Apollo Hospitals Enterprise Limited

Q2 FY24 Earnings Conference Call

November 10, 2023

Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Limited Q2 FY24 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 star, then zero on your touch tone 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.

Mayank Vaswani: Good afternoon, everyone, and thank you for joining us on this call to discuss the financial results of Apollo hospitals for the second quarter of financial year 2023-24, which were announced yesterday. We have with us on the call today the senior management team represented by Mrs. Suneeta Reddy – Managing Director; Dr. Hariprasad – President of the Hospitals Division; Mr. A. Krishnan – Group CFO; Mr. Sriram Iyer – CEO of AHLL; Mr. Ashish Maheshwari – CFO of AHLL; Mr. Obul Reddy – CFO of the Pharmacy Division, and Mr. Sanjeev Gupta – CFO of Apollo 24x7.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Please note the disclaimer mentioning these risks and uncertainties on slide 2 of the investor presentation, which was shared with all of you earlier. Documents related to our financial performance have also been posted on our corporate website.

I would now like to turn the call over to Mrs. Suneeta Reddy for her opening remarks. Thank you and over to you ma'am.

Suneeta Reddy: Good afternoon, everyone. Thank you for taking time out to join our earnings call. I hope you have received the earnings document which we had shared earlier.

We are pleased to report that we are able to sustain and improve our momentum in FY24 with a robust second quarter characterized by continued growth in topline, improved volumes and payer mix, meaningful network additions and further growth in the user base for our digital health offerings.

Our Healthcare services business witnessed strong 12% year-on-year revenue growth in Q2 FY24. Within this, the insurance revenues grew by 18% and contributed 43% of total IP revenue. Revenue from International patients also grew by 20% year-on-year.

Within IP volume growth of 4%, surgical volumes grew by 7% year-on-year, representing a strong surgical performance in a quarter usually characterized by seasonal medical admissions.

Overall occupancy across the group was at a healthy 68%. This was after the planned calibration of low-paying business and despite a delayed onset of expected seasonality, and also the reduction in ALOS by 5% from last year.

ARPOB on an overall basis increased 14% year-on-year to Rs. 57,379.

Against this backdrop, let me walk you through the financials:

Consolidated revenue grew by 14% on a year-on-year basis to Rs. 4,847 crore. Healthcare services grew by 12% to Rs. 2,547 crore.

Revenues from Apollo HealthCo stood at Rs. 1,945 crore in Q2 FY24, a growth of 17% year-on-year. However, combined pharmacy grew by 21% on a year-on-year basis.

Apollo Health and Lifestyle revenues registered 11% year-on-year growth at Rs. 354 crore for Q2 FY24.

Consolidated EBITDA was at 628 crore, registering an increase of 11% year-on-year. Within this, the healthcare services EBITDA was at Rs. 634 crore, a growth of 11% and EBITDA margins were at 24.9%, marginally lower than Q2 last year on account of increased investments in clinical talent and enhanced focus on advertising and marketing.

The pharmacy distribution business in Apollo HealthCo recorded an EBITDA of Rs. 130 crore, a year-on-year growth of 9%. 24/7 operating costs were at Rs. 197 crore against the operating cost of Rs. 204 crore in the trailing quarter. EBITDA loss in the Company was at Rs. 39 crore, of which non-cash ESOP charge accounted for Rs. 35 crore. This loss is down from Rs. 57 crore in the trailing quarter, in keeping with our commitment to reduce costs in this vertical. The business is on track to achieve operational breakeven in Q4 FY24.

AHLL recorded an EBITDA of Rs. 32 crore as compared to EBITDA of Rs. 38 crore in Q2 FY23. The EBITDA was subdued on account of ongoing network expansion as well as the relocation of 2 Spectra units. The margin profile is expected to improve with the ramp-up from the new network.

Consolidated PAT was at Rs. 233 crore. Healthcare Services PAT was at Rs. 314 crore, a growth of 14%.

We are happy to announce a new 250 beds hospital in Pune, which is expandable to Rs. 425 crore in the next two years at an overall costs of Rs. 675 crore. The hospital is expected to be commissioned in Q1 FY25.

We have already announced the expanded footprint in Eastern India with the acquisition of a 225 beds hospital in Kolkata; expandable to 325 beds.

We are on track to add 2,300 beds across eight locations at a cost of Rs. 3,400 crore in the next three financial years.

Within this pipeline for growth in place, there are several highlights within the quarter's performance, which signal a healthy trajectory for all of the verticals going forward.

Within the Healthcare Services business, we have delivered a ROCE of 28% with a balance ROCE across all geographies, the Metro, tier 1 and tier 2. The metro ROCE is at 27% and today, we have the largest non-metro presence in the country with 3,195 operating beds delivering a ROCE of 23%.

Within the pharmacy, the private label and generic business contributed to 16.52% of total pharmacy revenues. This was an improvement of 92 basis points over the same quarter last year. Our digital platform 24/7 added 2 million users this quarter and now has 29 million users overall. The platform GMV was at Rs. 726 crore, a growth of 16% on quarter-on-quarter basis and in line to deliver Rs. 3,000 crore of GMV this fiscal.

The diagnostics vertical within AHLL recorded a revenue of Rs. 124 crore for the quarter, well on track for an annualized topline of Rs. 500 crore with an improved margin profile.

All these indicators validate our intent to create Asia's largest integrated healthcare ecosystem with high quality healthcare at the core, supported by multiple consumer touch points such as offline pharmacies, multiformat clinics, diagnostics and our comprehensive digital health platform 24/7.

This ecosystem will be underpinned by a focus on achieving the best possible clinical outcomes accentuated by investments in cutting edge technology and AI for clinical decision-making. By providing each guest a seamless journey which accords them with consistently high standards of healthcare at each touch point, we ensure that we cross-pollinate our offerings while unlocking the network effects resulting in robust upstream and downstream funnels.

On that note, I would like to hand it over to moderator and open the line for questions and answers. I have with me Dr. Hariprasad, Krishnan, our CFO, Sriram Iyer - COO, AHLL, Ashish Maheshwari - CFO, AHLL and Obul Reddy - CFO, Pharmacy and Sanjeev from 24/7.

Moderator: We will now begin the question-and-answer session. We have a first question from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: My first question is on in-patient volume growth in our core markets of Tamil Nadu, AP and Telangana, which has kind of remained muted for first half. In Q1, we suggested there was some holiday season. But any particular reason why the trend is not picking up in Q2 as well?

Dr. Hariprasad: Actually, just looking at the Q2, it is a quarter where we have a high volume of medical cases particularly because the monsoon related cases like dengue and stuff like that which we had in the last year second quarter. But I guess because of a delayed monsoon or whatever may be the reason, we did not have that influx of medical cases during the second quarter of this year, specially in the Southern region. And that's why you would see a growth, but it is not in-line with the other regions that we have seen a significantly higher growth.

Kunal Dhamesha: Would you say that similar seasonality played out in other regions because there the in-patient volume growth is quite significant?

Dr. Hariprasad: Yes, some of the things if you actually notice, our surgical have gone up in volumes too compared to the medical volumes and the same thing explains the other reasons also.

Kunal Dhamesha: The second question is on the ARPOB growth; when I see across all the regions, it's in the double digit in Q2 as well as for H1 also. So, is it driven by decent rate hikes that you would have taken across the network? And if you can also provide the current payor mix, I know ma'am has said 43% is insurance, but probably self-pay, International, etc., also if you can provide?

A. Krishnan: So, what's happening in the overall case mix is there are three trends that we are witnessing. One is, we are seeing that there are higher category of beds which there are lot of patients who are opting for including private beds, etc., So, you could have seen that we have reconfigured some of the beds across the system and we have brought down some of these general wards and increase semi-private and private, because we are seeing that there is a higher demand that we are witnessing for both semi-private and private which is one of the reasons that the average ARPOB has also gone up across because clearly the ARPOB of some of those beds are better. Pricing wise, we have not taken any price increases in this quarter, and these are the price increases which have always been there two quarters back and that is what continues to prevail. We are getting better realizations from insurance. We continue to work with insurance companies because some of the insurance companies' contracts are still over two years old and we are working with them to see how we can get better yields as the contracts come up for negotiation.

Kunal Dhamesha: And on payor mix?

A. Krishnan: Payor mix, there is an 18% growth. While we have said that overall revenues have grown by 12%, our insurance revenues have actually grown by 18% in the same YoY this quarter versus last year's same quarter and 43% of our revenues now comes from insurance and 38% comes from self-pay.

Kunal Dhamesha: And on International growth?

A. Krishnan: International is 20% and we around 7.5% of our revenue is now coming from International.

Kunal Dhamesha: Sir, just one suggestion. I highly appreciate more detailed segmentation for our business in the latest investor presentation. But if you could provide probably one year of historical data as well to the investor community, I think it would help us.

A. Krishnan: You can come offline. Any information we are willing to provide, you know that we are open to all of that and you can get offline. This time if you have seen that we have even given a regional cut as well across regions so that you get all the regions clearly now. You also see that both metros and non-metros are doing well for us. So that's the other slide that we've given. Happy to help you build your model.

Moderator: We'll take our next question from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: My questions are centered around the hospitals business. When I look at the expansion plan, the projects that are coming onstream in FY25, they are towards Q4 FY25. On the Pune side, the phase-1 is coming up in Q1, but I am not sure what the stage of development there is? But it seems that a lot of the expansion plan is quite back-ended towards FY25 perhaps in FY26. So, till the time these expansion activities come onstream, how do you see growth for the hospital business especially with ARPOB growth being so strong for the last few quarters and occupancy also reaching 68%, does it mean that the growth without the new expansion is kind of coming to a plateau side or some sort of a stagnation now?

A. Krishnan: No, that's not true. In fact, at 68% we are seeing a good increase overall this year. This quarter if you look at the volume growth, we had a 4% volume growth, but even within the volume growth of 4%, if you look at the mix, we had a 7% growth from surgeries. So, clearly there is a focus on surgeries. We have added a lot of guaranteed money doctors across our system in the new hospitals, etc., which has also enabled the growth and we are seeing the new hospitals really delivering well also on the growth. 68%, still there is headroom for growth, we can take it to 70%, 72% next year and we still have headroom for growth over the next couple of years as you will. And we are also seeing that the average length of stay even now if you look at it last year to this year, the average length of stay has come down by 5% to 3.26 days. So, while we have said that there is not much room that we have to bring down the ALOS, our focus is on in-patient volume growth, a lot of minimally invasive work, and a lot of robotic work that we are doing across the system. We are seeing definitely average length of stay is trending lower as you know with better infection control, better discharges that we do, etc., So, I think from a headroom growth from the existing hospitals itself, we still have a headroom that is minimum there as we can see. And from our perspective, we continue to work on the cluster approach even in this, right. So, doesn't mean that we cannot actively add some asset-light models in some of these clusters as we have opportunities; like Calcutta is a classic example of something that we have brought onstream. For your information, the Royal Mudhol Hospital, Pune, it's a new hospital, it's a new asset built in the Swargate area. It's an asset which has already been brought into place. Five floors is already built. They are close to get the occupation certificate and which is the reason that we are quite comfortable (inaudible 17:48 min.)

Moderator: I am sorry sir, we are unable to hear you.

A Krishnan: So, in the Pune market, the Q1FY25, we are quite sure we will be able to get there because that's a new asset already constructed, been under construction by the other partners for the last three years, we are now acquiring this and we will be in partnership with them, it's a full 100% acquisition by us, it's a leased asset is how we are working on it.

Again, the one in Calcutta where we are 75%+ plus occupied, it's again an asset which is already constructed. So, the construction of the asset is done. We actually bought it in an asset sale from a trust which is why we are quite confident of bringing it also onstream by Q4.

The one in Gachibowli, again it's a greenfield. The building is already there. It's an asset-light model which is where we are comfortable. So, I guess Q4FY25 is something that we are comfortable in both Calcutta and Hyderabad as we speak. And I think this expansion plans as we have laid out, as of now, we are quite comfortable of achieving those timelines.

Nikhil Mathur: Just a quick follow up on this. So, I don't know if you can give a number or not, but can it be expected that even without expansion plans a low double-digit kind of a growth is achievable on the base that you are at currently in 2Q?

A. Krishnan: Yes.

Nikhil Mathur: And the second question is again centered around the expansion plan. So, the expansion that I see is kind of more skewed towards the metro cities, especially in FY25, Hyderabad, Bangalore, Kolkata, in FY26 you have Gurgaon and Pune. But if I look at your non-metros, your non-metro breakup that you've given which is quite helpful. The return on capital is pretty strong at 23%. And we also see that in metro, there's a lot of competitive intensity, in the South there are so many hospitals expanding capacity in the North as well. So, given your early mover advantage in many non-metros, shouldn't the focus be a bit more on expansion in non-metros rather than metros where already the supply is pretty strong over the next three, four years, which is coming onstream?

Suneeta Reddy: No I think we have a very calibrated expansion plan and the cities that we have selected is actually the one-year strategic study where we looked at, one - the size of the market, the ability to pay, second - the ability for us in those institutions and really I think it's based on that, and the fact that these hospitals that we chose are they become regional centers as well. But we continue to look at the assets across, I think, wherever there is a penetration of private insurance, those are the markets that we would continue to look at.

Moderator: We have our next question from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: If I look at the pharmacy distribution business, I see that the store addition we have is lower than what we did last year. What should be the average store addition we should be looking at and the growth for the…

Moderator: We can't hear you.

Neha Manpuria: So, I was wondering on the store addition of the physical distribution base. We're seeing a slower pace of store addition and probably I don't know, is that why the growth rate is lower than what we have done historically for the pharmacy business. What's the pace of growth that we should see here? Second, on the 24/7, we've reduced the cost. I know you've mentioned a breakeven in fourth quarter. But is there scope to materially reduce opex more from FY25, '26 perspective or should we assume a large part of the profitability in HealthCo comes from revenue growth rather than opex reduction?

Obul Reddy: First, the number of stores as explained to you during Q1 call, we have planned to open lower stores in the current half year. Our plan to add about 500-plus stores is on. In H1 you will see more number of stores. On the operating cost of Apollo HealthCo, Mr. Sanjeev will answer.

Sanjeev Gupta: If you look at it, we had Rs. 190 crore of operating expenses excluding the ESOP non-cash expenses during Q4 of FY23. From Rs. 190 crore we are down to Rs. 162 and I strongly believe that another Rs. 10 to Rs. 15 crore will further come down as we move forward. So, I'm looking at anything as a run rate of Rs. 150 crore or slightly lesser than that in Q3, Q4. To be fair to this question that, would we see some savings in the next financial year; - I think we'll continue to look into all the opportunities. It is a fine balance between the growth and the cost plus the investments that we're doing in two system technologies. This cost also takes care of the clinical intelligence excellence that we have built up, some of the AI tools that we are working on. Those are the investments that we are doing it. But yes, we can expect some changes in the next fiscal year. But depending upon to what an extent we put money into technology, we'll be able to guide you much better in Q4 than today. But yes, current costs will continue to come down as we move into Q3 and Q4.

Suneeta Reddy: Also, a rationalization discount.

Neha Manpuria: Isn't that largely done, ma'am because I remember you mentioned in the last call that now we are below peers?

Suneeta Reddy: Yes, we continue to be below peers.

Neha Manpuria: And second question, I also saw we announced some sort of a tie up in Rourkela. Is this an existing hospital that we are taking over and therefore not part of our expansion plan and what's the thought process there because it's very different from the cities that we've chosen for the expansion plan?

A. Krishnan: We're not investing capital in that asset. Incidentally, it's a fully managed asset-light model that we have. We will be able to commission this in the coming quarter itself and this is something that we have hence not put in our expansion plans here. But it's a full bed, it's something that has been developed by Steel Authority of India and they have given it on operations management contract to us. We hope to start, this commissioning in the coming quarter fully. And this is a profit share model that we have such that 1/3 of the profits go to them, the balance comes to us. I think it's not easy to get such kind of models. But I think given our reputation and our clinical prowess, I guess the Steel Authority wanted us to operate that asset and which is how we've got that.

Neha Manpuria: So, this will be run as in Apollo Hospitals..?

A. Krishnan: The revenues and profits will be consolidated with 1/3 of the profits go to them.

Moderator: We have our next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

S Srinivasan: Just the first one on the hospital margins. I missed or I couldn't fully get the opening comments around a higher costs in terms of talent acquisition and the margins being lower for the hospitals. So, if you could please elaborate that again?

Suneeta Reddy: So, our margins were at 24.9%. There was a 75 basis points decrease because we have spent on acquisition of guaranteed money for doctors. In fact, we bought a 100 new doctors into the pipeline and this has led to an increase in costs plus the 0.5% increase in marketing costs.

S Srinivasan: So how should we look at the margins going forward, in the sense, are these done and in the numbers, or do we plan to keep adding these guaranteed doctors even in the second-half?

Suneeta Reddy: So, I think the guaranteed doctors are something where had planned last year and I think we've created a pipeline of new talent for our hospitals. So, you should not expect to see an increase in that. But what you will see is that these doctors when they start having started working, their payoff will be very good and therefore over a period of time margin improvement.

S Srinivasan: My second question is on the difference in growth rates between the platform at 21% versus when I look at the pharmacy; when I look at disaggregated, it's lower, right, what explains that?

Obul Reddy: Pharmacy distribution growth is independent of the platform growth because in the front-end, the 21% growth is for both omni-channel, which consists of offline-online, whereas pharmacy distribution reported in the investor presentation only relates to the offline, which is about 17%. So, both are independent numbers.

S Srinivasan: But I'm talking growth rate here. Those numbers should ideally be aligned, right?

Obul Reddy: If you look at omnichannel front end growth, which is at 21%.

Moderator: We take our next question from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

B Pathiparampil: Just a couple of questions from my side. In Karnataka region, I can see a significant reduction in the number of operating beds. Why has that happened?

Suneeta Reddy: We're doing some refurbishment in Karnataka and Chennai. So, there has been a reduction. I think earlier we mentioned that we are replacing some of the general wards with semi-private because of the penetration of insurance where people are willing to pay for a semi-private.

A. Krishnan: And in this particular case, it was Mysore where this happened predominantly. And Mysore was the place where we had more of these beds which were general wards, etc., where we shifted them to semi-private and private.

B Pathiparampil: You commented on the hospital margins. Can I also get some comment on why the pharmacy and the AHLL margins are also down Y-o-Y?

Obul Reddy: The pharmacy margins have remained stable in the last two quarters because the pharmacy distribution is a very stable business where we are maintaining the margins… (inaudible 29:58 min.)

Moderator: Sir, we can't hear you.

Obul Reddy: …from about 4.6% to 5.8%..

A. Krishnan: So, if you look at the sequential quarter, the margins are better. If you look at from last year to now, if you look at it, we have increased the costs, there were higher costs in the online business, and which has all started to come off now and you will see better margins. As you see Q1 to Q2, which is a sequential quarter, we have done well and we are hoping that as we move forward, the margins will even go back better. Overall, on the consolidated numbers, we have said we are in track to achieve Rs. 10,000 crore of revenue this year on pharmacy with 6% EBITDA between the pharmacy distribution and APL.

B Pathiparampil: One final question on this 24/7. When you say this operating cost was Rs. 162 crore for the quarter, I assume that it is the total costs. There would be some revenues associated with it, right?

A. Krishnan: This is on top, right, the associated revenues are there on top what we have shown that Rs. 231 crore is the total revenues that we are getting out of it and there is an EBITDA which is coming because the EBITDA is a bit higher than the offline pharmacy distribution because they also get take rates on the diagnostics and on the hospital feeders which is there on the top as you can see.

B Pathiparampil: If I have to calculate the net EBITDA loss because of Apollo for 24/7, then I should take Rs. 231 crore minus 162, is that correct?

A. Krishnan: Rs. 28 crore is only the profit that I'm making out of it at one level higher if you look at it EBITDA. So, if you look at the loss which is what we are reflecting there of 169 after ESOP charge or maybe close to 130 without the ESOP charges how you should think of the cash loss there.

Moderator: We have our next question from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Just processing on the pharmacy question. So, when we say this Rs. 10,000 crore of omnichannel revenues with 6% EBITDA margin, what is the EBITDA margin for H1?

Obul Reddy: H1 is 5.6%.

Nitin Agarwal: What is the total revenue for H1?

Obul Reddy: We have Rs. 4,723 crore.

Nitin Agarwal: So, we're talking of higher revenue in H2 as well as higher margins for the omnichannel business?

A. Krishnan: Yes.

Nitin Agarwal: And then beyond the number that you reported in the HealthCo the omnichannel represents a front end of the business, that's not consolidated, that's the difference between the two?

Obul Reddy: That's right.

Nitin Agarwal: Typically, what proportion of our profitability is sitting in the front end of the EBITDA, what proportion of the EBITDA typically sitting in the front end, which we are not consolidating right now?

Obul Reddy: 80% of the profitability is sitting in the back end and about 20% of the profitability is in the front end.

Nitin Agarwal: So, Is this structure continuing the way in this current form?

Obul Reddy: Yes, that is what it has been, and it will continue for some more time until we relook at that.

Nitin Agarwal: On the hospitals business, what is the guidance for EBITDA that one can look at over a two-year period vs. from the H1 level that we have?

A. Krishnan: So, I think there are two things, right. One is that the operating leverage definitely should kick in as we move in from 68 to higher, which is our target for next year, definitely move it above 70,72 is something that we are working on. As you have seen ALOS has still come down even from last year to this year, the ALOS has still come down by 5%. If the ALOS was not lower, adjusted for a higher ALOS, the occupancy would have been 72, but that's okay, It's good for us. So, as it goes to 72%, etc., we should be looking at least a 200 basis points increase in the overall EBITDA margin.

Nitin Agarwal: Something like 26.5% margin for the hospitals business?

A. Krishnan: Yes.

Moderator: We have a next question from the line of Madhav Marda from FIL Research. Please go ahead.

Madhav Marda: Very interestingly that you all mentioned this shift from the general wards to semi and private rooms as insurance patients picks up. This seems like a very structural trend which can happen in the country in the next like medium term, right, because as insurance picks up, people would want better quality service wherever they can go to. So just wanted to understand is this a structural trend then as some of the patients shift to semi and private rooms, is that marginal-accretive for us, just wanted to get that sense?

A. Krishnan: Yes, if you look at it, yes, it is margin-accretive overall from that bed perspective clearly. But as we are now looking at some of the newer hospitals, we are now bringing in the standard beds or the sharing beds, even the general wards are all less than 15% of the overall beds. So, that’s how we are now configuring some of the new Hospitals that we are currently planning with more focus on private deluxe and semi-private. In some of our earlier hospitals, we have this opportunity to reconfigure, which we will keep looking at depending on market-to-market, because in some markets we still see there is still a good offtake on the standard beds and the general wards.

Madhav Marda: So basically, as we shift the mix towards this thing on an absolute EBITDA basis, it adds for the hospital unit basically that's what I wanted to check?

A. Krishnan: Yes, it is.

Moderator: We'll take a follow-up question from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

B Pathiparampil: Just wanted to continue my discussion. So, we were discussing Rs. 162 crore, on which there is an EBITDA made of Rs. 28 crore. So, if I say that the net loss because of 24/7 operations is 162 minus 28, is that a correct way to look at it?

A. Krishnan: It's a correct way of looking at it.

Moderator: We have our next question from the line of Prashant Kshirsagar from Unived Corporate Research. Please go ahead.

P Kshirsagar: Just wanted to ask you what is the progress on the Delhi expansion front? And a question on your associate Company, Indraprastha Medical, can you give us the capital expenditure figure plan for that hospital?

A. Krishnan: On Delhi expansion, there was a stay which has been vacated in the Gurgaon court and we are now proceeding with the expansion already and anyway the asset was already bought and secured and processed by us already. There was one excess stay which was there because of an MoU that the seller had with another buyer for which there was no money which was paid by the other buyer or for other person to the seller. So, there was a stay until the whole thing was done. But that stay is now vacated and we are now proceeding with the expansion.

Suneeta Reddy: So, the expansion plan is 150, that will be funded by cash flows and a little bit of debt.

P Kshirsagar: That is for Indraprastha you are talking?

Suneeta Reddy: Yes, Indraprastha.

P Kshirsagar: When should that get completed?

Suneeta Reddy: That should take two years to complete.

P Kshirsagar: So, there will be some capacity addition or it's just the quality improvement in the hospital because the…?

Suneeta Reddy: So, there is a capacity addition. There is a center of neurosurgery being established. So, there is a capacity addition of about 75 beds plus the multi-level parking.

P Kshirsagar: So, there will be multi- level parking plus addition of 75 beds which will take approximately to around 800 beds and central neuros wing established for the hospital. And what sort of revenue accretion do you see after the capital expenditure in that hospital?

Suneeta Reddy: We continue to see strong revenue growth of 15%.

P Kshirsagar: Can you tell us the mix of the International patients in that hospital?

Suneeta Reddy: That hospital is high; it's between 15% and 20%.

Moderator: We'll take our next question from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My question is regarding the margin impact as you are adding on quite a lot of beds. So, can you tell us, like in cities like Pune and Gachibowli, Hyderabad, what kind of breakeven time you are expecting for the hospitals and whether there will be any impact on margins due to addition of these new newer facilities?

A. Krishnan: See our base of EBITDA now is a very significant base across if you look at the consolidated numbers, we are over Rs. 2,000 crore now, and we have a calibrated expansion plan between the next three years adding 700, 800 beds every year. And in places like Pune, in fact even when we have made this announcement, we've got a lot of doctors who wanted to join us, etc. It's a market where there is not much of penetration of quality corporate hospitals like ours. So, we typically believe that we should be able to do well in some of these markets. Hyderabad is a lone market. The reason we are putting up this expansion there is because that side of the market is definitely having a lot much capacity and we have a set of doctors who are wanting to join us there. So, I think 18 months is what we typically look at for breakeven on the EBITDA. I think we think in both these markets between 12 and 18 months would be the answer.

Damayanti Kerai: So, in 1, 1.5-year typically both these centers should turn around?

A. Krishnan: That's correct.

Damayanti Kerai: For funding your capex, you are relying on your internal cash flows or you're looking to add on some debt also because your balance sheet…

A. Krishnan: This will be from internal accruals. If there is a small debt required at the third year, we would probably take some debt.

Damayanti Kerai: My last question is on the International patient traction. Right now, it's 7.5% of your hospital revenues. How do you see this picking up, say, in two years or we expect major traction to come once your program facility comes onboard?

Dr. Hariprasad: Yes, we expect a major traction both the Gurgaon, particularly the Gurgaon facility coming up because lot of patients there have a direct access to Delhi and this facility is very accessible from the Delhi airport. So, we see a significant impact on International business once this facility is up.

Damayanti Kerai: Any markets where you are yet to see normal level of patient coming back from say some countries for this medical tourism or most of the markets are seeing normal flow as we anticipated after COVID?

Dr. Hariprasad: In our existing markets, we are seeing the regular flow from the pre-COVID levels and above pre-COVID levels, and we're also looking at the new markets and the new markets we hope to leverage, we've invested the resources and time into new markets and we hope to see results coming in from these new markets in the next one, two years.

Moderator: We have our next question from the line of Lavanya from UBS Investment Banking. Please go ahead.

Lavanya Tottala: So, just one question from my side is that if I look at EBITDA margin of offline and online pharmacies, online pharmacy margin is increasing on sequential basis like last two quarters as well, but offline pharmacy EBITDA margin has declined. Anything specific for these two in a different direction?

Obul Reddy: There is no difference between the two. We look at omni channel level and it's growing. It's only one quarter we had some dip because of the sales and we are back into normal level and Q2 it stands at about 5.7% and we have guided to be at 6% plus for the year.

Lavanya Tottala: And anything on the fundraise at HealthCo level, like, how do you see what's the timeline and where is it struck?

Suneeta Reddy: Regarding the fund raise at 24/7 level, I think we've always maintained that as you know as long as we have enough cash for growth, we should be good. They had a loss of Rs. 38 crore of EBITDA, out of which Rs. 34 crore was the non-cash loss due to the ESOP. So just going forward I think the back end with Rs. 130 crore of EBITDA is able to support the growth. Having said that, we will look at an investment where we believe the valuation is appropriate because we're quite sure we don't want to go below our dilution of 10% and this cash will be used like Sanjeev said to develop to invest into AI and to offer new services. So, right now, let me just say that we have access to investment, we're looking at the right valuation and this could happen I think in the next 6 to 12 months, but there is no pressure unless we get the right valuation.

Moderator: We have a next question from the line of Rahul Jeewani from IIFL Securities. Please go ahead.

Rahul Jeewani: Regarding this target of 70% to 72% kind of occupancies for next year, can you help us understand in terms of what would help us to drive this occupancy improvement given that in first half of this year we are at around 65% kind of an occupancy and if I see even in FY20 our peak occupancy used to be 68%, and at that point in time, the ALOS was also higher, and as you have indicated, the ALOS numbers are also down, let's say from FY20 levels, the ALOS numbers are down 20%, So, do you think that you can hit this occupancy target of 70%, 72% for next year?

Suneeta Reddy: Next year, yes, we are looking at the funnel and really looking at how we can do OP to IP conversion, we are looking at different markets, which is the corporate market, the retail market, the International market and the insurance market. We are seeing growth in all these segments and we're quite hopeful that we should reach 72%. I think the only disclaimer here is that ALOS being what it is, we should be able to achieve it and hopefully we're not expecting a reduction in ALOS. What is happening in Apollo is that we're doing a lot of day care surgeries using the robot. And this has made the system very efficient and therefore decrease in ALOS. But we are looking at expanding the funnel and making sure that occupancy picks up because all of our units now have doctors in place, and like I said, we had spent 5% more on marketing this year.

Rahul Jeewani: So, with this decline in ALOS, do you think that occupancies is the relevant parameter to be tracking, so instead shouldn't we be tracking, let's say the growth in IP volumes or occupied bed days rather than tracking the occupancy metric?

Suneeta Reddy: No, no, we do both.

Rahul Jeewani: Second question on this margin expansion for the hospital business, which you talked about 200 basis points, can you talk about the net margin expansion which we would see after accounting for the capacity expansions which we are doing?

A. Krishnan: So, this is before the capacity expansions that we are talking of because we will from the next year once we add the new expansions, we will give you the split of the current and the new ones. But this is at the existing is what we are looking at the 200-basis points expansion. The new ones, I don't have a number to just give you an EBITDA now, but as I said, most of the new is between 12 to 18 months is what we are expecting the EBITDA margins to become neutral and some of the new ones that we're adding next year. So, that is going to be a separate number. I don't have that number off hand.

Rahul Jeewani: So, would it be fair to (inaudible 49:27 min.) basis point margin that from these new hospitals for the initial two to three-year period?

A. Krishnan: I'll give you the number offline. We will give you the anticipated EBITDA loss from each of this expansion.

Moderator: We have a next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

S Srinivasan: Just two quick ones. First on ARPOB. When we look at your investor presentation historically over like a 10-year period, I think ARPOB growth has been 7%, maybe 8%. We are doing ARPOB growth of 14%, 15% now. Do you think at some point of time, say maybe one year, two year, three-year later, that this comes back to that 7%? On the price and case mix, how long do you think this this kind of higher than historical run rate last?

A. Krishnan: I think 7% to 8% is the right number to model and we are not expecting it to be more than 7% to 8%. As you rightly have assessed, this change in ARPOB in the last three years is something which enabled through a significant mix in the payoff, as you know from 25%, 30% on insurance pre-COVID, we are now at 43%. And that is what is enabling us to get a better ARPOB. I think going forward, you should look at 7% to 8% only.

Suneeta Reddy: I think the case mix is also definitely improved, it's matured. So cardiac, onco, neuro, ortho, contribute to a significant portion of the revenue with high margin.

S Srinivasan: Second question is on the GMV split. If you could get that in terms of pharmacy diagnostics and IPOP?

Obul Reddy: So, currently pharmacy is running at about 45% GMV and diagnostic is another 5% to 6%. Overall consultation is between 10% to 12% and the remaining is IPOP and certain subscription packages that we sell to our customers.

Moderator: We have our next question from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: On the pharmacy business, in terms of the EBITDA that you report 8.2% margin which is Rs. 159 crore of EBITDA, prior to the 24/7 operating losses how should we see the trajectory of this number over the next couple of years on an annualized basis?

Sanjeev Gupta: If you look at the margin for online pharmacy distribution, Apollo 24/7, which is the combined one, it is at 12.2% for Q2 and quarter-on-quarter it is increasing. So, I believe that more and more of pharmacy contribution as well as the new verticals that we're bringing in, which is digital therapeutics and insurance is to start in this quarter, our margin profile would be better and margin profile for Q4 it was 9.7%, now it is 12.2%, so roughly 2.5% increase in six months, another 3% to 4% is what I believe that should go up in another six months and going forward it should be near 20% is what we look at it. So, that's on this. On the operating cost of Rs. 162 crore, I think, as I was responding to one of the questions, first, there is a reduction that's happening on this expense and that reduction is attributable to certain automation related things as well as certain reduction in discretionary expenses. We are looking at anything like Rs. 150 crore of run rate expenditure for a quarter, and this year we'll complete about Rs. 3,000 crore of GMV and next year we should be doing anything between Rs. 4,500 crore to Rs. 5,000 crore. As we step up on the margin profile and look into the cost structure, I think overall losses what we see today and what we're going to see in the next year is entirely going to be very different. So, we have both the things in our place, increasing our margin profile as well as reducing our expenses.

Nitin Agarwal: Going forward, what GMV to revenue conversion should we work with?

Sanjeev Gupta: So, the revenue to GMV today is at about 32% in Q2 and I think they should be in the range of about 40% as we step into the next year, that should be the ideal number to work on from the analysis point of view.

Nitin Agarwal: So, if I take a two-year view a 40% revenue to GMV conversion and a 20% margin is what we should aim for prior to the operating cost?

Sanjeev Gupta: Yes, sir, to start with this and as we progress forward, we'll have a little bit more insights about.

Moderator: We take our next question from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: In the non-metros, can you share what percent of revenue is derived from the insurance channel and how has that grown over the last year or two years or three years or so?

A. Krishnan: Overall it is 18% growth. metro, non-metro I'll have to get back to you on this.

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

Suneeta Reddy: So, thank you, ladies and gentlemen for joining us on this call. This first half has been eventful and FY24 is shaping up to be an exciting year during which we will achieve meaningful progress on strategic plans. As I conclude, I would like to emphasize that we remain confident that the investments made by us and the solutions being worked upon will continue to differentiate us and provide us with a disproportionate share of the wallet from this earning customers. With occupancies in the high 60s across the network and capacity expansion underway and facilities that are registering notably higher than network occupancy, we continue to position ourselves with adequate headroom for growth.

Before I close, I would like to wish all of you a Happy Deepavali and a prosperous New Year. Thank you, ladies and gentlemen.

Moderator: Thank you, members of the management team. On behalf of Apollo Hospitals Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
