



Apollo Hospitals Limited

Q4 & FY20 Earnings Conference Call Transcript

June 26, 2020

Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Q4 & FY20 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank-you and over to you, sir.

Mayank Vaswani: Thank-you. Good afternoon everyone and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for the fourth quarter and fiscal year 2020, which were announced yesterday. We have with us on the call today, the senior management team comprising Ms. Suneeta Reddy – Managing Director, Dr. Hariprasad – President of the Hospitals division, Mr. A. Krishnan – Chief Financial Officer, Mr. C. Chandra Sekhar – CEO of AHLL and Mr. Obul Reddy – CFO of the Pharmacy business.

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 the investor presentation shared earlier.

Documents relating to our financial performance have been circulated with all of you earlier and these have also been posted on our corporate website. I would now like to turn the call over to Ms. Suneeta Reddy for her opening remarks.

Suneeta Reddy: Good afternoon everyone and thank you for taking time out to join our call. I hope all of you are safe and healthy. I trust all of you have received the earnings documents which we shared earlier.

While the long-term outlook of the COVID-19, coronavirus pandemic is still highly uncertain, businesses, individuals and families are nevertheless having to adapt to

the new challenges thrown up by this unprecedented crisis. Healthcare systems worldwide are at the center stage of this crisis as we have been entrusted with the responsibility of saving lives, as well as keeping our employees and our hospitals safe for our Doctors, frontline staff as well as other Non-Covid patients.

While at the end of Q4 FY20 was the beginning of our experience with COVID, I am glad to report that in this quarter, we have posted a set of numbers, which I believe demonstrate the continued momentum and the resilience of our business.

The Company recorded a Standalone revenue growth of 19% to Rs. 2,572 crore, and consolidated revenue growth of 17% to Rs. 2,922 crore. This was aided by SAP growth of 33% and healthcare services growth of 6% for the quarter. This was after accounting for a revenue downside of Rs 70 crore, on a standalone basis, and around Rs 100 crore on a consolidated basis, because of the COVID impact on the healthcare services segment, which began early in March 2020. The loss of this revenue had an impact on EBITDA and reported occupancy levels across the hospitals. Standalone pharmacies, however witnessed increased buying in the quarter, aided by a general tendency to stock up for medicines and consumables prior to the nationwide lockdown.

For the quarter, while overall volumes in healthcare services de-grew by 1%, our new hospitals recorded a volume growth of 7%. New hospitals in Q4 reported revenues of Rs. 275 crore, growing at 8% year-on-year while mature hospitals revenues grew 3%. It was also heartening is that we have 22% revenue growth in our Oncology vertical.

Our margins in mature hospitals were strong at 21.3%, while margins at new hospitals were at 6% for the quarter.

The SAP vertical recorded excellent results, with revenue growth of 33% Y-o-Y and EBITDA higher by 52% against the same quarter last year, at Rs. 85 crore. Network wide EBITDA margins are at 6.2% with those of our mature stores at 8.6%. SAP ROCE is now 29%. Sales from Private labels are now at 8.4%.

Q4 overall Standalone EBITDA (Post Ind AS 116) was at Rs. 348 crore. The Pre Ind AS 116 Q4FY20 EBITDA stood at Rs. 288 crore as compared to Rs. 266 crore in Q4 FY19, growth of 8% on a year-on-year basis. Within this, Healthcare services EBITDA de-grew by 3% to Rs. 203 crore impacted by lower volumes and occupancy due to COVID.

We estimate that IP volumes were lower by about 4,500 cases across the network due to the COVID impact. Overall occupancy across the Group in Q4FY20 was at 5,045 beds or 67%, compared to 4,938 beds or 68% in Q4 FY19. The occupancy in mature hospitals was at 2,264 beds or 67%. New hospitals had an occupancy of 61%.

AHLL continued on its growth path and has achieved an EBITDA of Rs 1.8 crore for the full year, a swing of Rs. 62 crore from last year's EBITDA loss of Rs 60 crore. This demonstrates strong growth in top-line at 8%, despite the impact on its Clinics and Spectra business due to COVID and an EBITDA loss of Rs. 1.7 crore for the quarter.

Net Debt as of 31st March 2020 is Rs. 2,786 crore. We have a Debt equity ratio of 0.79 and Net Debt to EBITDA of 2.3 times. We have, in January, repaid debt worth Rs. 340 crore out of the proceeds of the Munich transaction.

Moving on to COVID-19, we continue to contribute to the fight against COVID-19 in several ways, under the umbrella 'Apollo Kavach' – the shield against COVID. This is a comprehensive and integrated response plan by the Apollo Group.

- Our COVID-19 scan, released through our platform Apollo 24/7, was a helpful tool in the early days of COVID for a user to determine a COVID risk score and take appropriate measures. Over 15 million users have taken the risk score.
- Secondly, 10 of our AHEL labs, and 2 Diagnostics Central Labs are undertaking COVID-19 testing.
- Thirdly, we have allocated upto 1,000 beds in our network for the treatment of COVID.
- We have launched two services, 'I Stay' and 'Stay I at Home', which provide options for safe isolation of COVID suspected and COVID positive patients both in hotels and at home.
- Finally, we accelerated the launch of our new App Apollo 24/7, to provide important services during the COVID-19 crisis such as virtual consultations with all our specialists, and home delivery of medicines booked online on this app. Over 1,000 virtual consultations are happening everyday as we speak. This has ensured that our patients' continuum of care continues undisturbed despite the pandemic.

Having said this, it is also a fact that the pandemic has a significant impact on our occupancy during the first 3 months of the current fiscal FY21. Occupancies in

April, May and June were 28%, 35% and 45% respectively. We expect business and operations to get back to normalcy by the end of Q2 FY21.

Anticipating this loss of business, we have initiated a slew of cost-saving measures internally, which would in the short-term, reduce costs by 25-30%. As a result of these initiatives, we were able to ensure that there has been no increase in net Debt during the period April to May 2020. In the medium to long term, we are working on initiatives that will structurally reduce costs by 15%.

All these factors give us confidence that while the short term will be challenging, we will emerge stronger and smarter in the medium term and will be able to accelerate our strategic movement in three specific ways:

1. Moving closer to the consumer – As we said earlier, COVID only reinforced that belief that the future of healthcare is in moving closer to the consumer. As our definitive step in that direction, we launched “Apollo 24/7” which is a robust digital platform offering the capability of Virtual doctor consults, online pharmacy, diagnostics @ home, digital health records and health management.
The other arm of our business which is a strategic focus area is Home Healthcare, which has seen good traction during COVID, and will continue to grow. These formats will help us move closer to the consumer and improve stickiness with them.
2. The second area of focus is to deepen our presence and extend our dominance in certain key markets. Apart from South where we have a strong presence, West and East are certainly markets which are of interest to us and we will be working on ways to penetrate select micro-markets as part of our strategic goals.
3. The third area of focus will continue to be our fast-growing Pharmacy vertical, which has now in the short term with the Digital platform assured delivery of medicines. There is a clear strategic roadmap for the pharmacy business, which includes achieving Revenues of Rs. 10,000 crore and 5,000 stores in 5 years, and we are well on our way towards that direction, along with improved EBITDA margins.

It is evident from the above strategic goals that the way we think about our business model is constantly evolving. We are no longer defined simplistically by the physical beds we have, but we are defined by the lives we touch and the

consumer touch points we serve. We believe this is the future of healthcare, and post-covid, we will emerge stronger with a business model that fully aligns with this future and the aspiration of the consumer.

With that let me hand it over to the entire team to take your questions. I have Dr. Hariprasad, Krishnan, Chandra and Obul Reddy with me and we are happy to move into questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question is on the occupancy. I think you mentioned, ma'am, in the opening comments that occupancy has touched about 48% in the month of June. I just wanted to understand how much of this improvement is because of probably the increase in the COVID cases and therefore occupancy increasing in COVID beds versus non-COVID patients?

Suneeta Reddy: So if you look at our allocation, only 30% of this will be COVID. The rest is patients coming back into the system.

Neha Manpuria: And we have seen this in all our cities or this would be more in, let us say, more in Bangalore and Hyderabad?

Suneeta Reddy: Yes. This would be mostly in Chennai, Calcutta and Delhi. Our Tier 2 hospitals we have not seen many COVID patients there. So those are keeping back to normal occupancy of about 60%.

Neha Manpuria: And second question on the cost saving. If I heard correctly, you said 25% to 30% reduction in the near-term and then a structural cost reduction of 15% over time. If you could give more color on by near term, do you mean that these are temporary in nature? And in which areas would these be?

Suneeta Reddy: Yes, some of them are temporary in nature. Those that we are looking at which are temporary is that one is the rentals. So we have got a waiver from most of our rental premises, which is for a 3-month period, but we have asked for a reduction for the whole year. And hopefully, that will come through.

The second has been in salaries. While we have maintained and given a bonus to frontline people, which are our nurses, doctors and staff, we have taken salary cuts for this quarter, which contribute to this. And the third, of course, is marketing. We

have not spent any money on marketing and insignificant amounts on marketing, which contribute to this.

Neha Manpuria: And the 15% structural reduction in what areas would that be?

Suneeta Reddy: So that would be like a much deeper engagement where we are looking at even the variable cost. So from looking at variable costs, I think it focuses on every area of cost starting from our consumables, we have looked at kitting out surgeries and, therefore, reducing cost because of kitting and therefore reducing our purchase, getting better prices for what we purchase. We are looking very closely at employee cost as well. And the third, of course, is things like travel, long-term reduction in rent, all of this will contribute to between 10% to 15%. And while it is being led by the central team, each of the units are taking it very seriously and are committed to this 15% reduction.

Moderator: Thank you. The next question is from the line of Prashant Nair from Citigroup. Please go ahead.

Prashant Nair: Just a couple of questions. One is within your network; can you give us a sense of how many patients would be coming into any hospital from, say, outside city limits? And have you seen a recovery in this kind of patient flow as well? Or is it just the local, the city-based population who started coming in back to your hospitals?

Suneeta Reddy: Prashant, I think considering that we have been in lockdown mode for a long time, it would be difficult for people from outside the city to come. But there have been instances, we have had flight chartered and we brought in air evacuations and those sorts of one-off instances happening. But our focus now is on our local market share and engaging our; yes, and also focusing on the corporates which are there in most of the urban cities. So it is our engagement with corporates, it is our engagement with referral doctors, our engagement with local nursing homes that is actually contributing to higher occupancy.

Prashant Nair: And can you give a rough sense of how much of your patient inflow would be this kind of medical travel-related patients, so people who are coming from outside city limits?

Krishnan A: So it varies from unit to unit, right? So if you look at in a place like Chennai, it would be obviously, it was a referral hospital and there were a lot of patients coming from outside, international as well as outside Chennai. So clearly, in a place like Chennai it would be over 35%, whereas in certain other geographies like Bangalore, etc. it has been less than 20%. So which is why, it will differ from place

to place and location to location. Places like Calcutta is significantly from within, Hyderabad is more from closer geographies. So each place has a different perspective.

Prashant Nair: And just one last question, which is a clarification on what you outlined about your cost reduction initiatives. So the near-term cost reduction that you mentioned is all fixed cost reduction, right? It does not include the natural fall in cost because occupancy has fallen, but it is just incremental fixed costs that you are able to reduce by?

Krishnan A: Yes, it is incremental fixed cost reduction.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: My first one is on the 1,000 COVID beds. What is the occupancy you are seeing on those beds at this point of time? And the related question is, what is the kind of average revenue per operating bed we can get from these kind of beds?

Suneeta Reddy: So if you look at the 1,000 beds, I think they are about 70% occupied because this number every week we increase the number, now it is peaked at 1,000. So currently, there is about 70% to 75% occupancy. Of course, in cities like Chennai and all where the volumes are large, we are more than 90% occupancy. So it varies from city to city. What is the average revenue, again because of the capping in Chennai and Delhi, it is around 20,000?

Krishnan A: Yes. Chennai and Delhi would be 20,000. In certain other places, it will be 25,000. So that is the range.

Shyam Srinivasan: My second question is on breakeven for the hospitals. You talked about the cost kind of controls that you have put in place. But if you can help us understand where could be the new hospital occupancy breakeven on an EBITDA basis or whichever you want to share. So we are now at 45, I recollect you said in the month of June. So if that goes to 50 or 55, can you help us understand that?

Suneeta Reddy: Yes. I think that is the target; that is the breakeven point that we have also looked at. It is clearly 55. And hopefully, in July, by the end of July, we should be there.

Shyam Srinivasan: And my last question is on the standalone pharmacy. So you said 8.4% if I recollect right. If we can just get an outlook for fiscal '21 for the standalone pharmacies in terms of are we just looking at the same 10% kind of capacity or store growth, if you can walk us through just the dynamics on SAP?

- Suneeta Reddy:** 8.4% is private label.
- Obul Reddy:** 8.4% is the private label. And though last quarter, Q4, we have grown at 33%, adjusted for COVID we are in the range of about 22.5% to 23% growth. We expect to maintain that normal growth despite COVID situation, maybe some slight variation because there is a difficulty in managing the logistics and the employees. And we expect to be in that range.
- Shyam Srinivasan:** Store additions any guidance?
- Obul Reddy:** Store additions for first quarter, we have not done anything because managing the COVID thing itself is difficult. But from Q2, we are now planning to add this store. There may be some slight reduction from what we have been adding in the earlier years.
- Suneeta Reddy:** So currently we are at 3,766 stores.
- Obul Reddy:** And we have added during the year about 88 for the quarter, about 360 in the full year.
- Shyam Srinivasan:** And my last follow-up. So margin expansion, you think that can continue for SAP, right? Because store additions and operating leverage for us, right will come through?
- Obul Reddy:** We expect that maybe 1 or 2 quarters we have to see because there is a lot of COVID protection and expenditure because every day about 4 lakh people walk-in to our store. So employee protection and customer protection is most prime thing, and there will be some cost associated to it. Otherwise, we expect to be in the normal range.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** First question is a follow-up on the EBITDA breakeven. So you mentioned it is about 55%. This is assuming what kind of cost savings already in place for the quarter? Like you talked about 25% to 30%. I assume this would be over a period of time, cannot be day one, right? So what percent of cost savings already achieved? And does that 55% bake-in the entire cost saving or there would be more to go in the second half of the year?
- Krishnan A:** So we have started the cost savings effective April itself. And we have been, especially on cost, across the board that we have said rental, marketing, we have

completely slashed all the discretionary costs, which is why we said the near-term opportunity is 20% to 25%. And when we said that it would be at 55%, we are saying that some of the near-term opportunities of 20%, 25% goes and what remains is the 15% reduction that we get, so which is where at the 50% to 55%, in that range, it will not be 55% across, even at 50% to 55%, we will get close to breakeven. So we are planning for that around July.

Prakash Agarwal: So Q1 would obviously be a red area for us; but from Q2 onwards, we will at least be; so the correct understanding is, in Q1, it would be a negative EBITDA. But moving forward, Q2 onwards, we will turn into positive. And with the incremental cost savings and incremental occupancy, we will probably second half be back to normalcy, would that be correct to understand as of now or with a caveat, we should put a caveat there?

Krishnan A: No, that is correct. But subject to lockdowns, right? Obviously, we are hoping that lockdowns there are no any further lockdowns, and we are hoping that people will be able to come back generally as we have been seeing in the last 2 months. We have witnessed increased occupancy as Ms. Suneeta already said. We should hope that it is incrementally better in couple of months ahead.

Prakash Agarwal: And my second question is on the price caps. So two days back, I think there are lot of Government intervention which has come in, in terms of some of the States and even Delhi talking about price caps, have these been implemented? And what is the average? You mentioned about your average 20 and 25. If you could help us understand which are the States and what are their prices?

Krishnan A: So broadly, the range is not significantly low because they have added a PPE cost to it, etc., infection control, they have been of course, they have said they have kept a very low-risk for the wards, but we do not do much of the wards. We do mostly critical care cases and we have a COVID critical care wing which is where we take most of the people who want to come into care. And there, the average is around 15,000 from many of the Government also.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Suneeta, just a quick clarification on your comments of net debt. Did you mention that the net debt is Rs. 2,788 crore?

Suneeta Reddy: Yes. Rs. 3,100 crore last quarter. And we had the Munich money coming in.

- Sameer Baisiwala:** Okay. I mean, this is as on end of March because your Slide #14 says?
- Krishnan A:** No. So this Rs. 2,786 crore is the standalone debt which Ms. Suneeta said, right? And the number that you would have on Slide #14 would be the consolidated debt of Rs. 3,084 crore; that includes Apollo Health & Lifestyle and Bangalore, etc. Typically, most of them are in a position to take care of their own debt and debt servicing.
- Sameer Baisiwala:** And the second question is, how do you see this in 2021 fiscal, net debt? And what are the updates on the SAP restructuring as well as Proton monetization?
- Krishnan A:** So the SAP restructuring we are awaiting the NCLT approval. Finally, we are hoping that we should get this very soon. And there have been last set of queries, which we are answering and once it is back, once we are out it should be done in the next one month is what we are hoping that it should get to fructification. Once that is done, we should get in Rs. 300 crore of cash into Apollo, which should be used to pay down the debt in the short run. And then, of course, as we said, there has not been any debt increase that we have seen until date. From the March end, we have been managing the receivables and curtail costs, etc. So even if COVID continues, maybe there is an incremental debt of Rs. 100 crore - Rs. 150 crore that we would see which we can take after bringing down the Rs. 300 crore, right, from (Inaudible). But broadly, our CAPEX is behind us. We have the Proton, the last (Inaudible) payment alone pending for Proton, which is around Rs. 70 crore or something which is pending to be made in Proton. And apart from that, we have cut down our routine CAPEX. We do not think our routine CAPEX for the full year should be over Rs. 100 crore. It was Rs. 200-plus crore as per the earlier plan, as you remember. By end of the year, we should be broadly good on debt.
- Sameer Baisiwala:** Okay. That is great. And also, any updated thoughts on Proton monetization or that is on the back bench?
- Suneeta Reddy:** I think we will know end by June, first week of July, because of the lockdown in Chennai it has been delayed.
- Krishnan A:** The interest is still there and we would come back to you by end June, July.
- Sameer Baisiwala:** Okay. And the size would be Rs. 100 crore to Rs. 200 crore type of a ticket size or just?
- Suneeta Reddy:** Rs. 300 crore.

- Krishnan A:** Higher than that. So two things, right. We are talking of, firstly, transferring the whole CAPEX that we have already incurred into a separate SPV. So which means there we are talking of an equal partnership between two partners, which means that debt would completely go into that. So we are talking of a business transfer agreement, which should take the whole Proton project, move the Proton project completely out of the Apollo desk into the other desk. And we are talking of an equity infusion of at least Rs. 350 crore.
- Sameer Baisiwala:** And sir, the second question is, how did SAP business do during the lockdown, which is April, May, June?
- Suneeta Reddy:** Very well. I will ask Obul to explain.
- Obul Reddy:** No, we cannot give the numbers, but we are on our normal course despite so many restrictions on the larger States or staff movement. I can say that we are on normal course.
- Suneeta Reddy:** But to give them credit, I think they handled their supply chain very well; all the employees who have been sent in the stores unafraid of COVID so.
- Obul Reddy:** Our attendance at the front end is lowest at 62% and as high as about 79% during this period. So there is a committed team working round the clock to serve the Customers. And in the process, I think we are on normal course.
- Sameer Baisiwala:** And just one general question from my side which you can wish to answer if you want. I mean, how do you see this pandemic play out in the Indian context, in the sense, how do you see it peak and flattening of curve. I mean, some estimates say that India is going to hit 2 million, some say 4 million infection cases, any update at how would you take care?
- Suneeta Reddy:** So we have a war room in Hyderabad. I will ask Hari to take that question?
- Dr. Hariprasad:** Yes. Actually, we are looking at the numbers going up and going up significantly because of two things. One is the lockdown has come off and second thing is the number of tests have increased across the country again. They are almost doubled or tripled. And one more factor that we are noticing across the country asymptomatic carriers. There are people who do not have any symptoms, but have the virus in them. So they innocently go around carrying and spreading the virus. So that is a dangerous situation for the country. That is the reason I said the numbers would go up. And I suspect that the numbers will go up significantly. It may touch the number that you are saying or may not, that is a different aspect, but

with the population that we have, it is going to be high. But the good thing is the death rate is very low and the recovery rate is very high. And that is a very good thing. And the third thing is, I think, India has created infrastructure to manage the sick patients. Less than 10% of the total patients who are turning positive; are actually needing some sort of an intensive care and India has that sort of a capacity, even if it goes to high numbers. So we are looking at something like July, August for it to peak, and we are hoping as per the market news that there will be a vaccine available within the next 6 to 9 months and that would be the only answer for containing the virus, and we do not see that happening within the next 6 to 9 months.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai My question is regarding new hospital margins. So we have ended the year around 8% margin. So if we assume that we will go back to recovery towards second quarter, so do you still maintain your earlier target of reaching mid-teen margin for new hospital, say, in the next 2 years? Or we can see some extension there in that timeline?

Krishnan A: No, I think that is fine. Next two years, we will continue to do that. In fact, new hospitals, clearly, many of the new hospitals like Bombay, etc., have been still doing okay. It is of course, there are COVID beds also that we have taken there. But nonetheless, we are well in line. We had, even before this lockdown, etc., started moving towards getting good doctors in place in many of these hospitals. We are quite okay in getting it to mid-teens, mid to high teens in the next two years.

Damayanti Kerai: Sure. So I believe, like most of the new hospitals are scaling up well. But which hospital would you feel like needs more focus to really scale up the operations? And where we are lagging compared to our previous estimates?

Suneeta Reddy: I think it is only in Nasik, rest all are scaling up, all of them are contributing to EBITDA.

Damayanti Kerai: Okay. So that is the only hospital which you mentioned has not achieved a bit of breakeven as of yet, right, and rest all are scaling up well?

Krishnan A: Yes.

Damayanti Kerai: Okay. My second question is regarding your digital platform. So you mentioned like initial pickup has been good. So which segment or which areas we are seeing

more consultation? Is it related to some, say, like general consultation or we are seeing pickup on the highly specialized segments also?

Suneeta Reddy: Hari, please take this.

Dr. Hariprasad: Yes. We are looking at two things; significant traffic in terms of COVID positive itself. So the significant traffic for the COVID bench which (Inaudible) and which advises on COVID. Apart from that, there has been, I mean, we have been into telemedicine for a long time, but I think the number of tele-consults for our specialists and super-specialists have gone up multifold and we are touching around 1,000 per day-to-day; also I think that is a significant increase in terms of specialists and super specialists, particularly in terms of continuum of care for chronic diseases like diabetes, hypertension and stuff like that, where the patient remains in touch with the patient. And our Apollo ecosystem is ensuring continuum of care. While the tele-consults happens, Apollo Diagnostics is doing home collection of samples and giving them reports at home. Pharmacies are delivering medicines at home. So in Apollo, patient is being served all around and making sure that they are taken care of even in these difficult times.

Damayanti Kerai: Okay. My third and last question would be regarding any plan for tariff hike, given that there is increased scrutiny for price from the Government and other agency at this point of time. So are we anticipating to take any tariff hike during this fiscal? Or it will look difficult at this point of time?

Krishnan A: No, we are not planning for any specific tariff hikes now because clearly, volumes is what we are focusing on. We definitely I think, and we have said that we are looking at cutting costs of 10% to 15% in addition to that in this year. So we are not planning for any tariff hikes currently. Yes, the cost of serving has gone up by at least 3%, 4% because of all the protections and roistering and everything that we have to do. That is part of the overall cost that we have today. But as of now, we do not have any plans for tariff hikes.

Damayanti Kerai: So for this increased cost, which has come due to COVID protection, have you repackaged your cost? Or we have not done that as yet?

Suneeta Reddy: Yes. We actually have repackaged the entire cost, which includes the treatment protocol for COVID, and we are in the process of doing it even for 70 surgical packages.

Damayanti Kerai: Okay. So ma'am, will we see cost repackaging for non-COVID procedures, around 70 procedures throughout this fiscal, right?

Suneeta Reddy: Yes. So far 24 have already been released. The balance we will do in the next quarter.

Moderator: Thank you. We will move on to the next question that is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: One question is on the price caps. So there have been some price caps put up on the non-COVID surgeries as well. Just wanted to understand the impact of cash on our ARPOB, which is our quarter 4 ARPOB, let us say, last 6 months ARPOB. Because of the price caps for non-COVID, how much lower we would be or this does not impact us materially?

Krishnan A: That is okay. No, it is more only in Maharashtra that this has come in, and it is not something that is way of our insurance tariffs, etc. So we are fine with that tariff. It is not significant erosion to our revenue. It is very small. It is maybe 5%.

Anubhav Aggarwal: And I just also want to get some clarity on your 50%, 55% breakeven. So even earlier, our breakeven was the same at 50%, 55%. Now with cost reduction that we are targeting 10% to 15%, even including that, we are talking about the same. So that is because only 30% of our capacity is in the COVID patients and there we are getting lower realization?

Krishnan A: We are just assuming that the outpatient volumes come in a bit slowly as compared to inpatients, right? We would probably get the inpatient traffic faster than the outpatients because outpatients may take a bit longer. And obviously, you know that outpatients we have is profitable for us. And then in the earlier scheme, when we said 50%, it included good outpatient revenue also. In this, there is not much of outpatient that is lesser compared to earlier. So which is why you will see that the cost reduction would be clearly visible when we say that we are going to be getting to breakeven at these numbers.

Anubhav Aggarwal: Okay and just one more clarity on the 10% to 15% structural reduction that you mentioned. Let us assume you get it, what kind of margins are we talking about? So we were at 22% margin earlier. So if we achieve that and things become normalized, we go to 25% margin here? So what is the top line?

Krishnan A: It is difficult to say that now. We will, I think, clearly, as we said, the first phase is to get to breakeven second is then to kind of cut the cost. I guess we should probably reserve this for two quarters from now. We will be in a better position to answer by then. But clearly, all that I would like to reassure you is that the focus on efficiencies, productivities, cost cut, all this is real, and we are quite sure that we

should be able to achieve that. And more importantly, not impact our balance sheet adversely even beyond this fiscal as we emerge stronger, hopefully next year.

Anubhav Aggarwal: I just have one more clarity on that response. So when we have, let us say, taken 10%, 15% as a target, what is kind of the benchmarking exercise that we have done? So how would you right at this? For example, let us say, we talk about employees, looking at employee salary on a sustainable basis. So are we talking about lesser number of employees per patient, let us say, or we are thinking about the change in mix, for example, more generation of doctors? How are we talking about? Because it is a substantial number that you are talking about in the cost 10% to 15%?

Krishnan A: All of these are part of it, we are not exaggerating. We definitely have we are cutting people because obviously the occupancy has come down and we are going to see occupancy revive over a period of time. So obviously, on the operations side, we are seeing what cuts we need to do. Second, at the middle management layer also we are seeing what is it that we need to do. There has been re-discussion with certain doctors as well on guarantee money fees, etc. The marketing definitely has been cut. Repairs and maintenance has again been there is definitely a discussion on what are essential repairs, what is not essential repairs, etc. So I guess across the board, we have abilities to do this. We are doing this as Ms. Suneeta said, with a central team. There is a central control team out of corporate who is driving this and there are bi-weekly calls which are happening, and there are each of the units which are driving this. It takes two quarters to get there, but we will get there.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: Just one question. What are your thoughts on how you see hospital sector per se placed related to pent-up demand, say, post October? And how is Apollo placed in terms of doctor availability capacity versus the others?

Suneeta Reddy: So in terms of pent-up demand, yes, we believe that with huge shortage of beds and the fact that there was a lockdown, which prevented patients from coming into hospitals, we will see the pent up demand opening itself up for this by the end of this by August, September, those numbers should start coming in. With regard to availability of doctors, I think doctors are waiting to get back to work. There will not be any shortage of doctors. Our doctors will definitely be there.

- Nitin Gosar:** And versus the sector, like, is it that the peers sets or maybe the regional hospital may be underprepared or equally prepared? Just trying to understand how is the volume going to flow through. Is there a chance to gain market share?
- Suneeta Reddy:** Yes. So the regional hospitals have already seen a surge in volumes. And that is because if you look at COVID, it was mostly in the urban cities. We believe that in the next quarter, the urban cities will climb back. I think, there might be some amount of reduction in the regional hospitals because of the spread. And I look at Tamil Nadu, while I am speaking about this. So just getting back, I think, also as Hari mentioned earlier, we do expect by September, October, we would close the second quarter with about 55%.
- Moderator:** Thank you. Next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** When we look at the way, I mean, do you see any meaningful changes in the landscape for the hospital business and for the pharmacy business once the COVID situation settles? Do you see any structural changes in these businesses? I mean, higher digitalization or something you alluded to in the past in your discussion, is there anything else that you are looking at?
- Suneeta Reddy:** Yes. I think, with the launch of our app 24x7, we are seeing a lot of the consults happen online. So in the sense that people coming into OPs for a consult, maybe 30% to 40%, will now be tele-consults and that is here to stay. So I am glad we were the first to launch it. And because of this leadership position, I think it has benefited us in a much better way. The second is that through this platform, we are able to capture pharmacy prescriptions and we are also able to capture any test or diagnostics that need to be done. So I think the platform has benefited both the hospital as well as the pharmacy. And pharmacy is seeing a higher number of prescriptions being given because of 24x7. And of course, we are doing a lot of home delivery at this point.
- Nitin Agarwal:** And I mean, does this structure do anything to our cost, some of these changes in terms of, do they help us to bring down our operating cost for these businesses?
- Suneeta Reddy:** No. I do not think. It does not bring down our operating cost. No, it just because it is a service offering. And I think initially, in the sense that we were offering home delivery for even one medicine. Like Obul said earlier, the protection, etc., and a little bit on the cost of service did go up, but now I think it is flattened out.

- Obul Reddy:** Yes. There will be a temporary cost of service, and then we will get better off in the long run.
- Nitin Agarwal:** So what would be our CAPEX? How does it look at consolidated basis for this year, given the way things are?
- Krishnan A:** So the standalone should be around Rs. 100 crore, consolidated should be around Rs. 125 crore to Rs. 135 crore.
- Nitin Agarwal:** This is across the Group?
- Krishnan A:** That is right. That excludes the Proton payment alone, which I said, which is the Rs. 70 crore, Rs. 60 crore payment which is pending.
- Nitin Agarwal:** So all in about Rs. 200 crore thereabout?
- Krishnan A:** Yes.
- Moderator:** Thank you. The next question is from the line of Shantanu Basu from Stewart & Mackertich. Please go ahead.
- Shantanu Basu:** Just want to know what would be the bed position for FY '21 and FY '22, and I missed the point on CAPEX, so if you could clarify that please that would help?
- Krishnan A:** So CAPEX, as I said, it is for the full year would be around Rs. 100 crore standalone, Rs. 135 crore for consolidated, that is the routine CAPEX. The project CAPEX, which is pending to be paid from a cash flow perspective, is Rs. 70 crore for Proton. This is the two numbers. And the number of beds that we will add will be again, we do not, all the beds are already there. It is just that the capacity is there. Operationalizing them will depend on how we are able to ramp up the beds in these new hospitals. There was a plan to add at least 150, 200 beds in these operationalized 150 to 200 beds this year. That was the earlier plan. But with COVID, obviously, the occupancies have come down and we will have to see how much of that we are eventually operationalizing.
- Moderator:** Thank you. The next question is from the line of Mr. Sheth from Anvil. Please go ahead.
- Mr. Sheth:** My question was related to like if we see the amount of cases that we have in Corona, the top 12 cities are contributing to almost 70% of the cases. Now if I were to look at, can you give me a sense of how many beds would these top 12 cities cater for Apollo?

- Suneeta Reddy:** See across we have allocated 1,000 beds. I would imagine that about 700 are in the urban cities.
- Mr. Sheth:** So ma'am, my question was that these top 12 cities contribute how much of the total 8,500 beds capacity that we have?
- Krishnan A:** We will have to get this offline. I will get back with the right number, so you can contact Mr. Krishna Kumar.
- Mr. Sheth:** Okay. Sure. And sir, one more question that I had was when it comes to the Proton expenditure, are we capitalizing anything on that front, on the Proton side right now?
- Krishnan A:** The third gantry is still not capitalized. So that is part of the capital work in progress as we speak. So what I said was the cash flow, which has to be made balanced, but there is almost around Rs. 200 crore of balance CAPEX capitalization, which is yet to be done, which is part of the capital work in progress and already incurred and spent.
- Mr. Sheth:** Okay. Sir, the total CAPEX for Proton for all the 3 gantries will amount to how much?
- Krishnan A:** Rs. 1,000 crore approximately.
- Mr. Sheth:** And for Proton, do we see any change in, I mean, obviously, we will see some change, but how do we see us taking care of the losses for Proton? Because I understand the utilization will be lower in say something like FY '21?
- Krishnan A:** So two things. So first is, yes, you are right. At least for this quarter and next quarter, we will see that there will be some drop and hence, losses. But Proton, as you know, was close to breakeven in Q3 already with a very low numbers that we were doing of almost 20 patients a month. So even at the 20, 25 patients a month, we can get closer to breakeven. So it is not a very high breakeven EBITDA that we have because it is a high EBITDA business, high CAPEX business, right? So that is what it is. So we think we will get to breakeven by Q3 here as well.
- Mr. Sheth:** Sure. But in spite of the fact that medical tourists will take some time to come back because proton, as I understand, was a lot to do with medical tourism also?
- Krishnan A:** Yes. So yes, we are talking about your breakeven now. So I guess for breakeven, we do not expect the medical tourists.



- Mr. Sheth:** Okay. And one question was on overall medical tourists as a percentage of our overall sales, for hospitals, is it closer to around 7%, 8% pre-COVID?
- Krishnan A:** Yes, around 10%.
- Mr. Sheth:** Around 10%. Okay. And inpatient revenue will be approximately 15% to 20% pre-COVID?
- M Krishnan A:** Sorry?
- Mr. Sheth:** Sorry, outpatient. I meant the outpatient. Outpatient revenue would be 15% to 20% pre-COVID for us?
- M Krishnan A:** Yes, that would be around 20%.
- Moderator:** Thank you. Next question is from the line of Nitin Shakhder from Green Capital Family Office. Please go ahead.
- Nitin Shakhder:** Thank you, again, for putting the entire workforce in front to battle the current pandemic. My first question is in terms of occupancy and consumer behavior. Can you highlight some factors because of the fear of contracting COVID from staying in hospitals or is it the delay in planned surgeries? Or is it that the infrastructure is currently focusing on COVID and elected occupancies and surgeries are delayed?
- Suneeta Reddy:** So I think the first in terms of March and April, yes, we were very focused on COVID because the challenge for us was to create COVID beds, which were separated from our existing facilities. So I guess that, that is the key. How did we do this in such a way that it would not affect normal patients coming into the hospital without the fear of having to get impacted with COVID?. So the first thing we did was create facilities that were separated from our normal facilities. Having done that, we did see COVID occupancy go up. When the lockdown was partially lifted in June, we saw an increase in occupancy and this is more because of the mobility of patients and pent-up demand because during the lockdown they actually found it very hard to come. While I recognized that there is an underlying fear of COVID, I think the requirement for medical help and medical assistance is far greater than this fear that would keep them away from hospitals. But yes, there could be an underlying fear and most of that I think would be catered around the outpatient work, which is why we came up with 24x7 and the digital consults and we are able to work through that platform to create value for our patients and to stay connected with not only our old patients, but to increase the number of patients and therefore our market share in local markets.

- Nitin Shakhder:** And has there been a significant dip in medical tourism? And when do you expect the medical tourism to recover the lost business?
- Suneeta Reddy:** I think only in the last quarter.
- Nitin Shakhder:** And a quick last one. In reference to new age initiatives like telemedicine, home care, digital consultation, if you could highlight any specific investment initiatives and revenue traction on the same?
- Suneeta Reddy:** I think it is a little early to talk about investments, but we have made investments into the digital. And at the appropriate time, I think, we will explain how the investments look like in the structuring. But fortunately, we were able to roll out our digital offering, which was 24x7. 24x7 enabled digital consults, pharmacy prescriptions, which we were able to deliver at home, and also it provided patients with service which was diagnostics and also home care.
- Moderator:** Thank you. The next question is from the line of Prashant Nair from Citigroup. Please go ahead.
- Prashant Nair:** Just one question on AHLL. Can you just outline how the different formats are faring? And how we even recovering as we move forward?
- Suneeta Reddy:** Chandra Sekhar, please take this.
- Chandra Sekhar:** Yes. So AHLL has seen a 23% increase in revenues year-on-year. Diagnostics has seen an appreciable growth and also had margin expansion. We have had an 8% gross margin expansion in diagnostics. And we continue to add highest test menu. Our intent will be to keep adding that as well as getting better efficiencies on our installed infrastructure. So that will be the focus. Overall, at a Company level, the gross margin enhancement last year was around 3.5%, which is contributed by appreciated gross margins in all of the formats. All formats are also positive at a business unit level pre corporate. We see the growth continue in our mother and child format as well as our specialty care format, which has taken a little bit of slowing in this COVID period because it is essentially elective surgeries and driven with predominant visiting consultants who would choose to operate daycare and short-stay surgery, so that has taken a hit. But then we are expecting that to revive in the second to third quarter. Primary care has started reviving; it went down significantly in terms of outpatient consult footfall, etc. But then by June, it is coming down to thereabouts of 55% to 60% of our pre-COVID times. We are expecting July the second quarter, by end of second quarter to come back to normalcy in across formats. Diagnostics saw a dip in April, but has moved to nearly

100% in June. So we were there about 75%-odd in May, and now it is 100%. There is a little additional component beyond that 100%, which is coming from pure COVID testing. That is about an additional of 20% i.e coming from COVID testing.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha Stock Broking. Please go ahead.

Charulata Gaidhani: My question is slightly different. What is observed is that in India, we are having separate buildings, separate infrastructure for COVID patients, which does not seem to be the case in the U.S. So if you could highlight the reason for the same?

Suneeta Reddy: Yes. So the reason why we did that is that it is very early in the understanding of COVID, we recognized that it is contagious and far more contagious like the flu. So having recognized that, we separated out our COVID facility. So there is a red book, there is a protocol that we need to follow for treating COVID patients, which does not apply to the rest of the patients. So in a way, it is not only one is that we are isolating them. Second, many of them require negative pressure so we are providing different infrastructure. And third, it is very important that the manpower does not get cross contaminated. So we have manpower planning just for COVID and therefore the need to separate it out. I suppose, because in India, we saw the surge much later, we were able to learn from the mistakes in the west. And because of this, I think, our death rates and our infections rates here are much lower.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I now hand the conference over to the management for their closing comments.

Suneeta Reddy: On behalf of Apollo Hospitals, not only the management but all our doctors and nurses, I would like to thank you for your interest in us. And more importantly, for your support because as we go through these challenging times, I think your support means a lot to us because we are committed to serving our consumers, our patients and looking after their wellbeing and in the process, creating value for all our stakeholders. Thank you for joining this call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Apollo Hospitals, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.
