Apollo Hospitals Enterprise Limited

Transcript of Conference Call to discuss update on Apollo HealthCo

April 27, 2024

Moderator: Ladies and gentlemen, good day and welcome to this conference call, organized by Apollo Hospitals Enterprise Limited, to discuss an update on Apollo HealthCo.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Devrishi Singh from CDR India. Thank you and over to you.

Devrishi Singh: Thank you Yashwaswi. Good afternoon everyone, and thank you for joining us on this call to discuss the update on Apollo HealthCo shared earlier. We have with us on the call today the senior management team represented by Ms. Suneeta Reddy, Managing Director, Mr. A. Krishnan, Group CFO, Mr. Madhivanan, CEO, Apollo HealthCo Limited, and Mr. Sanjiv Gupta, CFO of Apollo 24x7.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forw kard-looking in nature and may involve risk and uncertainties.

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, ladies and gentlemen, and thank you for joining this call. I hope you've had a chance to go through the presentation which we shared with you yesterday.

In a strategically significant move, Apollo HealthCo. has entered into a binding agreement to raise the equity capital of INR 2,475 crore from Advent International, one of the world's largest and most experienced global private equity investors. In addition, it has entered into a framework agreement to integrate 100% of Keimed Private Limited, India's leading wholesale pharma distributor, in a phased manner over the next 24 to 30 months.

The enterprise value of the combined entity is at INR 22,481 crore. AHL Apollo HealthCo is valued at INR 14,478 crore, which implies an over 15% premium to its closest peers. Keimed is valued at INR 8,300 crore, which implies over a 20% discount to its closest peers listed multiple. Post-merger, Advent will hold 12.1% in the combined entity; Keimed shareholders will own a maximum of 25.7%, while AHEL will continue to be the largest controlling shareholder with at least 59.2% stake.

The transaction is subject to further corporate and regulatory approvals to be obtained at the relevant time.

This transaction truly marks a milestone in Apollo HealthCo's journey. It creates India's leading, fully integrated pharmacy distribution business, complemented by a fast-growing omni-channel digital health business. The merged entity will have an industry-defining business model with a pan-India presence. We are confident that the merged entity will deliver consolidated year-three revenues of INR 25,000 crore with operating margins of 7% to 8%.

The transaction brings together a formidable partnership of capabilities and strengths, to deliver exponential value for AHEL and its shareholders. Apollo HealthCo is India's largest integrated, omni-channel health ecosystem. Keimed is the market leader in wholesale pharma distribution with two times the scale of the nearest competitor and industry-leading operating metrics. Advent is one of the largest investors in healthcare and pharma globally and has a track record of enabling companies to unlock their true potential. Above all, the Apollo brand, which is the strongest healthcare brand in India, and the trust it signifies, will continue to elevate the HealthCo platform, and strengthen its position as the country's leading retail health Company.

We believe this transaction fulfills all the imperatives that we were working on. It reinforces our commitment to be closer to the consumer and improve access and affordability to high-quality healthcare. The Keimed merger provides the base for a unified pharmacy distribution business with a fully integrated supply chain offering several synergies including access to Keimed's formidable footprint of 65,000 pharmacies, enhanced private label sales, sustained improvement in margins.

Apollo HealthCo will use the growth capital to accelerate its GMV and revenue growth, while delivering on its commitment to achieve break-even in its digital business in the next six to eight quarters. AHEL will leverage the state-of-the-art, agile, digital front door offered by Apollo 24x7 to reach more consumers, deliver value-added services and offer seamless, omni-channel care options.

In addition, AHEL has plans to gainfully deploy the funds repaid by AHL for its own business expansion and growth strategy - 2,000 beds at an outlay of INR 3,000 crore in the next three years.

This holistic set of benefits will cement Apollo's position as a 360-degree, integrated healthcare ecosystem and will add momentum and strength to Apollo's mission of providing high-quality healthcare to all, at an affordable cost in the most convenient way.

The future of health is in the confluence of consumer engagement and technology, and the Apollo Hospitals Group will continue to be at the forefront of both.

With this, we are open for questions. I have with me Mr. Krishnan, who is our CFO, Madhivannan, CEO of Apollo HealthCo, and Sanjiv, CFO of Apollo HealthCo. We're ready to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take our first question from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: So, the first question on how does each of these businesses, Keimed, offline pharmacy distribution, 24x7 and front-end pharmacies, fit into the value chain? And hypothetically, if there is a sale of INR 100 at a front-end pharmacy level, how much is recognized in each of these parts? If you can help understand that, that would be great?

Suneeta Reddy: Yes, Madhi, I'll hand this over to you.

Madhivanan B: At this point of time, I think from the recognition of revenue perspective, if you have to look at the entire flow; a big chunk of our businesses today still happen. If I were to just pick up the pharmacy business, it primarily happens on the offline pharmacy outlets. Similarly, around 15% to 16% of our revenue is generated by the digital front-end, which is Apollo 24x7.

In both these cases, Apollo 24x7's role is primarily to act as the aggregator for generating the journeys and demands. The businesses will continue to be registered in the respective areas. If it is driven by digital, it will come into the Apollo 24x7 model. And if it is done physically, it will remain there. When it comes to businesses like consulting and diagnostics, the existing commercial understanding we have between the various organizations will continue to play. So, we effectively facilitate booking. We facilitate in-house visits. And when it comes to the diagnostic business, we also manage the entire logistics, which is involved in this entire process. So, in terms of day-to-day operations of how the value chain changes, there would not be any major implication at all, whether it be pharmacy, consultation business, or IP and OP would be possible.

A. A. Krishnan: So, if you look at Apollo HealthCo, Apollo HealthCo and the combined new avatar will be serving 6,000 of the Apollo pharmacies, as they have always been serving even now. And the economics, as you are aware, is being captured in Apollo HealthCo, 80% to 85% of the revenues and the EBITDA, as you know, that continues to happen. And the distribution business for the other 64,000, 65,000-odd pharmacies will all now move into Apollo HealthCo, after this, completely captured in Apollo HealthCo.

Kunal Dhamesha: Okay. Thank you, sir. And can you just highlight the capital employed in each of these business segments?

A. Krishnan: I think we'll have to come back to you on the same, you know, subsequently, because I don't have the capital employed handy with me.

Kunal Dhamesha: Sure, sir. Thank you. Thank you for the opportunity and all the best.

Moderator: Thank you. We'll take the next question from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: My first question is, other than the shareholders' approval, would the deal require any other approval to go through in the various stages that we have mentioned? That's the first question.

And my second question is, you know, based on the three-year target that you've given the 7% to 8% margin, if you could just break up in terms of what are the key moving parts? How much margin do we think, you know, Apollo 24-7, Keimed and the offline pharmacy distribution piece needs to get to achieve that margin? Basically, just trying to understand how do we get to that 7% to 8%?

A. Krishnan: The first point, you know, I think from a deal certainty perspective, I think we are quite, you know, there are only two approvals which are important. One is the CCI approval, which we have already listed there, which is part of, because of Advent coming in, because it's a new entity coming in. So, we'll have to go with the CCI approval. We don't think, you know, and then the other approval is obviously the shareholder, as you said. We don't foresee any challenges in obtaining these approvals. You know, we have been, as you know, been guided by both Shardul Amarchand and AZB on this whole transaction. And we are quite confident of getting these approvals within the timelines that have been stated in front of you. I think on the second point, you know, would you have the answer with you Madhi on how the value of 7% to 8% is getting generated between the three?

Sanjiv Gupta: Maybe I can give it a try. Yes, ma'am, I think the way we look at currently as far as the overall margin, which is about 1.5%, which is shown in the presentation, moving up to about 7% or 7% to 8% in the next three years is there are three components to the entire thing. One is the back-end business, which is sitting in Apollo HealthCo, where currently we are at about 7%. We believe that with the private label push that we can do it along with the 55,000 pharmacies outlets that Keimed has and the ongoing strengthening of margins in the frontend stores, this should be in the range of about 9% to 10% in two to three years from now.

Second portion is the digital. Digital, as you know, is the drag as of now. I think much of the investment has already been done into the venture. We believe that six to eight quarters we should be breaking even and from thereupon we should be also adding up to the overall EBITDA. So that will also help here. And third, Keimed is roughly at about 3.5% today as far as the EBITDA number is concerned. I think next three years, as the volume scale, natural efficiencies on the cost lines as well as the margin line will come, and we should expect some increase on that side.

I think all these three put together, we believe that when we hit a target of about 25,000 crore in FY27, we should be in the range of about 7% to 8%. As we move forward on a quarterly basis, we'll start tracking these numbers. We'll start showing how the improvement is happening. I think that should help all of us to understand the progression from current 1.5% to 7% in next two to three years from now.

Neha Manpuria: Got it. Thank you so much.

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

Shyam Srinivasan: Yes. Good afternoon and thank you for taking my question. Just wondering, first just a philosophical one, from motivations for doing this deal, if you could list like, you talked about potential synergies, but why Advent or why Keimed also as part of this equation, because if you see the earlier communication was that you will look at Apollo HealthCo only. So why the Keimed entity has also now come through? So that's my first question around motivation for the deal. And just a simple feedback is that the complexity of this deal is long, right, it's going to take 30 months. So just want to understand what are the key risks we should be keeping in mind?

Suneeta Reddy: Yes. So, what is the motivation behind the deal; - I think we have always said that we needed capital for the growth of Apollo HealthCo. Most important is the timeliness of the capital. So rather than getting it later, we thought it was the best thing to do to get it at this time. And even if you look at the valuation, it is still at a 15% premium to listed peers. Added to that is the fact that the valuation is based on the performance, the current performance. So, in terms of valuation, I think we are quite confident that we have met; it is a reasonable valuation.

Why Keimed?; - as you know, Apollo has always been a forerunner in creating entities that are unified in nature and are good for the customer as well as for all our shareholders. And that has been the key reason why we created this unified ecosystem. And with this, we believe that we have created scale in terms of the largest pharmacy Company in India, whether it's online or offline. And by capturing at the source, Keimed, the margins that you will see and the growth that you will see in the future is unmatched. So, this is really the reason, the motivation why we've done that.

The complication in terms of how we've timed it in this way, it has to do with us getting shareholder approvals. It also has to do with compliance with CCI. And of course, we do want to do it as quickly as possible, but we've cautiously mentioned that this could be a 30-month timeframe. And also allow for liquidity as quickly as possible into AHL to enable growth.

The second part of it is what it does for AHEL, which is really unlock capital for our own growth. So, there is INR 890 crore that are coming from this that will unlock capital for Apollo to grow. And as you know, we've stated only part of our expansion plans for our strategy for creating an all-India network presence in terms of both the hospital and this network is really a compelling proposition.

Shyam Srinivasan: Helpful. Thank you. My second question is just on the combined entity, just following up from the previous participant as well. We're looking at INR 25,000 crore in three years. Did simple math. It's a 22% CAGR in terms of going from INR 13,600 crore, whatever the annualized number you quoted to INR 25,000 crore in three years. So, when I looked at Keimed, it's growing at 12% for the nine month. Maybe historically, it's grown faster. Maybe there's an element of COVID in there. So, I don't know. So how can Keimed grow much faster than say IPM growth is one question I had? And also, some of the presentation also mentions about global examples, right; any illustration you could share of which other companies say an Advent is trying to compare us with would be helpful.

Sanjiv Gupta: I think on the growth side, first of all, Rule of 72 tells us that how it grows. So, 22% is the growth that we're looking at to double from the current level. So, I think there are many elements to it. One is that, if you notice, our front-end stores, they typically grow, including online, we typically grow annually by about 25% to 26%. I think that momentum has continued to sustain given the fact that we'll be adding around 500 to 600 stores on an annual basis. Plus, the growth in the online business on the e-pharmacy specifically is also pretty robust. For the nine months, we saw about 91% growth. These two groups put together should give us an omni growth of not less than 25% to 26%. That is one.

And second, on the Keimed side, I think there are many facets or there are many levers on the growth side that would kick in. And I think once we start tracking it on a quarterly basis, we would also come back on specific things that we are looking at it. But at this stage, we strongly believe that combining all this, reaching out to 65,000 outlets where we can sell Apollo private labels and do a couple of things, it looks like that 21%, 22% is quite reasonable at this stage. We strongly believe at a management level that this is something which is doable.

A. Krishnan: And on your second point on global examples, if you look at globally in the US and some of the other locations, clearly as of now, if you look at it today, India is on the branded generic route. You know that across US, etcetera, people have moved to the generic route and distributors are becoming powerful as well as the pharmacy chain. We also expect some of this to happen with time in India. So, some of that is the way.

And if you look at integrating the supply chain, once you integrate the supply chain, the opportunities that it provides large distributors like us to be able to also get the right kind of pricing from the manufacturers as well as push the right kind of products, exclusivity, etcetera, is also tremendous. You have already seen that with 6,000 stores of Apollo, we are almost as powerful as almost the other Keimed part of what is getting supplied to 60,000 stores.

So that's the power that we are working on, and I think you will see some of this coming with time. I think over the next, let’s say more three to five-year range, but it will manifest itself in the margins of Keimed as well.

Shyam Srinivasan: If I have can have data point on Keimed debt...

A. Krishnan: Keimed debt is INR 1,600 crore.

Shyam Srinivasan: Thank you. All the best.

Moderator: Thank you, sir. The next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

Alankar Garude: Thank you for the opportunity and congrats on the deal. First question, you mentioned about accelerating private label adoption post this deal, which you think should help drive margin expansion. But Keimed was always run by Shobana ma'am, who is also a promoter of AHEL. So, the question is, what was the extent of Apollo's private label adoption within Keimed's ecosystem earlier and what is the opportunity now?

A. Krishnan: Madhi, you want to talk about that because especially with the partners and all?

Madhivanan B: Yes. So, I think there are three layers in which we look at the private labels. One, within our own existing 6,000 outlets, we have had some very good traction and like Krishnan pointed out, between Generics and Peers (inaudible 22:26 min.), this is going to only improve further. So, this merger will bring about greater synergies of how we are able to manage the logistics between the two companies.

The second part of it is now with the approach, some of the learnings that we are picking up from our own pharmacy outlets, we are able to replicate it across the remaining 65,000. It suddenly opens up a big, big opportunity. So, whether it be, again, synergy across technology, patterns, ability to originate it and supply it. So, we think this will play out in a big way. Whatever continued our relationship between AHEL, etcetera, I think those will, there are also some opportunities for us to improve on it.

So overall, I think these synergies will help us on the operating efficiencies between these four entities. The APL change, the 65,000 to 70,000 partners, AHEL, and the last bit, in 24/7, our (inaudible 23:27 min.) are still not very large. We are smaller, between 3% to 4%. Our intent is to actually maximize it. And some of the synergies that we see between the online and offline will also see that happen.

A. Krishnan: And the private label build itself, for your perspective, has been really a story which is the last two, three years, right. Because clearly, from our perspective, we needed to have that size and scale to be able to build meaningful SKUs for that, which we are now seeing that clearly, we now know the products which are selling. So, first point was to clearly understand this for the last three years, which we have been working on, on understanding which SKUs really sell, which are the products that we can push through the pharmacies, etcetera.

Now we have that perspective fairly, well aligned within our business. Now we know what we can take to the, we can't do that until, we ourselves know what is pushable, which takes some time, right. Making a private label product and then pushing it is completely different.

So having aligned through some of these and we also, by geography, some of these cohorts are different. We know that, in a particular market, we are able to push a particular cohort versus another market where we are not able to, etcetera. All of that is the learning that we are now in a position to you know integrate into those 65,000 pharmacies, which is the plan that we will have, which you will see us deliver with time.

Alankar Garude: Understood, sir. So, if I were to summarize, essentially, as of today, the integration of private label of Apollo within the Keimed ecosystem was very low and the real opportunity lies ahead.

A. Krishnan: Yes.

Alankar Garude: Okay, fair enough. So, the second question is, how many third-party shareholders are there in Keimed and what percentage of Keimed do they own? I mean, essentially, can you throw some light on the current shareholding structure of Keimed?

A. Krishnan: Current, I'll come back to you later because there are multiple different, there are 19 entities that Keimed has and many of them we have been buying over the last one year. There has been a lot of process which has been on even as we are moving into this merger scheme that we have suggested. So out of the 19, I think almost around 10 or 11 we have already bought or even higher.

But eventually, the whole point is, from a unified structure, out of the 25.7%, 3% will be held by the minority shareholders after the combination of the purchase that Keimed is doing, as well as their merger. So out of the 25.7, 3 will be with them. The balance will be with the Apollo family.

Alankar Garude: Fair enough, sir. And one request, henceforth, till the time the Keimed merger is completed, can you please continue to report the pro forma numbers on a quarterly basis. Thank you. That's all from my side.

A. Krishnan: That would be our efforts as well. We'll have to just ensure that they close their books on time, etcetera. We'll work on all of that. That will be our effort.

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

Damayanti Kerai: So, ma'am, I just want to understand broader management plan or strategy for the entire pharmacy business. Because in 2018, you have divested the front-end and then we have HealthCo coming on board and now we have this unification between HealthCo and Keimed. So ultimately, where would you like to take your pharmacy business? Like, what is the final structure or entity which you are aiming for this business? So just your thought on this, ma'am, will be helpful.

Suneeta Reddy: So, I think that in the very beginning, Apollo said that it wanted to create the ecosystem around the consumer. To do that, we needed to have one is this vertical with hospitals. The second, of course, is primary care, which is diagnostics and clinics and cradles. The third part of it, which is the pharmacy network, on top of that, we layered the digital because it was important to see that, we create a unified ecosystem for AHEL.

I think the important thing to note is that we're building scale in each of this. In two of the businesses, the diagnostic and both the pharmacy, it was a very unorganized sector, which we actually you know organized in terms of creating sizable scale and a network that will represent Apollo and all the Apollo services across India. So, with this, we've really managed to achieve scale.

As you know, the pharmacy is present, Apollo HealthCo is present in 19,000 PIN codes. It will also be a gateway for consumers into the Apollo Health ecosystem, whether they require a diagnostic test, a doctor consult, or they need you know to be admitted into the hospital for a procedure. So, this really brings convenience to the consumer, and it expands our footprint and the network that we have. It leverages the network that we have.

Damayanti Kerai: Yes. I guess we heard about your plan for this continuous service to customers at each point, but just from a structural perspective, I guess the pharmacy business becomes very complicated to understand. So that's why I asked. And just following up, the majority part of your front-end business lies with other investors. So, do you have a plan to buy it back? Because at the time of, I guess, demerger, you announced that you will be looking at this option also. So ultimately, the combined pharmacy business comes all together on one entity. Will that be a possibility a few years down the line?

Suneeta Reddy: I think we'll go with the regulatory framework and what needs to be done at the appropriate time. So currently, I think we should just, we should focus on the fact that Apollo is able to consolidate this new large Company.

Damayanti Kerai: Okay. My second and last question is, coming back to Keimed margin improvement, so we discussed about how the learnings from your own private label experience in Apollo stores can be extended to Keimed stores, etc. But I was just looking at Keimed performance. Maybe I have limited understanding, but nonetheless, I guess between FY19 to '23, the top line grew almost twice, but margins remain broadly somewhere in 3.5% for Keimed. So, it seems like scale is really not helping to get in better margins. But like how confident we should be that it should definitely go up from here on in the form of merged entity?

Suneeta Reddy: No, I think I'll let Sanjiv answer this. But I think you should look at the combined margin of Keimed with the offline pharmacy because a lot of the value is being generated there. But Sanjiv, please amplify this.

Sanjiv Gupta: No. I think ma'am rightfully said that I think the overall thing that we need to look at is the omni side of it and the combined margins that gets accrued by virtue of Keimed getting folded. So that is one way to look at it. And as far as within Keimed, whether the overall margin or EBITDA will increase or not, I think give us some time. We'll look into this. We'll come back to you specifically the action plans around the overall improvement of sales as well as the margins.

A. Krishnan: And there are clear plans for cross-selling, which was not there until now, which was the biggest that you will see enabling us. And the private label will also help the Keimed margin expansion. The second point is post-integration, there are synergies that are being planned and that is already baked in which is why Sanjiv clearly said that the 3.4 will go up also with time.

Damayanti Kerai: Okay. Thank you for your response.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Just one question. Is the guidance of INR 25,000 crore of revenues, 8% margin, what is the capital required in the business to get there? And if you can also talk about the capital efficiency that we would possibly achieve if we achieve these margins and revenues?

Suneeta Reddy: Sanjiv?

Sanjiv Gupta: We will have to come back to you specifically on these. These numbers are not handy as of now. But we take a note of this, and we will come back to you.

Suneeta Reddy: Just a minute. Just one number that we are very cognizant of is the fact that if you look at IRRs and return on capital employed, it is in excess of 18%. So, this speaks volumes about the capital efficiency. And the need for additional capital, the amount that has been raised currently which is USD300 million, will suffice for the next five years of growth, post which the Company will start generating cash flows for future growth.

Atul Mehra: Exactly. Good to hear that. Secondly, just in terms of, based on the guidance itself, like almost INR 2,000 crore, EBITDA three years down the line, the valuation at which we are diluting to say Advent, it appears to be more like 11 times EBITDA on three years out basis, which seems to be on the lower side. So, anything that you can comment here like the private equity investors will likely approach for this transaction and how you arrived at this 11 times forward multiple? Why not maybe 15 times or even higher?

Suneeta Reddy: I think the important thing is this is 15% higher than any listed Company which is in the same space. So, it is important to acknowledge that. The second is, of course, this is based on 23-24 numbers. The valuation is based on current performance. The third, of course, is the timeliness of capital. And if you look at what the expectation, it is only 1% that it is a 1% arbitrage from the value that we expected to what we got. And I think timeliness far outweighs a valuation number.

Atul Mehra: And would this entity be listed like three years down the line? Is that a timeline to it? Because now that you have an external shareholder in Advent, is there a particular timeline that you all have on the listing of this entity?

Suneeta Reddy: I think we have a seven-year optionality to do what's good for all shareholders.

Atul Mehra: Got it. Thank you and all the best.

Suneeta Reddy: Thank you.

Moderator: Thank you. We'll take our next question from the line of Shaleen Kumar from UBS. Mr. Kumar?

Shaleen Kumar: So a bunch of questions here. What I was asking here is how much are we currently sourcing from Keimed? And can we like 100% source from Keimed for our different distribution business?

A. Krishnan: No, of the total sourcing in the pharmacy, how much is from Keimed? Would you be aware as we speak, Sanjiv?

Sanjiv Gupta: Yes. 40%.

Shaleen Kumar: But that's the question, sir. Can we source like 100% or close to 100% through Keimed?

Sanjiv Gupta: I think that capability is still there, that we can source. The only thing that we need to keep in mind is that typically what happens is that it's a pan-India operation. It's a very big business, 6,000 stores and doctors keep moving their preference for a molecule all the time. So today, whatever pharma we sell in 10,000 stores, 98% of that quantity (inaudible 36:04 min.) it sourced from Keimed. And we do about 1.5% to 2% 'just in time' and we buy from the other distributors. So, I think from that length sourcing from Keimed is more or less over there.

Suneeta Reddy: So, what Keimed has to do is currently they have 45,000 SKUs. So, as we look at the expansion of Apollo Pharmacies and 24/7 I am sure there is a parallel plan for Keimed to expand the number of; they have 96 distribution centers, they work with 300 manufacturers, and they have 45,000 SKUs. So, with a 15% market share in core regions. So first, this will play into the 24/7 growth story. Second, they will continue to expand this so that they can service more of Apollo Pharmacies.

Shaleen Kumar: Yes, basically the idea is that the 60% where we are right now able to get a distributor margin, we should be able to increase that, right? That should be our, I mean, one of the…

Sanjiv Gupta: Yes absolutely and that is where the economies and the operational efficiencies will start coming in and as we integrate we'll look into that geography by geography, pin code by pin code that what exactly is required to be done and accordingly the entire system of online, offline with Keimed all these three things get connected.

A. Krishnan: Sanjiv, I think one perspective that I think when you said 40%, I think you spoke about the Keimed thing. And to your question, I think of the total purchases of Apollo Pharmacy how much is being purchased from Keimed and its affiliates is what was the question. That is almost, I thought bigger. It is 80% to 90%.

Sanjiv Gupta: Actually, basically the front-end sells the entire Rx drugs and the OTC, FMCG and private label. On the Rx side, which is the drug-drug side what we are sourcing from Keimed is very high. But there is a scope of improvement from there. What I mentioned 40% is the overall Keimed sales if you look at it, 40% of those Keimed sales is from Apollo Pharmacy-limited stores.

Shaleen Kumar: I asked the other way around.

A. Krishnan: So we will come back to you after getting that answer correctly.

Shaleen Kumar: Just a continuation to that till now even an earlier participant mentioned that Keimed was managed by Shobana ma'am and the family rather, I would say. So, who will manage the operation now and second because it was a family business, and it has been a ticket-low, old business. Is there a non-compete now with the family?

Suneeta Reddy: So, first, Shobana will continue to manage the whole entity which is Apollo HealthCo with Keimed. Is there a non-compete in the way there is for this particular business there is a non-compete.

Shaleen Kumar: Okay. That's it from my side. Thank you so much.

Moderator: Thank you. We will take the next question from the line of Dheeresh from White Oak. Please go ahead.

Dheeresh Pathak: Maybe just spend some time on explaining how you have valued Keimed. The reason I am asking is because almost half the business comes from Apollo. So, that part of the business should have been valued lower and it seems to me that; so maybe just explain that why have you valued Keimed the way you valued?

Suneeta Reddy: So, it was not us that valued. The valuation was done by Advent and they were assisted by both KPMG and EY. And if you look at the listed multiple, it is a 20% discount to a listed multiple. So, we had to accept that valuation.

Dheeresh Pathak: There are not many companies that are listed because you don't have a good sample..

Suneeta Reddy: There is Entero that is listed. And if you look at the size and scale of the contribution that Keimed brings I think that this valuation was done by both KPMG and EY and Advent is the one that did the valuation.

Dheeresh Pathak: No, that is fine. But my only submission is that this is leading to; there is a minority stake that is getting created in AHL, right? We are only owning 26% is going to be held by Keimed shareholders. So, it impacts, so I mean as a shareholder in Apollo Hospital also they will have a say in terms of what valuations those transactions happen. And if you look at Entero it has a very short IPO listing. And there is just one Company, look at private market transactions they happen in the distribution business at much lower multiples. So, I am just and then if you also could see from a lens that a large part of the business of Keimed comes from Apollo Hospitals, Apollo Pharmacies. So, that dimension is not there in Entero?

Suneeta Reddy: Yes, but this is the value accretive business. So, even if it is whether it is to Apollo or to the pharmacy chain it is a value accretive business and while the family is the shareholder, we do have multiple shareholders and distributors that Shobana had to consolidate to make this transaction happen. So, there is no comparable in this space.

A. Krishnan: If you look at from an implied while the valuation was also done independently by Advent and as Ms. Suneeta said supported by both EY and KPMG which had the perspective of a DCF as well as a comparable Company method. You are right there are not much of comparable companies which you can have in this business, but if you look at the implied forward multiple at which someone like Entero is traving it is at 25x whereas, if you look at Keimed it will be at almost around 18x of the forward EBITDA.

Clearly, there is it is valued appropriately and that's also basis the DCF which is there. And, if you look at the way the distribution, I think we have addressed this even in the past. Keimed is an assimilation of 19 subsidiaries which has been acquired over the last several years and which was all legacy where we had 51% holding and 49% by the others. All of that in the last one year there has been a cleanup which has been happening by ensuring that there is money paid which is one of the reasons that the money which is 725 odd crore which is getting into Keimed is also to also ensure that some of that structuring cleanup, etcetera happens of the minority such that the resultant minority shareholders is going to be 3% of HealthCo. So, I think we carefully it's a complex deal which is what we have been working on for the last one year and what we will have to appreciate is the perspective as you rightly have also understood is the EBITDA and the cash flows that this is going to get in the overall Company going forward.

Dheeresh Pathak: Okay. Thank you for taking my question.

Moderator: Thank you. The next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Just one question taking the previous question a little ahead. So, in terms of the profound number what you have shown on the combined entity of 10,208 crore now when this number gets consolidated into Apollo Health Hospital Enterprise Limited what would be the number look like? Would you continue to report this way or whatever pharmacy sales have been happening into the hospital that still gets booked as a part of the hospital revenue only?

Suneeta Reddy: Currently, it gets booked in the hospital revenue.

A. Krishnan: So, this has been adjusted for that, right? If you look at the adjustment, adjustment has taken care of the intercompany. Otherwise, the rest is when you combine it with the Apollo Hospitals you will see a bit of a different number.

Abdulkader Puranwala: Sure, understood. And secondly, on the debt on Keimed you just mentioned that it's close to 1,600 crore. So, it's largely acquisition-led or is there some element of working capital also which has led to the debt pileup?

A. Krishnan: Combination of both.

Abdulkader Puranwala: So, in terms of the exit clause you mentioned that Advent you might look for a listing after 7 years. Is there any other obligation apart from listing wherein the Company will look forward to buyback or any other rule?

A. Krishnan: No, I think so it is up to 7 years we have. We obviously have the ability to even list it earlier or give them a mandated sale even prior if required. So, that is the only thing its either IPO or a mandated sale in some way or form.

Abdulkader Puranwala: Got it, sir. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: So, just clarifying the previous question again this 25,000 crore of revenues as we've talked about in FY27 which takes care of the inter-Company sales from Keimed to the pharmacy business?

A. Krishnan: Yes.

Nitin Agarwal: Okay. So, this is going to be a reported number which will get reported as a combined entity on to end 27?

A. Krishnan: Yes, as Apollo HealthCo.

Nitin Agarwal: And secondly while we got 27 number, how do you see the progression over the next three years for the 1,752 crore EBITDA? Is it going to be a step-jump coming in 27 or we see a progressive movement from where we are to this number?

A. Krishnan: You will see progressive movement on this, Sanjiv.

Sanjiv Gupta: Yes exactly. It is going to be progressive, and I don't see that it's going to be a hockey stick kind of a thing. It has to be progressive in nature.

Nitin Agarwal: Okay. And lastly 8,000 crore of valuation that we talked about, this is the EV that you put on the business, or this is the equity value for the Keimed business?

A. Krishnan: Both are EV. All are enterprise value.

Nitin Agarwal: So, we have 1,600 crore of debt in the Keimed business and what currently debt do we have in the Apollo Health business?

A. Krishnan: The Apollo debt is also to be considered, 1,290 crore where you have the other customary adjustments. AHL reported debt is 600. You'll have the other customary working capital adjustments that they would have done. I think that was around 300 crore, 400 crore. You can take a look at it. If you have any questions, you can come back. But broadly, that was the number. So, there was AHL debt of 600 which we always report. AHEL has a 1,290 payable to us as of now, pre-money and then you have some other customary working capital adjustments that all private equity does of, I think, 400 odd in that range.

Nitin Agarwal: Okay got it. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Axis Capital. Please go ahead.

Kunal Randeria: Just one clarification. Apollo AHEL and the pharmacy business also buy from entities like Paleppo, Sanjeevani. I believe that some of the holdings could be of Keimed in this. So, does, when you're now with this merger and everything, do these entities also become a part of the business now of AHL?

A. Krishnan: Yes, that's what we said. When we said that 3% of the 25.7, which we said, so as I said, part of them are being bought, which is why some of them have also, part has been bought, part is being merged into Keimed, such that all the Keimed subsidiaries would become 100% Keimed. And when the 25.7 happens, of the 25.7, 3 would be some of them.

Kunal Randeria: Sure. In the last 9 years, the Keimed revenues have gone up 4X. The margins are around 3.5%. Did you allude to the fact that the margins are actually sitting in the pharmacy business and not in Keimed?

A. Krishnan: So, for the pharmacy business, which is coming to us, obviously, yes there is a full pass-through that comes to us on the whatever as you know, we have been doing a related party arm's length review even by PWC and saying that we have the benefit of 1 to 1.5% of the margins which comes to us additionally from Keimed. So, what you are seeing as Keimed is a combination of what they sell to Apollo, as well as what they send to, sell to the other 64,000-odd other pharmacies. So that part of which is coming to Apollo sits there. You know, the other obviously is the other 64,000. We now anticipate this to go up because of some of the private labels also, including the efficiencies that we can get out of you know, combining some of those subsidiaries as well.

Kunal Randeria: Okay. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: Just a couple of questions remaining. One, so this amalgamation of Keimed is 24 to 30 months from now. So let me assume 30 months. Then it's probably towards end of FY27. That's right?

A. Krishnan: Yes.

Bino Pathiparampil: Okay. So, this INR 25,000 crore revenue in three years…

A. Krishnan: FY26, right? Because you know, we're now in FY25 already. It should be in between that.

Suneeta Reddy: 24, 25 now?

A. Krishnan: 25, 26 would be 24 months. Between 24 and 30 months, it would be not go to end of 27. It could be before that. Our attempt as Ms. Suneeta said is also earlier.

Bino Pathiparampil: Okay. And this INR 25,000 crore revenue run rate that you're saying is will be the run rate at the time when you start amalgamating, right?

A. Krishnan: That is correct.

Bino Pathiparampil: Okay.

A. Krishnan: We'll start giving you the pro forma as one of the other investors or analysts asked. You know, we will start providing some data similar to what we have said here. We will start providing a proforma business for it.

Bino Pathiparampil: Understood. Okay. I think somebody asked about this Advent exit price. So, there is either IPO or a mandated sale. Is there any IRR that AHL has guaranteed on this?

Suneeta Reddy: No guarantee on IRR.

Bino Pathiparampil: Okay. Got it. Thank you very much.

Moderator: We'll take our next question from the line of Tushar Manudhane from Motilal Oswal. Please go ahead. Mr. Tushar Manudane.

Tushar Manudhane: Two questions from my side. One is to understand if you could elaborate the use of this INR 860 crore as a growth capital as far as Apollo Health Co is concerned because significant amount of infrastructure for both offline as well as online business is largely built. So, if you could elaborate on that. That's my first question.

Suneeta Reddy: Sanjiv?

Sanjiv Gupta: As we said earlier that combined AHL is now breakeven, which happened in Q3. So that means that AHL is able to support the entire digital losses versus the pharmacy distribution profits. Now, where exactly we are going to use this money? This money is essentially going to be used for the expansion of stores and to that extent the capital will be used and also capital will be used for the working, I mean the normal working capital enhancement that is needed to ensure that the kind of growth that we are looking at the numbers. To that extent we have got this money. We might use some portion of the money for the M&A side, but I think these are the 2-3 things, elements where this money will get utilized.

A. Krishnan: And immediately for some debt repayment also.

Sanjiv Gupta: And the 4th point is that some debt repayment would also happen out of this money.

Tushar Manudhane: And secondly the transaction with Keimed whereby first is at least (inaudible 53:42 min.) and then the merger the entire thing would have got through as a merger, right? So, if you could help explain that.

A. Krishnan: That's the timeline required for those; I think one as we said already that there are part shareholders which has to be consolidated etc. which is the time that we require to clean up because that is the reason that part of the money from Advent is also coming after 12 months. So, this we require for that whole perspective. So, we are giving that 2% now such that there is a shareholder agreement, there is a commitment etc. Then that 9% also comes in such that there is an unencumbered shares of Keimed which can then get merged into Apollo Health Co. So, this is the timeline that is required for that and then we'll have to file for the scheme of merger. Once it's unencumbered shares.

Tushar Manudhane: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: So I have one question. So, my question is, Keimed currently supplies to the hospitals as well, right? And the hospitals, when they have these pharmacy sales in hospitals, they get captured in the hospital revenue. Now when you're talking about INR 25,000 crore target for Healthco which now includes Keimed, does this exclude the sales that were earlier being made to the hospitals? So, is that the right way to think about it? Or will you now be booking the hospital pharmacy sales in Healthco?

A. Krishnan: It is part of Healthco currently. It will continue to be part of Healthco. As someone else asked, only the consolidation it will get knocked off. Around INR 800 crore plus of these overall revenues comes from the hospitals currently. But of course, the margins will continue to be there. So, from an EBITDA perspective, even when you do the combination and when we do the whole consolidation, you will only be taking off some of the revenues when you consolidate. But as an independent Company, if you look at Apollo Healthco, it will rightfully have to have hospital revenues as well.

Prashant Nair: So basically the INR 25,000 crore is Healthco as an independent Company and when you consolidate it will be 25 minus whatever you supply. But the margins will be captured.

A. Krishnan: Correct.

Prashant Nair: Thank you.

Moderator: Thank you. Due to time constraints, we request the participants to restrict to two questions only. We will take the next question from the line of Nilesh from DSP. Please go ahead.

Nilesh Aiya: Just a follow-up question from the Keimed shareholding which one of the participants asked. So earlier we used to have the Japanese investor Mitsui also owning 20% stake. So, if you can just highlight that based on what I am reading in the press release, etc., it seems that they are no more shareholders. If you can highlight at what valuations they exited and was it bought by us?

Suneeta Reddy: Yes, we bought this. In terms of valuation, the absolute amount that we paid is close to INR 600 crore for that.

Nilesh Aiya: Okay, understood. And second question is just to clarify that earlier from a front-end perspective, we had indicated 80%, 20%, or 85%, 15%, whatever that number in terms of capturing the EBITDA. With post the Keimed merger, just from an overall perspective, naturally how should we think that it should be the same? Or naturally it should go down to a 90%, 10%, or 95%, 5%, something like that? Is that the right understanding?

A. Krishnan: It will continue to be in the same. If you look at the numbers, it won't change. 80%, 85%, as I said, would be the same number that will continue for Apollo HealthCo for the APL part of the business. It won't change. If you look at Keimed, the Keimed portion will completely come to HealthCo. So, I think you have to look at it as how we are providing here in the slide 12, you have to look at it like this. So, the offline pharmacy distribution and the online pharmacy distribution, you will still look at it as 80% to 85%. Keimed, of course, fully comes there. So, the implied number is whatever because of the pharmacy distribution, our pharmacy growth is significantly faster than the overall pharmacy market. So clearly, that will continue to be like that. So, the percentage will just be an implied percentage, whatever it is in 27.

Nilesh Aiya: Okay. Thanks. That's it for me.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Girik Capital. Please go ahead. Mr. Chintan Sheth.

Chintan Sheth: You know, on the set of the questions on the capital employed, again, if you can give us a sense on if the business reaches a scale of 25,000 turnover, what kind of capital will be required to be able to reach the scale of that size of the business?

A. Krishnan: You know, clearly, one of the things is as Ms. Suneeta already said, the current capital which we already have will be able to take us to that. We don't require any additional capital for that because there will be we are already generating EBITDA and I think online pharmacy distribution also, as you know, we are now working on bringing down the losses, etc. And I think after that, it's going to be primarily working capital, working capital related debt, etc.

Chintan Sheth: Right. Okay. And if you refer to slide number 16, the post-merger shareholding which you have presented, there is an asterisk that minimum and maximum number, the post-merger AHL holding will be around 56% excluding the co-holding of the promoter in the pharmacy distribution business entity and if we include it, it will be 59.7. So, if you can just clarify further on it.

A. Krishnan: So, we have a Company which is called which has been long there called FHPL which is 51% which was introduced, which was held by if you remember Apollo, it was doing third party administration business even when Apollo Munich was there, etc. And that Company was 51% owned by the family and 49% was owned by Apollo Hospitals. So given that 49% so that Company owns 18% in Keimed today as we speak.

So that's why what will happen is that 56.7 will be a direct holding from AHEL but the economic interest is 59.2 which includes after the merger etc. which is including that FHPL holding into Keimed. That is the way you should look at it. The max perspective there is because one year from now we will have to do the merger. We have just said that we are not expecting the Keimed because at that time it is mandatory to take one more valuation report etc. But we have ensured that the swap ratios are aligned as of today itself such that there is no increase in the Keimed shareholding even post-merger.

Moderator: Thank you. We'll take a last question from the line of Siddesh from ICICI. Please go ahead.

Siddhesh Raje: So, I wanted to ask on this AHL which is valued at INR 14,478 crore. So, what is the break-up between digital and the offline distribution that Advent is going to, that Advent valued us? And second is this 15% premium that you have mentioned to the closest peer. Which is the closest peer actually?

A. Krishnan: So, two points. One is Advent didn't give a real split of these two businesses. The point is as we all said it could have been valued INR 1,000 crore-INR 1,500 crore more but that's the perspective. We said Advent is a good private equity we have value unlocking, we are doing the right things for the shareholders and ensuring that we are building a business which is much more value accretive from here on. That is the primary reason for this. The split was not provided by them, but I think we should the Apollo 24/7 didn't really get what it deserved but I think we will have to work through all of this and I think over the next 3 years we are quite confident that as Apollo 24/7 also becomes break-even and then starts adding value it will be value accretive to the overall HealthCo business. That's the way that we are looking at it.

Suneeta Reddy: Yes, and I think it's important to note that in this time to get an investor like Advent is not an easy thing to do and we did it with a dilution of only 12%. So, for this 12% dilution we'll have capital for growth not just for 24/7 but for Apollo Hospitals as well.

Siddhesh: Okay and which is this entity wherein 15% premium closest to you?

A. Krishnan: So this is MedPlus may not be the closest representation but I think that's listed.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management team for closing comments. Over to you.

Suneeta Reddy: Thank you everyone. I think our next challenge, our next work will be completing the procedural formalities of the deal. More importantly our teams will work on making the integration effective and unlocking all the efficiencies that are possible and thereby creating value for all of our shareholders. We are committed to building a truly integrated Company that can compete on a global stage. So, thank you all for your support.

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