Apollo Hospitals Limited

Q2 FY 2023 Earnings Conference Call Transcript

November 11, 2022

Moderator: Ladies and gentlemen, good day, and welcome to Apollo Hospitals Limited Q2 FY23 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, Rutuja. Good afternoon, everyone, and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for the second quarter and H1 of FY23, which was announced yesterday. We have with us today the senior management team represented by Mrs. Suneeta Reddy, Managing Director; 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 shared with all of you earlier. Documents relating to our financial performance have been circulated earlier, and these have also been posted on our corporate website.

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

Suneeta Reddy: Thank you, Mayank. Good afternoon, everyone, and thank you for taking time out for this call. I hope you have received the documents, which were shared yesterday. We have reported a strong all-round performance in Q2FY23 with each of our distinct verticals, building on the momentum of quarter 1 and demonstrating a very healthy growth and trajectory.

Healthcare Services IP volumes were 19% higher year-on-year and 13% quarter-on-quarter. While medical discharges increased during the quarter, reflecting the seasonal nature of the business, surgical volumes also grew in which H1 FY23 IP volumes registered a growth of 24% year-on-year. Overall, Q2FY20 occupancy across the group was 58% compared to 60% in Q1FY23.

The occupancy in mature hospitals was at 70% in new hospitals at 64%. Our payer mix continued to improve with cash and the insurance segments registering a quarter-on-quarter improvement of 16% and a year-on-year improvement of 10% in revenues. Overall, ARPOB was stable at 50,353 versus Q2, 51,999. ALOS was at 3.44 days.

Against this backdrop, let me walk you through the consolidated financials for the quarter. Consolidated revenues grew by 22% on a year-on-year basis to INR 4,251 crore, after normalizing for COVID vaccination revenue in Q2FY22. Healthcare Services grew by 12% year-on-year and quarter-on-quarter to INR 2,264 crore. Mature Healthcare services grew by 15% and 10% quarter-on-quarter to INR 1,592 crore, while new hospitals grew by 4% year-on-year and 17% quarter-on-quarter to INR 673 crore.

Revenue for Apollo Health and Lifestyle was INR 318 crore for the quarter, a 12% growth year-on-year after normalizing for COVID related revenue and 9% growth quarter-on-quarter. Apollo Diagnostics recorded its highest ever revenues this quarter and crossed the landmark of INR 100 crore, Q2FY23 revenues at INR 104 crore, 52% year-on-year growth after normalizing for COVID related revenue and 28% growth quarter-on-quarter.

Apollo Health Co revenue grew by 43% year-on-year and 13% quarter-on-quarter to INR 1,668 crore. Private label sales contributed to 11% of the revenue in the Pharmacy distribution business. We opened 241 net new stores this quarter, taking the total number of stores to 5,004. The GMV of our digital platform, 24/7 was at INR 294 crore, a growth of 38% quarter-on-quarter.

EBITDA. Q2 consolidated EBITDA post Ind AS excluding 24/7, operating costs stood at INR 740 crore. This is a 12% year-on-year and 17% quarter-on-quarter improvement. Healthcare Services EBITDA post Ind AS was at INR 571 crore, a year-on-year growth of 13% and quarter-on-quarter growth of 18%. Healthcare Services EBITDA margins were at 25.2%, a year-on-year expansion of 190 basis points and a quarter-on-quarter expansion of 129 basis points. Mature Healthcare Services margins are at 28.1%, an improvement of 312 basis points year-on-year.

New Healthcare Services margins were at 18.4%. Apollo Health & Lifestyle EBITDA was at INR 38 crore, a 28% growth on quarter-on-quarter. Pharmacy Distribution EBITDA post Ind AS 116 was at INR 131 crore and margins at INR 7.84 crore. Apollo 24/7, operating cost was at INR 174 crore for Q2FY23. This includes a non-cash ESOP charge of INR 22 for the quarter. Consolidated reported EBITDA was at INR 565 crore due to an impact of 24/7 operating costs as compared to the EBITDA post Ind AS of INR 615 crore in Q2FY22 and INR 491 crore in Q1FY23.

PAT, consolidated PAT is at INR 220 crore prior to adjustments of a onetime capital gains charge of INR 16 crore.

Operating metrics of 24/7, Our digital health platform 24/7, continues to witness strong momentum. It now has 20 million registered users and completes over 50,000 omni-medicine deliveries per day, in addition to the 5,000 virtual consults and Diagnostic sample collections. The GMV run rate is firmly on track to deliver INR 1,500 crore for this fiscal, and we will be the number 2 digital player in the country. We continue to see steady rationalization and loyalty costs and discounts and expect them to trend lower going forward.

Looking ahead, on our Healthcare Services business, there is headroom for growth and occupancy, and we hope to see occupancy closer to 70% over the next 12 months. This will unlock operating leverage and will further strengthen margins. We expect payer mix to consolidate, International business to grow with our focus on our centers of excellence, which will drive high-end clinical work. Our cost and productivity initiative will improve margins by 100 to 150 basis points over the next 18 months.

On retail health, our specific focus is on primary care and Diagnostics. We expect the Diagnostics business to reach INR 500 crore of revenue by the next fiscal and achieve INR 1,000 crore of topline over the next 3 years. We believe we have the depth of clinical understanding to deliver the high-end Diagnostic testings and will, therefore, be a reference unit for hospitals from around the country.

Our Pharmacy Distribution business will sustain its momentum and margins. Apollo 24/7 is already the fastest-growing healthcare platform in this part of the world and is poised to break new ground in terms of a seamless continuum of clinical care that it will offer to the consumers. In our view, we have created 4 robust pillars, each one with an independent value proposition and positive forward trajectory. But most importantly, we are a 360-degree healthcare ecosystem and the pillars are interconnected in a way that offers limitless potential for synergies and to integrate the healthcare offering holistically for the consumer.

We believe strongly in the network effect and that our work on touching so many lives in our hospitals, pharmacies, retail and digital health business will create a strong understanding of our consumers and help forge deep relationships with all. Above all, we have an unparalleled track record on being clinically oriented at our core and we believe that this is what differentiates us significantly and sets up a positive outlook.

On that note, I would like to hand over to the moderator. I have our CFO, Krishnan with me; Obul Reddy from the Pharmacy; Chandra from Apollo Health & Lifestyle and Sanjiv from 24/7 with me to take your questions. Thank you.

Moderator: The first question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: My first question is on Apollo 24/7. Can you also share the revenue number book as per the GMV that has been recorded in the quarter?

Sanjiv Gupta: So, for the quarter 2, INR 294 crore on the GMV that we did and the revenue we got recorded is INR 158 crore. This is a part of those two things you know, one will be online Pharmacy distribution and plus the service revenue that we earn on the Consultation and the Diagnostics side. So, INR 158 crore which is INR 294 crore of GMV for the quarter.

Krishnan A: So, this INR 158 is what we recorded in Apollo Health Co. If you look at the overall, if you look at APL, that would be a higher number. Because what we record is only the distribution part of it, which is around 80% of what we typically record in Apollo Pharmacies Limited.

Nikhil Mathur: So, this INR 158 crore revenue, that includes a stake rate on the direct sales booked plus also the distribution in association with those revenues. Am I reading it right?

Krishnan A: That's right.

Nikhil Mathur: And also, can you share what is the broad breakup of the INR 150 crore of operating costs with regards to 24/7 in this particular quarter?

Sanjiv Gupta: Yes, sure. So typically, what we, I mean, the scale that we have today, which is a INR 1,500 crore run rate analyzed on based, primarily, we are spending on two important elements. One is the product intent development. And I think this will continue for another two to three quarters, which is about 25% to 30% of the cost which goes into building up the project and tech. Secondly, we are also building up the operations network or let me put this way capacity, something like Mumbai, we are putting up our large stores. And to this operational capacity takes around 30% to 35% of the cost today. And apart from that, we are also putting money into clinical engine support systems and various other you know the new verticals, the new revenue segment, which are going to come, it will be in range of about 10% to 15%. Apart from that, another 10% goes into the support cost and the balance gets into the user acquisition and the branding.

Nikhil Mathur: Right. And what is the difference in discounting between online and offline projects?

Sanjiv Gupta: So as far as the online discounting is concerned, we maintained what we discussed in the previous call also that today, today we are at about 18% as well as the online discount is concerned, although in the market, you've got very high numbers, which are being pushed by various competitors, but we continue to maintain our position of providing service and continuum of care versus playing the discount card. As well as the offline is concerned, the discounts are in the range of about 13% to 13.5%.

Nikhil Mathur: So, the difference between the two discounts, if sales is booked on an online channel that is also part of this operating cost of INR 24/7 right, which is the customer acquisition cost in some sense?

Sanjiv Gupta: Yes, the entire customer acquisition cost is part of the expenses that we are talking about.

Nikhil Mathur: Understood. And then one final question if I may, please. What's the timeline on the Gurgaon possible acquisition that has been done, I mean, how far are we from commercialization of that facility?

Suneeta Reddy: It will take 18 months. We have started work.

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

Shyam Srinivasan: Just the first one on the new hospitals. Just in terms of the Y-o-Y performance, excluding vaccination also around 4% when the otherwise it's 12% for the group. So, what's happening there? Is it just occupancy seems to be down, but I just wanted to get your color on the slower growth rate and when will this likely start inching towards more corporate level?

Suneeta Reddy: So, in terms of the new hospitals, I think some of them witnessed a slowdown, but they are actually, if you look at October, they are back on track. We do have, we have put more clinical specialties there. So initially, we did not have the type of offerings that we would have in a Tier 1 city. So, we've added this. And this will take a little bit more time to pick up. In the prior years, we did have COVID occupancy, which is why if you remove the COVID occupancy, there is growth. And we are quite hopeful that with the pickup of insurance that more people now have access into Tier 2 hospitals. So, we firmly believe that the 18% margin that the new hospitals delivered will improve significantly by another 200 basis points in the next 12 months.

Krishnan A: So, in the base also, what happens in the new hospitals is because there was this COVID, we didn't exclude COVID revenues at all, right? So, we only excluded the vaccination to show you the like-for-like growth. COVID revenues also had a lot of inbuilt hospital-based Pharmacy component. So, if you look at the volumes that these hospitals are doing now, we are quite, we know that the volumes are doing well. And even the surgical volumes are picking up, as Ms. Suneeta said. You have the rebate that for that in the base year. The base year had this hospital-based Pharmacy element in the COVID because COVID had more medications even on medical discharges than some of the others. Which is why it looks at 4%, but as you go forward, you will see that it will start doing better.

Shyam Srinivasan: Krishnan, just the guidance of 70%. So, we also expect new hospitals to kind of reach that number over time, right?

Krishnan A: Yes.

Suneeta Reddy: Yes.

Shyam Srinivasan: Second question, and I can get back in the queue after that, is in the Diagnostic services. Non-COVID revenues have grown 52%. So, if you see some of the other listed peers have been struggling, right, 6%, 7% for them organically. So, can you also comment about the general chat around competitive intensity in the Diagnostic services space? Where are you able to grow? Is it network expansion that's helping you? Is there any sense of same-store growth for you as well, will be helpful?

Suneeta Reddy: Chandra Sekhar?

Chandra Sekhar: Yes, ma'am, I'll answer that. As you rightly pointed out, I think we are growing from a slightly lower base. So hence, we continue to have network expansion-led growth. On a same shop basis, while it will not be exactly accurate, but thereabouts, the growth is over 15% at this point of time, 15% to 20% kind of range at this point of time. And we continue to keep growing our network, which will add because we are in the mode of market saturation. On competition intensity, I guess the competition intensity does affect us in the routine testing book, where we are seeing the fixed sale but then our own journey has clearly been on moving across the curve in terms of specialized and semi-specialized testing. And towards that, we have made arrangements to our testing menu apart from the routine basket. So, it does affect us, but we are having other strategies to reconstruct.

Shyam Srinivasan: And this 15% same-store growth, would it be volume price? Any color there?

Chandra Sekhar: Volume, we are holding prices, we are not dropping prices, but we are also not increasing prices.

Moderator: The next question is from the line of Harith Ahamed from Spark Capital. Please go ahead.

Harith Ahamed: For the combined Pharmacy business, you've disclosed posting the EBITDA of INR 167 crore. Will you be able to share the pre Ind AS EBITDA for the business for the combined Pharmacy business?

Krishnan A: Sorry. We'll come back to you. We don't have it with us now.

Obul Reddy: We will share with you offline.

Harith Ahamed: Yes, sure. And on the Amazon partnership, can you provide an update on the current number of orders per day or the GMV from that alliance? And the revenue with Amazon, where exactly does this fit? Is it entirely in the front end? Or is there an impact of this on the back-end Health Co numbers as well?

Sanjiv Gupta: So, Amazon, I think we are on the path of building of the entire tech integration between their systems and our system. So, we are still hoping to complete this by December. So, I don't see that any challenge with respect to any delay over there. So, I think once the entire customer journey is integrated between the two platforms, then probably the numbers will also, or the orders will also start going up because Amazon will also start doing a little bit of (inaudible) and the other digital initiatives. At this stage, we approximately get about 1,200 to 1,500 orders per day. And this is essentially in places like Mumbai and Kolkata where we are doing the pilots. These pilots are to just ensure that the integration has happened well and the experience on end-to-end from booking to deliveries is as for the standard. So, this is a pilot stage, number 1. Number 2, yes, as far as the sales is concerned or the revenue side is concerned, revenue gets booked into front end, which is the Apollo Pharmacy Limited. And to the extent, 80% of that gets booked into Pharmacy distribution in Apollo Health Co.

Harith Ahamed: And the revenue share with Amazon. That is entirely at APL or is there a component of that in Apollo Health Co as well?

Chandra Sekhar: Yes. So, revenue share is only between Apollo Pharmacy Ltd. and Amazon.

Harith Ahamed: And last one from my side on AHLL. The INR 100 crore revenue that we have in the Diagnostics business for the quarter, is this reported net of revenue share with Apollo 24/7?

Sanjiv Gupta: Yes.

Harith Ahamed: And then there's a decline in margins on the primary care side, the quarter-on-quarter decline, which is quite sharp. We used to have mid to high-teens margin run rate in that segment and this quarter, it's at 8%. Any particular reason that you would want to call out?

Obul Reddy: No, there are some one-offs, and this particular fixed cost enhancement is not going to remain. So, we will revert back to the earlier trends. Usually, fully to this quarter, but we will, we have the visibility on getting that correct.

Moderator: The next question is from the line of Kunal Randeria from Nuvama. Please go ahead.

Kunal Randeria: So last quarter, your surgical revenue, I think, was around 68% of the total revenue, and I think it was around 60% during COVID time. So, could you share what would it be in this quarter? And what is the headroom that you see?

Krishnan A: It would be in the same range; it would be a bit lower this time because we had some medical volumes also. There was a surge in some medical percentage overall. But it will be around the 65% range.

Kunal Randeria: And should we maybe in the next 1 or 2 years, should we expect it to be around this level?

Krishnan A: Yes, yes. It will continue to be at this level. There could be an upward bias also on this, especially when the new hospitals in particular, the surgical mix goes up, which is the focus. Because there are most mature clusters, if you look at places like Chennai, they would be closer to 75%.

Kunal Randeria: And as far as the payer mix goes, has there been any sort of material improvement from pre-COVID days?

Krishnan A: From pre-COVID days, yes, it has definitely been, it has improved significantly because both the retail, which is a cash payment as well as insurance has seen a good uplift. Insurance is over 42% of our revenues now, which was closer to 35%, and that is a good uplift on that. The overall institutional business has also come down. So, which is what is visible from the pre COVID days. And now we are stable versus Q1.

Kunal Randeria: And just lastly, I think you did mentioned what the online discounts for medicine are currently. But we have seen your online payers discount levels at around 18% to 20%. So maybe let's assume 6 months or 12 months down the line, this is the norm for the industry. So, should we also expect your discounting to go up?

Sanjiv Gupta: No, I think more than discount, the customer is also looking at the other aspects of the order, which is to do with no split, which is to do with getting the entire SKUs in one go and the right quantity, and it's the right time. Apollo 24/7 is the pioneer in delivering the entire order thing to us, and that is what got copy-pasted by competitors out there. We strongly believe, and this is what customer retention ratios, and the data also suggest is that while we are low on discounts, the competition gives 20%, 22%. We are managing between 17.5% to 18%. Customers are not walking away from our platform. And I think, we do not believe and that our discounts will go up. In fact, given that our service levels are extremely well, and customers are loving it, customers have, there's a very high repeat. There is a possibility to maintain or lower the guard by maybe another 50 basis points. That is how we look at as far as the discounts are concerned.

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

Damayanti Kerai: My first question is, can you update us on the International patient segment. How has been the pick up, where it has come back compared to pre COVID level, etc.? And how do you see it moving ahead?

Suneeta Reddy: So, it has not yet reached the levels of pre COVID. What has happened is that in some cities, it's back. But having said that, I have to say that connectivity has just about opened up, and we hope to see in quarter 3 and quarter 4, much better. Currently, it's at 6% of revenue and our target was 10% of revenues for this year, moving on to 15% for next year. But in terms of revenues, it is ahead by 27%.

Damayanti Kerai: 27% compared to what level?

Suneeta Reddy: Pre-COVID. In terms of revenue.

Damayanti Kerai: My second question is on your AP in Telangana cluster. So there, what we have seen in the past two quarters, performance has been muted. This quarter, revenues declined 15% and ARPOB around 20%, whereas the IP volume continued to grow at 15% and occupancy also improved. So, can you just elaborate like what is happening on that particular segment?

Krishnan A: So there has been a pruning on the some of the institutional cases there in that segment because in that region, it's where we have more bulk of the State Government cases, etc., there. And we have been pruning it down to improve on the profitability overall. That has been part of our plan also, which is why you're seeing that come off.

Damayanti Kerai: Okay. So, when you are likely completing this pruning process and then coming back on track?

Krishnan A: It's already done now. It's already done. If you look at Q2 overall net revenues, net revenues have gone up versus the Q1. In this sector, it was INR 315 crore in Q1, now it's INR 356 crore in Q2. So clearly, now it's well behind even the ALOS is back in the Company level of 3.6 approximately.

Damayanti Kerai: And my final question is on your cost trajectory for 24/7. So, did you mention you will continue at around INR 1.5 billion for next few quarters? So earlier, you mentioned this quarter, somewhere costs will be INR 5.4 billion. So, it will likely exceed, right? And then if you can comment on the ESOPS also like what are these charges related to?

Sanjiv Gupta: I think as far as the expenses side are concerned, if you just refresh what we discussed last time, last quarter we had a INR 1,000 crore of our outlook for the year, which we increased to INR 1,500 crore of GMV. And we marginally increased our expenses by about 15% to 20%. We thought that this is the time to build the sales, this is the time to invest a little bit more behind people as well as the technology. And

I think, we strongly believe that we should be able to close the year with less than INR 600 crore as far as the overall expense line is concerned. So, I think between INR 575 crore to INR 600 crore that should be the number for the expenses as far as 24/7 operating cost is concerned. Second, on the ESOPs, so this is a phenomenon with all the startups where the leadership team as well as some of the key resources in the Company have got ESOPs, the team was approved, and we gave ESOPs on the 1st of July. And this cost is continuing to the 2 months. This is as per accounting standard; this is a noncash expense and INR 22 crore is the charge for the last quarter.

Damayanti Kerai: And will similar level will continue or this is something one-off?

Sanjiv Gupta: So, this will continue. This is a charge over a period of the vesting period. So, I think this will continue quarter-on-quarter.

Moderator: The next question is from the line of Lavanya Tottala from UBS. Please go ahead.

Lavanya Tottala: Thanks. Good set of numbers. And my question is on Apollo 24/7 and the overall GMV. So, can you help us understand what is the split of Pharma and Diagnostics and Consultation in the overall GMV for?

Sanjiv Gupta: For the quarter? Yes, that's okay. So out of INR 300 crore or INR 290 crore, we have INR 240 crore for the Pharma and Diagnostics and Consultation is about 25% and 30%.

Lavanya Tottala: So here, the revenue of INR 158 crore, it includes online distribution for Pharma and the take rate for all the segments or only Pharma for 24/7?

Sanjiv Gupta: Yes, the first one. So, it includes the take rate for all the sectors plus the online Pharmacy distribution.

Lavanya Tottala: And also on the employee cost, there is a sharp hike in employee cost. So, is there any one-off in this particular quarter? Or is it something like the same level which is going to sustain in the upcoming quarters also?

Krishnan A: Looking at the consolidated numbers, is it?

Lavanya Tottala: Right. For the consol numbers.

Krishnan A: Consolidated numbers two things, right. One is we have the increment setting in, in the current quarter from July across the Company. So typically, that is when the increments get factored in. So, the results that we have given is after factoring in the impact of the increments, etc. And also, the 24/7 ESOP charge is part of the employee cost, which is the INR 22 crore, which is a noncash charge, which we have already told you, which will continue to be there beyond this quarter for atleast a couple of years.

Lavanya Tottala: So, this ESOP related cost that will be there for how many quarters, any guidance there?

Krishnan A: It will continue for 3 years.

Lavanya Tottala: Okay. For 3 years. Okay. So, employee cost will sustain at this level overall for the consolidated level, right? So, there's no one-off?

Krishnan A: Yes.

Lavanya Tottala: So AHLL, you mentioned there is some one-off related to the primary care business. So, can you quantify that? Any broad number? And how do you see the margins moving for the overall AHLL segment in the coming quarters?

Chandra Sekhar: The current aggregate AHLL level, we are seeing the margin at about 12%. If you look at it and break it across various segments, Diagnostics is in the 12% to 14% mark. And primary care would be around the 4% to 5% mark at this point of time if you exclude those one-off additional expenses that we've incurred. And these are on account of primarily a ramp-up of network, which essentially drew some, we have set a very robust network growth, which resulted in some additional hiring and additional costs, which will even out in the coming quarters. So, we will get back to the 5%, 6% mark and hopefully increase it up to the 10% mark in the primary care level. Specialty Care is delivering in the return of 11% to 15% and will continue to do so at an aggregate level, we're hoping to inch up the 12% to the 15% mark and onward. Our margins in the diagnostics are slated to continue to be at this level for a while as we keep growing and investing. So, but then we will aspire to reach the industry benchmarks in the 20% plus in the years to come. But we are currently in the next 2 to 3 years will be consistently growing our network and hence, there will be some evening out on our EBITDA margins.

Lavanya Tottala: So, if I understand right, at the overall AHLL level, the margin is likely to remain at the same?

Chandra Sekhar: 12% rate will improve a little bit to the 15% mark, we are hoping to improve it to the 15% mark.

Lavanya Tottala: And on the healthcare business, how are you seeing this current ongoing quarter going on? Do you see any seasonal weakness? Or how is it going like overall hospital business?

Suneeta Reddy: So, the trend generally is you know that the holidays, the 4 holidays that were in October, I mean 4 days, so October was somewhat muted, but we're getting back on track in November and December should do really well.

Lavanya Tottala: And my last question is on institutional patients. You mentioned that you're consistently reducing that like in Telangana and AP. So, is it completely done? Or you are still working on reducing institutional patient proportion on the overall base? Anywhere else is any work going on or reducing?

Krishnan A: It's an ongoing process across the Company. We will keep looking at that options across because, especially with some of these newer perspective from CGHS where even Pharmacies are getting discounted, it may be difficult for us to sustain that in some of the places where we give CGHS prices even for some of the PSUs. So, we keep looking at it and seeing whether there is opportunities to prune that. In AP and Telangana, bulk of it behind us is what I meant.

Suneeta Reddy: There's only 1% of our revenue that is coming from CGHS currently.

Lavanya Tottala: So overall institutional, what is the percentage of revenue at this point of time?

Suneeta Reddy: CGHS is 1%. State Government scheme is 2%, which is also like Ayushman Bharat public sector is 7%.

Moderator: The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: One on the mature hospitals margin. You were already at 27%, 28% margin, if I look at the first half numbers. Is this number sustainable? And we've managed to grow it year-on-year quite well. So incrementally, how much of this is dependent on ARPOB improving given where capacity utilization already is for the mature hospitals?

Suneeta Reddy: So, I think there are three factors that come into play. The first is case mix, and as we move to a higher-end case mix, ARPOB improves. The second, I mean, if you are thinking about ARPOB and margins improve. The second is that when you look at margins, when we increase International patients, we will continue to see an improvement in margins. The third, of course, is cost. And we are looking at 100 to 150 basis points improvement coming from cost over the next 18 months. So, there will be a structural improvement. And all this will contribute to definitely a growth in a 150 basis points growth in margins over the next 18 months. And of course, occupancy matters because it certainly leads to better margins and better revenue and better profits.

Neha Manpuria: And second question on the ARPOB, our metro ARPOBs of over 60,000. Is there, other than case mix, does this improvement include any price adjustments that we have taken during the year. Is that done for the year?

Krishnan A: Yes. It's taken and done.

Neha Manpuria: So that's factored into the numbers that you're seeing in the quarter?

Suneeta Reddy: Yes.

Neha Manpuria: And my last question on Apollo Health Co. Ma'am in your interview this morning, you mentioned about fundraising in Apollo Health Co by the end of this calendar year. If you could give us an update on that?

Suneeta Reddy: The financial year for, not the calendar year, but it would be more of the calendar year, which is March 31st, we will be able to do it.

Neha Manpuria: So, there would be fundraising in the digital business by the end of this fiscal year?

Suneeta Reddy: Yes, fiscal year.

Neha Manpuria: And that would mean our ability to increase the spend in the digital business in FY24? Would that understanding be right?

Suneeta Reddy: Sanjiv?

Sanjiv Gupta: No, I don't think that the fund raise will mean that we need to spend more. I think we have our own path to profitability, and I think we are on that course. By no means the fund raising is going to increase our expenses. With the funds we might look into some kind of an acquisition because that is what we have been thinking through to speeding up the process. But yes, no increases in expenses side.

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

Sameer Baisiwala: Just taking from the previous participant, any change in the earlier planned fund raise, which was roughly $500 million kind of an inflow?

Suneeta Reddy: Yes, Sameer, I mean, across the world, no one is raising that much money at the current market price, which does not factor in the true value of the assets or the revenues. So, we are only looking at $200 million right now.

Sameer Baisiwala: And what happens to the slump sale INR 1,200 crore flow back into the parent Company?

Suneeta Reddy: That will be in the next tranche at a better valuation.

Sameer Baisiwala: And the second round would be any time in the foreseeable future? Or that's something for the later?

Suneeta Reddy: You know, I'll give you a number now, you'll hold me to it, a number and a date. But let's cross this first threshold. And then you will see value build up in 24/7 because it is the fastest-growing health digital platform. And we have a lot of interest. Having said that, I do have to say we have a lot of interest. It's for us to take it at the right valuation and at the right time.

Sameer Baisiwala: And the second is on the brick-and-mortar expansion in Pharmacies. So there, I think you've done 450 plus kind of store adds in first half. I think our full year target was 500. So, if you can just talk about it. And thanks for the math that you have provided. So, looks like the Central India is something that you have not tapped at all. So, your thoughts on that?

Obul Reddy: We don't, we are now planning about 800 stores expansion for the current year. And part of the new source, we will move into, except in two States we are there everywhere. Madhya Pradesh is the only place where we don't have presence. And in other states, we just started, and we will ramp up in the next two years.

Sameer Baisiwala: And just on the hospital side, what's the, I mean, good to see ALOS now stabilizing around 3.4%. So that's really commendable. And do you think you're going to sort of maintain at this level? And second is on occupancy. Practically speaking, at a hospital level, what's the sort of upper limit to where you can take it?

Suneeta Reddy: So, first on ALOS, I think 3.4 is a reasonable ALOS. But because we've introduced robotic surgery, we're seeing ALOS come down. So, and 25% of our business, it's only about less than 2 days. So as this grows, as the segment grows, we do believe there will be a further reduction in ALOS. But this will take another two years to see significant improvement or anything that we can really talk about. Occupancy, I think

Apollo is probably the only one that has headroom to grow. We, you can easily take it up to 82%, 83%. And we believe that we are working towards this. We have 2,000 beds that we can fill. And like I said earlier, whatever we do is margin accretive profit, good for EBITDA, good for revenue and profitability. But our target this year is 70% on a group-wide basis, and I think we're moving close to achieving that target.

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

Shaleen Kumar: Yes. I think most of my questions have been answered.

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

Prakash Agarwal: First question is on, there was a news flow on the CCI for few of the hospital names. Could you confirm that Apollo also received that? And if yes, what is our cost correction here? And if not, I just wanted to understand how should we build ARPOB? You gave a good clarification on case mix, payer mix, etc. But how should we build in ARPOB for the next 2 years?

Suneeta Reddy: So, on the CCI thing it's only relevant for enterprise staff where Apollo Hospitals holds 25% shareholding. With regard to ARPOB, definitely, the way that we look at it is it's a function of case mix. It's a function of payer mix, and we've shown an improvement in payer mix. And the third is ALOS. So, I think these three levers are what we use. International patients coming back will definitely show an improvement in ARPOB.

Prakash Agarwal: And in line with inflation, what is the price hike we...

Krishnan A: 7% in that was a part. And I think with the inflation and this broadly around the 7% is fine to move it.

Prakash Agarwal: But I was trying to understand on the price hike that we annually take it. So, inflation is now high single digits. So, do we take it in line with inflation or ours is a gradual 3%, 4% kind of annual hike on the pricing part?

Suneeta Reddy: On the healthcare inflation, it's 5%, and we've absorbed that in the price.

Prakash Agarwal: And secondly, some more color on the brownfield and greenfield. So, you talked about Gurgaon which is 24 months out. But what are the mid- to near-term kind of opportunities we are looking at, especially on the brownfield side, if any?

Krishnan A: For us, unlike some of the others, we clearly have headroom for growth in our existing businesses itself. With the creation that we have already done on the assets and 68% occupancy that we have; we can clearly take that to the 72% and 75%. Proton is a big opportunity. It's doing well. We can take it, we can double the revenues in Proton over the next couple of years. We still have high potential in taking New Bombay higher. So, all of that itself is significantly higher. While brownfield is one that we are looking in Bangalore, in particular. But with that and in Mysore, and also Bhubaneswar. Some of those are opportunities which will come earlier. But with that more than that, our focus is to increase the revenues in the existing hospitals, look at seeing how we can grow oncology further. We are the largest oncology revenue in the country today. We would like to further grow that. So, we are focusing on some of those specialties to see how growth can come within the healthcare services revenues itself at a faster pace.

Suneeta Reddy: So just in addition to that, we are adding, I mean if you look at Gurgaon, Bangalore, what we're doing in Chennai and you know what we plan to do in cluster, we are adding 2,000 beds over the next 3 to 4 years at a cost of INR 3,000 crore.

Prakash Agarwal: And some more color on this 24/7 kind of funding, etc. You talked about plans for around $200 million now. So, is it that the stake sale on the entity would be around 10% or it is now reducing?

Krishnan A: So, it would be roughly around that or lower, right? Because if you look at it, our focus is to get, we continue to be focused on the $2.5-plus billion valuation that we have been talking of. And even though valuations across have come down, there our delivery has far outperformed what we had in our plan.

Prakash Agarwal: That's what I was trying to get. So, it would be around 2.5% plus, right?

Krishnan A: Yes, that's the plan.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: On the offline Pharmacy business, since we've upped the expansion target now, how should we look at the network size, say, in another say by FY25?

Obul Reddy: We should continue to add at least 500 stores per annum, and we'll see that we'll be about 6,500 stores by '25.

Nitin Agarwal: And sir, by that time, what kind of EBITDA margin should be there for the offline business?

Obul Reddy: As long as the expense continues, we will have some impact on the cost impact on the profit. We expect to be around 6% on the combined business, 6% to 6.5%.

Nitin Agarwal: And just pure on the offline piece itself?

Obul Reddy: Yes, I'm talking of offline.

Nitin Agarwal: So, we are currently at about 7.9%.

Obul Reddy: That is on the backend, what you are talking. What I said is about combined business If backend continues we'll be at the same margin. Whatever impact we have on account of expansion will be on the front-end side.

Nitin Agarwal: And likewise, on the online business, the GMV target that we have for this year, about INR 1,500 crore thereabout that we are well set to exceed, how should we look at this number over the next couple of years?

Sanjiv Gupta: Yes. So, I think what we are targeting is that the next year should be in the range of about something like 3,000 to, I mean at least we should do 2x, if not 2.5x to 3x of the current year numbers. The idea is to get to about $1 billion in 2 to 3 years' time.

Nitin Agarwal: Okay. And Sanjiv, what does that mean for the EBITDA of the Apollo 24/7 the whole, the piece on the online Pharmacy distribution on 24/7, when you start hitting $1 billion number in say, 2 to 3 years?

Sanjiv Gupta: I think 2 to 3 years, once we hit this particular, okay, let me just give you a little broad sense. One is that at this scale, when you hit about INR 7,000 crore to INR 8,000 crore, you are able to make the digital business, which is one section of Apollo Health Co. This business becomes breakeven or in fact, it starts giving you a little bit of profit. While the back-end business, which would be roughly INR 4,000 crore in the Apollo Health Co. that should give you about 8% to 9% as, or maybe 10% at best as the EBITDA. So, I think those are the, that is the mental model in which we are working that next year, we should make Apollo Health Co as near breakeven and FY24, '25 should be the year when we should strive to hit a scale of about INR 7,000 crore to INR 8,000 crore of GMV and make the digital segment also breakeven. And obviously, the Pharmacy business continues to grow and continues to show a healthy EBITDA margins of somewhere 9% to 10%.

Nitin Agarwal: Secondly, on the hospital piece, what kind of capex are we looking at the healthcare services business? Obviously from a greenfield perspective, the only project we've discussed so far has been the Gurgaon project. What are the other projects and the kind of investments we're looking at on the healthcare services part of it?

Krishnan A: The recurring capex that we have, which is already known to you is around INR 350 crore a year. That is what we will continue to work on. This is the recurring capex. And the basis, the 2,000-3,000 beds that we 2,000 beds and the INR 3,000 crore that we are saying, broadly, it would be split across 3 years.

Nitin Agarwal: But sir, in that baring Gurgaon, which are the other projects we're talking about?

Krishnan A: So, we are looking at OMR, which is in Chennai. We are looking at, hopefully, we will come soon to you on a couple of other projects that we are working on. So, we are looking at Bangalore, as we have said. We are looking at Bombay. So, we will come back on some of those soon.

Nitin Agarwal: And if I can squeeze in one last one on the diagnostics, what is the geographical spread for a diagnostic business? So, when it goes to INR 1,000 crore number in the next couple of years that we talked, about 2 to 3 years. I mean, what, is it going to be a very South India focused business predominantly South India focused business from a geographical footprint perspective or broadly pan-India?

Chandra Sekhar: Yes. I will answer that. The current revenues are largely between South and East and getting into other zones minutely. We have made entries into the Bombay and the Delhi markets over the last 12 to 18 months only. So, their contribution to the overall current revenues are miniscule in small single-digit percentages. We expect South and East to be a large contributor. South and East should be around the 70% mark with 30% coming from other markets, including some Central India, West in terms of Bombay and North India. That will be the mix in the next couple of years.

Moderator: The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, if you could share EBITDA for Proton?

Krishnan A: EBITDA for proton, we don't have it offhand now, but it will cross over INR 60 crore, INR 65 crore in this year.

Tushar Manudhane: So, if I kind of do some kind of math, back of the envelope calculation. So, the new hospitals' EBITDA margin has been very stable for the past three quarters, while there has been a good improvement on the mature hospitals. So that is where I'm coming from that the new hospitals' margin, how do we see the improvement in that segment?

A. Krishnan: You're right. And Proton will be one of the big contributors there, too, because clearly, Proton, the potential of EBITDA is almost INR 200 crore, which is why I did say that over the next couple of years, you will see good fillip coming from Proton itself apart from some of the other hospitals that we are working on in New Bombay and Vizag. These are two hospitals that have good potential compared to where they are delivering today.

Tushar Manudhane: And on the Pharmacy side, the private label share has also been very stable at about 10%, 10.5%, 11%. So how do we plan to ramp up there, scale up there?

Obul Reddy: We will see that scaling up because this is coming on the background of COVID, in COVID time, there were a lot of products which were contributing to higher sales, and it was about 12.5%. We are at now 11%. We could see now growth coming back in the normal volume.

Tushar Manudhane: So at least in a year's time, we should be back to pre-COVID levels and then subsequently the further improvements?

Obul Reddy: Definitely, yes. I mean next 12 months; you'll see that we'll be at about 12% to 13%.

Moderator: The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life. Please go ahead.

Naushad C: Most of my questions have been answered, some clarifications, sir. Firstly, on the discount trajectory last quarter, if I remember it correctly, we had indicated that in last quarter, it was around 18%. We had indicated that we had taken 1% cut in July month, and we were expecting some 0.5% cut. And eventually, we had guided around 16.5% to 17% in Q2FY23, but as you said in some of the question that it was at 18%. So, we see this number in next coming quarters or can you comment on this?

Sanjiv Gupta: Yes. So, see the discount has a factor of lot many things in the, and then obviously you understand there is an external environment, which is kind of decide at some point of time, what should be offered. I think, yes, we wanted to, we brought it down for some period to be honest with you, we brought it down for some period to the level that we mentioned in the last earnings call. But see, whatever is the best for the organization and for the consumer side, I think we all should do all the time, right?

So, while lowering it down for sometime, we realize that at least from the chronic patients, chronic patient is something which is a valuable asset to the organization and 0.5% here and there does not kind of, I mean, is it that chronic customer moves out of the system is much more harmful to us versus 0.5% here and there. And you've got the opportunities for cross pollination and various other channels which are coming into the Company. So, while we lowered it down a little bit, we further increased it to maintain at 18%. As I said earlier, 0.5% we can still play, but we'll be mindful to the external environment and we take call, which is good for the customer. You may expect that we retain 18% for another two months. At this stage, we are still doing 18%. So, but yes, I mean, it is something which is a moving needle. We don't know what, how exactly the cohorts and the various other things behave. But 18% or at best 0.5% down.

Naushad C: Secondly, just a suggestion, sir. This time, we have you know though we have given the 24/7 numbers in the presentation, but as last quarter, we reported in our segment reporting rate given the separate line for 24/7. And just wanted to understand what is the rationale this time, we have not given and we have clubbed it into a Pharmacy distribution segment?

Krishnan A: This is, what we have given now is the full online Pharmacy distribution and the Apollo 24/7. This is the correct representation of the 24/7 business because the 24/7 business is getting the INR 294 crore GMV. And what we have now represented as INR 158 crore is what gets reported under the Apollo Health Co for the businesses generated by 24/7. So, this would be a combination of the Pharmacy backend, and it will have the service lead gen fees also, which is part of this. So that is how it will keep increasing, and this is the right representation of the 24/7 business to see how the profitability moves. And this is what clearly even Sanjiv guided as to how this will, over a period of time, the GMV can go from INR 294 crore, which is an annualized INR 1,500 crore to INR 1 billion and how that will be 65% Pharmacy and services, etc.

Naushad C: All right. And lastly, sir, if I'm reading it correctly, if I see sequentially in Pharmacy distribution, we have seen some margin decline on a, because last quarter, we had indicated around INR 20 crore, we had some onetime costs in some infra building for Amazon deal, which I'm assuming would not be in this quarter and be removed 24/7 losses. So, net-net on the core business, we have some sequential margin decline. If I'm reading it correctly, can you explain on that part, sir?

Obul Reddy: If you see that Q2 EBITDA level versus Q1, it's just about 10, 15 basis points, as Mr. Akhileswaran Krishnan said, we also have the employee cost coming in slightly additional in Q2 being the, where we give increments. And then we have about 10, 15 basis points, which is negligible, and we will be back with improvement in the volume.

Moderator: The next question is from the line of Yash Shah from Investec India. Please go ahead.

Yash Shah: So, my first question was regarding the GMV. In first half, we've done approximately INR 5 billion of GMV, and we are looking, we are targeting about INR 15 billion, INR 1,500 crore for the whole year. So, the rest INR 1,000 crore in second half, could you give me some idea of like how are we targeting double of what we've done in H1?

Sanjiv Gupta: Yes. So, as you mentioned in the earnings call, there are new business lines that we're creating, which is around the complication led to hospital IP OP services and the entire integration of software and touching that 24/7 will be hospital (inaudible) management system. So, all that was done during Q2 and then some part of Q1. Now IP OP is one particular service, which we started in that as part of the Company was (inaudible) require that. And the current funding that happened in October or what it was in October and some part of November, suggest us that I think this particular vertical itself, will give about INR 400 crore to INR 500 crore of additional (inaudible) for the balance part of the year. And I think the current set of three verticals, which is the ePharmacy, diagnostic and consultation, they would contribute to the group. We grew about five times in Q2 versus Q2 of previous year and about 36% versus the previous quarter. So, and then lot many levers that we've still not checked, we,0 something like we thought hyperlocal delivery in top 6 cities, which are increasing to 17 cities that would fuel the growth. And there is a lot of work that is happening on the other segment. So, I guess the October as well, October GMV as well as the current run rate suggest that you would easily get INR (inaudible) crore mark.

Yash Shah: My next question was regarding take rate in Pharmacy and Diagnostics business. As our volumes have increased, sir have we been able to increase the take rates on both these, in both Pharmacy and Diagnostics as compared to previous quarter?

Sanjiv Gupta: So, the Diagnostic take rate is basis the slab that we hit. So, this is any other commercial discussion that happens between the two organizations. You have a slab-based take rate. The minute you start in the upper slabs, you start getting more and more commission. And yes, the diagnostic business is increasing quarter-on-quarter. So, it is governed by the actual performance, and we already locked in the entire commercial dates till FY23. And based on the run rate in February of '23, we will discuss the take rates for the next financial year.

Yash Shah: Sir, one very small clarification question regarding the capex. As we've guided 2,000 beds in the next 3 years, of which 675 beds will be in Gurgaon and 500 beds will be Chennai the multispecialty. So, between Mumbai and Bangalore, which we are planning right now, it will be another 1,000 beds. Is the understanding correct, sir?

Krishnan A: So, 675 would not be Gurgaon. Gurgaon will be more like 500, 550 beds to begin with. And 500 of OMR is broadly what we are looking at. Bangalore, we have the brownfield Bangalore expansion, which should help us get another 250, 200 to 250 beds. And the one in the other hospital in Bangalore, we are looking at 400 beds.

Yash Shah: So that leaves Mumbai with 400 beds?

Krishnan A: Bombay would be another 400 beds in our plan.

Moderator: Ladies and gentlemen, this will be the last question for today, which is from the line of Rishabh Tiwari from Allegro Capital Advisors. Please go ahead.

Rishabh Tiwari: I had a clarification question regarding the Proton EBITDA. It was quoted around INR 60 crore. Is it for the quarter or for the half year? Because the last reported number that I can see for Q4 was around INR 14 crore.

Krishnan A: So, it will be for the full year, it would be almost around, so for the half year it is I think it would be trending at around INR 65 crore I said that didn't include the Pharmacy, so over INR 75 crore to INR 80 crore is what the overall target for the year will be.

Rishabh Tiwari: For the Proton, right?

Krishnan A: That's correct.

Rishabh Tiwari: But the current, can you give me a ballpark number for the current that we are trading around half year? It would be half of Rs. 85 crore?

A. Krishnan: INR 40 crore. That's correct.

Moderator: Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for closing comments.

Suneeta Reddy: Thank you, ladies and gentlemen, for taking time out for this call. We hope that we have convinced you that Apollo is the only integrated healthcare player in this part of the world. Our hospital business is on a very strong growth trajectory and will continue to grow. We will improve not only in revenues but margins but most importantly in the type of clinical offerings that we give to our patients.

Apollo Health and Lifestyle, which is our primary care vertical, the focus on diagnostics and primary care clinics will continue. And this will give us, it will enlarge our patient base, which will increase revenues and therefore, margins. Apollo Pharmacies, which is our retail play is something where we've demonstrated strong growth, and they're on track for a INR 10,000 crore revenue target. All of this comes together with 24/7. And I think that the losses that we made here, which are close to INR 170 crore, you must think of it as an investment into the future because there can be no healthcare institution without a digital platform. And I think that we have made the right decisions, and we continue to be optimistic and hopeful in our mission to really move healthcare closer to the patient to create accessible healthcare and to be sustainable. So, thank you very much for taking time out for this call. Good afternoon.

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.
