

Operator

Ladies and gentlemen, good day and welcome to the Apollo Hospitals H1 FY13 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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. Mayank Vaswani from CDR India. Thank you and over to you, sir.

Mayank Vaswani

Thank you, Malina. Good morning, everyone and thank you for joining us on this call to discuss Apollo Hospitals financial results for the quarter and half year ended September 30, 2012.

We have with us today the senior management team. Before we begin, I would like to clarify that some of the statements made in today's discussions maybe forward-looking in nature and may involve risks and uncertainties. For a more complete listing of such risks and uncertainties, please refer to our investor presentation.

As always we shall start with Mrs. Suneeta Reddy who will discuss the operating highlights for the quarter. Mr. Krishnan Akhileswaran will then discuss the financial highlights and progress of expansion plans, following which Mr. Padmanabhan will have a highlights of the pharmacy operations Apollo Munich Health Insurance and Apollo Health Street. Documents relating to our financial performance have been email to all of you earlier and have also been posted on our corporate website.

I will now hand over the floor to Mrs. Suneeta Reddy to provide key highlights of our performance.

Suneeta Reddy, Joint Managing Director

Good afternoon and thank you for joining our call. I would like to take this opportunity to wish all of you a Happy Dipawali. I am happy to report another quarter of sustained growth in revenues and profitability.

Our healthcare services business has performed well aided by a combination of richer case mix in our mature hospitals and rapid volume growth in our newer hospitals. There has been a marked increase in the volumes in specific specializations like cardiology, orthopedics and oncology headed by our focus on complex treatment to the center of excellence initiative.

We continue to pioneer the adoption of technological advancements for patient care excellence and extended the application of robotic techniques to the area of spinal surgery. The standalone pharmacy segment continues to be outstanding. Our health insurance business has reported its first quarter positive PAT and a strong performance by some of our subsidiaries joint venture hospitals have ensured that it has been a quarter of balanced growth.

Now to provide you with a quick update on clinical and operational achievements. We are pleased to share that we have completed a 130,000 heart surgeries, since they are in fraction which makes us by far the largest cardiac program across the world. Our success rate of 99.6% against the backdrop of large volumes, places us amongst the distinguished global players. Apollo Hospital was awarded the Healthcare Service Provider Company of the Year, with revenues above 1,000 crores at the 4th Annual Healthcare Excellence Award by Frost & Sullivan. Apollo Hospital was also declared a winner in four categories at the Asian Hospital Management Awards at Hanoi and Vietnam with 800 delegates from 25 countries which participated in the event.

We are the first healthcare organization in Asia Pacific region to offer Renaissance Robotic System which is a surgical guidance system for minimally-invasive spine surgery. Apollo Hospitals is the first in the region to introduce this advanced technology within just 10 days of the launch of this system, we completed 12 successful spine surgeries which further reaffirm our commitment to medical excellence. Our offer is now into the robotic surgery based solutions in the area of cardiac surgery, pediatrics, head and neck surgeries and newly introduce spine surgery.

We will equip modern, modern our facilities across India with Robotic System's in a calibrated manner to ensure that a great

number of patients will have access to the latest neck, top technology. The rapid integration of these treatment methodologies in our healthcare offerings has had very encouraging results for operations, while patients benefit from better quality of treatment, experience less pain and have quick recovery. Our hospital benefits for better clinical outcomes, and higher value offerings and quicker turnaround time.

Now to our financial performance. We continued to report strong growth with consolidated revenues expanding by 22.2% from 1,508 crores in H1 in last year to Rs.1,843 crores in H1 this year. Consolidated EBITDA expanded 25% from 248 crores in H1 last year to 310 in H1 this year. Profit after tax was higher by 48% to 163 crores. The standalone pharmacy business continues to grow with 32% year-on-year revenue growth in H1.

The increase came in the business has enhanced buying efficiencies and operating leverage. Our health insurance business has reported its first ever quarter of positive impact, while the regulatory framework has become more conducive on the standalone. So both the Standalone Pharmacies and Health Insurance, we expect both these businesses to continue growing profitably further positioning us to real life long-term potential of these businesses. Our plan in we are just setting up 3,140 new beds in the next three financial years, this will take us from our current capacity of close to 6,000 beds in 36 owned hospitals to 9,000 beds in 61 owned hospitals by FY16.

Our new hospital in Chennai in Ayanambakkam is poised to commence operations in quarter four. The hospital is located in the suburb of West Chennai with the total capacity of 250 beds. I believe that this will strengthen our presence in the Chennai region and allow us to grow volumes. The initial operating capacity for this will be a 100 beds, we expect to further augment this our healthcare services operate in Chennai inline with our strategy to maintain our leadership position in the city. We also have a 200 bed hospital in city scheduled to be launched later this year.

We also plan to exchange our network of neighborhood clinics post to transfer of Chennai clinics by AHIL to Apollo Health and Lifestyle Limited. All the clinics are now housed and managed under our 100% subsidiary Apollo Health and Lifestyle.

There is a separate management team who is currently in the mix formulating our expansion strategy for this business. We've signed an MOU with Afro-India Medical services to set up 30 Telemedicine units in East and West Africa inline with our strategy to focus on this region for the cash utilization.

Now, let me hand it over to Krishnan, our CFO who will provide you with further details on our financial performance.

A. Krishnan, Chief Financial Officer

Thank you, Ms. Sunita. Good afternoon and thank you for joining our call. I trust all of you have gone through our investor presentation, which has been circulated earlier and is also available on our website.

I would like to refer to slide nine of the presentation, which contains the standalone financial performance. Standalone revenues grew 20.4% from 1,341 crores in H1 last year to 1,614 crores in H1 of this current fiscal. This was driven by 15.5% growth in revenues from healthcare services and growth of 32% in revenues from Standalone Pharmacies.

Consolidated revenues, slide seven, grew even faster by 22.1% from Rs.1,415 crores in H1 last year to 1,227 crores in H1 of the current fiscal aided by strong growth witnessed in Bangalore, Calcutta, Ahmedabad and Apollo Munich. The healthcare services business has witnessed an increase in the cost of consumables due to the depreciation of the rupee and increase in employee cost driven primarily by increase in entry level salaries for nursing. Despite this, standalone EBITDA grew 23.1% from Rs.223 crores in H1 FY12 to Rs.274 crores in H1 FY13.

The overall EBITDA margin has expanded by 38 basis points to 17%. Consolidated EBITDA grew 25% from Rs.248 crores in H1 FY12 to 310 crores in H1 FY13. This has been held by case-mix improvements as we continue to benefit from our centers of excellence focused, as well as operating leverage derived from higher volumes.

EBITDA contribution from the Standalone Pharmacy segment too has further expanded and is currently at 2.7% in H1 FY13. Depreciation is higher due to the addition of capacity at Hyderabad, Bhubaneswar, Vizag, Hyderguda and Karaikudi. Financial expenses have been contained due to the refinancing of debts through debentures and new loans. We currently have cash and cash equivalents of over Rs.400 crores as of 30 September, 2012 with total borrowings of Rs.800 crores standalone.

Other income in H1 FY13 increased to 18.4 crores due to higher treasury income from funds which were raised in QIP in July last year and for the issue of warrants to promoter. The effective tax rate is lower this quarter as we have availed the benefit of section 35 AD of the Income Tax Act, which allows for 150% depreciation on new projects. As a result, standalone PAT expanded 43% to 153 crores in H1 FY13.

If you now turn to slide 10 on segment-wise performance, you will see that EBIT in the Healthcare Services segment grew by 19.3% in the first half. EBIT from Standalone Pharmacies has expanded from Rs.2 crores to 9.7 crores in the same period. Strong

growth in EBIT from healthcare services have resulted in the annualized ROC on the healthcare services improving from 18.4% in H1 last year to 18.9% in H1 this year.

I will now take you through slide 12, which contains a key operating metrics in hospitals business. The operational beds as of September 30, 2012 were at 5,265. The net increase of 167 beds over the period has come through the addition of 84 beds across our standalone hospitals in, Bhubaneshwar, Madurai, Mysore, Karimnagar as well as 104 beds across key subsidiaries in Calcutta, Bangalore, Delhi and Ahmedabad. Overall occupancy has increased to 76% in H1 FY13, compared to 72% in the same period last year. We continue to report strong double-digit growth in both in-patient and out-patient volumes.

Volume growth during the period has been driven primarily from hospitals outside of Chennai and Hyderabad like Madurai, Bhubaneshwar, Mysore, Karimnagar and Karur as well as the joint ventures in subsidiary hospitals. In-patient volumes grew 1.8% in Chennai, while out-patient volumes grew 8.9% here. IP volumes grew 8.7% in Hyderabad, as we started to see higher volumes at our new international patients block. Out-patient volumes were a bit softer this year primarily due to the Telangana issue. However, revenue growth continues to be strong at all our facilities. Chennai delivered 14.7% growth in IP revenues, despite registering only 1.8% growth in IP volumes due to enhanced pricing and an improved case mix.

IP revenues grew over 30% and other standalone hospitals followed by 17.5% in our subsidiaries and joint ventures. Out-patient revenues also grew appreciably, but subsidiaries and joint venture hospitals reporting a 28% rise, Hyderabad reported 20% growth in OP revenues despite the marginal dip in OP volumes. ARPOB has now grown 12% on an overall basis with Chennai and the other standalone hospitals reporting a 12.1% increase in ARPOB followed by Hyderabad at 9.4%.

ARPOB at the subsidiary and JV hospitals has risen by 6.4%. Ms. Suneeta has already discussed late '16 which covers our expansion plants in FY16. The plant expansion will require an outlay of approximately Rs.1,815 crores in a phase manner of which we have already invested Rs.400 crores. The additional funds required will be met through existing cash, internal accruals and debts.

That's it from me. I will now hand over to Mr. Padmanabhan who will walk you through developments in pharmacy, health insurance in Apollo Health Street.

K Padmanabhan, President

Thank you, Krishnan. Good afternoon, everyone. The Standalone Pharmacy business continues to grow with revenues driving at 33% from Rs.208 crores in Q2 FY12 to 278 crores in Q3 this year.

For the first half revenues were up 535 crores, an increase of 32% of over revenues of 398 crores that we have achieved in the first half of last year. While there has been an increase in the overall number of stores, a large part of the revenue growth in the pharmacy business is a growth from same-stores.

The operating performance of the business continues to get better with EBITDA, and while EBITDA has improved from 3.8 crores in Q2 last year to 8.2 crores this year. The EBITDA margin has increased from 1.8% in Q2 of last year to 2.9% this year. This has come about to rationalization of store network, buying efficiencies due to increased scale of an operating leverage that has contributed and our players in addition to private labels.

If we refer to slide 14 of our presentation, the analysis of pharmacy business, we mark - stores into three categories, store set up upto FY reiterated earlier, store set up in FY09 and store set up in FY10 and the growth in EBITDA of all categories of stores. Like-for-like revenue growth added 17.5% from -- stores set up before FY08 and 21.6% for stores set up in FY09 and 24.1% in stores set up in FY10.

The EBITDA performance continues to improve quality category and we've also noticed that all the stores set up before FY10 representing over 850 stores are now significantly EBITDA positive. The pre-FY08 category which contains a major stores has recorded an EBITDA margin of 5.3% in Q3 FY13, compared to 4.7% in FY12. In fact, within this category of stores which has been set up before FY07 have recorded an EBITDA margin of over 6%, during the quarter. Over the last 24 months, we have shut 48 stores in Delhi and Mumbai, whereas the highest -- were ensuring operations done by Apollo. However, the expansion continues to move forward and in Q2, we added a net 42 stores during this quarter giving us a Pan-India network of almost 1,400 stores as of 30 September, 2012.

As we have always maintain, we plan to scale up this business and are hoping to strategic partnership with the global player, who can not only invest but also add value to this business. The regulations now in -. We are focusing on growing this business profitably as we move forward from here and we'll be evaluating on how we can unlock the value at the appropriate time. Apollo Munich Health Insurance has recorded an increase of 38% in cost/premium from 155 crores in half year FY12 to 214 crores in half year of the current year. Total income is higher by 54% some 145 crores to 225 crores.

We are pleased to inform a positive EBITDA for the first time in this business as H1 EBITDA was 2.4 crores, compared to a negative

of 12 crores last year. Similarly in Q2, we have reported a first ever net profit of 0.4 crores, while there has been a loss of 1.8 crores as the net revenue in H1. Apollo Health Street has increased its income by 9% from 244 crores to 267 crores. Focused sales and marketing efforts helped us increase business volume and this has been further carried by favorable trends with currency exchange rates.

Cost optimization led to an increase of 27% in EBITDA from 38 crores of last year to 48 crores this year. The EBITDA margin is up by 240 basis points to 17.8% and we also deposited a net profit of 5 crores to the first half of this year against the net loss of 8.4 crores last year. This is all from me and now we are ready to take your questions. Thank you.

Questions And Answers

Operator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. The first question is from Farzan Madon from Axis Capital. Please go ahead.

Farzan Madon

Thank you very much for a detailed and informative presentation. Just one question is that your expansion of around 3,140 beds is coming up all over India, now where exactly are we on course basically especially in the Bombay region?

Suneeta Reddy, Joint Managing Director

I think in the Bombay region it has been delayed slightly in getting some permission, but we will be fully operational in the year '15-'16, 2015-16.

Farzan Madon

All right. My second question is since you all are coming up with such a this expansion program, is it possible that we can end up with MAT tax, a minimum alternative tax of around 17%, 18% or do we still continue to be at around 27%?

A. Krishnan, Chief Financial Officer

So, the MAT is the cash flow mechanism and we are currently at the MAT, but if you look at the 150% and the 50% additional that we have, the effective tax rate now is around 26%. It depends on how many hospitals and the CapEx that we add every year, this can vary each year, it can vary from 24% to 27% as we see now. So this year, it's around 26%, but even if we are paying MAT, it will still the effective tax rate will be around this number.

Farzan Madon

All right, sir. Thank you very much.

Operator

Thank you. The next question is from Aditya Khemka from Nomura. Please go ahead.

Aditya Khemka

Yeah, hi. Thanks for taking my question. Sir, my first question is on Standalone Pharmacy. So, the total number of pharmacies that we have added in the first half is around 35 net stores added in first half, and if I remember correctly, the idea was to add around 100 stores every year. So that guidance still stands?

K Padmanabhan, President

Yes. Yeah, I think we suggest to upon about 100 to 120 stores for the year. We have opened actually 42 stores in the first half, net addition. The net after closing about 45.

Aditya Khemka

Right. So, that 100 to 150 store is the net store addition right, that is net of closures?

K Padmanabhan, President

Yeah, net of closures.

Aditya Khemka

So, we should expect that second half to be much more aggressive than the first half for FY13?

K Padmanabhan, President

Yes, that is right.

Aditya Khemka

And sir, Mr. Reddy was quoted on the television in some interview saying that Apollo the Standalone Pharmacy stands to be about 2,000 stores strong in three years time. So, if we take that number to be guidance then the net addition per year would have to be in the region of around 200 stores over the next three years, would you comment on that?

A. Krishnan, Chief Financial Officer

Generally, we plan to add about 250 new stores and close about 50 to 60 non-performing stores, so we stand there approximately in that number.

Suneeta Reddy, Joint Managing Director

So I think Chairman was looking at a micro picture where we plan to add 500 because we always look at locations of 500 stores. We open as many as we think are feasible and eventually we end up closing of some stores. But if we look at net additions it is below the number quoted by Chairman.

Aditya Khemka

Okay. I understand. Okay. And so if I look at Chennai cluster for quarterly performance of this quarter, if I look at the ARPOB growth, back out the second quarter from the first quarter and look at the ARPOB growth. The numbers that I am cunning at year-over-year growth in ARPOB is close to 9%, as compared to even something like 20% in the first quarter. So, can you just elaborate on that update I mean what is driving that?

A. Krishnan, Chief Financial Officer

So, you are saying that Q2 over Q2 of last year is 9%, compared to Q1 over Q1 of last year, is that your question?

Aditya Khemka

That's right, yes.

A. Krishnan, Chief Financial Officer

I think that's to do majorly with the case mix that has been a big different in Q2 of this year, but I don't think that's going to be

continuing as we move forward and we should be able to see that pick up.

Aditya Khemka

So, what we are expecting ARPOB growth, I mean what kind of expectations can we - into our models. do you think we could build a team kind of an ARPOB growth or should we just remain close to 10% kind of an ARPOB growth or longer term period, I am talking three years to five years. So, what kind of ARPOB growth do you foresee in which -in Hyderabad?

A. Krishnan, Chief Financial Officer

See three years to five years, when you look at it it's a pretty long-term view that you are taking. If you are talking of a quarter close to double-digit is fine, but if you are looking at three to five as we are going to be seeing a lot of changes in the dynamics in the Chennai cluster. As you all are aware we have been managing this as a cluster and you would see that the Ayanambakkam facility which should be opened up in the next quarter, that would another 200 odd beds, that would enable us to shift some of the specializations as well. We will be able to re-balance our portfolios in some of our other hospitals. So, we have plans in the Chennai cluster to further augment the revenues as we move forward and as we get closer to that, we could share that with you. But I think a double-digit growth is something that you can still factor in for the ARPOB over the next three to five and it could be 12% to 14% also.

Suneeta Reddy, Joint Managing Director

I think it's important to realize that our mature hospitals were able to maintain this 12% like we've done in Chennai, but it will get calibrated because 30%... in the next three years we will adding 30% of our volumes will come from new beds which will be at a slight discount to the current tariff. So, I think that's what you need to faster in. So when Ayanambakkam comes in, it will be at a slight discount to what we're doing in the mature hospitals.

Aditya Khemka

Right. No actually my question was that in this quarter, there is no Ayanambakkam and despite that you are doing quite a single-digit growth in ARPOB year-over-year, but I understand the point, I take your point if the management is comfortable with something like double-digit growth over three years to five years that's good enough for me. The next question was on, can we assume a similar kind of ARPOB growth in other subsidiaries, primarily the Hyderabad subsidiary we are seeing that there is limited capacity addition going forward and the occupancy rate hasn't really picked up if I look at it we have been made 60 for sometime now. So, the only thing driving revenues in this cluster has been the ARPOB growth. So, should we think in similar manner when I think of the Hyderabad cluster going forward, would it also do something that a double-digit three-year to five-year horizon?

K Padmanabhan, President

I just need to clarify what this ARPOB comprises of. Its combined tariff increase...

Aditya Khemka

Right.

K Padmanabhan, President

And average interest rate. These are the same factors that go into creating the ARPOB growth. So, it is possible that during period of high inflation you can have very, very high levels of ARPOB growth and we combine it with and also improvement that you will find equally large increases and the converse is also true that we have low inflation it can be subdued ARPOB growth. So, it has been the experience and I think this is what Mr. Krishnan was trying to say, it could range in the rate of about 8% to 12% up by ARPOB growth. In the newer facilities for example, you will find that ARPOB growth will continuously increase at the scale of volumes, but this may not make a significant impact in terms of overall ARPOB but company level.

Aditya Khemka

Right. And sir my question was about the Hyderabad cluster which is obviously a mature cluster.

K Padmanabhan, President

Yeah, sorry.

Aditya Khemka

So, when you are discussing the Chennai cluster I think ma'am mentioned, questions have mentioned that it was 12% to 14% kind of an ARPOB could be expected.

K Padmanabhan, President

Yes.

Aditya Khemka

So, in Hyderabad do you think eight to 12 would be a better number to look or would 12 to 14 also stands for Hyderabad?

K Padmanabhan, President

Yeah, I think about 40% of Hyderabad cluster is actually also newer beds in out of the 930 beds that you have in Hyderabad, about 400 to 450 are mature beds and balance are actually newer beds. So, one will have to see that, but you will find that because this newer beds, you will find that the ARPOB growth will also mimic what has happened at the 10-year level have to go forward with the increase in occupancy.

Aditya Khemka

Right. Right. And sir just one last question if I may squeeze in, what is the outlook that we're seeing on the Indian front as far as inorganic growth is concerned? Are we... I know we always have maintained that we are looking at evaluating opportunities and we will do something. So, what is the scenario right now, I mean how is the expectations, what is the quality of facilities that you are looking at and how is that looking? And connected to this question another question would be beyond FY15, how many beds can we see ourselves adding each year, if I look at say 10-year horizon, how many beds can be add each year beyond FY15?

K Padmanabhan, President

As far as the Indian market is concerned, we're adding... your first question was what is the expectations of growth right?

Aditya Khemka

No, what is the M&A see that or what is merger and acquisition are you in right now? What is the kind of facilities that you're evaluating, is there anything interesting available in the market and what is the outlook on any inorganic opportunities?

K Padmanabhan, President

The moment as we have had said, we have on hand about 3,100 beds that will get commissioned over the next three years or so. Beyond this we will actually do -- we do get any interesting opportunities for investment and we think that they are attractive enough. Then this could be taking us additional beds. But right now what we have is what we will actually disclose, but we are all going to look out and you will see that even compared to six months back, we will look at some newer facilities including the City of Bangalore. So, as and when those opportunities come, we do also additionally look at that.

Aditya Khemka

Sir, has there been any material change in your outlook on the M&A front in say over the last year? Have things improved as far

as valuations are concerned or has the expectations remained where they were 12 months ago? Has there been a change?

K Padmanabhan, President

I think the benchmark valuations has been set up by Apollo itself. To that extent, people do expect rich valuations in this sector. We on other hand look at what is it that we can afford to pay. And how... they would add value to our financials, we were actually do an M&A with some of the... and which are attractive now, we still look at. There are some available, we are still discussing on some of these things. But they have to come value that is attractive. I don't think we would make any strategic acquisitions for the sake of making acquisitions.

Aditya Khemka

That's right, sir. And sir, my second question on how many beds do you see ourselves adding beyond FY15, so if I am say looking at the 10-year horizon period, what is the kind of number of beds that one can expect Apollo would add beyond FY15?

K Padmanabhan, President

Our beds itself will go up significantly by FY15. And therefore, we will be in a position to take on more additional newer beds because the portion of our current bed capacity at that time it should be at smaller portion which is what impact prices in terms of determining how far we grow. Yes to that extent, we will be added with more aggressive as we go forward.

Aditya Khemka

Right. Sir, would you think would you be comfortable given that in FY13 to FY15 we are adding about 3,000 odd beds. So would you think the 1,000 beds run rate a year is a reasonable expectation to have from Apollo going forward beyond FY15?

K Padmanabhan, President

No, I think we have already said that we would measure, we like to do our measure growth, we don't try to strain our financials too hard and we also like to be we are able to make sure that we deliver the kind of thing that we stand for in terms of medical quality and medical outcomes. So to that extent we'll always be measured in our outlook in terms of what we plan to do. Unless of course as I mentioned, we will now something very significant comes up which is really attractive.

Aditya Khemka

No, that's... I was talking about organic addition of beds. So organically can we expect...

K Padmanabhan, President

Yeah.

Aditya Khemka

Follow to add say a 1,000 beds?

K Padmanabhan, President

Organic additions of beds may happen only in the post '14, '15 where we have ability to add even within our existing facilities where we have land, where we can actually increase than for a bed.

Aditya Khemka

Right.

K Padmanabhan, President

But that includes Bangalore, Calcutta, Ahmedabad even Hyderabad, but I think we will wait till about '13 or '14 before we make plans to that.

Aditya Khemka

Okay, sir. Thank you. Thanks a lot.

K Padmanabhan, President

Thank you.

Operator

Thank you. [Operator Instructions]. The next question is from Praveen Sahay from B&K Securities. Please go ahead.

Praveen Sahay

Yeah. Thank you for taking my question. I have a question regarding that in the hospital business, the revenue from the Karimnagar and Karaikudi has increased quite significantly in this quarter. So, I just wanted to know how many operational bed are in these hospitals and what's the occupancy rates?

A. Krishnan, Chief Financial Officer

So, Karimnagar and Karaikudi are relatively low now. If you look at the number of beds that are now operational in Karaikudi to be almost on 50 beds, but it's a 100 bedded hospital. We would be over a period of time increasing the Karaikudi operational beds and Karimnagar is the number of beds that we today have in Karimnagar is approximately 100 and it is almost around 66% occupied and it is at 72 occupancy now.

Praveen Sahay

Okay. And what's the ARPOB level because in the category wise if I will see, the others having some 11,700.

A. Krishnan, Chief Financial Officer

ARPOB in the Tier 2 clusters and if you look at cities like Karimnagar, Karaikudi et cetera would be in the range of 7,000 to 9,000.

Praveen Sahay

Okay, okay. So and in the overall occupancy level has increased quite significantly in the past quarter. So, how we are seeing in the current quarter?

A. Krishnan, Chief Financial Officer

Can you repeat that question?

Praveen Sahay

Currently, we're seeing an overall occupancy level some 76%. So, how we are seeing in the current quarter like in the past quarter is quite good on overall. So is this going to improve or it's improving? What's the trend in overall hospitals?

A. Krishnan, Chief Financial Officer

We have reported a good Q2 and as we speak the occupancies are continue to be good.

Praveen Sahay

And now coming to just next question. Last question is related to the pharmacy business. So, we had added 56 new stores and discontinued 14 stores. So, I just wanted to know what type of a format stores is this, the new additions? And what the CapEx plan are, CapEx shared with that new additions?

A. Krishnan, Chief Financial Officer

It's inline with our existing roll out, this is -- we have a large format store roll out which has been planned, but that's still being studied because there is rentals and other things also which we have to factor in before we expand in that invest format. The format of stores that we have added now is predominantly the smaller format stores that we continue to roll out.

Praveen Sahay

Okay, okay. And this 14 which you closed is of which batch like older ones, which are loss making...

K Padmanabhan, President

Most of them are loss making obviously.

Praveen Sahay

Yeah.

K Padmanabhan, President

And predominantly belonging to 2009-08 batch.

Praveen Sahay

Okay, okay. Thank you, sir. Thanks for taking my questions.

Operator

Thank you. The next question is from Ishit Sheth from Anvil Shares & Stock Broking. Please, go ahead.

Analyst

Hello. Yes, congratulation on a very good set of numbers for this quarter. Sir, I had a couple of questions. One is on the equity front of it. Basically, our equity has increased from almost 67.23 crores to 69.56 crores, which represents almost 2.33 crores of higher equity. So, if you go to see the preferential allotment to the promoter, it was for 3.27 million share at Rs.472, which I assume has been converted in this quarter. Am I correct?

K Padmanabhan, President

Yeah.

A. Krishnan, Chief Financial Officer

Yes, you are correct.

Analyst

Yes. So apart from that, that translates into an equity addition of almost 1.63 crores.

A. Krishnan, Chief Financial Officer

Okay. So the balance is because of this IFC, we have this FCCB from IFC which has now been converted also and that's the balance is because of the IFC conversion into equity shares, we don't have any outstanding FCCBs at this point in time.

Analyst

No outstanding FCCBs, and we don't plan to dilute our equity any further now, as of now?

A. Krishnan, Chief Financial Officer

Not now.

Analyst

Not right now.

A. Krishnan, Chief Financial Officer

Yes

Analyst

Okay. Sir apart from that question on the CapEx which we are incurring at for Bombay cluster, so what we see is the estimated cost for 300 beds for Byculla hospital in Mumbai is around 140 crores, is what we estimate today, that translate into roughly for 40 lakhs a bed and for other hospitals is nearly 1 crore. So is there a difference in the model, I mean are we leasing out the hospital at Byculla or something on that sir?

A. Krishnan, Chief Financial Officer

Yes, Byculla is the leased model.

Analyst

Okay. Byculla is leased and the other two will be owned by us, correct?

A. Krishnan, Chief Financial Officer

That is correct.

Analyst

Okay. Sir just a question on the Chennai cluster, basically we were talking about adding 40 beds in OMR part of Chennai basically.

A. Krishnan, Chief Financial Officer

Yeah.

Analyst

So has that been operational now those 40 new beds that we were planning to add?

A. Krishnan, Chief Financial Officer

That's on course to begin operations in the next six months, if there is this... if the work is on and we need to complete the finishes et cetera. So in FY14, we would be adding this is what we have stated. So if you look at the... so we took the another six months away before we start operations there.

Analyst

Okay. So it's still going to be six months away.

A. Krishnan, Chief Financial Officer

Yes.

Analyst

Okay. Sir, how do you see overall Chennai cluster, I mean in-patient volume if you see that has just grown by 1.8%. I mean are we seeing certain, I mean now the volume will come only once we add new beds or is there some other...

K Padmanabhan, President

Yeah, we have at the moment the Chennai hospital is quite full.

Analyst

Okay.

K Padmanabhan, President

In fact, all the hospitals in Chennai are full, which is one of the reasons why our growth has been restricted in 1.8%.

Analyst

Okay.

K Padmanabhan, President

Over the next six months we have plan to be - Chennai and move some of this out-patient facilities out of the main hospitals. So, as to create vacant number of beds in the main hospital in Chennai. We'll also do the same in the speciality hospital. We hope it all goes well that business in next six months to eight months. We will have another 160 to 180 beds coming between these two centers alone in addition to what we will have in Ayanambakkam and the the 40 beds are talking about - months. So, I think next six months to two and a half years there will be a heavy tenure focus in terms of increasing capacity here.

Analyst

Okay. So that will be great and sir one more question on the pharmacy side, what we hear from recent news report is, I mean till today we are modeled on the pharmacy side is the small store pharmacy that we have. So, we hear from news reports that we are planning to scale up the size of the pharmacies to 800 square feet to 1,000 square feet is that correct?

A. Krishnan, Chief Financial Officer

That's right, we are working on that format, you can see the role of our flagships in the areas...

K Padmanabhan, President

It is only flagship stores.

Analyst

Okay. That will be flagship stores, okay. And how many do we plan to start of it?

A. Krishnan, Chief Financial Officer

Currently studying the concept we are into somewhat on the numbers, but we will be rolling out by year-end.

Analyst

By year-end, okay. So that will -- what will be the CapEx then per store for those store basically?

A. Krishnan, Chief Financial Officer

It will be roughly in the range of about 30 lakhs, 30 lakhs to 35 lakhs against the current 15 lakhs.

Analyst

Okay. 30 lakhs to 35 lakhs, okay. And any update on FDI got pass in multi-brand retail. Any update we have on that?

A. Krishnan, Chief Financial Officer

We are watching for the final outcome in the Parliament next week.

Analyst

Okay. So that's it from my side. Thank you very much.

A. Krishnan, Chief Financial Officer

Thank you.

Operator

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

Ravi Dodhia

Thanks for taking my question. Just want to understand, currently what portion of interest is being capitalized?

A. Krishnan, Chief Financial Officer

One second please.

Ravi Dodhia

Yeah.

A. Krishnan, Chief Financial Officer

We have approximately around, if you look at the H1 of this year, if you look at the work in progress that we have today, approximately the work in progress number is around 400 crores and if you look at interest which has been capitalized is approximately around 30 crores in the first half of this year.

Ravi Dodhia

30 crores in first half?

A. Krishnan, Chief Financial Officer

Yes.

Ravi Dodhia

Okay. And just with regards to Tier 2, Tier 3 cities like locations...

A. Krishnan, Chief Financial Officer

I am sorry 20 crores for H1 of this year.

Ravi Dodhia

Okay. With respect to the hospitals in Tier 2, Tier 3 cities like Bhubaneswar, and Madurai, Karimnagar. There just want to understand currently what are the ARPOB levels and also the written on capital employed for this locations?

A. Krishnan, Chief Financial Officer

So, if you look at the ROCs of places now Bhubaneswar is already doing 20%, 21% EBITDA, so the Bhubaneswar volumes have seen very healthy growth and now we are almost at ROC of around 7% to 8% in the Bhubaneswar facility.

Ravi Dodhia

Okay.

A. Krishnan, Chief Financial Officer

As you know our target ROCs in the fourth-year to fifth-year is around 18% to 20%.

Ravi Dodhia

Right.

A. Krishnan, Chief Financial Officer

Bhubaneswar is currently at the third year. And in places like Madurai et cetera are already our target ROC is of north of 20%

Ravi Dodhia

So currently they are in what range?

A. Krishnan, Chief Financial Officer

ROC is of 20% as what Madurai is. So if you look at the rich hospitals, typically in the... like our tertiary care hospitals in the urban centers as well...

Ravi Dodhia

Yeah

A. Krishnan, Chief Financial Officer

Models look at 18% to 20% ROC by the fifth-year.

Ravi Dodhia

Right. And what about these facilities, Karimnagar and Karaikudi?

A. Krishnan, Chief Financial Officer

Karimnagar is almost at around 14% to 15% ROC now and Karaikudi is still not yet that positive ROC.

Ravi Dodhia

Okay, right. And last question from my end, where do you see occupancy at Hyderabad cluster, because since last one and a half year we have been seen it is hovering at around 60%, 65%. So in the near future, say within one years to two years, where do you see occupancy at this cluster?

K Padmanabhan, President

Yeah, I think the additions to of beds actually came only last year, which is why our occupancy actually blocked about 64%, 65% and we are now scaling at building up occupancy in the newer facilities. The Hyderabad main facility is actually quite good, it is newer facility that needs to get occupied. I think over the next two quarters, we expect occupancy to go up significantly in the newer facilities as well.

Ravi Dodhia

Okay. So say three years down the line can we see it nearing the Chennai cluster?

K Padmanabhan, President

I think it will go back. It was going to -- about 18 months back, it's closed in '11 to about 77% to 80%. That's what we'll expect to go. We expect to see in Hyderabad within the next two years or so.

Ravi Dodhia

Okay. And what is the contribution of private level goods in the pharmacy business current...

A. Krishnan, Chief Financial Officer

4.5% approximately.

Ravi Dodhia

Sorry?

A. Krishnan, Chief Financial Officer

About 4.5% approximately.

Ravi Dodhia

Okay, sure. Thank you.

Operator

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

Perin Ali

Hello? Yeah, thanks for taking my question. Am I audible? Hello?

A. Krishnan, Chief Financial Officer

Yeah.

Perin Ali

Sir, my first question is on the margin front. Now, as we have seen sequentially margins have been very robust in hospitals, standalone hospitals as well as Standalone Pharmacy business and this is despite the fact that Telangana issues were there in Hyderabad and out-patient volumes growth was negligible. Also we see that the joint ventures and subsidiaries have expanded very well sequentially as well as Y-o-Y, but still at a consolidated level we see EBITDA margins at hovering around 16.8%, now are we seeing pressure in the subsidiaries and JVs or how do we look at the numbers given this?

K Padmanabhan, President

I think this is primarily because your standalone pharmacies are going at about 33%, as against hospital business it's going at about 15% to 17%. And since the EBITDA margins on Standalone Pharmacy are significantly lower, which is why you see that overall EBITDA has gone up 21.4%. Even though there have been significant increases, so that's fairly just mathematics.

A. Krishnan, Chief Financial Officer

And if you look at it versus last year, you would realize that the consolidated numbers are significantly better than the last year consolidated numbers which has been aided by the growth in these hospitals that we have in the console segment.

Perin Ali

Okay. But sir, I mean going forward given that the currency is also appreciating now and probably in a scenario where the currency may not hover at 55, 56 levels. Also with the margins improving in pharmacies and the new hospitals, do you see now margin significantly expanding in the second half on consolidated basis?

A. Krishnan, Chief Financial Officer

I think we would still look at the margins to be in this range. As we speak, over a period of time as we are able to increase our occupancy in clusters like Hyderabad and other hospitals like Bhubaneswar and also with some of the things that Padmanabhan said about the Chennai cluster. We would be seeing the EBITDA margins improve as we move forward over the next 12 months to 18 months. But in over the next six months, we would still continue to look at margins around this number.

Perin Ali

All right. Thanks. Sir, I have a second question. My question is on your strategic decision of getting a partner for the pharmacy business. As you mentioned in your opening comments, I just want to know what kind of strategic partners we are basically in talks with? And also what kind of synergy a strategic partner would get through Apollo Standalone Pharmacies? And given that multi-brand FDI retail is to be taken up next week as you mentioned, what kind of regulatory hurdles you see, you could face in getting this deal pass through if it happens?

K Padmanabhan, President

Yeah, basically when we talk about strategic partner, we mean people who are in the business of pharmacy retail. And we believe that as we go forward currently, we are at about 1,400 stores, out of our total universe population of 600,000 stores in India. So, we are still ending significant player from that point view and we think there is a huge scope for expansion for the pharmacy business. Given that our core competency is healthcare delivery, but having brought up the pharmacy business to describe us. We believe that the strategic partner will help and not just financially and not value, but also in terms of create more value in terms for this business itself which will obviously help the shareholders who follow. And we are just looking forward to the opening of FDI retail because then it gives us a great opportunity to look at there from all over the world.

Perin Ali

No sir, I understand, what I was trying to understand is, how we offer a synergy to the strategic partner for...

K Padmanabhan, President

Obviously, Apollo is a very, very strong brand. Secondly, we are spread across the country so we offer infrastructure, we also offer very strong supply chain logistics apart from the fact that the Apollo Hospital is that we'll continue to also keep treating patients into the standalone provinces. So that was in the large synergies that the chain can outflow, which is one of the reasons why our Apollo and strategic partners have been talking to us at least.

Perin Ali

Sir, but like if with this FDI in retail, in whichever form it comes what kind of regulatory hurdles you could still see or strategic partners would see in probably entering into this business in India even either through you or through any other entity. If you could just throw some light on that?

K Padmanabhan, President

We don't know really. At this point of time, we'll have to see whether there are any pre-conditions to how this is going to be part in Parliament. But otherwise we don't see any real major regulatory hurdles for anybody to either partner with us or to partner with anybody else.

Perin Ali

All right, sir. Thanks and I'll fall back in queue. Thanks.

K Padmanabhan, President

Thank you.

Operator

Thank you. The next question is from Anshuman Gupta from Citigroup. Please go ahead.

Analyst

Yeah, this is Prashant here. Two questions, firstly your ARPOB numbers are after netting of what you pay the consultant doctors is there any estimate you can give us for the gross number I mean how much...

K Padmanabhan, President

It will be about 22% to 25% issued gross -.

Analyst

Okay. Thanks. And the second question relates to Apollo Health Street, how much debt would Apollo Health Street have on its books?

A. Krishnan, Chief Financial Officer

Apollo Health Street on its books has approximately around \$90 million of debts.

Analyst

Okay, fine. Thanks a lot. That's it from me.

Operator

Thank you. Ladies and gentlemen, we will take one last question from Krishna Prasad from Kotak Securities. Please, go ahead.

Krishnaprasad Boraiah

Hi, good afternoon. Thanks for taking my question. I think one of the speakers was talking about some of the restructuring which is being planned in Chennai and we also have this expansion of 30 beds in the Chennai main facility and another additional 60 beds for women and child. So, are these part of the same restructuring initiatives or are these...?

K Padmanabhan, President

Chennai facility currently has about above 600 beds in the main, about 250 beds in speciality, 100 beds in first med and others 40 beds in small local cities and -. And we have just done the 250 beds of which 100 have been commissioned in Ayanambakkam, we have another 65 beds in the children's hospital. That where exact now we are planning to do the women's hospital which is about 45 beds, which will come up in about 18 months time. I mentioned to you that we will be shifting the outpatient to another facility in close time, releasing about 140 beds in the main, we will also shift outpatients had released into the cancer specialty which we will release another 40 beds, adding up to another 180 beds. All of this will come into the Chennai facility. So there will be very, very significant increase in beds apart from the 40 beds I talk to you about ongoing my role which is going to be a cardiac facility. From a longer term point of view which is another 24 months or so or less than that from now, is another 300 bed hospital that we are planning to open in near the TIDEL Park in Chennai.

Krishnaprasad Boraiah

Right. But would that - okay so just another, so this 30 bed expansion which you are talking about for FY13 and Chennai main, so that will be in addition to this 180 bed?

K Padmanabhan, President

That's right.

Krishnaprasad Boraiah

So, that's an addition right...

K Padmanabhan, President

That's right.

Krishnaprasad Boraiah

And is there any specific speciality where this 30 would be added or is that going to be like?

K Padmanabhan, President

No, this is there will be... it is a very small, 30 is a very small number, there would be just addition of beds, which will be available for all specialities.

Krishnaprasad Boraiah

Right. My second question is actually on the Hyderabad facility. If you could just tell us I think for the past let's say few quarters now we've seen this number to be around 930 operational beds. Could you share what is the actual number of beds I mean which is available so that...

K Padmanabhan, President

It is 930 beds.

Suneeta Reddy, Joint Managing Director

It is 930 beds.

Krishnaprasad Boraiah

How much?

Suneeta Reddy, Joint Managing Director

930 beds..

Krishnaprasad Boraiah

No, I mean that's operational beds, right? I mean is there additional capacity left there to be that can be expanded to?

A. Krishnan, Chief Financial Officer

There is capacity which can be added in the main hospital but that's not something that we are focusing on now. The book is...

K Padmanabhan, President

Yeah, we mentioned that, that we will probably look at we look at when 2014, '15.

Krishnaprasad Boraiah

Right. Okay so that's it from my side. Thank you.

Operator

Thank you. Ladies and gentleman that was the last question. I now hand the conference over to Ms. Suneeta Reddy for closing comments.

Suneeta Reddy, Joint Managing Director

Thank you, ladies and gentleman for joining in on this call. We hope that we are optimistic about the future. We understand the challenges ahead of us in implementing projects because of certain issues, but we are very confident of delivering growth as we promise to all our investors and I think that the whole team is very committed to delivering this growth.

I speak not only on behalf of hospital services, with the pharmacy division and also the insurance verticals. So thank you again for listening in on this call and we look forward to any questions that you might have. Thank you. You can contact Krishnakumar for any other additional information. Thank you again.

Operator

Thank you very much. On behalf of Apollo Hospitals, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.