

23rd May, 2024

To, The General Manager, Department of Corporate services Bombay Stock Exchange Ltd (BSE) Phiroze Jheejheebhoy Towers, Dalal Street, Mumbai - 400 001. Scrip Code - 543308 ISIN: INE967H01017	To, The Manager, Listing Department National Stock Exchange of India Limited, Exchange Plaza, 5th Floor, Plot No.C/1, 'G' Block Bandra - Kurla Complex Mumbai - 400 051. Symbol - KIMS ISIN: INE967H01017
---	--

Dear Sir/ Madam,

Sub: Transcript of earnings conference call with Analyst / Investors.

In Continuation to our letter dated 11th May 2024, the Company organized a conference call with the Investors/ Analysts on Friday, 17th May 2024 at 9:30 AM (IST). A copy of the transcript of the conference call held with the Investors/ Analysts is enclosed herewith and the same has also been uploaded to the Company's Website at <https://www.kimshospitals.com/investors> > Disclosures under Regulation 46 of SEBI (LODR) Regulations, 2015 > Analysts Calls schedule, PPT & Transcripts > Transcripts, Audio & Video Recordings > FY 23-24.

Kindly take the same on record and display the same on the website of your exchange.

Thanking you,
Yours truly

For Krishna Institute of Medical Sciences Limited

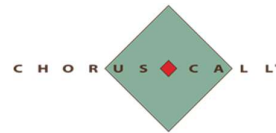
MANTHA
SHANKER
UMA

Digitally signed by
MANTHA SHANKER
UMA
Date: 2024.05.23
14:13:27 +05'30'

Uma Shankar Mantha
Company Secretary & Compliance Officer



“KIMS Hospital
Q4 FY '24 Earnings Conference Call”
May 17, 2024



ANALYST: MR. RAHUL JEEWANI – IIFL SECURITIES LIMITED

**MANAGEMENT: DR. BHASKARA RAO BOLLINENI – FOUNDER AND
MANAGING DIRECTOR – KIMS HOSPITAL
DR. ABHINAY BOLLINENI - EXECUTIVE DIRECTOR AND
CHIEF EXECUTIVE OFFICER – KIMS HOSPITAL
MR. SACHIN SALVI – CHIEF FINANCIAL OFFICER –
KIMS HOSPITAL**

Moderator:

Ladies and gentlemen, good day, and welcome to KIMS Hospital's Q4 FY '24 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Jeewani from IIFL Securities Limited. Thank you, and over to you, sir.

Rahul Jeewani:

Thank you. Good morning, everyone. I'm Rahul from IIFL Institutional Equities. On behalf of IIFL, I welcome you all to the quarter 4 Earnings Conference Call of KIMS Hospitals. From KIMS, we have with us Dr. Bhaskara Rao Bollineni, Founder and Managing Director, Dr. Abhinay Bollineni, Executive Director and CEO; and Mr. Sachin Salvi, CFO. Over to you, sir, for your opening comments.

Bhaskara Rao Bollineni:

Good morning, all of you. A hearty welcome to all of you. I'm happy to share with you that this is a landmark year in the growing trajectory of KIMS. As we have completed a purposeful and a successful journey of 20 years, though we entered into public domain in 2021 there lies a good spectrum of passion, perseverance and hard work of two decades behind what we are today. Investors are our growth engines and the patients are our driving force. This is not only an occasion for celebration, but also a time for reflection to work with a redoubled commitment and renewed vigor in serving the cause of our patients and protecting interest of our investors.

Now I would not keep you waiting, first straightaway proceed to present the financial data. Gross revenue at INR6,376 million an increase of 9.8% year-on-year and 4.7% on quarter-on-quarter basis. EBITDA of INR1,628 million, a decline of 3.2% on year-on-year and a growth by 8.3% on a quarter-on-quarter basis. The EBITDA margin Q4 FY '24 stood at 25.5% versus 28.9% in Q4 FY '23 and 24.7% in Q3 FY '24. EBITDA excluding other income margin stands at 25.1%, showing a decline of 3.2% on year-on-year and an increase of 0.8% on a quarter-on-quarter basis. PAT at INR716 million in Q4 FY '24 against INR987 million and INR767 million in Q4 FY '23 and Q3 '24, respectively.

Operational highlights. Both IP and OP volumes recorded a growth of 2.9% and 7.9% on a year-on-year basis. On a quarter-on-quarter basis, OP volume showed a growth of 4.9%, while IP volumes declined marginally by 2.3%. The average revenue per operated debt increased by 12.1% on a year-on-year basis and at 11.5% on a quarter-on-quarter basis. The average revenue per patient increased by 7.5% on a year-on-year basis and 7% on a quarter-on-quarter basis. Conducted 4 lakh OPD consultations in FY '24 grown by 7.9% year on year and 4.9% on quarter-on-quarter basis.

KIMS -- I'm pleased that the quarter gone by is marked with important developments. KIMS entered into a definitive agreement for taking land on a 99-year lease and purchase of building for setting up a new hospital in Thane, Mumbai, it will be multi-specialty with a state-of-the-art tertiary care facilities with a capacity of 290 beds, which will be commissioned by quarter 4 of

'25. This will be the first hospital of KIMS in Mumbai and third in Maharashtra following its presence in Nagpur and Nashik is expected to be functional by next year.

The other expansion plans are moving as per schedule. There is an year there is muted growth in Telangana. The reasons for that is in Kondapur we don't have the bed capacity, which we are adding another 600 beds, which will be commissioned in the third or fourth quarter of this year.

Secunderabad, the doctors engagement hiring was a bit delayed because they are committed, but the other parent unit people didn't allow them to leave, but they are joining now that we'll be able to increase the growth in the coming year. EBITDA has decreased. We have incurred a INR10 crores financial onetime thing. That's why the EBITDA has gone -- from 32% has gone down because of this INR10 crores has been spent.

The good thing is Sunshine is increasing as we expected and shows a good track. There are good consultants have joined. Last quarter, these onetime are double incurrence of INR3 crores, which also has brought down that we'll be able to hold over in the coming years. The second important thing, which we want to add a few more departments in the old Sunshine building with a reduced rental, we have continued the premises. Here in Secunderabad we are also building another 6 lakh square feet in the next 2 to 3 years.

So we demolished the number of -- the existing buildings, so that there will be some shortfall of the beds as well as the other facilities that we are hiring in Paradise. That's why we continue this another 2 years until the new building is coming in Secunderabad facility. And in spite of all those things, the good growth has come from Sunshine. We are very, very confident we'll do more than what we expected in Sunshine. As you've seen that Nagpur is also tracking a good growth as we promised.

This year, we are able to achieve -- this month, we are able to achieve INR18 crores of revenue and 20%, as we expected, the EBITDA growth is there. Moving forward in this year, we will definitely achieve 22% -- 24% of EBITDA growth with revenue also increasing. After that, we also plan to add few more beds in the Nagpur, which will be pipeline once this one -- after this year is over.

Nashik, we have already planning to start in the first week of first quarter and it is online. And we have seen a good track of consultants are coming forward after seeing our performance in Nagpur most of the consultants are going to board in the next month or the second quarter of the financial year.

And with these consultants are already given an appointment order, they have confirmed that they're going to join. With this, I don't think we find any loss funding is required for this. Most probably within 1 year of the operations will be positive EBITDA, which initially, we thought it may take a little longer time and also may require a loss funding, which is a positive note that we are seeing. This all will be definitely helpful how the Nagpur is turnaround.

We faced a lot of problems but we overcome that. We understood now in the entire Maharashtra, the KIMS brand is also putting up and also the announcement of the Thane group. These are all the 2 important features coming things. As we also know that the Bangalore project is also being

commissioned in Q4. And apart from this, I will also, as usually, I'll put some academic events, I will give you a snapshot of the academic activities that is a regular phenomena with KIMS. These seminars and workshops create awareness enabled sharing of knowledge, poster expertise and help in grooming young talent. I'm not going to focus all the achievements, but I'm highlighting 1 or 2, and then I will close this one.

There is a 127 neuroscience experts from 12 nations participated in the conference of SIGN, Society for Image-Guided Neuro interventions, to deliberate on cutting-edge advancements in the field of neurosciences including artificial intelligence and mini robots for brain surgeries. It is the first conference held in India by the prestigious body and KIMS had co-hosted this international event in January '24 that was able to encourage us to bring a new therapy which will be launched in the next 3 quarters.

With this, the KIMS Hospital successfully performed 16 brain surgeries using a cutting-edge device developed by Korean forum, SKIA, AR combined with artificial intelligence by Dr. Manas Panigrahi, Head of the Neurosurgery, this marks the first in India and globally of utilizing the technology for brain surgery.

Not only this clinical knowledge, this should also needs to be required as technical skills alone may not be enough to ensure best outcomes of surgery. Poor communication is a common act much ignored factor that accounts for errors made during surgery. The first nontechnical course for surgeons that is NOTSS Masterclass by the Royal College of Surgeons of Edinburgh, oldest surgical college in the world, in partnership with the Association of Surgeons of India hosted by KIMS Hospitals in Hyderabad.

So I will just give a brief of the clinical achievements. And as the time is not there, as we mentioned, I cut down all the clinical achievements and have done the academic courses. As a health care professional, I always end up speaking about health whatever the occasion. Today is World Hypertension Day, hypertension is commonly referred as high blood pressure.

The international theme for the year 2024 on the occasion is measure your blood pressure accurately, control it, live longer. The objective is to promote awareness of high BP and aiming to control noncommunicable diseases caused by hypertension. So please follow the norms and take care of your health. I thank you for your trust and support. We have done well in the year gone by and we are very confident of doing still better in the current year. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhara Patwa from SMIFS Limited.

Dhara Patwa:

Congratulations on good set of numbers. Just a few questions. Sir, can you share more details on the INR10 crores expense, which led to decline in EBITDA? What was that related to?

Sachin Salvi:

So these were largely expenses that we incurred at KIMS Secunderabad and KIMS Kondapur. This is largely towards renovating the current facility to complete the KIMS Cuddles expansion in KIMS Secunderabad. And also, we are starting a large rehab program in the old Sunshine hospital. And also, this is a lot of renovation work that's happening in that hospital to start the program, which is slated to start from June 15.

So these were some onetime nonrecurring expenditure that we had incurred in Q3 and Q4. We don't see any expenditure in -- that we will incur in Q1 and moving forward.

Dhara Patwa: Okay, sir. Sir, depreciation cost in this quarter has seen a sudden pike from INR35 crores to INR46 crores. So is it the new run rate we should assume going forward? Or this been increase as we operationalize more beds in coming future?

Abhinay Bollineni: Dhara, this will sustain. The depreciation cost for the Q4 has increased because the Begumpet hospital has commenced operations in the month of December 2023. Since we have capitalized that in December 2023, the depreciation for that premises as well as the medical equipment has started in Q4. So this will remain at the same level in the coming quarter unless we add any other facility, which will lead to increase in the depreciation cost.

Dhara Patwa: Sure, sir. Sir, one last question on update on the O&M contract for Bangalore like we were expecting that it will be completed in -- somewhere in April or May. So any color on that?

Abhinay Bollineni: Yes. So the contracts are ready. We should be announcing it mid next week with the final signed SPA. Final signed lease agreement, we should be announcing in next week. We should make a formal announcement next week.

Moderator: The next question is from the line of Nikhil Mathur from HDFC Mutual Fund.

Nikhil Mathur: Sir, I first wanted to check on Sunshine. I believe there were some rental cost savings that were to commensurate after the new facility opening up. So just wanted to understand, is 4Q FY '24 fully incorporating the benefits of those rental cost saving or there are more -- yet to come through in FY '25?

Sachin Salvi: So on the Q4 number, Nikhil, we have incurred close to INR3 crores of cost at Sunshine which is nonrecurring in nature. So that would have actually put the EBITDA number at 26.5% against the 24.3% number that has been reported. So the INR29 crores EBITDA number would have been normalized to around INR32.5 crores at Sunshine. This is nonrecurring, largely towards rental expenditure and onetime expenditure because of movement from the old facility to the new facility. Maybe -- a part of it maybe to the tune of INR1 crores we will still have in Q1. But after that, everything is normalized. So the normalized EBITDA for Sunshine on Q4 would have been INR32.5 crores.

Nikhil Mathur: So the margin going forward has to be looked at from a base level margin of 26%, right? Is that the right understanding?

Sachin Salvi: Correct. So incremental revenue from here on significant portion will flow-through to the EBITDA.

Nikhil Mathur: Understood. Sir, for the new facilities like Nagpur and Thane, there is no P&L charge yet, right, either on the opex front or on the depreciation front, not yet, right?

Sachin Salvi: There is no P&L charge, Nikhil.

Nikhil Mathur: Okay.

- Abhinay Bollineni:** There is some costs that we are incurring because we have hired resources for Nashik and Thane currently, which is what is getting charged to the P&L.
- Nikhil Mathur:** Okay. If I were to look at the fixed cost buildup in these facilities in the next, let's say, 1 year, 2 years, obviously, there will be some revenue set off, but I'm just looking at the cost structure for now. How different will it be from your corporate cost structure today? I mean, a very simple way of doing this is that I take your fixed cost below gross margin, above EBITDA divide by 3,500 beds. I get a INR38 lakh kind of a number, a very ballpark number per bed, which is the cost structure today, which includes employee, doctors and other expenses.
- So for these 2 facilities, would it be materially different from what we're incurring at the corporate level today? And these are slightly on the metro and Tier 1 cities, right? So can it be on the higher side?
- Abhinay Bollineni:** Are you talking about Thane and Nashik Nikhil?
- Nikhil Mathur:** Yes, I'm talking about these 2 facilities.
- Abhinay Bollineni:** So I think Nashik, we have 300 beds and INR38 lakhs will translate to INR9 crores of fixed cost per month.
- Nikhil Mathur:** Okay.
- Abhinay Bollineni:** Is that what you're referring to?
- Nikhil Mathur:** Yes, yes.
- Abhinay Bollineni:** Is that including the consultant and consumable costs?
- Nikhil Mathur:** This includes employee costs, doctors and other expenses?
- Sachin Salvi:** Yes, around that number, maybe a little lower, may not be as high as INR9 crores, may be around INR7 crores, INR7.5 crores is what we are anticipating as fixed costs, including doctors, employees, other fixed costs and the consumable cost for revenue of INR8 crores, INR9 crores.
- Nikhil Mathur:** Okay. And Mumbai, maybe Thane basically.
- Abhinay Bollineni:** Thane will be slightly higher by 20%, 30%.
- Nikhil Mathur:** Okay. Got it. And sir, one final question. AP Telangana, what's happening on the occupancy side. I thought that there was likely to be some sharp rebound post 3Q because of the elections in Telangana, but that hasn't happened. Is there something specific to the AP-Telangana cluster that's driving down in patients or there's some competitive intensity at play here. So if you can just talk about inpatient volume growth and occupancies in these 2 clusters.
- Sachin Salvi:** So I think if you look on a year-on-year basis, on a full year basis, both AP and Telangana together as a cluster have delivered a 10% growth in revenue. Telangana has been slightly on the lower side. AP has been on the higher side. But as a cluster together, we've been able to

deliver 10% growth. And that's what we have been indicating towards -- for these mature hospitals. There has been some delay in hiring in the Telangana cluster because a lot of these hirings are towards senior doctors and they've taken time to be onboarded.

But we don't -- we are not seeing any -- or anticipating any tough time in the next few quarters as far as onboarding and growth in Telangana in AP are concerned. And more so in AP, given that a lot of the capacity addition will come into play by Q3 and by Q4 of this financial year, we will see a strong rebound in revenue growth, especially from cancer and mother and child after this capacity addition...

Nikhil Mathur: So AP inpatient volume growth this year is around 6% is that a steady growth rate of inpatient volumes for both these clusters. Will that be a reasonable assumption?

Abhinay Bollineni: I think Telangana and AP together consistently delivering the 10% revenue growth is something that we have been doing in the past. This year also, we have delivered 10%. We'll continue to be able to deliver...

Nikhil Mathur: Okay. And just one final question, if I may squeeze in. Your AP ARPOB growth has been quite strong, both Q-on-Q and sequentially. Is it a bit related to pricing? Or is it more case mix? And what is the outlook for ARPOB growth in the next couple of years for AP as a cluster?

Abhinay Bollineni: I think it's a function of the ALOS coming down and the ARPOB going up Nikhil. So, I think, consistently given the high occupancy in a few of the hospitals in AP, we are working towards reducing the ALOS especially till we get this additional bed capacity addition that's happening there. So the average of FY '24 is a good ballpark to look at the growth year-on-year.

Moderator: The next question is from the line of Ameya from JM Financials.

Ameya: Yes. So the first question I have is specific to the Kondapur region. I expect like we have announced that we will be expanding some beds for the unit because it is operating at very high occupancy. At the same time, there is 1 more hospital chain, which has also opened up their new for the last 1, 1.5 years and planning to expand it to more than 1,000 beds there.

Currently, they might be operating around 400 beds, overall, it will have 2 large bedded hospitals in that particular macro market. So how do you see this thing playing out specific to the Kondapur region, just you can comment on that.

Abhinay Bollineni: So bed capacity in Kondapur has happening. In that micro market a lot of bed capacity addition happened in the last 3, 4 years. If you look at -- or close to 3,000 beds got added in the last 4 years, 5 years. But I don't -- there has not been any doctor attrition in KIMS Kondapur. We just lost 1 doctor among the 100 doctors that we have there. The revenue growth year-on-year has been quite strong in spite of limited bed capacity available there. We have not been able to add a lot of specialties. We've not been able to bring a lot more talent to the current facility because of the size constraint.

Once we move to the new facility, given the strong base of revenue that we already have, we are pretty confident we can attract a lot of the clinical talent that we have been wanting to and be

able to add more specialties like transplant, cancer and few other subspecialties that we have not been able to do today. So I don't see the current competition as any reason for us to have delayed growth in Kondapur as far as the new facility comes.

Ameya: Going ahead do you expect that vision to develop or something which is in your mind why you are adding up more capacity there, like considering the competition is still coming in like how that region is performing in terms of the population growth, etcetera, like what's your stance on that?

Abhinay Bollineni: I think now that's become the new city, and it's important that KIMS has a very strong presence. And we are positioning the new Kondapur Hospital as our new flagship facility for Hyderabad, even by bed size, total bed size will be around 800 beds. We are bringing the best technology in the Hyderabad market, in the Kondapur hospital in terms of onco care, in terms of neurology, neurosurgery and stuff like that. So we are pretty confident that the scale-up will be in line with how we have seen things happen at KIMS Secunderabad in the past in spite of the current competition there.

Ameya: Sure. The second question is on the Bangalore macro market where we are opening up new units. If you can give us some color about that region as well?

Abhinay Bollineni: So Bangalore we're opening two hospitals. One is in Marathahalli which is a 450-bedded hospital, which is slated to commence operations by Q4 as presented. That is a multi-specialty hospital with the focus on all specialties, and we're starting to operate mother and child and cancer on day 1, unlike our other hospitals in the past. So part of the building is on lease and part of the building is owned by the company.

The cost per bed is close to INR1 crores per bed. And the current ARPOB in that micro market is close to INR1.8 crores per bed. So our ability to be able to deliver that project at a significant low cost when compared to the current ARPOB which also help us break even faster. And the micro market is pretty underserved. If you look at a 5, 7-kilometer radius, we don't see any hospital of a significant size and scale.

The closest hospital is probably 7, 8 kilometers from the hospital that we are building. And the other thing -- the other hospital is in South Bangalore, which is again a 300-bedded hospital. This is on a revenue share format. The cost per bed, again will be around INR70 to INR80 lakhs, and we are getting in 300 beds in Phase 1, there is ability to scale up by an incremental 100, 150 beds over a period of time as and when required. Again, competition in this micro market, we have Narayana Hrudayalaya, the flagship hospital which is around 6, 7 kilometers from there. And the remaining hospitals are beyond 10 kilometers from this micro market.

Again, very underserved in the Electronic City, the highly dense micro market but pretty underserved. So we're pretty confident about both these hospitals being able to turnaround in ARPOB very soon.

Ameya: Sure. The last question I have on the way we went for the Thane hospital, which was kind of -- we moved away from our investment strategy and preferring asset light investments. So what -- going ahead, how do we see on that front? Like you would continue to prefer to have investor

on more while opening up a unit or we could see a similar kind of investment like we saw in Thane as well.

Abhinay Bollineni: So I think Thane, in the current shape and form with 300 beds and the total investment of INR500 crores looks a little expensive at INR1.7 crores or INR1.8 crores per bed. One thing is the current ARPOB in that micro market is also in the similar line. So that is a good sign. We are not spending more than what is the current ARPOB. In 5 years down the line when the hospital matures, then the ARPOB will be much higher. That is -- so from our investment point of view, it still will make good return on capital employed, number one.

Number two, the hospital also has additional FSI, once we start building and utilizing that additional FSI, we will be getting an incremental bed of 150 beds at a cost of 150 to 200 beds at a cost of INR80 crores to INR100 crores so when that does happen, then the cost per bed will come down further, which will further improve the return on capital employed.

But we don't plan to do it now. We'll take it up in Phase 2. That's when we reach a 60%, 70% occupancy on the current beds.

Ameya: Right. So Phase 1, it will be 300, then you are saying the 150 beds will be added.

Abhinay Bollineni: We could potentially go up to 450 to 500 beds. And that's when the cost per bed also will drop down significantly.

Moderator: The next question is from the line of Abdulkader Puranwala from ICICI Securities.

Abdulkader Puranwala: Sir, just on the brownfield bed addition in Telangana and Andhra region. So could you just highlight the number of beds what you would be adding in the next 2 to 3 years in each of the core clusters?

Abhinay Bollineni: So in Telangana, we are adding Kondapur which part of it will be commissioned early next year. And part of it will be commissioned towards the end of the year which is an incremental bed capacity of 550 beds as far as Telangana is concerned. We are also -- we're building a new facility in KIMS Secunderabad but that will take 3 years.

The net bed addition may not be more than 200 beds in KIMS Secunderabad which is Telangana. This is other than the to the Sunshine Hospital. As far as Andhra is concerned, we are adding close to 50 to 100 beds on an average in each of our facilities. And a lot of this will be commissioned in the next 24 months. And this is largely towards cancer and mother and child expansion.

Abdulkader Puranwala: Got it. Then on the capex front, so now that Thane is going to be entirely funded and Nashik is coming up plus Bangalore and Kondapur as well. I mean so how do you see the debt profile of the company and this capex program would be entirely funded through debt? Or there will be substantial amount of approvals as well.

Bhaskara Rao Bollineni: See, as of now, with this, the capex is we have only about INR900 crores is the debt even moving forward quarter-on-quarter our equity is around nearly INR2,100 crores by March '24. And

moving forward, the equity will go up to INR2,400 crores or INR2,500 crores. So we have a leverage of even if we put it about 0.5% of the equity and debt, so we will be in compliant with that and then we will be very, very disciplined, should not cross maximum of maybe 1 quarter or 2, it costs us 2.6. I think a very, very comfortable with the arrangements of the loan and as well as the internal accruals.

Abdulkader Puranwala: Sure, sir. Got it. Sir, lastly, on the Thane project again. So like in Nashik, you mentioned that operational breakeven or profitability can be achieved in the first year itself. How do you see the Thane cost profile and ARPOB and the other operational metrics. So would it be a first year breakeven possible here as well? Or there might be some investments which would be in terms of the doctor cost, which might lead to a delay breakeven here?

Abhinay Bollineni: I think it's too early to comment on Thane, but we are as planned always been that we will breakeven towards the end of the first year of operation. And even if there is some loss coming, it won't be significant, we have modeled around INR10 crores towards the funding of Thane. But Nashik because we have closed on 90% of the doctor hiring, we are pretty confident that 12 months of operations, we should become EBITDA positive. And the last 3 months, we will be delivering EBITDA margins given the doctor sign-ups that we have.

I think in Thane, it's a little too early maybe by end of next quarter, we should be in a better position to talk about the doctor in this moment on going over.

Moderator: The next question is from the line of Harsh from Bandhan AMC.

Harsh: Just 2 quick questions. One is on Andhra Pradesh. You mentioned that you'll be adding 50 to 100 beds across those micro markets potentially with these new specialties, onco, mother and care, gastro and maybe some other units. If I recall correctly, you had also made a comment on the Andhra Pradesh margin expansion potential expanding by another 300, 400 beds over the next 2-to-3-year period.

So with these additions, there will be incremental hiring as well. So should we still factor in that EBITDA margin potential just from the base market perspective? Or you would feel that the incremental additions were sort of weigh on that margin expansion potential? Just from the Andhra Pradesh market.

Abhinay Bollineni: No, I think we can easily assume that margin expansion in Andhra Pradesh in spite of adding new doctors because the base EBITDA earlier we used to give a bifurcation of mature and nonmature. The mature facilities still do a higher EBITDA margin when compared to a nonmature EBIT facilities. So one, there is scope to improve the nonmature facilities. And on top of that, we're talking about more growth. So, I think that consistent expansion of 300 basis points is still doable in spite of doctor addition and expansion.

Harsh: Okay. And again, on the base market to pick up from the earlier question, you mentioned a 10% revenue growth expectation for AP-Telangana on a combined cluster basis. So if you want to let's say, break this up into 2 or 3 levers volume, price and mix. Volume is additive, we are expecting a mid-single-digit volume growth on an overall basis.

Pricing might not recur every year, but you will still have a 2% to 4% pricing benefit and the other is mix. So when you do this calculation, do you feel that the 10% expectation is slightly on the conservative side because your incremental business from these new specialties over a period of time will be highly ARPOB accretive in the sense ARPB or ARPOB accretive. So I'm just trying to figure out whether that 10% expectation is on the conservative side or...

Abhinay Bollineni:

If it pans out to be higher than 10%, then it's a good upside. But I think given both the clusters are mature and we're adding specialties and it takes time to add these specialties create bed capacity addition.

The guidance of this 10% was from a -- when you look at it from a 3-, 4-year perspective, the year-on-year growth would be 10%, 10%, but there could be years in between where we grow at a higher growth rate, especially when these bed capacity additions come there will be a 20%, 25% growth in different clusters. But when you take a long-term view, I think the sustainable growth rate in this cluster will be 10%. There will be years where there will be -- the growth rate will be higher.

For example, this year, the growth rate in Telangana has been only around 6%. But when these new doctors onboard, I think the growth rate will be at around 15%, 20%. So it gets -- the average will be around 10%.

Harsh:

Sure. That makes sense. And just on one last bit. You had made a comment a few quarters back that the cumulative EBITDA hit from these facilities, the new facilities, Bangalore, Thane and Nashik would be in the range of somewhere around INR25 crores to INR45 crores in their first year of operations. again, this was maybe 2, 3 quarters back, but obviously things have changed.

Abhinay Bollineni:

Wait, wait. INR10 crores per facility, if one had to model an EBITDA loss, we have said we are assuming not more than INR10 crores per facility. Now given almost commissioning state of Nashik, we don't anticipate that loss funding required given the doctor sign up and doctor onboarding the way it's happening. As we get closer to the other 3, I think we are still pretty confident about that number not being more higher than INR10 crores per unit.

Harsh:

This INR10 crores per unit is building in, let's say, a 30% occupancy -- average occupancy for the entire year?

Abhinay Bollineni:

Correct. Correct. Right.

Moderator:

The next question is from the line of Dhruv Shah from Dalal & Broacha Stock Broking.

Dhruv Shah:

My first question is with respect to your debt outlook. So there has been about INR500 crores of increase in debt. So just wanted to know is this towards -- entirely towards Thane Hospital?

Sachin Salvi:

No. Part of it is towards Thane hospital. So about INR250-odd crores is towards Thane. Bangalore is about INR140 crores. Then we have Nashik and Nagpur also we have taken debts. So it is not only towards Thane. Thane is only INR250-odd crores.

- Dhruv Shah:** Okay. And what is your outlook on that? I mean, when can we expect some debt reduction going forward is at any time soon?
- Sachin Salvi:** So at least in next 1 or 2 years, we are having Bangalore, Nashik and Thane project, which is going on. The debt repayment will start after -- generally start after 12 months because we generally have a moratorium of 12 months. So the repayment starts after 12 months, so you can expect after FY 26, unless we take up any other new projects.
- Dhruv Shah:** Sure, sir. And what will be your target debt to EBITDA? What are you expecting? Is it 1.2, 1.3 or higher than that?
- Sachin Salvi:** So, the mandate which we have received from our Finance and Investment Committee as well as our Audit Committee debt-equity of 0.7 and debt-EBITDA of 1.5. So we will control ourselves within that one.
- Dhruv Shah:** And just about the Thane and Nashik Hospital, can you just give a highlight on what kind of margin profile or ARPOB profile can we expect over there?
- Abhinay Bollineni:** Nashik and Nagpur, the margin profile will be similar around -- I think all the 3 hospitals, the margin profile will be similar. Nagpur we're on track. Last quarter, we closed at 18.5%. But then there is still operating -- optimization that can be done and we are pretty clear on how it can scale up to our 25% EBITDA margin at Nagpur. I think if we do that in Nagpur, we're pretty confident to replicate the same thing in Nashik as well as in Thane.
- As far as the ARPOB profile, I think Nagpur, Nashik will be similar the ARPOB. Thane, the current competition in that micro market, the ARPOB is around INR55,000, INR56,000. So I think that's whereabouts is where KIMS also we'll aspire to do. And the current ARPOB in Nagpur is around INR33,000, INR34,000 -- INR35,000. In Nashik also we're seeing similar potential.
- Dhruv Shah:** And last question is occupancy. So on Y-o-Y and Q-o-Q basis, we are seeing some difference in occupancy. So can you highlight what is the reason? I mean there has been some increasing incidence of viral and infections. So why are we seeing this drop?
- Abhinay Bollineni:** I think there's efficiency on the ALOS. The ALOS has come down. If you look at the IP volume and OP volume, there has not been a dip -- a significant dip. I think that some of our mature facilities were like Kondapur, Rajahmundry where we're running out of capacity, we are trying to optimize on the ALOS a little, and that's where you're seeing the overall dip in ALOS because of which the occupancies have fallen. So IP volume is a good indicator, and we are not seeing any strong -- any decline in that.
- Dhruv Shah:** And if I can just squeeze one last question. When are you expecting breakeven at Thane Hospital and at Nashik?
- Abhinay Bollineni:** Sorry, could you come again?
- Dhruv Shah:** Breakeven in Nashik and Thane?

- Abhinay Bollineni:** So Nashik, I think -- both hospitals, I think the first year of operations is where -- and the last quarter of the 10th, 11th, 12th month is where we're looking at breaking even -- operationally breakeven.
- Dhruv Shah:** Okay, sir. And just last, what was the total capex at the Thane Hospital?
- Sachin Salvi:** The total capex as of 31st March '24 is INR265 crores. The total capex anticipated for the Thane facility is about INR515-odd crores.
- Dhruv Shah:** INR515, right?
- Sachin Salvi:** INR515 crores,
- Moderator:** The next question is from the line of Bino Pati from Elara Capital.
- Bino Pati:** Most questions answered. Just looking for some color on how the pricing has changed over the last 12 months especially for insured patients. So what kind of negotiations had happened with insurance companies. When did this happen? And what sort of price increases have you got?
- Abhinay Bollineni:** So last -- most of our contracts get renewed this financial year, we have had some price hikes from a few contracts, but those are not the strong volume drivers. A lot of that is going to happen in this financial year. And whatever has happened, we have seen a healthy price hike that we usually get, which is close to 10%, 12% from these private insurance company. GIPSA was supposed to happen last year, which is bulk of our insurance volume. It was actually slated to happen in November last year but there is no sign of that happening yet. So we are also eagerly waiting for that price hike to happen. And if that does happen, that is a good 20%, 30% jump in insurance pricing.
- Bino Pati:** When was the last time the GIPSA revision happened?
- Abhinay Bollineni:** So GIPSA usually is a cycle of 4 to 5 years.
- Bino Pati:** So the last revision was maybe 5 years back.
- Abhinay Bollineni:** Yes, correct. Correct.
- Bino Pati:** Understood. And for the other insurance companies, we expect some time this year it should happen. So when interest rate benefit of that will come in the 2Q, 3Q, 4Q.
- Abhinay Bollineni:** Correct. Correct. There are different time lines for each of these contracts and a good chunk of them happened in this financial year.
- Bino Pati:** Understood. And these -- if I understand correctly, these negotiations happen once in 2 years.
- Abhinay Bollineni:** Once in 2 years. But by the time it comes to execution, there is a 6-, 9-month delay in the business bilateral negotiation.

Bino Pati: Understood. And just one last color. Last time, you said you got again 10%, 12% increase. Do you expect similar increase this year also?

Abhinay Bollineni: Yes. Among the renewals, yes, we should anticipate that.

Moderator: The next question is from the line of Alankar Garude from Kotak Institutional Equities.

Alankar Garude: Sir, can you help us understand the volume growth in the Secunderabad and Kondapur Hospital is a bit better. I mean, from what we understand, while we may be a bit constrained in Kondapur on the capacity side, there definitely seems to be more scope on occupancies in Secunderabad, We get that point one, the new doctor additions and they will start contributing.

Just trying to understand what are the dynamics here in terms of competitive pressures? I mean wasn't the doctor issue relevant in the past? I mean, why do we need more doctor additions to kind of take care of the volume growth, especially in Secunderabad. If you can just help us understand these things would be really helpful.

Abhinay Bollineni: So, Alankar, thank you for asking this question. The way we've been always projecting growth in all our hospitals, not just at Secunderabad is there will always be a point where volumes will stop growing in each specialty. So the only way to continue to grow the hospital is if you add more subspecialties and add new clinical therapies, that's when the volume growth happens.

So even historically, the growth in KIMS Secunderabad or any of our hospitals has not been because of growth in the current specialty. It is -- there is a marginal growth in the current specialty, but a significant growth driver has always been new clinical specialties getting added, new clinical therapies getting or addition of doctors in the current clinical specialty.

So Telangana, KIMS Secunderabad being a mature facility, having catering to a lot of the specialties, we are now onboarding a lot of new therapies like a new doctor that's joining us is a doctor who specialized in arthroscopy work. A new department that we're starting is rehab care because we have a strong neuro and orthopedic program.

So when you launch new specialties, that is what will drive more volume into the hospital. And in KIMS, Secunderabad, though there is space and capacity, onboarding of these doctors and starting the program is where we are seeing some delays. Like we started Cuddles in KIMS Secunderabad. The ramp-up has been quite healthy. We started it in November. The growth in volume, both in neonatology care and pediatric care has been quite healthy. But now we're waiting for obstetric care to be -- to start obstetric and gynec care in a bigger way in KIMS Secunderabad. So when all of these additions keep happening, the volume growth happens, It's not that the current doctors alone will be able to drive that growth.

Alankar Garude: Understood. And any view on the competitive dynamics in that micro market.

Abhinay Bollineni: So in the last 1 decade in KIMS Secunderabad, the micro market in which we operate here, there has not been any bed addition other than the new KIMS Sunshine hospital that we've added in the last 1 decade in this -- if you take a 10-kilometer radius, we have not seen any bed addition that has happened other than what KIMS has added and KIM Sunshine has added.

Alankar Garude: Understood. Okay. The second question, Abhinay, is, I mean, on Sunshine, you mentioned about good traction with the consultants joining. Can you help us understand, I mean, more details on how has been the pickup of the new facility. You made that point on margins as well, but just wanted to understand the time lines on -- I mean, when exactly should we be able to reach those peak margins on Sunshine.

Abhinay Bollineni: So I think Sunshine, we moved in December. And in spite of moving in and all the instability there, we have seen the quarter 3 and quarter 4 revenues improved. So we have done much better in quarter 4, in spite of it being a dull season, especially for orthopedics, given the seasonality impact there. And because of movement, we still have seen a good revenue growth. That is a positive sign of the new hospital.

But we have already started engaging with a lot of the doctors that we want to onboard for KIMS Sunshine. The initial response has been positive. And given that these are all senior doctors from other hospitals in this micro market, we anticipate that the onboarding process will be a little slow. And like we had earlier communicated, I think Q3, Q4 is when we're looking to fully complete the onboarding process for -- or at least 80% of the onboarding process for Sunshine. And from then on, maybe another 1, 2 quarters is when the ramp-up of the doctors that got onboarded will happen.

But having said that, Q1, the run rate also has been quite encouraging for Sunshine after moving into the new facility without much doctor addition. So it just speaks that the new facility with location, the presence and the branding itself has been able to attract a little more volume in spite of not adding a lot of new clinical therapies. Though we've added a few, but I'm saying the response has been quite encouraging so far.

Alankar Garude: Understood. So basically, second half of FY '26 is when should we -- by when we should expect margins to meaningfully implement possibly full year impact in FY '27 when we look at Sunshine.

Abhinay Bollineni: However, having said that, Q4 the normalized -- if you remove the nonrecurring is still at 26.4% in Q4. I'm sure Q1 will be a little better given the higher revenue growth versus Q4. But you're right, as '26 is when we should see a full stability in Sunshine EBITDA margin.

Alankar Garude: Sure. And one last question. So we have earlier mentioned about getting into other cities of Maharashtra as well, Pune, Aurangabad, Kolhapur, maybe Mumbai as well. So given that we already have quite a lot on our plate, are you still looking out for expansion opportunities in these markets?

Abhinay Bollineni: So at this point in time, we have slowed down a little on our capital deployment because I think we've reached a healthy number on the debt-to-EBITDA and debt to equity. But what we are still exploring and we are seeing positive traction is on the O&M contracts with the commitment to buyback over a period of time. And we are seeing that a positive traction of such assets, both in Maharashtra as well as in Telangana and AP, but nothing that we've been able to execute yet. Maybe over the next 2 quarters, we should be able to bring more such O&M contracts on board,

where we have no capital commitment today, but we have full control of the asset with a commitment to be able to buy it over a period of time.

Alankar Garude: And directionally there, Mr. Abhinay, will we be still open for any partnership, equity partnerships like we have done in the past? Or incrementally expect the contribution from such partnerships to keep on coming down?

Abhinay Bollineni: No, I think there is a lot of traction on partnership. A lot of these O&M contracts are also because of the willingness to partner with KIMS even in Maharashtra and obviously in AP and Telangana. But given that our ability to be able to deploy and do more capital infusion is limited at this point in time, we are trying to do a completely asset-light model, which is no capital commitment and purely run the hospital operations and take responsibility for ramp-up.

Moderator: Next question is from the line of Gagan Thareja from ASK Investment Managers.

Gagan Thareja: My question -- first question is around the operating margin profile. How should we think of the evolution of operating margin from the current levels over the next 3 years? And if you could give some phase-by-phase assessment '25, '26 and '27, it would be helpful because new hospitals are coming up and the old ones, as you said, can see some improvement. So on balance, how does it work out?

Abhinay Bollineni: I think a tough answer to give you at a consol level, but if you can look at it on a cluster-by-cluster level, I think both Sunshine and Nagpur, a lot of the fix on ground has been done, at least 80% to 85%. All the incremental revenue that flows in, I think, it's safe to assume that 35% of that will flow -- 35%, 40% of that will flow through to the EBITDA. Likewise, in KIMS Telangana and AP, a lot of the incremental revenue, also around 30%, 35% of that will flow-through to the EBITDA.

Gagan Thareja: But are we in a position to maintain margins? Or is there a positive or negative bias to the margins going ahead at least for the next couple of years? And I'm just looking at the direction of the margins. I'm not asking...

Abhinay Bollineni: No, I think we don't see anything strong coming for us to be able to sustain and maintain these margins. There could be some one-off expenses like we had incurred in the last -- in Q4 and Q3, which is towards repair, maintenance and establishing new projects. But otherwise, we don't see any outliers cost that will hit the P&L and impact the EBITDA margins for these 3 clusters.

Gagan Thareja: And what should be the impact of the commissioning of these clusters on your top line in the next 2, 3 years?

Abhinay Bollineni: To the top line?

Gagan Thareja: Yes, I mean on the revenue line?

Abhinay Bollineni: Of the new facilities that are -- the 4 new hospitals that are getting added?

Gagan Thareja: Yes, yes.

- Abhinay Bollineni:** So like we said, each customer Bangalore the current ARPOB is around INR1.8 crores per bed, but we anticipate it to be a little lower given, one, our pricing strategy, plus initially the case mix could also be a little different. And we're confident of getting to a 25%, 30% kind of an occupancy in end of the first year, like is the case with Thane, where the ARPOB is around INR50,000, INR55,000. We are pretty confident around 25%, 30% occupancy we should get there. And the same is the case with Nashik. Nashik, I think the occupancy will be slightly higher, given the traction that we have from all the doctors there, time it will take for them to onboard.
- Gagan Thareja:** I mean the second year after commissioning what sort of occupancy levels do you think can be a reasonable assumption to work with?
- Abhinay Bollineni:** I think by the third year of operations, we should get to a 50%, 55% kind of an occupancy by end of the third year.
- Gagan Thareja:** And what sort of increase in the depreciation and finance cost? Are we -- can we budget for the next year and the year after that the commissioning of.
- Sachin Salvi:** So in the -- like in this year and financial year '25 most of our assets like Bangalore, Thane are getting capitalized. So there will not be much impact on account of these additions, at least in financial year '25. Some impact will be there since it will be getting capitalized, February '25. But in financial year '26 financial year '27 these will be utilized for the full year.
- There will be some impact on account of depreciation, on account of these 2 assets. As far as Nashik is concerned, we are saying we will be capitalizing or we will be running it -- we'll be fully running this hospital somewhere in the month of June. So there will be impact of some 7 or 8 months in this financial year.
- Gagan Thareja:** And what was the capex incurred for '24? And what will be the capex budget for '25 and '26.
- Sachin Salvi:** So in financial year '24, the total capex, which we have incurred is to the tune of about INR650-odd crores. This includes the land and the building, which we have purchased at Thane. In financial year '25, we are anticipating it to be in addition, about some INR400 crores to INR600 crores.
- Moderator:** The next question is from the line of Aman from PhillipCapital.
- Aman:** I think one question. So on the Thane cluster -- on the Thane acquisition that you have made, right? So from what I understand the Thane, I think in a 5, 6-kilometer radius, we also have Jupiter flagship hospital in Thane where you guys have acquired the new Hiranandani Hospital, right? So now the question is what is our strategy in Thane, do we still expect to maintain the similar levels of ARPOB? And I mean how are we going about those situations in Thane is what I'm trying to understand.
- Abhinay Bollineni:** I think there is opportunity for Jupiter and KIMS to coexist. I think there's opportunity for 1 or 2 more hospitals to come and coexist there. The opportunity -- the catchment is quite a big catchment, very untapped. There's only 1 hospital of such a great repute which is Jupiter of that

scale -- size and scale. If you look at more mature markets like in South, you will see the bed density that of population like Thane would require would be much, much higher.

So I think there is enough opportunity. There are enough number of doctors that are there practicing in that micro market or outside who are willing to come back and play a full-time role and be a part of a hospital to help build the whole thing. I don't think there will be any impact on pricing or any such things like that. The ARPOBs will continue to be healthy and continue to grow as the case mix improves in that micro market.

Aman: Are we doing anything on the diagnostics front with the Thane hospital? Because from what I understand also that Jupiter has a significant amount -- significant number of diagnostic services in the Thane hospital. So are we planning to do something along those lines with our hospital too?

Abhinay Bollineni: I don't think we are changing any of our core strategy for Thane. We're just sticking to hospital services here.

Moderator: The next question is from the line of Rahul Jeewani from IIFL Securities.

Rahul Jeewani: Yes. Sir, I had a question on our operating margins. Now last year, first half of the year, if you look at our operating margins, excluding other income, we were around 26%. And in the second half of the year, that number has declined to 24% because of the one-off costs, which you incurred. So third quarter, there was a one-off of INR14 crores and fourth quarter there was a one-off of around INR10 crores, so maybe INR25 crores one-off impact. So for our modeling purposes going into next year, should we take 26% as the base margins to be working with? Or do you think some of these one-off costs would continue going into next year as well?

Abhinay Bollineni: I think there will be a very small part, if at all, in Q1, Rahul. But I think the Telangana cluster will stabilize at a 32% EBITDA margin net of these one-off costs in Q1 and moving forward. Andhra continues to remain the way it is. There could be some margin expansion in the revenue and ramp up. And Sunshine, like I said, there has been onetime cost. It will be at around 26.5% as the base, and then it will move on further beyond that. Nagpur, the base that has been established is around 18.5% for Q4, and that will continue to grow as the ramp-up happens and a little bit of operational efficiency.

Rahul Jeewani: Sure, sure, sure. And Dr. Abhinay, just some clarification on Kondapur expansion. The presentation talks about these 500 beds getting commissioned in first quarter of FY '27. But I think Dr. Bhaskara or you pointed that some part of this capacity could come online next year as well. So can please clarify on that?

Abhinay Bollineni: Yes. So Kondapur given that it's right addition to our current facility. And since it's a very large facility instead of waiting for the full hospital to be commissioned, we have divided that into 2 phases. So part of it will be commissioned in FY '26, where we move a lot of the outpatient services and we run both the facilities for some time, and we get some incremental 100 beds in Phase 1. By the time the full facility is operational, which is all the incremental 500 -- 550 beds. We are anticipating it to be done by quarter 1 of FY '27.

- Rahul Jeewani:** Okay. So next year, beginning of the year, we would see these 100 incremental beds getting commissioned in the existing block.
- Abhinay Bollineni:** Correct. In the new block -- in the new facility. We have divided the hospital into 2 phases. So in Phase 1, next financial year -- Q1 of next financial year, we will move partly into that facility where we'll get an incremental 100 beds over and above our current facility. So we can move few specialties and start few specialties.
- Moderator:** That was the last question for today. I now hand the conference over to the management for closing comments. Over to you, sir.
- Bhaskara Rao Bollineni:** Thank you very much all the questions which are pertaining to the growth and all, we also got some knowledge out of it. And we will be very, very happy to say that definitely, we are in the growth engine. We will be able to deliver what we promised. And before closing, make sure that today is being a Hypertension Day, keep all your blood pressures, measure accurately, control it and live longer.
- So this is the one important health disorder which is not related to anything except whatever the stress, especially if all of you are in the financial front. So don't worry about that. Financials will keep growing and keep your blood pressure intact. Thank you. Thank you very much.
- Moderator:** Thank you. On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.