

Q3 2012 Earnings Call - Apollo Hospitals

Dt-14 Feb'12

Operator

Ladies and gentlemen, good day. And welcome to the Q3 FY12 Earnings Conference Call of Apollo Hospitals. As a reminder for the duration of this call, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Dhiraj Rajpal from CDR India. Thank you. And over to you, sir.

Dhiraj Rajpal

Good afternoon. And thank you for joining us on this call to discuss Apollo Hospitals financial results for the quarter and nine months ended December 31, 2011. We have with us the senior management team.

Before we begin, I would like to mention that some of statements made in today's discussion 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 Suneeta Reddy who will discuss the operating highlights for the quarter. Mr. Akhileswaran will then discuss the financial highlights and progress of expansion plans and Mr. Padmanabhan will discuss highlights of the pharmacy operations, Apollo Munich Health Insurance and Apollo Health Street. Documents relating to the financial performance have been emailed to all of you earlier and have also been posted on our corporate website.

Suneeta Reddy, Joint Managing Director

Good afternoon. And thank you for joining our call. We are pleased to share our performance, which clearly demonstrates the strength of our business model. We have delivered a broad based and healthy revenue growth across all our businesses, standalone pharmacies and insurance. This has been accompanied by higher operating efficiencies and improved profitability.

The standalone pharmacy quality business in particular continued to show expansion and margin, enabled by our calibrated expansion with focus on profitability, while on the healthcare services front our new capacity addition in the last fiscal in Hyderabad, Secunderabad and Bhubaneswar displayed good growth, reporting increased occupancy in patient inflows.

Our number shows that consolidated revenue has grown by 20.7% to 1,915 crores, in nine months FY'11 to 2,311 crores, in the nine months for FY'12. Consolidated EBITDA grew by 21.8% to 381 crores from 330 crores in the nine months of last year. Profit after-tax grew by 28.4% to 170 crores. Consolidated revenue for quarter three was higher by 19.5% at 803 crores. Consolidated EBITDA grew by 25.5% to 130 crores. The EBITDA margin improved by 77 basis points to 16.2%. A moderation in interest cost due to the prepayment of one of our branch term loan and the write back of ForEx translation losses provided in quarter two and higher other income, primarily due to treasury income resulted in quarter three profit after tax of 60.5 crores, which was nearly 55% higher than the PAT in the same quarter last year.

On a standalone basis, quarter three revenues grew by 19% to 715 crores. This was driven by a near 30% growth in revenues from standalone and 15% in healthcare services. Quarter three EBITDA was higher by 25.5% at 118 crores and EBITDA margin improved by 87 basis points to 16.6%. This was due to improved profitability in our standalone pharmacy segment as well healthcare services. The standalone pharmacy EBITDA increased from 90 lakh in quarter three FY11 to 4.5 crores in quarter three FY12. Standalone company PAT was up by 41.1% to 65 crores and PAT margin improved to 9% from 7.6 in the same quarter last year.

As of December 3, 2011, we have a capacity of 8,276 beds across 51 hospitals. This consists of 5,888 beds, which are owned by us either directly or indirectly through subsidiary, joint ventures and associates, and 2,388 beds which are located in managed hospitals. Of the 5,888 beds in hospitals owned by us, 5,374 beds are operational. Our expansion plan for over 2,860 beds has already been shared with you and is on track, which will take our total owned beds to over 8,500 from the current 5,888 level. The number of owned hospital will increase from the present -- to 49 hospitals from the present 37.

These numbers have been made possible due to our continued focus on improving medical excellence by bringing together the best doctors and the best medical practices. Adoption of cutting-edge clinical technology to improve our outcome and initiative to incorporate multiple healthcare delivery format further accentuate our offerings.

I shared with in the last quarter, we have successfully introduced robotics In Chennai and Kolkata and plan to introduce it in across multiple locations in India to provide cutting-edge clinical care and further augment our centers of excellence.

During the quarter, we launched the Apollo Institute of Robotic Surgery in Chennai in collaboration with the Vattikuti Foundation in the U.S. This facility will offer the da Vinci system, which is one of the most advanced forms of ally-invasive robotic surgery, and is presently being used for treatment in areas of urology, gynecology and cardiac surgeries.

In doing this, we have -- Apollo has proved that we are not only good in adopting new technology, but we have the capacity to attract and change surgeons who ultimately use this technology to provide better patient care. We have also entered into an agreement with Titan Medical U.S. to test and evaluate their Amadeus through robotic surgical system, which is a forearm surgical platform, which provides surgeons with enhanced surgical control and enables them to conduct remote surgery. Apart from these, the RP 7 robotic

system used to treat brain stroke patients in our facilities.

In addition to the trust on robotic, Apollo Hospitals has introduced the MRI-guided High Intensity Fibroid Ultrasound, HIFU system for surgery free treatment of uterine fibroids at our hospitals in Delhi and Hyderabad. We have also conducted the first ever incision-free endoluminal Bariatric Surgery in South Asia. This was conducted at the Third Annual Bariatric Surgery Conference in Chennai. The introduction of HIFU and endoluminal surgery reflects exciting and innovations in medical technology. These technologies allow for incision-free procedures and less invasive surgery, which does reduce complexity and higher success rate. They also demonstrate the evolution in surgical techniques from open surgery to laproscopic surgery, and now incision-free accesses.

As part of our retail expansion initiative, we are also rolling out a 100 Sugar Clinics across the country in the next 90 days. These will augment our existing clinics, specializing in areas to child disease, liver disease strokes and heart disease. These clinics located in our hospitals who last as additional plus point for our network and augment preventive healthcare service delivery to our customers.

A quick word on some of our corporate developments. Apollo Hospitals Chennai was ranked as the best private multi-specialty hospital in the country in the survey conducted in November 2011 by The Week and Hansa. In addition, our hospitals in Chennai, Ahmedabad, Delhi, Hyderabad and Calcutta were ranked as the best multi-specialty hospitals in their respective cities. Many of the hospitals in our network were ranked in the top 10 for expertise and specialties such as cardiology, oncology, orthopedic, nephrology, neurology and pediatric, which is true that our focus on centers of excellence is actually yielding results in terms of the public recognizing our superiority in these specialties. These recognitions are a validation of the strength of the Apollo brand and their testimony to the quality of healthcare that we deliver at each and every one of our hospitals in our network.

We were honored by the presence of our Prime Minister, Dr. Manmohan Singh at the inauguration of the Reach Hospital in Karaikudi. And I'm happy to state that that hospital has already begun witnessing steady patient.

Well, for the time being, that's it from me. And I'd like to hand over to Krishnan, our CFO, who will provide you with further details on our financial performance.

Krishnan Akhileswaran, Chief Financial Officer

Thank you, Ms. Suneeta. Good afternoon to all the participants. Suneeta has already provided an overview of the numbers, and I shall quickly provide more details on our financial and operating performance.

I would like to draw your attention to the standalone company numbers, which are on slide nine, which is part of the investor presentation sent later to you. The revenue expansion plan remained healthy, driven by a focused exhibition of our business plan. This was evident from the year-on-year revenue growth of 19% for Q3 FY12 and 20% for the first nine months of FY12. EBITDA was up 25.6% to Rs. 118 crores in the current quarter. The EBITDA margin have increase 87 basis points to 16.6%, primarily on the back of increase in patient and outpatient volumes in our new hospitals added in Hyderabad, Secunderabad and Bhubaneswar as well as increase in profitability from standalone pharmacies after the first demo the past year. Moderation in interest cost and an increase in other income has enabled faster PAT growth. PAT growth was a healthy 23.6% for year-to-date nine months at Rs. 251 crores and Q3 34.7% up at Rs. 92 crores.

If you now turn to slide 10 on our segment performance, you will see that the healthcare services segment grew 14.6% over Q3 last year and 16.4% in the nine months. While operating beds capacity has increased 5,374 beds over the nine month period, revenue growth was also driven by strong volume growth, improved pricing and richer case-mix due to focus on centers of excellence like cardiology, oncology, neurosciences, orthopedic emergency medicinal transplant.

As the phase of new bed additions in FY12 has been richer than in earlier year, the results of increasing maturity in some terms of our emerging hospitals is also showing us an improved margin. There has been a contribution from higher patient volume, improvement in sales mix and the reduction in loss.

The EBITDA margin in our healthcare services segment in Q3 FY12 was 23.2%, demonstrating the strength of our delivery model. The EBITDA margin from standalone pharmacies has continued a gradual uptrend as our focus on improving operational efficiencies is paying off.

EBIT in healthcare services grew 19% in Q3 FY12 and 16% in the first nine months of this fiscal. EBIT growth aid EBITDA growth due to increased depreciation on account of new facilities brought on stream. The standalone pharmacies segment has turned around to contribute the positive EBIT in Q3 as well the first nine months of the current fiscal compared to a negative EBIT in the corresponding period in the previous fiscal.

The EBIT margins in healthcare services improved to 18.8% in Q3 FY12 compared to 18.1% in Q3 last year. For the first nine months ended December 31, 2011, the EBIT margin was steady at 19.1%. This recorded in an annualized ROCE of 18.2% compared to 19.9% in the first nine months of the previous fiscal. The healthy ROCE held, despite an incremental capital employed of Rs. 430 crores due to investments in our new facilities at Hyderabad, Secunderabad, Bhubaneswar and Karaikudi, which we expect to further improve over the next few months.

Now, I will turn you to slide 12, which contains the key operating metrics in the hospital business across cluster. Operating beds increased to 5,374 beds in nine months FY12, that's the net addition of 400 beds over the corresponding period last year which came as I said about through the addition of new berths in Hyderabad, Bhubaneswar and Karaikudi. We also add 169 berths in our JV and subsidiary hospital at Kolkata, Delhi, Ahmedabad and Bangalore.

Now if you look at the IP volume, you have seen IP volumes increase by nine point to 6.2% consistent for nine months ended FY12 compared to the same period last year, it was led by the Hyderabad cluster with registered IP volume growth of 15.7% on a year-on-year basis.

IP volume in the Chennai cluster however, were flat due to impact of the State Elections in Tamil Nadu in Q1 of the current fiscal, although Q2 and Q3 have shown an improvement in IP volume, the overall number for the first nine months still marginally -- system. OP volumes again have been quite healthy across and if you look at it, the total outpatient volumes are increased by 11.6% across network.

On the occupancy front, overall occupancy was slightly lower at 70% due to increase in the number of operating beds. The Hyderabad cluster reported an average occupancy of 577 beds in the first nine months of this fiscal compared to occupancy of 521 beds in the same period last year.

Our standalone hospitals outside of Chennai and Hyderabad also performed well with Bhubaneswar reporting occupancy at 136 beds, 71% of our utilisation compared to 74 beds in the same period last year.

Increased volume and an improvement overall case-mix which has enabled healthy increase in IP as well as OP revenue at all our -- last year. Total ARPOB which is an important -- that we track across our network increased by over 11% with Hyderabad displaying a higher growth of 14% with a richer case-mix and others due to addition of Bhubaneswar.

Slide 16 captures details of our expansion plans for FY12 to FY15 totaling to 2,860 beds across 12 hospitals. The total funds required for these projects is in the range of 1,864, of which Apollo share in approximately 1,650 crores. Of which we have already invested Rs. 235 crores and also have a cash balance of over Rs.400 crores from our QIP and promoter volumes conversion. The balance amount of around Rs.1,000 crore will be funded through a mix of internal accruals and debt.

That's it from me I would now request Mr. Padmanabhan to talk about standalone pharmacies, health insurance and Apollo Healthcare.

K. Padmanabhan, Group President

Thank you Krishnan and good afternoon everyone. I would give you the update of the performance of our Q3 in our portfolio. Revenues in the standalone pharmacies segment have grown around 30%, around 376 crores FY11 compared to 225 in Q3 FY12.

The revenue growth continues to be driven by, one; higher same-store sales, as well as two, expansion in our network of pharmacies. For the nine months period two, revenue grew by about 30% to 723 crores. It's also important to note that along with our improved revenues we've also been able to improve our profitability and have achieved marked improvement in our EBITDA.

EBITDA is improved from 90 lakhs in Q3 FY11 to 4.5 crores in Q3 FY12. Our current EBITDA margin in this business is around 32%. We have been able to achieve this due to one; consolidation of operations in mature pharmacies, closure of unremunerative outlets, three; increase in expansion of private labels and four reduction in operating costs.

For the nine months ended FY11, EBITDA which was under 1 crore has grow to about 10.6 crores in the nine month FY12. The EBITDA, which was neutral in nine months FY11 has -- 1.7% and posted a decline nine months FY12.

The EBITDA expansion in standalone pharmacies is due to a clear focus on profitable growth to calibrated store addition and expansion into overall private label product focus in the segment. We are carefully monitoring the profitability and are willing to close down unprofitable growth, which are unprofitable at the EBITDA level.

At the same time, we're opening stores in newer locations to ensure that we continue to meet our objective of expanding our network and also there has been a steady improvement in EBITDA which validates our strategy of reallocating resources to optimize our pharmacy industry network. In we added 40 new stores on a gross basis and restored seven stores resulting in a net addition of 33 stores.

For the nine months ended FY12 we added 182 stores and closed 91 for a net addition of 91 stores.

The slide 14 of our investor presentation contains details of our operational performance of the standalone pharmacies. We split our network into three categories. One, which was prior to 2007 and those were to open after 2008 and the newer stores.

It is clear that from a pre-buy 2007 back which represents a mature category of stores continued to demonstrate stable growth in revenues due to the mature revenues base and we closed our ARPU's posting substantial gains in EBITDA as most of the contribution

from this incremental revenues...

For Q3 FY12, revenues per store grew by about 12.3%, but growth of EBITDA nearly doubled at 24.4%. These mature stores also constantly increased a bar on sustainable EBITDA margins for the business and it stands currently at 5.8% for Q3 FY12, significantly higher than the 5% that we'd forecasted for mature stores sometime back.

In FY2008 batch of stores represents those stores that are open mid -- are at the mid maturity level and open subsequently. These stores are not -- one, the EBITDA margins start improving but our -- levels of mature stores.

As you would see the revenue growth that still been healthy for them at about 32%. To some of our standalone pharmacy business as a whole is performing extremely well and constantly improving both revenues and EBITDA per store.

As on December 31, 2011 there was a Pan-India network of 1,290 stores and we remain come confident in the long-term profit of this business as well as the strategic relevance to our overall operations. Apollo Munich Health Insurance at the corner of gross written premium of 262 crores in the nine months of this represents a growth of 87% over the same period last year.

Earned premium has more than doubled from 107 crores to 232 crores in the nine months ended FY12. Losses at the EBITDA level has declined to 17.3% in nine months ended FY12, compared the 52% that we had in nine months ended Apollo Health Street important which is our BPO company represented -- reported an increase of 12.7% from 328 crores in nine months ended FY11 to 369 crores for the nine months FY12. EBITDA has grown 21.6% to 56 crores and EBITDA margin has expanded to 111 basis points from 14.1% to 15.2% for the current year. The improvement in EBITDA was driven by improved realisations due to currency headwinds as well as focus on cost control.

We see an improvement in the operating environment in the U.S. and the market is showing signs of stabilising. We are centering of our -- in earlier quarters has work well for us and we're beginning to see the traction in revenues once again.

To conclude we are pleased to report growth at improved operating metrics in the non-hospital business. We are focused on growing this business further and believe that detailed businesses will add value which is why we are part of our integrated healthcare business model. That's it from me and we are now ready to take your questions. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions]. The first question is from the line of from Costos -- from PUG Securities. Please go ahead.

Analyst

Yes, good afternoon and congratulations on a good set of numbers. My first question is, can you give us the breakup between the mature hospital facilities and the growth coming from the mature facilities versus the new beds?

Corporate Participant

Could you repeat that please?

Analyst

Yeah. The 15% growth that is there in the hospitals business, how much of that would have come from mature facilities and how much of that would have come from the new beds?

Corporate Participant

We wouldn't have the split off hand, but if you look at slide number 12 we pretty much with details by plaster and if you look at the clusters, Hyderabad cluster the beds are available for you.

Analyst

Yes.

Corporate Participant

So that has gone ahead from 800 beds to 930 beds.
Right.

Corporate Participant

If you look at the revenue growth the revenue growth has still been faster than the bed additions that we have in the nine months period.
So by cluster is how we provide that information and that's available on slide 12.

Analyst

Okay fine, I'll use that.

Suneeta Reddy, Joint Managing Director

If you see our operation, the volumes are also there.

Analyst

Yes.

Suneeta Reddy, Joint Managing Director

So the 25.5% increase in volumes in Hyderabad, 11.3 now patients in Chennai.

Analyst

Yeah, at Chennai inhibition volume you said was primarily effected because of the elections in the first quarter.

Suneeta Reddy, Joint Managing Director

Yes. And a bit of seasonality that occurs.

K. Padmanabhan, Group President

And it would be right to say that the bulk of the 15% would have been accounted only by the major hospitals.

Analyst

Okay.

K. Padmanabhan, Group President

Even Hyderabad, although there has been additional 500 beds, the actual turnover increased some of the near bed we still to see some come through. And therefore you know a large portion of our revenue growth is still coming from

Analyst

Okay, fine. And one other question is basically when you talk about operating beds, the 5,174 number that you have given, is that only your own beds or does it also contain some of the managed beds?

Krishnan Akhileswaran, Chief Financial Officer

That's only our own beds.

Analyst

Okay, okay. And the one last question that was on the your PATs rate gone down by about 260 odd beds. Any particular reason for that year-on-year?

Krishnan Akhileswaran, Chief Financial Officer

See one of the important thing that we get from this fiscal is the 35AD, the benefit of this is available for our new hospitals. So wherever the new hospitals is above 100 beds we get the benefit of 35AD, that is we don't have to pay but we get accelerated depreciation in the year of capitalisation. So, that's one benefit that we have. And overall if you look at it, there are certain other accounting bps which is also repricing in the tax rate being a bit lower.

Analyst

All right. And lastly you said that you have currently about 400 crores on the QIP and warrants conversion. And you have already done about 220 odd crores of CapEx. So, the remaining 1,000 odd crores you are saying is going to be a mix of debt and internal accruals or is there going to be further equity dilution?

Suneeta Reddy, Joint Managing Director

So, there won't be any further equity dilution. I think we have adequate capital for an expansion for what we have planned for the next year. So, it will be internal accruals. Some amount of debt at the latter rate.

Analyst

Okay. So, could you just give us a sense of what kind of target that you have for debt going forward in line in a couple of years?

Suneeta Reddy, Joint Managing Director

Probably about 400 crores.

Analyst Suneeta Reddy, Joint Managing Director

Yeah.

Analyst

All right. Thanks a lot. I'll come back if I have further questions.

Suneeta Reddy, Joint Managing Director

Thank you.

Operator

Thank you. The next question is from Kashyap Pujara from Enam. Please go ahead.

Kashyap Pujara

Congratulations everyone for a good set of numbers.

Suneeta Reddy, Joint Managing Director

Thanks.

Kashyap Pujara

Basically I have just couple of booking questions purely on the capacity front. I think if you look at your total operating capacity as stated in the first page it stands at 5374 and in the operating performance it stands 5174. Even I think in the last period there was difference of this 200 beds. So just wanted to come up to speed as to what is this difference pertaining to?

Krishnan Akhileswaran, Chief Financial Officer

It is Mauritius facility that we are managing, so that's not part of this Apollo Bramwell.

Kashyap Pujara

Fair enough. Apollo Bramwell which is left out in this?

Krishnan Akhileswaran, Chief Financial Officer

Yeah, that is correct.
Okay. So --

Krishnan Akhileswaran, Chief Financial Officer

As of it is moving, it's moved away to an operations and management contracts now.

Kashyap Pujara

Fair enough, fair enough, fair enough. Now from this 5174 I assume that this now shows all JVs subs as well associates, right?

Krishnan Akhileswaran, Chief Financial Officer

That's correct.

Kashyap Pujara

So if I strip my associates off which means if I remove my Apollo in Group as medical at Delhi and Noida, that would be around 748 beds right, if I have not mistaken.

K. Padmanabhan, Group President

Yeah.

Kashyap Pujara

So, what would be the would further... I mean I would be removing Lavasa also right, which is around 67 beds.

K. Padmanabhan, Group President

Yeah.

Kashyap Pujara

So total, it will be 800 beds. Will I need to minus out to arrive at the number without associates?

Krishnan Akhileswaran, Chief Financial Officer

You are right. For associates should be only Lavasa and Delhi, that's all.

Kashyap Pujara Krishnan Akhileswaran, Chief Financial Officer

Kashyap, I would request you to take it offline. If you recollect what had happened was still last time we were not including associates as part of these numbers. Investors as specifically requested us to provide associates as well because Delhi is an important number.

Kashyap Pujara

Absolutely. Fair enough.

Krishnan Akhileswaran, Chief Financial Officer

So it's based on investor requirement that your associates answer to that. So it is the one the breakup of its 1844 numbers which is there in subs Delhi and associates, the exact breakups can be provided by Krishna Kumar offline.

Kashyap Pujara

So, I'll take this offline. This is more pertaining to the way I am modeling it. So I have been modeling it based on what your earlier numbers were like. So, anyway I'll take this conversation offline. Thanks.

Krishnan Akhileswaran, Chief Financial Officer

Thanks.

Operator

Thank you. The next question is from Krishna Kiran from ICICI Direct. Please go ahead.

Krishna Kiran Konduri

Yeah. Thanks for taking my question. Just one for clarification. Some ForEx write-back was taken dividends this quarter or in the operating remarks Suneeta was telling about these... it's during this quarter or it was Q1 or Q2.

Krishnan Akhileswaran, Chief Financial Officer

It was... there was a 3 crores write-back in this quarter and that was specifically because we are provided for a 3 crores in Q2.

Krishna Kiran Konduri

Okay.

And subsequent to that there was a change and there was a revised guidelines and the Para 46k of accounting Standard 11 which had come from MCA and net use of that, that may not be ForEx translation. In fact we don't have to now take it to the P&L.

Krishna Kiran Konduri

Okay, okay, fine. And can I have other income breakup and we have seen now sharp increase in other income?

Krishnan Akhileswaran, Chief Financial Officer

Other income has to basically increase because of treasury income from Q3 of last year to Q3 of this year the predominant increase is because of treasury income, because we have cash and bank balance, that's almost 400 crores as of now.

Krishna Kiran Konduri

Okay, fine. And just want to continue on CapEx side, like we are expected to spend around 1,000 crore. I think like we and inhibit promoter of the warrant conversion maybe 160 crores, 170 crores. So our net level are consolidated basis, it is 400 crores which was replying to previous question answer it's fine?

K. Padmanabhan, Group President

Yeah.

Krishna Kiran Konduri

So maybe, okay. Thanks I got that.

K. Padmanabhan, Group President

1,000 or after up to 2017 as it sounds now.

Krishna Kiran Konduri

2017. Okay, okay. That's terrific. And next comparing to... what would be the tax rate for FY13?

Krishnan Akhileswaran, Chief Financial Officer

It could be similar tax rate. Our current taxes go to come down, but our deferred go up. So, our taxes would be still same tax rate, 33%.

Krishna Kiran Konduri Suneeta Reddy, Joint Managing Director

Yeah, the occupancy rates in the region is 70%.

Krishna Kiran Konduri

70%. And what would be the corresponding previous number?

Suneeta Reddy, Joint Managing Director

73.

Krishna Kiran Konduri

73. It takes more kind of... the fall more kind of additional beds, right?

Suneeta Reddy, Joint Managing Director

Yes, on the larger bed basis.

Krishna Kiran Konduri

Okay. And how this number transfer ARPOB?

Suneeta Reddy, Joint Managing Director

ARPOB has significantly gone up.

Krishna Kiran Konduri

Okay.

Suneeta Reddy, Joint Managing Director

It's there on slide 12, right?

Krishna Kiran Konduri

Okay, okay.

Krishnan Akhileswaran, Chief Financial Officer Krishna Kiran Konduri

Okay.

Krishnan Akhileswaran, Chief Financial Officer

And around 18,000 to 20,000.

Krishna Kiran Konduri

Okay. Okay, thanks. And see coming to pharmacy business, and on the pharmacy business can we look at EBITDA and EBIT margins sustainable on this pharmacy business maybe 1% we have seen during the quarter?

K. Padmanabhan, Group President

No, currently the EBITDA margin is running at 2% as of Q3... for Q3 FY12.

Krishna Kiran Konduri

Okay.

K. Padmanabhan, Group President

And as I mentioned to you the sustainable EBITDA margin for this business on a long-term basis can be significantly higher than what you have currently achieving in the mature... behind the overall pharmacies, could get closer to the mature pharmacies.

Krishna Kiran Konduri

Okay, fair enough. And just one like how many beds would be added in the Q4 and overall FY13 if you can? I know it is like the presentation it's more like FY12, FY13. So Q4 and FY13 overall how much it would be like if you can in Q1, Q2, Q3, Q4 how many would be added?

K. Padmanabhan, Group President

For the Q4.

Krishnan Akhileswaran, Chief Financial Officer

See, there are surrounding beds which are going to be added only in FY13, that is around 600 beds is what we are going to be added.

Krishna Kiran Konduri Krishnan Akhileswaran, Chief Financial Officer

In FY13 it is in -- which is the start-off in Chennai and in India. That is the almost by around September, October.

Krishna Kiran Konduri

Okay.

Krishnan Akhileswaran, Chief Financial Officer

That is the almost by around by around September-October.

Krishna Kiran Konduri

Okay.

Krishnan Akhileswaran, Chief Financial Officer

And you could have it Trupti which should go on stream by end of the FY13.

Krishna Kiran Konduri

Okay, end of FY13.

Krishnan Akhileswaran, Chief Financial Officer

Yeah, but as Mr. Padmanabhan said we already have a lot of beds which we are still putting for growth from the perspective of the new beds added in Hyderabad, Bhubaneswar, et cetera.

Krishna Kiran Konduri

Okay.

Corporate Participant

Okay, and if you still look at it there is a lot of headroom for growth because even Hyderabad at this point in time the occupancy is 64% and they still are approximately around 400 odd beds that we canceled -- in the next -- over the next few quarters.

Corporate Participant

Not only in Hyderabad but Bhubaneswar where we've -- we are adding beds, Calcutta, so there is plenty of room for growth.

Okay, fine. While coming to Hyderabad I know just trying reading on the papers we have seen there is disciplines in government hospitals I know it's not of much benefit our company, but have we seen any slight improvement because of these students of Doctors at Hyderabad government hospitals like.

I mean footfall has increased. I mean what we are -- inpatient volume has increased because of anything that sort?

Corporate Participant

Yes, definitely there has been some increase but we can't actually quantify how much.

Krishna Kiran Konduri

Yeah, I know. I just want and have we seen a good improvement in moving our reach hospital, that's what my question pertain to? We have seen, right?

Corporate Participant

Yeah, yeah.

Krishna Kiran Konduri

Okay, okay. Thanks. That's all from my side. Thank you.

Operator

Thank you. The next question is from Perin Ali from Edelweiss. Please go ahead.

Perin Ali

Yeah. Thanks for taking my question and congratulations for a good set of numbers. My first question is on the pharmacy front, I mean now you've already expanded EBITDA margins by 155 basis points and you said that large portion of it is also because of private labels. So could you tell me how much as a percentage over pharmacy businesses from private labels versus the corresponding quarter or corresponding year?

Corporate Participant

Yeah. Currently it's running at about 3, 3.5% of top-line.

Perin Ali

Okay. And how much...

Corporate Participant Perin Ali

And what could be the target sales from this business going forward?

Corporate Participant

I think it is still under development phase, I can't put a number to this at this point of time. But all I can say is it depends on the speed at which we are able to develop more and more items under private label. We are making sure that we have a good sales rate available to accommodate the private label by redesigning some of our stores.

But we are also very clear that that the private label will be cutting edge of this business in terms of being able to differentiate that with other pharmacy gains. So yeah, it is a strategic focus for us.

Perin Ali

Sure, sir. And just incremental question is that do you see at least a 100 basis points kind of expansion over the current level of 2% in the next year? I mean is a target which management hasn't mind for the pharmacy business?

Corporate Participant

We were confident -- you can look at how we improved our EBITDA percentages over the last year, year and half. And we will continue to put every effort to do that. I can't give you a number of what would be the increment, reasonably significant.

Perin Ali

All right, sir. Sir my question is on the subsidies and JVs. The three major hospitals, Ahmedabad, Kolkata and Bangalore. If you could share your operational beds in each of these hospitals is there has been additions also in this quarter. So if you could just...

Corporate Participant

Bangalore hospital has grown by 37%, Ahmedabad by 20.13% in terms of beds.

Corporate Participant

In terms of beds, Ahmedabad has 230 beds as compared to 210 in the last year, Calcutta has 500 beds compared to 425 beds last year.

Perin Ali

Okay.

Corporate Participant Perin Ali

Just incrementally the EBITDA margins if you separate out the consol and the standalone, shows slight decline in margins on the subsidies and JVs. Is that due to the incremental beds additions or is something else which I'm missing in this?

Corporate Participant

There will be nothing specific other than that because Kolkatta has performed well, Ahmadabad has performed well as well Bangalore has

Corporate Participant

It's what has happened also.

Perin Ali

Sir which is I see little bit margin decline at this I mean I at least 50-60 basis points if you separate out the consol and the standard numbers, would you be left out largely with the subsidies and JVs which are mostly into these three hospitals. So that's I just want to understand what is driving the decline in margins in those?

Corporate Participant

Moreen Kolkatta we receiving O&A fees for the use of our name, so that's actually kicked in only this year when it started -- when it reached a certain level of profitability.

Perin Ali

Okay. All right. Thank you very much.

Corporate Participant

But that's kind of coming from the consol to the standalone. So at the consol it is the same, it just that that constitute to EBITDA from 4%.

Corporate Participant

Yeah. But at operating level all these three have performed better than the standalone.

Corporate Participant

Exactly.

Okay. In terms of EBITDA margins, right?

Corporate Participant

Yeah. In terms of everything, yeah.

Perin Ali

All right. Thank you very much sir. I'll get back in the queue.

Operator

Thank you. The next question is from Dinesh Harchandani from JP Morgan. Please go ahead.

Princy Singh

Yeah. Good afternoon, this is Princy Singh from JP Morgan. My question is on Chennai if I understood correctly, the flat volumes on the inpatient, on the inpatient numbers for Chennai are attributed to the elections in 1Q, just wanted to get some sense how are the volumes looking now and what is the expectation on volumes picking up going forward. And is there anything besides the impact of elections which is driving this slowdown in volume growth?

Suneeta Reddy, Joint Managing Director

Well I think Chennai the volume in last quarter was -- because combination of elections and a little bit of seasonality because December people choose not to do elective surgery. But we are looking at much better numbers in January and there is definitely tractions.

Princy Singh

Okay fine. So and what is the expectation if you can share any on the occupancy rates in Chennai picking up over the next say one or two quarters?

Corporate Participant

Well it's actually very difficult to predict expect to say that we're quite confident that it would much better than the third quarter.

Princy Singh

Okay understood. Thank you very much.

Operator

Thank you. The next question is from Ravi Deodhaya from CRISIL. Please go ahead.

Analyst

Congratulations on good set of numbers. I have two questions. One is on the Hyderabad cluster, if you look at Q-o-Q occupancy it has kind of declined marginally from 64% to 62%, so and also the result was visible in the lower revenues in the third quarter on Q-on-Q basis. So just want to understand this is mainly because of seasonality?

Corporate Participant

Yes predominately because of seasonality.

Analyst

Okay. Yeah because occupancy was down by only around 2%, so. My another question is with respect to this pharmacy business, want to understand your management outlook on pharmacy stores addition going forward over next one year and also on the mature pharmacy stores we have looked at margins on the higher side, but at somewhere near 6%. So what more upside one can expect from the EBITDA margins in mature stores?

Corporate Participant

Mature stores I think are about 5.8%, I would want to say that any improvement in EBITDA margins will largely come only from change in product mix towards private label. I don't see more operating efficiencies or leverage coming from mature stores at this point of time.

The real upside is in terms of when the stores can catch it to the mature level in terms of EBITDA margin. A significant portion of our pharmacies are still at negative EBITDA. So we are hoping that this will actually move closer to the margin that the EBITDA is enjoying, EBITDA margins that are mature for that during the year to come.

Analyst

Okay. Even though from this label goods, EBITDA margin expansion will be under 50 odd bps right sir?

Corporate Participant

Yeah. It depends on what is the mix of private label, it can be quite significant depending on what is the level of private label. Currently as I mentioned to you it's just 3.5%.

I think on a long-term basis we are looking at...

Analyst

Sir, and what will be margins on these white label goods.

Corporate Participant

It will not be significantly higher than what are they have been, very much higher -- about 50% to 70%. Sure. And what is the management's view point in terms of adding new stores, new pharmacy stores?

Corporate Participant

We are adding around 100 to 150 new stores -- new stores every year at least over the next three years.

Analyst

Okay. Sure. Thanks a lot.

Operator

Thank you. Next question is from Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal

Hi. Thanks for taking my question. Just couple of questions on the Chennai cluster. If you actually look at the Q3 if I get my numbers right, there has been a pretty sharp decline in occupancy, both in Chennai, as well as Hyderabad. I mean by the same time ARPOB has been going up very materially in both of these clusters, so what exactly it grow to an extent or --

Suneeta Reddy, Joint Managing Director

No, the occupancy like we said earlier that the third quarter is mostly because of the fact that was elections people couldn't travel. The second is a cold seasonality December we do have people taking vacation and theatre shutdown. So, that's primarily the reason it's a little bit lower.

Nitin Agarwal

Yeah, because even in a Y-o-Y basis it's the occupied bed seems fairly low in Chennai. I mean there is a very sharp decline on a Y-o-Y basis also. The seasonality obviously would get nullified on account of that.

Krishnan Akhileswaran, Chief Financial Officer

Even if you look at the admissions, the admissions would not show that much of a drop because we allot does also comes down. So, if you look at the occupancy you might be right, but if you derive the admissions, admissions that would not have been particular.

Nitin Agarwal

Okay.

Krishnan Akhileswaran, Chief Financial Officer Nitin Agarwal

Because even in terms of the inpatient volumes also you know on a Y-o-Y basis there is a decline in share numbers.

Krishnan Akhileswaran, Chief Financial Officer

The last year to this year there is no decline actually in Chennai. We can connect after the call.

Nitin Agarwal

Okay. Secondly on the dental care you've highlighted some sort of JV of sort that you got in to what exactly. I mean if you can probably share some more plans, how you looking to scale up this business?

Suneeta Reddy, Joint Managing Director

Actually what we are doing is incubating the model in Chennai, but currently we have about 12 dental care centers. We are upgrading some into what we call dental products where patients would have access to all dental procedures. Then we have dental clinics which would do pretty much what... which is something that is standardised. And dental express which would be at shopping malls et cetera that would actually seen into this spas and the clinic for more critical work.

But this is really part of our retail foray, and we had already made in the beginning in the dental space. But we realised that the potential is far greater and we have the ability to attract our dentist because it is one area that is growing at a large phase. So people are becoming more aware of it.

So, we believe that we do have a strategy that we are working on to actually grow the retail dental space. But I can give you more details on that maybe in the next quarter.

Nitin Agarwal

And how does... it's going to be a CapEx intensive model for us? When you say you are going to put up of about 100 clinics, so does Apollo put up all the CapEx on these clinics?

Suneeta Reddy, Joint Managing Director

Well, it is joint venture where Apollo owns 51%. It would again be funded by both debts and equities. I don't think the CapEx involvement right now is not looking extremely large and it's something that we can handle. But like I said I think we commit to figures on the next quarter.

K. Padmanabhan, Group President

Yeah, yeah. But basically that business will be able to significantly fund it by on its own. So, it will not require any funds from the private.

Suneeta Reddy, Joint Managing Director Nitin Agarwal

Okay, okay. I mean... and how is our plan for day care surgery centers for shaping up?

K. Padmanabhan, Group President

We have started one day care center in Chennai.

Suneeta Reddy, Joint Managing Director

Yes. And the collections are around... it's breaking even right now. But we believe that with time it should get far better than this. Capacity right now we are doing only 25% of capacity, but it is improving.

Nitin Agarwal

But how do you see the progression in terms of scale up of these whole initiative given the experience?

K. Padmanabhan, Group President

Yeah, that's why I mentioned to you, that we just open the first pilot few months back in Chennai. We are actually polishing the ATS as far as this modal is concerned before we scale up. We think there is a great potential for day care centers so that release the pressure from the main hospital for beds. So after we have got this module right, I think over the next year or so we plan to open another three of them.

Suneeta Reddy, Joint Managing Director

See, I think in March we will have a completely detail strategy ready which will include dental centers, take care centers and the expansion of the clinic model. So still than we would not in a position to give you too much of our CapEx utilisation except to say that we are starting to model with... we are testing the model with key centers and we'll have better perspectives for you in March.

Nitin Agarwal

Lastly, on you have seen some of your peers actually is going fairly aggressively in the renal care and standalone diabetic sort of clinics. So, what are your thoughts on that? Do you think that's a viable space and are you guys looking at that?

Suneeta Reddy, Joint Managing Director

See we've told you that we are adding these sugar clinics. Right now what we've done is that it is in-house, meaning it is within our premises, the hospitals and the clinics that we have. We currently have 100 clinics as well.

So in the clinics and in the hospitals we are putting up sugar clinics because we believe that there is a huge growth of the diabetic population in India and it is to cater to those. And it will also ask into repeated into the main hospitals.

Nitin Agarwal

Okay. Thanks very much.

Operator

Thank you. The next question is from Nitin Gosar from Religare AMC. Please go ahead.

Nitin Gosar

Hi, good afternoon. Just wanted to understand the private label strategy. How does it goes? Like you trend alternative product to a patient only for prescribed one or the non-prescribed one? How does it really work like?

K. Padmanabhan, Group President

Private labels are mostly only in generics, they are not in prescription what we are currently doing. And they are not necessarily in medicines. They are also related products like healthcare products, it could be things like as simple as item as band-aid et cetera, to even fruit juices et cetera. So, there is a wide range of private labels, but they are on the non-prescription area.

Analyst

Okay. And second just wanted to understand the PAT level losses that are visible on the Apollo Health suite well, EBITDA has been quite robust. What would be the reason out there?

K. Padmanabhan, Group President

It's because of the higher financing costs that... you are talking about health suite right?

Analyst

Yeah, yeah, yeah.

K. Padmanabhan, Group President

At the PAT I thought. Yeah, it's because of higher interest financing cost that this business has and also the fact that we had a onetime litigation cost that is wrote-down.

Analyst

Okay. Okay. And just wanted to understand the retail strategy, that is the pharmacy chains. What would be the critical size or when would be the appropriate time for you to bringing them external part to 20 crores out there?

K. Padmanabhan, Group President

Basically we have mentioned that Apollo's strategy when you look at Apollo two or three years from now, we will become healthcare delivery player. All other businesses we will look at how we can unlock value to enable the healthcare delivery business to grow.

So, when you talk about unlocking value we are talking about when valuations are right. When valuations are right and when there is more clarity of FDI and retail, I think will be the upmost appropriate time for us to extract value out of these business?

Analyst

Okay. So, again for you the FDI policy will be an crucial factor to move ahead?

K. Padmanabhan, Group President

See, it could help in getting better valuations.

Analyst

Okay, okay. Okay, thanks a lot sir. All the best, sir.

Operator

Thank you. The next question is from Neha Malhotra from Citibank. Please go ahead.

Neha Malhotra

Hi. Congratulations for a good set of numbers. My question was pertaining to the sugar clinic that you guys are planning to launch around the country in 90 days. So, what all geographies are you planning to look at and has it already begun or what's the strategy?

K. Padmanabhan, Group President

Basically, the sugar clinics are really to help the main hospital business, they are in terms of marketing tool for the main hospital business and they are very insignificant CapEx outlay.

Neha Malhotra

Okay.

K. Padmanabhan, Group President

And they would be set-up in our... most of them will be set up in our existing clinics and in our hospitals. And therefore setting up 100 actually could take very little time, very little investment. Okay.

K. Padmanabhan, Group President

Yeah. And there was some in the metro city.

Neha Malhotra

Okay. That's it, thanks.

Operator

Thank you. The next question is from the Vikas Singh from B&K Securities. Please go ahead.

Analyst

Congratulations sir on good set up numbers. Hello sir? Hello?

K. Padmanabhan, Group President

Yeah.

Suneeta Reddy, Joint Managing Director

Thank you.

Analyst

I just want to understand one thing. We are talking about the seasonality effect. If we deduct the... till the YTD December number from the 2Q till first half number, you see there is no growth in Chennai Clusters. Whereas there is 20% growth in in-patient volume in Hyderabad Cluster which can be primarily attributed to 15% of growth in the beds. But still there is... it has outperformed the number of beds growth. So, I just don't understand why the Chennai Cluster was stagnant?

K. Padmanabhan, Group President

No. The seasonality do not run across all the locations in the same time.

Analyst

Okay sir.

K. Padmanabhan, Group President Analyst

Okay sir. So, going forward we can expect some improvement in in-patient as well as out-patient volumes in Chennai Cluster?

Suneeta Reddy, Joint Managing Director

Yes, yes.

K. Padmanabhan, Group President

You will see it in the next quarter.

Analyst

Okay. One more question like, why your interest expenses they are so low this quarter?

Suneeta Reddy, Joint Managing Director

No, as we have repaid --

Krishnan Akhileswaran, Chief Financial Officer

We have repaid some term loan of around 75 crores this quarter because it was high interest rate based on the QIP funds that we had. And also as had said during the call, there is the reversal in Q3 for the 3 crores that we have provided in Q2 for the ForEx translation.

Analyst

Okay, sir. Thanks a lot, sir.

Operator

Thank you. The next question is from Dinesh Harchandani from JP Morgan. Please go ahead.

Princy Singh

Hi. This is Princy. Sorry, one follow-up question. On these clinics that you are proposing, are they all going to be owned by Apollo or you looking at any franchising models?

Suneeta Reddy, Joint Managing Director Princy Singh

Yeah, that's right, sugar clinics.

Suneeta Reddy, Joint Managing Director

Well, the sugar clinics will based in the existing clinics and hospitals. So, there is no separate standalone sugar clinics that we are planning right now.

Princy Singh

Okay fine. Thank you very much.

Operator

Thank you. [Operator Instructions]. The next you is from Bhagwan Chaudhary from IndiaNivesh Securities. Please go ahead.

Bhagwan Chaudhary

Yeah, congratulations on a very good set of numbers. Just one random follow-up. Can you elaborate more on the sugar clinic side, means what kind of business model you will have with this?

Suneeta Reddy, Joint Managing Director

See the sugar clinics is clearly to focus on diabetes, it's one of the initiatives that we have planned. It will be located within the hospitals and in our clinics. Primarily what they will do is to send referrals into the main hospitals.

Bhagwan Chaudhary

Okay. So, but it will include diabetic patients?

Suneeta Reddy, Joint Managing Director

Yes, yes.

Bhagwan Chaudhary

So it will be kind of OPD of this?

K. Padmanabhan, Group President Suneeta Reddy, Joint Managing Director

OPD, yes.

Bhagwan Chaudhary

Okay. Thanks. That's all.

Operator

Thank you. The next question is from Ravi Dodhia from CRISIL. Please go ahead.

Ravi Dodhia

Thanks for taking follow-up question. I want to understand this cash and cash equivalent balance of around 437 crores odd which is there at the end of the quarter. When will this cash be deployed for your CapEx plans and any debt repayment that has lined up in the near term?

Krishnan Akhileswaran, Chief Financial Officer

It will be deployed over the next one year. No specific reduction in debt at this point in time that we have planned.

Ravi Dodhia

Sure. So, debt levels from the current levels we won't see any decline going forward?

Krishnan Akhileswaran, Chief Financial Officer

Nothing that we have at this point in time line.

Ravi Dodhia

Okay sure. Thanks a lot.

Operator

Thank you. The next question is from Perin Ali from Edelweiss. Please go ahead.

Perin Ali

Yeah. Thanks for taking the follow-up. Just want to understand why the out-patient volume growth was low in the new hospitals? I see the out-patient volume growth has been only 5% overall in the new hospitals, although there are certain new hospitals which we have added in the last 12 months. Just want to understand is there any concern over there?

You are talking of the other clusters or what is it?

Perin Ali

Yes, other clusters, yes.

Krishnan Akhileswaran, Chief Financial Officer

Other clusters if you look at the out-patient revenues have gone up by almost around 29.10 that's because you know the out-patient volumes are only the new registrations. Last year given that we had Bhubaneswar which was operationalised. Typically in the first year we had a lot of new admission and then new volumes, new registrations and then the next year we have all of them coming in mostly as repeat, so repeat volumes actually has been very good in our in Bhubaneswar, Madurai and Bilaspur, this is why if you look at and this is also good for us, and which is why if you look at the outstation revenues, that is very healthy at 29, that doesn't reflect in our new registration.

Analyst

Sure. Thank you very much.

Operator

Thank you. [Operator Instructions]. The next question is from Jiten Doshi from ENAM Asset Management. Please go ahead.

Jiten Doshi

Very good afternoon to the entire team and congratulations on excellent set of numbers. Couple of questions. One is are you looking at inorganic growth over and above the schedule that you have given us for your expansion plans and in all the regions?

Suneeta Reddy, Joint Managing Director

Yes. We're always looking at opportunities that might be exist in cities where we don't already have a presence. And of course when we make an acquisition, it has to be at a price which is accretive and at an ROCE that the company has set a standard.

Jiten Doshi

So basically at this moment the CapEx that you have projected is basically all the plans that are there, plus over and above that there could be further inorganic initiatives?

Suneeta Reddy, Joint Managing Director

Certainly, there could be.

Okay. This is the question I'd asked last time on the call also, what's comfort level you'll derive in terms of your debt equity where you'll look at dilution of equity?

Suneeta Reddy, Joint Managing Director

Yeah. I think debt equity is while we can live with one where 0.6, 0.7 is the comfortable space we're in.

Jiten Doshi

But why would that be, because your return on equity number not coming very great, why won't you look at leverage of at least 1.5 to 1, because your return on equity numbers are consistently not showing that kind of despite having a superior business, why would you not...?

Suneeta Reddy, Joint Managing Director

Because the company is continuously growing, every three years we have actually expanded capital because of growth. We've grown from 2,000 beds to -- we will be 8,000, we've already fully funded to add 8,500 beds. So that is the primary reason why return on capital is not growing at the same pace.

The second is the bed addition in this time has become slightly more expensive than they were historically. So these are I believe two reasons why return on capital employed had been depressed.

Corporate Participant

But also the fact that this is a capital-intensive business.

Jiten Doshi

Sure. And because the payback tends to be longer than the normal, we have tried to use a different mix of debt equity. While our Gleevec return on equity can improve with a great level which is also the mix of that we'll have to take a lot of short-term cases. At this point of time it's the general call of investors also that we have a better patents within debt and equity which is why Suneeta was talking about somewhere in the range of 0.6 to 1.

Jiten Doshi

Yours is the only model in which we have seen you haven't gone even into 1:1 and your interest cover is very, very comfortable. So why wouldn't you explore that option rather than constant dilutions? I think this is something the management needs really look into.

Suneeta Reddy, Joint Managing Director

Yeah I think it's something that we are definitely looking into, but in the current interest rate regime, I believe that it's -we feel confident that we're adequately funded to set up these new 2,500 beds which I think is our first priority.

Sure. And ma'am what is our outlook let's say medium-term for both the joint ventures that is Apollo Health Street and Apollo Munich are we looking at some sort of a dilution there in stake in the next two or three years?

K. Padmanabhan, Group President

As far as Apollo Munich is concerned we hold for 10% stake and we will continue to hold that 10% stake.

Suneeta Reddy, Joint Managing Director

And since the company is planning to breakeven next year, I think it's a good position to be in.

K. Padmanabhan, Group President

Yeah.

Jiten Doshi

And what would your contribution be this year in Apollo Munich?

Suneeta Reddy, Joint Managing Director

Contribution, we have done.

Corporate Participant

Liquidity infusion.

Suneeta Reddy, Joint Managing Director

Liquidity infusion will be.

Corporate Participant

5 crores.

Jiten Doshi

That's all.

Corporate Participant

Yeah.

And what about Apollo Health Street?

Corporate Participant

Health Street there has been no capital infusion now for about three four years. Currently we own I think close to about 42%, 43%.

Jiten Doshi

Right.

Corporate Participant

And there would be no further capital inclusion either. We would be looking at getting strategic partners into this business very quickly.

Jiten Doshi

Okay. So that's on the cards?

Corporate Participant

That's right.

Jiten Doshi

Okay, okay. Wish you all the best for the forthcoming quarter. Thank you.

Suneeta Reddy, Joint Managing Director

Thank you.

Corporate Participant

Thank you.

Operator

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the floor to the management for closing

Suneeta Reddy, Joint Managing Director Operator

Thank you on behalf of Apollo Hospitals. That concludes this conference. Thank you for joining us. And you may now disconnect your lines.