



Apollo Hospitals Enterprise Limited

Transcript of Q1 FY25 Earnings Conference Call

August 14, 2024

Moderator: Ladies and gentlemen, good day and welcome to Apollo Hospitals Limited Q1 FY 25 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 and then zero 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, Neerav. Good afternoon, everyone, and thank you for joining us on this call hosted by Apollo Hospitals to discuss the financial results for the first quarter of financial year 2024-25, which were announced yesterday.

We have with us today the senior management team represented by Mrs. Suneeta Reddy - Managing Director; Mr. Krishnan Akhileswaran - Group CFO; Dr. Madhu Sasidhar - President and CEO of the Hospitals Division; Mr. Madhivanan – CEO of Apollo HealthCo; Mr. Sriram Iyer, CEO of AHLL; Mr. Sanjiv Gupta - CFO of Apollo HealthCo; Mr. Obul Reddy, CFO of the Pharmacy Division; and Mr. Ashish Maheshwari - CFO of AHLL.

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 in our investor presentation. Documents relating to our financial performance have been circulated earlier. These have also been posted on the corporate website.

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

Suneeta Reddy: Thank you, Mayank. Good afternoon, everyone, and thank you for taking time to join this call. I trust that all of you have received the earnings documents, which was shared earlier today.

We are delighted to report a strong start to Fiscal Year '24-'25 with our performance in Q1 FY25. We have seen robust performance across all of our business segments, despite the headwinds of election cycles and heat waves, culminating in strong revenue growth and improved profitability on a year-on-year basis. In prior quarters, we had indicated that efforts towards improving volumes by augmentation of medical teams which are now demonstrating results.

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

Our Healthcare Services business witnessed a strong 15% year-on-year revenue growth to Rs. 2,637 crore.

Within this revenue from insurance patients saw a year-on-year increase of 17%. There is increased consumer movement towards high-quality providers, and we will strengthen this by deepening our partnership with corporate and our retail outreach.

IP volumes grew by 11% year-on-year, with growth across all markets. High-end tertiary care specialties like cardiac sciences, oncology, neurosciences, and gastro sciences, which are our areas of strength, grew at a healthy rate. Higher secondary specialties too witnessed robust growth due to patients preferring high-quality organized sector care, enabled by insurance products.

Overall, occupancy across the group has risen to 68%, an increase of over 600 basis points on a year-on-year basis.

ARPOB increased a little over 2% year-on-year to Rs. 59,073. We believe that ARPOB growth will improve over the next few quarters with stronger growth in surgical volume and better case mix.

Our consolidated revenue grew by 15% on a year-on-year basis to Rs. 5,086 crore.

Revenues from Apollo HealthCo were at Rs. 2,082 crore in quarter 1, growing at 15% year-on-year. Given the strong efforts for stock liquidation in the front-end stores, combined pharmacy business revenue grew by 16%.

44 new stores were opened this quarter. The election season resulted in lower store expansion due to a slight delay in approvals. We expect the pace to pick up in the subsequent quarters, which should also improve the growth momentum of the business going forward.

The private label and generic business of the Omni Channel Pharmacy was at Rs. 16.1 of total pharmacy revenue. Our digital platform, 24/7, added 2 million new users. The platform GMV was at Rs. 695 crore, representing a 9% growth over the same period last year.

Revenues from Apollo Health and Lifestyle also grew by 15% year-on-year to Rs. 366 crore in Q1 FY25.

Consolidated EBITDA was at Rs. 675 crore, registering a 33% increase year-on-year.

Within this, the Healthcare Services EBITDA was at Rs. 622 crore, registering a growth of 15% year-on-year and Healthcare Services margin was at 23.6%. Our investment in clinical talent, marketing costs are helping to drive this double-digit volume growth. We believe enhanced volume growth, improvement in case mix and payer mix, and a focus on optimizing discretionary cost will drive margin expansion by 100 basis points over the next 3 to 4 quarters.

The offline pharmacy distribution in Apollo HealthCo recorded an EBITDA of 139 crore representing a year-on-year growth of 11%. The digital platform cash losses

excluding ESOPs were at 97 crore, a significant reduction from 152 crore in the same quarter last year, demonstrating the Company's effort to drive profitable growth. Apollo HealthCo has therefore reported an EBITDA of 23 crore, extending its trajectory of positive EBITDA.

AHLL recorded an EBITDA of 31 crore, delivering 33% year-on-year growth and an improved margin of 8.4% compared to 7.3% in quarter 1 last year.

Consolidated PAT was at 305 crore, growing 83% year-on-year within the health care businesses.

The outlook for FY25 continues to be promising. We are dedicated to driving growth and enhancing profitability through a series of strategic initiatives.

In Healthcare services, we are expanding our market boundaries and uncovering latent demand through better use of technology and business intelligence tools. We are intensifying efforts to increase surgical volumes at our Centers of Excellence, supported by an expanded medical team and advanced procedures like CAR T-cell therapy and ZAP-X.

Our plan to operationalize 4 new hospitals, adding 1,500 beds in key markets, is progressing as planned. We anticipate operationalizing new facilities in Gurgaon, Kolkata, Hyderabad, and Pune within the next 5 quarters.

We are on track to achieve break-even for Apollo 24/7 digital segment within the next 6 to 7 quarters, supported by strong growth in GMV and optimum portfolio mix. Transaction integration and healthy growth in offline pharmacy distribution revenues will drive Apollo HealthCo towards its stated strategic intent in the next 3 years.

Our diagnostic business is also poised for strong healthy growth driven by investment in new capacity, expanded test menu, and an improved margin.

On that note, I would like to hand it over to the moderator and open the line for questions. I have our CFO – Krishnan, with me, Dr. Madhu – CEO of the Hospital Division, Sriram Iyer from AHLL, as well as Obul Reddy, Sanjiv, and Madhivanan – the CEO of Apollo HealthCo, who are all here with me to take your questions. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Binay Singh from Morgan Stanley.

Binay Singh: My question is on the volume side. We have seen a nice pickup in the inpatient volumes. At the same point, we are also seeing a sharp pickup in the insurance coverage, like in the last call we called it out to 42%, 43% is insurance cover, this time it's around 47%. So, are they two in some ways linked or this is more coming from our efforts to revive some of the smaller hospitals in Hyderabad and some efforts in Karnataka that we earlier talked about? That's the first question.

A Krishnan: So, I think we are seeing insurance growth actually happening across. You know, it's not necessarily corrected only to the urban locations, etc. And we are seeing it across both tier 1 and tier 2 locations as we speak.

So, what's happening with insurance clearly is that one is earlier as we said, while we were getting most of the high-end cases earlier, we are also getting a lot of secondary care cases with the insurance business penetration. And there has been a deliberate effort that we have taken to penetrate into corporates, etc. in most of the regions.

So, we are seeing that benefit, and that benefit is yielding in better occupancies. And some of that obviously has resulted in a bit of a lower ARPOB, but the more important thing for us is the benefit that's coming from occupancy, which is sustainable and it's going to help us into the next few quarters as well.

Binay Singh: So, whenever the understanding is correct, right, this insurance pickup of 200-300 basis point that we have seen quarter-over-quarter is in a way leading to better occupancy and at the margin lower ARPOB. A link to that, when we talk about ARPOB 7% outlook for the year and we have said that we do expect the case mix to improve in the coming quarter, is that already visible to us as we are sort of getting out of this election season and moving out of the monsoon season?

Suneeta Reddy: Yes. I think yes.

A Krishnan: July has been good, and I think we should be able to see better pickup in this quarter.

Binay Singh: That's great. And lastly, just on the diagnostic side, I do understand there is a little bit of seasonality in quarter 1. Anything else you want to call out for the sequential margin drop that we have seen in the diagnostic side?

Sriram Iyer: Yes, as rightly pointed out, it was a bit of a seasonal impact that we had, and I think we have also made certain investments on adding specialty manpower and focusing on some of the segments that we were not present earlier. So, certain investments have gone on those in the quarter 1 and starting this quarter we will be able to see a much higher growth rate, both on the revenue and on the margin front.

Moderator: The next question is from the line of Neha Manpuria from Bank of America.

Neha Manpuria: On the hospital business, ma'am, you mentioned 100 basis points margin expansion over the next three or four quarters. Plus, the fact that it seems like increasing insurance penetration could be a headwind for ARPOB. Would this margin expansion essentially depend on our ability to improve occupancy from here, which we usually do see given first quarter is seasonally slow? Is that the right way to sort of look at the margin expansion that you have talked about?

Suneeta Reddy: No, I think there are three levers for margin expansion. The first, of course, is payer mix, and we have spoken about that and how insurance has really helped us in this sense, contributing to not only volumes but margins. And the second is, over a period of time, we will be focusing on international and therefore better ARPOB. The third, of course, is case mix, where this quarter, you know, there was less of surgical volumes and electives, and we believe that in the next three quarters, we will see an improvement coming from that. And fourth, there is a tariff distribution of 4% that will play out within the next 4 quarters. So, all of this combined will give you an improved ARPOB, we are looking at an ARPOB increase of 7% for this year.

- A Krishnan:** Another point that we have to let you know is, you know, ARPOB is not a headwind for insurance. That's something that I think it's important that I should correct you here. Clearly, the average revenue per patient that we have from an insurance is equal to or higher than the average revenue per patient that we have from walk-ins. The reason being some of the insurance patients opt for higher category of rooms, as we have said in the past. ARPOB is just a derived number, which is a combination of both occupancies and ALOS. So, I think from the perspective of volume, you know, you are seeing the volume growth and if it's volume into value, we are not going to be seeing any deterioration in our revenue pick up because of insurance. On the contrary, it will only be positive. So, the ARPOB has to be seen in the context of medical, case mix etc. It's not because of insurance. It's not a headwind for term insurance.
- Neha Manpuria:** So, in this quarter the lower ARPOB is essentially because of the lower surgical mix.
- A Krishnan:** Yes, you can say that, or you would rather say that better higher medical mix. It's how you put it.
- Suneeta Reddy:** Yes, this quarter was higher medical mix.
- Neha Manpuria:** And my second question is on the 24/7. It seems like our GMV is sort of on a sequential basis on a very slow growth. I understand we have tweaked the discount rates and that's probably impacting the GMV momentum quarter-on-quarter. How should we think about balancing how we get back GMV growth with the target of achieving breakeven? Because I thought you also mentioned in your opening remarks that we need to see GMV growth to achieve that breakeven. So, just trying to understand how we will balance both and what we are trying to do to improve that GMV traction.
- Madhivanan B:** See, even in the last quarter we have spoken about how our operating model was changing. The earlier GMV growth was being substantially driven by a very high percentage of marketing spends in acquiring new customers. Over the last two quarters, we have changed that operating model from a pure digital kind of an origination to a much stronger omni approach. We have studied it very well and we realized that this works very, impacting even in multiple geographies across the world. Our omni model is a very, very viable model for both our offline business as well as for online business. So, this transition is in phase. I just wanted to say that our number of new customers is slowly increasing. Give us around another quarter or so for us to get back into a growth path. It's not that we have de-grown, but our growth rate has been much in the range of maybe around 4% to 5%. You would expect it to be much bigger. You will see that happening in the next two quarters. In terms of initiatives, we are working very strongly on our loyalty program because this is what again drives GMV in a big way. So, a common loyalty program between both the offline pharmacies and the digital pharmacies is contributing substantially well and our revenues from customers who operate on both sides is doing well. So, I would ask for forbearance over the next, maybe this quarter and the next quarter before the growth story starts picking up in a sustainable manner.
- Neha Manpuria:** So, more like fourth quarter of fiscal '25 is when we should see a step up in growth?

Madhivanan B: I can actually say maybe even in Q3, but yes, to be on the safe side, Q4, but at the same time, even the operating expenses are being kept in control. Six quarter profitability, we should be on course.

Neha Manpuria: And what about the new businesses, sir? I think we talked about that also in the last quarter, the new areas that we are focusing on. Is that gaining traction?

Madhivanan B: Yes, so two things. From a regulatory perspective, one of the big initiatives is going to be the insurance business, primarily health and term. But we are in the process of getting our approval from IRDAI. We expect it to happen by October. Till that time, the approach is more of a monetization module. So, we have been experimenting with multiple journeys. The moment we get the corporate agency, we should be able to launch the business in a very full-fledged manner. And the difference between people who sell insurance in the rest of the industry versus us would be, it would be incorporated within our own existing customers, as well as within the incremental flow. And we expect this to be, our cost of acquisition to be much lower, and the story should play out. So, insurance expects the licenses to come by October. And therefore, the last quarter, you will start seeing some good traction across two to three products. And on the digital therapeutics, we have had a bit of a change in the model. We are working very closely with both the hospitals and the clinics, as against doing it purely digitally and health facilities. So, here again, the omni approach will be picked up. So, we are doing one or two experiments, and we expect that businesses also to pick up. So, in cross-collaboration within AHEL, AHLL, and AHL, we work together. So, these are the two businesses that we are focusing.

One more channel which we are going to be pushing, which will help us give us a GMV, is the corporate channel. Again, we are working in a very synergistic model with the hospitals group and the clinic group, and finding out how we can be the digital front end to maximize corporate business. So, all the three areas, corporate, insurance, and digital therapeutics, within the group will drive value for the digital front end.

Moderator: The next question is from the line of Kunal Dhamesha from Macquarie.

Kunal Dhamesha: Just continuing on the GMV growth, I think we had earlier put out the guidance of around 50% growth. And since we are now expecting the growth to start from quarter 3, quarter 4, is there a revised guidance that we are putting out for this GMV for 24/7?

Madhivanan B: No, we are not putting. We are on core. It's just that, see, originally, we were expecting that Q2 closures will happen, maybe a month, year or so. So, we are very much on. So, we are not revising the guidance from our perspective. And if there is any other input you have, both in terms of our operational profitability as well as we are on course of whatever we have been committed. Sanjiv, if there is anything else you want to add, then please.

Sanjiv Gupta: You know, I think you said it right. At this stage, we do not believe that we could be revising the numbers. I am reminded to the fact that we talked about 50% growth, over 2,700 of growth of GMV that we did in the last fiscal year, which makes it to about 4,000 crore. I think at this stage, at least all of us strongly believe that there is no reason for us to revise the numbers.

Kunal Dhamesha: Which line of business do you expect to ramp up so fast out of two, three lines that we have now, which would drive the growth? Is it still the pharma delivery would drive growth, or any other line of business?

Madhivanan B: No, so pharmacy continues to be our flagship. So, in fact, the last month, we did one of the highest numbers ever. So, that's why we feel the trajectory is back. While overall, the industry from the digital side did not grow up, but overall pharmacy delivery is increasing. The online part of it has not been growing in a big way. Because I think all players, we have been tracking I think the discounts and trying to build a sustainable model with breakeven being one of the primary targets. So, pharmacy will continue to grow. Like I told you, both the corporate side of the business and the new customer acquisition will continue in a hybrid model. The second big area where we are seeing a very nice lift is our consult business. From an average of around 100,000 consults, which we used to do, the OPD consults, around the last quarter, this quarter we have been clocking anywhere in the range of 150,000 to 170,000 consults. What this results in is a feeder into both the pharma business as well as the diagnostic business. Because it's the recommendation that drives the story. And so, these two businesses are also seeing an uptick. So, diagnostic business being seasonal, like Sriram highlighted, we again clocked very good numbers last month. And we expect that numbers to continuously keep growing forward as well. So, primarily driven by pharma, supported by consults, and diagnostic following in its way.

Kunal Dhamesha: And one on the hospital business, the volume growth is good this quarter. And it has also led to a peak in occupancy. But the same has not played out in terms of operating leverage, in terms of profitability. And ARPOB has also been much slower, which we expect to grow faster now. And we have taken an ASP. So two, three questions here. One is the ASP hike of around 4% with the State. That will be across channels, or is it just a cash patient or insurance patient? And why has the higher occupancy not given higher profitability?

Suneeta Reddy: I think the higher occupancy not driven higher profitability will start playing out in the next few quarters. Like we said, we have absorbed a lot of costs. The second thing that we had mentioned is that we had a lot of medical admissions this quarter, and therefore, medical admissions resulted in an increase of ARPOB of only 2%. So, moving forward, we think that you will see the benefit of operating leverage.

A. Krishnan: And we did see the EBITDA margins. If you are looking at Q1 over Q1, just to remind you, if you look at Q4 of last year, our EBITDA margins was at 23.1%. That is because we had added doctors and marketing costs. So, from the 23.1%, we are seeing it come to 23.6%. So, from a quarter over quarter basis, there is a 0.5% improvement in EBITDA margin that we have seen. This is because of this operating leverage. You should, as we said, we are looking at a 100-basis point increase, which should come over the next few quarters. We had said last quarter that we had seen some increase in our IT costs, because we have increased at least 0.25% to 0.3% has got impacted because of higher IT costs and cyber security, etc., which we have invested in. All of that has now gotten in the number that you have; it has got absorbed. So, going forward, you should see that happen as well.

Madhu Sasidhar: So, if I could just give some color to what AK said. We added about 102 doctors in the last quarter in Q1 that we brought on board with a very negligible attrition of about

3 or 4 doctors. The quarter prior to that, we added 84 doctors. So, this has been a very active time of medical team expansion. Many of those doctors are starting to get more and more productive. So, as Ms. Suneeta said, we expect that operating margin to improve over the next few quarters.

Kunal Dhamesha: Sir, is this hiring happening at a much higher level in terms of senior doctors, etc., because we have a base of 5,500 full-time doctors, right? So, adding 100, 200 should not move our cost line items too much.

Madhu Sasidhar: No, so you are right. So, we are recruiting some of these doctors who are star doctors and leading providers in their space. These are not, I am not giving you junior doctor recruitment that we don't count that in the consultant recruitment numbers.

A. Krishnan: There is an incremental 50 crore difference in the doctor cost.

Kunal Dhamesha: 180 doctor that we have recruited?

Madhu Sasidhar: Quarter to quarter. Same period last year, there is a difference of 50 crore.

Kunal Dhamesha: And 50 crore is quarterly, so around 200 crore is the annual.

A. Krishnan: And you should look at the volume growth, right. I think it's important to look at margin growth, which we have said, but I think the important thing for us is the volume growth, which is something that we are very happy about. And the volume growth is more sustainable, and it can keep, and it can, it will definitely, the margin through operating leverage as well going forward.

Madhu Sasidhar: And the volume growth has you mentioned, we have driven that volume growth very intentional. We have been intentional about the markets that we have driven that volume growth in. So, that's why we believe it is sustainable as well.

Moderator: The next question is from the land of Madhav Marda from Fidelity.

Madhav Marda: I just had one question on the Apollo 24/7. So, if you look at the pre-OPEX EBITDA margin at 13.6%, which is reported in Q1, that seems to be moving up steadily through the past few quarters. Should we think that this number kind of has more legs to improve as we go through rest of FY25 and if you could help us understand what are the key levers for that number moving up?

Sanjiv Gupta: So, two things. One is that our mix on the pharmacy side is better versus the last year. It is at about 35% to 36% versus 32% same quarter last year. That helps in this margin accretion, which is at 13.6% versus 10.9% same quarter last year. So, we expect this to continue to move upwards. Would it be 25%, can't say at this stage, but we are looking at to hit a number closer to 20% in next 1 to 2 quarters.

And apart from pharmacy, as we move into new verticals, as Mr. Madhivanan talked about that we get into insurance, we get into digital therapeutics, along with the hospitals, these are the two and app monetization, which we just started. So, these are very, very margin accretive to the business and given it is a technology-driven services from that sense, the entire margin goes back to the EBITDA. So, I believe those verticals, those new segments will also add on to this. So, I think we should

expect in next one to two quarters to hit this to around 18% to 20% and while pharmacy will continue to support this margin.

Madhav Marda: You are saying that 38.6% has legs to move closer to 20% this year itself as it moves through the rest of the year?

Sanjiv Gupta: Let's see that in next 2 to 3 quarters how it pans out, but the goal post is to hit 20% by this year end.

Madhav Marda: And just on the OPEX cost as well, it's at about Rs. 150 crore and we know we controlled it a fair bit. So, should we expect this to stay in this range for the rest of the year?

Sanjiv Gupta: I think operating expenses at current level would stay for a little depending upon the investment that we are doing into the new segment, and we should expect a little bit of further cost optimization to the current levels of Rs. 130 crore depending upon the investment that we require in the new segment and how much time do they take to start giving positive EBITDA. So, that is how I would see that some reduction, but there will be a little bit of investment into the new segment also.

Moderator: The next question is from the line of Tushar Manudhane from Motilal Oswal.

Tushar Manudhane: Sir, if I look at the region wise ARPOB growth, like except north, most of the other regions have been muted or in fact decline in the ARPOB. So, is this sort of peaking-out in terms of ARPOB growth and so not just at Apollo but maybe if you could help us understand at the industry level, and then so subsequently the growth would be more driven by the volume as reflected in this quarter?

A. Krishnan: So, two things, right. From our side, we would still like to believe that the inflation of 4% to 5% is something that we will continue to do and hence that will start reflecting clearly. The other thing is the function of occupancy as well as ALOS as I said. So, here when we are getting, when we are focusing on higher volume growth etc. across and into using that to get secondary care cases as well as higher oncology, some of that reflects in a bit of a lower ARPOB because oncology has been seeing a stellar growth. We are the largest oncology operator in the country. It will help us get margins, but ARPOB may not reflect the same because if you look at a chemotherapy, the chemotherapy ARPOB is lesser than the ARPOB of hospital of our surgical etc. But what happens is the flow through is visible for us. So, you know, ARPOB should not be looked at from the perspective of margin expansion. It's only again I am saying that it is something that you should understand this more as a lever, but if you look at the volume growth and the value growth so long as it's there and if you are seeing the volume growth, we have always guided that we should be looking at mid-teen kind of overall revenue growth so long as that is visible, and we should see the margins expand.

Suneeta Reddy: I think it is important to recognize that in metros, our ARPOB is very healthy averaging around Rs. 70,000. So, clearly, it is because we also have tier 2 and some tier 3 that you are seeing the average ARPOB which is around Rs. 53,000. So, clearly, there is room for expansion, and we will continue to look at that. But please understand that this is an average of tier 1, metros and tier 2.

- Tushar Manudhane:** And from a bed addition perspective given the way the projects are going to pan out, it seems next four quarters at least we will have to have improvement in the occupancy on the existing beds and then subsequently the additional beds would help drive growth. Is my understanding correct?
- A. Krishnan:** That is correct.
- Suneeta Reddy:** That is correct.
- A. Krishnan:** And next year we are seeing good additions in some of our existing markets also like Calcutta and Gurugram also in some way for us is an existing market, right? Because we have Delhi, which is not getting consolidated, but we know Gurugram very well and that will also come next year. So, we are quite, I think next year would see us getting good number of bed addition.
- Tushar Manudhane:** So, directionally, while we are improving the profitability at the existing sites, but these OPEX coming on in FY26, so if you could just help understand how the profitability would look in hospital business for FY26?
- A. Krishnan:** We have a good big base of EBITDA now. So, that is a very important thing that you should look at because if you look at by end of the year, we should have significantly large EBITDA base and hopefully by that time, we should have also seen the 100-bps expansion in margin that we have been guiding to have gotten into our books. From there on, given that we are looking at relatively, we do not think that the losses will be significant. So, we would think that 100 to 150 bps lower from that level since the maximum that we will see the EBITDA margin fall.
- Tushar Manudhane:** And on the offline pharmacy side, like we have added 44 stores. So, this year probably what could be the run rate of store additions?
- Obul Reddy:** It will be around 500 to 550 this year as well as planned. The Q1 is lower because of the elections and other delays. Overall, it will be 500. We will be on track for that.
- A. Krishnan:** Q2 has already started to ramp up well.
- Tushar Manudhane:** And any scope of improving the margins for offline pharmacies from like 7.6%?
- Obul Reddy:** This is at the back-end Apollo Pharmacy distribution level that margin, that is a structured margin. As you know, Apollo HealthCo supplies only for Apollo Pharmacy's front-end business. So, it has a fixed retail margin to be retained at this level. So, that if you notice, last 8 quarters operated within a range of 25 basis points as we see the margin expands in the front-end.
- Moderator:** The next question is from the line of Abhinav Ganeshan from SBI Pension Funds.
- Abhinav Ganeshan:** I just had two very brief questions. First one was your occupancy has gone up 600 basis points year-on-year. So, can we assume similar kind of occupancy for the rest of the year?
- Suneeta Reddy:** Yes, we can. If not, improve it.

- Abhinav Ganeshan:** That is really helpful. Second thing is, as a part of your opening remarks, you had talked about expanding in few locations like Pune and Gurgaon. Which are the other locations that you had spoken about?
- Suneeta Reddy:** So, the first one is going to be Gurgaon. Then comes Hyderabad. Then will be Kolkata and Pune. These are the four that we are focusing on. We also have brownfield expansion in Mysore, which is 140 beds.
- Moderator:** The next question is from the line of Damayanti Kerai from HSBC.
- Damayanti Kerai:** Just want to understand like what was the contribution from international patients during the quarter and what kind of impact you are expecting due to change in Bangladesh, which I suppose is one of the largest markets for you in terms of international business contribution?
- Madhu Sasidhar:** Yes. So, Bangladesh is about 30% in terms of our international, but as a percentage of our total revenue is about 2%. We have seen some throughout the first quarter and into this quarter as a combination of elections and the more recent political issues, some drop in volume. We are hopeful that this will come back very quickly. We are just monitoring the situation very closely.
- Damayanti Kerai:** So, very broadly, this 8% to 10% kind of contribution from international patient is very much there for you.
- Madhu Sasidhar:** Yes. And there are other markets that we are looking at as well. So, over the past year to two years, we have been actively exploring other international markets as well, which will continue to expand during this time.
- Damayanti Kerai:** And one question on your volume pickup, which we have seen during the quarter. So, I understand like your efforts over the last few quarters is giving this strong volume pickup. But when I look at AP, Telangana and Karnataka, there is very strong pickup in the OP volume part. So, can you explain if there is some seasonal element there or like I guess, very strong, around 50% for Karnataka and then 40% for AP, Telangana in terms of OP volume pickup?
- A. Krishnan:** So, these volumes are mostly on-site health checkup volumes in the outpatient volumes, which has come in. Because we have been doing a lot of, as we said, as part of our insurance penetration, etc., that we have been planning, there has been a lot of corporate outreach or efforts that we have been making. And you know so, one of the corporate outreach has also been health checks. And we have seen good increase in some of those health checks in the corporate. So, that results in newer registrations into our system, which has been something that we have been focusing last year on both Hyderabad as well as Bangalore and that whole region, which is why you are seeing a higher increase in the outpatient volumes there.
- Damayanti Kerai:** So, this could be feeding to your IP volume pickup, right? So, what kind of IP growth you are expecting, say, for this year? 11% in Q1 definitely a very strong number to look at but for full year, what are your expectations?
- A. Krishnan:** Yes. So, this sort of primary care outreach does feed into our inpatient volume. If you were to aggregate all of it together, roughly about 4% across the board is an inpatient

conversion number that we see. So, we will continue this level of outreach because, as you said, it is accretive to both our diagnostic volume, outpatient diagnostic volume, as well as our inpatient volume. So, we wouldn't be able to guide you for the overall volume growth, but I think we have said that we should be seeing good volume growth for this year. This year's focus is volume growth, and we are continuing to focus on that.

Damayanti Kerai: And my last question is clarification on your EBITDA margins for next year. So, with four units coming on board, did you mention from the level which say, like, we will end up in FY25, there will be 100 to 150 basis point loss at max because of the new beds coming in?

A. Krishnan: So existing should ideally improve, as we said, 100 bps in this quarter and this year by next three quarters, and hopefully go up a bit more in the next year. And then there will be some reduction because of the new units coming by 100 to 150 bps.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just going back to the platform GMV growth of 9%, right, the Pharma AOV has grown 15%. So, is it the other businesses like consultancy, right, or diagnostics that have declined? So, what explains the slower growth?

Sanjiv Gupta: Yes, while the exact numbers of the pharmacy have a lot of value or grew which is 1,072 versus 935 a year back, I think Q1 has always been a slight, we have seen that IPUP transactions also fall down from the online side a little bit during Q1, but I think especially diagnostic and the other side of the business is concerned, it was okay. So, I think the drop is only with respect to the other side of the business, but otherwise, yes, and that is the reason you see a muted growth of about 9% in this quarter versus the last year.

Shyam Srinivasan: And Sanjiv, what gives us the confidence that we can do 50%, 60%, 70%, 80% percent in the remainder of the year?

Sanjiv Gupta: I think, see, this is what Mr. Madhivanan also talked about that one is that we strongly believe that the change of the model, which resulted into moving to an omni acquisition of customers, a lower discount that is happening, these two things had an impact on our pharmacy for a good 5 to 6 months in the past, but as we see July, numbers have started picking up and we believe that it was this change in the operating model, you know whatever the impact, that will impact only till current quarter end or maybe some bit in the next quarter. So, this is one point. So, pharmacy will start picking it up as we move forward.

Second thing is that we also have play on the corporate and partnerships, which is yet to kick in. As you understand that, typically these partnerships take a little bit more time to fructify. So, I guess, some bit of growth will also happen in Q3 and so that is the second element. And apart from the fact that we have got the insurance and other segments to also kick in and Q1 has always been a muted quarter for us even in the last fiscal year also versus prior to that. So, I think we still have a confidence that the 50% growth over the previous year's numbers is what we look at in the current year. And I think at this stage, as we also gave the answer to one of the questions on revising the guidance, if there is any, I don't think there is any worry

at this stage. We have got many initiatives which are working in parallel, and we strongly believe that we come back on the growth side.

Shyam Srinivasan: And lastly on this one, the EBITDA margin for the 24/7, 4 to 6 quarter even just on that piece; I mean that Apollo 24/7, there was a breakeven guidance of 4 to 6 quarters that was announced I think last quarter or maybe before. Are we sticking to just that piece also breaking even?

Sanjiv Gupta: Yes, we are sticking to that guidance and if you notice in the past also, when prior to the digital segment, which we call it Apollo 24/7, we had suggested that the entire Apollo HealthCo will get breakeven in Q4 FY24 which happened in Q3, one quarter in advance. And similar to that, we also gave the guidance in Q4 that digital business will get breakeven in 6 to 7 quarters. We are sticking to our promise. The entire management team and down below is working towards that common goal. So, at this stage, I think all of us need to believe to this point that digital segment will also breakeven in next 6 to 7 quarters.

Madhivanan B: So, if I can come in for just 30 seconds, see, we are reasonably confident that the combination of growth in a calibrated way along with the breakeven goals that we have sort of given guidance to, we will stick to it. And that's where, and effectively, we are moving away from, like I told you, I am just reinforcing it once again, from a very high cost of customer acquisition model into a much more stronger omnichannel combined with loyalty. So, that is what will facilitate growth, not at an exorbitant operating expense model. So, both on the EBITDA side as well as on the growth side, we are reasonably on course, and we expect this particular change to time, and we are seeing the positive result. So, we stick to our analysis.

Shyam Srinivasan: My last question is just on the diagnostic piece, while our network has grown 16%, our topline has grown 8%, you mentioned in the remarks about seasonality, but seasonality Y-o-Y should not matter, I presume. But anyway, if you could just tell me what happened for the slowdown, if I were to look at industry peers, we have seen them grow between 12% and 14% and despite the expansion, we seem to be growing slower.

Ashish Maheshwari: In Q4, we had a few one-off gains, which led to a margin expansion as well and had improvement in margin which was earlier. Two of those Q4 one-off gains were related to one, of course, being the year-end closing. We had a reversal due to any kind of turnover related discounts that were factored during the course of the year, and once the year-end closing happened and when we knew the final numbers, then the margin accretion and the improvements and the reversals had an impact. That was approximately around Rs. 2.6 to Rs. 3 crore, number one.

Number two, we also had an impact due to the year-end reversal on account of any kind of leave encashment and PLI, which is on the accounting and the Ind AS side, because during the course of the year, the accruals are based on the current manpower trends, and at the end of the year, there is actually a valuation that takes place. That impacted to almost like Rs. 1.5 odd crore. In case if we factor that in, our margins were almost in similar lines.

Secondly, the seasonality factor, which Sriram also earlier said during the call, in during Q1, we have made some new expansions wherein the revenue kind of

potential that we expect, the costs are more versus the revenues are not quite there in the Q1 which we expect to come in Q2 onwards and hence the overall impact is also factored in Q1 which was not there in Q4. And this is the prime reason why we have had the decline compared to the last quarter.

Moderator: The next question is from the line of Kunal Dhamesha from Macquarie Group.

Kunal Dhamesha: Just one on the ARPOB growth, just trying to understand a bit more. So, we are saying that the medical mix was higher in this quarter, but then quarter 2, quarter 3 again is a higher medical mix because of the overall monsoon seasonality, right? So, just trying to understand that how confident are we in achieving the 7% ARPOB growth? And secondly, the inflation hike of around 4%-5%. Is it in a particular channel? Is it for cash patient or is it for insurance patient? How should we think about it? Is it also hospital focused more in metro or non-metro? That would be helpful.

A. Krishnan: I think, I would again want to repeat. I think maybe I am happy to do one call outside. ARPOB is not as much a lever for our EBITDA growth etc., because average revenue per inpatient is gone by 4%, inpatient volumes have gone by 10%. Volume into value equal to revenue growth. ARPOB is just the perspective of how each of our beds, you know what the revenue per occupied bed is. And so long as we get incremental volumes and if the ARPOB of that incremental volume is a bit lower, it shouldn't really matter for us. And that is exactly what I said when we are penetrating into corporates, you are penetrating into insurance, penetrating and getting more chemotherapy volumes due to oncology etc., some of that ARPOB is, even if the ARPOB is bit lower, it shouldn't matter for us. So, the focus is not on ARPOB. ARPOB is just a derived number. Let's see how it goes during the year. It will be higher than the current levels, and I don't want to guide specifically for that 7% either, though we know that that is something that we will get over a period of time. So, this year, I think it is a volume driven growth, and we should continue to focus on that.

Kunal Dhamesha: And one, when I look at the slightly larger picture across our segment, I think there has been talks about getting corporate business, large accounts etc. So, is it fair to say that there has been some incremental allocation towards getting that B2B business and would it have any impact on our cash patient over a longer end? Because this B2B business in any industry generally comes at a lower profitability, right? While it may increase the volume initially, but then it can actually counter the cash patients etc. So, how should we think about this corporate piece which we have been talking across hospital business as well as online business as well?

A. Krishnan: When we say corporate, I think it's important that you understand that when we talk of corporate or private corporate for that matter, it is coming, what increases for us is the insurance business. People covered through private insurance, as you know, that's a market which is growing by 35%. We are seeing significant penetration in the overall coverages. And when we say corporate, we are talking of large corporates like HDFC, ICICI, the likes of all the big fours etc., and the IT companies all of them are covered through private insurance. But the outreach through corporates is more something that we outreach to the employees of the corporate. The employees then come into our systems through their insurance coverages. So, we don't see any risk on this at all. To that contrary, as I said, the average revenue per patient on an insurance patient is higher than some of the average revenue per patient on walk-

ins today because walk-ins also, because they are conscious about paying out-of-pocket, so they select for the lower bed categories like general ward, sharing etc. But mostly, when it comes to insurance and private corporates, we see them opting for single rooms and higher. So, I don't think that's a worry at all to these. As I said to the contrary, average revenue per patient on insurance is higher. So, this is not a corporate that you should think like in the other businesses. This is a corporate which is getting channelized through insurance.

Moderator: The next follow-up question is from line of Damayanti Kerai from HSBC.

Damayanti Kerai: My question is on 24/7. So, you mentioned more cost-effective ways of, say, marketing etc., has helped you to improve profitability and lower customer acquisition cost is one of such cost. So, can you quantify bit like what is the current customer acquisition cost for you compared to, say, a year back, and how different is from your next competitor?

Madhivanan B: So, let me highlight it from two perspectives. We used to spend anywhere in the range of Rs. 150 to Rs. 180 crore in terms of marketing expenses alone, which included customer acquisition through CRM, through prepaid, through Google etc., etc. That number, as we speak, we have brought it down to around Rs. 80 crore both in plan, and we are, in fact, doing much better than we plan. So, on a cost for acquisition, it depends on the different kinds of customers. And today, the new opportunities that we look at, which is through our omni-channel etc., the cost can be as low as 250 bucks and can also go to the range of around 300, 400 bucks. So, we are operating in that range. So, that is one thing. But typically, what happens when you go through a digital sourcing mechanism is, you virtually pay for the same customer again and again. In this case, we do the combination of originating customers through Omni, attaching what we call as a subscription program called Circle, which ensures that we have continuity. So, both these combinations have given us very, very good numbers and this advantage, I believe, is only available to the Apollo Group because we already have 6,000 outlets, we have hospital. So, we have multiple sourcing points. And what we are realizing is, customer in today's world, no customer is 100% digital. It's always hybrid, omni, and so that is what is helping us. Compared to this, some of the other competitors are primarily, in my mind, are focusing more on the digital acquisition continuously. So, I think if you can get this model right, we have enough of leg room for growth and at a reasonable calibrated cost without impacting our cost.

The second part of it is we are exploring delivery. It is sort of combat, I wouldn't say sort of combat, but to ensure that we are able to take care of that acute customers which is people who buy in an emergency, we are experimenting with different models of delivering our medicines within a much faster time frame for which we will be charging. So, that's another experiment which is also bringing us new customers in certain specific zone. So, between both these put together, our cost of acquisition as well as cost per order on an ongoing basis is showing a downward trend.

Damayanti Kerai: And my second question is also if you can update us on what kind of discount you are offering as of now on your pharmacy online, offline channel and compared to industry, like where do you stand?

- Sanjiv Gupta:** So, on the online side, we have anything between 13% to 13.5% as a discount which happened in the last quarter and if I compare it against the industry standards, industry standards could be maybe 150 to 200 bps higher than what we offer at this stage, but there also they have lot of cuts for the new customers and the repeat customers. But we strongly believe that, as always, since last three, four years, we always have been on the lesser side versus the competition. On the offline side, discounts are very much close to 11%.
- Damayanti Kerai:** So, somewhere on a blended basis, somewhere 11%, 12% is a discount from your Pharmacy segment.
- Sanjiv Gupta:** Yes, that's right.
- Moderator:** Thank you very much. I now hand the conference over to the management for closing comments.
- Suneeta Reddy:** So, thank you, ladies and gentlemen, for joining this call. As we conclude this discussion on Q1 FY25, we are optimistic about the trajectory that we have set across all business verticals. With clear strategies in place for revenue growth, profitability enhancement and operational excellence, Apollo Hospitals is better positioned than ever to deliver unmatched value to our patients and our stakeholders. A comprehensive and integrated healthcare offerings supported by a robust pipeline of initiative and expansion will place us at the forefront of the industry. We appreciate your continued interest and support, and we look forward to sharing further progress with you in the coming quarters. Thank you, and good afternoon.
- Moderator:** Thank you very much. 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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