Apollo Hospitals Enterprise Limited

Q4 FY23 Earnings Conference Call

May 31, 2023

Moderator: Ladies and gentlemen, good day, and welcome to Apollo Hospitals Limited Q4FY23 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 this conference call, please signal an operator by pressing star, then zero 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, Neerav. Good afternoon, everyone, and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q4 and FY23, which were announced yesterday. We have with us on the call today, the senior management team comprising Ms. Shobana Kamineni – Executive Vice Chair, Ms. Suneeta Reddy, Managing Director, Dr. Hariprasad – President of the Hospitals Division, Mr. A. Krishnan – Group CFO, Mr. C. Chandra Sekhar – CEO of AHLL; Mr. Obul Reddy – CFO of the Pharmacy Division, and Mr. Sanjiv Gupta – CFO of Apollo 24/7.

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 two of the investor presentation that was shared with all of you earlier. Documents relating to our financial performance have been circulated and these have also been uploaded on the corporate website and the websites of the respective stock exchanges.

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 off to join our earnings call. I trust that you have received our earnings document, which we shared yesterday. Before we get into the details of our quarterly and full year performance, I would like to take a few minutes to reemphasize our vision and journey towards creating Asia's largest integrated healthcare ecosystem with the consumer at the centre.

While high-quality healthcare has always been our core offering, we have systematically, over the years, created several thousand touch points of care through offline pharmacies, multi-format clinics, diagnostics, and now a comprehensive digital health platform, Apollo 24/7. This health infrastructure is formidable in terms of footprint and scale and key to us being able to be the most trusted healthcare partner for discerning customers across the value chain.

We are confident that the investments we have made and the solutions that we are working on, whether it's AI for clinical decision-making or digital therapeutics and condition management, will result in providing consistent and seamless hybrid customer journeys. This will be a key differentiator, and it will give us the right to win a disproportionate share of the health wallets spends of affluent households. All our efforts are oriented towards unlocking network effects, and we are sure that we are building strong upstream and downstream funnels.

Against this backdrop, let me take you through our financial results, which reflect the strength of our core business and the potential of our investments for future growth. We have reported a very strong fourth quarter with the healthcare services business witnessing a robust 18% year-on-year growth in Q4FY23, driven by growth in volume and supported by pricing and case mix gains.

During Q4FY23, occupancy across the group was at 5,041 beds or 64%, mature hospitals were at 65% and new hospitals were at 62%. This was planned and achieved after a sustained reduction in low-paying institutional business over the last six months. This has resulted in a lower reported occupancy but has visibly strengthened our margins. Alongside the trend of increasing insurance business, which is currently 43% of revenues and 40% of volume contributed by this channel in Q4. This was less than 30% pre-COVID.

ARPOB increased 10% year-on-year to INR 53,232. Consolidated financials for the quarter, our consolidated revenues grew by 21% on a year-on-year basis to INR 4,302 crore. On a year-on-year basis, Healthcare Services revenue grew by 18% to INR 2,195 crore. Mature Healthcare services grew by 18% to INR 1,519 crore, while new hospitals grew by 16% to INR 676 crore. Revenues from the Apollo HealthCo stood at INR 1,799 crore in Q4 against INR 1,375 crore, representing a growth of 31%.

AHLL revenues stood at INR 309 crore in Q4FY23, with the core revenue growth, excluding COVID and vaccination, of 23% in Q4. Consolidated EBITDA stood at INR 488 crore without the effect of the operating cost of Apollo 24/7, the EBITDA was actually at INR 706 crore. Within this, Healthcare Services EBITDA grew by 31% to INR 535 crore. Healthcare Services margins expanded by 249 basis points to 24.4%. Offline pharmacy distribution EBITDA was at INR 121 crore, the margin remaining very healthy at 7.8%. Net EBITDA loss in Apollo HealthCo was at INR 72 crore. AHLL recorded an EBITDA of INR 26 crore compared to an EBITDA of INR 37 crore. The decline was owed to a drop in COVID-related revenues and increased cost to expand the high-end testing and the phlebotomy network. Healthcare Services PAT was at INR 257 crore, a growth of 46%. Consolidated PAT was at INR 145 crore, a 60% growth on a year-on-year basis.

We closed FY23 with consolidated revenues of INR 16,613 crore, a growth of 13% over FY22. EBITDA was at INR 2,050 crore and PAT was at INR 819 crore after accounting for higher operating costs of Apollo 24/7 and due to the nonrecurring revenues from COVID and vaccination.

The financial performance of the core business is robust. The margins are healthy, and the operating indicators continue to improve. Our focus on the tower specialties of cardiac sciences, oncology, neurosciences, gastroenterology, and orthopaedics have ensured that they now contribute 60% of the hospital revenues. Our ALOS was at 3.39 days for Q4. It is the best-in-class considering the severity and acuity of our mix.

In terms of inorganic expansion, we have made significant progress on implementing our plans to add 2,000 beds at an outlay of around INR 3,000 crore over the next four years in key metros. Alongside this, we are on track to improve hospital occupancy to 70% by the end of FY24 and unlock margins by revenue and cost optimization. We serve over 7 lakh footfalls a day in our offline pharmacies. Over 15% of revenue in this vertical now comes from private label and generics. We are therefore making sustained efforts to increase this number consistently.

Our investments in the future are also yielding results. I am happy to report that Apollo 24/7 achieved a GMV of INR 1,643 crore for FY23, delivering on our commitment to exceed a GMV of INR 1,500 crore this fiscal. The platform has over 25 million registered users. The committed trajectory of GMV and revenue growth is on track and breakeven achievement at an entity level in Q4FY24 is well on target.

In AHLL, the non-COVID diagnostic business has grown by 45% year-on-year and is currently at a run rate in excess of INR 100 crore for the quarter. We expect to grow this to INR 500 crore for FY24 and to INR 1,000 crore in three years. This should be accompanied by an expansion in EBITDA margin from 5% at the present to about 10% to 12% in the next two, three quarters as we focus on expanding the test menu to include specialty high-end testing modalities and genomics, while recording an increased utilization of our phlebotomy network.

The structural strength of healthcare services and offline pharmacy combined with the potential of our growth verticals gives us immense confidence in the impact that we can make in shaping the healthcare ecosystem of this country and delivering high-quality care to our consumers in a more seamless, ubiquitous way and value-(inaudible) way. We acknowledge the short-term concerns around the cash burn in Apollo HealthCo. Several measures have been initiated that will reduce cost by INR 125 crore to INR 150 crore in this fiscal.

We would like to assure our stakeholders that we are on the cusp of change, and we are building a platform that is sustainable and value-accretive with fiscal prudence and distinctive consumer value proposition as our twin goals.

On that note, I would like to hand it over to our moderator and open the line for questions. I have Shobana, Dr. Hariprasad, our CFO - Krishnan, Obul Reddy, Chandra Sekhar from AHLL, and Sanjiv from 24/7 with me to take all your questions. Thank you.

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

Damayanti Kerai: My question is on Apollo 24/7. So, you recorded GMV of INR 5.9 billion for fourth quarter, which has seen 9% sequential growth. So, although like, you have beaten your earlier expectation for full year. But for next year, I guess, you have earlier indicated that you would like to double up your GMV compared to FY23 level. So, from this level, like, how do you see GMVs picking-up in coming quarters so that you can almost double up GMV in FY24 versus the FY23 level? Because fourth quarter growth seems a bit low, I'll say.

Shobana Kamineni: I am happy to take this question, this is Shobana Kamineni, which is on growth. We'd like to tell you that we've initiated many programs. So the plan here is very clearly is that we have tailored our growth to achieve a 100% increase from the last year. So we will finish this FY24 with INR 3,000 crore. Most of this will come from pharmacy and while keeping our marketing spends at the same level. And what we've seen in Q4, which is the early shoots of how we do the following year, is that we've been seeing a lot of retention. And then our monthly, the monthly customers that keep coming back to our platform has actually increased, people who make three (inaudible) transactions. It used to be in the range of less than 500,000 people last year. Now this is inching up towards 1 million-plus. And I think that this is very significant of people as we continue to get traction of doctors that continue to come on. And please understand that what we've done is that we're also (inaudible) Suneeta said, our journeys within, especially within the offline and online, all these years, we've just been creating the pathways. And now we are actually seeing traction where in community-by-community we're able to get more-and-more people coming back to our pharmacies that shop omni. And the thing is that we've actually opened up a new age group of customers that it is not of healthcare users, many of who are digital first. So the 25 registered who are digital first, many of them, almost 2 million of them, they shop not for themselves, they shop for someone else in their family. These are very interesting cohorts that we've seen.

We've also accelerated the ability, like if you look at our figures, we have now 1 in 4 of them actually doing another service. Mostly it's a diagnostic service that they take. And I think that this kind of traction is what we'll be able to build throughout this year. Yes, 9% was muted, but that was largely because if you see during that period, everyone pulled back in terms of discounts and that short period of growing 3% less in discount, all the high-value seekers just moved out and which is good for the business because now we have much more traction of serious customers engaging.

Damayanti Kerai: Okay. Ma'am, this discount part, you said you are offering a 3% less discount versus most of other peers, is that?

Shobana Kamineni: No, no. Most of them have moved down. But yes, we continue to stay at least 1% less than the others.

Damayanti Kerai: My second question is AHL spend seems to have plateaued during the quarter. So, are we going to see similar run rate ahead? And if you can elaborate where all the spend has gone in various buckets? So that will be helpful.

Shobana Kamineni: Sanjiv, please.

Sanjiv Gupta: So, I'll take this question. I think there are two, three things. If you look at in Q4, our AHL overall EBITDA is at INR 72 crore negative versus Q3 of INR 63 crore. There is a one-off marketing intake integration tie up cost with insurance and corporate health benefit platform. This is for the distribution and servicing medical insurance policyholders. So, I think with this one-off tech integration, we would be well positioned to start taking B2B, which is a corporate side of the business as well as the insurance side of the business.

As far as the spend side is concerned, I think as stated in the last earnings call also, we don't see any difference as far as Q2 versus Q3 is concerned. About 20% of the expenditure goes into product and tech side. We've got around 25% of expenditure into the op side. The marketing, which is the brand communication, connecting with the customers, content and so on, that is roughly about 20%. The call centre and the other lines, tele-sales, and all, that takes about 15%, and the remaining 10% is towards support and other things.

And I would also like to state one more point that we have a line of sight for at least INR 20 crore to INR 25 crore of reduction in losses by the end of H1, and we should be seeing this INR 72 crore of Q4 losses to come down sub 50 by H1.

Damayanti Kerai: Sorry, Sanjiv, you said INR 25 crore to INR 30 crore cost reduction by H1. That's what you're aiming for?

Sanjiv Gupta: That's right. So we have a line of sight for 25 (inaudible) of EBITDA improvement or the loss improvement, but more work is going on. We'll update you in the next earnings call with respect to where we are.

Moderator: Thank you. Next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just carrying on with the last participant, the voice quality was not clear. You were saying your spend from INR 189 crore would come down by INR 25 crore, INR 30 crore, which means you'll be doing INR 150-odd crore per quarter starting first half, Q1 onwards. I could not get this.

Sanjiv Gupta: I think what we suggested is that as a Company, we are into the endeavour of ensuring that Q4 is breakeven for the Company. From Q4 of the current fiscal year should be breakeven for the Company. As far as the last quarter is concerned, we made a loss of INR 72 crore. The line of sight that we have for the next two to three months suggests to us that by H1, this INR 72 crore of loss should be around INR 45 crore to INR 50 crore. So, there will be a reduction in losses by about INR 25 crore from the current level in next three to four months.

Prakash Agarwal: That is clear. But this loss reduction is by higher sales or you plan to reduce this INR 189 crore burn rate also?

Sanjiv Gupta: Absolutely. So that's a good point. And we have taken a couple of areas where we can and as suggested by Shobana ma'am that there is a reduction in the discount by about 3%. We were at about 18% to 19% in Q4, now down to, in the current quarter, we are at about 15% apart from the fact that we've got 20% reduction in the logistics. There's a lot of headcount rationalization and productivity coming out of the automation, which would also support us in the expense reduction. So, there are certain areas where action has already been taken and those actions were taken in the fag end of Q4 and early April. That is the reason we couldn't see anything in Q4. But indicative numbers for April and May suggest that there will be a reduction in the operating cost as well.

Prakash Agarwal: Understood. And one more, if I may, on the HealthCo. So, if you see the offline pharmacy Y-o-Y is pretty soft, 12%. Any particular reason, was it due to any COVID base last year, or how do you think about that?

Obul Reddy: Yes. You are right. Last year, first Q1 and Q2, we had a huge COVID sale. If you adjust for that, our offline growth is in the range of about 19% to 20%.

Prakash Agarwal: Q4, sir, not Q1 and Q2. Q4 of last year.

Obul Reddy: Q4 of last year to Q4 of last year, this year, there's a 21% growth.

Prakash Agarwal: On the offline pharmacy platform, right?

Obul Reddy: Yes, that's right. And just Q1 of last year, there's a 19%.

Prakash Agarwal: And second question on hospital business. So glad to know we are on track of this 70% occupancy levels. This quarter, I heard on that the ARPOB and case mix actually have been, the focus has been to improve that. Typically, the season is strong Q4. So, did we see any seasonally soft quarter and what is the bridge to move from 65% to 70% by end of this year?

Suneeta Reddy: So, if you look at occupancy, we've reduced the number of institutional people, the patients that we usually get. And with this, the occupancy dropped by at least 3%. So, this is why you also saw the ARPOB increased by 10%. Yes, our case mix has also improved, but it is a combination of both fees that has led to an ARPOB increase.

Prakash Agarwal: So, despite this thing improvement in the case mix and institutional going down, you expect 65% to move to 70%.

Suneeta Reddy: Yes. And this will come from the program that we have to recruit new doctors, which is already happening across the system. The second is to really to look at what our network funnel is going to bring us. We have started getting patients from 24/7, and we believe that we have created a strong funnel. The third lever that we're using is really to look at how we leverage our corporate relationships, our corporate relations as well as International. So, we are looking at this. Currently if you look at our payer mix, 45% is retail and another 45% is private insurance. So that is really going to contribute to an increased occupancy. And finally, for the Tier 1 cities, international patients, currently we're at about 7%. We're moving this to 10%, so that should add another 3% in terms of occupancy.

Prakash Agarwal: And lastly, you mentioned there is a reasonable progress on your inorganic initiative of adding 2,000 beds. Last time you mentioned three, four locations. If you could just highlight any particular location, any particular development, I would be happy.

Dr. Hariprasad: We should be in a position to come back to you in the coming quarter, hopefully on this, Prakash. We have line of sight across all of these. We are progressing on Delhi and Chennai, as you already know. We are working on Bangalore. We are working on Mumbai as well and Calcutta. So, Hyderabad also we're working on. So, there are multiple options. By the coming quarter, you should get a clarity.

Moderator: Thank you. Next question is from the line of Gina Kim from Schroders. Please go ahead.

Gina Kim: I don't know if this is a minor point, but on Page 15 of your presentation, is the financial performance for the fourth quarter of AHLL. Everything makes sense but specialty care side, EBITDA, EBIT sales is all growing, I guess, except for PAT. So, PAT losses have ballooned, it seems, in the fourth quarter of last year. Can you explain why?

Chandra Sekhar: So, we have higher depreciation because of new centres. Specialty care includes a lot of the fertility centres which were opened in the year before. And all of these depreciation and the effect of depreciation in the Ind AS treatment also has effected that.

Gina Kim: Sorry to interrupt. On the depreciation, that would have been if reflected in EBIT, right? So, EBIT grew from INR 1 million to INR 64 million if you're looking at the line above. But only PAT went the opposite direction.

A. Krishnan: There was also a deferred tax asset reversal in this quarter, which is a one-off, which will not recur from the next quarter. There was a INR 12 crore deferred tax asset reversal.

Chandra Sekhar: Yes.

A. Krishnan: So that's a charge to the P&L, which will not recur from next quarter.

Gina Kim: That's for the specialty care.

Chandra Sekhar: That's a one-off. Yes, correct.

Gina Kim: And just generally, I guess, I mean, you've mentioned some sort of guidance in bits and pieces, occupancy of 70%, your capex plan, HealthCo revenue growth. But can you provide an overall picture of what you expect for this year, FY24, as a group?

Suneeta Reddy: Healthcare Services, we are looking at 15% growth coming from higher occupancy and therefore better EBITDA. This quarter, we showed an increase in EBITDA margin by 249 basis points. We believe that we can improve this by another 100 basis points. And this will come from pure, from occupancy covering fixed costs and making sure that higher occupancy is better EBITDA and therefore, higher profitability. Moving on, I think 24/7, Sanjiv or Shobana, would you like to talk and Chandra Sekhar, on AHLL.

Sanjiv Gupta: I can take it up for Apollo 24/7 on the digital front. On the digital front, we are looking at about 100% growth on platform transaction. We did roughly INR 1,640 crore last year. We're looking at doubling it. On the pharmacy side, we are looking at about 29% growth, 28% to 29% growth in the current fiscal year versus the previous year. Over to Chandra Sir, for AHLL.

Chandra Sekhar: Yes. On AHLL, I think we have had a base reset kind of figure. So, the one-offs on COVID, etcetera, completely reduced this year. So, an optical view shows a flat year to a minor de-growth. But then AHLL core revenues on a year-on-year basis have grown by 28%. Diagnostics continues to grow at a pace, but again, optically it shows 4% de-growth, but that is because of a very high component of COVID testing the previous year. Non-COVID diagnostics, excluding COVID testing and COVID allied testing actually grew 63% year-on-year. So that's, I think, the flavour that I think we are carrying forward. The overall growth at AHLL level from INR 950 crore odd number to INR 1,280 crore number approximately is a reflection of about, of a continued growth path. The growth has been driven by the core business.

Now on a future outlook; Primary Care had a one-off significant INR 195 crore revenues on account of vaccination in the previous year, which has subsequently obviously has fallen off. So, these were the flavour of the year and the overall year's performance. So we remain bullish about the continuing the growth at a 40%-odd growth rate that we have demonstrated in the non-COVID segment. For the previous year, it was approximately INR 250 crore, which has moved up to the INR 384 crore number, representing about a 44% growth in terms of the non-COVID testing. We are making investments on adding and changing our mix from routine basic to semi-specialized, specialized, and super specialized. Towards this, we are taking additional cost by way of both skilled doctors, specialized sales forces. We're also investing continuously, and we have yet to receive the complete benefit of the ramp-up of our phlebotomist capacity because the consumer demand and something that we are very committed to is to serve the home collection requirements. These will compress our margin for a little while, there in diagnostics. However, our growth rates will continue to be at the 35% to 40% level, and we would like it to be even higher further. So that is the plan that we are taking on the growth part.

On the other segments, we continue to have growth rates, which I think we will sustain and add a few centres and the Cradle segment are being added, which will again cause a slight gestation-based depression in margin but will continue to give us benefits. Cradle is operating on a high 18% to 20% EBITDA margin at this level, and that will continue to be useful.

IVF, which is fertility, is a more newer line of business for AHLL. We have made investments during the midst of the COVID years. The last year has seen a significant growth year-on-year, but we are yet to come to a level of completely utilizing the potential of the infra we have created. So without any new centre additions, we are going to grow the utilization at IVF. So that's setting the broad plan.

Our diagnostics division margin has been at the 7.5% on an aggregate annual level, and we are making efforts to take it up 10% to 12% and progress we'll be aiming to take it to the 15% level. There can be quarters of slight fluctuation because we are making investments. And most of the investments for expansion are operating expense in nature. So that's the broad outlook for AHLL.

Moderator: Thank you. Gina, I'll request you come back for a follow-up question. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just some of the metrics that we track on Apollo 24/7. A little confused. So daily active users, I am looking at the last four quarters. So, June 2022, 6.5 lakh, daily active users. It became 10.6 lakh in September, December - 7 lakh, and now fourth quarter again 7 lakhs. So, some of the comments that have made on us dropping discounts and some of these value customers moving away. So did that happen two quarters back or, I'm just trying to map it to the trajectory of daily active users.

Sanjiv Gupta: Yes. So I think as far as the upward movement from June to September and some bit of October was on account of the kind of campaigns that we were running across pan-India and those campaigns were more of a broad base than of a kind of a very, very particular opportunity for select catchments. So one is that we shifted our campaigns from broad-based to more data analytics oriented. So that, in any case, we believe will result into a lot of active users, which only come for kind of a comparison between various websites, (inaudible) come in. On the value seekers, will start dropping in. And in any case, we never wanted to have a value seeker coming into our platform. So, this was one of the conscious decisions to ensure that value seekers does not land into the platform and more of a chronic, more of a customer who's looking out for continuum of care and various others opting for Apollo ecosystem. So, this is one conscious decision.

Now between December and March, I think one of the reasons, and you rightly pointed out, could be us trying to the discount being lowered. So, discounts in Apollo 24/7 have always been about 2% to 3% lower than the market. You would recall that somewhere in FY22 discount was 22%, 23%. And last year, they came down to 18%, 19%, 20%, and we were always less. And somewhere in March itself, we have brought it down to sub-15%, apart from the fact that; so I think mild deductions will also be attributed to lower discounts being offered by platform plus we are also not looking at those orders which are less than INR 200 because that distort the entire economics of the pharmacy delivery. I think these are the two reasons, plus value seekers going out of the platform would be the third reason resulting into daily active users to be constant between December and March. But current quarter, we see upliftment as far as the now is concerned.

Shyam Srinivasan: That’s helpful, Sanjiv. Just, I'm just a little worried about like active as a percentage of registered users, right? Registered users have gone from 14 million last year to 25 million, and we are at the same level of active users. So, am I reading it too much, you think, or?

Sanjiv Gupta: I think the metrics which we need to look at it is that to what an extent repeat percentage is flowing through the platform between the two endpoints. So one is that the repeat percentage is as high as 40% for the last year for the Company, which was probably around 22% to 25% in FY22. So, one is that more and more repeats are coming into the platforms. As far as the overall base versus daily active, please note that chronic customers or as a matter of fact, any customers will open the app only when our service is needed, not necessarily, we never expect that 25 million customers to open the app everyday and become a daily active user. We would have only as many active users onto the platform were coming to consume either a product or a service and service could be content also of care. So, I think this is to be seen from this perspective that whether your active user base is increasing, your repeat percentage is increasing, and your total platform transactions are increasing year-over-year. So, if I look at it year-on-year, we have about 266% growth in the platform transaction. So, I think this is how I would sum up that we should look at the numbers.

Shyam Srinivasan: Last question for me. Just the divergence in GMV Q-o-Q growth, I think, 9%, like I think one of the other participants asked. But revenue has grown 44% to about INR 2,539. So just trying to understand, say, if I use revenue to GMV ratio, that's pumped up. And also, if you could help us with the split of the GMV in the different services that we share?

Sanjiv Gupta: Okay. So, in the last earnings call also we had a question regarding GMV to revenue ratio and to what an extent because we could look into as a stable number. Last quarter, we've had 42% as 42.9% to be precise. So revenue as a percentage to GMV, I think pretty healthy. And we continue to look at this number in the range of about 45% to 50% between current quarter to the next quarter. So, it should stabilize somewhere there. You also checked on was it the distribution of INR 593 crore between various verticals. In pharmacy, we did about INR 375 crore, which is roughly 74%, Diagnostic we did INR 22 crore, which is 16% and remaining 10% is on the consultation side.

Moderator: Thank you. Next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Sir, just on this number of offline stores for the quarter, there has been bit of slowdown, while for a full year basis the number has been quite aggressive compared to FY22. So if you could throw some light on the number of stores that would be added in the coming years.

Obul Reddy: So last quarter, we added about 300 stores, but there is a little bit of higher closure, that is why net addition is less. And we are on track with the new opening.

Suneeta Reddy: And for the year, 1,100…

Obul Reddy: For the full year, we have opened about 1,050 stores. Next year, we are planning to be in the range of about 500, 600 stores and then see what's next.

Tushar Manudhane: So any particular reason for this, why, in terms of slower pace of addition of stores?

Obul Reddy: We want to focus on the productivity, and that is the reason we want to add lesser stores.

Tushar Manudhane: And at the same time, certain incremental cost has come up. So, for FY24, how to think about the offline pharmacy distribution margin?

Obul Reddy: So, we expect to be some offline about 7%, that's the structured business, which is the range of 7%, about 0.5% maybe around 7.5% to 8%. That will be the range.

Tushar Manudhane: And on the hospital side, the operational beds has been pretty stable in FY23 as well. So, while the occupancy can increase to 70%, but the bed addition will happen only after a major capex layout, or is there a scope of adding beds at the existing sites?

Dr. Hariprasad: There are some beds which will be added, but it will probably be in the year after next. It is particularly in Bangalore and Mysore, which is where we are looking at some additions. So mostly after next year.

Moderator: The next question is from the line of Aneesh Deora from Nomura. Please go ahead.

Aneesh Deora: So firstly, a clarification on the private label contribution that we've reported. So this quarter, it was 15.5% of the total pharmacy revenue, whereas in the previous quarter, it used to be in the range of around 11% or so. So, have you like club private label in trade generics in this quarter as was reporting?

Obul Reddy: That's right. Pure FMCG private label is about 11%, with generics, it is about 16%.

A. Krishnan: There were a set of people who are asking for this number after the last call, and which is why we decided to include this as well.

Aneesh Deora: So the generics is basically of the other players. It's not Apollo private, I mean, Apollo manufacturer or like it's the trade generics of other places?

Obul Reddy: We have a few SKUs, Apollo manufacturer and we'll be adding further into that, even on the generic side.

Aneesh Deora: And secondly, on the hospital's ARPOB basis, the clusters. So, if you look at the ARPOB increase, it has been a bit diverse across the clusters like certain clusters have seen a very healthy ARPOB growth during the year while certain have been flat. So, any particular reason and any particular trend that you can see out of this particular thing?

Suneeta Reddy: So, let me first say that it is a function of case mix as well. And I think we have done some tariff increases across the board. So, across the hospital division, there was an increase in ARPOB Q1 too.

Dr. Hariprasad: So we are you know, we would be, we have seen a good increase in ARPOB. And as we go into the next year, we are also, the one division that didn't see some increase was the AP, Telangana region because we also have Vizag, etcetera, which was there in this region. So while Hyderabad the ARPOB has increased, given that it's the region that you're looking at, there is, it's not showing an increase there because given that it's not a Tier 1 metro, that ARPOB is a bit lower and that occupancy as it goes up, it impacts the overall ARPOB more from a mix perspective. Otherwise, all the other regions, we are fine. Others is also something that we are hoping that in this coming year, we should see a 5%, 6% increase in ARPOB.

Aneesh Deora: And if I can just squeeze one last in, just a clarification on the share of profit from the joint ventures and associates that we report. Last quarter, there was a loss of about INR 20 crore that was reported and in this quarter, there is a INR 3 crore profit. So, it has been fluctuating quarter-to-quarter. So any particular reason for this? And how should we be looking at this number going forward?

A. Krishnan: Let me come back to you on this because there was nothing specific that. I'll come back to you offline on this because I have to just look at that reasoning, reason for the same. Like maybe there was a one-off last quarter. Let me come back to you.

Suneeta Reddy: Because all of them are currently profitable.

Moderator: The next question is from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: So as we have improved our payer mix, moved out of CGHS kind of (inaudible). I think actually our margins should improve. So, is there any one-off cost etcetera lying in the fourth quarter?

Suneeta Reddy: Just margins should improve on hospital services, you were not clear in the beginning, is this hospital services?

Shaleen Kumar: Yes, ma'am, hospital services. I mean, sequentially margin, I mean, so I'm just wondering if there is a scope for margin to improve here.

Suneeta Reddy: Payer mix work was started only barely five months ago, and you will see that there has been a 249-basis points improvement. We are at 249 basis points improvement, at 24.6% EBITDA margin. So clearly, there is an improvement.

Shalin Kumar: I was basically comparing last quarter, Q3 versus Q4. So just wondering if there is more that we can have just in case there's any one-off costs here in Q4?

Management: Nothing specific.

Shaleen Kumar: Nothing specific. Okay, sir. And just sequentially, again, the physical pharmacy revenue has not grown or rather marginally declined. Is it because of rationalization of the store and it should pick up?

Obul Reddy: Physical stores, in the back end, it's a structured margin, which stays around 7.8%.

Suneeta Reddy: Growth is 31% sequential growth.

Obul Reddy: Sequential growth, this quarter, we have a slightly slower growth compared to, generally our Q2, Q3 will be the best. And Q4, we generally have a muted growth, and that is the reason. Otherwise, even we are at a growth of 2% sequentially.

Suneeta Reddy: No, I think I have to state that across the board that January is traditionally a month of many holidays in the South. So therefore, if you're comparing sequentially, yes, there was in terms of both occupancy and hospital utilization as well as maybe pharmacy, there could have been a lower growth. If it's sequential, there was also a mild COVID wave, which was only resulted in people taking Paracetamol. So, you would not have seen huge growth in the fourth quarter because of this mild COVID wave and because the South hospitals and pharmacies in the South really didn't see much traction because of the many holidays.

Moderator: Next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: On the Hospital Services EBITDA, just reconfirming, you guided to a 15% growth in the EBITDA for the hospital services for this year?

Dr. Hariprasad: So yes, it should be higher. The growth in EBITDA is what you're saying, right?

Nitin Agarwal: Yes.

Dr. Hariprasad: Yes, it should be higher than that because we are hoping that the overall growth is closer to that 13% to 15% on revenue and EBITDA should be higher than that because of the expansions that we are planning on both operating leverage as well as cost cuts.

Nitin Agarwal: And sir, when you look through beyond the first year, I mean, beyond FY24, if I take like a 3-year view of the hospital services business, at what rate, I mean, what's the broad range in which we think we can grow our EBITDA from FY23 base?

Dr. Hariprasad: I think we should continue to look at the same numbers because it is possible to grow at a similar number.

Suneeta Reddy: So, the advantage that we have is that we have existing capacity. So without investing too much, we are going to increase occupancy. Post, in '25, '26, we will have new beds coming up.

Nitin Agarwal: Ma'am, you talked about the occupancy going to 70% for FY24 versus 64%, which is a very large increase. I mean it should ideally lead to a much disproportionate increase in profitability for these hospitals, if we can get this kind of occupancy increase for the year.

Suneeta Reddy: See, I think we should set our targets high. And really, we have the potential, and this 70% is by quarter 4. So, like I said, we are working on these initiatives, including improving our international patient mix. And with this, we should be able to get 70% occupancy by quarter 4. It won't happen overnight, but definitely in quarter 4.

Moderator: Thank you. The next question is from Sayantan Maji from Credit Suisse. Please go ahead.

Sayantan Maji: So, my first question is on the EBITDA for Pharmacy segment. So, our back end, when we had done the deal, so the guidance was that 80% of the EBITDA will be captured in back-end pharmacy. But in over time, it has been sort of almost equal or higher. So, this quarter as well INR 148 crore was captured in the front end, out of age INR 145 crore was captured in the back end. So, when does it go to 80%? Or is it something that our back-end EBITDA margin will always be at 7.5% to 8%? And what are the additional costs that are being incurred at the front-end pharmacy?

Obul Reddy: As you appreciate, the back-end pharma business is a structured business. As a EBITDA percentage, it will be in the range of about 7.5% to 8%, depending upon the cost and other sales movement during that quarter. It remains largely in the range of about 78% to 82% versus the front-end business. As you are aware of it, this year, we added about 1,000 stores in the front-end network. We have higher onetime and infrastructural costs. So to that extent, as a percentage, it might look a little slightly different, but we will be back in the current year, by end of the current year, we expect that to be in the same range as we explained earlier and as we planned.

Sayantan Maji: For an online order, what are the additional costs that are being incurred at the front end?

Obul Reddy: We don't have any additional costs other than the delivery costs associated with us because the inventory is coming from the store inventory and only logistics handling costs. And there is a set of dedicated employees. So, we are largely manageable within the overall cost structure.

Sayantan Maji: And my second question is on 24/7. So, in 24/7, we have guided for INR 20 crore to INR 25 crore, say, deduction in costs. So, this INR 189 crore, if I just look at the operating cost, so that is expected to go down to, say, INR 170 crore. And what is the next set of investments that we have to do in FY24? So, are we mostly done with the product? So, what is the next set of investments that you envisage in 24/7 in FY24, even at say, INR 170 crore quarterly run rate?

Sanjiv Gupta: So I think as far as the platform is concerned, I think more or less the entire second product investment has happened. We don't see that you know while we have a target to grow our business by 100% in current year, I'm not seeing any potential investment into the business, other than the fact that we had a onetime tech and product development for the insurance and B2B corporate side of it. There is a clinical intelligence engine, CI, which is taking a bit of investment, but I guess that, that is something which we can absorb within the various cost initiatives that we have planned for the Company.

So there should not mean incremental cost, but having said so, the way we look at is that what is our expense as a percentage to GMV. If you look at in Q1, start of the previous financial year FY22, FY23, we were at somewhere at 66%. So, our expenses as a percentage to GMV, started coming down to 52% in Q2 and by Q4 at the end, it is 39%. So basically, INR 189 crore divided by INR 593 crore, which is about 32%. Now the target for the current year, which is FY23, FY24, is to bring this down to a range between 20% to 23%. And so, I think from that sense, we are into a well-defined, the entire activity in such a way that if there is an incremental cost on any of the technology that we need to put in, that could be only digital area where investment will go. But at this stage, we don't see any material investment into the product and tech side, apart from ongoing ones.

Moderator: Ladies and gentlemen, we'll take the last question from the line of Rishabh Tiwari from Allegro Capital Advisors. Please go ahead.

Rishabh Tiwari: My question is regarding the hospital services business. Once we reach the occupancy level of, say, 70% by this year, what are the number of beds that we are looking at adding in over the next two, three fiscals? Because as a group, my understanding is we are seeing AHLL and HealthCo as a growth lever. But within the healthcare services, what are the short term, you know few years, what is the growth that we are looking at?

Suneeta Reddy: We have 2,000 beds planned, by 2027. Every year we'll add a new hospital into the system. And close to around 700 new beds after '24.

Rishabh Tiwari: So just to confirm, we are adding around 700 beds per year after FY24.

Suneeta Reddy: Yes. Minimum. Yes. We continue to look at brownfield and we continue to look at acquisitions.

Rishabh Tiwari: And these acquisitions would be focused on Tier 1 cities?

Suneeta Reddy: Yes.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Suneeta Reddy: Thank you all for taking time off today. It was a pleasure answering your questions. Krishnan, Sanjiv, and the entire team would be happy to take any other further questions. You may e-mail them. Let me promise you that we are committed to not only growing this enterprise, but towards delivering outstanding world-class clinical healthcare, which is the crux of really what Apollo means for everyone. And let me also reassure you that we continue to improve in terms of market share, in terms of clinical leadership, and our commitment to our patients. Thank you all.

Moderator: Thank you very much. On behalf of Apollo Hospitals Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.
