Apollo Hospitals Enterprise Limited

Q1-FY21 Earnings Conference Call Transcript
September 15, 2020

Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Q1 FY21 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. Good afternoon everyone and thank you for joining us on this call to discuss the financial results of Apollo Hospitals for Q1 FY21, which were announced yesterday. We have with us on the call today, the senior management team comprising Ms. Suneeta Reddy – Managing Director, Mrs. Sangeeta Reddy – Joint Managing Director, Dr. Hariprasad – President of the Hospitals division, Mr. A. Krishnan – Group CFO, Mr. C. Chandra Sekhar – CEO of AHLL and Mr. Obul Reddy – CFO of the Pharmacy business.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. For a complete listing of such risks and uncertainties, please refer to the investor presentation shared earlier.

Documents relating to our financial performance have been shared with all of you and these have also been posted on our corporate website. I would now like to turn the call over to Ms. Suneeta Reddy for her opening remarks.

Suneeta Reddy: Good afternoon everyone and thank you for taking time out to join our call. I trust all of you have received the earnings documents. The last six months have clearly been one of the most challenging periods in our 36 year history, a period which placed unprecedented demand on the healthcare system. But it has also been an exceptional and defining period for the sector placing it at the forefront of the national narrative. While the impact for only a few days in Q4 of FY20 was felt last year, the first quarter of FY21 has withstood the peak of the lockdown and the containment measures. This has led to an impact on our operations in various ways:

1. Our Outpatient volumes were impacted both from within the cities as well as outstation, due to the lockdowns and travel restrictions.

2. There was a significant drop in the postponement of surgical volumes, across both electives as well as mild to moderate medical conditions, due to the fear of visiting a hospital in these times.

3. The need to undertake infrastructure modifications in our facilities across India to ensure complete safety for both our patients and employees, and to put in place protocols which ensured an iron curtain between Covid and Non-covid patients.

4.This Immense Social and Consumer responsibility not to refuse patients needing care across our centers, while at the same time ensuring clinical preparedness to continue achieving best in class outcomes and recovery rates.

5. Maintaining the morale and composure of the frontline warriors during this period. I am very happy to state that we have treated 37,000 patients with COVID and completed 1.3 lakh tests.

At Apollo Hospitals, we not only had to deal with the challenges thrown up by the pandemic but also ensure the seamless continuation of delivery of essential health services during the outbreak. This meant we had to respond to needs to specific patient categories like maternal, newborn and child health, prevention and management of NCDs, treatment of chronic diseases to avoid complications and addressing emergencies.

This has led to an increase in costs due to infrastructure modifications made from creating isolation beds, the PPE requirements for personnel and for the upkeep of the hygiene and sanitization norms, as well as financial incentives paid to frontline warriors. We have counter-balanced these with our efforts on cost saving.

The pandemic has necessitated a strong financial and cash flow management. We initiated a slew of cost containment measures, our receivables teams ensured that we collected dues on time, and overall, we were able to manage the cash situation with only a marginal adverse impact on cash flows and debt.

While we have emerged as the safest network of hospitals providing world-class care for our patients during these times, we continue to contribute to the fight against COVID-19 in several ways, under the umbrella of Apollo Kavach – the shield against COVID. Our Joint Managing Director Ms Sangita Reddy will be sharing a brief presentation on this after we speak about the numbers for about 5 minutes.

Against that backdrop, let me take you through the financials for this quarter.

The company recorded a de-growth of 12% in standalone revenues to Rs. 1,962 crore, and a de-growth of 16% in consolidated revenues to Rs 2,172 crore. SAP continued to report double digit growth at 21% while Healthcare services revenue de-grew by 42% during the quarter. IP volumes also de-grew by 45% and overall occupancy across the Group in Q1FY21 was at 2,742 beds or 38%, compared to 66% in Q1 FY20.

Our SAP vertical recorded revenue growth of 21% YoY on year with EBITDA higher by 37% against the same quarter last year, at Rs. 80 crore. Network wide EBITDA margins are at 6.3% with those of our mature stores at 8.7%. SAP ROCE is now 27% and sales from Private labels has moved to 9.0%.

The Pre Ind AS 116 Q1FY21 EBITDA stood at negative Rs. 18 crore as compared to positive EBITDA of Rs. 274 crore in Q1 FY20. Post IND AS EBIDTA was at Rs. 40 crore, within this, Healthcare services EBITDA registered a loss at Rs. 99 crore impacted by lower volumes and occupancy due to COVID.

To offset the impact of the pandemic on the business, we launched a comprehensive cost optimization and productivity improvement project. We have been able to achieve over Rs 80 crore of cost savings in Standalone, and over Rs. 100 crore of cost savings in consolidated accounts in Q1 FY21, which represents a 20% reduction in our costs over the last quarter of FY20.

AHLL recorded an EBITDA loss of Rs. 19 crore as compared to a loss of Rs. 4.7 crore in Q1FY20. The business has demonstrated a 37% de-growth in top-line, which includes the impact on Clinics and its Spectra business's due to COVID.

Net Debt as of 30th June 2020 is Rs. 3,014 crore. We have a Debt to equity ratio of 0.89. The Debt equity ratio has inched up this quarter due to the dip in revenues. We expect to return to a trajectory of reduced debt in the second half of the fiscal.

We secured final approval of the NCLT for the de-merger of the front-end of our Pharmacy Division, with effect from 1st September 2020. This re-organization sets up the platform for value discovery for the business at a future date, in a regulatory compliant structure.

The last 6 months have seen the rapid ramp-up of our digital healthcare platform, Apollo 24x7. At the 6th month mark since launch, the platform had 3.27 million registered users, the fastest by any Indian digital healthcare platform and faster than most global benchmarks. 15.7 million covid scans have been taken on the platform. Partnerships with major telecom, banking, insurance and technology players have already been entered into, to provide Apollo digital health access to 100 million Indians. Apollo 24x7 is creating a trusted and curated network of doctors for the best and highest quality virtual consultation experience in India. Over 3,500 Apollo Consultants and Partner doctors are currently on board. 13,500+ pin codes are covered by the online medicine delivery service of the Apollo 24x7 digital platform, and we are adding more pin codes rapidly.

Further, the team is building the fastest medicine delivery platform by leveraging our existing formidable pharmacy chain presence across the country. ~40% of the Indian population are within 30-60 minutes of an Apollo Pharmacy store. Apollo overall has 39.6 million unique customers served over just the last 5 years out of which 2.3 million were new customers have been served since the onset of Covid. Apollo 24x7 digital health will be offered to these customers to create an enhanced lifetime value.

Looking ahead, we are witnessing positive traction in the Apollo hospitals division in Q2 – July and August have shown marked improvement in occupancy. Surgical volumes are also gradually picking up, as the lockdown relaxations take effect across the country. We expect to see sequential improvement as we move ahead, and for healthcare services EBITDA to move back into positive territory in Q2.

This has been a challenging quarter not just for our Company, but for the country and for the world. We believe we have navigated these troubled times well and emerged stronger in our strategic journey. We have moved closer to the consumer through Apollo 24x7. We have used this 6-month period to win new consumers and deepen our engagement with existing consumers.

That's it from me. Now I would like our Joint Managing Director Ms. Sangita Reddy to speak about the Kavach Initiative. Later on our CFO – Krishnan, Dr. Hariprasad, Obul Reddy and Chandra Sekhar from AHLL will be there to take your questions. Thank You.

Sangita Reddy: It is a pleasure speaking with you. As all of you know the numbers across the world have been significant and continue to grow and India where we have fought with it having a milder response. The numbers have not just crossed 5 million, brought us to among the top 3 countries in the world. It has been fairly devastating in terms of numbers yet the Medical response has been very good. Leading this response, I think Apollo in the last 200 days since we heard about COVID went through a series of thought process in terms what our response would be, we first said that we must continue to serve our existing customers so we would bring world class protocols in COVID care but we would do it in an isolated manner while continuing to treat emergency and other patients. We thought through a process of prevention, so we educated public, corporates, customers, old patients on prevention. We worked on early diagnostics, we facilitated quarantine and a methodology, went through a treatment so that we brought world class treatment and are now working on rehabilitation. This integrated response literally encompassed every service and every capability of Apollo starting from our round the clock helpline, a number which reflected our 1,066 branding for customers got recall value on that. We gave credible information. We stayed compliant with Government guidelines. We were multi-channel in our approach, multi stakeholder and multi-language. We launched our telemedicine capability, fever clinic. We started over 2,300 beds, ramped up our testing capability, enhanced our home care and created a unique concept called 'Stay I' which was our methodology to keep people isolated, recognizing that in India many people did not have the facility to stay isolated at home and therefore needed a different strategy. We partnered with hotel rooms – OYO rooms for cost effectiveness, Lemon Tree for the middle income, put a telemedicine layer on top of this and enabled people to stay isolated while having medical supervision. We also focused on education and awareness, 24x7 that our Managing Director spoke about, has had a tremendous impact in this period and the COVID scan with over 18 million scans have been taken during this time period is an artificial intelligence enabled risk assessment course which has brought a lot of credibility and impact for us.

Just a quick glance at the numbers, we have over 2,250 dedicated beds in the Apollo ecosystem and an additional Apollo Hospital Enterprise System, an additional 400 beds in the not for profit. We completed over 1.5 lakh tests, we are currently doing an average of 4,200 tests a day. We have done over 12,000 admissions, 6,500 home care and these 'Stay I' 5,000 plus, we actually have served over 50,000 room nights and helped approximately 1 million COVID positive patients and if you say they could potentially have infected 5 people, this is an impact of prevention of over 5 million infections as well.

On the 24x7 app, I just want to add two or three things. We are truly humbled by the response and this is a reflection of the brand name and the deep user base that we have. We currently added 3.7 million registered users and during this time period we have not just worked with COVID response and pharmacy delivery but will soon be rolling out multiple other services.

I think it is important to summarize that if you look at any response to a protocol or a system or a treatment or an ecosystem, it ultimately is in the results. Our Mortality rates, I am thankful to our doctors, our nurses and our tremendous team which led us to not just become the go-to place for COVID management and all of us have kept our phones on literally day and night because that is the kind of response we gave. We treated the sickest patients with multiple comorbidities and our outcomes today are a benchmark for the country. We presented in front of all hospitals, the union health secretory. We have a 0.35% mortality rate for people below 50 years of age. This is among the best in the world and all our patients who succumbed had 1 to maybe 3 comorbidities, 40 % of them have more than 3 comorbidities. The last leg of this significant journey which we have traversed where we have spoken to International doctors, we have built care protocols, we have traversed the journey from treatment from REM device to steroid therapy and really optimized this treatment protocol and shared this treatment protocol with over 5,000 nursing homes but hand held more than a 150 of them we have accelerated our eICU, enhanced our telemedicine capability, reached out to corporates with treatment protocols and had engagements with them for treatment. We are now moving in to the significant phase of rehab because it is getting reported in scientific journals across the world that the residual comorbidities and complications of COVID are surfacing now whether it is delayed strokes, cardio myopathy or different conditions so pro health will be our vehicle to work on rehab.

My last point on this one is that Apollo is always been equally committed to education. We have created 23 versions of our treatment protocol book, updating them every time with publications and information across the globe. Just a data point, during the COVID period every hour, 8 public scientific papers came out on COVID. We have encapsulated this, brought the best of knowledge put the best put it in the red book, created a uniform care protocol pattern across the Apollo ecosystem and then shared this with others. Our handbook to corporates has been a guideline on how to create normalness and create life after lockdown and this has been multiple quoted, shared and very well appreciated.

So this is an integrated overview of kavach and just to summarize this has been a part of our continued commitment to patients, our excellence in medical outcomes, it's a reflectiveness of our agility of response, we literally returned on a dime, being a large organization we had the agility of a new comer our technology preparedness enabled us to do this and most importantly the committed Apollo family has really given outcomes that the country can be proud of. Thank you that's it from me.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: My first question is on the occupancy. So, if you see, the occupancy has clearly come down from 63% average in Q1 last year to now about 36%. How are you seeing, I assume that is an average? How have you seen the monthly run rate? And how are you seeing the July, August, September? If you could just give some color, that would be helpful.

Suneeta Reddy: Yes. So, occupancies have definitely improved. July, we moved up to 47%. August, we were at 55%. And I think September, with the lockdowns even in Tamil Nadu, we are crossing 60%.

Prakash Agarwal: So, this is like-to-like of 36%?

Krishnan A: So, the like-to-like of 36% for the full quarter maybe a bit lower by 2%, 3% because that is based on discharges. Whereas, this is based on the actual midnight occupancy that we track everyday, that Ms. Suneeta stated. So, 38% may probably go for the full quarter, maybe to 50%, 52%. As we close the quarter, we will have to see.

Prakash Agarwal: Okay. So around 50%, 52% is the current run rate on a quarterly basis?

Krishnan A: That is correct.

Prakash Agarwal: And just some clarity on ARPOB. So, if you see that while occupancy, as expected, is down, but surprisingly, ARPOB has moved up YoY. So, is it a function of because COVID patients have lower pricing, if I am not wrong, right? And that, at least, has been increasing share. So, if you could help us, the COVID share in terms of bed occupied as well as why this ARPOB has increased, that would be helpful.

Krishnan A: So, during the first quarter, the COVID patients were not as high, firstly because April was a complete lockdown; May was a lockdown; June, we started getting a few COVID patients. Actually, July and August have seen a lot of COVID patients in our system because, especially as the COVID has moved up to society, etc., we have seen that July and August has been significantly higher on the overall COVID patients as we speak. Point number one. So, which is, hence, it is not that Q1 does not show you the full impact of COVID being a bit lower.

Second point is that even the payer mix was better for us because a lot of the CGHS and some of the Government patients, etc., the flow was not there in Q1. So, most of that was represented by cash and insurance patients because credit business significantly dropped down. So that is the second reason that it was this. And in any case, if you look at even July and August, our acuity of our patients that we handle, the ICU patients, etc., are high. So which is why pretty much you will see that the overall ARPOB will hold on to similar levels, though COVID is a bit lower, as you said.

Prakash Agarwal: And last one, if I may. So have you closed or shut down one of the hospitals as the number seems to be down on a standalone basis when we compare the presentation?

Krishnan A: A small hospital in Chennai in the cluster called Sowcarpet. It was having 25 beds.

Prakash Agarwal: Okay. So that is now shut down?

Krishnan A: Yes.

Prakash Agarwal: And maybe it was loss-making or something?

Krishnan A: Yes, it was, and it was long overdue and with COVID and everything, we said there was no point in running that small hospital. It was there for a very long time. We have just shut it down for now. That is where it is. If required, we can start it later. It is a leased facility.

Moderator: Thank you. The next question is from the line of Gina Kim from Schroders. Please go ahead.

Gina Kim: I know you mentioned that the perception now amongst patients has, I guess, improved now. I mean post-COVID, people were fearful when COVID was really rampant. And are they coming back for sort of even elective procedures? And what is the general sort of perception regarding healthcare now amongst patients in general? I mean are they more interested in hygiene at hospitals? I mean, I know there were some issues at some public hospitals and some of the smaller private hospitals as well. I am just wondering what you are seeing, any feedback from patients there?

And then my second question will be on International patients. I know you guys were quite excited about with the potential you have with International patients, especially with proton therapy, etc. Some of your peers have mentioned that International travel or the essential medical travel has also started picking up again. I mean are you seeing that as well?

Suneeta Reddy: Yes. So to your first question on; what is their perception. So what we projected to Apollo is that it is a safe environment. And this is clearly bringing back patients because they know that we have isolated the COVID facilities from the regular facilities.

And there is also this question of pent-up demand. So there was a lockdown for 3 months and many people could not come for elective surgeries. So they are now slowly starting to come back. And this is definitely reflected in both our occupancy and the surgical volumes that we currently seeing.

Your third question was about International travel. Yes, I think the International travel especially from the surrounding countries, flights have started, and we are seeing some patients coming. Most of what we have done at Apollo is to work with charter companies to arrange for these flights to come. So we are getting patients from Bangladesh. We are getting patients from Sri Lanka. And this will probably be something that we will have to; you know a strategy that we will have to follow for the next 6 months until we see all of the International fleet back.

The good part of it is that, especially for Proton, we were getting 40% of our patients were from overseas. Currently, what has happened is that Indians who go abroad for oncology treatment are all coming to Chennai for treatment. So I think the runway for Proton is definitely there. We will see some ramp-up happen in the third quarter.

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

Neha Manpuria: My first question is on the occupancy. Ma'am, I understand you are at 60% occupancy. And I think Krishnan Sir mentioned that we have seen a ramp-up in the COVID patients in the last few months. So if I were to look at, let us say, our non-COVID occupancy, where would that be trending? And how is this versus our expectations, given we are still seeing numbers increase pretty sharply for COVID?

Krishnan A: So there has been an increase in the non-COVID patients as well. Because if you look at the number of operating beds that we have across the system to the now, it is over 7,200 operating beds that we have, of which 30% has been kept aside for COVID. 2,250 beds is what we have currently assigned for COVID. And the COVID occupancy would be north of 65%, currently, of the 2,250 beds that we speak of. And the non-COVID occupancy is also north of 55% as we speak.

So adjusted for discharges, the way we compute later on, as I said, it will be in that 50%, 52% overall as a company. We believe we will have to see that, how it comes out. But broadly, the occupancy is going up for the non-COVID also. Dr. Hari, anything you would like to add here?

K. Hariprasad: Yes. I think we have seen a growth in the non-COVID patients, especially in this quarter. And that is reflected in the growth in the number of elective procedures also. So, the number of COVID patients are more or less flattening out the occupancy, while the non-COVID is going up.

Neha Manpuria: And as we see a ramp-up in the non-COVID occupancy, do you think you have just constrained by the fact that we might not be able to access the beds that we have allocated to COVID? Would that limit our occupancy into the second half, particularly if we see a strong pent-up demand?

Krishnan A: Dr. Hari?

K. Hariprasad: Yes. Not necessarily because we have enough beds, which are there. We are still at about 60% occupancy. We have another 40% beds still lying there. And even if there is a serious increase in the number of patients coming in among the non-COVID side, I think we have enough place for them. So, I do not see any constraint.

Neha Manpuria: My second question is on the cost saving number that ma'am mentioned, Rs. 100 crore on a consolidated basis. Sir, if you could give some color on how much of this was because of lower occupancy or our efforts due to lower occupancy, which will come back? And how should we look at structural cost savings through the year?

Suneeta Reddy: So none of this was on lower occupancy. If you look at the first quarter, there was some saving, which is probably not structural but had a huge impact. And this was guarantee money paid to doctors and rent reduction for 6 months and some amount of salaries, which there was a saving on payouts to employees. So these were the 3 things that is sustainable for the first 6 months.

Going forward into the next 6 months, there is a reduction in HR cost, a significant reduction in HR cost. The second thing that we are doing is that were typical to all the consumables, so all the surgical consumables are being kitted out. And in the process, there is a saving, which we believe is structural going forward.

The third aspect is saving on electricity and power, fuel and water. The fourth aspect is saving on travel and conveyance. And all of these are part of the structural saving initiatives that we are planning. So we do expect to see a 20% reduction in costs.

Neha Manpuria: So the Rs. 100 crore number that you mentioned in the first quarter does not include the second part of the savings that you have talked about. All of this would start getting reflected?

Suneeta Reddy: Yes. It includes the beginning of it. But the major part of the saving in the first quarter came from guarantee money, rent reduction and salaries.

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

Anubhav Aggarwal: Okay. One question to start on Apollo 24x7. You talked about partnerships and taking users to 100 million users, so just trying to understand the partnership there. Typically, what we have seen so far, the partnership with corporates is largely from the diagnostic test. Whereas as a platform, we have 3 services right now to offer. So can you just talk about what kind of partnerships are you talking about, offering digital consultations as well to corporates, to employees, etc.? Can you just state if that is true?

Krishnan A: Yes, that is true. The corporate relationships that we have for now is with large financial institutions, banks as well as telecom companies that we are discussing, a one large telecom company that we are already in very advanced stages of discussion. The corporate relationships allow someone to do a tele-consult, as you rightly said, also pharmacy online.

All of these, slowly we are also starting the services of labs because first quarter, diagnostics was very low, but we are enabling even diagnostics on the online. Over a period of time, we will also do health management, health checkup. So, there is a slew of products which are going to be planned as we ramp this to 100 million over the next 5 years. There is a long plan that we have on the Apollo 24x7, and this is the start of what we are doing now. So you will hear from us as we keep moving forward on this.

Anubhav Aggarwal: Sure. That is helpful. Just as a benchmark, very roughly, let us say, all goes well and the best case plays out for us, in 5 years we have 100 million users. Roughly, what kind of revenues are we talking about here? Are we talking about, let us say, $0.5 billion revenue? Just some kind of range will be very helpful, even that could be the max or a base case?

Krishnan A: Yes. We would really not want to guide you towards that. But you are right, you can assume something like that number that you stated. Clearly, $0.5 billion-plus is something that we can add in 5 years just using the digital.

Anubhav Aggarwal: Sure, just one question on the hospital utilization. Actually I have a couple of questions. One, when did we achieve breakeven data? So you mentioned 47% in July and 55% in August. So did we achieve breakeven on the hospital side in the month of August? Or have we achieved it in September?

Krishnan A: August, yes.

Anubhav Aggarwal: So overall, quarter-wise, you said you will be EBITDA positive on the hospital side?

Krishnan A: That is what we are hoping as of now, and we should be.

Anubhav Aggarwal: And when you mentioned about 55% utilization for non-COVID beds, can you just roughly talk about in terms of different therapeutic areas or disease areas how is the utilization for oncology, orthopedic, cardiac, etc.? So I am not interested in numbers for each one of them. I am just trying to understand the exchange here?

Suneeta Reddy: Hari, you can take this question.

K. Hariprasad: Actually as ma'am said during her opening remarks, there was a lot of pent-up demand in the community during the lockdown period where people could not come out. So we are seeing a lot of NCDs, non-communicable diseases, coming in. And we are seeing a lot of emergencies coming in, most of them concerning the non-communicable diseases like accidents and strokes, the heart attacks. And cancer numbers are also going up.

And it was sad that, during the lockup period, even cancer surgeries and chemotherapies were postponed by some people because they are scared of coming out or there is inability to come out. Now all those patients are coming back. So we are actually seeing an increase in the number in the occupancy in terms of the non-communicable diseases on the non-COVID side.

Anubhav Aggarwal: And just a follow-up, any vertical or any discipline where utilization is still below 40%, let us say?

K. Hariprasad: Actually, elective orthopedics is probably less than 40% because a major part of it is because of joint replacement. So people are still waiting and watching. So except that, we are seeing a comeback from all other fronts.

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

Shyam Srinivasan: Just one on the clarity on the cost savings. You talked about 20% cost savings, and this is on which line? And are we talking about fixed cost, variable cost, if you can clarify? And have you said that this is going to be now 1Q, we have done 20%, going to follow it up under 20% in 2Q. Can you just clarify just the cost savings for the full year FY '21?

Suneeta Reddy: Sure. So if you look at the variable costs, there will be some cost saving because we have managed to renegotiate, and we have really cut the consumption. So there will be some cost saving in the variable cost with regard to consumables and some in guarantee money as well.

The second part of it, in fixed cost, certainly there will be. This is where you will see the structural costs being reduced because we are saving in admin costs considerably. We are saving in manpower. And the rest, the power, fuel, energy and saving in marketing, all this is structural cost, which should be about 20% of our total fixed cost.

Shyam Srinivasan: Okay. And ma'am, do you think you can sustain this going forward in fiscal '22 onwards as well, right? What were the savings, the structural part?

Suneeta Reddy: So I think you cannot expect to see such a large number in FY22. But there will be some savings that we will continue to make. For this year, Rs. 180 crore to Rs. 200 crore is something that is a one-off. But going forward, there will be some savings, probably half of that in the next year.

Shyam Srinivasan: My second question is on the EBITDA positive point. So at 55%, which is where you were in August, you said you have broken even. So is this breakeven level contingent on all these cost savings? Or do you think, at some point of time, at 60% now, what could be like the margin trajectory we are looking at? Is it well past the EBITDA that you are talking about?

Krishnan A: Yes. This will be sustainable, to answer your point. After August, we do think this should be sustainable as we move into the next months and quarter. And hopefully, as some of the other revenues pick up, the non-COVID revenues pick up, which has higher ARPOB and higher margins as well on the gross margin level, it can actually start adding more to the EBITDA, hopefully, from next quarter.

Shyam Srinivasan: Got it. And my last question is on the pharmacy business. So growth has slowed down from 30% to 21%, probably maybe some of the stocking-up effect we had last quarter has come down. So maybe some color on the kind of growth that we are seeing? And in the entire Apollo 24x7 kind of a thing, and you talked about pin codes as well, if you can help us understand how much of the fulfillment is today being done by your front-end stores versus is there any other channel that is there any numbers? So if I look at the pharmacy growth for this year, will there be any component of it coming from 24x7 at all?

Obul Reddy: So off-line pharmacy, if we look at independent of 24x7, and first of all, the growth rate is not 30% versus 21%. It is about 24% versus 21%. Last year, we ended at about 22.8% for the full year. And Q4, which had COVID sales that lasted 10 days was about 24%. So given that number, we are confident of current year growing our off-line pharmacies in the same range of 22% to 23%; which we have seen in the earlier years. As far as online revenues that is independent of this.

Shyam Srinivasan: Okay. And at this point in time, you are not quantifying any of this?

Obul Reddy: At this point in time, we have not.

Shyam Srinivasan: Last question is on the Kavach piece. I think there was an interesting comment around comorbidities and the whole patient awareness around comorbidities. Is this something that we can kind of tap into in terms of patient behavior once the pandemic goes away? Do you think this can be driven separately in terms of trying to make them aware and then trying to monetize that in some form or shape?

K. Hariprasad: Actually, we have already started it. And if you remember in Sangita's presentation, she talked about the health rehab. And we have packaged it in a preventive and continued health cover package called ProHealth, where we are capturing all these people who have comorbidities. And we have created an annual program for each one of them, where they are monitored and taken of through the year to improve on the comorbidities and to reduce the possibility of complications through the year. So we are actually using ProHealth to not just to keep the patient healthy, but also to make sure that there is continuity and an association that is built up with the organization, which will stand the organization in good stead as we move forward, especially when complications come up and active situations come up.

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

Sameer Baisiwala: So we have seen viruses and cases have especially spiked up significantly in 2Q versus 1Q, and yet the occupancy is going up sharply. So is it that the fear psychosis in the minds of people is sort of receding? And second is, how do you see the occupancy and the virus trajectory? Is it beyond September and over 3, 4 quarters?

Suneeta Reddy: So I think many people are coming to terms with the virus and the fact that they do not want to die of other comorbidities is what is bringing them into hospitals. This is a very real and present danger.

How do we see it playing out in the future? As you know, India is the second-highest country. No one expected that it would lead in terms of both cases. And now, even the number of death is going up. But clearly, this is something that is not short term. It is probably something that is here for a year.

So I think that the balanced approach that we have in which we have segregated 20% of our beds, both physically and work-wise, from the rest of our hospital premises, it has really geared our case mix to towards 20% COVID and about 50% to 60% non-COVID. So going forward, this is what we expect to see for the rest of the year.

Sameer Baisiwala: What I was also asking is how do you see the overall occupancy from 50% to 52% travel over the next 3, 4 quarters?

Suneeta Reddy: So I would see a significant improvement in them, not only from the local but now that transport is opened up, patients are coming from all across the state. So yes, there will be a significant improvement in occupancy.

Sameer Baisiwala: Okay, great. And the second question is on ARPOB. Krishnan, you mentioned about the reasons why there was a YoY growth. But if I see between different clusters, then the 2 clusters actually have 15% to 20% spike in the ARPOB, I think Hyderabad cluster and the Karnataka cluster. So what is driving that versus all the other clusters being more or less flat?

Krishnan A: So Hyderabad, clearly, was the payer mix. As I said, it was significantly driven by cash and insurance as compared to earlier year. Of course, between Q1 and Q4 also, there has been a spike in Hyderabad if you would have seen over the last 4 quarters. But again, significantly, Hyderabad was basis the fact that the payer mix was better.

In Bangalore, I think it was a combination of the fact that the COVID did not come into Bangalore as much as it came into. If you look at the impact of lockdown, it was pretty pronounced in the first quarter. It started in Chennai and Tamil Nadu, basically, in April and May, where there was a very, very stringent lockdown. And in Bangalore, you saw it coming only in the latter half of that quarter. So Karnataka and Bangalore actually had a good 2 months, April and May. And then it impacted them only in the month of June. So they really continue to do well all through the 2 months, the regular cases itself. That was the reason for Karnataka. And then it had a very significant drop. So it was not about payer mix in Karnataka, whereas Hyderabad was definitely about payer mix.

Sameer Baisiwala: Okay. Great. I may be ask one final question with your permission. How do you see the EBITDA recovery going forward? When do you expect to get to pre-COVID level say in pre-Ind AS, of Rs. 350 crore a quarter?

Krishnan A: Difficult question, honestly. But I think we are aiming to get to at least Rs. 200 crore, Rs. 250 crore by Q4, if things go well. But again, it is all going to be contingent upon how the whole business pans out from now to the next. We are not seeing the flattening of the curve. Unfortunately, there is still high spike in the COVID. The first leg for us is to get to Rs. 1,500 crore of EBITDA, which is what we are first seeing how we can get to at Rs. 1,500 crore on the health care services itself. The pharmacy can continue to do well. So pharmacy is now at Rs. 80 crore. It can continue to do well. Of course, there was still some one-off revenues even in this quarter and some margins in pharmacy. But Rs. 75 crore to Rs. 80 crore is something that we can sustain in pharmacy. So we can get to the Rs. 100 crore, hopefully, by the quarter after this, and then take it higher.

Sameer Baisiwala: Okay, great. And I presume you are saying Ind-AS 116 basis?

Krishnan A: Yes, Ind-AS 116 is what pre-Ind AS 116 is what I meant.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Sir, on your 3-4 different business segments, which are there. What is your initial impression about structure and market share gains across businesses, which is hospitals, AHLL as well as on this standard pharmacy business, given the way the operating market is playing now?

Suneeta Reddy: Well, this is a really large question. So let us start with AHEL. AHEL, what we look for is, in a place like Chennai, where we have over 5 hospitals, we expect to have over 25% market share. We have an aspiration to do that in both Karnataka, and also to build out in Kolkata as well as in Hyderabad. So we are actually doing a strategic plan to achieve 25% market share in all of these regions. In the north, we do not have a significant presence to achieve this market share. But I will say it is that all our hospitals across India, whether in the north or the west, are all now performing really well in terms of both EBITDA, profitability and starting to show a return on capital employed. For something on pharmacy, I will ask Obul to speak. And then Chandra Sekhar will speak about Apollo Health and Lifestyle.

Obul Reddy: The pharmacy today unorganized retail pharmacies just about 6% to 8% of the total retail pharmacy segment. So there is a huge opportunity. We should aim to double in the next 3, 4 years on that segment.

Suneeta Reddy: And the ROCE of the pharmacy is at 26% currently. Chandra Sekhar, AHLL?

Krishnan A: Chandra, did you hear that question?

Suneeta Reddy: The question was what is your plan market share in the space that you are in?

Chandra Sekhar C.: So we will start with diagnostics. We are a late entrant. So compared to the larger players, our market share in our primary markets, we are aiming to be about 10% this year but it cannot be seen as a national number. I am talking about pure-play pathology. In the cities we operate, in the Boutique Birthing Centers, our market share would be upward of 25% in the organized Boutique Birthing Center space.

Spectra is a little difficult to establish exact market share because we compete with both the large-format hospitals which conduct elective surgeries, as well as smaller nursing homes. So I will avoid getting in there. The other major format of where we track our market share is obviously organized primary care. In organized primary care, we, by far, are the leaders. But much of primary care is still in the unorganized sector.

Moderator: Thank you. The next question is from the line of Mr. Alok Dalal from CLSA India. Please go ahead.

Alok Dalal: I need one quick clarification. So the e-pharmacy service rollout will now be through the 24x7 app. Is that understanding correct?

Krishnan A: Yes.

Alok Dalal: Okay. And sir, how many pin codes are you covering today?

Krishnan A: 13,500 pin codes.

Alok Dalal: And Krishnan, how are you looking at the debt levels now for FY 21?

Krishnan A: Currently, the gross debt at the standalone level is at around Rs. 3,300 crore. And the net debt would be Rs. 300 crore lower at Rs. 3,000 crore is what the net debt would be. The pharmacy, the front-end pharmacy stake has happened at SPV creation has happened, will be effective 1st of September 2020. The NCLT order has (inaudible). So as I was saying that the front-end pharmacies have been put into effect post the NCLT order from 1st of September. So our overall debt level should stay at current levels or have come down by end of the year. So this is the current projections that we have.

Alok Dalal: Okay. And sir, last question is when you move to the new tax rate, is it in FY 22?

Krishnan A: New?

Alok Dalal: The new tax rate i.e is 25%?

Krishnan A: Yes. We should probably because we were expecting that we will move into that by FY 22. As of now, we will have to just see whether it is FY 22 because, clearly, this year has been. As of now, it is the loss year we will have to see how the losses are reducing and how much of the MAT is something that we are going to be using. So, there will still be pending MAT in FY 21 end. So it is possible that it goes beyond FY 22 to FY 23. We will have to come back to you on that.

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

Damayanti Kerai: One clarification on cost saving. So ma'am, did you mentioned Rs. 180 crore to Rs. 200 crore kind of savings for FY '21, most of which will be structural in nature?

Suneeta Reddy: Yes. I think the first quarter all the way it is not structural. But Rs. 200 crore saving we expect to see for the year.

Damayanti Kerai: Okay. And in the long term, 20% fixed cost saving is your goal, right?

Suneeta Reddy: Yes.

Damayanti Kerai: My another question is regarding ARPOB. So earlier, again, you mentioned we should be holding up ARPOB despite some increase in COVID patient. So have you taken the tariff high-core hospital services? Or it is yet to be taken for this year, which can help our ARPOB?

Krishnan A: We have not taken any increase in the hospital services. We do not intend to take any price hikes this year.

Damayanti Kerai: Sorry, I guess, you do not intend to take any price hike for this year?

Krishnan A: Yes, it is not something that is going to really add any material value for us. While yes, the costs have gone up in the system because of PPE costs and COVID-related costs, etc. This year, we are not wanting to do that because we are focusing more on getting our patients back, occupancy. That itself is a big fill up that can comeback.

Damayanti Kerai: Sure. And my last question. I just missed the percentage of private label in SAP revenues. Can you quantify that?

Obul Reddy: It is 9% in Q1.

Damayanti Kerai: 9%. And what we are aspiring this level to?

Obul Reddy: Next 2 years, about 12%.

Moderator: Thank you. The next question is from Aditya Khemka from InCred Asset Management. Please go ahead.

Aditya Khemka: Suneeta ma'am, could you just talk a little bit about what kind of attrition have we seen in the doctors and the nurses, how has COVID impacted the HR side of things?

Suneeta Reddy: So thankfully, no attrition in the doctors. I think they have supported us. They have been behind us. Nurses, there are a few that really went back to their towns, and we have seen them coming back. So I would not see any significant attrition that we should be concerned about.

Aditya Khemka: Understood. And on the hospital services side, so you just mentioned that the costs have gone up, and we do not intend to take price increases. And occupancy, obviously, is going to be a little challenging, given the environment for the full year. So on the hospital side, what are the levers, aside from saving cost on the fixed side or on the variable side, rent negotiations etc., are there any other levers we have to improve our profitability in the near term?

Suneeta Reddy: Yes, we are working on several levers. I think the first is that we are using marketing, we are deepening our corporate connect. This COVID was a good time for us to establish relationship with corporates. I believe we have reached out to over 250 corporates, who have signed on with us for COVID. And these relationships are definitely for more than a year. So we do believe that beyond COVID patients, corporates will start sending patients to us.

We have also tied up with local nursing homes. Again, local nursing home owners, doctors who are being admitted in our facilities for COVID care, and now they continue to send us referrals. Sadly, one part of the healthcare system in India is closed. So the demand-supply gap remains stronger than ever before because the nursing homes, many of which were unable to operate during the lockdown and are finding it difficult to live during these times, those referrals are also will start coming to us.

The third is that we have now activated our marketing in the sense that we are conducting camps once again, moving outside of towns into referral markets. And we believe, as always, that this will increase the number of referrals into the system. And this is starting to play out in September.

So yes, I think we are. It is not business as usual, but definitely, we are on track to get there by the fourth quarter.

The most important part of our journey is, of course, the 24/7, which is the digital, where we do nearly 2,000 tele-consults a day. And through this, we are able to convert into outpatients, convert into inpatients. So yes, there is a lot of traction. While physically we were able to reach, we were defined by the number of beds we had, now because of 24/7, we do have a digital which enables consultations. We have also improved on the home care. So the number of home care patients have more than doubled in this quarter. And there is a significant drive in our home care offering.

Aditya Khemka: Krishnan, just a clarification on the comment you made on net debt. So the net debt you see at the end of FY '21, with your guidance, is Rs. 3,000 crore? And does that include the money you are going to receive from the front-end divestment?

Krishnan A: Yes. So it can come down. As I said, it can come down a bit. The front-end divestment will also first spike up our overall cash. And then with the payables, which we will have, and the receivable from the front end, there will be some working capital deployment, which should happen because we will continue to supply the pharmacy products and get the benefits of the margins in the back end. So potentially, there could be a net reduction, as I said. It will definitely not go up. And potentially, there could be a net reduction in the debt by Rs. 150 crore to Rs. 200 crore.

Moderator: Thank you. The next question is from Shantanu Basu from SMIFS. Please go ahead.

Shantanu Basu: Well, contrary to what you have said, I mean, your gross profits margin on a consolidated basis has fallen to 44% compared to 52% in Q1 FY '20, and the employee costs have also risen. So just wanted to know whether this trend would continue for the remaining quarters of this financial year?

Krishnan A: So you know, two points, right. One is when we are looking at the employee cost which is the published results; you see the results, including the standalone pharmacies. Standalone pharmacies they have been growing Q1 to Q4 of last year. There has been 400-odd stores, which were added last year. So the employee costs have risen from Q1 to Q4. Coming into Q1 of this year, in addition to the cost increase, there have also been COVID-related costs because to get all the people to the stores, etc., they have had to pay incentives, conveyances, etc. which has increased the overall cost at the overall pharmacy at both the employee cost and the admin cost levels, which is why you are not seeing that cost reduction in the published results as we speak. Whereas, Ms. Suneeta spoke about the healthcare costs, which is what we are seeing the Rs. 100 crore reduction that we are talking of from Q4 of last year. If you look at health care alone, you will see that there is a reduction. The pharmacy cost has been higher versus last year to this year, but even after that is they come back with an EBITDA margin of 6.2%. So they have managed it with higher sales and higher gross margins.

Shantanu Basu: Okay. And can you give me the ARPOB for your COVID beds?

Suneeta Reddy: About 27,000.

Shantanu Basu: And for non-COVID beds?

Krishnan A: So 38 is the blended average that we have achieved. So non-COVID would be a bit higher.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Suneeta Reddy: Thank you all for joining this call. As you know this has been a very challenging quarter not just for the Company but for the country and the entire world. We believe we have navigated these troubled times well and have emerged stronger in our strategic journey. We have moved closer to the consumer through Apollo 24/7 and we have used this six months period to win new consumers and deepen our engagement with the existing customers.

We are clear that the way forward is about customer touch points and formats of engagement. The pandemic has solidified our belief that physical beds form the base of the pyramid for healthcare delivery and will have to be enhanced with multiple additional platforms to the patients. We believe this is the future of healthcare and post COVID we will emerge stronger with the business model that fully aligns with this future and the aspiration of our customer.

Thank you all for joining us on this call. We look forward to hearing from you and interacting with you. Thank you.

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