Apollo Hospitals Enterprise Limited

Transcript of Q2 FY25 Earnings Conference Call

November 7, 2024

Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Limited 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, Michelle. Good afternoon, everyone, and thank you for joining us on this call hosted by Apollo Hospitals to discuss the financial results for the Q2 FY25, which were announced yesterday.

We have with us today the senior management team represented by Mrs. Suneeta Reddy - Managing Director; Mr. A. Krishnan - Group CFO; Dr. Madhu Sasidhar - President and CEO of the Hospitals Division; Mr. Madhivanan – CEO of Apollo HealthCo; Mr. Sriram Iyer, CEO of AHLL; Mr. Sanjiv Gupta - CFO of Apollo HealthCo; Mr. Obul Reddy, who is the CFO of the Pharmacy Division; and Mr. Ashish Maheshwari - CFO of AHLL.

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 that has been circulated earlier. Other documents relating to our financial performance have also been circulated earlier, and these have also been posted on the 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, and thank you for taking time to join our earnings call. I am sure that you have received our earnings documents, which we shared yesterday. To begin with, on behalf of Apollo Hospitals, let me convey my best wishes to all of you for the festive season.

Q2 FY25 has been a strong quarter for Apollo Hospitals, continuing the momentum from the start of the year. We have reported mid-teen revenue growth across all our business segments, while demonstrating progress across key operating metrics.

The balanced revenue and EBITDA performance across the board strengthens our belief in the embedded potential across these integrated offerings.

A significant highlight of this quarter is that Apollo HealthCo has reported its first-ever quarterly profit with a PAT of Rs. 19 crore, contributing to a sharp improvement in the consolidated PAT on a year-on-year basis.

Against this backdrop, let me share some of the key highlights of our performance for the quarter:

Our Healthcare Services business delivered a strong 14% year-on-year revenue growth at Rs. 2,903 crore. Within this, the revenue from insurance patients saw a year-on-year increase of 13% while the revenue from cash patients grew by 15%. Collectively, these segments accounted for 83% of our inpatient hospital revenue. These strategic outcomes reflect the success of our strategic efforts to optimize our payor mix.

IP volumes grew by 8% year-on-year. Tertiary care specialties like neurosciences, oncology, and gastro sciences grew at a very healthy rate. This volume growth was achieved despite the external headwinds such as patient flow from Bangladesh, the prolonged disruption in Kolkata, and the impact of floods in Mumbai, Ahmedabad.

Overall, occupancy across the group has risen to 73%, increasing on a year-on-year basis as well on a sequential quarter basis.

ARPOB on an overall basis increased by 3% year-on-year to Rs. 59,011. We believe that levers such as increased surgical volume, richer case mix and payer mix hold the potential to continue to drive ARPOB growth.

Revenues from Apollo HealthCo were Rs. 2,282 crore in Q2, growing at 17% year-on-year. Revenues from Apollo Health and Lifestyle grew by 14% to 404 crore in Q2 FY '25.

On a consolidated basis, our revenue grew by 15% on a year-on-year basis to Rs. 5,589 crore.

Consolidated EBITDA was at Rs. 816 crore, registering an increase of 30% year-on-year. Within this, Healthcare Services EBITDA was at Rs. 722 crore, a growth of 14% year-on-year. Healthcare Services margins remained robust at 24.9 and have shown sequential improvement over the last two quarters.

Apollo HealthCo recorded an EBITDA of Rs. 187 crore, excluding 24/7 operating costs, representing a year-on-year growth of 18%. 24/7 operating costs were Rs. 135 crore, lower than the operating costs of Rs. 150 crore in Q1.

Apollo HealthCo has therefore reported an EBITDA of Rs. 52 crore in Q2, more than double the EBITDA of Q1.

AHLL recorded an EBITDA of Rs. 41 crore, delivering 30% year-on-year growth and an improved margin of 10.3% compared to 9% in Q2 last year.

Consolidated PAT was at Rs. 379 crore, growing 63% year-on-year. Within this, the Healthcare Services business, we have delivered a ROCE of 27.6%, with balanced ROCEs across all geographies, the Metro, the Tier-1, and the Tier-2.

Private label and generic revenues were at 16.7% of total pharmacy revenues. Our digital platform, 24/7, added 2 million new users. The platform GMV was at Rs. 757 crore.

Earlier this month, we announced an updated expansion plan, which includes plans to establish a 500-bed hospital in a prime location, Worli in Mumbai, and enhancement of the Lucknow facility to 500 beds with the incremental 200 beds, set to be developed on a parcel of land, which Apollo Medics has acquired, which is adjacent to the present facility. We are well poised to commission six facilities with over 1,400 operational beds in key strategic metro markets like NCR, Hyderabad, Kolkata, Pune, and Bangalore in FY26. Post-commissioning, we plan a phased operationalization of these 1,400 beds over a 12-month period in each of these facilities, such that we don't see a material downside on our EBITDA margins.

We remain committed to delivering sustained growth in Apollo HealthCo as well. Along with margin expansion, we believe that the team is well on the path to achieve breakeven in the online segment in five to six quarters from now, and we move forward to achieve combined revenues of Rs. 25,000 crore including Keimed in the next three years with a combined 7% to 8% combined EBITDA margin.

As you would have noted, we have now received the first tranche of the 2,475 crore of capital commitment from Avendus and have also begun making progress with regard to the NCLT application for the Keimed merger into Apollo HealthCo.

As we reflect on our progress to Q2 FY25, we are encouraged by the positive momentum and strategic initiatives that continue to shape our journey forward. Guided by our mission of delivering exceptional healthcare outcomes, we are confident of also delivering meaningful value for all of our stakeholders.

On that note, let me hand it over for questions to Krishnan – our Group CFO, Dr. Madhu – CEO of Hospitals Division, Sriram Iyer – CEO of AHLL, Obul Reddy, and Madhivanan, and Sanjiv from Apollo HealthCo, who are with me at this time. Thank you.

Moderator: We will now begin with the question-and-answer session. The first question is from the line of Kunal Dhamesha from Macquarie.

Kunal Dhamesha: My first question is on the expansion plan. We have listed out the expansion for FY 26, and we have listed the project costs and the balance project costs. So, when I look at it, roughly 60% of the total cost is in the balance cost, right, so, how should we think about it? Do you think any spillover would be there? Because most projects have a majority of the cost that's still pending. So, how are we progressing in some of these expansion plans, which are slated for FY26?

Suneeta Reddy: I think the heartening thing to note is in some of the land, some of them have already been acquired and paid for. And this will be a phase, it will be a very phased option build out, which will take us the next three years to build out. So, in terms of cash flow, I think we are very comfortable that we were able to comfortably meet the requirements for build out. But I think beyond that, for the next three years, we are very confident of having enough cash flow within the system for the build out of these 1,400 beds.

Kunal Dhamesha: My question is more on the timeline of whether we are comfortable that all the expansion that we highlighted will be there in FY26?

A. Krishnan: Yes. So, if you look at the FY26 expansion that we have, all of that would be commissioned in FY26. There is no doubt about that. Rs. 1,700 crore is the balance project cost there and we are in good progress. There were some delays in construction, etc., in the past. So, all of the projects are now moving well. And out of the Rs. 1,700 crore, almost around Rs. 1,200 to 1,300 crore will be incurred next year itself.

The Pune, for example, will be over in two years. Part of the beds would be commissioned next year. Part of it would be the year after next. Gurgaon also, the first phase will be commissioned. So, there will still be Rs. 100-150 crore pending for Gurgaon for the year after that. But broadly, if you look at it, out of the Rs. 1,700 crore, Rs. 1,300 crore will be now spent between now and the next one year.

Kunal Dhamesha: And how this 1,400 bed, which ma'am has suggested the phased commercialization or operationalization; so, how should we think about the addition of beds in FY26? How much is the realistic assumption that, let's say, 500 or 600 would come online in FY 26 and then maybe another 500 tranche. There is a hypothesis. So, how are you thinking about operationalization in terms of these 1,500 beds?

A. Krishnan: We will provide you more color towards the end of this year, but you should broadly think of out of the 1,400 census beds, half of it to be operationalized. All the hospitals will be operationalized next year. You know, from the bed perspective, half of it can be operationalized next year. The other half would be the year after next, to ensure that the costs are within our control and the EBITDA, there is not much negative EBITDA in the overall numbers.

Kunal Dhamesha: The second question on the hospital business EBITDA margin. Roughly, we have done 24.9% EBITDA margin this quarter. In the same quarter last year also similar kind of margin, versus our occupancies have moved up meaningfully from 68% to 73%. So, when do we see that fixed cost leverage kicking in for us, given we are already at a very high occupancy now?

A. Krishnan: So, as you would have seen that by Q4 of last fiscal, I am sure when you look at a quarter-on-quarter, you don't see the improvements, but if you look back a couple of quarters back, our margins had come down because we had added quite a few doctors in expectation of a ramp-up in both volume as well as occupancy. And our whole plan, as you know from the start of the year was to really go to good occupancy levels of 72%, which we had guided. And we said that we would like to have a volume driven growth in this fiscal, which is something that is clearly visible now. So, ahead of that, we had added a few doctors in some of the geographies like AP, Telangana and North, etc. And this is what is showing in the overall performance that we are also seeing. This has ensured that our EBITDA margins now come back and has now gotten back to the numbers that we were last year. Going forward, we will be working with a further increase in overall volumes as well as a focus on cost and efficiency that we have. We should be able to look at 100 bps expansion over the next 12 months.

Moderator: We will take the next question from the line of Shaleen Kumar from UBS.

Shaleen Kumar: I was noticing one thing, that in last quarter and in this quarter when I look at your performance, there is material improvement in occupancy and also, I could see your ALOS also have slightly improved or gone up. They are probably improved like 2% to 3%. So, the volume growth which we are seeing right now, we haven't seen in the past one, two years. So, what exactly is kind of working out for us here?

Madhu Sasidhar: So, the question is what exactly is working for our volume growth. So, I would say that the answer is it's a very broad-based growth in volumes. It is led across by all hospitals in Tier-1, Metro and Tier-2 cities and that has been very, very intentional on our part. We have also focused on Congo specialties across a broad base. Krishnan talked about recruitment, and that recruitment has helped us to drive a lot of the volume growth. One of our well-performing service lines this year has been neurosciences. And we have seen neuroscience growth across multiple centers. And again, this has been driven largely by our strategic recruitment into these markets. So, I think a quick summary of the answer is that it's a very broad-based growth. It's across multiple markets in multiple locations and through most of our Congo specialties.

Shaleen Kumar: Also, I could see that your payer mix is also largely the same. Then the next question comes in, when would you be in a position of seeing a better ARPOB improvement, given the occupancy we are here which is pretty healthy. Is it sticky enough to start thinking about a slightly better ARPOB? Or do you think a patient can be a little sensitive to it?

Suneeta Reddy: Well, I think 6% is a reasonable ARPOB, 6% growth in ARPOB.

A. Krishnan: And which we should be able to get back in the next couple of quarters. So, this quarter, there was the most focus on volume, etc. And there has also been a mix, which has resulted in the ARPOB being where it is. But if you go forward, we should be going back to around 6% ARPOB.

Madhu Sasidhar: And we are also taking a very market-based approach. Where we reach capacity limits or are close to it, we are much more selective in the payer mix as well as the case mix.

Shaleen Kumar: So, that's what my question was that can we expect, given we are already at a good healthy occupancy level in certain markets, so ARPOB movement up from here, and that could help for a better margin. Second thing, what I want to understand from you, is regarding the Bangladesh impact for you guys. And how has it impacted you? And how should we think about it going forward?

A. Krishnan: So, I think that's one of the reasons that if you look at Tamil Nadu; our Tamil Nadu growth has been a bit low compared to some of the other markets because we were getting a huge number of patients from Bangladesh in this market. That is clearly impacted. If you look at the Tamil Nadu reported inpatient volume growth, we reported almost 4% this quarter and if the Bangladesh patients were in, it should have been 6%. So, clearly from the volume perspective, it has been more pronounced in places like Tamil Nadu and some bit in the East also. That's one of the reasons that you have seen the drop. Otherwise, I think it's not gone off. If you look at the overall volumes of Bangladesh, it's down by 25% versus what it was historically. We are hopeful that it should recover because it's not that the services have all stopped and they have commenced all the services, and we are hoping that the market should come back in the next couple of quarters.

Suneeta Reddy: Yes, but overall, our international patient revenue is 6% of total revenue and we have a plan to take it towards 9%. And we are looking at other markets. So, really de-risking Bangladesh as well.

Moderator: We will take the next question from the line of Neha Manpuria from Bank of America.

Neha Manpuria: Sir, on the margin, the 100-basis points margin expansion that you talked about, previously the guidance was that we will be able to expand margins by 100-150 basis points for fiscal '25. Now, given that we have had a fair bit of one-off impact in this quarter, is it fair to assume that for fiscal '25 that seems difficult, and margins would probably be slightly lower, the expansion would be slightly lower than what we had initially anticipated?

A. Krishnan: So, as of now, yes, you know because Bangladesh also we had some headwinds and still we have been able to perform well. If some of that revenues that come in, it could have been significantly margin accretive. So, I guess 50, 60 bps we will still be in a position to get. So, to get the entire 100 bps, we should probably wait for a bit longer.

Neha Manpuria: So 50, 60 bps expansion in Fiscal '25.

A. Krishnan: Yes.

Neha Manpuria: My second question is on 24/7. Clearly the GMV trajectory seems to be slow, but it's still heartening to see we have been able to reduce the losses there. Could you give us some color on what's happening on GMV? I see that the private label is also slightly lower. Is there an impact from quick commerce? How are we trying to tackle that? So, just some color around that.

Madhivanan: So, two points. First, on the GMV growth, we have made some technical changes in the way we measure it, especially when it comes to the clinic business that we do. But that's not very material. If I can just refresh your memory, in this financial year, we have actually sort of gone into a reset of our operating model. The last year's growth was primarily driven by very huge marketing expenses in digital marketing. We realized that it's not something which is sustainable. And from a long-term perspective, we have reoriented that. In this financial year, the marketing expenses are dramatically coming down. That's what you will see in the way our operating expenses on the online side, the 24/7 side is coming down. So, that's starting to pay dividends. What is very reassuring is that, in spite such a dramatic cut in our marketing expenses and therefore customer acquisition, we are not de-grown. And the ability to get the right quality of the customers is only getting more and more reinforced. That's one area.

The second, your question about quick commerce. Yes, we did see a bit of pressure in some of the markets, wherever quick commerce has come in. While they are not into pharmacy per se, but the businesses which are non-Rx related, whether it be OTC products, or whether it be some of the health essentials, we have been seeing a little bit of a gap. Over the last two quarters, we have initiated our 19-minute delivery in the markets of Delhi and Noida. And we are seeing some very, very encouraging results. While our AOV has come down, the number of customers that we are able to acquire, basically on the proposition, has increased. We intend to roll that out across the other countries, and that's what will help us to grow back.

Parallelly, there are also other than the e-commerce part of the business, which is pharmacy, there is also some initiatives which are being taken on the consult and the diagnostic side which are showing some encouraging results. So, overall, GMV will come back. We just want you to be patient with us. The model is sustainable.

On the same lines, like we noted, once we reduce the marketing expenses, our operating costs are becoming much more viable. Because of the quick commerce, our unit economics, which we were expected to breakeven much faster, has gone delayed a little bit, but we will come back on track, and you will see this trend going on.

Neha Manpuria: So, than 50% GMV growth is clearly not possible now obviously, but we still think that despite the lower cost, we will be able to get the GMV back into growth mode.

Madhivanan: Yes, we are reasonably confident that the GMV will come back, but on a more sustainable basis. Whether it's 50% growth or not, we will sort of reserve our comments, but from a profitability perspective, we will hold on to the five-quarter profitability that we have committed for, and growth will also come back. It's just that it's much more sustainable growth.

Moderator: The next question is from the line of Sagar Tanna from Alchemie Ventures.

Sagar Tanna: Congratulations on a great set of numbers despite the issues in Bangladesh. And also admirably, when I look at the capital allocation and a calibrated growth strategy, I think Apollo stands out vis-à-vis the rest of the industry. My question is more on a larger issue. We have seen private equity money fueled expansion and IPO fueled expansion by other players. It may not be relevant to us, but do you see any micro markets where you think in the next 2-3 years, there will be saturation, and which could eventually lead to pressure on ARPOBs or occupancies?

Suneeta Reddy: I don't think; the demand is only growing. I mean if you look at cities where we are setting up beds, Calcutta, the weekly occupancies are above 80%, we really have established a beachhead there. In Hyderabad, purchasing power has improved significantly, and really the cities, all these cities are growing tremendously. If you look at urbanization, there is a very strong story to grow in Tier-1. Tier-2, we have always been first movers, and we have shown that in all of the locations that we set up hospitals, but in this kind of expansion, it's not Tier-2. We are focusing on the metros, the large metros and Tier-1 where there is still demand to be met by a quality player and I think that Apollo represents a great clinical outcome.

Sagar Tanna: It may not be relevant and not applicable to us, but at a broader industry level, do you think micro markets like NCR etc. may see some pressure down the line, considering the expansion that's underway?

Suneeta Reddy: No, I think that the NCR is growing very fast, and more importantly, purchasing power and the penetration of insurance is giving a huge amount of people access to healthcare, which was not there before. And we are seeing this happen post-COVID, but the trajectory of this is growing even faster. And this assumption that is driving higher occupancy, it's not an assumption, but it's played out as you can see from our own earnings. 44% of our revenue is now coming from insurance, and they all say it keeps our margins, the price at which they keep our margins also intact.

Moderator: We will take the next question from the line of Damayanti Kerai from HSBC.

Damayanti Kerai: My question is again on GMV trajectory for 24/7. So, you mentioned reverting back to sustainable growth there, but very broadly, I think earlier we said some Rs. 4,000 crore of GMV for this fiscal. So, looking at H1 performance, it definitely looks very back ended in the second half. So, do you think you can still achieve that number? And also, can you update us on some of the new services which were intended for 24/7, especially the IP/OP part and the insurance, how things are progressing there?

Madhivanan: So two things, whether we will be able to touch 4,000 crore is something which we have not lost sight of the target, but we are not going to do it on the back of an increased spend in marketing. That much is very clear. We are exploring how, what we are realizing is a lot of our customers are going omni. This entire concept of customers being purely digital seems like yesterday. So, people who end up spending both on the offline version as well as the online version, we are seeing almost a 30% to 35% increase in the spends because they are able to consolidate their wallet share.

So, one of the strategies over the next two quarters is going to be having a much greater synergy with our 6,800-odd outlets, the pharmacy outlets, along with the hospitals and the clinics. So, omni is the way to go. So, we expect maybe not 4,000, we will at least find a much better number without compromising on the profitability side of the story.

The other area from where we expect support on the growth, which we are reasonably confident is; our corporate engine is very, very limited today. We just have one major corporate, which is in the form of SBI. There is a lot of renewed focus on enabling that engine, even building around five to six large corporates. Again, within the Apollo Group, the synergies are very high, so, we should be able to build that up. So, that should give us some fill in. That's one of the new initiatives.

And on the insurance side, we have had some very good progress. While we continue to do our marketing bit with Niva Bupa, the numbers are encouraging. We still do around 100 odd leads for Niva. We have applied for our corporate agency with IRDAI. We are reasonably confident that we should get it in this quarter. The moment we are able to get our corporate agency license, we should be able to expand the portfolio of the partners with whom we can work with. We have had some very, very encouraging feedback from almost all the leading insurance companies. The issue is that it will sort of play out in the last quarter of this financial year.

So, all put together, we are back on the trajectory. But like I was saying, maybe 4,000 might be a little bit of a stretch, but profitability-wise we will be there, and that's what I meant by sustainable model.

Damayanti Kerai: And my second question is clarity on this target of 25,000 crore in next three years for the combined pharmacy platform with margins of say 7% to 8%. So, when I look at the skewed first half number, we already are at 6.5% of numbers, right, if we exclude the digital expense. So, with topline improving almost 1.5x from current level, do you expect like margins could be better or that 7% to 8% is the number which you are intending to achieve?

Madhivanan: At this point of time, we would like to hold on to the margin projections.

A. Krishnan: So, if you look at the overall numbers, even Keimed, we have given you the proforma numbers on Slide #37 and Keimed is at a 3.1. And if you look at excluding digital, we are already at the 6.5 as you rightly said. It's the trajectory of growth that we need to get back to get to the 25,000 crore, but that is what we are working on to see how we can get to that higher number as Madhi said. So, 7% to 8% is something that I think is not a challenge once the breakeven of online comes through.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just the first one back again on ARPOB growth. So, this is probably the slowest growth we have seen. First half growth is between 2.5% to 3%. Quarterly growth has also been there. Has something changed in terms of the pricing environment or hospitals; one of your peers which reported earlier today registered 2% growth, right. So, has something changed from an industry perspective of how you look at pricing atleast on the ARPOB side and maybe a little bit of color on the different geographies that we have seen the Western region, and the Karnataka region have like probably very low or declines as well. So, is there something happening differently in some of these regions?

Suneeta Reddy: So, I think one factor is the fact that there was many medical discharges this quarter. And so that you could not expect to see a very high ARPOB. And this for Apollo it is a combined ARPOB which is including Tier-1, Tier-2 and the metro cities. In the Metro cities, we are close to Rs. 70,000. So, very healthy ARPOBs in the Metro and lower ones in Tier-2. So, this is a blended ARPOB and going forward, like I said, a 6% to 7% expansion in ARPOB is something that you can expect to see.

A. Krishnan: You should remember that as I have said even last quarter ARPOB is a mix of case mix as well as ALOS. It is not a reflection of pricing. So, we don't have any issues anywhere around pricing. We will be aligned to inflation, which is around 4% is what is the overall inflation and that is something that we should be in a position to do every year. That is not a challenge. Even in insurance etc., we are fine. We don't see any challenges around that.

As of now, the ARPOB as you are seeing, if you look at even ALOS has gone up a bit. The case mix has changed because there is also a bit of secondary care cases which are coming our way because of patients' shift towards quality hospitals like us. So, all of that is resulting in the ARPOB getting reflected at the number, and it is a derived number. It is not a number, the headline number is something you should really look at is the volume growth and the inpatient revenue per patient, both of which is reflective of inflation as well as good volume growth.

Shyam Srinivasan: There was a comment which was made saying that insurance margins actually help you sustain, insurance patients help you sustain margins. Just trying to bring some industry color here, if you talk to any of the health insurance companies and you had Apollo Munich sometime back as well, I think most of them have seen their claims ratios actually going past their desired range, right? They have a claims ratio of between 65 to 70. Most of them have overshot that. And one of the key pushbacks that we get from them is the severity of the claims in the sense which probably translates to ARPOB has been much faster than what their model suggested. So, they have had to go back and take price increases themselves which comes with a lag. So, just want to understand, wouldn't you be seeing this institutional payor group exert more influence in terms of better pricing going forward because they themselves are facing losses, right? You do not probably see a self-pay patient do this, but would you see in the next two, three, four, five years, whichever time frame you think is more relevant, that this is a group of organized payers who will probably push back a lot? I will also link the recent GI Council article, which talked about surge pricing in a few hospitals, right? So, they have been very vocal in terms of trying to take some of these occurrences back to IRDAI or regulator. So, I just want to understand your thought process around this.

Suneeta Reddy: So, let me just give a broad perspective. One, the surge pricing did not happen at all at Apollo. I am very sure of this, and you have our commitment that we would never do something like this. The second issue about insurance making losses and the pushback on our prices, I think being in this industry, there is always continuous push and pull, but I think the advantage of having a network is very important because imagine being a health insurance player and not having onboarded Apollo. I think that could be quite detrimental. And they do understand that we also need to keep our margins, we need to keep the system sustainable. And clinical outcomes are the most important things that come with the cost.

The second is that, because the volumes have risen, it is clearly patients who are now using corporate hospitals for secondary care, like we mentioned earlier, they are now accessing corporate hospitals for secondary care procedures as well as tertiary care procedures. So, that is maybe, that factor of volume of who is using what. Before, they only used to come for cardiac, onco, neuro. But now for every secondary care procedure also, people covered with this insurance are now using Apollo. So, I think that brings in the volume play, and it also is important because it creates access.

A. Krishnan: So, clearly, as you know, that one of the things maybe they have not really priced in their policies, etc, is the increase in electives. Clearly, you would have to appreciate that there has been a general trend of electives increasing even now when a country gets to the next level of wellness, and there is a shift in behavior, because earlier we used to push it to the extreme and people were not really coming to a hospital until it was such a pain. For example, if it's a knee replacement, etc. Today, there is a shift in consumer behavior. They are clearly getting into electives, etc. So, some of their losses, one only point that I would like to tell you here is that we keep working with all insurance companies. We have had no issues on the pricing per se. We have renewed the contracts even in the last couple of quarters. There has always been a pull and push. There will be a couple of percentage points that will keep changing. But clearly this is something that you should remember.

Second is the robotics, use of robotics, etc., is also increasing across hospitals. They have to price for that in their insurance business because while the ALOS comes down in robotics, but there is still a bit of an increase in robotics. And there is a lot of minimally invasive work, which makes the patient really opt for electives even easier today than earlier. So, I guess it's more an insurance industry issue maybe today. Of course, I do appreciate your point that there is a narrative around this that they have brought about, and we will have to also work to give some of these data points back to the authorities which we will.

Suneeta Reddy: But I think the IRDAI is very understanding of the situation. They have come out with a mandate on cashless. They have allowed robotic procedures. They are looking at the high-end genetics as well. So, I think the dialog has been good.

Moderator: We will take the next question from the line of Harith Ahmad from Avendus Spark.

Harith Ahmad: Your closest competitor in pharmacy retail, have launched their own branded pharma products for a very large number of SKUs a few quarters back. The margins for these products appear to be much higher than what we typically see in branded generics. So, is this a strategy that we will also pursue at some point and any thoughts around this?

Obul Reddy: We have started some of the vitamin segment and we are working on the larger portfolio. We will give you the details at the next level. As of now, we are focused mostly on our private label for the FMCG segment. And we started working on the pharma segment and it's a limited portfolio. We will give you the color of it in the next call.

Harith Ahmad: And looking at the margins that you have disclosed for the online pharmacy distribution in 24/7, that's around 13%. So, we have been in this range 12% to 13% for several quarters. So, trying to understand from a slightly longer-term perspective, what is the potential there for this particular margin to get to. If you could also share the combined pharmacy margins for the quarter, that will be helpful.

Obul Reddy: I will combine the combined pharmacy margins. Combined margins are pre-Ind AS basis, we are at about 7.3%.

Madhivanan: So, to your previous question, what is it that is pulling it down and why are we stuck at this particular layer, is primarily because of 24/7's online unit economics. So, like I was explaining, while we have fixed the first part of the story, this is ensuring that we are at a much reasonable customer acquisition rate, and yet try to find how we can continuously grow. On the delivery unit economics, while we were on the right trajectory, the quick commerce intervention has pushed us back a little bit. So, we will come back on the margin side over the next two quarters.

Sanjiv Gupta: So, apart from the pharmacy side, I think the other two important elements which Madhi also spoke about is the insurance. Insurance bit, which we thought and expected that the license and other formalities will compete by Q2, got slipped by one quarter. And insurance business is obviously going to give us a decent margin, apart from the fact that the monetization of certain assets, digital assets, is something which is just started in the last month, or rather September month, and you would see some upside on that also coming in Q3.

So, overall, long term, we are always hopeful of seeing this number, which is around 13% for the last two, three quarters to be about 17% to 20%. That could be maybe next three to four quarters from now on. But yes, we are working on to ensure that we are back on GMV growth as well as we are good on the overall margin profile.

Moderator: The next question is from the line of Kunal Randeria from Axis Capital.

Kunal Randeria: On the 24/7 business, does the revenue mix also have to do with profitability like maybe higher diagnostic share compared to earlier years?

Madhivanan: Yes, so see, both the diagnostics as well as consults from a GMV perspective do not contribute much. But on the revenue side, they are reasonably significant. In both those areas, we are on the positive. It's only pharmacy while which is giving us a considerable volume, wherein we have this unit economics challenge which we are trying to overcome. So, to that some extent, I think both consult and diagnostics are in the positive region. Obviously, we can improve the margins much better, but your hypothesis is correct.

Kunal Randeria: But is there any kind of number that you would like to share, for example, pharmacy contribution, a year back, what is this now and what's the aspiration revenue mix that you are targeting?

Madhivanan: The pharmacy will continue to be one of our primary drivers, because that's our customer acquisition engine. The other two businesses are effectively cross-sold, whether it is driving the consult module or driving the diagnostics comes out of this. Just let me, we will work on you, if this exact breakup is needed, let us work on it so that we are able to present it much more formally.

Kunal Randeria: Second question is on the Mumbai expansion plans. Rs. 1,300 crore seems like a very steep capital outlay. So, I was wondering if you can share how this Rs. 1,300 crore would be deployed in what area?

Suneeta Reddy: Well, Rs. 400 crore of that is the capitalized value of the lease. So, that will be paid over a 50-year period.

A. Krishnan: So, broadly, it's a 575-bed facility. So, if you look at it on a per-bed basis today, it's over Rs. 2.2 crore, 2.3 crore. This is in Worli. Today, if you look at most of the hospitals in Tier-1 locations, like especially Delhi and Mumbai, your effective cost per bed is actually coming to approximately this number. Especially Delhi and Mumbai, it comes roughly around Rs. 2.2 crore today. And I think it's from that, it includes medical equipment, it includes oncology, everything. It's Rs. 200 crore of medical equipment that we have today with the current levels of exchange rate, etc. So, this is how you look at it. But you know, if you look at on a per ARPOB basis, and if you look at what you can potentially realize in these markets, you know, we are well, you know, you will get the 16%-17% IRI. In fact, Worli, the cost of land has been a bit lower compared to the rates there only because it is a hospital. It is something that can be used only for a hospital.

Kunal Randeria: So, this Rs. 850 crore would be a construction cost and medical equipment, right?

Suneeta Reddy: Yes.

A. Krishnan: Yes.

Kunal Randeria: And that is for the entire 470, I am sorry, 575 beds.

A. Krishnan: That's correct.

Moderator: We will take the next question from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: The first question is with respect to the healthcare services margins, while next year we will have good number of beds which are getting added, so, clearly the operational cost would first kick in. So, still will there be a scope to increase the EBITDA margin by, say, 100 bps in FY26 over FY25?

A. Krishnan: Two points. We will have to look at it as our existing business and the new business. What we said was from our existing businesses we should be able to get 100 bps expansion overall. That's what we should be looking at including the volume growth and the cost and efficiency.

But if you look at the new hospitals, we now have a very large base of EBITDA. We don't expect huge losses, and I think that should not bring down the overall EBITDA margins by over 1%. In the 1%, 1.2% range is all that we can look at the EBITDA margin coming down. And again, all of these are existing markets. Calcutta for example, Hyderabad, Gurgaon, all of those are existing markets, Tier-1 cities. It's not like the Tier-2 cities where it takes some more time to ramp up. We have good plans on which clinical programs that we need to opt for and the doctors. So, given all of that, we are quite sure that we should be able to bring all of them into profitability within 12 to 14 months' time frame.

Tushar Manudhane: And secondly on the EBITDA for HealthCo business where it's now like Rs. 50 crore, which is a significant jump over previous quarter as well. And given that we now have insurance product and concierge service in the second half of FY25, so how to think about the EBITDA for this business in FY25 and subsequently in FY26?

Madhivanan: So, I think five-quarter profitability is our immediate objective. So, I would say that any kind of a projection on the EBITDA side, we will be able to say that about that later. Insurance is yet to play out. It could be a real joker in the pack in terms of our ability to contribute because our marketing cost is not a big issue there. It is our ability to use data and technology to maximize. Just hold my horses on that. Our primary objective at this point of time is to ensure that we work towards our five-quarter profitability which is expected to be by the end of quarter 2 of next financial year.

Tushar Manudhane: On the western region, volume growth has seen quite modest, like a decline in both IP as well as OP volume while Bangladesh was the issue for the main flagship central, but what's happening on the western region side?

Madhu Sasidhar: If you were to break our western region, into our two separate markets, one is Ahmedabad and the other is Mumbai, most of the decreased growth or lack of growth has been in the Ahmedabad market. We did have some headwinds there. We did drop some of the low paying schemes that we used to take, and that has reduced our growth in Ahmedabad. Since then, we have overcome some of this. So, I expect this to be a onetime effect that is largely limited to this.

Moderator: The next question is from the line of Kunal Dhamesha from Macquarie.

Kunal Dhamesha: On the 24/7 side, we said that the GMV growth would be a little slower because we are looking at sustainable growth. But on the breakeven side, did we comment anything? Our earlier target was to breakeven by FY25 on 24/7. So, is there any change there?

Madhivanan: In fact, the trade-off is that while growth might be a little bit muted and if our corporate engine and our omni engine fire off, maybe we will come closer to that. But as far as our operational profitability is concerned, we stick to our original thought of at the end of the beginning of Q3 of next year. So, we are holding on.

Kunal Dhamesha: On the hospital side, how would our internal medicine mix would have moved between H1 FY25 and H1 FY24 or maybe a broader surgical mix versus medical mix, because it seems like maybe our medical patients or something is higher, because what is leading to the lower ARPOB growth?

Madhu Sasidhar: No, that is correct. And it is not unexpected because this is what we usually see in the second quarter. There is usually a surge of medical cases. So, this year our medical cases compared to last year were 17% higher, which is an outsized increase. It is usually driven by the viral fevers and gastrointestinal disorders that are very common in this kind of structure. So, it's the seasonal effect, and your observation is correct that medical admissions as a part of the volume growth.

Kunal Dhamesha: How has the trend extended into quarter 3 as well? We are almost at a midpoint of quarter 3; so, how should we think about quarter 3 in terms of volume growth versus ARPOB growth?

Madhu Sasidhar: Yes. So, traditionally, the third quarter is not our best quarter. Traditionally, the third quarter sees a decreased volume. That is also seasonal because of the festivals. So, we are seeing the expected trends into quarter 3. Having said that, we still expect the growth to be healthy year-over-year.

Kunal Dhamesha: And any quantification for the Bangladesh issue? Because I think if I remember correctly last quarter also, our international revenue mix was around 6%. And this time around it is also 6%. So, it doesn't seem like a big deal, given maybe our network is too big now.

Madhu Sasidhar: Yes, so, you are right. So, even though overall revenue attributable to patients from Bangladesh fell by about 27% for this half of the year compared to last year, as a percentage of our overall revenue, it is not a fact. And we were also made up for that through other markets, especially other markets where we see interest in high-end, highly differentiated care, such as proton beam therapy, complex valve surgery, and so on.

Moderator: The next question is from the line of Prashant Nair from Ambit Capital.

Prashant Nair: The cost of setting up a hospital or, say, per bed cost, with that change in what a hospital looks like, increasing use of robotics, also the fact that onco is a much bigger part of almost every hospital practice now, how much would a per bed cost for a full-service hospital change over the last, say, 5-7 years, in your opinion? And do you think the price increases that you have seen are adequate or are in line with the increase in cost? Or have you been kind of recovering a lot of it through greater efficiencies? I mean, how do you see the various variables laid out on that front?

A. Krishnan: I think prices have definitely gone up overall. If you look at the kind of overall cost per bed that we were earlier at, it was around Rs. 1.75 crore in some of the Tier-1 metros. That is what has now gone almost to Rs. 2.25. So, that's a significant 20%-25% increase. The cost of construction has gone up. The cost of land underlying has also gone up significantly. Because if you look at the trends across markets, unless these are not for hospital real estate underlying, it is very difficult for us to, we have to compete with commercial real estate as well as others to get the underlying land. So, clearly land, if you look at land values in places like Bangalore in the last four years, they have gone up by 50%-60% just the land alone in places like Bangalore, in places like Mumbai again because again not just that, the cost of construction has also gone up because there are very huge restrictions on timelines around construction, when you can construct because some of this is in residential areas etc. So, all of that has also impacted the cost of construction apart from what you are saying on medical technology. So, the cost has definitely gone up by at least a clear 25%-30% across. And I think, yes, we would like to believe that if not full, at least around 80% of that has played out with the increased overall pricing etc., in the market, but it's something that we were earlier looking at around 17%-18% IRRs. We are now saying it's 16%-17%. So, there is a bit of compromise on the IRR, but with time, I think it should play out well.

Prashant Nair: And the second question is slightly related. So, given that your hospitals are now a lot more tertiary care focused with the kind of investment you are making. Also, you recently just mentioned earlier in the call that you are seeing a lot more secondary care procedures coming your way, so how do you balance that given that with insurance compensation going up, this may not change immediately? Do you need to look at different ways of handling that patient flow or would it not be suboptimal to have them occupy beds, which are essentially set up for tertiary care treatment. How do you balance that within the network?

Suneeta Reddy: No, I think that, let me start by saying that we have been doing this for the past two years, when we decided to reduce our ALOS. So, the three-day stay really captured the intensity of both their cost as well as our price. So, this continuous focus on ALOS is one way. With this, our asset utilization is also increasing. The second thing that we are doing is in all our new facilities, we are building-out more theaters. So, with this, we expect that hospitalization for surgery will result in larger volumes.

Madhu Sasidhar: I think I second what Ms. Suneeta said, but the longer-term answer to your question is we are being much more intentional about the service line mix and the case mix within our hospitals. There is a lot of intentionality that goes around it, from the kind of doctors that we hire to the way we assemble our teams and to our marketing efforts. So, in selected markets, we are taking a very strategic approach to how we position our service line so that we are really putting our high-end secondary care and tertiary care services forward as Ms. Suneeta said. I hope that answers your question.

Prashant Nair: Yes.

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

Suneeta Reddy: Good evening, everyone. I just want to say that our teams are always open to take your calls later on if there are any unanswered questions. Thank you for joining this call.

As we conclude Q2 FY25, we remain firmly focused on the comprehensive and integrated healthcare offering, supported by a strong pipeline of operational initiatives and expansion plans, which will further fortify our leadership in healthcare. We thank all our stakeholders for their continued support in Apollo Hospitals as we continue to build a value-driven healthcare platform. Thank you, and good day to all of you.

Moderator: On behalf of Apollo Hospitals Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.

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