

Updated: 16-08-2019 21:49

Tags: @vishnu570

62-79 minutes

Chennai, Tamil Nadu Aug 15, 2019 (Thomson StreetEvents) -- Edited Transcript of Apollo Hospitals Enterprise Ltd earnings conference call or presentation Wednesday, August 14, 2019 at 8:45:00am GMT

* K. Hariprasad

Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy

Ladies and gentlemen, good day, and welcome to the Apollo Hospitals Limited Q1 FY '20 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani of CDR India. Thank you, and over to you, sir.

Thank you, Karuna. Good afternoon, everyone, and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for the first quarter of FY '20, which were announced yesterday. We have with us on the call the senior management team comprising Mrs. Suneeta Reddy, Managing Director; Dr. Hariprasad, President of the Hospitals Division; Mr. A. Krishnan, Chief Financial Officer; and Mr. Chandra Sekhar, CEO of AHLL.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. For a complete listing of such risks and uncertainties, please refer to the investor presentation. Documents relating to our financial performance have been shared with all of you earlier. These are also posted on our corporate website.

I would now like to turn the call over to Mrs. Suneeta Reddy for the opening comments. Thank you.

Good afternoon, everyone, and thank you for taking time out to join our call. I trust all of you have received the earnings document, which we have shared earlier. (inaudible) continue for the health care sector over the last 24 months. Apollo Hospitals' business model has reflected the resilience based on business diversity. We are diversified across multiple factors. First, in terms of format, we are the only integrated health care provider with a presence across the value chain including pharmacies, retail and insurance. In terms of geography, we have 30 hospitals, of which 28 are tied to entire [basic]. We work across 55 unique specialty and 12 centers of excellence. We offer diverse delivery models including digital health, home health and telehealth. We continue to decrease price points while continuing to hold forth position as a premium brand. This diversity has helped us in creating a balanced portfolio, the superior margin profile without overdependence on any single specialty. And with a unique ability to offer a differentiated value proposition to different customer segments. The resilience within our business model has been built consciously and has largely insulated our business model.

Against that backdrop, I am happy to report that we have begun the financial year on a good note. Our revenue and EBITDA momentum continues from quarter 4 last year on both Healthcare Services and pharmacy verticals.

Quarter 1 revenues grew year-on-year by 17% to INR 2,229 crores. EBITDA Healthcare Services improved to 15%, INR 2,172 crores. And SAP grew to 18%. New hospitals supported revenues of between INR 255 crores, with a 20% growth year-on-year, while mature hospitals revenues grew 14%. The overall health care services growth for the quarter was aided by growth in surgical and capital volumes at both the mature and new hospital gain.

Quarter 1 total indication volumes grew by 6% on a year-on-year basis, supported by 17% inpatient volumes of the new units. Overall, quarter 1 FY '20 occupancy across the group was at 4,849 beds or 66% compared to 4,638 beds or 65% in quarter 1 FY '19. The occupancy in mature hospitals was at 3,702 or 68%. New hospitals had an occupancy at 1,147 beds or 61%.

Quarter 1 overall EBITDA post Ind As 116 was at INR 326 crores. Pre-Ind AS 116 quarter 1 FY '20 have been INR 274 crores as compared to INR 227 crores in quarter 1 FY '19, a year-on-year growth of 21%. Within this, Healthcare Services EBITDA grew by 17% to INR 216 crores. Healthcare Services margin was 18.4%

margin in quarter 1 versus 18.2% in quarter 1 FY '19. This improvement was largely aided by a positive traction in new hospitals EBITDA, which registered an EBITDA of INR 31 crores in quarter 1 FY '20 and an EBITDA of INR 11 crores in quarter 1 FY '19. Also, the EBITDA margin for Mature Hospitals increased from 21.6% to 22.1%.

Whereas new hospital EBITDA margin improved from 5.1% in quarter 1 FY '19 to 8.4% in quarter 1 FY '20. The Proton outpatient services were commissioned in February 2019, and reported a revenue of 80 lakhs and an EBITDA loss of INR 8.1 crores for the quarter.

On SAP, the revenues grew 18% on the back of INR 68 crores added during the quarter, taking the total to INR 3,496 crores. SAP EBITDA grew 41% to INR 59 crores. EBITDA margin was at 5.6%. SAP ROCE is now at 24%. Private label sales are almost 7% in SAP.

Net debt as of 30th June is INR 2,931 crores. We have a debt-to-equity ratio of 0.86 and net debt to EBITDA of 2.7x. On a consolidated basis, we reported 27% EBITDA growth and PAT loss of 69% in quarter 1.

Apollo Health and Lifestyle continues to maintain its growth across all formats. In quarter 1, FY '20 revenue stood at INR 162 crores, up from INR 132 crores in quarter 1 FY '19. EBITDA loss were at INR 4.7 crores for the quarter compared to EBITDA loss of INR 19 crores in the same quarter last year. We are pleased to share the top cumulative talent across all verticals and across the Apollo Hospitals for this year, especially the oncology verticals. We are committed to remain in the forefront of excellence and pushing the bar on talent acquisition, which will keep us differentiated in the consumer front.

Looking ahead, we believe the trajectory of profitable volume growth, COE focus, margin expansion and lean cost that we have embarked upon will continue to yield results over the next 6 to 8 quarters. We are focused on achieving 22% EBITDA margin from our mature health services and driving margin from our new hospitals into the team. We are hopeful that continued momentum in our performance will help in achieving higher profitability and improvement in our cash flows. We are confident that our embedded stance in deep clinical expertise, 360-degree presence across all delivery formats, increasing penetration and our futuristic focus on artificial intelligence, wellness and preventive health will continue to help us achieve industry leading growth and create further value for our stakeholders.

I now open the floor for questions. Dr. Hariprasad, Chandra Sekhar and Krishnan are here with me to take your questions.

=====

Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Kashyap Pujara from Axis Capital.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [2]

Congratulations to everyone at Apollo Hospitals for a fantastic set of numbers. And delivering on all the commitments, be it regarding debt reduction or be it regarding delivery of numbers, so congrats on this one. On my question, I have a first question on the ROCE profile. While we are seeing improvement across all the verticals in terms of margins or loss reduction. But when I look at ROCE, you still have your mature facility and stand-alone pharmacies, we are now close to 24% on that one. But the new and some of the CWIPs are kind of causing a drag. So roughly around 50% of the capital employed has very attractive return on capital, but 50% is still usually work in progress. So just wanted to understand from the management how they see this over a 3- to 5-year perspective in terms of return on capital employed. And can these kind of ever come to 20% plus mark? Or do you think that because we are new, the return profile is slightly more subdued compared to historic facilities?

So let me start by saying that, yes, historic facilities across the basket and at 25% of the project cost associate with land, and another 20% building. However, that has changed significantly. Having said that, I do believe that several things have changed within how we practice and what we do in the industry. The first, of course, is we have selection of case-mix are focused on CE, all of which give you a superior margin profile. The second is cost. The cost at which we are doing business remains the same 30 years later. We've started by being 0.1 of the U.S. costs. Even today, we are 0.1 of the U.S. cost. So we have a very tight control of our cost. The third is that we are looking at the volume case, and if we mix the volume with the case mix, we do think that we will achieve an ROCE in the high teens for the Tier 2. And Tier 1 will continue at -- we should be above 22%.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [4]

Okay. So on a blended basis over 3- to 5-year, it's similar around capital for the group should be in the range of 15% plus given the breakup?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [5]

Yes, that's correct. In fact, it could go even higher because the stand-alone pharmacy, if you understood that, clearly, the next 5 years stand-alone pharmacies ROI will be different. And there's also the restructuring that we are doing. The ROI of the patent would be even higher. So clearly, a combination of the company ROI of pharmacies could go north of 30%, 35% based on the -- based on 2 things. One of these things to growth, which is continuing well. Second is a private label focus which we are now -- have now again started focusing on significantly and which we are quite hopeful that it will get to almost around 10% of the top line in the next couple of years. So a combination of both of that we believe could get the ROCE of the stand-alone pharmacy to north of 30%, 35%, which will enable us overall.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [6]

Sure, that's helpful. My second question is related to the regions -- Tamil Nadu region and the Telangana and AP region. If I look at the outpatient volume, that's been pretty anemic. In fact, in the Telangana and AP, the inpatient was hardly 0.5% or so. So what explains that low outpatient volume growth? And -- or do you think that the outpatient growth has kind of capped out for this facility or these geographies? And as far as the ARPOB is concerned, we have very healthy improvement in ARPOB across all the regions. Do you think that incrementally, the volumes has to make it up versus ARPOB? Or what are your thoughts on this?

K. Hariprasad, Apollo Hospitals Enterprise Limited - President of Hospitals Division [7]

As Suneeta introduced during her introduction, sir, we are looking at profitable occupancy and profitable volumes. So we're really conscious about the type of patients that are coming into the hospital. And secondly is in terms of outpatient, there is an obvious impact of election during the first quarter with the outpatient. But at the end of the day, we'll make sure that the inpatient deliver decent growth even in overall cluster, and this growth was more in terms of the Center of Excellence that was chosen by us and which are promoted. And in fact, right now, we're choosing a really good [strategy] to actually marketing, so it was conscious efforts by the system to improve profitable occupancy and volumes.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [8]

And we know for example the result, there are specific segments like insurance and international. But then we see specifically AP, Tamil Nadu, et cetera, that we have seen better growth than what we are seeing at an overall level. So the patient segment mix is what we are focusing on, and those are the things that will enable us to be profitable growth.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [9]

Sure. Okay. And lastly, just one last question, and that is if you can just run us through any incremental update that you have as far as the regulatory side of -- in the market, anything incremental on that front? And any update on what's happening to the Proton Therapy Center, the strategy behind monetizing that, anything incremental on these to come.

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [10]

So regulatory, there was no new impact this quarter, so there's nothing that we need to be concerned about. [Transfer] was last quarter, right? You wanted to...

Chandra Sekhar Chivukula, Apollo Hospitals Enterprise Limited - President of Corporate and International [11]

[Currency] drag price, election happened in last quarter, and we have not seen significant impact on the [contour] side as we maintained our margin to the scale and negotiations.

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [12]

And with regard to Proton, we had 80 lakhs of revenue and INR 8 crores of loss. But the contingent impact on the whole of quality, COE has been significant. The growth of the COE has been around 18%. So...

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [13]

And the other point is Proton has now got -- will be fully commissioned in June, July. And also commissioned last year -- last quarter is the outpatient services. The Proton is now being utilized. July month -- effective July 1, it will be fully commissioned. And you will see that the EBITDA loss in the first quarter itself will be much lower than the EBITDA losses that we had in Q1. And our estimate of that number is close to INR 5 crores, and it shall be held -- the overall for the year, we have said that we will not be over INR 25 crores of losses. We believe it could well be INR 20 crores and lesser if things go well. That's on the Proton side, so things are progressing well on that. On the ...

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [14]

I also want to add that we have a waiting list of patients.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [15]

Yes. That is significant.

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [16]

So the volumes will come up to our expectations and beyond.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [17]

And on the Protons structuring, I think we will -- we are on the last stages of getting this done and, I guess, in the next month or so, you will hear from us.

Operator [18]

The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund.

Sudarshan Padmanabhan, [19]

My question largely is on Navi Mumbai and AHLL. I think of these 225 beds, I mean what is the kind of utilization that we are running year-on-year and the kind of contribution -- EBITDA contribution that it is making, how will we expect it to kind of change over the next, say, 3 to 4 quarters?

And similarly, AHLL. I think it obviously has a remarkable drop in loss, almost happening even in a quarter stand. What I would like to understand is which are the building blocks that have actually contributed to the kind of profits? I mean if you can broadly give us as to how much issue we are doing and probably the other ones that are contributing. And I mean here as we move forward, what is the kind of contribution we are kind of expecting from AHLL probably in the next couple of years?

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [20]

With regard to Navi Mumbai, we've opened 225 beds, out of which nearly 200 are occupied this month. We closed this quarter with 2.4 -- INR 2.8 crores of EBITDA. And we are hopeful that we will meet the EBITDA target of INR 30 crores. Chandra Sekhar, on AHLL?

Chandra Sekhar Chivukula, Apollo Hospitals Enterprise Limited - President of Corporate and International [21]

Yes, ma'am. The growth of AHLL is spearheaded largely -- we have growth that was close to 30% in year-on-year in the [clearance] business. And Spectra, which is our day surgery are issuing a growth of 17.5%. Clinics, which is our primary care show, is about 20-odd percent. Diagnostics is growing at about 42% -- have grown 42% year-on-year. And we expect these growth rates to be maintained across the year. Sugar as a format has taken up a little bit of a slowdown in the previous quarters. Now we have seen a -- we have 10% growth rate on Sugar as well. Dental is a business which is a little stagnant, but it will show growth rate in the coming quarters as we have made some essential changes to the model as well as the engagement with the doctors and other fundamentals. So we're expecting dental also to grow.

Dialysis is essentially the other format which is showing the significant growth. But because it was started late and it is showing 125% growth actually, but then the base was small in the previous year. We are expecting Dialysis to add to both the profitability and the top line of AHLL in the coming years. This year, we estimate benefits are a little muted.

Sudarshan Padmanabhan, [22]

And the second question is primarily on debt and cash flows. One is on the promoters' side, where we have guided for the price coming down to 50% and probably to 20%. But on the contrary, there has been a marginal increase in the pledge. I would assume that, that is primarily to fund the deal -- Apollo Munich deal. And second is the debt itself on the company level, where we are expecting the cash unlocking to come from the Munich deal as well as from the pharmacy transaction. I mean if you can give some color with respect to the time lines of when both these deals should happen. And what are the kind of debt which one should expect on the company probably in the next 6 months and by the end of the year?

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [23]

So with regard to the family and the pledge, I think we remain committed to our earlier statement. The additional beds work will cost the pharmacy funding in Apollo buildings, it will -- we have commented that we will bring this down below 50%. And by the end of the year, to bring it down below the 20%. And I think that we're completely on track with that. With regard to the company debt, I'll ask A. Krishnan...

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [24]

I think clearly, we had indicated even last year, last quarter that we are -- we would be getting the overall stand-alone gross debt to INR 3,500 crores, if you remember. And we are committed to that because the combination of both the Apollo Munich realization as well as the front-end pharmacy, which should get hyped out and get into an SPV, it should help us get almost around INR 400 crores, INR 500 crores. On top of that, the cash flow has been further accrued from the operation will also be helpful even though Proton still has INR 170 crores of balance CapEx. And for that, we will realize that we will be able to catch our overall debt closer to the INR 2,500 crores number by end of the year. This is assuming that Proton continues results. If Proton moves into an SPV, and as I said earlier, that we did an Investor Day, we would be bringing our debt further down.

Operator [25]

(Operator Instructions) We have the next question from the line of Nitin Gosar from Invesco.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [26]

Just wanted to know the gross debt and net debt for stand-alone and control entity. I think in presentation, we have some old [bad] data.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [27]

What is it? Sorry, I didn't get the...

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [28]

Gross debt and net debt.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [29]

So the gross debt of [pecan] stand-alone is what I told you. The consolidated will remain -- the delta will remain the similar one. So the gross debt...

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [30]

What is the data as of today? The question is on, as of today, end of first quarter FY '20, what is the gross debt and cash on stand-alone and then for consol. The DPD is showing some data which is I think have not got updated.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [31]

No, no. They're updated already, INR 3,130 crores is what is the total gross debt as of today in the stand-alone.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [32]

3,000?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [33]

3,129 crores, the DPD says that.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [34]

Okay. And it's strange because this was exactly the number you have down.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [35]

No, actually last year back, I don't know. But this is -- if you look at the last quarter, last quarter was INR 3,200 crores.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [36]

Yes. Okay. And what's the number for consolidated gross debt?

Unidentified Company Representative, [37]

3,700.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [38]

INR 3,700 crores.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [39]

Okay. And the same was the number for -- strangely, for fourth quarter. Okay. No problem.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [40]

Yes. For the overall, the stand-alone data actually comes down to INR 70 crores, INR 80 crores in this quarter. Just so that I'm -- we are on the same page. And this stand-alone of INR 3,200 crores will actually come down to INR 2,500 crores at the end of the year, as I said.

Nitin Gosar, Invesco Asset Management (India) Private Limited - Analyst [41]

Sorry, can you please come again on the last statement? I didn't get it.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [42]

It will come down to almost INR 2,500 crores by end of this year, stand-alone and gross debt.

Operator [43]

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

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [44]

This is Shyam from Goldman Sachs. So quickly, just on ARPOB, just going back to the earlier participant's question. I think has been quite significant, the ARPOB growth. So is it -- can you split this into the price and mix change, what's happened there? And the efforts to kind of read out all the lower margin, including some of the government business that were there, would we have the impact of that this quarter as well?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [45]

So predominantly, it was, as we said, because of the patient segment mix that we have been focusing on some of the profitable growth. The predominant number comes from that. We're not taking any price increases this year. The price increases that we have taken was only last year, and that was something that was known to be around 4% increase is what we had done last year. But as of now, we continue with the same prices. And the combination of the patient mix and also with our case mix is one and the same thing. For example, even in the new hospitals, we have been seeing a good uplift in some of the high end cases, including transplant, neurosciences, oncology, et cetera. Combination of this is what is helping us.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [46]

Got it. Just on the pricing environment, just a related question, do you think all the pressure we saw 2 year, 3 years back on pricing, is it become a more easier environment for you to take price increases related to where competition is? Like you took a high click, you said 4%. Do you think you can repeat that this year? But I know it is more amiable to take.

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [47]

I think with the total amount, we can do and we continue to do more in line with inflation. But what was really improving is the clinical service outcome. And for example, we are moving more into the robotic, more into minimally invasive. And this is clearly reflecting in the outcome.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [48]

Got it. My second question is on the pharmacy business. And can you quantify what's the private label contribution at this point of time?

K. Hariprasad, Apollo Hospitals Enterprise Limited - President of Hospitals Division [49]

That's about 7% during the current year. It's moved over from 5% last year and continue to grow on that.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [50]

So do you think there is a path to reach say 10%, 15% over time on this business? And what's the kind of margin?

K. Hariprasad, Apollo Hospitals Enterprise Limited - President of Hospitals Division [51]

We plan to -- plan to go to 10% in next 2, 3 years, we are hoping on the somewhat (inaudible) scale and improving the purchasing of the current projects. Look for the value to move to 10% in the next 2 to 3 years.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [52]

Yes. Related to this, how much do you think the margin improvement that we're seeing in SAP is driven by just say private label part? And do you think it's a big driver, or you think overall operating leverage is the one that's driving margin expansion?

K. Hariprasad, Apollo Hospitals Enterprise Limited - President of Hospitals Division [53]

It's a big driver now. We have -- accelerated value term, it is a good value; and then it's driving the margins.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [54]

And this is one thing which shall enable us significantly as we move forward. Even in the ROI and ROCE that we discussed earlier, which I've mentioned earlier. Because clearly, the distribution now of 3,500 stores that we have across is a good distribution that we have. The number of stores is high. And this is enabling the private label adoption faster and better in some of these stores compared to the past.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [55]

Got it. And then just last question is on the presentation. I think Slide 8 or 9, you've actually given us some impact on P&L over the lease period. Could you just explain those 2 charts, please?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [56]

So if you look at the chart, what we are saying is, typically, if we do enter into -- what's happening is that in there clearly, out of perspective that we wanted to provide you was that the Ind AS 116 is clearly an accounting impact. It is not a commercial impact at all. I'm sure all of you have already known that. But as the chart actually provides the perspective that if you look at the hospitals, typically given that the hospital leases are over up to 30 years lease because given that we need certainty and we do invest on the equipment, et cetera, there, and there is even though it is at decline there is still a significant investment that the hospitals do and indeed continually there, the typical commercial contract is on a 20-year period.

And the pharmacy typically does not have filings between the 9- to 12-year period. So what happens in the hospitals, because of carry-on inside, the present value of the lease therefore are rarely negotiated. If you look at the line that shows the operating lease, so operating lease line is commercially actually aligned to inflation, and that's the way that it actually ought to be. And it is shows in the line graph in that slide. Whereas, unfortunately, with the Ind AS 116, what it does is it the first 5 years, the depreciation and the interim impact is almost as high as 80% over the lease that it will be providing. So the 6 to 10 years, it is even 60% higher -- or 57% higher. Between 11 and 15 years, it's still 35% higher. And it is only after 20 years that we get the benefit of depreciation and interest we are expecting in the P&L.

It is there -- I guess from there, the Ind AS 116 is the only really important metrics that we are going to be continuing to provide you because really that is the real EBITDA also. The EBITDA, unfortunately, this gets reflected now under the P&L. Though the quality EBITDA, this obviously didn't have an operating lease out at all, so to that extent, we presume, I would think all of us would agree that it's not the real EBITDA. That's the -- which the post Ind AS 116 provides. So we'll continue to provide you with a pre-Ind AS 116. And this chart gives you the perspective of why we will be able to continue to provide you that.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [57]

Got it. So just related to the 25% margin for mature hospitals that we aspire, that's a pre-Ind AS number?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [58]

The 23% is a pre-Ind AS number.

Shyam Srinivasan, Goldman Sachs Group Inc., Research Division - Equity Analyst [59]

No, no. Aspirational target for reaching 25?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [60]

That is correct. That is a pre-Ind AS target. But we didn't say 25. We said 23 is our first -- is what we would like to achieve. This will be on the same side of what we...

Operator [61]

The next question is from the line of Neha Manpuria from JPMorgan.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [62]

My first question is on volumes. If I look at the total existing hospitals growth, it's very strong at about 13%, 14%. You've -- I think ma'am mentioned that the volume growth was high single digit. But if I look at the cluster volume growth presentation, that's still sort of low single digits. So where is the mismatch in terms of the volume growth?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [63]

So if you look at the -- so the one thing is the overall volume growth is what we are seeing there on the slide. Maybe what you -- what we alluded to is more on the perspective of the overall volume. If you look at the -- within the case segments, we have seen double-digit volume growth. Within certain specifics like insurance and on-call SD and international, et cetera, that is what the overall value could do. But I think the overall volume growth is what we are seeing there. Ms. Suneeta?

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [64]

Just to add on to what Krishnan said, in international, we have the 29% volume growth. But we must recognize that it was an election quarter and a very hot summer. So because of this, the movement of people into a lot of our facilities was restricted. So that impacted the volume growth.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [65]

But again, specifically to look at certain regions like Karnataka, we saw very good growth, right? If you see that 21% inflation volume, it is good because it is mature plus new. But even though it's new it has some upside margin there for 3 years. So if you look at it, I think that 1% in Karnataka has been 1.40%. (inaudible) though we were not able to keep Navi Mumbai, which is quite good. After that's not mature, but I'm still saying we did see good growth in some of these also coming in.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [66]

So sir, in the 14% existing hospital growth that we are seeing, would it be fair to assume that volume growth we will see 7%, 8%?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [67]

Yes. It should be around 5% -- 4% to 5%.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [68]

Okay. And the rest would be ARPOB mix, case mix and patient mix, et cetera, that you talked about?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [69]

That is correct. Case mix will be a significant number here.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [70]

Okay. Okay. Understood. My second question is on the restructuring of the SAPs. Is that on track to get completed by the end of this year?

Chandra Sekhar Chivukula, Apollo Hospitals Enterprise Limited - President of Corporate and International [71]

We expect to complete by end of Q3.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [72]

Okay. By December?

Chandra Sekhar Chivukula, Apollo Hospitals Enterprise Limited - President of Corporate and International [73]

We expect that to happen by end of Q3.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [74]

It should be up for approvals before...

K. Hariprasad, Apollo Hospitals Enterprise Limited - President of Hospitals Division [75]

End of October, then.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [76]

Okay. Understood. And my last is on the AHLL performance. If I look at quarter-on-quarter, obviously, there is some moderation in performance, particularly in our Spectra increases. Would it be related essentially to election? And we're not concerned about the small loss. Would that be the correct reading?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [77]

Chandra?

Chandra Sekhar Chivukula, Apollo Hospitals Enterprise Limited - President of Corporate and International [78]

Yes. The growth on a quarter-on-quarter basis from the Q4 to Q1 is I think what you're alluding to. Am I right?

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [79]

Yes. Yes. That's what I mean.

Chandra Sekhar Chivukula, Apollo Hospitals Enterprise Limited - President of Corporate and International [80]

That's potentially the elective piece and Cradles have shown a growth of about 4.5%, 5% on quarter-to-quarter, so Q4 to Q1, and about 6% on quarter 4 to quarter 1. So -- and our belief in our business, I think this is going on the right stream. We also expect a little faster Q-on-Q growth on Q1 to Q2 and thereon.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [81]

Okay. Okay. So second quarter onwards are stronger?

Chandra Sekhar Chivukula, Apollo Hospitals Enterprise Limited - President of Corporate and International [82]

Yes. It's a little bit more, but there is already growth between Q4 and Q1 as well.

Neha Manpuria, JP Morgan Chase & Co, Research Division - Analyst [83]

Okay, okay. Understood. And my last question, I've asked this in the past also, but we are not really seeing the kind of addition to new beds given we're seeing profitability improve in the beds that we've commissioned. I know, ma'am, you mentioned that focus is on profitable volume. Is it fair to assume that the increase in new beds will be there for very gradual over the next few quarters?

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [84]

So we have the ability to increase to 10,000 beds, but we don't want to incur any other fixed cost because we believe that we really need to reach that EBITDA margin of 20% to 21%. So they will be gradual. And I think this depends on each of the regions. See, Navi Mumbai, for example, will improve -- will add 100 new beds this year. So it's clearly depending on the region and the regional demand that we're doing it. But within the system is the potential for 12,000 beds ultimately leads to our loss. The other part of which is, of course, that we have the physical capacity to do so. And we will -- I think we'll calibrate it over this quarter.

Operator [85]

The next question is from the line of [Krishna Duveri] from Emkay Global.

Unidentified Analyst, [86]

Just 2 questions. One, if I look at your operational performance on Slide #20 and 21, where you have given the general use in outpatient department, the revenue growth across the board is significantly ahead of volume growth. Same is for inpatient also, which could be because of ALOS. So in outpatient, what is the reason for such a far outpacing revenue growth versus volume growth?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [87]

Well, one of the things that we have been -- we have been over the last 6, 7 months focusing on some of the leakages that we have been having in the system. And clearly, we have -- there has been leakages in certain hospitals, which we have been able to address effectively. That definitely shows on a higher outpatient revenue per patient, point number one. Point number two is also oncology is something that we are seeing good growth around as we are evolving, as we already said. And oncology doesn't have -- in some of the oncology department, we increased the outpatient volumes. That is the other because many of them will come under the outpatient sector. So these are the 2 reasons that we would see outpatient revenues go up more than the volumes.

Unidentified Analyst, [88]

Okay. And so this would also include -- when you say oncology, this would be radiation?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [89]

That is correct.

Unidentified Analyst, [90]

And within oncology, in terms of let's say...

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [91]

Chemotherapy also comes there.

Unidentified Analyst, [92]

Sorry?

K. Hariprasad, Apollo Hospitals Enterprise Limited - President of Hospitals Division [93]

Chemotherapy also comes there.

Unidentified Analyst, [94]

Okay. And in terms of oncology, in terms of, let's say, the surgeon availability for surgeries or, let's say, the machines that are probably already there are in order with the OEMs, is there any competition which is -- which could be probably the concern going forward?

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [95]

So right now, we're very confident about strategy in oncology. We're expecting to see 20% growth in the COE, and I think we're on track to achieve that growth.

Unidentified Analyst, [96]

Okay. And second question is in terms of AHLL. Now are -- if I look at our gross and net revenue excluding commissions of the order, whatever we call it, that proportion versus, let's say, 33% in same quarter last year, we ended quarter 4 last year with about 30%. Now it's down to about 29%. Is there any further improvement which we can retain over here?

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [97]

Dr. Sekhar?

Chandra Sekhar Chivukula, Apollo Hospitals Enterprise Limited - President of Corporate and International [98]

Yes. So in terms of gross margins, we have moved from 43% last year same quarter to about 50% this year. And we believe that we will maintain it at this level. There could be an incremental 100 basis points somewhere but not significant EBIT. We have managed to get most cost at this point.

Operator [99]

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

Prashant Nair, Citigroup Inc, Research Division - Associate Director of India Equity Research [100]

My question relates to -- sorry, taking the Ind AS transition impact, so on the ROCE numbers that you've shared in the presentation for say Healthcare Services of 23.1%, these are also pre-Ind AS, right?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [101]

That is correct. That's pre-Ind AS.

Prashant Nair, Citigroup Inc, Research Division - Associate Director of India Equity Research [102]

And would you be sharing this on an ongoing basis? Or can you give us some sense of how this may change -- how the balance sheet changes with the Ind AS transition?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [103]

So we will give this on an ongoing basis because we will continue to do the 23% Ind AS because that's the right way of looking at it. But at the same time, this balance sheet that is provided to you in Slide 11, it states that the right-of-use assets, which is the asset have increased by INR 1,199 crores. But from an ROCE perspective, it was significantly impacted because the right-of-use assets is INR 1,199 crores or INR 1,200 crores as of June end increase. Lease liabilities have increased by INR 1,425 crores. And the ROCE is done, both of that will be actually netted off. So given that both of that will be netted off from a capital employed perspective, we should not foresee so much of a difference. It's only a small number to the balance sheet number. But we will only be giving you the pre-Ind AS number as well as we go forward.

Prashant Nair, Citigroup Inc, Research Division - Associate Director of India Equity Research [104]

Okay. Great. So basically, you net of the 14 -- yes, INR 1,199 crores.

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [105]

Correct. But that will still not be the correct data. You'll have to do a post-Ind AS number. So it's not giving you the right resultant ROCE.

Operator [106]

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

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [107]

Suneeta, you are not too far from your 23% EBITDA margin target for the existing or mature cohorts. I guess if you restate it pretty soon now, so what is the updated thoughts on these peak margins?

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [108]

As I said, we are focused on achieving that target. And because the same levers that we've mentioned earlier that are actually working for us, the focus on centers of excellence and therefore clinical excellence driving superior margins, the focus on the quality of revenues that we get, so we are taking the one with higher profitability. And the fourth, cost savings which we believe will be -- which we will deliver on this year, which will take us to that 23%.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [109]

So you'll only add 22% plus, if I'm not wrong.

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [110]

22.2%.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [111]

Yes. So you should be reaching this within next few months, or maybe even in a year.

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [112]

(inaudible)

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [113]

So we wouldn't want to be so aggressive about it because we will see increments coming, increments are to be taken. We will have to be looking at obviously the services industry, we will see service cost going up. So because of that, we would not want to be so aggressive about that. But we will get to that 23% over the next 10 to 12 months.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [114]

Sure. No, I get that. My question was 3 to 5 years out, do you think that you will be moving this to 25% or more? Or is this where it was?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [115]

I think that will definitely happen because, clearly, there is headroom for growth within each of our facilities which you can see. The occupancy, 66%, point number one, even of the mature hospitals. So second is that

the -- as Ms. Suneeta already said, the average rate of this coming down, which means that we have -- we can still take more patients to increase the overall capacity of the hospitals. Three is we also feel that they can work at increasing. For example, in a place like Chennai, Chennai Main, this is among the most complex hospitals we would think in the system today in India. They take 35% plus of daycare. 35% of our admissions are on daycare. Now the daycare also impacts us, helps our margins, et cetera. So there are levers, we would want to believe that we can go to 25% clearly in the next 2 to 3 years.

Sameer Baisiwal, Morgan Stanley, Research Division - Executive Director [116]

Great. Absolutely great. And just on Proton, what is sort of a revenue roadmap over next 3, 4 years? What could be the peak margin potential from here and your breakeven year on this?

Krishnan Akhileswaran, Apollo Hospitals Enterprise Limited - CFO [117]

So if we look at -- I think given the quarter, before we come back to you on that because then the whole Proton startup is only just starting the Proton now in July, as we said. The margins are -- the EBITDA margins are already high. But in any case, as we said, mostly we will be going after the SPV to handle that shortly. We will get closer -- much closer to that. We will be very close to that as we are talking to get there soon. But the outlook is good because if you look at it currently, we have, as Ms. Suneeta said, there is a waitlist of the patients. I don't know whether you follow that last -- just last quarter, MD Anderson actually has in U.S. has actually gone ahead and expanded their Proton to 3 crores; in the current, 4 crores. And last year, they have seen over 800 patients just on the Proton in their facility. Our business gets required only 800 patients from the whole of this part of the world in India to be able to get to the full capacity of Proton. And we are confident that Proton is a good investment.

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [118]

Proton has become the standard of care -- the new standard of care. And I think we're fortunate that we were able to deliver on this format.

Sameer Baisiwal, Morgan Stanley, Research Division - Executive Director [119]

Okay. One final question, with your permission. And that is on any updated thoughts on inorganic expansion. Any geographies where you think you want to be present? And to tie it up with that, I mean thoughts on multi-specialty course, and single specialty, building new COEs, which lend themselves to single specialty format.

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [120]

So with regard to inorganic expansion, we have an open mind when we see an opportunity, we will look -- we have looked at it like right now. And with regard to -- I mean right now, I think we have a significant presence in all geographies except Mumbai and Delhi. Delhi is a little bit more challenging because we tightened the bed density ratio exceptionally high. And with the first [Q] we've opened up that now into the CDR market. We think that this influence to those markets could be risky. Having said that, I think that we are -- we don't have to look at any further capital expansion.

Sameer Baisiwala, Morgan Stanley, Research Division - Executive Director [121]

Okay. Single specialty versus multi?

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [122]

Single specialty we have done onco. And it's been very successful because oncology, it needs end to end servicing. And it's good -- we've also done pediatrics. So there are some specialties where it's good to really separate it from the rest, but otherwise, like (inaudible), I think we've created these models where the institute comprise -- are there so that we do have end to end business in the specialty residing within a single business.

Operator [123]

Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for their closing comments. Over to you.

Suneeta Reddy, Apollo Hospitals Enterprise Limited - MD & Executive Director [124]

Thank you, ladies and gentlemen, for participating in our call. This quarter, in spite of the challenges that we faced in the form of elections and a really hot summer, we've maintained our momentum. Going forward, I am hopeful that our twin focus on the health of every individual and the healthy balance sheet will benefit all our stakeholders. We look forward to your continued participation. Thank you.

Operator [125]

Thank you very much, members of the management. Ladies and gentlemen, on behalf of Apollo Hospitals Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.