

19th August, 2021

CIN: L55101TG1973PLC040558

<p>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</p>	<p>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</p>
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Dear Sir,

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

In Continuation to our letter dated 9 August 2021 the Company had organized a conference call with the Investors/ Analysts on Wednesday, 11 August 2021 at 12:00 Hrs (IST). A copy of Transcript of conference call held with the Investors/ Analysts is enclosed herewith and the same has also been uploaded on the Company's Website at www.kimshospitals.com.

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



Umashankar Mantha

Company Secretary & Compliance Officer



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**“KIMS Hospital
Q1 FY2022 Earnings Conference Call”**

August 11, 2021



ANALYST: MR. RAHUL JEEWANI - IIFL SECURITIES LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the KIMS Hospital Q1 FY2021 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 “*” then “0” 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: Good afternoon everyone. I am Rahul Jeewani from IIFL. I thank the KIMS management team for giving us the opportunity to host this call today. From KIMS we have with us Dr. Bhaskar Rao Bollineni - Founder and Managing Director, Dr. Abhinay Bollineni - Executive Director and CEO and Mr. Vikas Maheshwari - CFO. I hand over the call to the management team for their opening remarks post which we will open the floor for Q&A. Over to you Sir!

Bhaskar Rao Bollineni: Good afternoon to all of you. I extend a hearty welcome to all of you for the first investors meet of KIMS Hospitals. I thank you for the confidence you have reposed in us and we assure you of a financial secure and rewarding future. Before I go to financials, let all of us from KIMS congratulate our spectacular winners at the just concluded Tokyo Olympics. This is the best ever Olympics for India in terms of winning medals. The whole nation is rejoicing the occasion. Our kudos to not just winners but also to all the participants of this international sports bonanza. Winning or not winning is a part of the game. What matters is participation and we are proud all of our Olympian stars. The personal encouragement of our Prime Minister Modi Ji gave to the players was indeed heartening.

Now coming to business, during this unprecedented COVID crisis KIMS rose to the occasion and did exemplary work by saving many lives in tough situations. I will now share a few of the highlights. We did Asia’s largest number of COVID lung transplants of 20 till June 30, 2021. In anticipation of increasing needs we acquired further ECMO machines and it had enormously helped in treating COVID patients effectively. We now have 18 ECMO machines, possibly the largest number in a single centre in the country and we treat nearly 50 + COVID patients on ECMO machines, out of which 10 were doctors brought from various parts of the country who were serving COVID patients. Youngest COVID survivor just a week old was successfully treated and discharged from our Mother and Child Unit which is a matter of pride and satisfaction. Another accomplishment this is the first known ECMO case of COVID positive chain in India were successfully treated and discharged. Alongside COVID cases, we have done significant non-COVID work. A pre-term baby weighing only 1100 grams was successfully discharged who undergoing heart procedure. A rare kidney transplant between two noncompatible blood groups was successfully done. A three-month old

baby under a rare spinal deformity surgery. An infant born with a rare and a complex RH tissue were successfully treated and discharged. Advanced plasma transplantation was performed on a 6-year-old suffering with a rare genetic condition. Successful treatment of such critical cases is a matter of great personal satisfaction and speaks volumes about professional expertise and medical infrastructure available with us.

Now, we come to the financial performance of the company. FY2022 Q1 revenue and EBITDA growth is partly on account of the low base during the last financial year due to lockdown which makes Q1 FY2021 not a comparable quarter. Growth during Q1 FY2022 was on account of the following: Contribution from ECMO and heart and lung transplant has doubled compared to previous quarter. Higher occupancy of COVID patients when compared to the previous quarter. In addition, vaccination revenue RIGHT/PCR tests, COVID homecare and COVID hotel packages also contributed significantly. In order to excellent surge ahead, we have identified four core points called as 4Cs. The first C is cost, we will focus on reducing the cost for the patient through innovation and cost effectiveness in our organization. Second C is about comfort, for the patient from the starting point to total recovery the patient should have physical, emotional and financial comfort. Third C concerns clinical outcome. We will maximize our expertise to ensure best clinical outcome on a continuous basis. Fourth C is about compliance of all statutory norms without fail as a dutiful corporate citizen. These four Cs will drive our expansion and growth trajectory. Friends, if we adhere to these 4Cs namely cost, comfort, clinical and compliance, rest assured we will reach the pinnacle in the field. We will use our technology and resources to focus on these four core points.

Coming to the business expansion, I am pleased to inform you that keeping future expansion in view KIMS Kondapur has entered into a lease agreement for a land and building. We are already experiencing shortage of beds at KIMS Kondapur and there is a lot of scope for serving the medical needs of people in that area. I consider it as a good opportunity to strengthen KIMS Kondapur. Let me assure that your KIMS will always be dynamic in action, professional in approach, caring in treatment, relentless in our efforts in maximizing the return of your investments. By your investments, you have become a part of KIMS family. We are living in COVID times and the pandemic will be there around for some time to come. We are witnessing resurgence of cases in America and Europe. In some parts of our country also the situation is far from satisfactory. The only way we can safeguard ourselves is by taking all the precautions like social distancing, by keeping ourselves away from social gathering, sanitation and wearing the mask when you are outside home. These precautions are mandatory to protect ourselves from this virus. You may wonder why I am speaking on this issue here. This is so because we care for you and as a healthcare expert it is by primary duty to alert you about the possible onset of the virus. Prevention has to become a wave of life, like waves it can surface again and again and we have to brace ourselves

accordingly. I once again thank you and welcome you to the family of KIMS, assuring you to a fruitful association. Thank you very much. We can open for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on the touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use only handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Praveen Sahay from Edelweiss Financial Services. Please go ahead.

Praveen Sahay: Thank you for taking my questions and many congratulations for a good set of numbers Sir so my first question is related to the occupancy and operating beds. Can you give the numbers for the quarter, how much is an operating beds and also the occupancy as you mentioned in the presentation there is good improvement in occupancy, can you give highlight on the COVID and non-COVID occupancy level?

Abhinay Bollineni: Basically the quarter when compared to COVID and non-COVID and nearly the last quarter is totally non-COVID work was coming onto the pre-COVID era of 2019-2020 financial year and suddenly the COVID has come, so we were partly doing COVID and non-COVID work, nearly 75% of the workload is from non-COVID only, 25% of the work when compared to the entire quarter is around COVID. Mostly the heart and lung transplant has contributed a lot because of 18 ECMO machines we kept which is very high-end procedure. The second important thing the COVID was there for a month, so the rest of the two months from beginning of the COVID and coming down in the COVID, there is a little lag period so now it has again picked up well, so mostly as you see the OP volume has come down to 30% and IP volume was 3%. Because of the period between transmission from non-COVID to COVID, COVID to non-COVID that is the reason the volume has come down, otherwise during the COVID time the entire occupancy was very high, even more than expected than usual and because of that the volume has come down.

Abhinay Bollineni: Just to give you a number, we have total bed capacity of 3056 of which 2500 beds are operational, but if you look at the overall occupancy and the total capacity for the quarter it had been around 58% to 60%.

Praveen Sahay: Okay got it. The next question is if you can quantify the COVID revenue, how much you generated for the quarter?

Abhinay Bollineni: Nearly 25% of the total quarter revenue belongs to COVID and 75% is the non-COVID.

- Praveen Sahay:** Okay great and lastly Sir I will come back after that in the queue. Also you had mentioned in the hired additional medical staff and nurses for this quarter and your employee strength also on a quarterly basis if I look at the total amount has increased, so how much is sustainable in the employee expenses, is the current quarter run rate could sustain over a year?
- Abhinay Bollineni:** Actually nearly 300 staff has been recruited specifically for the COVID. During the COVID time we were not able to put all the people as a routine duty. We needed extra manpower, so we took them for that quarter and we have taken them for three months, so the moment the COVID got over after that they have been exited, so nearly 300 staff has been recruited only for the COVID purpose.
- Praveen Sahay:** Okay fine. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.
- Nitin Gosar:** Would like to understand Sir what we are doing of the efforts that you are putting into to take KIMS brand beyond the core region?
- Abhinay Bollineni:** Basically as we have planned on road shows I think we are pretty well 100% on that and now we are looking into central India, one of the things that is coming, maybe in a month or two months' time we would be able to do that. As I mentioned before, in Kondapur what we have done in the road show that we have already done in agreement, MOU, with them and we are going ahead with that. The Chennai and Bangalore plans are also on and because of the COVID and both the states, it is getting delayed for four to six weeks, otherwise whatever we have been planning for both those two places they are on.
- Nitin Gosar:** Got it Sir and we should be taking more inorganic approach going forward for expansion beyond core areas?
- Abhinay Bollineni:** Both inorganic and organic, semi-brownfield rather.
- Nitin Gosar:** Right and have we been able to zero down any assets that could be of interest to us?
- Abhinay Bollineni:** Yes, in central India Maharashtra we have been able to zero down one to two assets, but we are yet to get final clearances and then we will present to the board and send an official note. It should be probably done in the next 20 to 40 days.
- Nitin Gosar:** Got it. Thank you.

- Moderator:** Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** Sir one just clarification first on the Kondapur, after the lease agreement what is the new addition of it that we can do over there and when those beds will be operational?
- Abhinay Bollineni:** The new Kondapur hospital will have total of 700 to 800 beds and this will be deployed over a period of time. In phase I, we are looking to operationalise an incremental 150 beds so that is the current 200 to 250 beds will scale up and additional 200-250 beds and take it to 500 beds and this could be commissioned in the next like we said 30 to 36 months and based on ramp up and occupancy of these beds we will then commission the incremental 200 to 250 beds.
- Anubhav Aggarwal:** Is the land is very adjacent or very close to the existing hospital?
- Vikas Maheshwari:** We were fortunate to having found this land very close to our current hospital. We will then slowly transition from the current facility into the new campus once the new campus is ready within the six month to nine month period.
- Anubhav Aggarwal:** And you said that in three years you can have this fully operational?
- Abhinay Bollineni:** Correct, in three years we will have 500 beds built up. We will then let go of the existing facility and move to the completely new facility where we will have 500 beds operational, so that will be an incremental of only 250 beds because we currently anyways occupying 250.
- Anubhav Aggarwal:** Second question was you mentioned about COVID benefit but when I look at your EBITDA growth in this quarter, you also had benefit from vaccination, RT/PCR tests, etc., we saw only about that as one segment and you left out the hospital bed occupancy by COVID patients, how much would have been that extra benefit which you would have had in this quarter?
- Abhinay Bollineni:** The performance will be very similar to what it was in Q4, unfortunately because the COVID pandemic lasted for almost 35 to 45 days during the month, there is generally a slowdown before the pandemic and there is a time it takes for it to uptake again after the pandemic, hence that is the gap we you seen and I believe it would have been a better quarter than Q4 but because of these challenges we were constrained with and we were not able to see a number that was significantly higher than what we delivered in Q4.
- Anubhav Aggarwal:** You guys did EBITDA of 105 Crores in Q4 let us say it could have been a little better to 110 Crores, but ballpark we can grow to that number, 35 Crores to 40 Crores numbers could have come extra for the extra opportunities which came in this quarter?

- Abhinay Bollineni:** Correct, you are absolutely right. We mentioned that 25% of the revenue came in from COVID and that is close Rs.100 Crores and usually the incremental margin would be around the numbers that we typically got, but even if it was a complete clean month I think the company would have grown a little more than what we did in Q4.
- Anubhav Aggarwal:** Okay and just clarity on ARPOB level, for example 27,000 is pretty high, so once the situation has normalized more now in July and August, are you back with that corporate level and ARPOB level more like 21K or 22K now?
- Abhinay Bollineni:** You are right, we will normalize to that number. There was a significant change in the payer mix in this quarter which we believe has already normalized in the month of July and we are seeing the similar trend to continue in August and September.
- Anubhav Aggarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Thanks for the opportunity and congratulations to the management for a very good numbers. First one, just couple of clarification actually, one is on the occupancy levels, I mixed the comments so we were at about 58% as per presentation as on FY2021, what is the occupancy levels currently Sir?
- Abhinay Bollineni:** Q1 of FY2022 like I mentioned we would have been announced 60% to 62% kind of occupancy.
- Prakash Agarwal:** Okay but you also mentioned 25% is COVID bed?
- Vikas Maheshwari:** Correct.
- Prakash Agarwal:** Okay so revenue and I believe occupancy also right?
- Abhinay Bollineni:** Correct. The occupancy is I cannot able to say, in 35 to 40 days nearly 90% of the beds were occupied by the COVID only. The rest of the 55-60 days is a mixture of COVID and non-COVID work.
- Prakash Agarwal:** Okay and moving forward as you mentioned the payer mix which was much more favorable and which has led to higher forms and is normalizing to be seen in June and July months and going forward, so how do we think about the full year EBITDA margins going forward from here?
- Abhinay Bollineni:** I think Q4 was good quarter where things have normalized and we have seen very little impact on COVID in Q4. We should assume historically we have been able to grow at

15%-20% growth rate on year-on-year basis, so whatever we have achieved in Q4 we will certainly achieve that and grow beyond 20% kind of number on that as we did in the historical period.

Prakash Agarwal: So we are saying about 27%-28% EBITDA margin is also possible going forward, be it COVID or without COVID also?

Abhinay Bollineni: As we seen in Q4 we have been able to deliver 29% margin and we have seen similar trend even post first quarter, so we believe that is sustainable.

Prakash Agarwal: Okay and lastly on the run rate of the new facility that you started in Secunderabad, heart and lung program, what is the run rate today, as you mentioned it has doubled versus last quarter?

Abhinay Bollineni: We said part of the incremental revenue is because of the growth that came in from heart and lung program which also runs the ECMO program.

Abhinay Bollineni: Monthly run rate is at around Rs.6 Crores to Rs.7 Crores per month Prakash.

Prakash Agarwal: Per month current run rate?

Abhinay Bollineni: Yes, per month run rate Rs.6 Crores to Rs.7 Crores.

Prakash Agarwal: And this has doubled over similar quarter last year?

Abhinay Bollineni: Last year the quarter was actually lockdown period.

Prakash Agarwal: So hardly anything, understood. Okay, perfect, great. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.

Ankush Mahajan: Congrats for a good set of numbers. Sir my question is regarding the growth part. Sir I just tried to understand what kind of CapEx and what kind of bed capacity that we are increasing for the next two to three years and what kind of growth like lung and heart programs may have contributed? What kind of growth that we are experiencing from the existing facilities and what kind of growth that we are looking with the new CapEx, new addition of beds, can you throw some light Sir?

Abhinay Bollineni: Historically if you divide our acquired assets and mature assets, the mature assets have always been able to grow at 10% to 12% kind of growth rate historically for the last 7 to 8 years and we have always been able to deliver 12% growth rate for the overall company and we have been able to do this to acquire new assets. So, the new acquired

assets in the last four years have been able to keep up and help us deliver that 15% to 20% kind of growth rate, so we believe if you take acquired and mature ones as one cohort they will be able to generate a minimum of 10% to 13% kind of growth rate for many more years to come given the available bed capacity and given the available space to expand in the current hospitals. In addition to this, we believe that the balance growth rate will come in from the expansion projects that we are undertaking either in the home market such as Kondapur, such as Dilsukhnagar and the other projects that we spoke about in the past in Andhra Pradesh and also the projects that we are talking about in Tamil Nadu and Karnataka, and acquisition that we will soon announce that is potentially happen in central India in the next 35-40 days. That is where the balance growth will come, but again like I said in our presentation in the past from a short-term to medium-term we still assume a lot of the growth will come from the incremental CapEx that we are doing within AP and Telangana and the bed capacity that is available in the exiting hospitals.

Ankush Mahajan: Sir can you throw some light on ballpark number on the kind of CapEx and the number of beds we are increasing?

Abhinay Bollineni: We are looking to add an incremental 1500 beds and this will happen over a period of 12 months to 36-40 months and the incremental cost to deliver these 1500 beds will be to the tune of around 0.90 - 1.1 Crores for bed.

Ankush Mahajan: Would you repeat Sir?

Abhinay Bollineni: 90 lakhs to 1.1 Crores for bed will be the cost of delivering this but this will be delivered over the period of time.

Ankush Mahajan: So we are looking current capacity of 3050 and 1500 incremental?

Vikas Maheshwari: Correct.

Ankush Mahajan: Sir, I am just trying to understand, we are launching this program like heart and lung, what kind of uniqueness that we have as compared to peers for the value-added products basically?

Abhinay Bollineni: The heart and lung programs not many centers in this country are doing. It is a transplant programs and it all depends on many factors. One, we require well-trained good teamwork. It is not only the surgeon, the entire team of 35-40; the intensivists, the anesthetists, the nursing staff, counselors and coordinators, and also we need to coordinate for the entire country where the organs are coming from, so that is one aspect. Second aspect is it is a very complex procedures where the organs will not be available immediately. We need to put these patients in a bridge from normal to the transplant that is where we use these bridges as ECMO machines. There are people

who will be there for two weeks to six weeks or even eight weeks till we get the organ, so maintaining this ECMO machine is a very, very tough job because we need to expose the entire body to the extracorporeal system. Since this is a very complex procedure not many centers in this country has been geared up to this level. That is the good opportunity we have put in the right time at the right place and that is the one which has been giving some good results.

Moderator: Thank you. The next question is from the line of Dipen Sheth from Crystal Investment Advisors. Please go ahead.

Dipen Sheth: Thanks for the opportunity. First of all, the numbers are really dazzling and I think you are well set on a pretty long tenure runway of growth and prosperity and it is primarily depending on function of the DNA with which you are running the enterprise, let me put that out of the way first of all. Quick insight on the doctor cost, do we see that means a big factor as we move forward because that has not moved in tandem sequentially maybe I am over-analyzing here, in line with revenues, is that something where you have an insight or color to share?

Abhinay Bollineni: Most of the doctors payout is very fixed in most of our tier-2, tier-3 places and also in tier-1 also. In the tier-1, around 50% of them are fixed and in tier-2 and tier-3 95% of them have fixed salaries. When over income has come, then you calculate these as the operational performance, that is why the doctors cost has come down maybe historically we are maintaining between from 19% to 21% of the doctors cost.

Dipen Sheth: Okay and given our positioning as an affordable multispeciality and highly skilled and reliable chain of hospitals, is this some kind of internal cost control or target that you think you can maintain as you grow up and scale up?

Abhinay Bollineni: Yes, I think we are maintaining this in the overall period and historically for the last two years and moving forward also we will be very cautious in the type of selection we do for the doctors and other manpower, so we keep in this and we do not want to spoil the historical things.

Dipen Sheth: One more followup question if you allow me Sir, the incremental capital deployment you already shared some insight in terms of the additional roll out that you are going to do. I have also noticed that you own not minority but significantly less than 100% stake in some of the hospitals and properties, is that other place scaling up ownership of some of the hospitals where we own 50%, 51% and so on in the chain and is that going to be a part of the incremental capital deployment, should we also expect something there, is that relevant, is that meaningful?

Vikas Maheshwari: These projects got commissioned only in the last three to four years, we are yet to see its maturity phase and given that the way we are look at it we might look at eventually

merging them with other subsidiaries to make it a larger subsidiary and then use the capital to deploy for growth in that geography or we could look at doing 100% buyout based on what the other promoters or the other shareholders in the company want, but I think in the short-term we do not see anything in those lines at all and we have not factored in that as a part of our CapEx build up.

Dipen Sheth: Understood, thanks very much for the opportunity Sir.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead

Ashwini Agarwal: Congratulations to the team, the way encouraging set of numbers, just couple of questions. One is around the excellent nature of the margins that we have seen in the quarter. I am just wondering how much this is sustainable because your payer mix has changed and your occupancy probably is not of the same, the occupancy mix has changed in favour of COVID, so you have probably seen a lot of operating leverage at play during the quarter because your doctor cost as a percentage of revenue did come down, so is that a factor when you look at the EBITDA margin of 31%, Q4 was also 29%, but is the 30% to 31% sustainable or are these extraordinary times and these are extraordinary margins?

Abhinay Bollineni: This quarter is exceptional but overall moving forward I think we will achieve the 28%, 29% of EBITDA margins moving forward and what we have done because of the mature units going ahead at 10% and acquired units and then other units which we are planning, so we are very confident that we may sustain same EBITDA margin of 28% - 29%.

Vikas Maheshwari: There has been a lot of non-recurring revenue in this quarter but if you look at our real mature assets in Q4, they have actually delivered a margin which is slightly higher than the consolidated margin for Q1. It is because that drag on the newer facilities, the acquired facilities, the margin has actually come down to 29%. We are pretty certain that we will be able to sustain it and as the acquired assets mature there is scope for some margin of expansion, not a significant one but some margin of expansion.

Ashwini Agarwal: Okay and the second question relates to previous question you just spoke about adding something like 1500 beds over the next 18 months or so at a cost of 90 lakhs to a Crore per bed but some of the land and some of the buildings are probably already with you, so what is the cash CapEx required over the next 18 to 24 months?

Vikas Maheshwari: We are talking about adding 1500 beds over the next 40 to 48 months starting....

Ashwini Agarwal: I heard it as 18 months maybe my mistake?

- Abhinay Bollineni:** Starting from 15 months to the next 48 months in different timelines you will see a lot of these beds being operational.
- Ashwini Agarwal:** Okay so what is your annual sort of CapEx that you thinking about over the next couple of years?
- Vikas Maheshwari:** It should be spread out because most of the things are greenfield projects which we are pursuing at Bangalore and Chennai where the CapEx will be completed over a period of time, 36 to 40 months time. The land cost will be upfront but the rest of the construction and the medical equipment will be evenly spread out, so 1500 beds at the cost of something like that required some 1300 Crores is the CapEx over a period of time of four years and you can budget something like that Rs.300 of the CapEx per year and we are generating something like that Rs.300 Crores of cash every year and right now we are sitting on something like that Rs.350 Crores of cash, I think they are well positioned and well capitalized right now for this type of CapEx because the balance sheet is very healthy.
- Ashwini Agarwal:** You have Rs.600 Crores of cash on a consolidated basis?
- Vikas Maheshwari:** Rs.600 Crores is correct as on June out of that Rs.150 Crores is used for the repayment of the existing loans and then Rs.85 Crores was because of the liabilities which we have to discharge from the company because GA were subject to the long-term capital gain, so that amount come to us so this Rs.85 Crores has gone after that we are left with some Rs.350 Crores of cash, so what I told Rs.300 cash and Rs.50 Crores of the long-term loan, on a net basis Rs.300 Crores is cash net basis.
- Ashwini Agarwal:** Okay, all right. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.
- Pritesh Chheda:** Sir I have couple of questions, one is on the operating bed side, how much of operating beds should we see in FY2022 and FY2023, we are about 2500 what you mentioned in Q1 our of 3056, this 2500 should be scaled up to what number and I am hoping that this all should be from existing beds and existing facilities?
- Abhinay Bollineni:** Correct, we currently have 3000 beds already that is the total capacity for which all of the CapEx is completed, only some minor CapEx is there. As and when required we will keep operationalising these beds. I think within the next 24 months we should reach a very high occupancy in the current beds and then we will slowly start operationalising the other beds.

- Pritesh Chheda:** I am confused, one way you saying that 10% to 12% growth is for mature assets which factors the bed addition, so this 3000 bed should get operationalized over the next two years is it the way should I interpret your answer?
- Abhinay Bollineni:** Correct, that is what I am saying, in the next 12 to 24 months, we will start moving from 2500 beds operational towards 3000 beds being operational.
- Pritesh Chheda:** Okay and all your new CapEx is any case lined up, the complete new bed in addition when should that come to the system?
- Abhinay Bollineni:** You should start expecting beds to start coming in from the next 15 months all the way to the next 48 months.
- Pritesh Chheda:** Okay. My second question is on the occupancy side that we saw in Q1 and what you are mentioning about Q4 and you are mentioning Q1 also had only a month of COVID, considering the elective surgery pent-up demand and correctly if I am wrong there in that assessment, is it fair to assume that occupancies what we saw in Q1 should sustain or should be higher as we move towards the forthcoming quarters?
- Abhinay Bollineni:** As you have seen in July, July has been very similar to what we saw in Q1 it could be because of the pent-up demand. Things so far in August also remain very healthy. We should see how things pan out in the next half of August end.
- Pritesh Chheda:** Okay, the other two bookkeeping questions I have. In FY2021 there was a significant rise in Secunderabad hospital and consequently there was a significant margin expansion, we went and checked the case mix there was no much change in the case mix, so first of all why did ARPOB happened and is there any one-off in your margin number for 2021 despite the fact that in the current quarters commentary you mentioned Q4 is a more representative stable number, so I was trying to collect the two facts because on one side you had an ARPOB of 27,000 in Secunderabad last year which was significantly high, so if you could help us understand this?
- Abhinay Bollineni:** The ARPOB moved from 26,000 to 38,000 from FY2020 to FY2021. Also if you look at the payer mix, there has been a significant movement in the cash payer which has moved from 55% to almost 65% and there is improvement in insurance which is from 17% to 18%. In addition to this, we have spoken about the heart and lung in ECMO program which is very high ARPOB clinical therapy. We have also strengthened our liver transplant program which also delivers high ARPOB, so a mix of these initiatives helped achieve significant jump in the ARPOB.
- Pritesh Chheda:** So which means is it sustainable Sir?

- Abhinay Bollineni:** So what we have seen in Q4 is very similar, a 10% decline in that FY2021 in November and we believe that is sustainable?
- Pritesh Chheda:** Okay, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Agraj Shah from Tata AIA Life Insurance Company. Please go ahead.
- Agraj Shah:** Congratulations on a great set of numbers. Sir I had wanted a clarification on the presentation on slide 18. You said that mature assets EBITDA margin is around 26.7% and acquired assets is 20.2%, so how do you reconcile the fact that the overall company EBITDA margin is significantly higher than that?
- Abhinay Bollineni:** What we meant here was we had the mature metro assets delivering almost 30% kind of margin and we had mature assets in the tier 2, tier-3 markets delivering around 25% to 26% and there were a lot of questions earlier whether the acquired assets in the tier-2, tier-3 will be able to scale up with kind of number, hence we told that FY2020, FY2021 delivered decent jump and Q1 FY2022 also continued to maintain that trajectory.
- Agraj Shah:** Okay, the Secunderabad and the Nellore hospitals have higher margins and that explains the overall EBITDA margins at the company level?
- Abhinay Bollineni:** Yes.
- Agraj Shah:** Okay, thanks.
- Moderator:** Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** One clarity, so far historically our maximum spend on putting up bed is about 70 lakhs and now we are almost going to 90 lakhs to 1 Crore range, for these kind of new beds will you maintain the same pricing for this year, let us say 25% lower than others on average and secondly do you see similar kind of returns when you are putting that kind of CapEx 1 Crore per bed?
- Abhinay Bollineni:** For the first question, basically the 90 lakhs to 1 Crore that means what we said is it is 20% to 25% of the peers will be there and now the steel and cement and land cost has increased and then when we compare to the previous historically now we are moving onto all the metros, so that is a reason for the cost.
- Anubhav Aggarwal:** Will the pricing policy change for this bed or will you keep the pricing policy same at 30%?

- Abhinay Bollineni:** We will continue to keep our pricing lower than competition and as the prices as doctor just mentioned moved up, we have also seen in most of these markets the ARPOB also moving up in a similar trend. Historically, yes, we delivered 70 lakhs per bed but the ARPOBs were different than versus what it could potentially be in the future, so keeping that in mind and keeping the incremental cost that has happened we have factored in that kind of cost.
- Anubhav Aggarwal:** Okay Sir, the last question is on the payer mix. What is the group as a whole is doing to maintain? In Q1 we had a very good payer mix. If you think about two years down the line what are the active efforts from your side to keep improving the payer mix, can you just talk about just this?
- Abhinay Bollineni:** Like we said we have never focused on which payer to improve. We have built a hospital to accommodate all payers that come to the hospital. We put in efforts to ensure we are able to scale up chemical therapy across. It always kept happening by chance that the design of the payer has always been more skewed towards cash and insurance and less towards corporate. I think we will continue to remain creating good hospitals, will be able to create last scale of hospitals to accommodate all players and whatever comes by we are more than happy to taper model accordingly.
- Vikas Maheshwari:** Just to add to what Dr. Abhinay told is that what happens is that if the occupancy reaches to 70% to 80% level then what happens is the unit heads try to take more cash and insurance patients than the corporate, but as we keep on expending and add the beds then we start taking all the patients further.
- Moderator:** Thank you. The next question is from the line of Praveen Sahay from Edelweiss Financial Services. Please go ahead.
- Praveen Sahay:** Thank you for taking my followup question. One clarification on your expansion plan as you had mentioned about five different location. In AP and Maharashtra are you going for expansion in the metro or tier-1, tier-2 cities? The second thing is there any seasonality in your business on a quarter-on-quarter basis in the current existing beds? I am asking if is there any seasonality in your business on a quarter-on-quarter basis?
- Abhinay Bollineni:** No, it is not very significant change usually quarter-on-quarter but usually the second and third quarters or the mix between the second and third are usually better than the rest, so if I have to put it in a sequence Q3 is the best followed by Q2 followed by Q4 followed by Q1.
- Praveen Sahay:** Okay on your heart and lung treatment program how much of the maximum revenue you can generate out of that because the numbers you had given about Rs.6 Crores to Rs.7 Crores per month right now which has doubled so far, so how can go maximum?

- Abhinay Bollineni:** This program in the country itself is very young, it is just a 3 to 4-year-old program at best. If you take the western countries, they have been able to deliver close to 200 to 250 lung transplants annually. India all put together has not been able to even tough 100 currently, so I think the scope is immense. There are a lot of logistic challenges that need to be sorted out and as a pioneer in this therapy, we are working very closely with the government seeking help and other organizations to solve the logistic problems which will then further headscale the number of transplants we are able to do.
- Praveen Sahay:** And we have scope for improving our doubling further like we have a facility there right?
- Abhinay Bollineni:** Yes, facility is not an issue, it is largely more on the way it is structured correctly and the regulations in the country which one has to solve along with the government.
- Praveen Sahay:** Thank you for answering my questions. All the best.
- Moderator:** Thank you. The next question is from the line of Aayush Bhandari from Alegrow. Please go ahead.
- Aayush Bhandari:** I have a couple of questions, the first question is how much was June revenue as a percentage of total segment of the quarter? Does 25% COVID revenue includes vaccine and what was the total vaccine revenue?
- Vikas Maheshwari:** Vaccine revenue is very minimal, Rs.5 Crores.
- Aayush Bhandari:** Okay and what was the June revenue as a percentage of the quarter?
- Abhinay Bollineni:** June revenue as a percentage of quarter, I do not have the exact numbers offline, but around 25% to 30%.
- Aayush Bhandari:** Okay.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead
- Pritesh Chheda:** Sir I just had one followup, on the hospitals where we do not have 100% ownership which is about 1300 beds, those 1300 beds contribute to what percentage of our EBITDA?
- Vikas Maheshwari:** In Q1, it constituted around 15% of the EBITDA.
- Pritesh Chheda:** Should it be similar last year as well right?
- Vikas Maheshwari:** Correct.

- Pritesh Chheda:** So these beds are where we consolidate completely and then we take out the minority?
- Vikas Maheshwari:** Correct.
- Pritesh Chheda:** Okay, thank you very much.
- Moderator:** Thank you. The next question is from the line of Milind Karmarkar from Dalal & Broacha Portfolio Managers. Please go ahead.
- Milind Karmarkar:** First of all congratulations on a good set of numbers. My first question was that medicine is a noble profession, so when it comes to our charges basically I wanted to understand whether the low charges for the general public, is it because of higher government-aided patients or is it because that our strategy is to deliver healthcare at a lower cost?
- Bhaskar Rao Bollineni:** Our strategy is to deliver at a low cost that is one aspect and the second aspect is, it is a noble profession, there is no doubt in it and we strive all the healthcare workers relentlessly to treat the patients, now there are so many angles in this country where it needs to be developed. Some time the government comes and says it is a business and they all charge us like business, like taxes and everything, and at the same time we are struggling in the last two decades how to manage with the public, one side we are seeing ourselves, there is a lot of struggle even if we are the patients then we need to face a lot of problems financially but there is a solution for this. I keep on telling everywhere the solution is to go for an insurance which people are not able to understand and the cost of the insurance is only a cup of coffee everyday which most of the public can able to effort. Some sort of awareness which we need to create among the public. The other way we need to look into that in this country especially it is going to be employment creation, the healthcare, few millions of beds are required to treat our health but to treat these things a few Crores of employment can be created. So the public, government and the investors and healthcare providers should able to take a serious note and give it in a better way. Now India is going to be the hub of many countries, people are still coming to India for healthcare.
- Milind Karmarkar:** Right so would it be correct to say that in general the healthcare industry is likely to grow significantly as penetration of insurance increases?
- Bhaskar Rao Bollineni:** Yes. Now fortunately some of the state governments and the central government is coming with low insurance schemes like Ayushman Bharat and every state has their own insurance, in Andhra and Telangana we have Aarogyasri and all. Apart from that a lot of corporates are also coming forward to their employees for insurance. Even the middle class people are also going for an insurance, so once the insurance business improves definitely there is a lot of scope in this country to do healthcare.

- Milind Karmarkar:** Okay. My second question would be on future growth strategy, I just wanted to understand because we are adding about 1500 beds as you said in the next three to four years, so I just wanted to understand what would be your focus, would it be on asset light model or we would prefer to have our own facility?
- Bhaskar Rao Bollineni:** Mostly we prefer to have our own assets because we have calculated that the light asset models will give a short-term benefit but in a long-term it will not be very good for the organization. Moving forward wherever there is a possibility we will try to go for Greenfield. If there is any expensive thing we will try to acquire light asset model and also look in for a buyback the asset over a period of time, so that will give good healthy financials for the organization.
- Milind Karmarkar:** Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.
- Ayaz Motiwala:** Thank you for taking my question. One quick clarification, you mentioned about payment of certain long-term tax due of about Rs.85 Crores on behalf of GA, did you shareholder agreement had that clause and how did that happen Sir, can you explain that and also I note that the GA director has resigned so what has the change taken place with that private equity shareholders and does it have any implications for us to understand in terms of how the company would run going forward?
- Vikas Maheshwari:** Okay, let me take this question. As far as the tax liability which we have discharged on behalf of General Atlantic that money has come back to us from IPO proceeds of the General Atlantic only, so the company has not spent that extra amount. It was out of that IPO account the additional amount of Rs.85 came back to us and we have discharged that liability on behalf of General Atlantic because they are foreign investors and the tax liability discharge is the responsibility of the company, so that was the arrangement. As far as the director of General Atlantic resigning it is as per as our article of association and as per the shareholder agreement with General Atlantic as their shareholding has come down as per the shareholding agreement they can have one director, so one director is continuing and we have a very good association and guidance from them, so that continues. It is just an arrangement as per the shareholding agreement.
- Ayaz Motiwala:** Quick second question Sir, it is sort of a clarification, you called out minority interest of the EBITDA contribution of hospitals in which you do not have 100% ownership, at the EBITDA level you said it is about 15%, is that what you correctly called out?
- Vikas Maheshwari:** Yes approximately.

- Ayaz Motiwala:** Because as we look down in the profit and loss reported numbers Sir that number comes down quite substantially in terms of finance cost and other expenses to the PAT line, in terms of noncontrolling interest so I would just trying to reconcile that, 15% EBITDA is what you say?
- Vikas Maheshwari:** Minority interest is being calculated on the PAT not on the EBITDA. What has happened is these acquired assets, few assets are cleared though they are on the growth part and the trajectory and EBITDA positive, but because of the depreciation and the interest, the PAT is lower on that asset that is why this minority interest you are seeing it a little bit lower but going forward it will change.
- Ayaz Motiwala:** So your reported number of acquired asset EBITDA which we show that is what you are trying to reconcile and this 15% number that you shared is helpful Sir, thank you for that clarifications and all the very best Sir.
- Moderator:** Thank you. The next question is from the line of C Shrihari from PCS Securities. Please go ahead.
- C Shrihari:** Thanks for opportunity. Firstly a clarification, you have mentioned that the share of COVID is around 25% to the revenue, so is the share in EBITDA is also comparable?
- Vikas Maheshwari:** Hari it should be on the same line, there is not much of a difference, in fact maybe a little bit lower because of the government regulations etc., so this may be slightly lower but it is more or less in the same line.
- C Shrihari:** And a related question one is how will the profitability compare during the two waves and quarter perspective about wave 2, but if you compare it with wave 1, was that lesser or more profitable?
- Company Speaker:** Your question was not very clear there is some disturbance in the line.
- C Shrihari:** I meant to say you have given clarity regarding this profitability during wave 2, so during wave 1 how was the profitability for COVID related treatment?
- Abhinay Bollineni:** In the COVID wave 1 and COVID wave 2, there is not much of a difference Hari, the only difference that happened is that in wave 1 nobody was aware of the procedures, etc., so about profitability I do not think that there is much of a difference. In fact during COVID 1 what happened is different states had different rules from the government. In entire Andhra Pradesh, there was no COVID being treated by our hospitals because the entire government used to treat at the government hospitals. As far as Telangana is concerned initially the government used to treat, later on we have been allowed to do, so there is no impact on the wave 1 as far as Andhra Pradesh is

concerned. A lot of non-COVID work has continuously done, but partly because of the lockdown in both states that has been affected.

C Shrihari: Okay that is helpful, thank you.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Bhaskar Rao Bollineni: It was definitely a good one, the company has performed well, all the healthcare workers has done their part during the difficult situations of COVID and moving forward I think we will be able to sustain anything like normal business. As we mentioned quarter-on-quarter will vary from different regions due to festivals, these holidays and schools, many factors will come into the picture and then rainy season, seasonal variation of the diseases and whatever is the history that we have been doing and then moving forward whatever we have promised in the road shows we are very confident that we will able to achieve. Once again thank you very much for joining with us and take care of your health in this pandemic era.

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.