# Apollo Hospitals Enterprise Limited

## Q1 FY23 Earnings Conference Call Transcript
August 12, 2022

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1FY23 earnings conference call of Apollo Hospitals Limited. 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, Margaret. Good afternoon everyone and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for the first quarter of financial year 2022-23, which were announced yesterday. We have with us on the call today the senior management team, represented by Mrs. Suneeta Reddy, Managing Director; Dr. Hariprasad, President of the Hospitals Division; Mr. A. Krishnan, Group CFO; Mr. 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 #2 of the investor presentation that has been shared with all of you earlier. Documents relating to our financial performance have 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. Thank you for taking time to join our earnings call. I trust all of you have received our earning documents which we shared yesterday.

We have commenced fiscal year 2022-'23 on a very strong note. After two financial years marked by disruption, the start of this financial year is characterized by a more stable environment leading to normalized economic activity.

We have seen an increase in volumes and occupancies accompanied by the return of planned high-end surgeries. This has enabled the healthcare services business to register a strong recovery in Q1FY23, with patient volumes and revenues higher as compared to Q1FY22 and quarter Q4FY22.

Q1FY23 occupancy across the group was at 60%. IP volumes increased 9% quarter-on-quarter. The occupancy must also be viewed against the backdrop of ALOS of 3.38 days, down from 4.81 in Q1FY22, where COVID dominated, and 3.57 in Q4FY22. ARPOB also improved sequentially from Rs. 48,510 in Q4FY22 to Rs. 51,999 in Q1FY23, an increase of 7%. In a significant shift in payer mix, insurance revenue now contributes 41% of our overall revenue, up by 34% from pre-COVID times. Cash and insurance segments registered a quarter-on-quarter improvement of 15% in revenues.

Our focus on Centers of Excellence has resulted in a quarter-on-quarter growth of 7% in Cardiac, 17% in Oncology, 12% in Neurosciences, 28% in Orthopedics, 19% in Gastro sciences and 18% in Transplants. Surgical revenue now is 68% of the total revenue, up from 60% during COVID times. We also have a promising uptick in the International patient volumes and revenues. We have reached 85% of our pre-COVID levels on volumes and are par on revenues.

Against this backdrop, let me walk you through our consolidated financials for the quarter:

Consolidated revenues grew 7% quarter-on-quarter to Rs. 3,796 crore. Healthcare services grew by 9% quarter-on-quarter to Rs. 2,023 crore. Mature healthcare services revenue grew by 13% to Rs. 1,147 crore, while the New hospitals, they grew by 1% to Rs. 577 crore.

Apollo HealthCo revenues grew 8% quarter-on-quarter to Rs. 1,479 crore. Within Apollo HealthCo, the digital business recorded a GMV of Rs. 215 crore for the quarter, which is a sequential growth of 21%, and 34% on a like-to-like basis excluding the Omicron impact in January 2022. 232 net New Stores were opened this quarter, taking the number to 4,761 stores.

AHLL revenues stood at Rs. 293 crore, a decline of 5% on a quarter-on-quarter basis. This was primarily because of COVID and COVID allied testing revenues that increased during the Omicron wave in quarter four last year. Non-COVID diagnostic revenues, however, grew 12% quarter-on-quarter. Consolidated EBITDA stood at Rs. 491 crore, registering a quarter-on-quarter growth of 6%. Within this, healthcare services EBITDA grew 19% quarter-on-quarter to Rs. 484 crore. Healthcare services margins were at 23.9%, a total of 6 basis points improvement over the sequential quarter. Margins in Mature Hospitals were strong at 26.4%. Margins in New Hospitals stood at 17.7% for the quarter.

The pharmacy distribution segment in Apollo HealthCo recorded an EBITDA of Rs. 112 crore at a steady margin of 7.6%. Operating costs at Apollo 24/7 came in at Rs. 135 crore. Therefore, AHLL EBITDA post Ind AS was Rs. 29 crore compared to an EBITDA of Rs. 37 crore in Q4FY22.

Consolidated PAT is at Rs. 317 crore after deferred tax liability reversal of Rs. 147 crore. Consolidated Healthcare Services' PAT was at Rs. 222 crore, as compared to Rs. 176 crore in Q4FY22, a quarter-on-quarter growth of 27% in PAT for Healthcare Services.

I am pleased to share that we recently acquired a hospital asset in Gurugram from Nayati Healthcare for a consideration of Rs. 450 crore. The asset has a potential of 650 beds across 7 lakh square feet. We are excited about strengthening our footprint in the national region and look forward to taking our unique brand of world-class clinical outcomes to the fast-growing and discerning city. We expect the facility to take pole position in attracting medical value travelers from around the world. In addition to building strong centers of excellence, we also plan to create a comprehensive ecosystem of care across pharmacies, clinics, stay surgery, birthing centers and primary care clinics in the region to complete our offering. The integrated healthcare complex at Gurugram is expected to be commissioned in a span of 24 months.

We would also like to provide a few operating metrics on Apollo 24/7. The platform now has 17 million registered users; and is completing 35,000 transactions per day, up from 25,000 a quarter ago. The GMV run rate is now on track to deliver Rs. 1,500 crore for FY '22-'23 against the earlier guidance of Rs. 1,000 crore. To sustain the growth momentum, we do expect to incur 20% higher expenditure than guided earlier. We are already seeing a rationalization in loyalty costs and discounts and expect them to trend lower going forward. Overall, we are on track to become the number two digital player in the country during the current fiscal year.

Looking ahead, we believe that the momentum in the Healthcare Services business will continue. Occupancy at a group level will improve from 60% to 70% over the next 12 to 15 months, an improvement of 15%. This will result in a revenue growth of 15% to 20%, unlocking operating leverage, which will lead to an EBITDA expansion of around 35%. We have demonstrated our ability to actively optimize our payer mix and our case mix, and these efforts will continue to drive margin expansion up to 200 basis points.

The diagnostics business within AHLL can scale to Rs. 1,000 crore topline within the next 3 years. The digital business within Apollo HealthCo has shown significant traction and is tracking faster than planned numbers. The pharmacy distribution business will continue to grow at 20%, with our focus on private label products complemented by an accelerated store expansion plan. We expect margins in this business to hold steady.

The deep capabilities and mix of offerings that we provide to consumers through our omnichannel, multifaceted engagement model which is differentiated across the value chain is indeed very unique and forms the basis of our belief in our strong, sustained growth potential. We view the three verticals as the engines of growth and remain committed to our core value system of building solutions and offerings that will deliver the best clinical outcomes and are integrated and meaningful for the consumer. We intend to deepen our relationships with them over a longitudinal time frame and create lasting value for our stakeholders.

On that note, I would like to hand over to the moderator and open the line for questions and answers. I have Dr. Hariprasad with me, Dr. Hariprasad, Krishnan, Obul Reddy, Chandra and Sanjiv with me to take all your questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nitin Gosar from Invesco. Please go ahead.

**Nitin Gosar:** I wanted to understand the reason for increase in operating costs in 24/7?

**Suneeta Reddy:** Sanjiv?

**Sanjiv Gupta:** Yes. So I think a couple of important points that we need to understand, as far as 24/7 is concerned. One is that, the last quarter, we had only 16 days of numbers. It included the overall expenditure for the last quarter was in the range of about Rs. 100 crore. We took a conscious call to achieve the number two position in the country given the fact that there is a lot of traction from the customers. We are seeing a lot of intake of various services that we are providing to the customers. And what we decided is that we will pull a little bit of expenditure from Q2 or rather, Q3 to Q1 and Q2. And what this helps us is to get not only the number two 2 spot, but also it helps us to provide more services to the existing customers or the new set of customers. So this is a conscious decision for Q1. And I do expect that similar numbers will be there for Q2 as well, but beyond that, we do not expect expenditure to go up sequentially. I think the guidance will be that 50% growth overall in the year from Rs. 1,000 crore GMV to Rs. 1,500 crore GMV, which will place us to the number two spot in the country, will be managed within 20% you know overall increase in the expenses.

Another two, three things that we are doing internally now is that, one is that the discount on the pharmacy vertical is tapering down and some due to the external factors and some because of the kind of continuum of care that we provide in 24/7 already reduced by 1%. And we do hope that another 0.5% to 0.75% we should be doing it in current month, apart from the fact that we have got certain more optimization initiatives. So I think with this I will only say that taking the second spot in the country is equally important. The companies which are there in this industry for last 7 to 8 years and we have been only 2 years old and one quarter down in third year. Taking that spot is not easy. You need a lot of efforts. You need some bit of investment. And I think this investment is what we see in Q1. This is slightly higher than Q4, but it is important.

**Nitin Gosar:** Got it. And I just wanted your thought process around this 24/7 cost structure. So Rs. 400 crore was the earlier called-out number which is going to be the investment which will go through P&L. Now that number has gone up and it may stay elevated for FY '22-'23. Incrementally, as we progress, these numbers are going to stay elevated, keeping in mind especially the environment which was very conducive for e-commerce until last year. The liquidity was high at that point of time, and liquidity is low at this point of time. It only allows people like us to sustain the business model with a lower cash burn. How do we look through going forward on the cash burn, especially for incremental quarters post the second quarter, onwards?

**Sanjiv Gupta:** As we said earlier, the last quarter we had, we kind of provided the guidance of about Rs. 450 crore of annual expenditure in digital business. I think 20% higher is what we are looking at, at this stage. And we strongly believe that we would be able to do a meaningful job to get to the number two spot, to deliver 50% higher volumes instead of Rs. 1,000 crore to Rs. 1,500 crore GMV and well within the guided numbers.

**Nitin Gosar:** Okay. And for FY '23, this number should not be at Rs. 550 crore, it should come down in FY '24. In FY24 the number should be less than Rs. 550 crore?

**Sanjiv Gupta:** Yes, all efforts are in that direction, sir.

**Moderator:** Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead. Due to no response, we will move to the next question, which is from the line of Lavanya Tottala from UBS. Please go ahead.

**Lavanya Tottala:** So going a little bit Apollo 24/7, I just wanted to understand on the numbers reported in results note. So how the GMV will be different from the revenue reported from 24/7 digital? And the sales through the online channel will be considered as part of pharma distribution, I just wanted some clarification here?

**Sanjiv Gupta:** Yes. So ma'am, I think you gave the answer in your question itself. You are right. So the entire online pharmacy GMV would be part of the front-end and back-end sales. So that will be the first part of it. And second, how GMV to revenue get reconciled is, typically in the e-commerce companies, GMV is the platform transactions that are done and revenue is the commission that we charge to the service providers. So, this entire GMV gets into various companies. So for example, the entire virtual consultations will be the revenue in Apollo Hospitals. The entire pharmacy GMV will be part of the front end, back end. And the entire diagnostics services will be part of the AHLL.

**Lavanya Tottala:** Got it. So the take rate for this each segment will be in the range of?

**Sanjiv Gupta:** So take rates are different for different verticals and depending upon the kind of volumes that we have. For example, on the virtual consultations, we have a take rate of between 5% to 10% depending upon the specialty. And on the diagnostics, we have a flag-based rate. So currently we are at about 12% to 13%. As volume goes up, there is another slab that kicks in. And accordingly, all these take rates are marked to market from that range.

**Lavanya Tottala:** And on the hospital business, I have seen in the presentation that, excluding vaccination in the base quarter, it is the growth is 7% YoY, but in the base quarter we have COVID-related occupancy also which could be impacting, if I understand right. So I need some clarification here.

**Krishnan A:** So first quarter was a 13% if you exclude vaccines. So Q1 versus Q1, excluding vaccines, is 13%. Q1 versus Q4 is 9%.

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

**Sameer Baisiwala:** Sir, just on ALOS, what is really helping us drive it down so much, excluding the COVID quarters? I mean it used to be around 4, now come down to 3.4. And what is the outlook for this?

**Suneeta Reddy:** So Sameer, what we have really done is to focus on really driving down the ALOS, recognizing two things. One is that we are using robotics and minimally invasive, and this enables us to discharge much faster. The second is that we really want to make it cheaper for the patient. So, any extra day means that they would have to pay one more day room rent, and for us, the earnings are higher in the first 3 days. So, we have taken clinical initiatives as well as operational initiatives to see that discharge happens much faster. We track these metrics on a month-to-month basis. So currently I think that we have really done well this quarter. And considering that most of our work is now surgical, we can definitely look forward to moving towards keeping it at 3.4. We have also introduced new procedures, which is TAVI as one of the cardiac procedures versus CABG. In knee transplants, we also have robotics. And we have 20% of our business is now baked with laparoscopic.

**Sameer Baisiwala:** Okay, great. So, this has released a lot of your capacities, so that is a good job done. And the second question is on Gurgaon project. Krishnan, how much capex do you need to do for this project? And my understanding is Gurgaon is a fair bit competitive market, so how will you attract the best medical talent? And can the road to profitability be a lot longer?

**Suneeta Reddy:** So what we plan now is we paid Rs. 450 crore for 5.67 acres. We think there is a building that is existing there, so maximum, we will invest another Rs. 350 crore, taking the project costs made up to Rs. 900 crore maximum. And with regard to competition, I think that we have a clearer plan on how to attract talent. We also bring talent from overseas. And I am sure that, you know we spoke about an integrated network, so we will have a funnel. One funnel will be part, 24/7 consumers that will send patients to Gurgaon. The second that we have is our relationship with corporates, which is really, really high. And I think the whole Apollo reputation in Delhi with what we have started with in the first. I think the trust in Apollo is very strong, and doctors continue to be very happy to join an Apollo facility. And finally, I have to say that we will get a lot of international patients because we are working on that channel, and Gurgaon is probably the best place to be in if you are focused on that channel. So really, I think for me the most important thing is improving the clinical work that is existing now in Delhi. It is to take it to another level and therefore attract both doctors and patients and make the right investments in infrastructure and in technology.

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

**Damayanti Kerai:** My first question is on Apollo 24/7 spend. So Sanjiv mentioned about some initiative investment which you have taken to increase our standing in the market, so can you please a bit elaborate? Like where is majority of spend happening? Whether it is on the infrastructure, IT or on the discounts, if you can provide some better clarity.

**Sanjiv Gupta:** Yes. So about 25% is the expenditure that is getting into the product and the technology side of it. And when I am talking about the technology, it is the entire app experience. It is the entire web experience and the entire CDSS and CIE engine that we are working on. So that is about 25%. We are also ensuring that the adequate capacity with respect to the knowledge and manpower is there pan-India, at the right verticals at the right places. So about 30% to 35% is getting into the augmenting of resources. We have about 20% to 25% of the costs which is getting into some sort of a branding and this is to ensure that the communication to the customers with respect to the various services that digital line of the business as well as the entire Apollo ecosystem gets communicated. And about 10% to 15% expenditure is getting into user acquisition and that is to ensure that we will get new set of users, chronic users specifically. And the digital spend is within this 10% to 15%. And the remaining 8% to 10% is towards the other infrastructures, primarily the support side of it.

**Damayanti Kerai:** So that is helpful. And what is the discount on the orders at this point of time compared to peers? You mentioned you have already taken some reductions, but where do you stand?

**Sanjiv Gupta:** Yes. So last quarter, we saw discounts in the range of about 18%. And that was the whole of the entire Q1. July, we started tapering down the discounts. And much of the things have to happen from how exactly the external forces are working, external forces in the sense of the competition out there. And secondly, what is the mix of repeat customer, repeat cohorts and the chronic cohorts? Depending upon all this, we take the calculated decision. And in July month, we have reduced discount by 1%. I think I also see another headroom for 0.5% to 0.75%. Something in this range should happen during current month or maybe by end of the next month.

**Damayanti Kerai:** So broadly, you will be standing at 16%, 17% discount in near term; and then going ahead, depending on how market evolves.

**Sanjiv Gupta:** I think, that would be fair. I think 16.5% should be or 16.75% that will be the numbers that we can look out for Q2. And as far as the external forces or the environment is concerned, given the fact that we have got the very high Apollo internal base of customers, we do not get much impacted as far as the competition out there is concerned. So I think we should be able to hit this number of 16.5% to 16.75%.

**Damayanti Kerai:** Okay. And my last question is on ARPOB, very strong growth, 27% year-on-year. So ma'am mentioned payer mix change obviously helped, but how much of contribution is there from price hike in this rise? And whether this should be sustainable going ahead. So ma'am, my question was on ARPOB, very strong number. You mentioned it was helped by the payer mix improvement, but my question is does it include a component of price hike and whether this kind of growth is sustainable?

**Krishnan A:** Yes. So ARPOB, there was a small price hike of 2% that we have done, and it is inclusive of that. And this is something, you know the mix, the advantage, there are 2, 3 levers on the ARPOB. One was the surgical mix, if you look at the surgical mix its rebounded significantly. And we are now at 68% of our revenues comes from surgeries, so that is one important lever which has impacted our ARPOB positively. We are continuing to see also a good case mix aided by insurance and walk-ins. So insurance itself, which was 34% has now become 41%. And so clearly there are good levers that are helping us get the ARPOB, and this is sustainable.

**Moderator:** Thank you. The next question is from the line of Sumit Gupta from Motilal Oswal. Please go ahead.

**Sumit Gupta:** I just want to know regarding the capex plans, if any and regarding the hospital segment, like where all do you plan to expand?

**Krishnan A:** So, the routine capex you are meaning or our project capex that you are asking about?

**Sumit Gupta:** Routine as well as projected, sir.

**Krishnan A:** So routine capex, which is part of our cash flows, etc. from our every year, it is approximately around Rs. 300 crore. That is the number that we have as routine capex at a consolidated level and that will continue for now. And the free cash flows even after that would be in the region of around Rs. 800-plus crore, which is what is the capex, routine capex, that we have. And this free cash flows is what we are going to be using for deployment in new projects, etc. as you know, we already have free cash in our hand. And even Nayati has, the Gurgaon asset acquisition happened in Q2, which is the Rs. 450 crore that we spent towards Gurgaon. So clearly the free cash flow plus the cash that we have in our hands of almost around Rs. 900 crore, is something that we can use towards some of our expansions. We have announced two expansions, one in Chennai and the other one which is in Gurgaon. And we have said that we are looking at Bangalore as well as we are looking at North. So, we are comfortable we have a combination of this plus there is a receivable from Apollo 24/7 of Rs. 1,200 crore which we hope that we will get over the next one year, if not in the coming round, the next round or whatever. There is an amount that will come to us. So over the next three years, the free cash flow will be used plus this Apollo 24/7 can help us in our expansions. So current expansions that we have announced is the Chennai one and the Gurgaon one, Rs. 900 crore in Gurgaon and maybe Rs. 800 crore in Chennai.

**Sumit Gupta:** Yes, understood, sir. And sir, regarding ARPOB, so at the end of financial year '23 and like '24, what kind of ARPOB that you are targeting?

**Krishnan A:** So the ARPOB that we are targeting, is it?

**Sumit Gupta:** Yes.

**Krishnan A:** We do not have any specific targets. I think this is a good ARPOB that we are focused on. You should appreciate that our ARPOB numbers that we give are net of fee-for-service doctors. So if you look at it, our ARPOB is really not driven by price. It is driven mostly by case mix and ALOS and day surgery, etc. That is what we have been focusing on, increasing our ARPOB. And this is an ARPOB that we have which is a combination of Tier-1 and Tier-2, right? If you look at it, we have a lot of Tier-2 hospitals across our system and networks, and this is after that. So if you actually gross up for the fee-for-service doctors, this ARPOB will actually go closer to the Rs. 60,000, from a gross ARPOB perspective. So this is a good ARPOB. We will continue to focus on this ARPOB and grow from here.

**Moderator:** Thank you. Our next question is from the line of Harith Ahamed from Spark Capital. Please go ahead.

**Harith Ahamed:** So I am looking at the combined pharmacy business. There has been a decline in EBITDA margin by around 180 basis points quarter-on-quarter from 9.3% to 7.5%, but when I look at the back-end pharmacy margins, it is been flat quarter-on-quarter, so can you help me understand this discrepancy?

**Obul Reddy:** Yes. As you rightly said, the backend pharmacy margins remain the same at the earlier level. And in the front-end retail pharma business, there are two, three developments that have happened during the quarter which brought in onetime costs. Like we have been working on aligning the Amazon systems for a pan-India operationalization of their deliveries, and that online technology costs we completed that online alignment and that costs have come into this quarter. Also, we have created necessary infrastructure for Amazon deliveries to enhance their numbers. We have created about 16 dark stores in Mumbai city alone and about another 12 dark stores in other parts of the country to see that Amazon reaches the entire country with our networks available in other states. And also, that we have now enhanced our rollover around the pharmacy. We have about 230, 240 pharmacies opened during the quarter against our normal run rate of about 140. All these onetime events brought about Rs. 25 crore to Rs. 30 crore additional costs. Out of that, about Rs. 20 crore is onetime, so we expect margins to come back to normal in the next quarter.

**Harith Ahamed:** And next one is on the diagnostics business which is in AHLL. So there is been a decline in revenues and margins over the last few quarters. So I understand that you had RT-PCR revenues in the previous quarters, but still the EBITDA margin decline for this quarter is at 5%. So the decline seems to be a bit sharp, so any one-offs that you would call out there?

**Suneeta Reddy:** Chandra Sekhar?

**Chandra Sekhar:** Yes. On the margins, yes. The COVID, the change in case mix has one part of an impact on the margin, but primarily the others are in the nature of investments that we are making in the beginning of the fiscal year. These are in the nature of tech investments upgrading our abilities to serve digital logistics side. We also have seen a slight increment in consumable costs because of certain freight and other logistics-based inflation. We are doing another, we have made a lot of investment, which leads to higher opex in upping our technical capabilities. We are moving to super specialized areas such as oncogenomics, reproductive genomics and a few others, which has called for both enhancement of a doctor infra, scientific sales force and product teams. So this is something which we believe is going to even out as revenues start coming from the super specialized areas of work and is in the nature of the investment. So we should get back on a mature level to, as EBITDA margins are at a better level than we have.

We also have lastly a cost overhang. This is on account of the large infra, doctors and technicians that we have created for RT-PCR testing across the country. This cost overhang remained unutilized during this quarter. So also, we are going ahead of time in terms of our (Inaudible) expansion, yes, so that we are beefed up to cater to demand that is coming from home collection. This (Inaudible) expansion also leads to a higher of investment and operating expense, but all of this will get evened out in the coming quarters.

**Harith Ahamed:** Okay. And last one from my side, with your permission. So when I look at your SEBI disclosures, there is a revenue of Rs. 63 crore under 24/7 digital. And versus the GMV that you disclosed of Rs. 215 crore, this is close to 30%. It seems to be on the higher side versus the take rates that you mentioned, 5% to 10% for consultations and 12% to 13% for diagnostics, so can you help me understand this revenue number that you have disclosed for 24/7?

**Chandra Sekhar:** Sanjiv, you will have to answer that.

**Sanjiv Gupta:** I am not kind of clear over the questions. You might need to, do you want to repeat that?

**Harith Ahamed:** Yes. So in your SEBI filing, there is revenue disclosed for 24/7 digital under the segmental disclosures. That is Rs. 63 crore. That is 30% of your GMV of Rs. 215 crore, so it seems to be higher the take versus the take rate that you mentioned which is around 5% to 10% for consultation and 12% to 13% for diagnostics. So that is what the question is.

**Sanjiv Gupta:** No, sir. The number that you are reading is in rupees lakhs, so what you are reading as the Rs. 63 crore is actually Rs. 6.33 crore.

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

**Shaleen Kumar:** Two questions. One, is it possible to get some sense on contribution from COVID vaccine at EBITDA level in a base quarter?

**Dr. Hariprasad:** Only Rs. 11 crore of revenue in the first quarter. The EBITDA will be somewhere around 12% to 13%.

**Shaleen Kumar:** Base quarter, last year base quarter, I mean first quarter of last year?

**Dr. Hariprasad:** For base quarter, it was Rs. 211 crore.

**Shaleen Kumar:** That is revenue, right, sir?

**Dr. Hariprasad:** That is revenue. EBITDA will be around 15%.

**Shaleen Kumar:** And so ma'am, you alluded that, external fund raise, you were pushing by six months in the last call. Is the time line intact for that? I mean which effectively means that you would be looking at fundraise in probably third quarter. Or is there any change of plan over there?

**Suneeta Reddy:** No, we are on track to close for December.

**Shaleen Kumar:** Okay, by calendar year-end you should be able to close an external fund raise?

**Suneeta Reddy:** Yes.

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

**Prakash Agarwal:** On the hospital business, we have seen a good margin traction; and so is the case with the peer set reported so far. I am just trying to understand, in our case, how do we see the margins tracking ahead given that we are adding some hospitals? So what is the margin trajectory in the hospital space that we expect over the next one to two years? And pardon me if you already discussed. I joined a bit late, so I was on other call.

**Krishnan A:** Sure. So first point, yes, at the first level, our occupancy is 60%, as you know. And we are looking at increasing this to 70% over the next 12 to 15 months. That itself should give us a good kicker because a 60% to 70% occupancy means a 15% increase in volumes. And that should increase our revenues by 25% and, hopefully, our EBITDA by 35%. So that is what we are trying to work on. And with that, if that works, and that should also ensure that our margins go from the current 24% to at least 26%, 27%. So that is at one level. The expansions that we are talking of will come after that, right, because all of our expansions, the Gurgaon, which should be the first which should come in, will be 24 months from now, followed by Chennai, so which is how we are looking at this. And I guess we do not see any problems with the margins for now.

**Prakash Agarwal:** Okay, lovely. And what about some other expansion plans? You have talked about Mumbai. Is there any update there? And in the past call and on the annual report, you talked about adding a few more hospital beds. If you could update us, what is the plan there?

**Krishnan A:** Continuing to work on them. So these two together itself is 1,000 beds now, right, between Chennai and Gurgaon, 1,000 beds is something that is there, which is Gurgaon can, the phase 2 can go up to 650 beds even if they started at 500. So it can go to 650 beds potentially. This is 1,000 beds now that we are focusing on. You will hear from us. We are looking at the North for expansion. We are looking at Bangalore. So all of this will come between the next 2, 3 years once we start. So that is how we are looking at it. And we are looking at bolt-on also. If there are any bolt-on acquisitions which come our way, we would look at it.

**Prakash Agarwal:** And sir, is there any update on Mumbai?

**Krishnan A:** Working on it still. Still working on it. I do not think there is any further update that we have on Mumbai.

**Prakash Agarwal:** Okay. And moving to the 24/7. So there is a change in guidance in terms of the investments that we plan to do. If you do not mind, if you could if you already said, then if you could repeat the same, please. Why the change? What is the thought process? Are we seeing more traction, or are we seeing less traction and we need to invest more?

**Krishnan A:** Sanjiv? In fact we are seeing very good traction and that is why we are investing, but Sanjiv will add onto it.

**Sanjiv Gupta:** Yes. So yes, so we are seeing very high traction into the business. In fact, we are, well, almost there to become number two online player in the country. And the Rs. 1,000 crore of guidance that we gave the last quarter earnings call, I think we are well within there to reach a Rs. 1,500 crore mark. So this is one side of it. As far as the overall investment into the Company is concerned, for the current year, which we assume to be higher by 20%, I think much of the investment is kind of investment ahead of this kind of a thought process. We are building up certain capacities, taking infrastructure. It is taking some bit of expenses, but yes, very much we are looking at very high traction into the business as of now.

**Prakash Agarwal:** Okay. And any color on the pharmacy business? We have earlier guided for 15% to 20% growth. And I see that we are flattish, so has the competitive intensity gone up? What are we feeling now? And what are we expecting for the remaining nine months?

**Obul Reddy:** So we expect our growth for the year to be in the range of 20% to 22% for the off-line networks. And adding from the online, we expect to be anywhere about 27%-plus growth for the current year. So Q1, generally as you know, we have, Q4, some COVID impact. And then generally Q1 is a sluggish quarter with April, May lesser sales. We are seeing the growth coming back. And we are on track for about 20%, 22% offline, coupled with online about 27%, 28% growth for the year.

**Krishnan A:** So last year, combined pharmacy business reported was around Rs. 6,800 crore and the target is over Rs. 8,500 crore.

**Prakash Agarwal:** So this includes the Amazon piece as well?

**Obul Reddy:** Yes, it includes Amazon, but we expect to see the tractions next year because we have set up the system alignment, system integration and the infrastructure. We expect that to grow.

**Moderator:** Thank you. The next question is from the line of Shaleen Kumar from UBS. Please go ahead. It seems we have lost his line, so we will move to the next question, which is from the line of Amit Ganatra from Invesco. Please go ahead.

**Amit Ganatra:** Just wanted to understand this entire long-term thought process on Apollo 24/7. Now this year, there is a GMV that is expected to be around Rs. 1,500 crore and there certain investments that you are planning to make. Now next year, if the GMV doubles and becomes Rs. 3,000 crore, so how do we then view the investments? I mean investments also keep on going up or they remain capped at whatever we are doing annually this year. How to link these investments to GMV from a long-term perspective?

**Sanjiv Gupta:** Yes. So I think the way to look at this is that where exactly this investment is going on. In one of the previous questions, I gave the answer that about 25% to 30% is happening into the products and technology side. And about 30% to 35% is into the operations, building on the capacity around operations; and the other, support, 10% to 12%. So essentially about 65% to 70% is the investment that is getting into building up the Company or the network or the capacity. Now obviously, when you double the next year or grow three times, I do not need to kind of double or triple all these costs because of your platform, whether it is Android or iOS platform or the West side. That would not require same kind of investment even if the traffic doubles or goes to 5x or 10x. So, as we ramp up year-on-year, I do not see that our numbers or the expenses to go in the same fashion. In fact, we would get a large-scale benefit across the expenses as well as we will have a lot of benefits with respect to the commission structure. So, I think the way to look at this is that any e-commerce Company, once gets a substantial portion of the business or the transactions becomes substantial, in our case, we look at something like about Rs. 250 crore to Rs. 300 crore of a monthly GMV would be the goal spot, so to say. Until that, whatever capacity that we have built up today is good enough for us to continue. I do not see that we will be raising our bar, as far as the expenses side is concerned.

Some 10%, 15% or 20%, expenses will go up, but that is a natural phenomenon year-on-year but not a direct proportion.

**Amit Ganatra:** So correct me if I am wrong. What you said was that, till the time that you can reach Rs. 200 crore to Rs. 250 crore of monthly run rate, you are creating capacity for that kind of an outcome. Is that correct understanding?

**Sanjiv Gupta:** Yes.

**Moderator:** Thank you. The next question is from the line of Vihang Subramanian from Zaaba Capital. Please go ahead.

**Vihang Subramanian:** Just one from my side. On the pharmacy distribution piece, if I am correct, there is a lot of unorganized stores, right, single stores which are sort of losing their competitiveness. So instead of a store expansion strategy or in addition to a store expansion strategy, have you considered an acquisition strategy as well? Because there is a lot of regional familiarity that you can get by acquiring smaller stores, right?

**Suneeta Reddy:** Yes. I will ask Obul to answer.

**Obul Reddy:** We have our network partners doing the distribution bid for us. And we do not get into the pharma distribution acquisition. As far as the front-end network is concerned, we are aligned and our expansion is across the country.

**Suneeta Reddy:** So just to add some color to that. We did do an acquisition of Hetero, which happened 4 to 5 years ago, but I think the team has become very efficient in starting their own stores, and the cost of creating a new store is better than acquiring the small mom-and-pop stores.

**Vihang Subramanian:** And just another thing, on the 24/7, I think you had mentioned to an earlier participant about the sales and the GMV. I was not really clear on that. So if the GMV is like Rs. 1,500 crore, I was under the understanding that, that is sales plus GST, right? So sales should be like 70% of GMV, right? Or is that wrong?

**Krishnan A:** That is correct, but that gets captured in the backend, which is the pharmacy distribution. That is what Sanjiv explained.

**Moderator:** Thank you. The next question is from the line of Sumit Gupta from Motilal Oswal. Please go ahead.

**Sumit Gupta:** Sir, I just want to get a clarity on the Amazon deal. So like what kind of cost sharing is there between Apollo and Amazon? And what kind of discount is borne by like Apollo takes all the discount, or what?

**Sanjiv Gupta:** Yes. So I think, on the second part, first, as far as the discount side is concerned, what has been agreed with Amazon is a 15% discount. And so that is the benchmark that we are looking at it, but they are allowed to offer discounts in this case to, say, Amazon Pay or the third-party financial instruments provider. So, it could be any bank offering, let us say, another 5% cash back so on and so forth, but such deals are in any case are there in every e-commerce platform. So, I think that part is on to them to bring the right sort of deals to the customers, but from the baseline discount is concerned, it is 15%. That is one.

Secondly, the first question. What are the economics between the two, between the partners? I think both the companies are playing to their strengths. Amazon is playing to the strength of the customer experience, the customers acquisition, putting up the branding, marketing and then delivery side of it because Amazon has got a wide network. And they can easily serve that. I mean millions of orders a day they serve every day. So they are playing to their strengths. Apollo is, we are playing to our strengths. Our strengths is to have a right set of assortment at the right place, the entire picking and tracking, the billing, all that. So these strengths is being played at our end. So this is how we have kind of constructed the entire deal.

**Moderator:** Thank you. As there no further questions from the participants, I now hand the conference over to the management for closing comments.

**Suneeta Reddy:** Good afternoon, everyone, and thank you for joining this call. I believe that at Apollo Hospitals we have always taken a long-range view on financial and operating sustainability and value creation, and we believe that this is the only reliable path to institution building. As you have seen over the past years, we have created several verticals and all of which are growing; the hospital vertical, the pharmacy with the digital and Apollo Health & Lifestyle. So I look forward to a continued engagement with all of you. And thank you for joining this call.

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

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