Apollo Hospitals Enterprise Limited

Q4 FY22 Earnings Conference Call

May 26, 2022

Moderator: Ladies and gentlemen, good day and welcome to Q4FY22 earnings conference call of Apollo Hospitals Limited. 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 touchstone 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, Margreth. Good afternoon everyone, and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q4 and FY 22, which were announced yesterday. We have with us on the call today the senior management team represented by Mrs. Suneeta Reddy - Managing Director, Dr. Hari Prasad - President of the Hospitals Division, Mr. A. Krishnan - Group CFO, Mr. C. Chandra Sekhar - CEO of Apollo Health and Lifestyle, Mr. Obul Reddy - CFO of the Pharmacy Division 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 shared with all of you earlier. Documents relating to our financial performance have been circulated earlier, and these have also been posted on our corporate website.

I would now like to turn the call over to Mrs. Suneeta Reddy, for her opening remarks. Thank you, and over to you ma'am.

Suneeta Reddy: Good afternoon everyone. Thank you for taking time to join our earnings call. I trust that you have received the documents which we shared yesterday.

Q4FY22 revenue, volumes and occupancy within the healthcare services business were disrupted in January and February 2022 due to COVID-19 Omicron third wave. Planned in high-end surgeries for deferred and medical travel within the country was adversely impacted. Sequential performance was therefore muted while year-on-year traction continued to be strong.

Q4FY22 occupancy across the group was close to 60% compared to 65% in Q3 FY22. IP volumes across the Group grew 30% year-on-year, however, decreased 9% on a quarter-on-quarter basis.

Operating indicators in the healthcare business continue to be robust. Overall, Q4FY22 ARPOB improved from Rs. 43,329 in Q4FY21 to Rs. 48,510; - this was achieved through a sustained focus on ALOS, centers of excellence focus and payer mix optimization. Mature hospitals ARPOB improved from Rs. 44,024 in Q4 FY21 to Rs. 49,232 in Q4FY22. We executed a plan reduction in lower paying patients in the network, especially in the mature hospitals. And we see this trend is positive and sustainable.

In market segments that are expected to grow from current levels, new hospitals ARPOB improved to Rs. 46,715 compared to Rs. 41,154 in Q4FY 21. Volumes grew by 17% over Q4FY20, revenues grew 46%. Inpatient revenues in key specialties grew at very strong rates compared to pre-COVID levels.

Cardiac sciences revenue growth was 33%, oncology was at 36%, neurosciences was at 11%, orthopedics at 27%, gastro at 19% and transplants at 23% and this has been the result of our efforts within the centers of excellence of offering differentiating clinical products.

Over the last eight quarters we have been consciously pruning, low paying patients and customers and have been actively substituting this with cash and insurance patients. These efforts are showing good results with these segments growing by 25% in revenues compared to pre-COVID quarters. Performance in March 22, improved in comparison to January and February, and we believe that the reduction in COVID cases across the country and opening up of travel and easing of restrictions has restored consumer confidence, and we will see traction in the healthcare business.

The transfer of the backend pharmacy business and the Apollo 24/7 digital platform to Apollo Health Co. was completed with effect from March 16, 2022. Accordingly, the pharmacy distribution business, which used to be reported as a segment in standalone financials now gets reported within Apollo Health Co. Consequently, standalone financials are no longer representative of the depth, breadth of our performance in this business. We will, going forward focus on consolidated financials. While we believe they represent the full spectrum of our work, including healthcare subsidiaries, Apollo Health Co, Apollo Health and Lifestyle, and other businesses.

Against this backdrop let me walk you through the consolidated financials for the quarter.

Consolidated revenues grew 24% on a year-on-your basis to Rs. 3,546 crore. Healthcare services grew by 21% to Rs. 2,863 crore, mature healthcare services grew by 21% to Rs. 2,283 crore, while new hospitals grew by 19% to Rs. 532 crore. Consolidated EBITDA stood at Rs. 463 crore registering a growth of 12% on a year-on-your basis.

Within this healthcare services, EBITDA grew by 25% and healthcare services margins were at 21.9%, mature healthcare services EBITDA margin was at

24.3% and new healthcare services EBITDA margin was at 15.5%. Pharmacy distribution revenue grew by 23% year-on-year to Rs.1,375 crore, pharmacy distribution EBITDA post Ind AS 116 de-grew 60% year on year to Rs.19 crore. This is after considering a charge of Rs. 84 crore on account of marketing costs of Apollo 24/7 without their charge EBITDA was at Rs.103 crore. A growth of 27% year-on-year and margins were at 7.5% against 7.3% in Q4 FY 21. AHLL recorded a net revenue of Rs. 309 crore, year-on-year growth of 47% and an EBITDA post Ind AS of Rs. 38 crore a year-on-year growth of 41%.

The consolidated PAT is at Rs. 178 crore as against Rs. 168 crore in Q4FY21. However, a non-cash tax impact arising out of pharmacy transfer to Apollo Health Co, to the extent of Rs. 88 crore had to be considered for reporting purposes. Therefore, reported PAT for this quarter is Rs. 90 crore.

It may be noted that the tax impact has been fully set off against available MAT credit, and the accumulated MAT credit available to AHEL has been fully exhausted. Therefore, AHEL will move to the 25% corporate tax regime from Q1FY 23 onwards. I would like to recap the consolidated financials for the full year FY 22.

We closed FY 22 with consolidated revenue of Rs. 14,663 crore, a growth of 39% over FY 21. Closing full year EBITDA is at Rs. 2,185 crore representing a 92% growth over FY 21. Closing consolidated PAT for FY 22 is at Rs. 1,056, representing a growth of 602% over FY 21. Over fiscal 2022, as well as the prior year we have encountered unprecedented challenges and have been compelled to respond with agility while transforming and redesigning the healthcare services delivery model. This we believe has strengthened our business across all aspects ranging from infrastructure, medical teams, protocols and processes. Our rapidly growing digital platform is strongly complementing our extensive physical presence across the country enabling us to provide an omnichannel seamless customer engagement model that is highly differentiated across by the speed of response capabilities, depth of resources and breadth of offerings for the customers.

We entered this new fiscal year excited about the opportunities before us, yet, cautiously optimistic because of the challenges and headwinds presented to us by the highly volatile global and national macro-economic backdrop. For fiscal FY23, we believe that healthcare services growth will definitely be in the mid-teens. Margin expansion, however, will outpace revenue growth and improve by 150 to 200 basis points given our ongoing efforts on payor mix, case mix and cost optimization.

The offline pharmacy business will continue to grow at around 20% with our focus on private label products, the same store growth, and an accelerated store expansion of over Rs. 500 crore over the next fiscal compared to 400 stores in FY 22. We expect Apollo 24/7, which includes online pharmacy consults and diagnostics to grow rapidly. In the last fiscal, we had a GMV of Rs. 450 core in Apollo 24/7 with Q4 being around Rs.150 crore. We are currently at around run rate of Rs. 200 crore of GMV per quarter, which we expect to double as we exit FY 23.

Our diagnostic business with AHLL will continue to be our focus and we are confident of achieving a Rs.1,000 crore topline within the next three years.

On that note, I would like to hand it over to the moderator and open the line for questions. I have, Dr. Hari Prasad, Krishnan, Obul Reddy, Chandra and Sanjiv from 24/7 here with me to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of an Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: First question is the clarification on the pharmacy segment and this is on the combined margins, which is only 6.1% in this quarter. I recall in the last quarter you had some Rs.10 crore costs taken up in the front end. Is there any one-off in this quarter, which is impacting this margin?

Obul Reddy: Overall there is an increase in the customer discounts and we would able to absorb that with the higher margins and that is just there is no other reason.

Anubhav Aggarwal: No, but the overall margins are.

Suneeta Reddy: It is not 6.4%..

Obul Reddy: So, the margin in fact is only 6.1 against 5.8 in the last quarter. And there is an online cost coming into the numbers so there is too much significant compression on the margin. So, it's mainly due to the increase in the discount and online cost, which will be shown as a separate segment going forward.

Anubhav Aggarwal: Just the clarity customer discount increased. What was the average discount earlier and versus now?

Obul Reddy: Yes, earlier last year, last year is about 10.5% is overall, and moved to 12%, 12.5% this year. And we could concentrate largely that through the margin expansion.

Anubhav Aggarwal: And this is, you are talking only offline customer discount, right? Blended.

Obul Reddy: As coming current here, it is a blended both online and offline and that segmentation will happen going forward for the next year.

Anubhav Aggarwal: Okay. And, and then the portion that you are recording in the let's say backend pharmacy, that percentage of the EBITDA has increased dramatically. Is that going to be the norm going forward? Like almost like in this quarter 93% of the EBITDA or 90% plus of the EBITDA has been captured in the backend.

Obul Reddy: That will be about 80% because this year there is a demerger coming into certain liabilities moving, and there is an accounting issues otherwise we'll capture about 80% of the margins in the back end, and that stays broadly that and 80, 85%.

Anubhav Aggarwal: Thank you. Second question is on the 24/7. So, this quarter our spent has increased to about Rs. 85 crore on a quarter level. Now, the question here is whether we get the funding or do not get the funding. In both scenarios, what do you think, can be annual spend in fiscal 23 on the 24/7?

Sanjiv Gupta: So, I think we are looking at around the Rs. 400 crore of overall expenditure for the current fiscal year, as against Rs. 84 crore that you saw in Q4.

Anubhav Aggarwal: And Sanjiv that is irrespective of whether you get funding in this AHL or do not get funding.

Sanjiv Gupta: Yes.

Anubhav Aggarwal: And is there any update on, on that, let's say process that you were running?

Sanjiv Gupta: Process.

Suneeta Reddy: So, you know, right now, you know, there is no update except that keeping in mind the existing environment where digital healthcare has been undervalued. We have delayed the process; we are keeping it on hold for another six months.

Anubhav Aggarwal: Thank you. Just last clarity on hospital ARPOBs, you, you gave the guidance. But just on ARPOBs, do you expect them to increase from Q4 level this year or moderate, this in fiscal 23?

Suneeta Reddy: No, there will be an increase. And like I said earlier, the increase will come from payor mix. It'll come from cost reduction, and the third, which we are also seeing is case mix.

Anubhav Aggarwal: Any headline increase that you have taken in cash, patients and insurance segments?

Suneeta Reddy: 25% increase.

A. Krishnan: 25% has been the increase that we have seen in the past. And going forward, we will expect that there will be a, the momentum should continue for the next year as well.

Anubhav Aggarwal: But any headline price increase you have taken in cash payment?

A. Krishnan: Headline price increase for the coming year would be around 4% to 5%.

Anubhav Aggarwal: Have you already taken that?

A. Krishnan: No, not, not as yet.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Just again, on Apollo 24/7, if you could also share online orders per day and average realization per order as in month of May.

Sanjiv Gupta: Yes. So, currently we are running at about Rs. 70 crore of GMV and as far as the number of orders are concerned, we are closing at around 30,000 orders per day. Essentially about majority of them being pharmacy, but we do have diagnostic and consultations to the tune of about Rs. 4,000 to 5,000. Those are the numbers you're tracking as of now.

Tushar Manudhane: Right. This was like compared to Rs. 21,000 a quarter back.

Sanjiv Gupta: Correct. Yes. Yes.

Tushar Manudhane: Secondly, on the hospital side, there has been sharp drop in occupancy in new hospitals. Maybe it is due to COVID in Jan, Feb, but again, coming back to like in April, May, if you could share the occupancy, we are running at in new hospitals?

Suneeta Reddy: So, it's picking up in the new hospitals. Mostly surgical work is picking up and unlike last year where we had a lot of medical admissions, this year is looking better. Hari, you want to add to that?

Dr. Hariprasad: Yes, actually, the March itself its shown increase in the occupancies (inaudible) in the newer hospitals and tier 2 also. And the increased occupancy is mainly on the surgical front, it is actually contributed to the improved ARPOB as narrated by Madam just now in her opening remarks.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Thank you for taking my question. First one is on the pharmacy step up in terms of the store rollout. I think you said 400 we did in fiscal 22 and we are, targeting 500. This has been a slight step change to how we have managed the store rollouts in the pharmacy business. So, what's driving, what's the logic. You know does it entail higher capex? I know it comes on the front end. But I just want to understand the logic and which of the geographies we would likely to look at?

Obul Reddy: So, we will actually, look, we are there, as we rightly said, about 400 stores, every year, we increase the number because now we have certain States where our presence is low like in the Central India. So we are increasing the number of stores in that geography so that we will better serve the online customers as well. And on the capex per store, we remain the same more or less. And we are also opening dark stores in some key cities. We just started that and we will be closing in the next three months about 30 to 40 dark stores so that we will serve better for the online customers.

Shyam Srinivasan: So, we told the 20% growth for pharmacy, so part of it is coming from the store expansion, the rest is the same store growth. That’s how we, so in any other color in terms of either volume growth or how should we look at the 20% growth if we break it down?

Obul Reddy: If we break it down, in the new stores this year is given about 2% growth and 18% from the entire basket of existing source. So, it’s like as usual like earlier years, there is no big difference except that we are getting a normalized quarter against, uneven growth rates in the last seven quarter, we have seen due to COVID changes.

Shyam Srinivasan: Got it. That's helpful. Last question is on Apollo 24/7. I think we have seen weekly active users, which were I think 26 lakh in December now it's come to 38 lakh. So, if I were to look Q-o-Q, there has been an acceleration in the March quarter. So, can you just walk us through some of the dynamics, what's happening? If I look at overall registrations also 12.5 and a half has gone to 14 million. So, but the percentage change in active is much higher. So, is there something that we have been doing that is leading to higher activation?

Sanjiv Gupta: Yes. So, I think this is a continuation with respect to what we discussed last time. Many of the users come to the platform to understand and consume content. And we would continue to work on the content size and continue to enrich our customers and users with more information and more supplementary things, which help them to towards their continuum of care. And I think some of the things that the Company is working upon is to have better content. We are also working to enhance our UI, UX things. Plus, there are many new features which are coming into the app and the website that also helps. Apart from the fact that the organic traffic is also inching up very fast as compared to the competitors as compared to, you know the previous quarters or the months. And I think all this put together if I see, and coupled with the fact that in January, we had some kind of a benefit coming in from COVID variants, there was a lot of traffic into our website and have to get those medicines, which were not there elsewhere. So, I think all these factors some internal some external is helping us to grow our traffic and we continue to see positive side as far as the traction is concern.

Shyam Srinivasan: Got it. And would you attribute anything to discounting in the sense that we have been upping our discounts? Do you think that's a hook for online customers?

Sanjiv Gupta: I think on the discount side we will continue to maintain a position that has been discussed over period of last two, three quarters that we are not going to be the leaders or challenges in the market. What we strongly believe is that customer is looking at a wholesome experience of omnichannel and, Apollo is the only Company which can provide that omnichannel play. Probably that is a reason that our discounts are also not as high as the competitors give it. And our discounts are pretty low in comparison to the competitors. So, I don't see that discount is the reason for us to increase the traffic. The traffic is increasing because of variety of reasons. And I think discount is not the card out here that we are playing.

Shyam Srinivasan: Last question. The 12.5% would our online discounts be higher, say 13%, 14% and maybe competition is at 18% to 20%. Would that be fair numbers anecdotally?

Sanjiv Gupta: So, you are almost on the right direction. So, our discounts would be in the range of about 15% to 16%, which is the online site. And as far as the competition is concerned, competition, what I gather from the primary and secondary sources is that at times they are upwards of 20%. And so, to that extent the gap will continue to be there.

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

Sameer Baisiwala: Can you talk about the capital allocation for fiscal 23, in the sense, what would be the services from operations and then how do you plan to deploy that in capex acquisition and deleverage it?

Suneeta Reddy: So, let me start with the surplus. We had Rs. 600 crore of cash surplus. We have a Rs. 800 crore invested in mutual funds. So, definitely you know we have cash available for growth. In terms of deployment Rs. 350 crore will be used for normalized expense, capex. The balance will be used to; one is we have acquired a brownfield hospital in OMR, which is part of Chennai. We will strengthen our Chennai offering and create a world class tertiary care hospital there. The second part that will take over a period of time, it will consume another Rs. 500 crore of capital over the next two years. The balance will go to Bangalore where we are adding another 300 beds, so clearly another, and this is brownfield. So, another Rs. 300 crore will be deployed in Bangalore. So, over the next two years, we are looking at Rs. 800 crore of capital deployed. This is what we see now. Maybe over the next quarter, if there any acquisition opportunity of the brownfield expansion, we will come back to you at that time.

Sameer Baisiwala: And do you think you would be left with surplus to continue deleveraging or you think hereon it would largely go into growth?

Suneeta Reddy: It has to go into growth. Sameer, we are at a very comfortable position with debt equity, 0.45 debt to equity.

A. Krishnan: And even debt to EBITDA wise if you look at it even for just, if you look at healthcare services given that our gross, if you drop AHLL we are at Rs. 2,300 crore of gross debt without AHLL. And clearly, we will get to that EBITDA in the next two years. So, it will be a 1:1 debt to EBITDA. So, we have comfortable levels of gearing, and we definitely would look at growth.

Sameer Baisiwala: Okay, great. Thanks. On the last call, remember, you also talked about Mumbai and NCR. So, any capital you want to put over there?

Suneeta Reddy: Well, I think we have Rs. 500 crore, Rs. 600 crore of free cash flow. So, I believe that when those opportunities come, we will have no problem investing and completing those two projects. But right now, there is nothing confirmed that we can share with the investors.

Sameer Baisiwala: Okay, great. Got it. And just on the new project that you have highlighted, it's a 7-acre plot versus 1.5 million square feet development. I mean, I would think that this would be probably one of the largest single location and probably the most densest healthcare services assets. So, just your thoughts on this. And of the 650 rooms what would be the split between the ICUs, private and the general ward? I mean, is there something dramatically different that you're planning over there?

Suneeta Reddy: So, Sameer it's a little bit early because we are right now talking to, looking at hospitals abroad, healthcare has changed while 30% of our beds have always been allocated for ICU. We are looking at strengthening the centers of excellence. So, we will have the whole gamete robotic cardio work. Just very high-end clinically differentiated work in each of the COEs, plus we will have the mother and child, which I think is a segment that's wholly unserved. The intent is that this area is really growing that part of Chennai, and we need a strong presence there. We only have a 100-bed hospital in that area and that 100 bed is insufficient. Plus, we are noticing that connection, connectivity to Chennai is improving. So, we do believe there's a huge opportunity to attract foreign patients into this facility. So, it will be truly best in class. Like we have done for proton it will be best in class in all the other specialties, including transplants that we are planning to set up in the next two years.

A. Krishnan: And Sameer, just so that we are on the same page, you know it is also including the basement area, which is there also, which includes the car parks, which is where, if you look at it, this would clearly have one of the best car parks available for a pre-patient flow into the hospital and out. Outpatients, rehab, all of that, it can enable. And because it clearly allows 1,500 to even 2,000 car parks. So clearly that's one challenge that we will never have in this facility once the outpatient comes in.

Sameer Baisiwala: Okay. Got it. Just with your permission one or two more. So, this is kind of moving out of the city more towards, away from city center to a suburban. So, do you think that this is a template that you can use for other metros? And I asked this because then that brings down a land cost dramatically, and then you can have more of such hospitals.

Suneeta Reddy: No. I think that the heart of the city is really moving. And this is going to be the Gurgaon of Chennai. So, I am not looking at it as a suburb. This is where all the IT is all in OMR. All the high-end schools are in OMR, high-end housing, and it's time that that high-end hospitals are also present in this area. So, we are not looking at it as suburban. Also, proximity to the airport. And the fact that foreign patients can be still much faster.

Moderator: Thank you. The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Ma'am in your press release you have mentioned about growing your diagnostic business about Rs. 1,000 crore in the next three years. Historically we have always looked at diagnostic expansion organically. Is that still the case? Are you open to accelerating growth through an organic acquisitions in diagnostic?

Suneeta Reddy: I think we are open to all options. Chandrashekhar why don't you answer there?

C. Chandra Sekhar: So, I think the primary emphasis will be on organic growth. The inorganic option as ma'am correctly pointed out is a very different option and we are open with, but we have certain contours and rules of how we want to do it. We would not like to do it at the current levels of valuations on which the transactions over the last 12 months have happened. I believe that it doesn't leave much of arbitrage for post-acquisition. So, we are going to look at probably evaluations which softening a little better. Second size wise also and the way we are looking at strategic expansion is our core markets being South and East our organic acquisition appetite will be in markets that we are getting into, especially in the West and North. We will grow organically in south and east and strengthen for the opportunistic expansion in North and West but at a size and evaluation, which allows upside post acquisition.

Neha Manpuria: Understood, sir, that is helpful. And my second question is on AHLL. We have also previously talked about potentially looking at value unlocking in AHLL also given there we have investors there. Any timeline on that? Have we thought about how we want to scale that up?

C. Chandra Sekhar: So currently we are having, we have closed the year with a reasonable amount of cash balance, and we also are generating cash in the way we are hoping to grow the business this year. I think this opportunistic acquisition will call for certain additional cash to come in, which we will seek at that point of time. As far as unlocking value is concerned, I personally believe that the last two years have not been exactly favorable to some of the formats, which potentially could be considered for such unlock. Especially the ones which have been deeply impacted by elective and some of the outpatient footfall reducing, etc. So, at this point of time, I think FY 23, we start with very true perspective of growing the business and sustainable basis. We are not looking at unlocking value at this point of time within these formats, because they may not justify because of the serious headwinds they have received over the last two years. We would like to have one sustained year when we can revisit that thinking.

Neha Manpuria: Understood. And sir, has Spectra recovered or gone back to its pre-COVID levels in terms of occupancy?

C. Chandra Sekhar: Yes. In fact, we have had two waves of COVID last year, as you are aware. But the most impacted one obviously is Spectra. But from a year-on-year basis, actually we have a growth. If you look at the Spectra we have reached on a year-on-year we actually grew volumes by 42%, despite two waves of COVID that were, that impacted. So, we are on the right trajectory. One thing is that some backlogs also do come in after post wave. So, a cumulative effect of organic growth, plus some revival of backlog. We have at 42% volume growth when it comes to surgery from FY 21 to 22.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: My question relates to Apollo 24/7. So earlier we aim to get some Rs. 10 crore patients registered in the next for five years and given the competition emerging around this business. So still, we hold this possibility?

Sanjiv Gupta: Yes. So, I think there are two, three things which we need to think about. One is that Apollo being a very strong brand and there's a lot of footfall which happens across the Apollo ecosystem, the hospitals, clinics, diagnostic centers, so on and so forth, even the Apollo pharmacies. So one is that we have customers who come to the Apollo ecosystem, they touch the Apollo ecosystem. So, we have the sourcing from that channel. And secondly as more and more people are adopting the eCommerce more and more people are transacting into the platform, so that pool is also increasing. And I think both these two pools put together we still believe that we should hit a target of what you rightly talked about. And obviously our aim is to get the right set of chronic customers rather than just the numbers. So, at appropriate time in case we think that this number is to lower down will come back to you. But at this case, we are looking at Rs .10 crore and we are looking at more of chronic.

Ranvir Singh: At what level of revenue that breakeven would be reached?

Sanjiv Gupta: So, what we anticipate is that FY25, FY26 should be the year where the digital business should get breakeven, and the combined entity should the backend one year they advance. So those are the years that we are looking at in terms of now.

Ranvir Singh: Okay. And, and what is the ticket size currently in this quarter? Per order?

Sanjiv Gupta: Ticket size. So currently we are running at about in the range about Rs. 900 crore to Rs. 1,000 crore, as the average order value across the system.

Ranvir Singh: Okay. So, this was lower in earlier quarter, right?

Sanjiv Gupta: Slightly lower. The average order value has gone up by about 6% versus the previous months. And I think the current the working that the team are doing is to see that we are always on the four digit and let's hope that in the current quarter we move consistently on the four-digit number.

Ranvir Singh: Okay. And one more if I could. On AHLL side the footfall has significantly lower on Q-on-Q basis despite that Clinic's number of network has increased from 136 to 254. So, was that related to only that in January that disturbance due to Omicron or do you see any other reasons or so?

C. Chandra Sekhar: That's the only reason. And Jan and till mid-February, I think we have had the impacted. So, one-and-a-half month of the whole three-month quarter.

Ranvir Singh: It seems we are doubling a number of network and revenue; the kind of revenue shows that probably the few clinics were completely dry during this quarter. So, is that the correct assessment?

C. Chandra Sekhar: Yes, that is. And we also had, if you have to look at one other thing that completely subsided was vaccination. There is near to zero vaccination in Q4.

Moderator: Thank you. The next question is from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: When I look at your hospital number, obviously Omicron has an impact, but when I look at new hospitals, the margin compression is on a higher side compared to a mature hospital. And similar is visible on AHL, which probably because of a new centers etc. But what specifically? Is it because COVID revenue was higher in new hospital, and then that's the reason for margin compression?

Suneeta Reddy: See the margin on surgeries is always much higher. So, because of Omicron we had to cancel surgeries and therefore the margins got impacted. Also, patients couldn't come, so occupancies were low. So, it's a combination of these two.

Shaleen Kumar: Yes, no, but mature versus new, the margin compression is relatively higher in new. So that's the only thing I was trying to understand like.

A. Krishnan: It's just the, no, because of the fixed cost, which is there in the business and the operating leverage, which is there the reverse happens when you have a bit of a lower revenue. We will get back to the 17% levels soon. We were at 14% with this quarter and we will get back.

Shaleen Kumar: Sure, sir. And possible to get any update on Amazon bit. What kind of traction we are getting?

Sanjiv Gupta: Okay. So on Amazon, I think what is happening at this stage is that we have got people from their tech and product site, from Seattle out here in Hyderabad as well as in Mumbai. And what Amazon is looking at, it is to have the entire tech side stitched up before they kind of get into marketing on both ETL, BTL and then start mobilizing more and more customers as well as the transaction. So, we expect that the entire technology side to get integrated between the two companies to be lower by September or it may slip by a month or so depending upon how it happens. So, some with October end we expect this to happen and then from number onwards, I think the momentum will start happening. At this stage only couple of pin codes and things have been opened up to look at the flow of the transactions to test the simulations, which are being worked upon. So as such the backend work has started in full swing. We'll see more numbers appearing in Q3.

Shaleen Kumar: Right, sir. The pricing on Amazon will be independent of the pricing on 24/7 platform or will there be a kind of a flow to it, like not going below or they'll operate completely independently.

Sanjiv Gupta: These are independent platforms. So, it'll be independent.

Shaleen Kumar: Absolutely. Just one, one question, which or rather one thing which we are trying to understand. Agreeably that, that competitive intensity has increased. Now, just trying to understand, is it because consumer behavior is changing? That's the reason that some of the ePharmacy players are forced to do higher discounting or is there some players are seeing a land grab opportunity, so trying to press right at this point of time? So, what exactly is happen happening any on it?

Sanjiv Gupta: Yes, it's a good question. I think to my best knowledge. I think there are two, three things. One is that if you look at the pattern in the top maybe 15 to 20 cities of the country you see a lot of adoption of e-commerce happening over there. And COVID particularly last two years many of the customers have started moving. I mean, they have started in general dealing with e-commerce, whether it is the healthcare needs or the grocery or the variety of other things that they normally shop for. So one is that there is a consumer pattern or a consumer behavior to look out for convenience, to look out for speed, to look out for comfort. And so, this is one area which is supporting the increase in the momentum as far as the health tech eCommerce players are concerned. And I think second as far as the discount side in case you are hitting that some of the competitors are giving more discount to get the land grab initially, and then get the evaluation so and so forth. I think the current times are good times it is a kind of cautionary bells to everyone out there who gives discounts to you about 25%, 30% to get the customers at the end of the day that does not make sense. And eventually what is right is for the business is will happen. And so, I think as far as the second leg is concerned, second leg, which is kind of grabbing with high discounts, this would also start coming down quickly. I expect in a quarter from now, you would start seeing the discounts offered by the competitors, you know under 20%, which is today at times it is about 25% plus.

Shaleen Kumar: Agree, sir. Agree. Sir, just last bit. I missed on your order number. Like what kind of order you are seeing, if you don't mind, can you please repeat it?

Sanjiv Gupta: It's around 30,00 per day today.

Shaleen Kumar: That's, online order or omnichannel you are talking about?

Sanjiv Gupta: No, this is, this is just the platform driven. Sorry, I could have said that, this is just the platform.

Shaleen Kumar: This includes our pharmacy consultation plus diagnostics.

Sanjiv Gupta: Yes. Absolutely.

Moderator: Thank you. The next question is from the line of Bismith Naik from RW Advisors. Please go ahead.

Bismith Naik: Ma'am just one clarification. Healthcare overall, you said you are targeting mid-team growth for FY 23 and margins can grow from going 22.6% to around 24%, 25%. Is that correct?

Suneeta Reddy: Yes.

Bismith Naik: Okay. And online pharmacy you are targeting 20% growth next year as well.

Suneeta Reddy: Offline.

Bismith Naik: Offline pharmacy. Sorry. Okay that's all. Thank you.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Just a question on looking at these three businesses together AHL, AHEL and AHLL. Just wanted to get a sense on how transfer pricing is happening across the platforms. So, for instance, if a Rs. 1,000 is spent on medicines through the AHL platform or Rs. 1,000 is spent through diagnostics through the AHL platform or Rs. 1,000 is spent through for consultation through the AHL platform. If you could give us how it's going to be captured across the different businesses?

A. Krishnan: So there is a transfer fee which has been agreed upon, you know, for new customers for being funneled into the hospital services business, which is depending on the existing customers, which are serviced through Apollo 24/7 there is a transfer fee which has been agreed of 2%. Whereas, if you look at the existing, for the new customers which are coming into the healthcare services, we will typically pay them approximately 10% of the outpatient revenues which is generated in the hospital level for one year. After one year, they become an existing customer and go back to the 2%. This is because there is a customer acquisition cost, which 24/7 also has to incur to bring in customers into the healthcare services. That's the, and even for that's the same 10% that we will be paying even for health checks etc., that is funneled to, 24/7. As of now 80% of the business is self-generated by the hospitals it's only 20% that is getting generated by 24/7. Of course, our hope is that with time 24/7 will generate lot more revenues to us. Similarly, even on the diagnostic side there is a sharing of approximately 10% to 15% of the revenues, which happens between a AHLL and 24/7.

Tarang Agrawal: Got it. And in terms, and so far as, would it be fair to presume that the, tie up with Amazon would actually be serviced by the AHEL business and would have nothing to do with the 24/7 business? Would that be the right way to look at it? So, the metrics of AHEL with 24/7 would probably be similar to AHEL with Amazon and so far as the pharmacy piece of the business is concerned.

A. Krishnan: Yes. But then it'll be, yes, it'll be an AHL. You're right. It'll be an AHL, which will be the Apollo Health Co, which is going to be servicing Amazon as well as a backend.

Sanjiv Gupta: Yes. With, one more leg into it for the Amazon prime customers, we would also be offering them the diagnostic and the consultation and de-consultation services through Apollo 24/7 platform. So, to that extent while pharmacy business of Amazon will get captured through front end and backend for the fulfillment side with the entire diagnostic and consultation both ends, re-consultation and fresh consultation will be through the platform Apollo 24/7.

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

Anubhav Aggarwal: Yes. Thank you. Just looking for a very rough split of this $3 billion GMV that you talked about into these three components Offline, 24/7 and the Amazon partnership.

A. Krishnan: Sanjiv, you have that broad number between offline and online at least?

Sanjiv Gupta: Yes. So broadly what we can think at this stage this is a number that we are targeting in three to four years from here upon. I think it'll be about $2 billion as far as the pharmacy line is concerned, which is the, our own stores, which are 4,500 at this stage and growing by 350 to 400 year-on-year basis. We also expect about, you know, 500 million to come from the Amazon site. And apart from that another 500 million to 700 million would be the GMV coming in from 24/7, which would be around the consultations, the digital therapeutics the condition management and many other things. So that would be the rough estimate, very broad number for the 3 billion bifurcation.

Anubhav Aggarwal: Okay. That's helpful Sanjiv. And second, just clarity again, on the pharmacy segment. The first question I asked on the call, I'm still not clear with that. So, the total combined pharmacy margin that you talked about 6.1% this quarter, when initially you mentioned that customer discounts have increased from 10.5%, 12.5%. So, I'm a little confused. So, when you record 24/7 loss, so online pharmacy losses are, they captured in the 6.1% or they are captured in Rs. 88 growth which is or Rs. 85 crore, which you record below, where are those captured?

Sanjiv Gupta: The 6.1 is a combined EBITDA as you rightly said. So, our pharmacy online expenses is captured as a part of that. And apart from that, the discount cost is mostly compensated through the margin expansion and we could see that impact.

Anubhav Aggarwal: No sorry, sir. But I still have confusions. So, this I'm not sure that so the 6.1% includes the 24/7 losses.

Sanjiv Gupta: 24/7 losses, 24/7 expenses, because the delivery to the customer is happening from the Apollo Pharmacies, which is front end entity. The cost incurred there is almost about 1% of the revenues. So that has to be factored into this.

Anubhav Aggarwal: So, can you talk about.

Sanjiv Gupta: Your delivery cost coming into the revenue side of the pharmacy business, which doesn't include that Rs. 85 crore.

A. Krishnan: So technically it could be, it could have been included as part of Rs. 85 crore, as of now, that is part of the 6.1%, which is being reported now, the logistics costs.

Sanjiv Gupta: Just to clarify, the online delivery is happening through the front-end business where the delivery costs are captured. So, which was not there last year. And to that extent, there is a margin compression, both on account of the expenses, as well as the increased customer discount. And we could largely compensate that with the margin increases.

Anubhav Aggarwal: So this quarter, how much would have been roughly online sales, which have been recorded in that revenue?

Sanjiv Gupta: Say about this quarter alone, about Rs. 70 crore.

Anubhav Aggarwal: So, you're saying roughly about Rs. 7 crore kind of number is getting is impacting the margin.

Sanjiv Gupta: Yes. Even more than that, it'll be about Rs. 10 crore to Rs. 11 crore, complete delivery cost, and attributable to that segment of the business.

Anubhav Aggarwal: And when you, when you talk about this Rs. 84 crore, this is largely the non-transaction expense. This is just a fixed cost. Let's say the personal cost, which is, let's say the corporate headquarters kind of cost, which they attribute with debt and the promotion marketing cost.

Sanjiv Gupta: The online delivery cost, which will be fixed irrespective of the deliveries will have a fixed online delivery cost, which account for almost 6% of the revenues, online revenues. So apart from the fixed cost add of that, that is coming to about Rs. 10 crore to Rs. 12 crore, which has impacted my margins for the quarter. And a similar number in the last quarter is very insignificant.

Anubhav Aggarwal: That's clear. I was just...

Sanjiv Gupta: Corresponding Q4. Corresponding Q4 is very insignificant. That's why, if you see that Q3 versus Q4, there is a margin expansion while Q4 versus Q4, there is a margin, compression.

Anubhav Aggarwal: Okay. Thank you.

Moderator: Thank you. We'll take one last question, which is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Hi, and thanks for the follow-up. Just a couple of questions on 24/7. How many of your offline stores are really integrated into online business? And second is what's your fill rate for online prescriptions? And I ask this because you are not operating on a super pharmacy or a warehouse-based model, so sure if you can answer these two.

Sanjiv Gupta: Yes. So, at this stage we have lighten up around 1,500 stores out of 4,500 stores of network that we have it on the APL. So, 1,500 stores are based on the pin codes, based on the transaction flow, so this is all the algorithm-based placement of stores against the orders that we are generating in various geographies. So, about 1,500 have been already laid up that is the answer to the first question. And, if you could repeat the second question, sir.

Sameer Baisiwala: Yes. And second question is, it is a fill rate..

Sanjiv Gupta: Yes, so I think fill rate is to the tune about 90% plus. And, we do have a support of other than stores, we do have a support of LVDC and these are the kind of a mini DCs, which we have placed at appropriate locations to just ensure that in case at the store level, we have about 90% of fill rate for any order. And, and one or two SKU's is missing. Then obviously immediately we need DC kinds of shift, shifts that particular SKU to the store and the entire order gets to the customer on an immediate basis. So, it's a, it's a network of for 1,500 stores being lit up plus CVDC, LVDC to ensure that, the fill rate is very high and as far as SLA side are concerned more or less we are 95%, plus side on the SLA promise to the customer versus the delivery, delivery time.

Sameer Baisiwala: Okay, great. Thanks. So, this is very helpful. And how do you see this rollout over next one to two years?

Sanjiv Gupta: So again, this all will be elbow driven. So, what happens is that as in when you get more and more orders, so everything runs on a pin code basis, so 19,000 pin codes, your system keeps looking at the pin codes and pin codes orders versus the fill rate versus delivery time. All these three things on a continues basis they keep looking at it. And we periodically review it something like 15 days cycle, we review it. And depending upon this elbow we get to know that where we are getting more traffic and where we need to, in case we need to strengthen and accordingly we take a call. I guess, in three to four years maybe, 30% to 40% more capacity will build up. I mean, we will light up more stores that should be good enough at this stage.

Sameer Baisiwala: Okay. Thank you so much. And just one final on equity raise for AHL. So, the question here is can we continue if it does not happen over next six months. How critical it is for the built out of this business?

Suneeta Reddy: I think we surely can because the pharmacy division itself has cash. And I think the parent Company also has enough to support this. So definitely, I think not just for six months, but even if it takes nine, I think we are there to support.

Sameer Baisiwala: Suneeta, is there a big gap between bid and ask or how should we think about? Are you looking at, are you talking to new people? I mean, what's really gone a sway?

Suneeta Reddy: So, just to say that there is very good interest in 24/7 it's just that the environment was not the right environment and we believe that in this current environment that we would not get the valuation we deserved. So, we decided to postpone it by six months. But there is sustained interest in 24/7.

Moderator: Thank you, ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments,

Suneeta Reddy: Ladies and gentlemen, thank you for taking time out for this call. As you can see, in spite of two waves of COVID, I think the whole entity of Apollo Hospitals, the hospital division, the pharmacy 24/7 and Apollo Health and Lifestyle have really recovered. But beyond that, just looking at the future and this year, which is really we are already present in the future. We are looking at a very strong trajectory of growth and we hope to deliver on our promise. Thank you again.

Moderator: Thank you. On behalf of Apollo Hospitals Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.
