Apollo Hospitals Enterprise Limited

Q1 FY24 Earnings Conference Call

August 11, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Apollo Hospitals Limited Q1FY24 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 this conference call, please signal an operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devrishi Singh from CDR India. Thank you, and over to you, sir.

Devrishi Singh: Good evening, everyone, and thank you for joining us on this call to discuss the financial results of Apollo Hospital for the first quarter of the financial year '22-'23, which were announced earlier today. We have with us on the call today, the senior management team comprising Mrs. Suneeta Reddy – Managing Director; Mr. A. Krishnan – Group CFO; Mr. Sriram Iyer – CEO of AHLL, Mr. Ashish Maheshwari – CFO of AHLL; 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 number 2 of the investor presentation that was shared with all of you earlier. Documents relating to our financial performance have been circulated and these have also been uploaded on the corporate website and the websites of the respective stock exchanges.

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: Good evening, everyone. Thank you for taking time for this earnings call. I trust that all of you have received the earnings document.

We are pleased to commence FY24 on a positive note with a strong first quarter, characterized for continued growth in topline, improved volumes and payer mix, meaningful network additions, and further growth in the user base for our digital offerings.

Our Healthcare Services witnessed a robust 13% year-on-year growth in Q1FY24, even as IP volumes were 6% higher year-on-year. Within this, the self-pay and insurance volumes grew by 10%, while revenues grew 21% year-on-year. Insurance revenues now contribute 44% of our total IP revenues. Overall, occupancy across the group was at

62%, mature hospitals at 63%, new hospitals at 60%. ARPOB on an overall basis has increased by 11% year-on-year to 57,760.

Against this backdrop, let me walk you through the consolidated financials:

Consolidated revenue grew by 16% on a year-on-year basis to INR 4,418 crore. Healthcare Services grew by 13% to INR 2,294 crore, Mature Healthcare services grew by 10%, while new hospitals grew by 23%. Revenues from Apollo Health Co stood at INR 1,805 crore in Q1FY24, a growth of 22% year-on-year. Combined pharmacy grew by 24% on a year-on-year basis. Apollo Health and Lifestyle revenues registered 19% year-on-year growth at INR 319 crore in Q1FY24, excluding the COVID impact.

Consolidated EBITDA was at INR 509 crore, registering an increase of 4% year-on-year. Within this, the Healthcare Services EBITDA grew by 12%, and Healthcare margins were at 23.6%. Margins in mature hospitals were at 26.8% as against 26.4% in Q1FY23. Margin at new hospital was at 16.7% for the quarter as against 17.7% in Q1FY23. The drop in margin was account of a few factors, an increase in overall surgical discharges resulting in higher material consumption, increase in marketing expenditure for the new hospitals, and focused investment in clinical talent in these hospitals for future growth.

The pharmacy distribution business in Apollo recorded an EBITDA about INR 125 crore, year-on-year growth of 13%. Operating costs and ESOP charges were at INR 204 crore. There is a INR 13 crore lower than cost in trailing quarter of Q4FY23. EBITDA loss in the company was at INR 57 crore, down from INR 72 crore in the trailing quarter. This is in -- keeping in mind our commitment to reduce costs in this vertical, the business is on track to achieve operational breakeven in Q4FY24.

AHLL recorded an EBITDA of INR 23 crore as compared to an EBITDA of INR 29 crore in Q1FY23. The drop in EBITDA due to investments in network growth and specialized manpower. The margin profile is expected to improve with revenue ramp-up from the network as well as focus initiatives to drive process efficiencies.

Consolidated PAT was at INR 167 crore. Healthcare Services PAT was at INR 264 crore, a like-for-like growth of 19%. In substance, this was a strong quarter across several dimensions and metrics, which we have identified in areas of focus.

Within the Healthcare Services business, we have delivered an ROCE of 25% with balanced ROCE across all our geographies, the Metro, the Tier 1, and the Tier 2. We believe we have the most diversified footprint in the portfolio and significant headroom for growth.

We have continued to improve our payer mix with visible results in our ARPOB. The diagnostics vertical with AHLL recorded core revenue growth of 48% on a year-on-year basis and surpassed the revenue run rate of INR 100 crore for the quarter.

Clinics core revenue grew by 23% year-on-year. Margins were impacted due to investments in network expansion as well as specialized manpower. Several initiatives are underway to improve diagnostic margins, including platform changes and improved

asset utilization.

Private label and generics business contributed 16.02% of total pharmacy revenues. This was an improvement of 168 basis points over the same quarter last year. Our digital platform 24/7, added 2 million new users this quarter. The platform GMV was at INR 623 crore, a growth of 189% on a year-on-year basis. We have achieved this GMV while reducing cash burn and are well on track to achieve operating breakeven in this vertical in Q4FY24.

This quarter has signalled that the investments in strategies adopted by us are gaining traction and are largely playing out to the plans that we had. We remain firmly committed to building the strongest integrated omni-channel healthcare network with the consumer at the center, ensuring access to high-quality healthcare across the value chain. We will do this while achieving a healthy EBITDA margin and strong ROCEs. We believe we are building a sustainable and value-enhancing platform, guided by fiscal responsibility, and unique consumer value proposition as our dual objective.

I would like to take this opportunity to introduce our new CEO of Apollo Health & Lifestyle, Sriram Iyer. He was previously Chief Revenue Officer at Metropolis and brings 25 years of retail experience to the table.

On this note, I would like to hand over to our moderator and open the line for questions.

Moderator: Thank you. We have the first question from the line of Harith Ahmad from Avendus Spark.

Harith Ahmad: So, my first question is on Apollo 24/7. I am looking at the GMV for the quarter, there's an 11% quarter-on-quarter growth. But when I look at the revenue that you've disclosed for the online pharmacy distribution of Apollo 24/7 segment, there's almost 20% quarter-on-quarter decline. So, can you help us understand this disconnect?

Sanjiv Gupta: Thanks for the question. My name is Sanjiv, I'll pick up this question. I think there are two important things that have happened in the quarter. And I would first refer to the Q4 earnings call wherein we discussed about that how in the platform we've reduced our discount to sub 15%, and at that point of time, January and February months were the time when the discounts to the pharmacy vertical was as high as about 17% to 18%, and we did bring it down to sub 15%.

So, one impact that has happened during the quarter is that a lower discount of roughly 13.7% that we're running in Q1 has impacted second topline. And I think it is a conscious decision by the management to let go those value seekers onto the platform who are looking out for only the discount. In fact, as we have been continually working on the model, our discounts have always been lesser than the market.

So the first impact that has happened to the Q1 impact on a lower 5% growth Q2 versus Q1 on the GMV or the lower revenue-to-GMV ratio is on account of discounts being lower, that reflected into lower pharmacy sales. Second thing, what we did is that we also looked at those orders, which are not profitable at all. And orders which were less than INR 200 of bill value are those orders, which we have let go from the system, and we are not

fulfilling them, and apart from the fact that there are certain PIN codes where logistic costs or the fulfilment cost of the last mile is so very high, that it does not make any sense to take those orders.

So next thing what we did is that while we improved our unit economics and the cost line and majority of that benefit will also accrue in Q2 and some benefit has accrued in Q1, this has resulted into about 7% to 10% dip in our pharmacy revenue. So that is the reason you would see that revenue-to-GMV ratio, which was about 42%, 43% in Q4 has come down to about 33% to 34%. So, slowly and steadily, as we see July month and as we see this quarter, I think this will further improve. But the essential reason behind a lower revenue-to-GMV ratio or a 5% growth in GMV in Q1 versus Q4 is only to make sure that the business is more viable, more profitable.

Harith Ahmad: Is this revenue-to-GMV ratio that we should be factoring going forward, around 20%, 30%?

Sanjiv Gupta: I think it should be better. What happens is whenever you do a structural change to the business, there is a fall that we see on an immediate basis. July, we witnessed a little bit, but I think August is tracking very well. And I think we should be moving up from this 33% to 35% to 40% in this quarter at least.

Harith Ahmad: Okay. Got it. The second question is on your guidance of INR 10,000 crore of revenue and 6% EBITDA margins for the combined pharmacy business. So firstly, I wanted to clarify if this 6% is a post-IndAS margin guidance that we have given.

Suneeta Reddy: Sanjiv, will you take this or Obul is also here? Obul?

Obul Reddy: In line with our combined business which we have seen, this can still be sustained.

Harith Ahmad: Yes. So there is obviously, when you're thinking of the post-IndAS margins, there is IndAS benefit as well. And that's, in the past, been around 300 to 350 basis points.

Obul Reddy: This is at the business level.

Harith Ahmad: Yes. Understood. So when I deduct the IndAS benefit here, the combined pharmacy EBITDA margins are maybe in the 2.5% to 3% range, and this is lower than what we used to have in the past. So, I understand there's a higher level of discounting, but you talked about some additional costs in the front-end pharmacy level in the past, in the last few quarters, how are we tracking on those? And how should we think of margins in the combined pharmacy vertical?

Obul Reddy: So, we have the same cost continuing. In fact, if you look at it, the discounts have slightly moderated versus last year and Q4. However, the network cost in terms of the store additions and almost about 20% of our stores are yet to reach breakeven. It may take a quarter or two more. So in Q1, we have that costs coming in and impacting the profits. Otherwise, we will be back to normal level.

A. Krishnan: And you have to remember, this is the combined business, which includes the online as

well. So online is where there is higher discounts. So if you look at offline, this is online, offline would be higher in this mix.

Moderator: We have the next question from the line of Saurabh Kapadia from Sundaram Mutual Fund.

Saurabh Kapadia: In your region-wise operation parameters, if you look at Tamil Nadu and the other region, the inpatient volume as well as outpatient volume has been muted. So, any specific reason for this?

Suneeta Reddy: So, there was a 6% growth in the inpatient, outpatient as well. So, in Tamil Nadu region, the reason for that is clearly, one, it was holiday season. The second is that, let me say, travel to Tamil Nadu was restricted because of train logistics as well as some of the airlines cancelling that route. But now it's reinstated and July is looking very good.

Saurabh Kapadia: Okay. And similar case for the other market where we saw the outpatient volume down by (inaudible) %?

Suneeta Reddy: The previous year had the RT-PCR test, which was COVID test, and therefore, the OP looked high. But now without COVID, it has grown. On a like-for-like basis, there is growth.

Moderator: We have the next question from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just one on overall occupancy. So, 62%, I know you're comparing with 60% a year ago, but that may have been impacted because of COVID and other stuff. So, I just want to understand the level of occupancy, and this is not only you, right, even other companies, I know there's a seasonal issue here in Q1, but has been below expectations, right? So, is there an element of either pent-up that's not coming back, or you generally think this is just a seasonally slowest quarter in the year and things will pick up? So just a color on yourself as well.

Suneeta Reddy: So, it's definitely picking up. This has happened more in the South; I think we were impacted. It was very hot summer. It was vacation season. And like I said, travel was restricted to one of our networks, which is Chennai. But I think it is seasonal. And July is looking extremely good. So, it's clearly because of some of the things that happened in the first 3 months.

Shyam Srinivasan: When we had an aspiration to reach 70% and over time, 75%. Is there any impediments to reaching that numbers? Or do you think over time, our network will be able to get there? Is there an issue of, say, cannibalization in the sense that people who were earlier traveling to Chennai are no longer able to travel or they're going to another network hospital of yours. Are you seeing those dynamics, which will prevent us from reaching historical high occupancies, you think?

Suneeta Reddy: So Chennai is clearly, is there now in terms of, so people are still traveling to Chennai for quaternary care. What is good is that our Tier 2 hospitals also are doing much better. And there is a 17% growth in Tier 2, which I think is a very good signal for, and it's

rewarding to see that our geographic footprint and the impact on ROCE has validated this strategy.

Shyam Srinivasan: Okay. And my last question, I'll keep it brief. We added, I think, 900 stores last year. We have added 30 stores in the first quarter. So, I just want to understand what's our target for this INR 10,000 crore, don't we need additional stores, or we think we're going to have a much lower run rate this year?

Obul Reddy: We have factored about 500 to 600 stores to be added during the year. Q1, consciously we slowed down because in the Q4 last year, we added about 370, 380 stores. And in the last month of March, about 150 stores. So, we want to give that space to stabilize those stores. And Q1, we are back to our normal store openings, and we expect to be there between 500 stores and 600 stores for the year.

Moderator: Thank you. We have the next question from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My question is again on Apollo 24/7. So Sanjiv, you mentioned unit economics are improving, you're reducing losses, etcetera. But GMV growth has been, I'll say, slow compared to what we are expecting in last two quarters. And then earlier, you have set a target to double up GMV in '24 compared to '23 level. So, do you think you can still achieve that or you're focusing more on reducing losses?

Sanjiv Gupta: So I think it is both the things. First important thing is to ensure that the business is; only those transactions onto the platform are run which are making some economic sense to the business, while also looking into the fact that we have a target in our minds. We did about INR 1,650 crore in the previous year and then obviously, we guided INR 3,000 crore. We did INR 622 crore in Q1 and I think the run rate itself is INR 3,500 crore. And while we tapered down certain volumes in Q1 started March to till end of June. But I think, we've got various other initiatives to ensure that we fill the gap quickly with new set of customers, new offerings and we increase the average order value. In fact, our average order value has also gone up in spite, if you could look at it, INR 845 previous year versus INR 935. So, I think we should be able to reach the target of INR 3,000 crore; very early in the stage to kind of say that we'll not be able to hit. I think INR 622 crore is a decent number for Q1, and we should be meeting our target. This is what I would say at this point of time.

Damayanti Kerai: Okay. I want to understand the discount part better. So do you suggest that there has been some like seasonality here also? You mentioned there were higher discount in February and March, that's why a bit of more volumes, but now it has reduced. So can you talk a bit like, how your discount work for, say, offline orders and online orders across the year? What are the patterns or how do we see things moving there?

Sanjiv Gupta: I think as far as the discount strategy if I just talk about; discount strategy has always been a delta between offline and online to the extent of about 150 bps to 200 bps. At no point of time, this gap was higher if I look back in the last six months. Prior to that, obviously, it was a very different ballgame where we were also giving a discount of about 18% to 20% and offline was steady at above 10% to 11%. As we move more into omni

play as more-and-more customers have started transacting on both the platforms, obviously, we have to, at some point of time, rationalize the entire thing looking into the scale, looking into the right time, and this is what we did somewhere in March month, that more-and-more omni players started happening across the channels, and it is to the interest of the customer that we should not confuse him or her with differential pricing, and that is where we curtailed down on our discount. So, this is a good move as far as the customer side is concerned. Obviously, it does give a benefit to the Company.

As far as the current year is concerned, we are running at about 13.7% for Q1. I think this will continue to be in this range for Q2. And I don't see any reason that we should be inching up in Q3 or Q4, maybe 10 basis points, 20 basis points here and there. It could be max 14%, if not 13.25% to 13.5%. So, something in between. And I guess, as far as the offline business is concerned, they will continue to be around 12% to 12.5%, only a gap of 100 basis points to 150 basis points. So, I think directionally, all of us should look into these discounts for the rest of the year.

Damayanti Kerai: So somewhere you said 12% to 14% will be the broader range for discount. Just want to...

Sanjiv Gupta: Yes. That's right. Yes.

Damayanti Kerai: And my last question is, if you can provide, this question is for Suneeta ma'am. Volumes are a bit muted, but you have continued to perform well on ARPOB growth, etcetera. So how should we look at ARPOB growth outlook for, say, next one year to two years?

Suneeta Reddy: So just one thing on the ARPOB growth has been over 10% improvement in ARPOB 11%. And this is a function of both case mix and tariff increase. So, I think this year, this 11% is; this INR 57,000 moving to maybe up to INR 60,000 is something that we can sustain. In terms of how do we look at occupancy, I think that is the important question that we have headroom for growth and that in places like Chennai, we're already 41% of total market share. And we see, we are growing this. So, with this, I think it's going to be, as we go forward, this was asked earlier, it's going to be higher occupancy, resulting in higher EBITDA and also higher EBITDA margins coming from the cost, fixed cost being met. And therefore, we are quite confident that, that this is the way forward.

A. Krishnan: The other thing which has also happened is that if you look at the case mix, the case mix has also improved for the better. We have seen that the Congo case mixes are going up, which is all the high-end cases that we are doing, which is the other reason that ARPOB is high. Secondary care cases have also gone up because, clearly, with the insurance and the payer mix helping us, there is a tailwind in insurance, which we believe is here to stay for the next several years. We have just started seeing the traction in insurance, which is good. So clearly, now we are seeing that a lot of people also are coming for secondary care into the hospital, which is why ALOS is down. So, ALOS being down is also a matter of, even if you look at the overall volume, volume growth is 6%. But if you look at insurance and self-pay, the volume growth is actually 11%. So, we had let go, as you know, last year, by Q4, we had let go of lot of CGHS patients across the system, which is why when you compare Q1 to Q1, you look at Q1, which has CGHS and

institutional volumes, but now the volume doesn't have that, but still we have grown 6%. So with that, which is why insurance and self-pay when you look at the 11% is the volume growth and that on revenue growth is actually 20% on the IP side. We are showing a 13% overall revenue growth for the quarter. But we know that the overall mix of the cases that we have are very good. This occupancy is something that we are working on, and we will see that also go up because it is, as Suneeta said, Chennai is higher. It is some of the business, some of the units outside of Chennai, like Madurai, Trichy where we have some lower occupancies, but ROIs are all good. So, if headroom for growth exists, we have to figure out how to fill it up now. So, we are working on that plan as well. So broadly, I think structurally, if you look at the P&L, structurally, the P&L is quite strong, and it results in higher ROIC also because of that. Occupancy is something, I guess, over the next two years, it's like, we look at it from an opportunity perspective.

Damayanti Kerai: Okay. So ARPOB, we should be sustaining at a healthy level. Yes, I'm just clarifying. Okay.

Moderator: Thank you. We have the next question from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: So the first one on the 24/7, it seems that in order to kind of improve the profitability, we have put some filters in terms of our strategy to refine our user base. But how would that have impacted our TAM when we look at what our strategy a year back versus now been? So like how much reduction we would have seen in TAM because of this?

Sanjiv Gupta: You're referring to CAC, right, cost of acquisition?

Kunal Dhamesha: Not cost of acquisition, just because, let's say, we are putting a filter that below INR 2,000 order you would generally take. In that case, that would also reduce our total addressable market based on the affordability, etcetera, right? So how would TAM calculation would have changed for you?

Suneeta Reddy: It's INR 200.

Kunal Dhamesha: INR 200. Okay. I misheard that. Okay.

Sanjiv Gupta: Yes, that's the INR 200. And I think, see, we also need to understand, at times what happens is that customers have a habit of breaking their entire; normally, any e-commerce player would like to have a basket shopper into the platform versus the top-up shoppers. Now chronic customers are supposed to be taking medicine at least for the whole of the month. And if not, at least it should be for two weeks or three weeks. Over a period of time, we also saw certain twin quotes and certain customers behaviour given the fact that you've got the analytics behind, now we are in the fourth year. We've got three years of experience there. We found out that there are certain geographies, there are certain set of customers who are good shoppers, but they have a tendency to reduce their shopping cart by as low as INR 200, INR 150, and they continuously order. So, what we have actually done is that certain customers, who were actually only giving us a total value of about INR 600 to INR 700 in the entire month, those are the ones which we believe that, and if they are not chronic, are those set of customers to whom we let go.

And major impact has started coming in from the value seekers. The people who had a tendency to take the orders where the discounts are very high. And I think that is the time that we are now no more in that particular stage, or rather phase 2 of the Company is very different, where we would like to have those set of customers which are chronic and are associated with the Company for a little longish and also cross-pollinating between the other verticals, be it the consultation or the diagnostics.

I think as far as the overall canvas is concerned or a future potential is concerned, I think online business has got a vast thing, in a market. And in a true spirit, omni is actually giving us a larger wallet share of any customer. The Aventus suggested that customers are becoming omni during 30% more wallets share versus when we were not omni. So from the strategy point of view also, it's good to have those set of customers which are chronic, which gives us a high repeat. Our repeat for Q1 has been about 27% versus 21% in the previous year, same quarter. So that is also a very good metric. So, I think we are running into a right direction from the strategy and the execution point of view.

Kunal Dhamesha: Sure. And the transacting user number that you have given for this quarter and comparable quarter, would you be able to share the number for quarter 4?

Sanjiv Gupta: Which specific number are you looking at it?

Kunal Dhamesha: Transacting user, right, which is INR 11.4 lakh, which is what is in returning, transacting user base?

Sanjiv Gupta: Yes, that's right. So, in the previous quarter, Q4 if you are referring to, it was about INR 9.9 lakhs.

Kunal Dhamesha: And the second question is on the payer mix. I think we have shared that insurance is around 44%. But would we be able to share the other channels as well? And let's say, we have been doing this payer mix refinement for last one year. But let's say, when I look at it from two years to three-year perspective, pre-COVID let's say, FY19 or FY20, how would have our payer mix looked? And from there, how much you would have done in terms of refinement?

A. Krishnan: I think pre-COVID self-pay was almost around 45%. Now if you look at self-pay as a percentage of revenue, it is 40%. Insurance is where we have had significant increase, where it was close to 25% to 28% pre-COVID, that has come to 44% of our revenues now. So clearly, between insurance, private pay and self-pay and private sector, we have almost around 80% of our revenues is coming from that, 80%, 82%.

So what has happened is we have definitely been able to focus on bringing down some of the Government and some of the low-paying cases across. And this is the new normal that we would like to believe, we will continue to go into as we proceed as well. IPS is an area that will further grow because IPS growth for the quarter has been good. Hopefully, once we get our presence in Delhi also in the next 18 months, we should be able to get higher IPS growth because Delhi is one of the places where IPS is high. So, in our consolidated results, we don't provide IPS because otherwise, IPS is today 7% of our revenue here, whereas in Delhi, it is 15%. So that is the other area that we hope that we

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should be able to tap into as we move forward, which should change a bit as later. But otherwise, this is the new normal.

Moderator: We have the next question from the line of Lavanya from UBS.

Lavanya Tottala: I just wanted to check that healthcare revenue growth is driven by ARPOB largely. But sequentially, our margins are broadly similar for both mature and new hospitals. So why is the ARPOB is not translating to higher margins?

A. Krishnan: So in both, there are different answers for both mature and for new. In mature, one of the things that we have seen is there has been a lot of increase in some of the; we have seen good increase in the surgical mix, which actually augers well from a longer perspective. So, the surgical mix increase has resulted in a higher cost of materials in the mature hospitals. This is obviously aided by higher insurance, as I said, someone who's covered more by insurance has the propensity to come to a better-quality hospital or is definitely choosing us over some of the others and this is one of the reasons that we are seeing high-end cases as well as secondary care cases go up. So, cost of, surgical material costs have gone up. But what we have also seen is that the doctor's fees related to that went up a bit in this quarter. But as we move forward, we, there is, we had taken some tariff correction in the middle of the quarter. We think that will start paying off. And into the next quarter, etcetera, we will see the margin go up on mature.

In the new, we have added doctors because one of the things which we have also done is that to focus on the utilizing occupancy, we had seen doctor gaps in places like Navi Mumbai and some of the others like Vizag, where we have added doctors on guaranteed money fees. This, we believe will start paying off over the next 2 quarters, and then that margin should also come back. So these are the reasons for both these segments. Some bit of marketing cost has also gone up. We did spend a bit of marketing in the new hospitals as well.

Lavanya Tottala: Okay. Got it. So, this should sequentially also we should see improvement in margins of both mature and new hospitals?

Management: That's correct.

Lavanya Tottala: On 24/7, can you give the split of GMV for this quarter, like in terms of pharma and diagnostics?

Sanjiv Gupta: Yes. So, Pharma, we did roughly INR 350 crore for the quarter and diagnostics was roughly INR 30 crore, and the remaining was coming in from consultations and the entire IP/OP business.

Lavanya Tottala: Okay. What would be for the split for a previous quarter, like Q4?

Sanjiv Gupta: Q4 for pharmacy was INR 375 crore and diagnostics was INR 42 crore. Diagnostics went up by about 16% to 18% for the quarter. And pharmacy, as I said, in the previous question that we took certain decisions to let go those volumes which are not profitable to the organization and that is the reason we see that gets settled in Q1.

Lavanya Tottala: If I may ask last question, what is the tax rate?

A. Krishnan: I'll just answer that question, which she actually was raising. The tax rate is 25% overall for the Company. And in the standalone, it is 25%. What happens in consol, you see it at a higher number. That's because there are losses which comes from Apollo HealthCo and Apollo AHLL, where there is no tax, which actually skews the tax rate to close to 32%, but the tax rate at the Company is today operating in the standalone is 25%. So one or two of our subsidiaries is still at that older tax regime, like Bangalore will move into the new taxes next year. And I think the same is the case with Lucknow. So these are the two which are in that older tax regime. They will also move to the newer tax regimes in the coming fiscal year.

Moderator: We have the next question from the line of Rishabh Tiwari from Allegro Capital Advisors.

Rishabh Tiwari: In the previous quarter, you issued both combined pharmacy EBITDA and someone previously asked that it was not quoted as well as we are expecting some ramp-up from the recently added stores. So if you could please tell the combined pharmacy EBITDA? And second question is regarding the IndAS impact on the EBITDA, there used to be a slide on this. If you could give a ballpark guidance on that.

Obul Reddy: On the combined pharmacy EBITDA, as I explained to you that last year, we added about 1,000 stores, and it will take about 1 year, you know 12 to 15 months for the breakeven. So those higher number of stores contributing to the losses has impacted, and we will be back in the next 2,3 quarters. And...

A. Krishnan: On the IndAS to post-IndAS, I'm sorry, that was a miss in the slide. I think we have not sent that. We will add that and put it back there. I think that's the same number as what was there last quarter, pre-IndAS to post-IndAS, I think INR 30 crore at the Healthcare Services level and INR 20 crore at the AHLL level. We'll put it back out there and that slide, we will add and sent it back. We will upload it on the website. Sorry about that.

Rishabh Tiwari: Just a clarification. So, there is no EBITDA improvement on the combined pharmacy.

Obul Reddy: So, it will be through the volume and cost-cutting next 2 quarters, and our improved profitability on the new stores.

Moderator: We have the next question from the line of Naushad Chaudhary from Aditya Birla Sun Life Asset Management.

Naushad Chaudhary: Firstly, on the occupancy side, the target which we have 70%, can we reach and sustain that 70% for the long period of time? Or do you think it will be like touch and then plan for a sizable capex?

Suneeta Reddy: No that 70% will not require any capex, but this will take us a little time to get to 70%. We're already trending. Probably, we'll reach close to 70%. But while we do have a target of 70%, we will not be able to deliver it and it will require no capex.

Naushad Chaudhary: No, I'm asking can we sustain; once we reach there, can we sustain 70% for a long period

of time?

Suneeta Reddy: Yes, we can in those regions. So overall, as a Company, maybe not. But I think in each of the regions where we touch 70%, we should be able to sustain.

A. Krishnan: Yes. And to also add on to your point, as we said about the new hospital brands, which we are doing you know the 2,000 beds and INR 3,000 crore over the next 3 years, the first stock of beds are coming in the two regions where we have more than 75% occupied, one is Kolkata and the other is Bangalore, which we are looking at. So these are the 2 that will start off. Then we are looking at Gurgaon, which will follow in the year after that, where again, our occupancy is over 75%. So, we are quite clear about how we are looking at the strategy of expansion. Those are new markets. These will not impact our existing occupancies at all.

Naushad Chaudhary: I understand. I'm just trying to understand on the blended level, 70% is doable on a sustainable basis or not, on a blended level?

A. Krishnan: Yes, at this level, but the new hospitals will take time, right, to get to 70%, any new hospital that would come.

Suneeta Reddy: Up to 2026, yes.

Naushad Chaudhary: Without compromising on the future growth.

Suneeta Reddy: Yes.

A. Krishnan: Yes.

Naushad Chaudhary: And lastly, in terms of the scalability of your healthcare business, if you hypothetically think of doubling your healthcare revenue from current base, what are the challenges comes to your mind?

Suneeta Reddy: I think when we are looking at doubling, yes, we are adding beds to ensure that we have beds to fill. But more importantly, again, it's the fact that we still have, by increasing 20% occupancy, we're actually taking up our revenue by another 40%. So clearly, there is headroom to grow, do have plans. And I think that there is strong traction in the Hospitals division. This quarter should be a very good quarter. And I think you could look at it next quarter.

Moderator: We have the next question from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: Sir, on the 24/7 in terms of the operating losses, which are really expenses which are there at INR 175 crore for this quarter. I mean what is the relation that we should keep in mind the GMV for these expenses?

Sanjiv Gupta: Yes. So, I think this is how we also internally look into, and if I look at Q1FY24, we (inaudible) GMV about 28%, which was roughly 66% in the same quarter previous year, and Q4 was about 32%. And the target for the current year, which I talked about in the

previous earnings call was also to having between 20% to 22%. This is one thing.

And secondly, I think many of the initiatives have started working in the organization, which we had thought through and started executing. We had INR 189 crore of expenses in Q4 and INR 15 crore already we used in Q1, which is down to INR 175 crore and this is a structuralized change. So obviously, INR 60 crore worth of cost deduction has already happened. And as I see July month numbers, I am sure that Q2 numbers are also going to be lesser than INR 175 crore that we see next year during the time.

Nitin Agarwal: So I guess the way to look at this thing is this INR 175 crore number is a top-ish number. It keeps probably coming down with the cost reduction as we go forward. And the EBITDA to GMV conversion, the EBITDA, especially with the GMV growth keeps going up, which starts to; I mean that's how the losses begin to narrow in this business.

Sanjiv Gupta: Absolutely. That's the direction that we have started working on, too.

Nitin Agarwal: And in the next couple of years, when say the GMV goes to close to $1 billion and all that you talk about, I mean at what level do the operating expenses begin to peak out or sustain at around when you start to get to $1 billion in GMV?

Sanjiv Gupta: This is a little tricky. But I think the way we look at it is that whatever level of expenses we have it in the digital segment itself, those expenses we used to, we (inaudible) get out of the (inaudible) or the (inaudible) rate that we have it in, on the GMV. So yes, the expenses have started going down. In the future, depending on which particular vertical we intend to invest, there will be a little bit of delta over there. But otherwise, the thought process that the digital alone itself $1 billion could be able to take care of the expense (inaudible). But as far as the current quarter is concerned, I think we did this one segment being down to INR 175 crore this quarter. And current quarter, which is Q2, I think will also be, let's say, at INR 175 crore for sure.

Nitin Agarwal: And if I get last one on that. And then how should we see the EBITDA percentage improving with relation to GMV over the next couple of years?

Sanjiv Gupta: I think today, if I look at the margin mix, my margin mix is also steadily going up. It used to be about 6% to 7%, 6.6% of the margin to the revenue in Q1 FY23. It went up to 7%, 9% and 9.7% over the previous quarters. This quarter, it is 10.89%. I think the next 2, 3 years, for sure it is going to be more than (inaudible) %.

Moderator: We have the next question from the line of Siddharth, an investor.

Siddharth: So, my question was regarding our associate Company, Indraprastha Medical. So last couple of quarters, we've been seeing improved business performance. So, what has led to this turnaround? Is there any operational changes that we have taken?

Suneeta Reddy: Yes. Clearly, we have got very good doctors onboarded, and this has resulted in better performance and high occupancy.

Siddharth: Okay. Can you highlight what is the current occupancy right now?

Suneeta Reddy: 72%.

Siddharth: Okay. And regarding the lease, which is due this year, so what is the progress on that front?

Suneeta Reddy: We'll inform you at the next quarter.

Siddharth: Okay. And since our occupancy is around 70%, 72%. So, are we looking to do further capex on that land?

Suneeta Reddy: There will be some capex on the land, but Apollo Hospitals is also looking at expansion in the region, leveraging the networks that we've built.

Siddharth: On the same line on which Indraprastha is there?

Suneeta Reddy: There is some expansion on Indraprastha itself. But beyond Indraprastha, we are looking at expansion in the region.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference back to our management for closing comments. Please go ahead.

Suneeta Reddy: Thank you, ladies and gentlemen, for joining this call. As I conclude, I would like to emphasize that everything that we do in Apollo Hospitals centers around the consumer and the patients. Our deep focus on clinical care as shown in our CONGO case mix; our technology absorption, the fact that we have now 25 robots that are being used, demonstrates that we are filling down the all-India network. And it also demonstrates that we have the ability to meet all challenges that may come in our way of future growth. So we are quite confident that this could be a very good year for us. Thank you, ladies, and gentlemen.

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

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