Management Discussion

Mayank Vaswani - Analyst, CDR India
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 second quarter of FY27, which were announced yesterday. We have with us today the senior management team represented by Mrs. Suneetha Reddy, Managing Director; Mr. A. Krishnan, Group CFO; Dr. Madhu Sasidhar, President and CEO of the Hospitals Division; Mr. Madhivanan Balakrishnan, CEO of Apollo HealthCo; Mr. Sriram Iyer, CEO of AHLL; Mr. Sanjeev Gupta, CFO of Apollo HealthCo; 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 discussion may be forward-looking in nature and may involve risks and uncertainties. Please note the disclaimer mentioning these risks and uncertainties, which is on slide two of the investor presentation shared with all of you earlier. Other documents relating to our financial performance have been circulated earlier, and these have also been posted on the corporate website.

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

Suneeta Reddy - Managing Director, Apollo Hospitals Enterprise Limited
Thank you, Mayank. Good afternoon, everyone. Thank you for joining us on today's call. I trust you have reviewed the earnings material that we have shared with you. We are pleased to report another quarter of strong performance, with all three of our business verticals--Healthcare Services, HealthCo, and AHLL--continuing to deliver sustained double-digit growth.

Operator
Ma'am, sorry to interrupt, you are sounding slightly distant.

Suneeta Reddy - Managing Director, Apollo Hospitals Enterprise Limited
I think that's the mic. Is it better now?

Operator
Yes, ma'am.

Suneeta Reddy - Managing Director, Apollo Hospitals Enterprise Limited
Yeah. So let me start by saying the performance of this quarter builds on the momentum of the previous quarter and reflects the strength of our integrated healthcare platform. The underlying demand across our businesses and our continued focus on execution, it also marks a healthy first half for FY27. The broader healthcare sector is witnessing strong momentum, with players across the industry reporting healthy volumes and revenue growth as well. We are also seeing increased participation from multiple players and investments flowing into the sector, reflecting the confidence in India's healthcare opportunity.

This is an important development in the country, as it will help to expand healthcare capacity and strengthen capabilities and accelerate the adoption of advanced technologies. With strong structural demand and significant headroom for growth, the sector offers considerable opportunities for value creation. On a consolidated basis, revenues grew by 23% year-on-year to 7,615 crore during quarter two FY27. Consolidated EBITDA stood at 1,191 crore, registering a growth of 29% year-on-year, with margins improving to 15.6% from 14.9% in quarter two last year.

Within this, healthcare services business reported revenues of 3,900 crore, delivering a strong growth of 23% year-on-year. Established hospitals revenues grew by 19% to 3,765 crore, and new hospitals contributed 135 crore during the quarter. Inpatient volumes overall saw a growth of 14% year-on-year, and occupancy at 73%. Average revenue per patient increased by 8% year-on-year to 1,86,880. These metrics reflect sustained demand across our hospital network alongside continued improvement in clinical complexity and asset utilization.

Insurance and self-pay continue to form the core of our payer mix, together contributing 82% of inpatient revenues. International patient revenues grew by 37% year-on-year. Our international patient business is gaining significant momentum, increasingly with patients from across the world choosing India for advanced clinical capabilities, quality of care, and affordability. Apollo's integrated model supported by the depth of clinical expertise is contributing to this growing confidence. This is encouraging and a validation of India's potential to become a global destination for healthcare and closer to the government's vision of 'Heal in India'.

Our focus on high-acuity quaternary specialties--cardiac, oncology, neurosciences, gastro, orthopedics, and transplant--continue to form the bedrock of our growth. Quaternary revenues grew 22% year-on-year. These specialties constituted 61% of inpatient revenues, reinforcing the strength of our clinical offering across complex care. Within Healthcare Services, EBITDA increased 20% year-on-year to 937 crore and margins at 24%. However, established hospitals delivered an EBITDA of 971 crore, reflecting 22% year-on-year growth, with margins improving by 61 basis points to 25.8% compared to the same period last year.

New hospitals reported an EBITDA loss of 35 crore, reflecting the ongoing ramp-up of recently commissioned capacity and the hiring of new doctors. We continue to focus on operating leverage, productivity initiatives, and disciplined cost management across the mature hospital network while investing in the next phase of capacity expansion. As you are aware, we have planned to add 1,395 census beds across FY26-27. Of these, 520 have been commissioned and the remaining will be commissioned in the next 12 to 18 months.

Moving to Apollo HealthCo, the business reported revenues of 3,286 crore, a 23% year-on-year growth. EBITDA grew by 75% to 193 crore. An important milestone this quarter was 24/7 turning cash positive, with digital cash profit at one crore compared to a loss of 39 crore in the corresponding quarter last year. Apollo HealthCo reported a PAT of 118 crore during quarter two FY27, compared to 73 crore in the corresponding quarter last year, demonstrating continuous improvement in profitability.

AHLL also delivered an encouraging performance this quarter. Revenues grew 20% year-on-year to 429 crore, while EBITDA increased by 79 crore to 61 crore. EBITDA margins improved 14.3% from 9.5% quarter two last year. AHLL reported a PAT of 26 crore, compared to a loss of four crore in quarter two FY26. With all three businesses reporting healthy growth and improved profitability, consolidated PAT increased by 32% year-on-year to 630 crore during quarter two FY27. For the first half of FY27, consolidated revenues stood at 14,547 crore, growing 22% year-on-year.

EBITDA increased by 29% to 2,268 crore. Consolidated PAT grew by 33% to 1,211 crore. Healthcare Services revenue grew by 22% to 7,467 crore. Apollo HealthCo and AHLL reported revenue growth of 22% and 19% respectively. This performance reflects the strength of our integrated healthcare platform and our continued focus on execution across the businesses. We continue to make progress on hospital capacity expansion, as discussed in the previous call. We have been investing in new capacity across key markets while remaining focused on phased commissioning and

ramp-up, clinical capabilities, and operating discipline.

We believe this expansion provides a visible runway for growth over the coming years. We remain focused on the proposed strategic restructuring of our omnichannel pharmacy and digital health business. We believe the transaction is an important step towards a scaled integrated healthcare platform and unlocking long-term value for the shareholders. We expect the demerger to be completed in quarter four of FY27. At the center of our growth strategies, our focus on patients, our investments in clinical excellence, advanced technology, robotics, and specialized care pathways are directed towards improving clinical outcomes and strengthening the quality and consistency of care.

This remains fundamental to how we build our capabilities and differentiate our healthcare proposition. Patients come to Apollo not for an individual drug, consumable, or procedure, but for the entire continuum of care. What we deliver is an integrated clinical service bringing together medical expertise, diagnostics, technology, infrastructure, and round-the-clock care. The value of healthcare must therefore be understood in the context of the complete patient journey and the outcomes it delivers. As we enter the second half of FY27, we are encouraged by the momentum across our businesses.

Our focus remains on sustaining growth in healthcare services, scaling our digital and retail platforms profitably, and progressing our expansion program with disciplined capital allocation. We believe these priorities position Apollo well to deliver high-quality care and sustainable long-term value for all stakeholders.

On that note, I would like to hand it over to the moderator and open the line for questions. I have Krishnan, our Group CFO; Madhivanan from Apollo HealthCo; Sriram from AHLL; and other senior management colleagues with me to take your questions. Thank you.

Questions & Answers

Operator
Thank you very much. We will now begin the question and answer session. [Operator Instructions] First question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria - Analyst, Bank of America
Yeah, thanks for taking my question. First question is on the hospital business. I think we have seen a very sharp step-up in growth in the existing hospitals in the last two quarters. Based on the performance that we are seeing, is it fair to assume that hospital growth can now be closer to the 20% level versus the high teens that we were guiding, essentially because I see that, against our expectation that existing hospitals would probably grow mid-teens, we seem to be growing high teens in the existing network?

That's the first question. And second is, I think we had guided to about 100 basis points margin expansion in the existing hospital network, and that seemed to have come through in the last year. Given we are at close to about 26% margins in the existing hospital, is there more room left for margin expansion in the existing network, or should we now assume the new hospitals ramping up and achieving break-even and therefore margin expansion from that? Thank you.

Suneeta Reddy - Managing Director, Apollo Hospitals Enterprise Limited
It will be a combination of both, Neha. You will see an improvement in the established as well as

looking at new hospitals, of course, because they will achieve--we have one which is in Hyderabad which is already at EBITDA break-even, the other three will break even by the end of the year. So it will be a combination of both. And about your 20% guidance, I don't want to make forward-looking statements, but you have seen the momentum of growth led by strong structural demand and the fact that Apollo is accessible because of our average revenue per patient is 1.8 lakh. So therefore, I think the demand, structural demand for healthcare is very, very strong, and Apollo is a network that's present all over India.

Neha Manpuria - Analyst, Bank of America
Understood, ma'am. That's very helpful. My second question is on the HealthCo business. Now that we have achieved cash break-even, how should we think about the next milestone for this business, and what would drive that improvement from here?

Suneeta Reddy - Managing Director, Apollo Hospitals Enterprise Limited
Madhivanan, will you take that?

Madhivanan Balakrishnan - Chief Executive Officer - Apollo HealthCo Ltd, Apollo Hospitals Enterprise Limited
Yes, ma'am. I think now that we have achieved the basic level of cash break-even, our entire objective is to continuously keep improving our unit economics, primarily in the pharma businesses. So the intent is to increase our daily orders from the current situation by almost by 20% to 30%. That's something which we hope to do over the next six months. And given the fact that our cost structure is more or less stable, any kind of an increase in margin and unit economics will start adding to the growth. Our intent is to be on par with the offline pharmacy to begin with, and then once--the objective is not just to look at it as pure digital business, but as an omni business with much more synergies between the two groups, the margin structure should start looking up. So give us around two more quarters before this starts playing out.

Neha Manpuria - Analyst, Bank of America
And when you say you want to be in par with the offline business, do you mean in terms of pre-opex margin, or on what parameters do you mean that? Sorry.

Madhivanan Balakrishnan - Chief Executive Officer - Apollo HealthCo Ltd, Apollo Hospitals Enterprise Limited
Primarily, primarily pre-opex, and then at the EBITDA level, because the cost structure will remain the same, our unit economics, as it keeps improving, should start contributing to that place.

Neha Manpuria - Analyst, Bank of America
Understood. Thank you so much.

Operator
Thank you. [Operator Instructions] Next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala - Analyst, ICICI Securities
Yeah, hi. Thank you for the opportunity. My first question is with regards to the pro forma numbers of Apollo HealthCo, that is the combined entity. Ma'am, I wanted to know any specific reason why we have reduced our margin expectation for end of Q4 FY27 to close to 6%, as earlier we used to

talk about 6.5%, 7% for this entity?

Suneeta Reddy - Managing Director, Apollo Hospitals Enterprise Limited
Yeah, Sanjeev, will you take that?

Sanjiv Gupta - Chief Financial Officer of Apollo Health Co, Apollo Hospitals Enterprise Limited
Yeah, I'll take this question. Hi, this is Sanjeev this side. I think the foremost thing that we should always remember in this business is that we strongly believe with time this business would move into a higher single-digit number. In next three to four years, we can expect this to move in that range. As far as the short-term period is concerned for this year, there are two, three things which have resulted into us guiding near 1,500 crore of EBITDA for the entire integrated business.

One is that there has been investment into manpower across the pharmacy private label and generics lines. There is always, there is also a bonus which was paid to the employees this year, that resulted into a little bit of dip in the percentile. And apart from the fact that there are one-time scheme and integration-related expenses. So some of these expenses are one-time in nature and they would also fall into this financial year as we move towards the NCLT approvals, scheme-related things, and get into the listing.

So you would expect certain more expenses to come into Q3 and Q4, and that's just one reason we thought that it will be rightful to say that we should be hitting a number 1,500 crore plus for this year. Trust I have given the answer. But some of them are one-time; next year onwards these things will not happen, so obviously you would start seeing percentile to be going up.

Abdulkader Puranwala - Analyst, ICICI Securities
Sure, sir. Very clear. And next on our hospital expansion plan, so when you are at 30 expansion plans what we had discussed earlier, are we sticking to the timelines broadly what we have shared earlier, or any changes to those?

Madhu Sasidhar - President and Chief Executive Officer of the Hospitals Division, Apollo Hospitals Enterprise Limited
Yeah, so yes, you know, we are sticking to what we have said. If you look at the next 12 months, Gurugram will be actually launched in the coming quarter, first point. Along with that, if you look at it, we would have launched all the seven hospitals which we have said between '26 and '27 that we have to launch, which is Pune, Calcutta, Hyderabad, Delhi, Sarjapur, and Gurugram. All of this put together have 1,400 beds, 1,395 census beds, which will all have to get operationalized now. We will commission it slowly, but the all blocks are ready and as the demand grows, we will keep opening it up.

As of now, you have seen that we are at 520 beds commissioned. Gurugram will get commissioned before the next quarter that we are going to be announcing, and you will see all of the 1,400 beds also getting fully operationalized over the next 12 months. That's what we are looking at. Beyond that, as you look at FY28 and '29, Jubilee Hills expansion is there, already working on full-fledged. Secunderabad, there is an existing hospital which we are expanding.

There is a hospital in Bangalore and Mysore which is expanding, and Indore. All of that is also expected in the next two years of another 320-odd beds, which will take it to 1,800-odd beds in the next two years. And then you have some time gap before we launch some of the others, which will all come mostly in '30 and '31 rather, that's when it will all come. But whatever you have out here, all of that work is started in some way or form.

Abdulkader Puranwala - Analyst, ICICI Securities
Understood, sir. Thank you.

Operator
Thank you very much. Next question is from the line of Damyanti Kerai from HSBC. Please go ahead.

Damyanti Kerai - Analyst, HSBC
Yeah, hi. Thank you for the opportunity. My first question is on your offering on Apollo 24/7 platform. So if you can update us on the pharmacy part, the virtual consultation part, and also if you can comment on your step-up plan for insurance services in view of the regulatory development in the space? That's my first question. Thank you.

Madhivanan Balakrishnan - Chief Executive Officer - Apollo HealthCo Ltd, Apollo Hospitals Enterprise Limited
Let me take that. So this is Madhivanan here. Apollo Pharmacy has been consistently growing in the range of around, vis-a-vis last year, around 28%. On a sequential basis, we had a very good quarter, it was almost 14%. Similarly, the diagnostic business also grew in the range of around 17%. This is just the digital part, which Apollo 24/7 contents. That's another 12% sequential growth. Both these are primarily driven, on one hand, by the constantly increasing number of customers, our ability to cross-sell to the pharmacy base.

So these are the two businesses that we evaluate on the GMV. We are reasonably confident that we will continue to grow at least at this base level. All efforts are on to see how we can drive that engine forward. So both of them are steady businesses for us. On the consults business, we treat it based on the revenue. Here again, our revenue story on a sequential business was a 7% increase. We are working very closely with the hospital to build what we call as an hospital mode to expand the access that we can have for more customers, and thereby it dramatically drives services.

We will also be focusing a little bit more on the digital consults to get more and more of the Apollo medical professionals getting a direct access to our customers. These three businesses are on a good line.However, on the insurance business, we have been a little bit more calibrating our approach. We are not growing at that speed, in fact we are consolidating. Given the new consultation paper that IRDAI put out, some of the economics of this business will be undergoing a very radical change.

So we are watching the situation, we're waiting for the agreements to come in. So in fact, while we showed a growth of around 4% on a quarter-on-quarter basis sequentially, this quarter we are sort of putting the brakes on. But this actually helps on the EBITDA side, because as of now insurance continues to be a negative business. On the overall monetization, our improvement in Circle, which is our core paying loyal customers, there has been a good sequential growth of 11%. So that is another engine which is sustaining itself. So other than the insurance business, which we are looking at a little more cautiously, all the other businesses are on a steady state of business. If there is any specific question that you want me to answer, happy to do it.

Damyanti Kerai - Analyst, HSBC
Yeah. So as you are taking a more calibrated approach for the insurance business and other segments growing reasonably well, and now you have, I think, broadly optimized the cost etc., we should be seeing consistent margin improvement, right? And the insurance part should not be dragging while we get clarity on how the sector emerges?

Madhivanan Balakrishnan - Chief Executive Officer - Apollo HealthCo Ltd, Apollo Hospitals Enterprise Limited
No, I am with you completely. Given the fact that the drag on the insurance business will be much more slower, we wait for the IRDAI final agreements, the unit economics continues to improve. Our number of orders is slowly shaping up, our mix is becoming better, which is a mix of private label, generics, and the others, and with more synergies with our offline team, I think this story should only pace up. Like I said in response to the earlier question, give us around two quarters before this entire thing stabilizes, and we should continue to keep growing on our margin basis.

Damyanti Kerai - Analyst, HSBC
Sure. Thank you. My last question will be on your international patient business. So if you can comment on if we have seen complete normalization in terms of patient flow from neighboring states, and which all newer markets you are tapping on to sustain growth here?

Madhu Sasidhar - President and Chief Executive Officer of the Hospitals Division, Apollo Hospitals Enterprise Limited
Yeah, we have seen a good rebound coming from Bangladesh. If you look at the annualized number, we are close to 85% to 90% of what we used to see as peak from Bangladesh. So I think that's a good rebound that we have now seen. And we are seeing neighboring countries--apart from neighboring countries, Africa has been one area that we have been focusing on significantly. We have information centers now in many geographies like Tanzania, Kenya, etc., and we are seeing good growth coming from some of these markets.

Especially in Africa. Apart from that, we have also seen growth coming from some developed countries as well this quarter, including from Europe, etc. So we have seen the overall growth has been 35% to 36% this quarter on IPS, and we are hoping to continue to see the momentum build up as we move forward as well. Especially Gurugram coming in next quarter, it's going to be helpful for us because, as you know, Delhi is very well connected also, and this is one hospital where we are going to be looking at all specialties high-end, including onco, cardiac, ortho, etc., which will all bring a lot of IPS to the hospital.

Damyanti Kerai - Analyst, HSBC
Sure. Thank you for your response. I'll get back in the queue.

Operator
Thank you. [Operator Instructions] Next question is from the line of Yash Sedani from Integrity Ventures. Please go ahead.

Yash Sedani - Analyst, Integrity Ventures
Hi, sir. Just wanted to ask on the recent regulatory changes that are happening and also that are in process of getting reviewed. We have multiple businesses which can get affected by these changes. So wanted to know your views on first hospital business, then on maybe pharma business, Apollo pharmacy business. How these changes are going to affect and what kind of margin reduction you expect if these changes are levied?

Suneeta Reddy - Managing Director, Apollo Hospitals Enterprise Limited
So if you look at the larger picture, which is what we're sharing with government and what we need to share with the public, is that if you look at the country, we really need to add more beds.

Therefore, the structural demand for healthcare--India will need another 1.3 million additional beds, 1 million doctors, and 3.5 million nurses. Hospitals are a long-horizon investment, and predictable regulation is essential to attract the capital that the sector requires. I think that, more than anything else, we are also emphasizing the fact that the affordability is high, and with insurance penetration, more people have access.

So if you look at structural demand, the fact that there are only 1,70,000 private healthcare beds in India available, so if anything this legislation will impact both small hospitals and large hospitals. And therefore, I think we as a hospital are willing to work with the government to see that more hospitals are built, more beds are built, because this is what the country needs at this time. And having looked at--I think they've not had a--we need to continue to sensitize them on the fact that this is--the way that they are looking at it in terms of cost of, let's say, cancer medicine or consumables.

It is not a cost-plus model. It's a model where the entire service is delivered and the costs are attached to it. I think product pricing was a proxy for the service earlier, but we are also, you know, we hope to move to service pricing, and we continue to stay in touch with the government. The government has represented its case very strongly in the Supreme Court, and I think that this engagement will continue. Meanwhile, we will continue to keep our growth and margins growing and strong. So I think that I hope I've answered your questions.

Yash Sedani - Analyst, Integrity Ventures
Agreed on hospital space. What about the pharmacy business and maybe on the scheme distribution business? If this price cap is levied across all the medicines, are we expecting any margin reduction in those businesses?

Obul Reddy - Chief Financial Officer, Of The Pharmacy Business, Apollo Hospitals Enterprise Limited
We are awaiting the revised MRPs and then analyze the impact. There will be some impact, but we will be quantifying it going forward once it is effective from November 9th.

Yash Sedani - Analyst, Integrity Ventures
Okay. And what is the progress on our demerger process, and is the timeline intact?

Obul Reddy - Chief Financial Officer, Of The Pharmacy Business, Apollo Hospitals Enterprise Limited
Yep. We are on time on the schedule of activities as planned. We expect to complete it and then announce it in the last quarter of FY27 as stated earlier.

Yash Sedani - Analyst, Integrity Ventures
Okay. Thank you so much.

Operator
Thank you. [Operator Instructions] As there are no further questions, I will now hand the conference over to the management for closing comments.

Suneeta Reddy - Managing Director, Apollo Hospitals Enterprise Limited
Thank you, ladies and gentlemen, for taking time this afternoon, just before Diwali. Our quarter two and first half of FY27 reflects the strength of our business and the progress we are making across integrated healthcare platform. We remain focused on building clinical capabilities, expanding

capacity in a calibrated manner, and scaling our digital and retail business profitably. The structural demand for healthcare in India, coupled with our investments in clinical excellence, technology, and capacity, provides a strong foundation for the next phase of growth.

Our priorities remain clear: delivering superior clinical outcomes, proving access to quality healthcare, and creating long-term sustainable value for all stakeholders. On behalf of Apollo Hospitals, I wish each one of you and your families a very happy Diwali and a prosperous year ahead. Thank you once again, and look forward to connecting with you next quarter.

Operator
[Operator Closing Remarks]