Apollo Hospitals

Q3 FY18 Earnings Conference Call Transcript
February 15, 2018

Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Ltd. Q3FY18 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 "*" and then "0" on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mayank Vaswani from CDR India. Thank-you and over to you sir.

Mayank Vaswani: Good afternoon and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q3FY18 which were announced yesterday. We have with us the Senior management team comprising: Ms. Suneeta Reddy – Managing Director, Mr. S. K. Venkataraman– Chief Strategy Officer, Dr. Hariprasad – President of the Hospitals Division, Mr. Neeraj Garg – CEO, AHLL and Mr. A. Krishnan - Chief Financial Officer

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. For a complete listing of such risks and uncertainties, please refer to our investor presentation.

We will start with a brief overview of the Q3 performance by Ms. Suneeta Reddy following which we shall take your questions.

Documents relating to our financial performance have been shared with all of you earlier and have also been posted on our corporate website. With that, I now handover the floor to Ms. Reddy.

Suneeta Reddy: Good afternoon everyone and thank you for taking time out to join our call. I trust all of you have been able to refer to the earnings documents which we shared earlier.

We are pleased that volumes and revenues have shown sustained momentum, and have grown at a healthy pace, even though Q3 is a seasonally low quarter.

Standalone Revenues grew 13% on a year-on-year basis to Rs. 1,896 crore – which actually is 16% if adjusted for GST net off impact in SAP. Within Standalone Revenues, 'Healthcare Services' grew 13% driven by volume growth. It was heartening to note a robust contribution to growth from New hospitals especially Navi Mumbai, Malleswaram, Trichy, Vizag, Nashik and Nellore. New hospitals reported 37% year on year Revenue growth at Rs. 206 crore aided by increased patient footfalls, while existing hospitals revenues grew by 8%.

Stand Alone Pharmacies reported 13% growth this quarter. The topline had the netting off effect of 12% GST as compared to 6% VAT earlier – which when adjusted would actually represent a growth of 19% in Q3FY18.

Q3FY18 EBITDA was at Rs. 221 crore as compared to Rs 194 crore in Q3FY17 – a 14% growth over the same quarter in the previous year. EBITDA growth of healthcare services grew 15% and this is despite absorbing an incremental impact of Rs. 18 crore this quarter due to Pricing cap on stents/ implants and incremental GST costs. In addition we had Navi Mumbai losses of Rs 10 crore in the quarter and under-recovery of Guarantee fees to doctors of approximately Rs 7 crore in the quarter. We expect that the effects of regulatory price caps and GST, while largely managed, will be fully recouped by the end of FY19. EBITDA margins at the existing hospitals have improved from a low of 20.1% in Q1FY18 to 21.3% in Q3FY18.

New hospitals reported an EBITDA of Rs. 10.4 crore in Q3FY18 as compared to an EBITDA of Rs. 0.4 crore in Q3FY17. This is after absorbing the EBITDA loss of Navi Mumbai. Our efforts in the last 4-5 months on improving and having a more structured policy of consultant engagement with the New and Existing doctors are beginning to pay off. This along with enhanced clinical focus and robust marketing efforts, we believe, will contribute to a sustained momentum on volumes. Our recent PSU & Corporate empanelment in the newer and existing hospitals have created an upward traction for most of the COE's.

On the Operations front, overall occupancy across the group was at 65% for YTD Dec 17. The occupancy in mature hospitals was at 68% and New hospitals had an occupancy of 57%. ALOS was 3.95 days, a marginal decline from 4.06 days in the same period last year. ARPOB's in 9MFY18 improved by 2% to Rs. 31,984 – despite the impact of stents and lower ARPOBs from some of our newer hospitals in tier-2 locations. Our Retail Healthcare business delivered 18% growth in revenues for a nine month period ending December 2017 – this was driven by 37% growth in our Cradle business and a 92% growth in our Retail Diagnostics business. A strong focus on improving profitability of the business has resulted in the Clinics business achieving break-even and Spectra business reducing EBITDA losses by nearly 30% in the first nine months of the year.

Now to give you all a brief overview of the Region wise performance of our hospitals:

Tamil Nadu: Revenues grew by 6% aided by Inpatient Volume growth of 7%. ARPOB grew by 1% to Rs. 39,879. Overall occupancy in the cluster was 59% at 1,234 beds as compared to 1,178 beds last year.

AP, Telengana region: Revenues grew by 19%. IP volumes grew by 9%. ARPOB of Rs. 29,830 was higher than last year by 10%. Overall occupancy in the cluster was at 62% at 844 beds vs 782 beds last year.

Karnataka region: recorded a promising revenue and volume growth. Malleswaram, which was commissioned last year, recorded IP volume growth of 25% while Jayanagar and Mysore grew at 14%. Occupancy in the cluster was at 73% at 522 beds compared to 479 beds in the previous year.

Standalone Pharmacies: SAP revenues grew by 13% year-on-year. SAP EBITDA grew 11% to Rs 40 crore in Q3FY18. EBITDA margins were at 4.52% despite the impact of higher GST on the value-add. As more and more stores gain in maturity and break-even, we expect EBITDA margins to improve further. We have added 293 stores net of closures in the first nine months of this fiscal. We plan to continue this momentum, going ahead. This is part of our strategy to further enhance our dominant presence in South India and continue to be an undisputed leader in this space. The ROCE on this business is now over 16% on an annualized basis.

Q3 Standalone PAT declined by 7% to Rs. 67 crore y-o-y, despite higher EBITDA as Interest costs increased by 24% y-o-y at Rs. 64 crore and Depreciation increased by 10% y-o-y at Rs. 68 crore on account of the new facilities we have added – both of which will start getting absorbed over the next few quarters as we ramp up the EBITDA from the New hospitals.

The effective tax rate for Q3FY18 was 31%. The Present Net Debt as of 31st Dec. 17 is at Rs. 2,700 crore.

As I conclude, I would like to remind you that we are emerging from the combined effects of multiple external developments such as Demonetization, Price caps on stents and implants and of course the Implementation of GST. The business and financials have still been quite resilient and we believe this is primarily due to our strong foundation built on clinical differentiation and quality of care which continue to be our mainstays.

Our strategy of focusing on high-end tertiary care cases has resulted in higher growth in Cardiac procedures, Transplants, Neurosciences, Orthopedic Implants and Paediatric work – which we continue to build upon over the next year as well. We have definitive plans to develop our Oncology COE'S which will result in revenues over the next 3-5 years and we hope to become a national leader in this space both in terms of clinical differentiation and volumes.

We have in place sufficient capacity and headroom for growth and are well placed both in the urban centers and Tier 2 cities. With strong medical teams and focus on key specialties we are well placed to benefit from the structural demand supported by tailwinds from Ayushman Bharat – as and when the same is rolled out. Our focus is to carry forward the momentum of recent quarters into the next 12-18 months. We are confident that our strategic initiatives will provide levers for high quality growth and fortify our profitability.

I now open the floor for questions. Mr. S.K. Venkataraman, Dr. Hari Prasad, Neeraj Garg and Krishnan are here with me to take your questions.

Moderator Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Swati Madhabushi from East Capital.

Swati Madhabushi What will the like-to-like growth if you would take out the regulatory impact rate i.e if you take out the stents and GST impact, how would the numbers look like?

Suneeta Reddy So that will add Rs. 17 crore to our profits for the quarter.

Swati Madhabushi Both stents and GST, which was not in the base?

Suneeta Reddy Yes.

Swati Madhabushi On Navi Mumbai, what is the guidance, its EBITDA would breakeven in which quarter?

Suneeta Reddy We are working towards first quarter of next year.

Swati Madhabushi First quarter of FY19. Also when would Gleneagles Kolkata come back to the normal run rate; what is the guidance with respect to that?

Suneeta Reddy I think four quarters. They will do substantial EBITDA by the end of this year. They are already on track. The recovery is in place, but to come back to that high trajectory and EBITDA margin, I think it will take four quarters.

Swati Madhabushi In the Tamil Nadu region, there is a growth in patient volume of 7.2 for inpatient and 5 for outpatients. Also there is a growth in its ARPOB and a good growth in its occupancy. But its revenue growth is still only at 6%. So is there anything I am missing here?

A. Krishnan: So if you look at Tamil Nadu region, we have Trichy and Nellore which are a New hospitals and the ARPOBs in these hospitals are lower than the Chennai division ARPOBs. So because of which, obviously the revenue growth would not be in line with the same; it would not be the same as the volume growth that we have seen because of the base effect that we have of Chennai.

Moderator The next question is from the line of Neha Manpuria from J.P. Morgan.

Neha Manpuria Just following up on the question on Tamil Nadu. Given, our base quarter had a lot of one-offs like demonetization, VIP admission, cyclone etc. and this quarter we probably have the full benefit of the tariff increase, tariff adjustment, which has happened. Is there any reason why our margins still remain flat quarter-on-quarter for the existing business?

A. Krishnan: So if you look at it broadly, there is not much of price increases that we have still taken here which is something that I would want to tell you that if you look at the price increase that we did, we said that we have not yet fully implemented across. So we have delayed it by another quarter because we thought we should get some of the occupancies pickup in our hospitals. So that is not fully correct, but with that said, Q3 is typically a seasonally low quarter for us and some of the surgeries do not get done in Q3 because there are theater closures etc. Other than that, we do not think the margins have further got impacted in this region.

Neha Manpuria If you could just give me some color on how Chennai Main is, how its occupancy is improving, what is our target there given we were re-negotiating some of the price contracts that we had and we had seen a pickup from that in the last quarter.

A. Krishnan: So overall, if you look at our quarter-on-quarter number, Chennai Main has definitely picked up, in fact, Q3 volumes in Chennai Main alone has gone up by 6%, Q3 of this year on Q3 of last year. Of course, yes, you are right, that Q3 of last year was a bit lower, but broadly that is what has been the growth that we have seen. And even on YTD basis, if you look at Chennai Main alone, the volumes have gone up by 5%, YTD this year versus YTD last year. So, it is not that we are slipping on that. Yes, the growth could be better. It is not yet completely crystallized. But we are working on it. Stent of course has had an impact in Chennai and Hyderabad more than some of the other regions. So you should remember that the base effect of stent realization has not yet been there overall on the topline revenues.

Neha Manpuria So Chennai Main should see normalized occupancy in another 3-4 quarters by the end of FY19, would that be the right assumption?

A. Krishnan: Yes. We are now at 63%-64% occupancy in Chennai Main.

Suneeta Reddy But ALOS is also coming down in Chennai Main, so you must keep that in mind.

A. Krishnan: The other thing which is important that you should remember here is we have this new Mother & Child Hospital that we have set up here and all the gynecology work has now got shifted from Chennai Main to the 'Mother & Child' which was the plan earlier. So that has got reset which has given some more headroom for growth on the Chennai Main which was anywhere part of our plan. So looking at Chennai Main alone may not be correct. So if you look at 'Mother & Child' and Chennai, you would see that the 5% is actually 6% increase.

Neha Manpuria Okay. Fair enough. My second question is on the Navi Mumbai loss which seems to have inched up quarter-on-quarter by a little bit; any specific reason for that given we are still guiding for breakeven by first quarter FY '19?

A. Krishnan: Nothing specific. There was a one-off cost of around Rs. 1.5 crore of advertising, which was incurred there. Apart from that, if you look at Q4, we should come back to a significantly lower number than what we have seen in Q3.

Moderator The next question is from the line of Anubhav Aggarwal from Credit Suisse.

Anubhav Aggarwal My first question is on the pharmacy business. It seems from the additions that we have become very aggressive on adding more of our pharmacies. So I just wanted to understand couple of things on this aspect. This year nine months addition is already much higher than what we added in last full year. So where and exactly in which States are we adding more aggressively. Also I wanted Suneeta ma'am thoughts on online pharmacists versus store-based pharmacists at this point of time.

Obul Reddy The new stores addition is mostly South and East India where we have supply chain organized. As of now the online business economics does not seem to be working with huge discounts offered by the competitors. So we are just watching the market how it will develop and then launch online sales.

Anubhav Aggarwal Actually my question was more from the perspective that we are becoming aggressive in store base, you do not think that very aggressive discounting by the online pharmacies is a threat …

Obul Reddy: Long-term it may not be sustainable. If you see some of the online players, on first purchase a 35% discount and on second purchase a 25% discount is offered while the gross margin of the business itself is about 25% to 27%. So these are all in line with the online trade like acquiring the customer and see, but I do not know how long in pharma sector customer will stick to the same online business. When the discounts come down, he can pick up at the neighborhood store and go home. That is our expectation and experience.

Suneeta Reddy The other advantage that Apollo Pharmacy has is that they are already delivering for a number of people who are finding logistics difficult and developing their own digital interface.

Obul Reddy: And towards this, we are creating a customer base for each store and serving them on a better service terms and retaining them, which you could see in the sales growth across the system. We have also started home deliveries. We have started following up on the first week for their fill-in particular for the month. So we are doing a lot to counter these threats. We believe that in the long-term, these kind of discounts may not be sustainable and we have to see how that business does over a period of time. We cannot compare pharma online with other online businesses as pharma is in the regulated pricing system whereas other products online which you see are not in the regulated regime and we are just watching and working on our style of growth.

Anubhav Aggarwal Exactly I agree with you. My question is that while the competition can be irrational, why are we becoming aggressive in setting up the stores when the environment is not very clear?

Suneeta Reddy I think the physical format stores are still very viable because delivery is very important. The last mile logistics is important and we play off a completely different environment where there are hospitals, hospital patients, clinics, clinic patients, insurance, all of them to come together in one Apollo. So we need a pharmacy provider for the delivery to see that our prescriptions are fulfilled and for the delivery of medicines; but we are developing a digital interface and this is with proven quality.

Anubhav Aggarwal Currently we are very close to 3,000 stores i.e 2,850 or 2,900 stores. So you would have already mapped out that with 5,000 stores you can see that you will easily reach in your South India East network or is that a 4,000 number, if you could give some idea it will be useful.?

Obul Reddy: We have in mind to have about 5,000 stores in the next four to five years and then see where we end up. This is because you have about 8.5 lakhs retail stores and in organized sector we have just about 5,000 stores keeping all the players and we are at about 3,000 stores. So there is a lot of need for stores to serve the neighborhood and so we are going on that basis.

A. Krishnan: And I think you will also see us augment our private label plans very soon. We are now at 7% of revenues. You already know that the works are on, on repackaging, we are doing a lot more SKUs, streamlining all of those. When you will see us in that new avatar hopefully in the next one year, you would realize that the businesses probably a bit more different than what we are today.

Obul Reddy: That might itself is a separate segment giving good margins to us. Today in absolute terms, i.e about Rs. 250 crore on annualized basis. So we have to concentrate on that and physical network will help volume on that.

Anubhav Aggarwal Now just moving on to one question on the net debt; how much was the CAPEX we did in the last nine months at the standalone operations?

A. Krishnan: Sorry, I do not have that number offhand here. The net debt currently is Rs. 2,700.

Anubhav Aggarwal I know that number, I was saying that in these first nine months, our net debt has increased by Rs. 300 crore whereas I was looking at our cash generation from the standalone business which should have been at least Rs. 250-300 crore as well. So I was just trying to understand that why our net debt has increased by Rs. 300 crore in the first nine months; have we done so much CAPEX?

A. Krishnan: So we would have. That is why if you look at the Proton business itself, the Proton Therapy Center that we are adding and the Navi Mumbai Center that we are adding and Malleswaram also which we would have some cost which would have come in. So we will have to see how much of free cash flow we generated and how much of this was the additional debt. I will have to come back to you on the same because we also had a dividend payout which happened this year. You should remember that it comes from the free cash flow. We had a Rs. 100 crore dividend payout which would have happened in the first half. So you should look at that because the second half is what typically the cash flows come back to the company. So if you look at basis both, then you may realize that the increment is not as high.

Anubhav Aggarwal Actually I was looking at your Slide 20 where you have talked about expansions where it has been stated that out of the total CAPEX of Rs. 778 crore you have already done Rs, 391 crore in the last nine months. If I see the same in your Q4FY17 presentation, CAPEX done this year has not been so much.

A. Krishnan: Slide number?

Anubhav Aggarwal Slide 20, where you have given your expansion plan and an update on execution. You have mentioned there that Rs. 778 crore which is the CAPEX you are planning including photon therapy and expansion and all.

A. Krishnan: This is the balance amount.

Anubhav Aggarwal No, but looking at the same number in Q4FY17 and looking now, at least the CAPEX that you incurred, this number does not come out to be more than Rs. 100 crore at least on the slide?

A. Krishnan: So there is a Rs. 120 crore of routine CAPEX also that we have incurred.

Anubhav Aggarwal Maybe you can help revert on this because we were talking about a gap of Rs. 600 crore where dividend is Rs. 100 crore and that is why I was asking that there is so much CAPEX, I could not understand.

A. Krishnan: Would not be. Rs. 600 crore cannot be the difference; I will come back to you.

Anubhav Aggarwal Also sir, how much exactly was the stent loss in this quarter?

Suneeta Reddy This quarter was Rs. 10 crore.

Anubhav Aggarwal Same as the last quarter, actually?

Suneeta Reddy Yes.

Anubhav Aggarwal And Navi Mumbai, what is the topline that we are doing over there right now?

A. Krishnan: We will take it offline, we do not have the number offhand here.

Moderator The next question is from the line of Damayanti Kerai from HSBC.

Damayanti Kerai What is the current occupancy level at Navi Mumbai?

A. Krishnan: So currently the number of beds occupied at Navi Mumbai is around 110.

Damayanti Kerai We expect to breakeven by?

Suneeta Reddy First quarter of next year.

Damayanti Kerai What are your bed expansion plans in Navi Mumbai? We had plans to add additional beds, right?

A. Krishnan: So we are expecting to operationalize almost around 250 beds by in the next two quarters.

Damayanti Kerai Another 250 beds by?

A. Krishnan: Totally 250 beds is what we would have operational by two quarters.

Damayanti Kerai Okay. And right now we are at 110 beds?

A. Krishnan: Occupied.

Damayanti Kerai Yes occupied beds. Coming back to AHLL where you commented that we are making significant progress. But could you elaborate a bit more on AHLL because we are still seeing majority of losses coming from AHLL and not much of meaningful improvement there?

Neeraj Garg So if you look at the AHLL business and I will really look at the three segments within that; so there is primary care, specialty and diagnostics. One of the business we consciously took a decision to invest in significantly during the year was our diagnostic business and you would see that has an impact on the EBITDA losses in that business, but that is translating into a significant improvement in our network as well as in our revenue growth there. So when you look at the revenue growth of the diagnostic business, that is a blend of our internal revenues which is what it serves the rest of the AHLL network as well as the retail network of diagnostics itself. The retail network of diagnostics grew revenue this year in the first nine months by 92% and this was including the expansion in network. If you look at the diagnostics business on a like-to-like business which is with the same network that we had last year, it grew revenues 36%. So the diagnostics business is an area that we continue to invest in and we believe will be a strong valuable business for us going forward. On the primary care side, you will see that there has been a significant improvement on the EBITDA. Within primary care, the clinics business unit which is our largest and oldest has actually broken even. We still got a bit of a drag from two of our other businesses there which are Sugar and Dental, but those are on a good path and we expect those to improve. In the Specialty care side, the Spectra business had a weak first half. So if you look at our first half growth in revenue, we grew 10%, we put in place a number of actions in the first half and we have seen strong improvement in the third quarter. So the third quarter, the Spectra business has grown 18% and we see that business continuing to show a strong performance. For the full year this year, we would expect Spectra to reduce its EBITDA losses compared to last year by over 30%; so strong performance there. The business where we still have some softness is Cradle. Revenue growth has been strong at 37%. On a like-to-like basis, revenue growth has been 29%, but there are two centers that have not ramped up as rapidly as we had expected. One is that the new center that we opened in Amritsar earlier this year and the second is a center that we have in South Delhi, Nehru place. That was a Nova acquired center that we converted into a Cradle. So these are the two centers we are working on. From an external market perspective, we being under bit of pressure in Bangalore; so Bangalore has been witnessing hyper competitiveness in the maternity space between us and few other competitors, but we are beginning to see that stabilize as across players we sort of start stabilizing investments there. So Cradle is slightly behind plan, but we do believe directionally we are on the right path.

Damayanti Kerai So broadly, when we should expect EBITDA breakeven in this entire business?

Neeraj Garg So we had earlier indicated by the end of FY19, we should be probably a few quarters behind that.

Moderator The next question is from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala My question is on standalone pharmacy. What is the longer-term game plan over here in terms of keeping it within this company or spinning it off, any thoughts would be helpful.

Suneeta Reddy If you look at standalone pharmacies, I think we had said earlier that we need to reach a critical mass. The second thing is that we need to reach closer to what we expect to be mature EBITDAs. And at that time, the value of spinning it off will be more apparent. So right now, we are looking at different structures, but we will choose the one that adds the most value.

Sameer Baisiwala Any thoughts on a bit lack of margin improvement, I think it is 10 bps down on a nine month basis y-o-y at EBITDA level for SAP?

Obul Reddy: We have last year Q3 as a very good quarter, number one. Number two, this year we have had the GST impact of almost about 50-60 basis points as a cost coming into our book. So that is the reason, otherwise would have shown improved margin and now with the GST transition being over, we are now getting prices reset and the margins should improve which will reflect in the EBITDA. The opening stock when the GST was implemented carried a different pricing system. So that is the reason.

Sameer Baisiwala Also on price increase, I remember from the previous quarter concall you mentioned that you would be taking those actions in Q4 especially for Non-Tamil Nadu clusters; so are you on track for that?

Suneeta Reddy We are on track for our retail customers, but we do have contracts which is 50% of patients come under either insurance or corporates where we have already given commitments in terms of pricing. Till that year plays out, we cannot change prices for this. For the other 50%, we will start next quarter.

Sameer Baisiwala Next quarter means Q1FY19 is it?

Suneeta Reddy Yes. We have already done a little bit of pricing increase, but significant price will come only next year.

Sameer Baisiwala And just a quick one on the Others cluster? I think the volumes when compared nine months on y-o-y is up very sharply, i.e up by almost 37% even though the beds are up I think at about 20%. So anything specific over there?

A. Krishnan: Nothing specific. I guess Navi Mumbai has added to it also because last year same quarter we would not have had full year impact of Navi Mumbai.

Suneeta Reddy Also like we said earlier, now we have doctors in place and especially hospitals like Nashik, Nellore, all improved occupancies because our clinical strategy is now in place.

Moderator The next question is from the line of Prashant Nair from Citigroup.

Prashant Nair My first question was related to the Navi Mumbai revenues which I think was asked earlier as well.

A. Krishnan: It is around Rs. 95 crore, year-to-date.

Prashant Nair Rs. 95 crore is year-to-date, okay fine. And the other question was related to AHLL. Could you update us how you see this business moving towards breakeven, what timeframe as you stand today?

Neeraj Garg As I mentioned to the earlier question, we had initially indicated that by the end of FY19, we will be getting to breakeven. We see ourselves being a few quarters behind that, but within this, I think number of our businesses has already well on track to getting there by end-FY19 itself and the clinics business within AHLL has already broken even.

Moderator The next question is from the line of Kashyap Pujara from Axis Capital.

Kashyap Pujara The Chennai cluster occupancy is at 59%. Now this is obviously to do with the fact that we have deemphasized certain specialties like gynecology into Mother & Child etc. and ALOS has fallen down. So the occupancy has to be seen in that context, but if I were to split it between within Chennai cluster, what is the mature facility clocking as far as occupancy is concerned and what are the new facilities which have opened up in the last 12 to 24 months? What is their occupancy if you can help me with that data, it would be helpful.

A. Krishnan: So broadly if you look at the mature, Chennai Main as I said, the current occupancy is around 62%-63%. Outside if you look at Specialty and the rest, the Chennai division as a whole, broadly the total of Chennai is at around 61% which is outside of the New hospitals and if you look at the New hospitals like Vanagaram etc., they are more at around 54%.

Kashyap Pujara And the pressures that we have seen in the last year, we are now emerging out of it. So is it fair to assume that we will see a reasonable ARPOB growth and the 6%

volume growth continuing alongside? So would it be fair to assume that on this cluster in the next couple of years?

Suneeta Reddy Surely.

Kashyap Pujara Now if I were to just put a context to that, our current EBITDA that we have is actually understated by Rs. 150 crore because that is the drag that we have broadly due to Navi Mumbai and AHLL, which the gentleman on the call I think just guided that by FY20 given few quarters miss from end FY19. AHLL would be breaking-even and Navi Mumbai is breaking-even in the next year. So hopefully that Rs. 150 crore should actually subsume and full reflection should be visible and on top of that if Chennai does well and your pharmacy is any which way doing well. I think finally we are on course to do a 20% EBITDA growth in the next couple of years. So after a drag of 3 or 4 years, we are now emerging to deliver 20% plus growth. Is that a fair assessment of how you think?

Suneeta Reddy Yes, I think it is a reasonable assessment of what we are planning to do.

Kashyap Pujara And I was also going through the ROCE breakdown, both the pharmacy business and the old hospitals are at 15% plus return on capital and the new hospitals is where there is a drag and obviously we have not counted the CWIP and the proton therapy which is fair. So what are your thoughts about return on capital for the new CAPEX that we have done over the last 24 to 36 months? What is your assessment of when we can see that coming towards 15% plus return on capital?

Suneeta Reddy See mature hospitals is at 19.1% return on capital employed. So I think it should be a 5-year journey for the new ones to get there in the healthcare services space.

Obul Reddy In pharmacy we are at an 18% ROCE this quarter.

Kashyap Pujara And given that there is no new CAPEX that has been announced so far, essentially we hopefully should be in a position to see profit growth with improving return ratios. So all the best.

Moderator The next question is from the line of Aarsh Desai from Vallum Capital.

Aarsh Desai Just a continuation from the ROCE discussion that you all were having; the 19.1% return on capital employed number that we have, can we assume it as a fair number for hospital gets maturity of over 5 years.

Suneeta Reddy It should be 7 years, at least 7 years.

Aarsh Desai Okay. With regards to this stent pricing I have a little confusion. A couple of your competitors have given a kind of contradicting views; so one of them have said that the fall in the stent pricing has been capped in the procedure cost and the cost is back to normal. While your other competitor has said that this is not possible because the Government is having a close watch on the cost of the total package of angioplasty, so it is not possible to get the package cost to that extent and that the package cost would never be to that extent than it was before the Government pricing in the stents. So what is your take on it, what will our assessment of this be?

A. Krishnan: So if you look at it even before this, we had a one price package across many hospitals on stent including the stent cost. And even now if you look at it, we have a one price, a one line package across many of our hospitals and if you hence look at it from a patient perspective, the overall price has still come down by at least around 10% on across most of our procedures and across hospitals. In case of insurance, it is a different dynamics because insurance, the stent price was kept outside and because of which it was always an addition and the procedure cost will be renegotiated with the insurance when it comes up for renegotiation next year. So there is a benefit to the overall patient billing.

Aarsh Desai Currently there is a benefit but say two quarters down the line will this benefit to the patient go away?

A. Krishnan: We do not think so.

Aarsh Desai So this benefit of 10% should stay is what you are saying

A. Krishnan: Yes.

Aarsh Desai Okay and my next question is with regards to pricing. So how different would be the pricing in terms of a walk-in patient vis-à-vis the patient coming through an insurance scheme vis-à-vis patient coming through say a Corporate or Government scheme. So how different would pricing be in that terms, if you can give a ballpark percentage number?

A. Krishnan: Insurance is typically closer to the walk-ins. So we typically have a 3%-5%, because of the volumes etc. that they give etc. depending on how soon they pay, it could be 3% to 5% lower than the overall walk-in prices and it can be negotiated differently from State to State, so to that extent it could be 2% here and there. In case of Corporates, it again depends on the volumes, it could be 15%-20% lower if the Corporate is a very, if it is a sizeable corporate to kind of assure that even he can fill up at least 30-40 beds.

Aarsh Desai Got it. And in terms of your pharmacy, what would be the difference in ROCE between your mature pharmacies and say a growing one?

A. Krishnan: So mature pharmacies EBITDA margins are 7%.

Aarsh Desai Not margins, your ROCE?

Obul Reddy It is about 25%.

Moderator The next question is from the line of Nitin Aggarwal from IDFC Securities.

Nitin Agarwal Currently what proportion of our business would be from Government schemes?

A. Krishnan: So it would be around less than 5%, around 5% to 6% at best.

Nitin Agarwal And sir when we talk about this new Government insurance scheme, given the way we have been operating with relatively less share of business from these schemes, do you see our system aligned to sort of benefit from the roll out of the scheme whenever it happens and what changes would we need to make in the system for that?

Suneeta Reddy I think we should because if you look at the general wards that we have created in Tier II cities, I think we should surely be able to look at better occupancy of those beds. Currently, we are only at 54% occupancy, so there is headroom for growth and I think it will be a fantastic opportunity for Apollo Hospitals.

Nitin Agarwal And secondly on the Proton Therapy, so you are looking to get it commissioned this year or how is the commission scheduled for it look like?

A. Krishnan: So I think it is being planned in two phases because there are three gantries in the Proton, so clearly between the three gantries it is going to be, first gantry will be by hopefully September to December 2018 timeframe. Then the second and the third will say take another six to nine months before it gets commissioned. So it will be in two phases at least.

Nitin Agarwal In terms of the initial startup cost, how should we look at that?

A. Krishnan: I guess it is a bit early for us to give you guidance on that, we will probably give you that by Q1.

Moderator The next question is from the line of Harith Ahamed from Spark Capital.

Harith Ahamed So when we look at the New hospitals as a basket and if I exclude Mumbai from it, we are at around close to 9% EBITDA margins. So I just wanted to understand if there is a scope to take this margin figure further up. Also for New hospitals as a basket what is the kind of margins we should be looking at excluding Mumbai, let us say in 3-4 years?

A. Krishnan: So you are right, the opportunity excluding Mumbai has increased and in fact even with Mumbai is quite high, we are now if you look at the EBITDA margins for the quarter, it is almost around 5% and we would want that to get to 15% to 18% in three years; that is what we are working at.

Harith Ahamed Okay. You mentioned a target of around 5,000 stores in the pharmacy business; which means the current level of store additions would continue. With that kind of store addition plans could we expect margins to improve or will the store additions mean that margin improvement will be a bit tempered?

Obul Reddy We expect to maintain and improve our margins as you see that we have been adding about 250 stores every year, yet improved our margins except this year where we are adding say 100 stores more than our average in the last 4 years. So we expect that we will maintain and improve the margins.

Harith Ahamed Okay. On Apollo Gleneagles you are seeing some sequential improvement, but by when could we expect this facility to get back to its original level of operational performance?

Suneeta Reddy It will take four quarters.

Harith Ahamed But we are confident of hitting the Rs.80-90 crore EBITDA that we used to get from the facility?

Suneeta Reddy Yes, we are.

Moderator The next question is from the line of Rohan Dalal from B&K Securities.

Rohan Dalal So I wanted to know about Apollo Gleneagles and Apollo Munich. I can see in your presentation that Apollo Munich has seen about 250 bps decline in EBITDA margins. On Apollo Kolkata, I just wanted to get some color on why the ARPOB has fallen by 16%?

Suneeta Reddy If you look at Munich, there was a muted revenue growth as people usually do not renew their policies at this time. It recorded a Rs. 796 crore of revenue and the EBITDA loss because of different accounting went from Rs. 57 to Rs. 82 crore and therefore the PAT declined to Rs. 97 crore, but that again is a new accounting method which has led to the loss and the loss ratio has remained at 65%, constant from last quarter to this quarter.

Dr. Hari Prasad ARPOB in Kolkata has come down mainly because of a change in the case mix.

Rohan Dalal Any color on that case mix change?

Dr. Hari Prasad Some of the more acute cases and the more long-term cases are beginning to go to the Government facilities which used to come to the private hospitals. Also there are more number of patients who were travelling out of State at this point of time.

Moderator	The next question is from the line of Charulata Gaidhani from Dalal & Broacha.
Charulata Gaidhani	How much is the capacity beds in your Navi Mumbai facility?
A. Krishnan:	So the Navi Mumbai capacity beds are 400, but if you look at what we are going to be operationalizing now in the next two quarters it will be 250.
Charulata Gaidhani	So currently how many are operationalized?
A. Krishnan:	Currently, the occupied beds are 110. I think operationalized would be around 170 or something like that.
Charulata Gaidhani	And how much is loss?
A. Krishnan	So the current EBITDA loss that if you exclude the one-time loss that we had of Rs. 1.5 crore of advertising, it is probably Rs. 8 crore EBITDA loss for the quarter, we should come in better in the Q4 and hopefully get to EBITDA breakeven by Q1.
Charulata Gaidhani	My second question pertains to Apollo Cradle. Is Apollo Cradle entirely your own or are you leasing it on franchise?
Neeraj Garg	So all the Apollo Cradles are company owned. There is only one Apollo Cradle that we have in Gurgaon which was a franchise which has been there for many years. But our current model is entirely company owned Apollo Cradles.
Charulata Gaidhani	Okay. And how much is the EBITDA margins on that?
Neeraj Garg	So currently the business is making losses as we have been expanding the network aggressively over the last three years. But on a steady state basis, an Apollo Cradle would technically deliver between 20% and 25% EBITDA at a single unit level.
Charulata Gaidhani	When do you expect breakeven?
Neeraj Garg	So the Apollo Cradle business we will be looking at the current network getting to breakeven in FY20.
Moderator	The next question is from the line of Swati Madhabushi from East Capital.
Swati Madhabushi	I have a few requests before I ask the question. So if you can put out your full consolidated P&L either on the company website or on the BSE notices because I can only see the standalone numbers; I do not see the consolidated numbers. Also is there any change with the tax because at least on the standalone that you have provided, there is a difference in the tax rate.
A. Krishnan:	So with regards to consolidated numbers, we adopt only consolidated results annually, so what we provide here is estimates based on management numbers etc., which is what is provided to investors. We adopt only standalone accounts under the SEBI circular so which is why what we released to the stock exchange and what we have on our website is the standalone account. But if you have any specific queries around any numbers on consolidated, we are happy to provide that, this is what is being done in the investor presentation. On tax rates, yes, we do not have the benefit of section 35AD this year as you are aware. So the current tax rate is around 30% mark. Over the quarters there would have been some true-up, which should have happened.
Swati Madhabushi	Okay. I have one more request. One of the earlier callers requested about CAPEX and FCF generation gap. I think it would be great if you can just distribute this information to all investors.

A. Krishnan: We can. We will do that because the way the numbers were looked at was only looking at the new projects. If you look at the projects that we have already operationalized, we have added oncology etc. for example Belapur in Navi Mumbai, in the last nine months we have added Rs. 100 crore of CAPEX in Belapur though it is not part of the new projects because it is already commissioned. The oncology wing got commissioned in this year. So clearly there was a Rs. 100 crore which got added on Belapur alone. Again if you see for Malleswaram, Vizag, there has been CAPEX which has been brown field CAPEXes which is part of it because that is the reason that you know it is not figuring in that new projects per se, but fine we take your point and we will provide you maybe hopefully from next quarter we will try to see whether we can provide a cash flow also.

Swati Madhabushi Thank you. So Neeraj you just responded to the last caller that on the current network for Cradle, we will breakeven by FY20 something. I mean is there any guidance with respect to what the networks of AHLL will look like? How aggressive are you guys are going to be on expansion because at least from only my opinion, I think we need some kind of free cash flow generation. The company has been on CAPEX mode for too long way.

Neeraj Garg So in terms of the investment cycle behind creating fresh network, we are largely done with that in AHLL. So in terms of fresh investments for network expansion, we would expect to largely see that only in the diagnostic network which as you know is not very CAPEX heavy, but it does result in some EBITDA cost in the initial year. And in terms of capital investments for expansion, we do not foresee significant fresh investments in the next 1 or 2 years.

Swati Madhabushi And Suneeta, is there any guidance on revenue at least revenue and EBITDA for FY19?

Suneeta Reddy I do not think we should give guidance for revenue and EBITDA but we communicate every quarter and I think you can build your own internal radar on how our guidance will look.

Moderator The next question is from the line of Nitin Gosar from Invesco Mutual Fund.

Nitin Gosar I have one question on Apollo Kolkata. You mentioned about the ARPOB drop of around 16% more to do with the complex spaces going out to Government facility or maybe out of State. But isn't it very unlikely situation wherein complex cases are going to Government hospital?

Dr. Hari Prasad Now what happens is all these road traffic accidents and all that are being now taken more to the Government hospitals by the ambulance services which are coming in and I also said that lot of people are traveling out of State now compared to the past and we hope that it will stop and people will start getting treated once again in the state itself. And the phenomena not limited to our hospital, it is happening to hospitals across Calcutta and West Bengal.

Nitin Gosar So does it mean that the quality of services which are getting provided in the particular State is not something which the patient pool is expecting out of them.

Dr. Hari Prasad Not necessarily, the quality of services have always been the same. They have been of the highest quality and Calcutta hospital has been a joint commission accredited hospital. But certain recent incidents and certain amount of hype created in the media has dented the confidence of the common man which I am sure will come back as the quality of services remain the same.

Nitin Gosar And when you talk about complex cases pertaining to emergency like accidents, complex cases do not limit themselves only to accidents. So there is a larger pool of other surgeries which are there.

Dr. Hariprasad Yes. If you take treatment for oncology or bypass surgery, some of these patients are traveling to other States; actually we have seen an increased inflow into our own hospital in Chennai.

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

Shyam Srinivasan My first question is on oncology revenues. So what is the current revenue contribution from oncology today and as we ramp up some of the stuff, where do we see it like in a two to three year timeframe?

Suneeta Reddy So oncology is currently at Rs. 650 crore, we believe that by 2025 we should be able to double this revenue.

Shyam Srinivasan Okay. And some of the CAPEX that you are putting in place today; it is the one that actually is going to take us there. Is it the one?

Suneeta Reddy Yes.

A. Krishnan: Including that.

Shyam Srinivasan Okay. And since it is like a specialty, we should assume that the segments margins are clearly a lot better versus where some of the other specialties are. Would that be a fair assumption to look at?

Suneeta Reddy Yes.

Shyam Srinivasan Okay. My second question in on back on the universal health Insurance thing. I think there has been some debate around the premium amounts, I think Mr. Amitabh Kant talked about Rs. 1,200 per family, I am just trying to see the implications on private hospitals because would this mean that we need to give a sharply lower prices when we price it to these Government sponsored patients in Tier II cities, would that be the way to go because just doing any reasonable math on premium for the cover, it seems quite low when you compare to any commercial plan at this point of time.

Suneeta Reddy I think we should be concerned with the cover, which is Rs. 5 lakh per family which is far higher than anything that has been done before. So lots of hospitals are already doing State scheme where the cover is so low, we should expect to see a better recovery from Ayushman Bharat and I think they have also had a look at everything and looked at how they can have access into private healthcare and the only way to do it is to at least on a marginal costing basis see that they start contributing.

Shyam Srinivasan So just looking at your 5% revenues from Government, how would you classify it from a profitability standpoint when you compare to the rest of the Group?

A. Krishnan: So as of now if you look at it, it is just profitable at the gross margin level. So a lot of fixed cost is still not getting recovered by us.

Shyam Srinivasan So in the scheme what do you think the Government needs to do to incentivize it because while we could be getting volume, these may not be adding to profitability. So what could be the changes you may need to foresee for it to be a lot more game-changer that we have been calling it for private hospitals?

Suneeta Reddy No, I think you know they need to work with the private sector because clearly the infrastructure is not in place unless you take some of the private sector infrastructure. So we are hopeful that they will look at something which is a reasonable reimbursement based on the fact that we are contributing infrastructure and the cost associated with that.

A. Krishnan: So we have been telling them that there is a cost associated to infrastructure and services as well. This is because as of now the way many of the costs have been looked at is more like the doctors' fees, the consumables and the pharmacy element without really looking at because the cost of creating the infrastructure which all of us know is quite high. So that alone is a significant number that needs to get recovered even if not to the full, at least to the extent of 50%-60%. Even if that is done by them, then the pricing will have to be different compared to the current prices that they have in many of their schemes. So this is something that they have to understand and appreciate. We are doing our bit of kind of trying to get in touch with them and provide some of this information. Hopefully we will get there.

Moderator We will take the last question from the line of Prashant Kshirsagar from Unived Corporate Research.

Prashant Kshirsagar I just wanted to ask you about the associate company, there has been a decline in the revenues there. So while Apollo Hospital has shown an increase in revenue could you attribute any reason for Indraprastha Medicals declining revenues?

Suneeta Reddy Yes, I think the transplant program was a little off this year primarily due to the loss of market which was Pakistani patients and also because of that probably there was shift in the surgeons.

Prashant Kshirsagar Okay. My second question is what would be the price differential of your treatment at Navi Mumbai Hospital and say a Mumbai Hospital like Hinduja, maybe any study about that or so?

A. Krishnan: So this would be at least 35% to 40% lower.

Moderator Ladies and gentlemen, with this I hand over the conference back to the management for their closing comments. Over to you sir.

Suneeta Reddy Thank you ladies and gentlemen for taking time to join this call. I do believe that Apollo Hospital works in a relatively different way in the sense that we are always looking at new spaces and new markets. We are incubating new businesses where none existed before. We have done remarkable work with International business. We have created a deep presence in tier II markets. That combined with the thrust that will flow from Ayushman Bharat, we are confident that we will achieve healthy growth in the future. While competition continues to be a question, we believe that the structural demand for healthcare is still intact and if we continue to focus on clinical differentiation and patient experience in our COEs, we will continue to play a very dominant role in every market. We have always believed in being at the forefront of innovation. Our investment in Proton is a continuation of that philosophy. While we want to bring the best possible treatment to this part of the world, we believe that this will be a high growth, high margin investment and will deliver tremendous value for the Group and for our country. Thank you, ladies and gentlemen.

Moderator Ladies and gentlemen, on behalf of Apollo Hospitals, that concludes this conference call.