Apollo Hospitals Enterprise Limited

Q1 FY'22 Earnings Conference Call
August 14, 2021

Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Limited Q1 FY'22 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you and over to you sir.

Mayank Vaswani: Thank you, Lizann. Good afternoon, everyone and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q1 FY'22 which were announced yesterday. We have with us on this call today the senior management team comprising Mrs. Shobana Kamineni – Executive Vice Chairperson; Ms. Suneeta Reddy – Managing Director; Dr. Hari Prasad -- President of the Hospitals Division; Mr. A. Krishnan – Group CFO; Mr. C. Chandra Sekhar – CEO of AHLL and Mr. Sanjiv Gupta – CFO of Apollo 24/7.

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. Please note the disclaimer mentioning these risks and uncertainties on slide #2 of the investor presentation that has been shared earlier. Documents relating to our financial performance have also been uploaded on the corporate website as well as the stock exchange websites. I would now like to turn the call over to Ms. Suneeta Reddy for her opening remarks. Thank you and over to you ma'am.

Suneeta Reddy: Thank you, Mayank. Good afternoon, everyone and thank you for taking time out to join our call on a Saturday. I thought all of you have received the earnings documents that we shared last night.

Q1 FY'22 was characterized by the devastating second wave of COVID in India. The intensity this time around was totally overwhelming on the health system in terms of availability of beds as well as availability of critical lifesaving equipment especially oxygen. There was also a wide gap between the needs for doctors, nurses and support staff across health systems.

At Apollo, with the experience gained from the first wave, we had perfected the method to achieve effective separation between COVID and non-COVID patients by standardizing protocols across our hospital network without disrupting the regular non-COVID care. Based on that, at the start of the second wave in the month of April, we dedicated 2,300 beds for COVID treatment which we subsequently increased to 5,000 beds a day including 1,200 ICU beds, then tapered it down by the end of June.

We mobilized our medical staff nurses, technicians and doctors quickly and kept up the morale of our frontline workers during this period. The strict protocols and the training helped to keep the infection of our frontline workers at extremely low levels. Proper planning, execution, partnering and close coordination with our vendors ensured that we were able to arrange for the supply and replenishment of all essential equipment, consumables, medicines and oxygen at all our hospitals.

We have treated close to 23,500 COVID in-patients this quarter. Our Home Care division handled 20,500 COVID isolation while our Stay I, our hotel isolation program, handled 24,000 patient sites. Apollo 24x7 has completed over six lakh consults till the end of this quarter.

In parallel, we also embarked on India's largest private vaccination program using the advantage of our pan India network of 19 medicine supply hubs with cold chain facilities, 71 hospitals, 250 plus clinics and 500 plus corporate healthcare centers along with onsite vaccination. Cumulatively, we have completed 3.86 million vaccinations till date.

On the non-COVID side, there were definitely an easing of demand on the outpatient and surgical sites given that people were struggling to deal with the second wave and reached the lockdown. Transport and movement were restricted and therefore elective surgeries were postponed.

However, better all-round preparedness resulted in us being able to serve both the COVID and the non-COVID patients effectively and report an accretive performance this quarter. In July, we have already witnessed the revival in patient footfalls across our network.

Against this backdrop, let me walk you through the numbers:

On quarter-on-quarter basis as compared to Q4 FY'21, the Company recorded growth of 24% in standalone revenues to Rs.2,995 crore. Pharmacy distribution reported revenue of Rs.1,512 crore, a growth of 35% while healthcare services revenue grew by 15% during the quarter.

Our new hospitals recorded revenue growth of 43% while mature hospitals revenue grew 5% quarter-on-quarter. Margins in mature hospitals were strong at 23.1% and I am happy to state that our margins in new hospitals continued to witness improvement, moving up to 16.3% for the quarter, registering a 69 basis points improvement on a quarter-on-quarter basis.

Q1 FY'22 standalone occupancy at 3,282 beds or 66%. Standalone post Ind AS 116 EBITDA was at Rs. 391 crore, quarter-on-quarter growth of 16%. Pharmacy Distribution EBITDA was at Rs.78 crore after absorbing marketing costs of Rs.37 crore for Apollo 24x7. Without this change, Pharmacy EBITDA was at Rs.115 crore with an EBITDA margin of 7.6%.

Standalone PAT was at Rs.150 crore as compared to Rs.116 crore in Q4 FY'21. Net debt as of 30th June 2021 was at Rs.1,665 crore with a debt-equity ratio of 0.48.

Consolidated Results:

Our consolidated revenues grew by 31% quarter-on-quarter to Rs.3,760 crore. Healthcare Services revenue grew by 26% to Rs.1,939 crore. Mature Healthcare Services grew by 20% to Rs.1,268 crore while new hospitals revenues grew by 40% to Rs.627 crore.

Group occupancy at 5,100 beds was at 67%.

The consolidated post IND AS 116 EBITDA for Q1 FY'22 was at Rs.520 crore compared to Rs.412 crore in the previous quarter. Within this Healthcare Services EBITDA was at Rs.394 crore compared to Rs.325 crore in Q4 FY'21. The results of Apollo Medics, Lucknow and Apollo Multispecialty Hospital, Kolkata have been consolidated in this quarter.

AHLL recorded an EBITDA post Ind AS 116 of Rs.48 crore as compared to Rs.31 crore in the previous quarter. Margins were at 15.5%. The business has recorded a 47% quarter-on-quarter growth in topline.

Consolidated PAT is at Rs.489 crore. This includes a gain from the fair value gain re-measurement on existing share of the Kolkata asset. Without this effect attributable PAT was at Rs.195 crore compared to Rs.168 crore in Q4 FY'21.

Consolidated net debt is at Rs.1,793 crore.

We continue on our transformational journey towards creating India's largest omnichannel healthcare platform. Apollo 24/7 which has deepened and strengthened its presence in this quarter. 10 million unique users are registered on the platform. The platform has enabled neighborhood pharmacies to deliver over 16.5 lakh medicines from 17,000 pin codes with order delivery within two hours of the order placed. 6 lakhs online consultations I mentioned earlier spanned 440 cities with 5,500 doctors across 60 specialties and delivering on the promise of consultant Apollo doctor within 15-minutes.

During the ongoing pandemic, diagnostic home sample collections demand surged, and we completed more than 70,000 COVID tests and delivered results within 24 hours.

We have partnered with multiple corporates for doctor-on-call services, vaccination drives and stay safe services.

Shareholder approval for the slump sale announced last quarter to Apollo Health Co has been sought by postal ballet and is expected to be completed by the end of the day today.

To conclude, while the second wave of the pandemic did disrupt our overall performance and momentum over the last 18-months, the long-term growth strategy and trajectory of the Company remains intact, while our agility and resilience in handling this unexpected crisis have only strengthened us as a team, we continue to be positive about the opportunities and potential that lies ahead for a well-diversified healthcare delivery model.

On that note, I would like to hand it over to our moderator and open the line for questions and answers. I have with me Shobana, Dr. Hari Prasad, Krishnan, our CFO, Chandra from Apollo Health & Lifestyle and Sanjiv from 24x7 to take your questions.

Moderator: Ladies and gentlemen we will now begin with the question-and-answer session. The first question is in the line of Damayanti Kerai from HSBC Securities and Capital Markets. Please go ahead.

Damayanti Kerai: My first question is on your Apollo 24/7 platform. Thank you for putting out details in the investor presentation. So, in the presentation it's mentioned that we have right now 5,500 doctors registered with the platform. So, just to check I remember last time you mentioned we had 7,000 doctors. Have we reduced this or how do we stand there?

Suneeta Reddy: What we're looking at are active doctors now. At the beginning, it was fast and furious. These are the doctors that do at least two to three consults a week. So, we still have an inactive base. All Apollo doctors automatically have registered on to 24/7 that they have the app with them, but these are the people who are actually doing consults. I think we're trying to make that very transparent, and we have a lot of doctor partners also. So, the actual list is very high.

Damayanti Kerai: So, these 5,500 doctors just the in-house doctors or in-house plus partner doctors?

Suneeta Reddy: These are a few partner doctors, there are about 200-plus partner doctors but most of these are Apollo consultants and a few full-time doctors that we have.

Damayanti Kerai: Continuing on this platform, you mentioned you are looking to see two to three active consultations per week from the doctors who are currently there on the platform. So, what is the current utilization of these doctors, I mean to say, right now we are doing 2,200 consults per day.

Suneeta Reddy: So, it's the current utilization and what we're trying to do is like during the COVID time we actually had more than 15,000 consults a day and I think this is something that we do think will start ramping up especially with corporates and I must say that these are all paid consultations, these are not free consultations like most other platforms offer. The average value per transaction on this is around between Rs.600 to Rs.700.

Damayanti Kerai: All our paid doctors and then Rs.600 to Rs.700 fee per consultation which we are seeing right now?

Suneeta Reddy: These are Apollo consultants mostly, so the fees that they charge are pretty much the same that they charge when people come to them for physical consultation.

Damayanti Kerai: My second question is on the operating cost. So, 1Q number broadly reflect our normalized cost or there are still scope to see incremental cost from here on and how do we see margins moving on from current level to say next two to three quarters?

A. Krishnan: You're speaking about 24/7 or you're speaking about generally?

Damayanti Kerai: The broader corporate level.

A. Krishnan: Corporate level, we do expect margins to improve where healthcare services obviously in this quarter, vaccines were at a 15% margin that impacted our margin by at least a 0.5%. We also had COVID incentives that we pay to employees, etc., almost a per cent of our revenues. That also is part of our healthcare services margins as you see it today. So, as we move forward we have guided that we would be looking at healthcare services mature to go to 23% and upwards and the new hospitals should also go in the 15%-16% range. Overall that's the guidance that we would like to give. Proton has also started doing well and you will see that overall the margins should start trending to improve with a combination of better case mix outside of COVID and cost control.

Damayanti Kerai: Sir, on the new hospital, we are already at 16% margins, right, that's an underlying margin?

A. Krishnan: Yes, we should be able to retain that margin.

Moderator: The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Krishnan, one question on the net debt increase. Can you just walk through that, out of Rs.650 crore increase in the consol book quarter-on-quarter, how much was going to CAPEX, etc., some clarity if you can give?

A. Krishnan: Almost on Rs.400-500 crore of the debt is towards working capital increase. It should come back in the next one, two quarters. Rs.150 crore of vaccine was there because we had to pay vaccines in advance to secure, as Ms. Suneeta said, we are the largest private sector vaccine provider and we had to secure the vaccine doses in advance which meant that we had vaccines and even Regeneron for the COVID care patients, Regeneron also was an important treatment that we were able to secure in this wave. And there is almost Rs.160 crore of that in our inventories as of June end. You would also have noticed that there has been a spurt in sales in the standalone pharmacy business or the overall pharmacy business from Q4 to Q1 which was almost Rs.250 crore of spurt aided by COVID, stocking, etc., All of that meant that there was an inventory which was required to be kept in the front-end stores also including the back-end. So, that is another Rs.340 crore. So, almost Rs.500 crore has been blocked in our system for inventories and working capital. We expect that almost Rs.400 crore should be getting released out of that over the next three months.

Suneeta Reddy: Just to add to that, Rs.200 crore is due to the Government policy on giving short-term capital to hospitals at the cost of 4.5%.

Anubhav Aggarwal: Just a clarity here. The full debt we paid out for Gleneagles was already in fourth quarter or was it paid in the current quarter?

A. Krishnan: Yes, it's already paid, it's part of this. To make it explicit, the current net debt that we see in the system, we expect this to come off by another Rs.400 crore over the next three to four months. This has already been paid, Rs.410 crore for Apollo Gleneagles is already paid in full.

Anubhav Aggarwal: But that Rs.410 crore was paid in Q1 or 4Q?

A. Krishnan: In the first quarter.

Anubhav Aggarwal: I'm just trying to get a very rough idea. So, vaccination at the EBITDA level would have contributed how much like, would the range be about Rs.12 crore-Rs.15 crore or Rs.20 crore?

A. Krishnan: 15% percent of the overall Rs.167 crore was contributed, which is Rs.190 crore which is there excluding Delhi, with Delhi we were at Rs.225 crore, without Delhi because Delhi is not part of our revenues, without Delhi it is Rs.190 crore including Apollo Health and Lifestyle which has around Rs.55 crore in their revenue and this was all at 15% margin, Rs.190 crore into 15%.

Anubhav Agarwal: On 24/7 services, the monthly run rate of revenue. What is the number right now? And can we end this year with more than $100 million revenue for 24/7?

Shobana Kamineni: We are the fastest in the country you will see and our run rate, what we expect to finish the year with is closer to about $50 million to $60 million and this is actually the fastest rate for the first full year if you compared to others. These are starting days so the trends are good. I think that we are focusing more on the availability, the challenge of making sure that in two hours we deliver medicines, opening up more pin codes availability and many of these areas are being looked at as every day we keep improving our product. So, consider this as early days but the escalation is really the ramp up has been at a super-fast pace, especially during the COVID times, there were days that we got 45,000 orders a day.

Anubhav Aggarwal: Just some clarity on the online consult, last quarter you mentioned cumulatively you've done 5 lakh consults, this quarter you have mentioned 5.7 lakh consults number, so only 70,000 consults happened in such a heavy quarter of second COVID wave which comes down to less than 1,000 consults a day. So, I'm just trying to understand the number how many consults in a day?

A. Krishnan: I just want to remind you that last quarter call was in June end. So, we had given you numbers which were up to almost June end just that so has to be on the same page. I'll allow Mrs. Shobana to respond on how many consults we're doing now, but it's not 70,000, it's much higher that we did in the quarter because we have the call around June end for the March if you remember. So, we hadve given you mostly around the numbers up to June end. On the daily consults, Ms. Shobana can respond.

Shobana Kamineni: On the daily consults, we range anywhere between 3,000 to 5,000 consults which are paid, but during the COVID time we were doing even 20,000, some of them were free or some of them was from corporate that had pre-paid us.

Anubhav Aggarwal: Can you also mention about in June, how many medicine deliveries or the ePharmacy side how many orders are we delivering per month?

Suneeta Reddy: We are doing close to about like from in-store and from the designated hub stores all together we're at about 30,000 deliveries a day in June.

Moderator: The next question is from the line of Prateek Mandhana from Nomura. Please go ahead.

Prateek Mandhana: Continuing from Anubhav's question on the 24/7 revenue, you expect to end with USD 50 to 60 million of revenue, right; so from which divisions can we expect this revenue in 24/7, what can be the breakup?

A. Krishnan: Should be a combination of pharmacy, tele-consults and diagnostics which is what we have said right and bulk of that would be pharmacy because they capture the entire value there in 24/7 including the back end which will be captured in Apollo Health Co.

Prateek Mandhana: On the medicine delivery bit, so how much of our revenues from pharmacy currently are from online deliveries like the total Rs.1,500 crore which is the back end and almost Rs.1,800 crore which is the front-end revenue, so how much is the online revenue?

Sanjiv Gupta: As ma'am earlier said that we are now building up the entire this thing. So, currently it should be in the range of about 5% of revenue coming in from the online side.

Prateek Mandhana: What was this like in Q4 FY'21?

Sanjiv Gupta: It was pretty less; it should be in the range of about 2% to 3% and I think major traction has happened last quarter. So, that is how the numbers are looking like at this point of time.

Shobana Kamineni: We like to put this in perspective. During this Q1, we actually served from online and offline. We acquired 47 lakh new customers apart from the existing. So, there was quite a lot of pressure on the system. So, these are the new customers that we've got with online and offline with zero customer acquisition cost.

Prateek Mandhana: So, what is our average revenue size from basically offline purchase on a pharmacy and online purchase, average billing size if you have that data?

Shobana Kamineni: You know the data, it actually is so different the way that we look at the cut. The lifetime value like the same customer transacting if what we've seen is that if a customer is a regular customer in the pharmacy, he actually spends almost 25% more if he's online also. So, the behavior patterns have changed and that's why when you look at omni, it's going to be a little different; average bill value in pharmacy might be 400, but then when they transact between both together, it goes up to 1,200, for the chronic customers it's even higher. We are going to see a lot of varying. So, looking at it we are actually using technology to look at customers in a way more personalized view.

A. Krishnan: And you would also have seen that overall private label has also increased at 13.83% as an omni-channel, if you today look at our private label sales which are 9%, now it's at 13.8%. You would have noticed that as part of our presentation.

Prateek Mandhana: Yes, sir. So, my next question was that what is like the peak that we expect from the private labels like where do we expect it to stabilize around; is 13% a normalized thing or we expect it to come down or go further up in future?

Shobana Kamineni: It will keep slowly increasing. We understand what this is. We'll be introducing more categories as you see. So, it definitely won't go down. There was a search for a lot of COVID-related items but we're making sure that it doesn't come down because we've introduced more categories which are more sustainable including a few generic medicines and things like that. So, we've understood this category, we have people behind it and you will see this continue to grow.

Prateek Mandhana: On the generic medicines that you have introduced, are you manufacturing that yourselves or you're getting outsourced?

Shobana Kamineni: No one in the world manufactures their own. We go to the best-in-class and that's the difference. We will make sure that we get it from the best-in-class and also keeps us agile because we don't know manufacturing. We know the service industry better than anybody else.

Moderator: The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: A couple of questions on COVID. So, what was the total contribution from COVID-related hospitalization and how do you see this unwind going forward? And second is where have you captured vaccination-led volumes and revenues, is it all an outpatient?

A. Krishnan: So, yes, overall the 25% of our revenues came from COVID, so that was almost if you exclude Delhi which is not part of the consolidated revenues, Rs.490 crore was the revenues which came from COVID including vaccines and RT-PCR. COVID vaccine is currently captured in outpatients.

Suneeta Reddy: Just adding to that 26% of our IP volume came from COVID. 26% of total revenue in healthcare services came from COVID, looking after COVID patients.

Sameer Baisiwala: How do you see both of these in 2Q, 3Q in the sense that would vaccines go up and how about inpatient volumes and revenues?

Dr. Hari Prasad: On vaccines, I don't now see it going up. There is definitely a fall in demand for vaccination across the country. We were doing a peak of almost 100,000 vaccines per day but now it's come down to about 25,000-30,000 per day. And one of the reasons we're seeing that is because of the gap between the first and second dose of Covishield has been increased from four weeks to twelve weeks, so there is a longer time for that. We're seeing some amount of hesitancy in terms of vaccine. And third thing is people were very eager to get vaccinated when the COVID was actually at its peak. And as COVID came down that eagerness also has come down. So, there are multiple reasons for which the vaccine demand or requirement in the community has come down, but we are prepared to vaccinate as the demand requires and we have enough inventory in place and we're vaccinating more than 200 centers across the country both in metros and semi-urban and semi-rural areas. But we don't see the same numbers happening in the second quarter as happened in the first quarter.

Sameer Baisiwala: 50%-60% of the Q1 volumes will come in approximately right as we estimate now?

Shobana Kamineni: But I would like to add here two points; one is that Apollo has done almost 30% of all private vaccination in India and for an urban based this thing, we've also gone out into rural areas and done this and we work with a lot of corporates to make this happen. And the second more important thing is I think we have to understand that adult vaccination is here to stay. So, in building up our cold chain and our capabilities, this will become an ongoing income that will start getting accounted for.

Dr. Hari Prasad: And Krishnan as you said it will be 40% to 50% that we expect in this quarter because the second doses will come back somewhere towards the end of August and beginning of September.

Sameer Baisiwala: Sir, the second question is regarding your core business - hospital services where the current occupancy which is 67%, I think earlier you had peaked at 69% pre-COVID where the margins which are again pretty high, and we are not expanding volumes or capacity. So, what's the outlook, what are the drivers for growth over next one to two years?

Suneeta Reddy: So, clearly it is better asset utilization. I think like we said in this quarter we are 67% occupancy, out of which 26% is COVID occupancy, COVID occupancy comes with an ARPOB of Rs.21,700 rupees whereas our normal ARPOB is in excess of Rs.44,000. So, with that if you look at mature hospitals, our margins are at 23%, new hospitals are at 16.4%. Keeping in mind the ability to move this to 20% within this year is something that we are looking at and the way we plan to do this is definitely focus on Centers of Excellence where our ARPOBs are much higher. The ability to deliver on Oncology, Cardiac, Orthopedic, Neuro and Transplants plus the emergency work, this will definitely increase our ARPOB as well as our margins. The second is higher asset utilization. We have seen the ramp up of our Tier-2 moving to 40% growth and we believe that this is sustainable because once that COVID comes down, there will be pent-up demand to fill the beds. The third reason why we're optimistic about the future is that transport has started to open up; airlines have opened up and we believe that our patients will travel across geographies to come to our centers. Having said that, I think the decision to move into Tier-2 has clearly been a defining one that has resulted in a really good performance even during COVID.

Moderator: We'll move on to the next question that is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Just taking off on your last comment about the Tier-2 hospitals, I mean these two hospitals took their own time to get started and there were question marks around private hospitals opting for expansion in these towns. In your assessment what has changed in the dynamics in Tier-2-Tier-3 towns' sort of business which gives you a more comfort going forward?

Suneeta Reddy: So, one thing is that Tier-3 is really not in our radar, I mean, we do have two hospitals in Tier-3 and both of them are contributing to EBITDA. But the most significant thing that we have realized is that people move to a category leader. So, the fact that the Apollo brand is very strong and it's strong because of the clinical outcomes. So, we really managed to get very good doctors onboard and this I think is something that maybe we were a little bit slow to do so, it took a little time to ramp it up, but now that we have all of the doctors in place, we believe that the occupancies will improve.

Nitin Agarwal: And secondly, with the transaction, which is there in Apollo Health Co, incremental fund infusion coming through in the parent, there is now a significant amount of financial capacity which is their growing up in the hospital business. So, from hospital business position, how are you looking at over next two to three years?

Suneeta Reddy: First of all, your line is not clear, but if I understood the question correctly, you want to know about the free cash flow post Apollo Health Co moving out, how do we use it, we are looking at expanding our presence and consolidating our presence in the north. There is one acquisition that we're looking at and we will use our free cash flow plus the fact that we've got close to Rs.600 crore invested in mutual funds, so the company is adequately funded to make this acquisition and we're also looking at something in the Northeast which again I think we are adequately funded to do that without having to add on more debt.

Nitin Agarwal: So, just to complete that point, these acquisitions, or these target markets now that you're looking at are largely what, Tier-2 towns, Tier-1 and metro?

Suneeta Reddy: Tier-1 and one which is Tier-2.

Nitin Agarwal: On the pharmacy business, we've had a pretty large increase in the private label contribution in the current quarter. It hasn't quite reflected in the improvement in the EBITDA margin for the business. So, is there anything specific, some of this private label business doesn't contribute enough meaningfully to the margins?

Suneeta Reddy: I think we said in our opening remarks that while the margins have actually improved to 7.6%, there was Rs.37 crore that was used for 24/7 for its customer acquisition and marketing cost so which is why you are not seeing the margin improvement, but clearly if you add back this amount to the Rs.79 crore that we said, I think you will see that there is definitely an EBITDA margin improvement of at least 40 basis points.

Moderator: The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Just one clarity on the pharmacy business. I appreciate you just started this generic medicine business but how large it is today like is it like 1-2% of the business, 3-4% of the business?

Shobana Kamineni: We just started this. It's not significant enough for us to really…it's like in the region of Rs. 90 crore.

Anubhav Aggarwal: How do you see this at some point of time -- will it become like 10% of the business let's say if we take three, four years down the line?

Shobana Kamineni: It should. I think that this is our counter to these rampant discounts that are actually not right. So, I think that this is a much more intelligent way of customer play, is to be able to give them a better product at the right price.

Anubhav Aggarwal: And one more question on the pharmacy business. If we look at total business how much is the portion which is coming from non-medicine business for example with the private label of 13.5% plus FMCG put together?

Shobana Kamineni: FMCG was about 30% for 30 plus (inaudible) 13% is 43%.

Anubhav Aggarwal: Second question is on the bed capacity. This quarter we added about 90 beds in Tamil Nadu and 76 beds in Karnataka. Have they been added to the Gleneagles hospital or which hospital they have been added and same question for Karnataka as well?

Suneeta Reddy: We've operationalized new beds in our existing facilities.

Anubhav Aggarwal: Is there any large hospital like this 60, 70 beds that's been added to one particular hospital?

Suneeta Reddy: Vizag, Trichy and also in New Bombay.

Anubhav Aggarwal: So 90 beds which we have added in Tamil Nadu, basically.

Suneeta Reddy: That's Trichy.

Anubhav Aggarwal: Last question is our AHLL. In the Cradle, Spectra and Day Care business, our revenues are higher sequentially, but our EBITDA is significantly lower. So, the last two quarters we have taken out so much cost. What happened in quarter for the EBITDA?

C Chandra Sekhar: Because we have fixed quarter payouts which we could not completely do. The EBITDA margins are a little lower, if you are comparing it to Q4, Cradles had a Rs.3.6 crore, that is Rs. 36 million of EBITDA and Q1 FY'22 is about Rs. 30 million, there's some year-end adjustments that benefited the Q4, but primarily it is static. On Spectra, we had a lower elective surgery. The numbers you are seeing is also including vaccines they were also doing overall vaccines. At AHLL we did about 6 lakhs, 80% of that number came from clinics, 20% was Spectra. So, that revenue is what has benefited the Spectra overall number, but we have guaranteed payouts on fixed doctors which has hence reduced the EBITDA.

Anubhav Aggarwal: But one doubt on this is that our revenues are higher sequentially, so even if we had a fixed payout for doctors, that would not have changed so dramatically from the March quarter?

C Chandra Sekhar: Our revenues minus vaccine actually in Spectra have gone down, that's the reason, Rs. 620-630 million, down to 500. But it looks like similar because of the vaccine addition. Doctors that I'm talking about are fixed doctor payouts that will even out once we have a resumption of elective surgery.

Suneeta Reddy: I think the perspective that you should take in this is that AHLL is now focusing on diagnostics and therefore the increase that has come from RT-PCR tests is part of our focus on diagnostics. So, going forward you will see a huge increase in the diagnostic business as well as in the clinics business.

Anubhav Aggarwal: Yes, just last clarity on that, on the diagnostic business we have about 847 collections as part of our network right now and we added about 200-odd centers in last one year. So, in next one or two years how do we see this 847 as the number -- do we see 2,000 is the number in next two to three years, I am just trying to understand?

Suneeta Reddy: Diagnostic piece, Chandra. Why don't you explain the whole diagnostics piece?

C Chandra Sekhar: Yes, we are doing two things on the diagnostic piece; one is we are also ramping up our home collection capability. In the Q1 FY'22, we added over 350 club house across seven to eight target cities. Plus the collection center network we continue to add thereabouts of 200 to 300 per quarter is the run rate that we are hoping to do in the saturate markets.

Anubhav Agarwal: That's a lot actually because last full year we added only 200.

C Chandra Sekhar: Yes, but this quarter we are adding further to our pipeline. So, we would reach in about two years' timeframe as you rightly said upward of 2,000 collection centers. There will be some drop off, so that's why the addition to gross addition. Overall from the 847 collection centers, we should be about 2,000 collection centers in the next less than two years.

Moderator: The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just a couple of them; so one is understanding on the new CAPEX requirement and the growth potential going forward, so what I understood was currently with the occupancy of 67% within that there is 26% COVID, and you still have a long runway to have the non-COVID patients still 67%-70%. Are there any plans for Greenfield in the next couple of year, what do you think about Greenfield expansion versus the two acquisitions that you spoke about in Tier-1 and Tier-2?

Suneeta Reddy: We're not really looking at Greenfield at this point of time. We are looking at like I said strengthening our presence in the north, this will be through brownfield.

Prakash Agarwal: I'm trying to understand the outlook on the margins on the backdrop of you mentioned ARPOB for non-COVID is 44 and COVID is 21,700 and we have already seen a good improvement in the new hospitals. So, how do we see with obviously non-COVID patients share increasing we would have an upward trend, so how do you see this panning out over '22FY'23, FY'24 for your margins, I mean, some of the competitors are reporting 25%-29%, so I just wanted to know your journey in that growth path?

Suneeta Reddy: So, I think what is realizable is you will see the mature hospitals moving into that territory of 24%, 25%. Few hospitals will move up to about 20%. So, you'll see a blended margin of about 21% in the next one year and this will come from higher asset utilization, focus on Centers of Excellence which I think I spoke about earlier, the ARPOBs are higher and the margins are higher and also some cost cutting. So, these three initiatives we believe will help us increase our margins.

A. Krishnan: We have added new hospitals. So, potentially as some of those assets keep getting mature and we take it to a much higher utilization, you will realize that we can also achieve higher margins. If you look at competitors, of course, I understand what we are saying. If you look at our most mature assets like Chennai, we also are at 27% or 28%, it's just that we have added capacity, there is headroom for growth as some of that starts coming up, as Ms. Suneeta said, we have seen a very good offtake in our Tier-2 hospitals and our new hospitals, all of this we believe will aid us well over the next couple of years including Proton has started doing well.

Prakash Agarwal: On Apollo Health Co, so you have talked about new pool of investor capital. So, any rough timeline and in terms of whether you are looking at strategic or financial partner here?

Shobana Kamineni: It's imperative that one of the reasons for hiving this off also was to be able to chart a course that would create this competitive intensity to work in this environment and at that stage on one side while we have strong partnerships with Airtel and HDFC Bank and they're not financial partners, on the other we are creating a pool of capital that will help us grow and for that in the next 60 days we should come out with an announcement.

Prakash Agarwal: I asked whether it would be more strategic, or it would be more financial investor that you're looking at.

Shobana Kamineni: It will be a combination.

Moderator: The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just talking of Health Co 24/7 platform that your current doctors and connect with the pharmacies is maybe under 1% of India's total. It just shows that it's a very-very light sort of underlying coverage that you have. So, how will you fulfill the demand and it's a digital platform so at some point in time you will have hockey stick sort of patients coming onboard. And related to that is the competitive intensity. So, one or two of large pharma companies have also launched their platform and they have a natural connect with lakhs of doctors and pharmacies. So, what are your thoughts on this?

Shobana Kamineni: A) We believe that customers are discerning for a pharma company to launch their app. One is just as we don't manufacture medicine because we don't understand that realm and I think that the pharma companies do need companies like us to be able to retail. So, to become competitors I do not understand their logic. But many more pharma companies are now coming to us and asking us to align with them to be able to help in-patient engagement and those are the interesting models that have existed in the west and that can only be done through a technology-heavy platform like ours and you will see more of those partnerships. So, I believe in those.

The next question you asked is the ability to be able to ramp to India's demand. I can tell you that there's a very fact that we went from being doing 5,000 pharmacy deliveries to 30,000 pharmacy deliveries within 35-days clearly demonstrates the fact that we have the right supply chain. In these challenging times, people without supply chains are the ones that will really create a lot of customer disconnect. So, Apollo has the strongest supply chain available in the market today; in certain markets that we have a huge market share in the major cities of NCR, Bangalore, Hyderabad, Vizag, Chennai. But apart from that we also have the capability to be able to deliver with our 4,500 stores. We continue to ramp up and open more than a store a day nowadays. And I think that this gives us the ability. If we do require, we have connections through our supply chain company with over 35,000 pharmacies and this is available for us to use another light model to be able to do supplies. So, with regard to doctors, 7,000 of Apollo doctors being available. We believe that it's important to offer people the right quality, and we're investing heavily into technology, we'll have the best clinical decision support system which is currently being tested. Once we do that, you will find that the efficiency also will ramp up. I don't claim that we have all the answers, but as we get better and bigger we will solve for these in a sustainable way without foregoing quality.

Suneeta Reddy: Just to add to what Shobana said, I think that 1% perspective is a very macro perspective. So, what we do is to look at relevant market share and if you look at the Tier-1 cities and the Tier-2 cities and the Tier-3 cities where we're present, especially in Tier-1 where we've created the whole ecosystem of hospitals, clinics, delivery centers, Spectra, we look at relevant market share and I believe that 24/7 and the pharmacy in particular they had marked out 10,000 pin codes. But if you look at the first quarter, they've already moved that to 16,000. And like Shobana said with the physical pharmacy format plus the logistics chain, the supply chain that we have, I think we will be the strongest player. It's a strong combination of having an omni-channel presence.

Sameer Baisiwala: Suneeta, how are you thinking about your bed capacity and I say that because at 67%-69% utilization occupancy, how much further can you go and isn't that some time to press a panic button to say that now look we need to add 1,500 beds for the next three or four year journey ahead?

Suneeta Reddy: If you look at 67% occupancy, I think the first cut is that we've not operationalized all the beds. So, we have 8,000 beds operationalized. We have the potential to operationalize another 2,000 beds at very little cost. The second part of it is that you must see us that we will have a calibrated expansion plan in place because this company we will continue to show growth. And to show growth and to strengthen our market share in certain cities there will be some brownfield acquisitions that we will make which will increase bed capacity. But having said that the second cut that you should look at is a decrease in ALOS which means it gives us the potential to increase volume and this we will actually show post-COVID because during COVID we had ALOS of 7 against the normal 3.5.

Moderator: The next question is from the line of Alok Dalal from CLSA India Private Limited. Please go ahead.

Alok Dalal: Krishnan, just one clarification. What was the contribution of RT-PCR tests for the diagnostic business for the quarter?

C Chandra Sekhar: In terms of volumes, we did 6.6 lakhs RT-PCR tests in the quarter up from about 2 lakhs in the previous quarter. In terms of an absolute revenue contribution, we had a non-COVID of Rs.60 crore and the COVID revenue was Rs.45 crore.

Alok Dalal: Last quarter, you had given a guidance that diagnostics will be around Rs.500 crore sales by FY'23. Just to clarify, is this all organic or there will be a component of inorganic or acquisition business?

C Chandra Sekhar: On the component of inorganic, the way we are looking at is there is a large organic growth, we are looking opportunistic at inorganic acquisitions in markets where we are not as strong and newly entered markets that we are entering. But our primary focus will be on organic growth, there will be some component of inorganic, but that will be at obviously the right pricing and the right sizes that we will look at and especially in the new markets.

Alok Dalal: Suneeta ma'am, you mentioned that you will look to bring down the pledge share component below 20% by March '21. Any fresh timelines on that?

Suneeta Reddy: I think COVID has delayed it but like I said by the end of the year we hope to bring it down by 50%. It's currently at 24%. We've already brought it down, but it will come down further.

Moderator: The next question is from the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

Harith Ahamed: My question is on the pharmacy distribution business. We've had a very strong quarter-on-quarter growth and we are seeing growth in the content as well. You mentioned some stocking and additional demand that you saw during the quarter. So, going forward, how should we think of this current rate of around Rs.1,500 crore for the business, will there be some softening as the stocking unwind?

A. Krishnan: So, 18% to 20% growth is what we have said we have guided on that and we will continue to maintain that growth which is how you should look at it.

Harith Ahamed: On this back-end pharmacy that we are moving to Healthco, so does this entity currently procure for our hospitals as well and just trying to understand what happens to the procurement of drugs for the hospitals once this entity moves to Apollo Health Co?

A. Krishnan: It doesn't include the hospital procurement which is part of healthcare services business completely and this is just the procurement for the standalone pharmacy business. So, the hospital procurement is integrated with healthcare services completely.

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

Nitin Agarwal: This is a follow-up on the diagnostic business. Currently, the margins are on the lower side. You are looking to ramp up the growth. The peer side is around 25% EBITDA margins in this business. By when do we see ourselves getting into that sort of 20%-25% margin range?

C Chandra Sekhar: On a standalone diagnostics business, our margins currently are at 25%, aided by some bit of additional business from the COVID. On a steady state, the numbers are reaching there about to 20% and expecting us to expand and go up to 25% in the next 12 months.

Nitin Agarwal: Even despite our revenue targets of about Rs.500 crore for next year, we should be able to maintain 25% margins from that account?

C Chandra Sekhar: Yes, we are aiming to expand 25% as we reach that revenue objective. We are in a position to do nearer to 20% now.

Nitin Agarwal: And Chandra Sekhar, where do we go from there? At Rs.500 crore we still are going to be smaller than larger peers. As you see the dynamics of the business how big a business can really get to say over the next three to five years?

C Chandra Sekhar: It definitely has a potential and there is also a need. While we look at the size of the overall market, I think the size of the unorganized is consistent is pretty high; it's already 85% thereabouts. So, I guess going ahead the time for organized businesses to continue to ramp up and the space is available. So, we have two spaces; one is also to start also looking at gaining on clinical leadership which is what Apollo as a brand stands for. So, we will pursue that as an objective. In terms of overall number, I think the head room to grow to the size of four figures and above in terms of thousand crore plus kind of revenues, this is an opportunity that we do have. And I guess that organic growth is our first lever, inorganic will be opportunistic. So, we'll use these two to consistently look at growing.

Nitin Agarwal: And from a geography perspective, when we get to say Rs.500 crore number, it's going to be South dominated or it's going to be very evenly spread out mix for us from a revenue perspective?

C Chandra Sekhar: In the Rs.500 crore objective we have a mix which is skewed higher on South and East but I think we're making entry into the other markets in the West and the North. There'll be some component but that'll be in their early days. So, the percentage contribution from these new markets would be not more than 20% of the overall.

Nitin Agarwal: Shobana, on the 24/7 platform, how important do you think our ability to get partner doctors on board in terms of what role will they play going forward? And two, versus the other competing platforms, what an incremental proposition to be offered to potential partner doctors?

Shobana Kamineni: As we've seen, the Apollo experience for partner doctors isn't just about 24/7 even though we're able to bring them more customers in their community, like, for instance, the vicinity of our pharmacies, it becomes easier for us to connect the doctor partners who are close by and we've seen especially during the pandemic that's working well. But more than that the reason that doctors would choose a premium platform like ours is the ability to hook into the Apollo ecosystem, gives them higher access to CMEs to learning to second opinions, our superior CDSS that would help their technology and their clinical decisions. So, it's a 360-degree package that we offer to doctors.

Nitin Agarwal: In your assessment, in this whole outpatient ecosystem that multiple players are looking to develop, the most critical piece is what, our ability to generate the online prescription, there are multiple pieces in that, but is there a fair assessment that our ability to generate the online prescription essentially is the core of this proposition rather get an online consult done?

Shobana Kamineni: Don't get me started on that. I think that getting a doctor on board to generate for a free consult to generate a prescription is actually unethical and I don't think that's the way that it should be done. The doctor's service should be valued and should be paid for. So, unless we get that straight in India then all else. I think Apollo stands for bringing the highest standards. We do not give away free consults to generate prescriptions. We're not going to go down that road. So, I decline from answering that.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Suneeta Reddy for her closing comments.

Suneeta Reddy: Ladies and gentlemen, thank you for joining us on this Saturday afternoon call. This has really been a defining quarter for all of us, but we were able to live up to our ESG commitment where we demonstrated purpose as part by serving societies and our communities and this has truly been Apollo's purpose, the ability to serve our patients and our communities. I believe we did so this time and we did so by putting weight of our infrastructure, our doctors, our nurses and our management towards looking after patients. And in the process we looked after over 80,000 COVID patients. While we remain prepared for the third wave of COVID, we continue to be focused on innovation, on clinical efficiency and the agility of our institution to serve larger communities and our consumers. Thank you again for joining this call and have a wonderful weekend. Stay safe. Stay happy.

Moderator: Ladies and gentlemen, on behalf of Apollo Hospitals, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.