

17th November, 2022



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	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
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Dear Sir/ Madam,

Sub: Transcript of Earnings Conference Call with Analyst / Investors.

In Continuation to our letter dated 10th November 2022 the Company organized a conference call with the Investors/ Analysts on Saturday, 12th November 2022 at 10:00 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 on 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 22-23.

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

Uma Shankar Mantha
GM-Legal and Company Secretary

Krishna Institute of Medical Sciences Limited

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“KIMS Hospital
Q2 FY ‘23 Earnings Conference Call”
November 12, 2022



MANAGEMENT: **DR. BHASKAR RAO BOLLINENI – FOUNDER AND
MANAGING DIRECTOR – KIMS HOSPITAL
DR. ABHINAY BOLLINENI – EXECUTIVE DIRECTOR
AND CHIEF EXECUTIVE OFFICER – KIMS HOSPITAL
MR. VIKAS MAHESHWARI – CHIEF FINANCIAL
OFFICER – KIMS HOSPITAL**

MODERATOR: **MR. RAHUL JEEWANI – IIFL SECURITIES LIMITED**

Moderator: Good morning, ladies and gentlemen, and welcome to the Q2 FY '23 Earnings Conference Call of KIMS Hospitals, 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: Hi. Good morning, everyone. I'm Rahul, from IIFL Institutional Equities, I welcome you all to the Second Quarter Earnings Conference Call of KIMS Hospitals. From KIMS, we have with us today, Dr. Bhaskar Rao Bollineni, Founder and Managing Director, Dr. Abhinay Bollineni, Executive Director and CEO, and Mr. Vikas Maheshwari, CFO. Over to you, sir, for your opening comments.

Bhaskara Rao Bollineni: Good morning, and a warm welcome to our dear investors. We met last on 11th August 22, and I am now here today to appraise you of the latest development and financial results of quarter 2 of the finance year '23. You are aware of our earlier acquisitions of Sunshine Hospitals and Manavata Hospitals at Nasik by taking the major stake. Again, I have a great pleasure in informing you about yet another acquisition made by KIMS in the state of Maharashtra. From 1st September 2022, SPANV Medisearch Lifesciences Private Limited, known as Kingsway Hospital at Nagpur has become a subsidiary of KIMS Hospital following our acquisition of 51% stake, you'll be happy to know that it is a first hospital outside the state of Telangana and Andhra Pradesh.

Kingsway Hospitals is one of the leading multi-specialty hospitals in Nagpur. It has strictly emerged as the hospital of choice for citizens of Nagpur and surrounding areas. The top specialties of Kings include cardiology, nephrology, neurology, orthopaedics, paediatrics and oncology, and they are also in line, which has started by a few doctors, one of the industrialist. So because we have been aligned with that, that's why we have been they approached us, and we are also happy to share with them. Our vast experience in running multi-special hospitals and turning them around will help present acquisition of, to quickly reach an optimum level of operational efficiency and add value to our shareholders.

I will now come to the financial results of quarter 2 of financial year '23. Your company recorded a good performance with a steady growth under various parameters as can be seen from the following results. The year-on-year comparison may not be right due to consolidation of Sunshine hospitals from April '22 and Kingsway, Nagpur from September 2022. Consolidated revenue from operations grew by 13.8% quarter-on-quarter basis to INR 5,461 million. Ex-Nagpur grew by 11%. Consolidated adjusted EBITDA, excluding other income, IndAS adjustment and an old case of luxury tax payment, grew by 14.5% on a quarter-on-quarter basis to INR 1,502 million. Ex-Nagpur grew by 13.4% to INR 1,488 million. Consolidated adjusted EBITDA margin stands at 26.6% and ex-Nagpur stands at 27.1% quarter-on-quarter improvement of 0.6%.

The group continues to have a very strong balance sheet along with healthy operating cash flow and has built a strong financial foundation for the next phase of growth. Our operational highlights during the half yearly FY '23, company has added 951 beds. Sunshine 602 beds, Nagpur 333 beds, Rajmundry 15 beds, which is a substantial addition.

Both IP and volumes have shown growth on a quarter-on-quarter basis at 17.5% and 15.5%, respectively. This speaks about the strength of the hospital, what we are doing in last two decades. Average revenue per operating bed and average revenue per patient has shown a slight decline of 3.2% and 3.1%, respectively, on a quarter-on-quarter basis, though there is an increase of 17.5% and 5.8%, respectively on year-on-year basis.

Other developments. Let me now present the developments in the other projects. From last July, Manavata Hospitals at Nasik has become a subsidiary of KIMS Hospitals, which is undertaking a greenfield project of the hospital. Gastro projects at our Vizag subsidiary, KIMS Icon will commence from December 2022. The work of Sunshine Hospital and Begumpet is progressing well, and it will be started by April 2022. The project April 23, the project undertaken at Bangalore, semi brownfield is moving ahead and expected to be operational by March '24.

Latest technology. We're always in the forefront acquiring the new technology that is available in the world so that the doctors and the patients will get the maximum benefit out of it. The use of artificial intelligence has brought about a trailblazing changes in modern neurosurgery, thereby improving the quality of life of patients having underground brain surgery.

In keeping with our award mission of bringing the best medical care by adopting newer techniques, we launched the brain mapping technology Omniscent Neuro-technology. Quicktome to further bolster our infrastructural facilities, popularly known as tumor mapping, it allows surgeons to opt for the safest trajectory to target that needs surgical treatment inside the brain. Adoption of brain mapping technology will further cement our position as the country's best neuroscience centre.

I will also brief some of our clinical achievements done during this quarter, both in Tie 2 and Tie 3 stage. It is demonstrated that clinical achievements and quality care will result in increased volumes leading to growth of the organization. KIMS has emerged as a hub of transplants. And during the quarter, we performed as many as 137 organ transplants, including both heart and lung transplants, which is the biggest project biggest achievement in Asia under the leadership of Dr. Sandeep Attawar.

We are proud of the fact that very complicated and major surgeries are being done successfully at our various Tier 2 and Tier 3 centres. Earlier, those people were required to go all the way to major cities for such operations. Now our presence in such centres is saving the patients a lot of valuable time and money that is able to improve our volumes.

Umang born some of the examples, I would like to put it in front of you. Umang born without esophagus at birth, undergo complex surgery at KIMS Kurnool. Firstly, at our first cadaver kidney transplant done at KIMS Kurnool. Young women with a rare autoimmune disorder gets

a new lease of life successfully at KIMS Kurnool. Kidney Stone managing 2 centimetres was successfully removed from a 9-month old baby at KIMS Kurnool. The 70-year-old man walks again post a complex 10 procedures at KIMS Vizag.

After spending a gruelling 100 days in the hospital, a 70-year-old successfully discharged after treatment for rare Guillain-Barre syndrome, which is a very rare feat and doing in a place like Vizag. Two Iraqi girls with a complex scoliosis problem successfully operated at KIMS Secunderabad.

A severely injured trauma patient with multiple organs have fractured internally was successfully operated upon at KIMS Secunderabad. A three year old girl with a rare neck infection was successfully operated upon at Kim Kondapur. A five-month baby undergone complex brain surgery at KIMS Anantpur, Trauma patients undergoes six lives saving surgeries in a span of 14 hours successfully discharged from KIMS Anantpur.

Complex ureter cancer surgery performed on a 50-year-old woman at KIMS, Anantpur. A nine hour complex dental procedure and a patient suffering from abnormal enlargement of aorta, successfully done at KIMS Nagpur. There is a lot of appreciation from the patients. One of the appreciation I will be able to put forward in front of you. We keep the receiving many letters of thanks and appreciation from our patients.

Today, I want to share a letter received from a professor from Botswana. This simplifies our name of KIMS has spread foreign-wide and heard in farer places like Botswana. Professor Parsurama from University of Botswana, Gabron was diagnosed with a brain tumor as we started forgetting important things on a regular basis. He flew down to Hyderabad and came to KIMS for treatment. These are the except from this letter. I went through the surgery on 23rd August 2022 under the leadership of great neurosurgeon, Dr. Panigare and his team. It is nice and great that people from our place like Botswana know, the talent and critical surgical skills that are Dr. Panigare as ever outside in India.

I was in ICU for three days after surgery and later I was moved this special sharing room in the ward. I was very comfortable and felt happy with the facilities and treatment as a patient at KIMS hospital. Many, many thanks to KIMS Hospital Secunderabad and their post surgery services and especially Dr. Manas Kumar Panigrahi for saving my life by quickly performing this critical brain tumor removing surgery with latest technology.

Such words of appreciation serve as a tonic for us to serve the patients better-and-better. I will quote a disciple asked his Guru, what is more important, the journey or destination, Guru replied the company. And the company is good, it leads to good results. You are in good company with KIMS and we turn our in your good company.

I come to now assuring you that we will continue to work with the same tempo and determination in achieving our results. One more, I am keep sending my wellness journals to all of you, those people who have not received if we can able to share our e-mails on a monthly basis, we keep on sending a wellness journal so that we can be away from most of the diseases. Thank you.

Moderator: We have the first question from the line of Chintan Shet from Sameeksha Capital.

Chintan Shet: Congrats on the good set of number and being a shareholder, we are happy to hear appreciation letter from our patient and kudos to the team. Sir, couple of questions. One is on the growth aspect, you mentioned Bangalore in March 24 and others. If you can briefly update where are we, in terms of capex, and how will be the capex outlay likely to pan out over the course of next two to three years? That is one, and the number of bed addition relative to that CapEx?

And second is on the ARPP and ARPOB declined this quarter, as you mentioned in the initial remarks, how should we read about it, in terms of whether the trajectory will likely to stay, obviously, it will be driven by case mix and there are other factors as well, but if you can address incrementally give us some trajectory going forward? We also indicated earlier that there is a rate revision likely to happen, if you can update on that as well? Thank you.

Abhinay Bollineni: So as far as ARPOB is concerned, like we had mentioned multiple times in the past, I think we should always consider it in that range of 29,000 to 31,000, and every quarter based on the occupancy number of patients being discharged complexity of work, it could hover. But if you look at consistently over the last three, four quarters, we have been hovering around the same range. So when one looks at prospective quarters, we should assume that we'll safely be in the 29,000 to 31,000 kind of bracket. And it will change based on the numbers. As far as the expansion is concerned, I think, fortunately, all the expansion so far are on track.

Let me go state wise. As far as Telangana is concerned, Kondapur will be operational in the next 24 to 30 months as per the original time line. And the total outlay for that project is going to be to the tune of INR 350 crores, but spread over the next three years. And that is towards the interior, medical equipment, and the other infrastructure, that's the expansion that's happening in Telanana. And as far as Andhra is concerned, we had earlier mentioned, we are expanding bed capacity in each of our hospitals. This is largely to accommodate more specialties to accommodate growth in existing specialties and have cancer as a significant contributor to the overall growth in that market.

As far as Karnataka is concerned, we had a couple of projects that we were looking at in the past. One that is solidified is the sole space project where we acquired a shopping mall and we're building upon embedded hospital. We have complete acquisitions, we've completed the acquisition of the mall and work has started in full swing.

We should complete the project in the next 12 to 18 months and have it operational in the next 12 to 18 months. We have already completed an outlay of INR 120 crores towards acquiring the property and an incremental INR 250 crores to INR 300 crores is what we will spend to complete the project, and this will be spent out in the next 12 to 18 months. This is towards refurbishing the entire space and also towards the medical equipment.

Chintan Shet: What will be the bed capacity of that mall?

- Abhinay Bollineni:** That will be 400-450 beds in full capacity, but we will operationalize all the beds, but capex for all the beds is what I have mentioned.
- Chintan Shet:** And we'll start with around 200 to 250 or less than that?
- Abhinay Bollineni:** So the medical equipment will be bought in staggered manner, but the infra upgradation will happen for all of the beds in one go.
- Chintan Shet:** Will start with 200, 250, right?
- Abhinay Bollineni:** 200 beds is more than enough to start with.
- Chintan Shet:** And we also were in discussion with some Maharashtra hospital in Thane or something?
- Abhinay Bollineni:** Correct. So there so this is as far as Bangalore is concerned, we're still evaluating more opportunities. I think by the next quarter, we should be able to bring something on table. As far as Maharashtra is concerned, we had earlier spoke about Nasik, which is on track. Again, 12 months from now, we should operationalize that asset.
- The structural work of the asset is completed. We will start our civil work and interiors in this quarter. And hopefully, by 12 months, we will be on track to operationalize that property. As far as Thane is concerned, we are still waiting for some clearances from government authority. We're hopeful by end of this quarter, we should get it. And if we do get it by end of this quarter by nine to 12 months, we should just look at operationalizing it.
- Chintan Shet:** And a bit on the insurance rate pricing?
- Abhinay Bollineni:** Yes. So some of the insurance have happened. Some are yet to happen, but it typically takes six months to nine months after the date of renewals for the renewal process to happen.
- Moderator:** We have the next question from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking.
- Bhavya Gandhi:** Congratulations on good set of numbers. Sir, I just wanted to understand how would the debt look like maybe one or two years down the line, assuming the merger is going to take place and Debt is going to come on our books on a full year basis. And also on the cash flow, are we going to take some external debt going forward for the capex? Or how is it?
- Vikas Maheshwari:** Thanks, Bhavya, it's a good question. As on date, we are only focused on two projects, which is Bangalore for which Dr. Abhinay has just briefed that we have completed the transaction and the work is going on. And the Nasik, one, which we have already done. So as on 30th September, after the closure of the Nagpur transaction, where we have infused INR 80 crores of the equity and some loan, we have given to the subsidiary for cleaning of the balance sheet, etc, etc. With that, the Nagpur subsidiary has INR 150 crores of the debt. So as on 30th September, as a net debt level, we are at around INR 50 crores, INR 60 crores of the net debt positive right now.

So from the cash positive from the last quarter because of the Nagpur transaction and the Nasik and the Bangalore project, which we are undertaking. So some INR 50 crores of the net debt is there.

The company, if you look at the cash flow, we are generating something like that INR 200 crores of the cash flow we have generated for the first half. If you analyse it, roughly INR 400 crores is the cash we will be generating for the this year and next year depending upon the working capital adjustment.

So on the safer side, even if we look at some working capital because it's all lumpy depending upon the government payment, etc. So INR 700 crores of the cash will get generated in next 24 months. And that is what is the project we are taking. So the interim period since the capex will be first and the cash flow will come over a period of 24 months. There may be some debt in the books. But overall, over a period of time, next two years, based on these two projects which we are taking, we are very comfortable on that situation.

As far as another thing which we may look at is like at the Sunshine, we are looking at buying out the new building where we are moving on, if that crystallizes, some debt will come. But accordingly, the rental will come down on that balance sheet, it will be value accretive for the whole organization. And we are also looking at and discussing with the Board, etc, for increasing our minority interest in buying out the minority, a few of the minorities in few companies. And if that happens, that incremental cash outflow will happen.

Bhavya Gandhi:

And on the EBITDA front, what is the internal target maybe we are at almost 26%, 26.5% and that peak, we were at 30%. I understand there were mergers, low-margin business getting merged with a high-margin business. But going forward, we might be looking at cost rationalization and maybe we want to get back to our company level margins. So what is the internal target maybe? Maybe hypothetical, difficult maybe to tell at this stage.

Abhinay Bollineni:

I think across our hospitals, so on our mature hospitals are hovering around 30% margin. And as the revenue growth happens, is there an expansion happens, the incremental margin keeps expanding. So our internal target first is to see how we can get the recently acquired KIMS hospitals to that 30%, bring Sunshine and Kingsway also into that 30% bracket. So I think we are pretty confident, we should be able to achieve that in the next two years.

Vikas Maheshwari:

So Bhavya, to add to that, what Dr. Abhinay has told, though we have shared the details in the presentation just to make it more clear in terms of for the whole audience. If you look at the KIMS as a group for the nine hospitals, whether it is Andra acquired or mature or the KIMS matured units at the Telangana, we are at about 30% of the EBITDA on that basis. So that is continuing.

And then we believe that we will be able to maintain. The kicker will come from the Sunshine, which we have added, which is operating right now at a suboptimal EBITDA margin of 18%, right. So, and these assets are in the same market. So we believe that in next three to nine months' time, we should be able to reach something like that 25% margin on that. So the margin

improvement will come from there. And accordingly, this Nagpur, which we have added the one-month revenue and the EBITDA, which has got added and we bought it at a very reasonable price of that.

And it is just EBITDA positive, we're sitting on a great operating leverage. And as the revenue ramp up and the doctor joining team, when the revenue ramp-up happens and the cost less lays together. We believe that, that also will happen in the next six to nine months time should be in the trajectory of 20% to 25%. So the main improvement of the EBITDA at the consol level will come from our Sunshine and Nagpur acquisition and to some extent from the AP acquired assets.

Moderator: We have the next question from the line of Harshit Toshniwal from Bottomsup Research.

Harshit Toshniwal: I had a few questions. So one is more, sir, in general to the business operation itself. When we say, for example, when we try to expand in Bangalore or, for example, will we try to maintain our market share in even Telangana market. I wanted to understand that what is our approach to the doctor engagement. Say, for example, I think in FY '22, we had around 1,400 doctors, so how much would be on payroll and what is the one which we engage on the fee as a service model. And what would be the preference as we expand to the newer cities, how to build that doctor network? And that's my first question. I had a few more, but I'll ask it after this.

Abhinay Bollineni: So I think all the doctors that we engage are on the consulting model only. We don't have any of them on full time, sorry, on a fixed pay kind of a model. That's not how it was. And moving forward, in Bangalore also will continue to engage with them in the similar format

Harshit Toshniwal: But just more theoretical effect from a hospital point of view, but having doctors on payroll helps in better branding even though the costs are slightly higher. But it helps in ensuring a more prominent brand. So for example, in a place like Telangana also, does it make sense to keep doctors on a consulting basis or to have a mix of payroll and consulting?

Abhinay Bollineni: I think it's an industry-wide practice that has been going for quite some time and doctors are more comfortable in the consulting model and on a payroll model.

Harshit Toshniwal: And the second question is relating to our overall share. So when we look at our stake in many of the subsidiaries across hospitals. So I think in Sunshine, in Nasik one and the Nagpur one, we have a clear segregation of the EBITDA. But when I look at our AP mature assets, we have an overall EBITDA and revenue number, but is there a way to simplify our net holding across the AP and Telangana assets for the valuation calculation?

Vikas Maheshwari: Yes, Harshit, see, what has happened is that we believe on the doctor partnership model, and if we -- the reason which we float the subsidiary for each hospital is that once that particular doctor has a stake on that, they feel that is their own hospital and they move what they more do ethical work, bring more volumes and their friends, good clinic clinicians, etc., at the hospital. The simplified way of doing that if we merge all the subsidiaries, there will be a very small pie in the overall group. So our idea is that we should merge the hospital once they reach to the one level of the maturity, so we are working towards that. And as we told in the earlier response to

the Bhavya is that we are looking at increasing some minorities stake in few of the subsidiaries, which will consolidate our holding, and once they mature, obviously, the plan is that in the next two to three years' time, we should merge with the parent company to simplify this structure. But it is something like 18 to 24 months away, I believe.

- Harshit Toshniwal:** And sir, for example, currently, if I want to ...
- Moderator::** I'm sorry to interrupt Mr. Toshniwal, your voice is not that clear, may we request you to, please, sir, use your handset if possible.
- Harshit Toshniwal:** Sir, I'll use my handset. And just if I want to look at the ex-of Sunshine, Nagpur and Nasik, in the balance part, a number which we can use to rough ballpark numbers for our net share in the overall profit. So is it more like 90%, 95% because the holding structure is different across different hospitals. So on a consolidated basis, today, we want to value it, then should we assume the stake of KIMS to be at around 90% to 95% at the broader level?
- Vikas Maheshwari:** At the PAT level, yes. At the EBITDA, roughly 14% will be the minority interest at a net level, it will be less.
- Harshit Toshniwal:** The net level 8% or at the EBITDA level, 14% is a minority. This is for the ex only for the AP, Telangana.
- Vikas Maheshwari:** Based one the first half calculation of the EBITDA unit-wise, it is roughly 14% of the EBITDA is belongs to the minority interest. At the net level, it should be 7% to 8%.
- Harshit Toshniwal:** And is this the entire all entire balance sheet and all even Sunshine put together or this is just ex of Sunshine and Nasik and Nagpur?
- Vikas Maheshwari:** Including all subsidiaries, which is Vizag, Anantpur, Kurnool, Sunshine, everything. All subsidiaries including.
- Abhinay Bollineni:** If it is only, 4%, 5%.
- Harshit Toshniwal:** And going forward, if a lot of our improvement is going to come in, say, for example, Sunshine, etcetera, then this 14% EBITDA share should increase the minority share should increase from 14% to maybe somewhere around 18% to 20% level?
- Abhinay Bollineni:** So that is why we are looking at some increase in our stake, Harshit, before that happened.
- Harshit Toshniwal:** And one last question, I think probably something related to this itself. When we say, for example, taking the case of the Nasik hospital, right, and when we evaluated it and when you say that you are going to increase the interest, minority interest out there? Then how do we value that stake at that point of time for the various doctors?

- Vikas Maheshwari:** That is the bilateral discussion. So far, we have not used that stage. We are just in touch with that. And we'll be very value conscious and give a fair deal to all the shareholders, including KIM shareholders and their shareholders.
- Harshit Toshniwal:** One last question from my side. When we look at the case profile, if you can help -- so we understand that at an overall level, our margin would be more around 25%, 30% for a mature hospital. But since case-mix is a very important lever, and that is there across industry itself. I wanted to get some sense as to broadly what are the specific cases where we make higher margins versus the other? So for example if we try to look Onco, Nephro, Ortho across segments, some guidance as to how should we look at the margin profile for different sector? And I'm not talking specifically for KIMS, but in general, from an industry understanding point of view?
- Abhinay Bollineni:** Honestly, the way we drive it internally is based on revenue, occupancy and utilization of the asset. So, specialty mix really doesn't matter so much. I mean, to an extent, it does, but we have been able to in case of SunShine where ortho also currently raise almost 30%, 35% of the revenue. We're still pretty confident that we'll be able to get to that kind of margin. That is because we believe that there is headroom for growth in terms of volume and get to higher occupancy. And that is what will drive operating leverage.
- So even where our ARPOPs as low as 15,000, 20,000, where we have been delivering 30% kind of a margin. So even -- so I think it's less to do with what kind of specialties and what kind of pricing -- it's more to do it at that pricing, are we able to control costs and are we able to get to scale. And that is what we are trying to do in most of the hospitals.
- Bhaskara Rao Bollineni:** What then ARPA and ROV in the most important thing in general, you were asking in the health care. It is the -- how we've been able to improvise the volume and the payer mix. That is the key that can able to help the organization.
- Harshit Toshniwal:** But -- so no meaningful difference in terms of say, for example, like Cardiac versus in Nuero case itself?
- Abhinay Bollineni:** It doesn't matter. If the hospital should be a multi-specialty. And we should focus on scale of the volume and occupancy across specialties.
- Moderator:** We have the next question from the line of Rahul Jeewani from IIFL Securities.
- Rahul Jeewani:** Sir, if we now look at our occupancy at a group level, we are trending somewhere around 69%, 70%. So how do you look at occupancies going forward on the base business apart from the incremental capacity, which you are adding. So on the base occupancies, where can you be in, let's say, 18 to 24 months down the line?
- Abhinay Bollineni:** When you say base occupancy, Rahul, can you clarify a little, please? 70% occupancy on a consol level at H1 numbers.
- Rahul Jeewani:** Dr. Abhinay, I was asking that if we look at your occupancies, we are at 70% on sensors beds, but the way some of your other peers disclose on operating bed, then on operating beds, our

occupancies will be around 60%. So how are you viewing the overall occupancies to improve on the base business going forward, apart from the capacity additions, which you will be doing over the next 2 to 3 year period?

- Abhinay Bollineni:** Right. So I think we should -- we are comfortable to get to 70%, 75% on the operational beds.
- Rahul Jeewani:** So the operational bed occupancies, which right now are at 60% that you think can improve to 70%, 75%.
- Abhinay Bollineni:** Because we're not adding bed capacity in all the hospitals. We are adding bed capacity only in certain hospitals. So we're expecting that the current bed capacity in the current hospitals will be sufficient to increase the number of -- increase the volume in...
- Rahul Jeewani:** And with that occupancy ramp-up, how do you expect the profitability of the -- of KIMS improving ex of Sunshine in Nagpur? Now one question, which I had on your base business margins is that if you look at your mature hospitals, your mature hospitals last year, we're doing around 34% kind of EBITDA margins. And in 1H should the margins for the mature hospitals have been slightly on the lower side at 32%. So why the run rate on the mature hospital margins is slightly below and with the ramp-up in occupancies, how are you looking at the margins for KIMS ex of Sunshine in Nagpur?
- Abhinay Bollineni:** Look we are pretty confident that we've been seeing that happen over the last 6 to 9 months, historically that almost 50% of the incremental revenue, 45% to 50% of the incremental revenue, we've been able to see that convert back into EBITDA. So in Telangana and in our KIMS mature sales, which is Kondapur, Secundrabad and few of the assets in Andhra, we have seen it scale that way.
- Unfortunately, this quarter, there were some exceptional items because of which instead of having INR 25 crores of incremental -- 50% of that flowing in, we only saw INR 15 crores flowing, which I think moving forward, these exceptional items will come down, and we should see that 50% translate 45% to 50%.
- Rahul Jeewani:** And what were the one-off exceptional items?
- Vikas Maheshwari:** It is INR 5.5 crores, which we paid for the luxury tax disputes, which were related to the dated back to 2011 and there was a onetime settlement scheme, which the government -- Telegana and Andhra government circulated, we opted for that. So that amount has heated that.
- At the same time, there was some receivables-related provision of up to some INR 11 crore, INR 7 crores is for the initial incremental provision, which keeps fluctuating quarter-on-quarter depending upon the shift of the course. And then some -- there were some old receivables, which we are carrying forward. We have finally took the hit on the balance sheet of roughly INR 4 crores.
- Rahul Jeewani:** So this INR 5.5 crores you had disclosed in the exchange filings as well. So apart from that, you are saying that another INR 15 crore is related to the receivable provision...

- Vikas Maheshwari:** INR 10 crores of.
- Rahul Jeewani:** INR 10 crores. And sir, my last question before I join back the queue is that if you look at now one of your key peers in the Hyderabad market, which is Care hospitals, there is news flow that Care hospitals can potentially be acquired by few key investors or one other large player in this sector.
- So how do you see the competitive intensity in your core market changing once this transaction happens as then with some of these players acquiring Care, obviously, the new set of management will try to invest behind the business. So how would you view the competitive intensity changing for your core market?
- Bhaskar Bollineni:** As long as our core values, we are going to stick to those values any number of hospitals that comes and as long as our doctors are happy, the infrastructure, administration and technology. And more and more doctors keep adding to us. So even that I don't think is a very, very big competition for us.
- Rahul Jeewani:** Sure, sir. And about retention of doctor talent be an issue or do you think that your doctor equity model would continue to give you some sort of an advantage versus competition in retaining talent?
- Bhaskara Rao Bollineni:** Yes, definitely to reduce some added advantage for us I don't think we have any attrition in Doctors
- Rahul Jeewani:** And what is the doctor attrition rate as of now for us as in you highlighted that point?
- Abhinay Bollineni:** In the last quarter, we lost only 1 doctor, not all doctors and we got 24 doc.
- Moderator:** We have the next question from the line of Prakash Agarwal from Axis Capital.
- Prakash Agarwal:** Question on Telangana cluster. So, if you see occupancy by most hospitals reported have gone up here in Telangana, it kindly -- it's kind of stable here while there are positive move. So any particular reason?
- Abhinay Bollineni:** So I think in Telangana, we have two assets, which is in KIMS in Secundrabad and in Kondapur. Kondapur currently, the occupancy is quite high and we don't have that capacity to accommodate more number of patients. So, until the new facility comes, there will be some restricted growth there.
- As far as Secundrabad is concerned, we have seen the occupancy move up. The overall volumes for the Telangana cluster has moved up by almost 10%. I think we're fairly happy with the volume movement that has happened from quarter 1 to quarter 2. And there's a dip in ALOS by almost 10%, which is resulted in ARPOB go up.

Prakash Agarwal: Okay. And secondly, on Sunshine. So ramp-up is partly there in the occupancy. But when do you think it will reach how much time does it take? And what is the company action to improve the occupancy levels here?

Abhinay Bollineni: Yes. So I think let me just slip the question there are 2 assets of Sunshine. And one of the asset, which is in Gachibowli, we have done a fair bit of progress. So earlier -- though the revenue remains constant, we had done a lot of cleanup, which in the case was to get a lot of new doctors at lower cost versus the higher cost doctors that they were paying earlier. So we had replaced them in spite of which we've been able to retain the revenue. Now all that cleanup has done. We're waiting for some more doctors to join the company soon over the next 2 to 3 months. And once they join over the next 6 months, you should see that hospital heating a higher occupancy close to the 60%, 65%. And all of that incremental revenue will translate to a high margin in the Sunshine Gachibowli facility.

As far as Begumpet facility is concerned by end of this year, by December, we should have finished all the operational efficiency or plug-in that we could potentially do. And from the fourth quarter of this year, we can start seeing that translating in the EBITDA growth as far as the Begumpet, Secundrabad facility of Sunshine is concerned.

We have not been able to make much progress in the revenue growth because of moving from the current facility to a newer facility and we want to start engaging and bringing new doctors on board once we move to the new facility. So that will happen between 10 March of this financial year.

And once that happens, maybe in 6 to 8 months, we'll bring new doctors and board. And then from there 6 to 9 months, you will start seeing an incremental revenue come up and ramp-up happen. So that's how we planned out Sunshine. So the Gachibowli assets should reach a healthy occupancy and healthy margin by the first -- end of first quarter next financial year, first to second quarter next financial year. And the Begumpet facility should see it stabilized by the end of first quarter, the next financial year, FY '24.

Prakash Agarwal: And lastly, on Nagpur, showing 92% occupancy already, but 10% margin. So what do you think is the sweet spot, which you can get after and in the next 2, 3 quarters, it will be at least 18%, 20% margin.

Abhinay Bollineni: So I think the good part of Nagpur is it's already delivering 10% EBITDA margin. We believe there is a lot of efficiency that we can drive in on the consulting cost and consumable costs. Once that is fixed to give up of 2%, 3%. And once that is fixed, we have identified a lot of clinical talent that can be added to the company. And we are hopeful that they should all be onboarded by January, Feb.

And from there, in 6 to 9 months, we should see a significant movement in the occupancy -- sorry, in terms of the revenue, which automatically will start flowing into the EBITDA. So by the end of end of second quarter next year or third quarter, we should see Nagpur ramp up to a healthy 20% kind of margin with incremental revenue.

- Prakash Agarwal:** And lastly on Thane, I think you mentioned that you have expansion plans. What is the size we are talking about? And is it also a turnaround asset?
- Abhinay Bollineni:** So that is something that we still haven't concluded, we have been exploring that with one -- a project in Thane around 250, 300 beds. But unfortunately, there has been some delay there. We should come back to you that in the next investor call.
- Moderator:** We have the next question from the line of Alankar Garude from Kotak Institutional Equities.
- Alankar Garude:** Sir, one of the aspects, which is work for well -- worked well for us in the past is in AP Telangana, particularly is the doctor partnership model. Now we have done a couple of similar tie-ups in Maharashtra as well based on your experience so far, is the incoming interest from doctors who are running hospitals in these other states, be it Maharashtra, Karnataka or maybe any other state, Tamil Nadu as well to partner with KIMS as high as what we have seen in AP Telangana?
- Abhinay Bollineni:** Yes. In fact, in Maharashtra, we have got close to 10 opportunities, but we didn't take all those opportunities forward in the doctor partnership model, especially after we signed Nasik, Nagpur and the stocks that we are doing something in Bombay, the people are doctors are understanding that we will be able to create a larger network in Maharashtra. But again, there is definitely good interest in Maharashtra but we're a little choosy and picky on the size and of hosting that we wanted to. Especially in the beginning years, we want to be a little cautious and careful about the properties that we choose on the partnerships that we choose. But there is good traction. There is definitely a good traction in the market.
- Alankar Garude:** And just hypothetically Abhinay, if we get lower interest from doctors right for the partnership model, say, maybe not immediately, but say, three, five years down the line. Are we open to acquiring entire assets on our own?
- Abhinay Bollineni:** We're absolutely, okay to acquire 100% of the asset on our own. In fact, even in Nagpur, we are pretty keen to do at least a significant 75 to 80. But it was that the local talent wanted to retain some and probably do it initially. So we're absolutely okay with getting to 80%, 90%.
- Alankar Garude:** And maybe one final question linked to this gain. See, as you mentioned earlier in the call it you acquired assets at attractive valuations in the past. Now with many hospitals actively looking to grow inorganically, can getting good assets at attractive valuations increasingly be an issue for us?
- Abhinay Bollineni:** No.
- Abhinay Bollineni:** I don't think that's going to be a challenge because both Nagpur and SunShine had term sheets at much higher valuations. And these are as recent as just one month, two months old and one is one year old. So I think what they're looking at is long-term value creation and how we can partner with a light-minded group and be able to scale it. So yes, valuation plays a role, but also these are things that doctors are looking forward to especially in doctor partnership models.

- Moderator:** We have a follow-up question from the line of Chintan Sheth from Sameeksha Capital
- Chintan Sheth:** One question only on the September pledge that increased slightly promoter pledge. This is related to the nursing hospital from the promotor and the incremental increase in pledge is also related to the acquisitions we are making currently? And what will be the outlook for that?
- Bhaskara Rao Bollineni:** Only one time, I think we are going to release the -- what we have been project for the medical school that is going to released once they do the balance sheet and ratings. I think by next year, I think it will come down
- Chintan Sheth:** Come down and then over the next couple of years, it will likely to. So the increase, I just wanted to know the increase is related purely to the nursing hospital? Or is it related to the new acquisitions or the -- we are making for which we might require additional funding. So is this business related or promoter business related?
- Vikas Maheshwari:** The whole pledge here to break into two parts, what is promoter and other is the promoter group. -- the promote a very sizable Infra and the real estate business. And if they go and borrow from the market for their own business of infra, real estate, the rate is high. Because for the share pledge, the rate is slightly lower, they have opted on the pledge of the share. So if you look at the promoter group share, completely, I think they own 4.74 out of that, 4.49 is completely pledged.
- So that is of the promoter group rated on which we have a limited influence to restrict them for the pledge. We don't have that much of the restrictions, but we have continuously kept on advising them to remove this pledge. We believe that they are selling some assets and they are likely to get some large amount in INR 700 crores, INR 800 crores by sale of the assets. Once that happens, probably those pledge will go away. I'm using the word again, probably because that is what is the feedback is being given to us.
- As far as Dr. Bhaskar Rao's pledge is concerned, that is the two pledge. One is with the -- yes Bank and another is with the NBFC. So I think 12 lakh shares are with the yes bank, which is completely a collateral security, given for a medical college, which is doing a very healthy balance sheet and healthy operating margins and EBITDA, they are doing something like that INR 40 crores, INR 45 crores of the EBITDA. So it's a completely collateral.
- The only pledge with Dr. Bhaskar Rao has done is 12,34,000, and this is for the loan against share pledge, which again has gone to their brothers who are running the infra and real estate business. Once that asset gets soon, this pledge will go away. So the outer limit time line, you should keep something like that March and June, at least Dr. Bhaskar Rao 12,34,000 share pledge will go. Yes, bank may take some time, but gradually, it will come down.
- Moderator:** We have a follow-up question from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking

- Bhavya Gandhi:** Sir, just a clarification with respect to our share of EBITDA consol level right now, we are at INR 150-odd crores for this quarter. So if you could just provide our share of EBITDA assuming our 51% stake and maybe across different or?
- Vikas Maheshwari:** So Bhavya this is a good question. As we told earlier in the first half basis, roughly 14% of the EBITDA belongs to the minority.
- Bhavya Gandhi:** If it is less 14% would be our share, right? Simply put it up like that?
- Vikas Maheshwari:** Yes. 86% belongs only to 14% of the EBITDA based on the various subsidiaries. The minority shareholding is 14% of the minority interest.
- Bhavya Gandhi:** Small request, if we can put that across maybe an investor presentation going forward because now we have a couple of different acquisitions at different share, right? So it becomes difficult to calculate at our end. And on prior...
- Vikas Maheshwari:** We take this point and will include going forward in our presentation.
- Bhavya Gandhi:** And PAT level is 7%, right?
- Vikas Maheshwari:** Yes, it should be at around 6% to 7%.
- Moderator:** Thank you. As that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Bhaskara Rao Bollineni:** Good. I think your company has done very well, and if people thanks for joining the call and giving some information in the form of questions. We improvised our financials so volume for the patients and all. Maybe we will continue to try to improvise your company and make sure that you people get a good return on investment. Thank you. Jai Hind.
- 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.