 422 currently. This includes 11 facilities acquired from Nova Hospitals which have been rebranded as Apollo Spectra.

We have deployed over Rs. 2,000 crore of capital on these expansions and we firmly believe that these facilities will witness good traction in both top line and profitability over the next 12-24 months while re-enforcing our leadership position in key markets and specialties.

Given the headroom for growth that we now have across both our mature facilities as well as the new ones, we are poised to cater to the increasing demand for healthcare. Having said that, we will remain focused on specialties as well as aim to increase our portion of high acuity cases, that we do.

This year, we have undertaken several initiatives that will improve both our revenue, our EBITDA and our EBITDA margins.

1) The first will be to reinforce our clinical differentiation that we offer and focus on select COE specialties like Cardiac sciences, Orthopedics, Transplants, Neurology and Oncology with emphasis on high acuity cases as well as comprehensive end-to-end care from screening to rehab. We are confident that these initiatives will result in significant volumes up to 8% additionally and will improve margins significantly.

2) Secondly, we will strive to enhance our volumes on ‘robotics’, ‘minimally invasive surgeries’ as well as ‘daycare and short stay surgeries’ which will help to increase turnaround time of beds while catering to customer preferences.

3) Thirdly, we will be strengthening our International marketing efforts to increase volumes of International patients that we serve to maintain our premium position in this market.

4) Also, increasing the ‘digital connect’ for both patients and doctors will help us to extend our reach and amplify our productivity.

5) Lastly, we are focused on cost reduction and we believe that these initiatives will significantly improve our EBITDA.

Against this backdrop, I will now take you through the key highlights of our performance for the year:

Consolidated:

Consolidated revenues for FY17 grew by 17% to Rs. 7,255 crore. Consolidated EBITDA was higher by 6%, driven by improvements in the Hyderabad cluster, performance of group hospitals, strong growth in new hospitals EBITDA ex-Navi Mumbai, and a higher contribution from pharmacies and Apollo Munich.

Standalone:

On a standalone basis, revenues grew by 15% on a year-on-year(y-o-y) basis to Rs. 6,442 crore. Within standalone revenues, 'healthcare services' grew 9% for the year enabled by a volume growth of 6% y-o-y and the remaining 3% from pricing and an improved case mix. New hospitals reported an impressive 51% y-o-y growth in revenues to Rs.586 crore. Pharmacies reported revenue growth of 24% on a y-o-y basis, continuing their strong performance. Standalone EBITDA grew by 4% to Rs. 774 crore. The Healthcare business EBITDA de-grew by 2% to Rs.651 crore while Pharmacies EBITDA grew by 53% to Rs. 123 crore.

The EBITDA margin on a standalone basis has reduced by 130 basis points to 12%. This has to be viewed in the light of the following factors:

First, Pharmacies with a lower EBITDA margin now represent 45% of standalone revenues, given the strong growth being witnessed in this segment. Additionally, revenues from new hospitals have a lower EBITDA margin compared to mature facilities due to unabsorbed initial fixed costs which now account for 16% in Healthcare Services revenues.

New hospitals posted an EBITDA loss of Rs. 4 crore in FY17 as compared to loss of Rs 1 crore in FY16. This was largely due to EBITDA losses of Rs. 30 crore at the Navi Mumbai facility which was opened from Nov, 2016.Excluding this, 'Other new hospitals' have delivered steady improvements in EBITDA. The healthcare services EBITDA margin was 18.24% in FY17 compared to 20.32% in FY16.

The demonetization effect extended into the fourth quarter as well, as outstation patients from neighboring countries found it difficult to access currency for their treatment requirements. The patient flows into Chennai main post the VIP admission took some time to recover fully which also impacted the quarter. Again, the one-time impact of the above demonization and VIP admission is Rs. 10 crore. The Government regulation on stent pricing which was with effect from 14th February also resulted in a revenue compression of Rs. 8-10 crore. The standalone EBITDA for the quarter due to the above was impacted by Rs. 15 – 20 crore.

Q4FY17 was the first full quarter of operations at our Navi Mumbai hospital which resulted in an EBITDA loss of Rs. 22 crore for the quarter.

The standalone EBITDA in Q4FY17 due to the above three factors were impacted by approx. Rs. 35–40 crore. While the demonetization effect should get reversed in Q1, we should be able to recoup the stent cost over next two to three quarters.

Depreciation for the full year; increased by 20% and interest expenses increased by 50% over the previous year. FY17's PAT de-grew by 15% to Rs. 285 crore due to cause of the above factors.

The Chennai cluster registered growth with revenues increasing by 3%. Despite multiple one time developments and headwinds in this fiscal and rebalancing of cases between the multiple facilities in the cluster; overall IP volumes grew 1%. We are confident that we will see a pickup in overall Chennai volumes in FY18, especially given that we have had good traction in the new facilities and there are clear plans to augment the volumes in the flagship facilities in 'Greams road' as well as Oncology in 'Teynampet'. ARPOB in Chennai increased by 10% even with reduced occupancy given the increase in high acuity cases. This was supported by improved bed turnaround times indicated by lower ALOS.

Hyderabad continued with the momentum witnessed in recent quarters and the strategy to focus on an augmented case mix on the back of stronger medical programs is paying rich dividends. Revenues grew by 15% with ARPOB growing by 18%, supported by reduced ALOS even as IP volumes increased by only 1%. The overhaul of the infrastructure to enhance patient services has resulted in a reduced number of beds but the elevated performance metrics despite lower occupancy reflect the improved quality of cases.

We have witnessed good volume growth in hospitals outside our key clusters, especially in Bangalore, Mysore and Vizag. We are encouraged with the improved ALOS and continued growth in ARPOB.

On an overall basis, we are confident that we are well placed to capitalize on the rebound in the economy with new centers, new formats and stronger medical programs. The multiple one-time developments that have impacted performance in FY17 are behind us. We are confident that outstation patients will return and that we can drive back performance at both mature and newer facilities on the back of augmented medical teams and strengthening of specialty mix.

Standalone pharmacies:

Coming to Standalone pharmacies, we continued to see robust performance on both revenues and margins across the board. While continuing to grow at 24% y-o-y, reported EBITDA margins expanded to 4.3% in FY17; in line with our strategy of sustainable profitable growth. The team continues to be focused on same stores sales, increased loyalty and higher private label sales in FY18. The EBITDA margin for the pre-2008 batch was at 7.3%. We added 230 stores taking the network to 2,556 stores. With a self-sustaining business model we now have a ROCE of 15% with a clear path to achieve an ROI of 20% over the next couple of years.

Apollo Munich Health Insurance:

Apollo Munich reported a 40% increase in revenues in FY17 and we have seen sharp improvements in profitability given the operational progress. We will look to build this up further with the immense potential for growth in the health insurance sector in the country.

That's it from me; we will open the floor for questions.

Moderator: Ladies and Gentlemen, we will now begin the Question-and-Answer Session. Our first question is from the line of Chirag Talati from Kotak Securities.

ChiragTalati: I needed some clarity with regards to stent pricing. What is the percentage of cardiac revenues that are generated from third-party payers? What is their response to potential increase in package of your stent-based treatments?

Mr. A. Krishnan: Looking at our overall cardiac cases, at present, approximately 20% of our revenues are coming from cardiac. Splitting it further between walk-ins and insurance and third-party players, 50% of revenue comes from walk-ins and retail whereas the other 50% comes from insurance and third-party players. With regards to your question on change in package prices and if third-party players have started accepting it, yes, we are seeing them accept that, although we cannot change that across from Q1, we will see that impact being spread over the next three quarters.

Chirag Talati: But we have also seen some insurance companies posturing very aggressively. These companies have been saying that they will not accept prices being increased in other areas. So is this something which is actually feasible in the near-term or this would have to be gradually taken up over the next maybe several years?

Mr. A. Krishnan: No, it would not take several years because the overall cost to the patient is still lower than what he was paying earlier. Even if you look at what we were doing, in some way it was cross-subsidizing our procedure charges and this is something that we are now passing on in terms of procedure charges. That is what we are doing as a corporate player. But even now if you look at the overall cost to the patient, the cost to the patient is still lower than what he was earlier paying under the insurance scheme. So that is how we are still managing the same from them and I do not think it should be an issue and over the next couple of quarters we should get it.

ChiragTalati: And you are not seeing any pushback from the Government asking for more data on your overall pricing, in case you choose to increase it?

Mr. A. Krishnan: We are happy to provide that information. I think, most of the healthcare players have that information ready. I think if they ask for the same, we would be happy to provide that to them.

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

Neha Manpuria: In your opening comments, you mentioned that outstation patients should start normalizing, particularly for the Chennai cluster. Have we already started seeing that improvement in the last two months or do you think it would take a couple of more quarters before this fully normalizes?

Suneeta Reddy: I think we have seen an improvement in this metric in April and May.

Neha Manpuria: So we should ideally start seeing improvement in our Chennai cluster performance from the first quarter itself?

Suneeta Reddy: Yes, I think you should expect to see that.

Neha Manpuria: If you could give me a little bit of colour on Navi Mumbai with regards to how it is panning out or how should we look at losses from Navi Mumbai next year and when the losses are likely to peak?

Mr. A. Krishnan: To begin with, I think even if you look back at the quarter, all of the Rs. 22 crore amount is not the ramp up cost. There have been start-up costs which are specifically advertising, etc., which we incurred on the launch and was the number that we had to account for in Q4. So pretty much going into Q1, we do not think the losses are going to be Rs.22 crore and it should come down to at least around Rs.15 crore, as we get into Q1. As we move forward, yes, Q4 had occupancy of 50 and we are hopeful that we will hit occupancy of 75 by the end of Q1. Also, we are on track to take it to 150 over the next four-to-five quarters. That is what the team is targeting and the breakeven by Q4 is what they are still targeting.

Suneeta Reddy: So just to add on to that, I think the cost also reflects the fact that we have a great team of doctors present here from UK, which are on guarantee money. At the end of the year they will convert to fee-for-service. So I think it will contribute to us reaching EBITDA breakeven.

Moderator: The next question is from the line of Anubhav Aggarwal from Credit Suisse.

Anubhav Aggarwal: My question is with regards to pharmacy business. If I compare the margins of the present quarter with the margins of the September quarter, where the top line was very similar, we can see that the margins have dropped significantly in the present quarter. I understand we have added stores in the last six months. But if we exclude the stores added like-to-like, are we same on margins versus the September and the March quarter or the margins are lower right now?

Mr. A. Krishnan: If you look at the numbers, the numbers on top line actually came down from the September quarter. We had an overall number of Rs.788 crore on the SAP revenues in the September quarter and that number for Q4 was Rs.743 crore. This is because if you look at the September quarter, there was a marked increase in that quarter because if you look at the demonetization, they had a positive impact on demonetization in that quarter.

Anubhav Aggarwal: Sorry sir, I am comparing the present quarter versus September quarter. I am not comparing versus December quarter where the top lines was largely similar. That is why I did not compare to December quarter where we had the benefit of demonetization. The top lines are exactly similar but the margins are much lower in the present quarter versus the September quarter.

Mr. A. Krishnan: I think this is something because of the new stores also as the new stores that were added in Q3 and Q4 have been high i.e almost around 55 stores were added in Q4 and a similar number was added in Q3 as well. Also, with the fact that some of these costs have come in and the revenues have come down from Q3, we have seen that the margins have come down. But we are quite sure that we will be able to improve the margins from here on as we move into the next year.

Anubhav Aggarwal: My next question is with regards to Apollo Munich. This quarter was exceptional for the Apollo Munich Health Insurance. Is there any one-off or was it like the claim ratio this quarter was so less, the profitability became so high?

Suneeta Reddy: One aspect which we should look at is the fundamentals of the business. I think there is a strong fundamental there where the demand for healthcare services is huge and Apollo Munich is catering to that. Their traditional loss ratios are in the 60% and I think their choice of consumers is superior in terms of who they selected, they go after detailed markets. Having said that, I think the Rs.100 crore increases in profitability is due to the new accounting standard that they have applied.

AnubhavAggarwal: Actually, my question was that in the present quarter our margins were at 21% whereas for the full year fiscal ’17 our margins were about 12%. Therefore, the present quarter looks like there was some one-off over there?

Mr. A. Krishnan: It is predominantly related to some of the IndAS restatement that they had undertaken and you could discuss offline with us.

Anubhav Aggarwal: I had one more question on the Chennai cluster. Now, since our focus clearly near-term is to get utilization up and basically more volume focus , so should we assume that if any price increases is to be taken, will be undertaken only at the end of the year or maybe next year in Chennai?

Suneeta Reddy: No, it will not be at the end of the year, I think we have a plan.

Mr. A. Krishnan: So more around Q2 is what we plan to take it in line with some of the increments being planned across.

Anubhav Aggarwal: So if we take in Q2, will the price increase be around inflation i.e 4 to 5% in mid-single digit?

Mr. A. Krishnan: Yes, between 4 to 5.

Moderator: The next question is from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: Just coming back on the stent pricing where you said the impact for 45-days was Rs.8-10 crore. So does it mean for the full quarter impact it would be twice of that?

Mr. A. Krishnan: Yes, in that quarter we suddenly had to bring down the price across the board, so we had not recalibrated any of the packages, etc., for at least some time. Now the walk-ins have been recalibrated, the pricing and that impact is right for that quarter.

Sameer Baisiwala: So it is not 45-days, it is 90-days?

Mr. A. Krishnan: No. I mean because the regulation came only from Feb '14, this is for 45-days. But the impact is for the whole i.e 100% of all the cardiac cases whereas this impact will come down significantly in Q1.

Sameer Baisiwala: So for Q1 for 90-days, what would roughly be the impact about?

Mr. A. Krishnan: Less than half of this.

Sameer Baisiwala: Do you have some sort of assessment that if you are taking x charge, then the charge taken by the manufacturers; is it 10x of you, 5x of you? Also, who has taken the maximum hit on the stent? Also do you think Government can potentially expand this to other surgeries, other therapeutic areas as well?

Suneeta Reddy: I think, both the manufacturer and the hospital have taken the hit. We are prepared if the Government does this to other consumables as well, in the sense that we have actually repackaged a lot of our surgeries so that we maintain our margins in spite of what the Government does.

Sameer Baisiwala: My next question is with regards to the Proton project in South Chennai. So for 200-beds, you would be spending Rs.750 crore in CAPEX. A) How much of this is pending now? B) What is your ROI expectation from this project?

Mr. A. Krishnan: So almost around Rs.400 crore is pending now on this i.e the amount which is still to be spent. If you look at the overall split of this, the proton equipment itself is at least around Rs.300 plus crore on the overall cost of the proton equipment alone and then the allied medical equipment, the LINAC, etc., is another Rs.100 crore on that. So the medical equipment component itself is a large number that we have. The IRR typically that we have is around 18% on hospitals and we think this should be around 16-18%.

Moderator: The next question is from the line of Rakesh Nayudu from Haitong Securities.

Rakesh Nayudu: My question was on Vashi initiative. If my understanding is correct, in the earlier communication it was stated that the EBITDA losses from this unit should be to the tune of around Rs.30-odd crore for the entire year, which is 12-months. But if we look at the current numbers, last quarter alone it is to the tune of Rs.22 crore, now you are saying it will be Rs.15crore from next quarter onwards. What has changed at the centre which has necessitated such as steep hike in the cost structure?

Suneeta Reddy: There were two unplanned expenditures that we incurred. One was the guarantee money that we are paying doctors which exceeded what we had planned for. Second was marketing expenses. We do have significant marketing expenses because of the launch that we had not budgeted for.

Mr. A. Krishnan: For the full year we are still targeting maybe between Rs.35-40 crore and this is what we are still looking at. It should start doing better from Q1, Q2, Q3, Q4. Sequentially we are hoping that we should be able to build up the volumes as revenues and that should help us see the EBITDA losses coming down over the four quarters.

RakeshNayudu: In your earlier comments, you mentioned that there were around 240 senior hires. Will it be possible to give a general breakup in terms of which EBIT segment these hires have happened?

Suneeta Reddy: We have hired significantly in the cardiology and in neurology space. I would also like to add that we have actually invested a lot more into our robotic space and our doctors have been incentivized, they are doing a lot of programs in which they have collaborated with the US and UK. This learning has actually played out very well in terms of consumers and the way they look at robotic surgeries now. So utilization has picked up.

Rakesh Nayudu: You had earlier mentioned that around 20% of your revenue is from the cardiac. So will it be possible to give a tentative range as to what element of those revenues would be linked to stent and associated procedures? Broadly, I would also like to know your comments in terms of how do you look to navigate these pricing cuts because if my understanding is correct, bulk of the gains come from the pricing pass-through from the stent. So how should I be looking at this?

Mr. A. Krishnan: I think we will have to take this offline because the exact split on how much is stent and how much is the rest is not something that we have available now. But maybe you can take it offline and we can help you understand this better.

Suneeta Reddy: Also, we do have a strategy for pricing which I think we will take offline.

Moderator: The next question is from the line of Harith Ahamed of Spark Capital.

Harith Ahamed: I am looking at Apollo Clinics financial numbers. It appears that there is a decline in the profitability there. So there are some local issues that we are aware of. But just wanted your comments on how we see the recovery?

Suneeta Reddy: The occupancy in Kolkata is picking up right now as we speak. None of the doctors have left. So I believe that we do have a good product clinically and this has been reflected in the new occupancy numbers for this quarter. It will take us two quarters to get back on track.

Harith Ahamed: On AHLL, when I look at the full year number and the nine months number, there seems to be a decline sequentially in the revenues and the EBITDA losses have gone up as well. So can you give some color with regards to this?

Suneeta Reddy: So our Managing Director of AHLL is on this call. Sangeeta, would you like to step in?

Sangeeta Reddy: So on AHLL, I think that last year we had Rs.423 crore turn-over and a loss of aboutRs.100 crore. However, the budget for this year is at Rs.591 crore and the loss will significantly come down to be under Rs.60 crore. The number of units that have been opened, our footprint, in the financial year '17 grew from 305 to 422 units. The loss that you refer to in the last quarter is actually because we opened two new Cradles – one in Amritsar and another one in Bengaluru. These additional centers needed staffing as well as minimum guarantee formats for doctors. So that was the additional loss number you see in the last quarter. However, the plan clearly for the financial year '18 is to ensure that each division-by-division we reach profitability at least to be EBITDA-positive in Spectra and Cradle, the Clinics will be positive, the Diagnostic as you know is on a growth track. But you will see a significant reversal of the losses quarter-on-quarter in FY'18 and we are also holding on to new centers opening so that the entire management team is focusing on profitability for the year.

Harith Ahamed: Looking at your consolidated P&L for FY'17, there is a minority interest figure of Rs.89 crore. I believe this is the loss reversal happening because of the minority share in AHLL largely. So can you give more color on this?

Mr. A. Krishnan: That is correct, that is what it is.

Harith Ahamed: So what will be the consolidated PAT loss at AHLL for FY'17?

Mr. A. Krishnan: AHLL's FY'17 consolidated PAT loss was Rs.97 crore post minority interest.

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

Girish Bakhru: Would it be possible to give some color on the pricing differential between the cath lab and the normal operational data units?

Sangeeta Reddy: Procedures in the cath lab include an angioplasty or angiogram procedure. In the operation theatre a surgical procedure is done. The packages of both of these are different. So maybe we can discuss them offline. They are not strictly comparable.

Girish Bakhru: But my idea was basically to understand when you are re-pricing the package of angioplasty, can you consider cath lab like an operation theatre?

Suneeta Reddy: We can, we will take this offline for more details.

Girish Bakhru: Just in terms of the utilization, it would be normally higher utilization in cath lab versus OT, right?

Mr. A. Krishnan: Yes.

Girish Bakhru: On the pharmacy side, if you could give some color on Hetero, where is the progress in making those margins close to network margins?

Mr. A. Krishnan: I think it is now becoming profitable and we are focusing on increasing the sales there. They have seen some traction in the revenues. In FY'18 they should be able to see a much better progress in those batches of stores.

GirishBakhru: So earlier you had guided for them reaching network breakeven by I think FY'18 end. Would that still be valid?

Mr. A. Krishnan: For FY'17, their EBITDA margin is already now a positive margin. When you look at Q4, they have already come at almost 1% EBITDA margin which is better than what they have done earlier, they are trending well.

Girish Bakhru: Just on the Mumbai side, what ratio of the total doctors would be guaranteed doctors right now?

Suneeta Reddy: 90%.

GirishBakhru: And this number would fall to what percentage when you say that some of them would move to fee-for-service?

Suneeta Reddy: This is something that we will have to look at towards the end of the year.

Girish Bakhru: On the additional beds, when do you plan to operationalize more beds in Navi Mumbai?

Suneeta Reddy: It is happening every quarter. Every quarter we are operationalizing more beds.

GirishBakhru: And that would not be at a significant incremental CAPEX, right?

Suneeta Reddy: No.

Moderator: The next question is from the line of Charulata Gaidhani from Dalal & Broacha.

Charulata Gaidhani: What sort of volume growth do you expect for FY'18, in terms of patients?

Suneeta Reddy: We actually look volumes in terms of occupancy which we have linked to certain specialties. So we have budgeted for an increase of about 7% overall from our existing occupancy.

Charulata Gaidhani: What type of a price ARPOB increase are you looking at?

Mr. A. Krishnan: So overall if you look at it, this year the occupancy improved by 200-beds. When we said 7%, we are targeting a 300-400 beds on the overall occupancy for this year to increase i.e the occupied beds which will equate to 7-8% increase in volume, maybe another 4-5% is something that you can use for tariff and ARPOB. So typically, we are hoping that we should be getting back to the 12% growth this year. That is what we are targeting.

CharulataGaidhani: Also will the increase in EBITDA margins be 1% or more than that?

Mr. A. Krishnan: Could be better because it depends on the mix between the new and existing. This is because most of the costs are incurred in several hospitals that we have included the new hospitals and places like new Mumbai. So if we are able to get this growth, we should be able to see good traction in the EBITDA.

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

Nitin Agarwal: If you look at the FY'17 performance, our mature hospital has had a marginal decline on the EBITDA number. Across hospitals, we have been increasing our ARPOB through the year. So what has been the specific reason why there has been a decline in EBITDA despite the improvement in ARPOB and what in your assessment is going to change in this segment, going forward?

Mr. A. Krishnan: There have been two reasons. One is of course as we said Chennai was impacted for 75-days because we had the admission and subsequently we also had the demonetization effect. Both led to significant impacts for a flagship center like Chennai. Second, we also had a settlement on labor this year, which is once in a three year thing that we do. So obviously, that is the other cost that we had to pick up and we have not passed some of that to the consumers. So we are recalibrating some of that and we hope that in the next year the margin should be a bit better.

Nitin Agarwal: So the margin improvement would be driven by primarily through volumes. So what was missing in this year that could…?

Mr. A. Krishnan: Volumes as well as bit of a price, both of that were not considered. We could have taken 3-4% increase in price but given all these issues that we have, we did not take it.

Nitin Agarwal: The performance of Chennai is based in terms of how our mature segment really plays through. I mean have there been any changes in the competitive landscape in that market?

Mr. A. Krishnan: The competitive landscape, yes, of course, there are other hospitals which have come in, but we think that the market share that we have is still something that we have been able to maintain here. Yes, there have been a couple of new hospitals which have come in here.

Suneeta Reddy: I think in key specialties we have managed to keep over 23% market share and our focus is to have 25% market share in five key specialties.

Nitin Agarwal: Secondly, on our balance sheet, we got almost like a Rs. 2,500 crore net debt and now on our consolidated EBITDA we are almost 3x of FY'17 EBITDA. So where does that leave you with respect to participating in inorganic growth or in terms of our future expansion plans?

Suneeta Reddy: In terms of participating in inorganic growth, I think we have a presence in all key markets. We do have a strategy for in case an acquisition should happen, I am unable to reveal at this time, but if you were to ask this question a quarter later, I think we could throw more light on that.

Nitin Agarwal: What would be the component in the associate income from Apollo Munich that would have come in the consolidated numbers this year?

Mr. A. Krishnan: Should be around Rs.13 crore.

Moderator: Our next question is a follow up from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: Just a clarification; you mentioned that you will be taking price increase in Q2. Was it only in the context of Chennai, the 4-5% increase, or is it across your clusters?

Mr. A. Krishnan: We are looking at it across.

Sameer Baisiwala: And all of that happening in Q2?

Mr. A. Krishnan: That is right.

Moderator: As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

Suneeta Reddy: Thank you, ladies and gentlemen for joining this call. I believe that last year we have built a strong foundation for growth. With an additional capacity we now have 10,000 beds, new technology and outstanding clinical work. We believe that these along with the brand pull will help us capitalize on the strong fundamental demand for healthcare services. Thank you, ladies and gentlemen.

Moderator: Ladies and gentlemen on behalf of Apollo Hospitals, that concludes this conference.