

14th August, 2024

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

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

In Continuation to our letter dated 02nd August 2024, the Company organized a conference call with the Investors/ Analysts on Thursday, 08th August 2024 at 9:30 AM (IST). A copy of the transcript of the conference call held with the Investors/ Analysts is enclosed herewith and the same has also been uploaded to the Company's Website at <https://www.kimshospitals.com/investors> > Disclosures under Regulation 46 of SEBI (LODR) Regulations, 2015 > Analysts Calls schedule, PPT & Transcripts > Transcripts, Audio & Video Recordings > FY 23-24.

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

Thanking you,
Yours truly

For Krishna Institute of Medical Sciences Limited

Uma Shankar Mantha
Company Secretary & Compliance Officer



“KIMS Hospital
Q1 FY ‘25 Earnings Conference Call”
August 08, 2024



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

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

Moderator: Ladies and gentlemen, good day, and welcome to KIMS Hospital Q1 FY '25 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in a 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 the star, then zero on your touch-tone 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: Yes. Thanks. Good morning, everyone. This is Rahul from IIFL Institutional Equities. I welcome you all to the first quarter earnings conference call of KIMS Hospitals. From KIMS, we have with us Dr. Bhaskara Bollineni, Founder and Managing Director; Dr. Abhinay Bollineni, Executive Director and CEO; and Mr. Sachin Salvi, Chief Financial Officer. Over to you, sir, for your opening comments.

Bhaskara Rao Bollineni: [inaudible 0:01:06] Let us start on a happy note. Today 8th August, is a very important day. It happens to be a National Happiness Happens Day. So I would like to present the financial and operational details for the Q1 FY '25. I'm sure the results will make you happy.

The gross revenue of INR693 crores, a growth of 13.8% year-on-year and 8.7% on a quarter-on-quarter basis. EBITDA of INR184 crores, a growth of 14.9% on year-on-year and a 13% on a quarter-on-quarter basis. EBITDA margin at 26.6% versus 26.3% in quarter 1 FY '24 and -- FY '25 -- and 25.5% in quarter 4, '24. EBITDA margin, excluding other income, stands at 26.1%, a growth of 0.1% on year-on-year and 1% on a quarter-on-quarter basis.

PAT at INR95.1 crores in quarter 1, '25 against INR86.7 crores and INR71.6 crores in quarter 1, FY '24 and quarter 4, FY '24, respectively. Consolidated EPS of INR10.8, a growth of 7% on a year-on-year and 32.1% in a quarter-on-quarter basis.

The average revenue per operating bed grew by 21.3% and 12.2% on year-on-year and a quarter-on-quarter basis, respectively. Average revenue per patient grew by 6.1% and 1.4% on year-on-year and a quarter-on-quarter basis, respectively. IP volumes grew by 7.5% and 7.1% on year-on-year and a quarter-on-quarter basis, respectively. Conducted 4.2 lakh OPD consults in quarter 1, FY '25, which grew by 10.2% on year-on-year and 2.6% on a quarter-on-quarter basis.

On the last quarter, I apprised you about our setting up a 290-bed hospital in Thane, Mumbai. Again, today I would like to inform you about yet another new acquisition at Vizag. Queen's NRI Hospital, a 200-bed hospital at prime location in Vizag. It was established in 1995. It's a built-up area of around 1,50,000 square feet by a couple of doctors. The hospital is in a densely populated locality with a good potential. KIMS already have a multi-specialty hospital and gastro unit at Vizag and this addition will help it garner a larger share in the market.

This hospital is situated in a prime locality, which makes it an attractive proposition. KIMS entered into an agreement with the owners of QNRI to purchase 100% holding in the company.

The addition of new hospital will make the chain of our hospitals longer and stronger. Our Nashik Hospital is due for inauguration in this quarter.

All other projects are progressing well according to the time lines. You all know that we are making a clinical achievement as I keep mentioning in all these investors presentation, in the district headquarters hospitals, all are doing very well so that the patients need not go to the higher centers that is one of the prime motto of KIMS that we need to be able to cater more care towards the patients at the district level itself.

We got a few awards. KIMS has made a name in organ transplantation having done about 190 lung transplants in 3 years, which is an all India record. Last year, the entire -- all the transplants put together, we did 259, which is the highest number in Telangana state.

I am happy to inform that KIMS Secunderabad is awarded best Brain Stem Death Certifying Team for South region by National Organ and Tissue Transplant Organization. Government of India and a function held on 3rd August at New Delhi, which was presided over the Honorable Union Minister of Health and Family Planning, Shri J. P. Naddaji. This is an important recognition of our commitment and excellence in the field of organ transplantation.

It is not only the transplantation, we are trying to create an awareness national level. We are the leader in the lung transplant. That's why we need to improve the awareness among the hospitals about the importance of the organ donation. So we thank the government for this honor.

You are aware that 18% GST is levied on life and medical insurance premiums, recently, the Union Minister of Road Transport and Highways, Shri Nitin Gadkari has urged the Finance Minister to consider the withdrawing of the above tax.

It is a commendable move and it will help in making health care more accessible and affordable. It will reduce the cost of insurance premiums, paving way for increased reinsurance penetration that can lead to more inpatient and outpatient coverage and service at hospitals and more and more patients will come into the purview of the insurance so that the affordability will improve. More and more people will utilize the hospitals for the diseases. It is hoped that government will take favorable decision that will have impact on providing wider insurance coverage and helped benefits to people.

We are in the middle of Olympic Games. Our congratulations to the players from all over the world participating in Olympics and especially to our Indian players. Special congratulations to Manu Bhaker, Vinesh Phogat and Neeraj Chopra for their outstanding performance. Let us congratulate all the winners and hope that our players will bring more medals and glory to the nation.

Who will ever imagine that mere 100 grams can make a world of difference. It is unfortunate that barely 100 grams of extra weight had deprived our Vinesh Phogat of a possible gold medal at Olympics. In any case, she made history without a medal and the entire nation stands by her for a valiant fight. We are just 1 week away from our 78th Independence Day, I take this

opportunity to convey Independence Day greetings to all you in advance. Thank you very much. Opening for the questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amrya from JM Financial.

Amrya: it's Amrya from JM. So congratulations to the management on the good set of numbers and the spikes we have taken on the transplant side. So just first question I have on the ARPOB. So our ARPOB for the quarter has grown substantially at around more than 20%. It seems to be led by the Telangana and Andhra region, but here, the occupancy has actually come down. So can -- is it possible to explain dichotomy here, like what has changed here in the hospitals during the quarter?

Abhinay Bollineni: So Amrya, thank you for the question. See, actually, if you actually look at the IP volumes, there has been consistent growth in IP volume. ALOS is something that we -- because of high occupancies in Andhra in some of our hospitals, we've been constantly working and trying to bring down the ALOS. And if you look at quarter-on-quarter, we have been trying to reduce the results. In this quarter also, we put consistent efforts to bring it down. So -- and that is the reason why the ARPOB has gone up, but I think we should pay more attention to IP volume growth and ARPP. That will be a true indicator of this.

Amrya: So is it a change in case mix like higher volumes on the oncology etc, which would have led to this change or something related to case which would be driven...

Abhinay Bollineni: Nothing very significant change in the case mix. There is some marginal improvement in the payer mix, the incremental revenue that came in -- came from a cash and insurance payer where the ALOS is less. So that is one contributing factor. Our constant endeavour to reduce the length of stay for scheme patients, especially corporates and our registry is one function.

So a result of these 2, let the stay has come down. But like I said, again, we should pay more attention towards ARPP and IP volume. That's honestly a measure of what the growth is on a quarter-on-quarter basis.

Amrya: Sure. The second question I have is that you have changed the way we used to report occupancy. Now we are showing it on a capacity basis. So it has -- overall also, it has come down. At a hospital level, it is also very substantially low. So is there any indication you can give what optimal capacity utilization or occupancy would be for our match of hospitals going ahead?

Abhinay Bollineni: I think based on the feedback that we got from investors, we had removed 1 layer of reporting there and we are just now reporting occupancy and total bed capacity. But a healthy occupancy is around 70% -- 65%, 70% is a healthy occupancy.

Amrya: Sure. And that would be on the new formula?

Abhinay Bollineni: Yes, yes, on the bed capacity.

- Moderator:** The next question is from the line of Abdulkader from ICICI Securities.
- Abdulkader:** Sir, just to understand the ALOS reduction better. So taking from the previous participant, I mean, so what are the factors actually which has contributed to this reduction in ALOS and could we, in the near term, built on the kind of a reduction? Or this was more specific to this particular quarter?
- Abhinay Bollineni:** I think we can sustain this number but further reduction, we are putting constant effort to see how we can further reduce. So there are 2, 3 factors that drive ALOS. One is that the incremental revenue that came in, came from a payer mix, which is cash and insurance that is large, where the ALOS is predominantly low. Number two, the case mix within the quarter could be one contributing factor. And we are also putting effort, especially in Andhra, where the ALOS has been high because of a significant volume of patients coming in from the government-sponsored scheme. We are putting constant effort to see how we can reduce that length of stay because of a lot of documentation process that is involved. We're trying to make things more efficient there.
- Abdulkader:** Got it. And secondly, on the margins from Telangana cluster, though there is a sequential bounce back in terms of the margins, but it still continues to be a little lower than where we were. So any colour here where the peak margins can touch or was there's an absolute increase in EBITDA margins possible from where we are in Telangana?
- Abhinay Bollineni:** Yes, there is going to be an expansion of EBITDA margin. But at this point in time, we are investing on a lot of new programs. So if you look at, we started a new program called -- for rehab services in KIMS Secunderabad. We have onboarded a lot of doctors recently in the last 2 quarters. So, there is a drag of almost INR 1 crores, INR 1.5 crores per month from the new doctors and from the rehab program. So once the growth in revenue happens and there's some assurity there, things should bounce back to a 30-plus kind of an EBITDA margin. And also, there is some corporate hiring and corporate expansion that will continue to remain the same. But as revenue grows up, the margin expansion will definitely happen at Secunderabad.
- Moderator:** The next question is from the line of Damayanti Kerai from HSBC.
- Damayanti Kerai:** My first question is, can you update us on some of your upcoming hospitals. So Thane, Nashik and maybe update on the Bengaluru facilities about the progress? And are you on track to launch these as per the time line indicated earlier?
- Abhinay Bollineni:** Yes. I think all Bombay and Bengaluru, we are pretty confident we'll be able to launch them by the fourth quarter of the financial year. So far, we don't anticipate any delay in either of the projects. Both the projects in Bengaluru and in Bombay, we don't anticipate any delay at this point in time.
- Damayanti Kerai:** And Nashik, you mentioned you are -- you'll be shortly inaugurating it this quarter?
- Abhinay Bollineni:** In Nashik, we are fully commissioned and fully ready. We've onboarded a few doctors. We're just waiting for the final OC, occupancy certificate from the local authorities. We should expect that post August 15, and then we are ready to start.

- Damayanti Kerai:** And how many beds you will start with, in the Nashik?
- Abhinay Bollineni:** Nashik is around 75, 80 beds, we will operationalize 75, 80 beds but the capital for all the 3 and 250-odd beds is fully incurred or is in the process of being fully incurred. What we mean by operationalize is we will have manpower only for 70, 80 beds. As the occupancy goes up, we will keep adding more.
- Damayanti Kerai:** Sure. My second question is on your efforts to improve mix, especially in the AP region. So I guess you earlier were focusing on oncology and whether a child care to really improve the margins or mix, etc. So again, like some update like have you implemented it across the hospitals in AP region?
- Abhinay Bollineni:** So like in the investor presentation, we have 3 units that will add cancer and mother and child by end of this financial year. We have acquired Queen's NRI, which is a hospital that also has cancer. So the Vizag geography that will take care of the needs for cancer care and the remaining geographies out of the 6 other geographies, 3 of them, we will operationalize cancer in this financial year.
- Damayanti Kerai:** Okay. And my last question is on your funding for the capex, which you have planned. So I understand, again, you're relying a lot on your internal accruals to fund more sort of projects. So is that the case? And in case like you have to borrow, what kind of cost of borrowings, etc. you are seeing?
- Sachin Ashok Salvi:** Right. So as far as the cost of borrowing is concerned, as of now, our average cost of borrowing is about 8.5%. We anticipate that the cadence in the same range. We are trying to fund as many projects as possible from our internal resources. As we have said in earlier discussion also that we intend to keep our debt-to-equity ratio within the range of 0.75 to 1. So that remains.
- Moderator:** The next question is from the line of Naman Bagrecha from IIFL Securities.
- Naman Bagrecha:** Congratulations on a strong set of numbers. Sir, just wanted more dope on the acquisition, the Vizag acquisition in terms of what kind of current revenues are and over the next 3 to 4 years, what kind of scale-up do you see? And also in terms of margins and current ARPOBs, I mean you've mentioned in the slide that the potential ARPOB will be around 38,000, 42,000. So wanted to know more in terms of what is the mix currently? And also, as you mentioned that this was started by doctors. So what has led them to sell this hospital to us?
- Abhinay Bollineni:** Yes. So I think this was started by a family 20 years ago. And I think the second generation was not very keen on taking things forward and they were also settled outside of the country then they decided to divest the hospital and go back to U.K. with their children.
- But coming to the hospital, it's currently doing a revenue of around INR65 crores, INR70 crores. At a point in time, it used to deliver a revenue of INR120 crores, INR150 crores. But given that competition came in and a lot of doctors left the hospital because they didn't see growth, we feel that the potential for this hospital, given the excellent location, is close to getting, scaling up to

almost INR250 crores of revenue over a period of 3 to 4 years' time with a very healthy EBITDA margin.

We plan to do just cash and insurance in this hospital. We don't plan to focus on any scheme patients in this facility. We have another hospital, which is just 10 kilometers away from this facility. We'd like to continue to do all scheme work in that hospital and continue to focus on building the cash and insurance there. And that's why we believe that the ARPOB could be in the range of 40,000, 45,000. And the idea is to also make it a center of excellence for cancer and transplant services in Andhra Pradesh.

- Naman Bagrecha:** So currently, the ARPOB would be around 38,000 and we would like to see...
- Abhinay Bollineni:** The ARPOB is around 20,000. Given that 30% of their income currently is from scheme patients and that's why the ARPOB. But if you look at the ARPOB of our Vizag unit, which does only - - which does cash and insurance, the cash and insurance ARPOB is around 35,000, 38,000 per bed per day. We are anticipating it to be slightly higher given the geographical presence and given the kind of work that we want to do in cancer and transplant.
- Naman Bagrecha:** Got it. So, what kind of, let's say, additional or incremental capex would be required to add these facilities like an MNC, oncology, etc., that we're making?
- Abhinay Bollineni:** All the technology is already there. It's a running hospital with cancer services. So there is nothing on the medical equipment that we'll have to do immediately over the next 2 years, 3 years. But after 2, 3 years, we might have to do a refresh on the entire medical equipment. But at this point in time, we'll have to renovate the facility to bring it to the standards of what our KIMS Hospital would typically look like, which could incur a capex of INR20 crores, INR25 crores. But on the medical front, I don't see a major capex happening over the next 24 months.
- Naman Bagrecha:** So also just -- I mean, on this one, what could be the current margins and the scale up you're seeing?
- Abhinay Bollineni:** The margin currently is around 8% on a INR65 crores kind of revenue. And we believe over the next 3 to 4 years, we should be able to get to a INR250 crores kind of revenue in this hospital.
- Naman Bagrecha:** Okay. So my next question is more -- is regarding to the previous participant's question. There has been a sharp decline in ALOS. So I mean, this is -- is my understanding correct, is that the scheme patients which were spending or staying for a longer period, that has now reduced or something else has happened this quarter -- sir, just wanted to understand on the ALOS rate, this quarter, we see a sharp decline in ALOS. I missed your opening comments to a participant where you highlighted the -- that it was because of scheme patients now having a lower ALOS. Is this correct? Or my understanding is completely wrong?
- Abhinay Bollineni:** Yes, that is correct. There are multiple factors for that to happen. But one of the strong reasons is because we are focusing on reducing the length of stay for scheme patients. Both Aarogyasri and public sector companies. But the other reason could be because of the change in case mix -

- is because of the change in case mix and payer mix. Incremental revenue that came in, came in from a payer mix where the ALOS is substantially lower than the average.

Naman Bagrecha: So we believe that this would be sustainable for the balance 3 quarters of this year? Or we could...

Abhinay Bollineni: It should be sustainable.

Naman Bagrecha: Okay. And just the last one before I get back to queue. You mentioned that 65%, 70% kind of occupancy on total bed capacity is what we'll be looking at. And currently, Telangana and Andhra Pradesh would be closer to let's say, around 50%. So what kind of -- I mean, in terms of, by when can we achieve the 65%, 70% kind of number on a full year basis?

Abhinay Bollineni: I think -- so, in Andhra, there are 2 -- 1 facility where we have almost only a 30% occupancy. It is because we don't do any scheme there, it's only focused on cash and insurance. That facility may not go up to a 70% ever. It's just that even at the 30%, 35% occupancy, we've been able to do healthy numbers. We are -- there are some hospitals that are at 90%, 95% kind of an occupancy. Right now, what you're seeing is at 52%, 53%. But over the next 3 years, 3 to 4 years, we should be -- and the current capacity, we should be able to get to that kind of an occupancy. 70% to 75%.

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

Tushar Manudhane: Okay. Sir, just on this IP volume for Sunshine, there has been significant increase both year-over-year as well as quarter-on-quarter. If you could shed some light on this aspect?

Abhinay Bollineni: So Sunshine -- like we had always said, once the new facility comes in, we stabilize, we'll be able to show growth in revenue. And we moved into the new facility in Jan, Feb -- sorry, in December, Jan. And the first quarter -- the last quarter, we needed time to stabilize that hospital in the new facility. And after we moved there, onboarding of doctors, growth from the existing specialties led to the growth. In fact, I think Q2 will be even more promising in terms of how things are shaping up at Sunshine.

Tushar Manudhane: And so subsequently, sir, so what do you think the ARPOB will settle at as we ramp up in terms of patient volume?

Abhinay Bollineni: I think Sunshine is a cash and insurance-based facility, the current ARPOB level should be able to -- will sustain.

Tushar Manudhane: Okay. But then can that be scope to the higher ARPOB.

Abhinay Bollineni: Because we'll also be adding a lot more specialty where the ARPOB could be because you're still currently heavily dependent on Ortho where the ARPOBs are higher. So since we add -- we'll add a lot more specialties, it could be at a much lower ARPOB. So assume that we will sustain ARPOB is the reason.

- Tushar Manudhane:** Understood. So on Telangana front, both at least IP volume has been a very stable. We've not seen much of increase -- occupancy is also sort of dipping. And both in -- even in Andhra Pradesh as well, the IP volumes has been little stable. Any particular reason to call out?
- Abhinay Bollineni:** I think, once we add -- in Andhra, particularly, once we add more capacity, we add these specialties like cancer and mother and child. We will pursue an uptick in growth, both in volume and revenue. As far as Andhra is concerned, again -- sorry, as far as Telangana is concerned, we have taken measures to add new doctors. Subsequent quarters, there has been good growth in revenue, healthy growth in revenue. The subsequent quarters, we will see this growth as well.
- Tushar Manudhane:** Understood. And with this 48% occupancy here like 30% EBITDA margin for Telangana. So, with the addition of new specialties or the ramp-up of occupancy. So what is the scope of improvement in the profitability for this year?
- Abhinay Bollineni:** For every incremental revenue in Telangana and Andhra, we should assume 35% of that will flow through to EBITDA .35%, 40% of the incremental revenue will flow through to it.
- Moderator:** The next question is from the line of Bino from Elara Capital.
- Bino:** One thing, is any of our specialist Doctors has moved from the Secunderabad facility to the new Sunshine facility?
- Abhinay Bollineni:** No, no, nothing. No. No one.
- Bino:** Okay. Sunshine is our fresh recruitment?
- Abhinay Bollineni:** Yes. No one from KIMS.
- Bino:** Okay. And the shift out of the old facility has already happened fully?
- Abhinay Bollineni:** It's fully done. It was done in January. It's fully done in January. This needed some time before all patients got aware that the facility has now moved. So after that happened, we've seen good uptick in revenue.
- Bino:** Okay. And what's the plan with that old facility?
- Abhinay Bollineni:** So we have started our -- we had demolished Block 1 and Block 2 in KIMS Secunderabad. We have now shifted some services to that facility. We have started a rehab program. And after 3 years when the new facility in KIMS Secunderabad is ready, we will then shut that and hand it over because it's a lease...
- Bino:** Okay. Okay. And so that old facility revenue is also now reported under Sunshine or under Secunderabad?
- Abhinay Bollineni:** KIMS Secunderabad.
- Bino:** Okay. The old Sunshine facility revenues under Secunderabad?

- Abhinay Bollineni:** There's very little revenue coming in from there because we only moved some back in specialties. But yes, whatever is coming is coming in KIMS Secunderabad.
- Bino:** Okay. And what's the update on Nagpur, is it now stabilized? Can you expect a steady performance in the level for what we are seeing right now?
- Abhinay Bollineni:** Yes. I think Nagpur has stabilized, there will be margin expansion further. In fact, there have been some onetime costs in this quarter. If not, it would have been INR11 crores kind of an EBITDA on a INR53 crores revenue. On a INR52 crores revenue, we would have done INR11 crores EBITDA. I think things are now quite stable there. We are actually planning to do a further capex in Nagpur. We will come out with a plan soon where we expand the total number of beds, and we also had cancer as a service.
- Moderator:** The next question is from the line of Rahul Jeewani from IIFL Securities.
- Rahul Jeewani:** Yes. Dr. Abhinay, can you talk about these incremental hirings which we are doing on the corporate side. So the ex CFO of Aster has joined you. So what are your broader plans in terms of, let's say, some of the senior corporate hires?
- Abhinay Bollineni:** So like we've always been indicating in the past, there's a very strong team that's coming to build out the Karnataka story. I think Sreenath is officially onboard. We should have the rest of the leadership join us. We have Dr. Nitish will come on board as the Managing Director and the CEO of that cluster. He's been -- he was with Narayana Hrudayalaya for 20 years, with Aster for 10 years.
- So we are expecting a very strong traction from the local doctors and his leadership further intact Karnataka story. And that's why we've always been very confident about building that story, and we have gone ahead and invested on 2 hospitals. We plan to do a few more in Bengaluru once these two hospitals stabilize.
- Rahul Jeewani:** And Dr. Nitish and Sreenath, have they invested equity into the Karnataka cluster? And in terms of, let's say, our plans for doctor hiring for the 2 Bengaluru hospitals, how have those been progressing?
- Abhinay Bollineni:** So far the doctor hiring, the traction is quite good. I think given their roots in Karnataka for the last 25, 30 years, and they connect, Nitish himself is a doctor, and they connect with the local doctors, has been quite helpful and with the KIMS model and the equity model, things look very promising. But again, since we're -- 6 to 8 months away from commissioning the hospital, it will be too early to comment. But I think overall, there is a lot of positivity in -- for both the hospitals and the kind of facilities that we're building, the kind of specialties that we are coming up with in that.
- Rahul Jeewani:** Sure, Dr. Abhinay. And in terms of equity, are these guys investing equity into the Karnataka cluster?

- Abhinay Bollineni:** Yes. So the way it's structured is they hold a parcel of land in a place called Sarjapura, where we intend to build a large health city, but over a period of time after we stabilize these 2. So that has been evaluated at a fair market value and that will be brought on board as equity. And that will be their share of contribution. And as and when more capital is required for the cluster, all parties would get diluted.
- Rahul Jeewani:** Sure. And by when do you expect to start, let's say, building out this new hospital in Sarjapur?
- Abhinay Bollineni:** No, I think the first plan is to stabilize these 2, show investors attraction and gain confidence. And then we announce further expansion in Karnataka.
- Rahul Jeewani:** Sure, Dr. Abhinay. One last question from my end. In terms of overall occupancies, obviously, the dip which we have seen this quarter has primarily been driven by, let's say, the lower ALOS. Now in terms of this optimal capacity utilization, which you indicated would be INR65 crores, INR70 crores kind of a number in 3 to 4 years. What kind of an ALOS number should we be working with for this 60% to 70% capacity utilization?
- Abhinay Bollineni:** I think the current ALOS 3.9 has not been decided -- 3.62 is what has been reported, anywhere between 3.6 to 3.8 is what is definitely sustainable ARPOB sorry, ALOS.
- Moderator:** The next question is from the line of Damayanti Kerai from HSBC.
- Damayanti Kerai:** I just have 1 more additional question. So just want to understand what is plan to reduce promoter pledge like right now, there is notable pledging of promoter stake. So what are plans to unwind this?
- Bhaskara Rao Bollineni:** So, what's happening is promoter pledge, what we are looking for, now is approved by the Board, we're going to the AGM that the main promoters who are there, who are having a different business that is infra, then their shares have been pledged. So we are going to make them public so that the main promoters and KIMS will not have any pledge maybe by end of this quarter, next quarter.
- Damayanti Kerai:** Sir, is the reclassification of the -- yes, some of the promoters. Okay. So this will happen by end of this quarter -- second quarter?
- Bhaskara Rao Bollineni:** We approved already by the Board and SEBI has been informed, as the AGM, which is in 29th of this month. After that, maybe it takes about a couple of weeks.
- Moderator:** The next question is from the line of Gagan Thareja from ASK Investment Managers.
- Gagan Thareja:** Okay. My first question is on the ARPOB, which is up almost 21% year-on-year and 11.5% quarter-on-quarter. If the case mix has not changed much, is it reasonable to infer that most of the ARPOB increase is coming from an increase in tariffs and increase in procedure rates?
- Abhinay Bollineni:** The ARPP remains to be constant. It is a function of 2, 3 things. Like I said, one significant driver for it is to reduce the length of stay for scheme patients. Number two is that the

incremental revenue came in from payers, which is cash and insurance and from procedures where the length of stay has been lower.

So these two things have been contributing to this reduction in ALOS. I think moving forward, a good base would be around 3.6% to 3.8%. That range would be a good ALOS to assume. We'll not take -- we are not taken a price hike in the first quarter. We have done some price hike in July but not in the first month.

Gagan Thareja: So what was the price hike in July? One. And secondly, your reinsurance rates were also due for revision. Is that also contributed?

Abhinay Bollineni: For renewal, we're expecting that to happen in August itself. But again, this has been delayed for quite some time where unless it happens, they are not too sure about this.

Gagan Thareja: Okay. Because it's a very substantial jump and very difficult to sort of fathom how that sort of works out.

Abhinay Bollineni: We've got multiple time lines from the association, and we are yet to see that happen.

Gagan Thareja: Second one, sir, you will be commissioning 4 hospitals. I think all put together in the last quarter of the year or perhaps first quarter of next year. Cumulatively, what will be the addition to the fixed cost and gross block because of these?

Sachin Ashok Salvi: So as far as the gross block is concerned, the total addition on account of Bengaluru and Bengaluru, Nashik and Thane would be about some INR700 crores to INR800 crores plus.

Gagan Thareja: And the fixed cost addition?

Abhinay Bollineni: Fixed cost per center other than doctors and consumables, the cost per center will be around INR6 crores, which is your cost per HR and your other expenditure per center. So we have 3 centers, Nashik into -- sorry, Thane and 2 Bengaluru. Between these 3, we'll have an INR18 crores -- INR18 crores to INR20 crores kind of a fixed cost. This is other than the cost of doctors and consumables.

Gagan Thareja: And what would be the absolute increase in debt over the year as you sort of invest into the facilities? What's the current gross debt? How does it move?

Sachin Ashok Salvi: The current gross rate is about INR1,150-odd crores as on 30th of June 2024. By the year-end, when we are commissioning all these hospitals, we will be having a debt of about some INR1,600 crores to INR1,700 crores.

Moderator: The next question is from the line of Amrya from JM Financial.

Amrya: I have one question on the positioning of our hospital chain. So a few years back, we were considered as an affordable care of category brand in Telangana and Andhra. However, over a

period, we have seen this gap between the premium hospitals and affordable being reduced a bit as we have increased our case wings it also in terms of hospital services provided, etc.

So is there a concerted effort towards improving our brand and moving towards a bit of premium brand? And also if you can guide us on the positioning of this? And also when you move to the different regions, will you try to keep these brands? Would this be similar in these regions or you would go with the needs of those particular locality?

Abhinay Bollineni: I think we are continuing to stick to our ethos, which is to be affordable. We are trying to be affordable across all the services that we offer. So we are a quaternary tertiary care provider. We will offer all these services. As we offer, the ARPOB will continue to go up. I don't think we believe in anything such as a premium priced hospital or an affordable price -- premium sized hospital. We're very happy with the way we are positioned, the kind of case mix, the kind of ARPOB that we deliver. And we continue to focus on that space.

Amrya: Sir, but the regions like the HITEC City, Kondapur etc, which are getting populated with high income residency, etc. So even in these regions, you would keep the hospital as an affordable care hospital or there you would go with the needs of the region?

Abhinay Bollineni: No, I think even -- so in Kondapur, we have been present in that geography for the last 10 years. For us, the pricing in Kondapur or the pricing in Secunderabad remains absolutely the same.

Moderator: The next question is from the line of Harith Ahamed from Avendus Spark.

Harith Ahamed: So for the new hospitals that's coming up at Nashik, Thane and Bengaluru. Could you give a sense of the kind of ARPOBs that we are expecting there? Will it be in line with our current level of around 37,000, 38,000. Could it be higher? Because I understand that there will be a higher share of scheme patients when you start off. So any colour would be helpful.

Abhinay Bollineni: So I think Thane and Bengaluru, the ARPOB will be similar to what we are delivering at Sunshine and at the Telangana cluster, which is around 60,000. Both -- we believe that will be the case, both in the case of Thane and in Bengaluru. In Nashik, what we have projected or what we're seeing is to be similar to what we are seeing in Nagpur, which is around 35,000 kind of ARPOB.

Harith Ahamed: Okay. And given Nashik commissioning is scheduled to happen in this quarter and then there'll be some losses that's coming from -- that's going to come from there. Will you expect to maintain the kind of margins that we've delivered in the first quarter for the entire FY '25?

Sachin Salvi: Yes, I think the margin -- the losses that will come from Nagpur will be -- sorry, from Nashik will be marginal. It should get offset with the growth that is coming from Queen's NRI, which is a new acquisition. Growth that will come from Sunshine and Nagpur and Telangana cluster. The margin profile will continue to remain as same.

- Harith Ahamed:** Okay. And then last one. So apart from Mr. Sreenath Reddy, who is joining as Director of Business Strategy and M&A. You also mentioned Dr. Nitish Shetty also joining us. In what exact capacity is he coming on board?
- Abhinay Bollineni:** He is going to be the CEO of the Karnataka cluster.
- Harith Ahamed:** Okay. And the equity that they will own, will that be at the overall Karnataka region level? Or will it be related to the new Sarjapur Hospital, which you're planning to?
- Abhinay Bollineni:** It will be for the entire Karnataka cluster.
- Moderator:** The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.
- Tushar Manudhane:** Just on Andhra cluster, if you could just help understand let's say the picking order of the profitability of different units.
- Abhinay Bollineni:** So you have 3 units in Andhra that delivered a 30-plus kind of a margin. And then you have another 4, 5 units that are around 18% to 20% kind of a margin. So as they mature and they grow, we believe that the entire Andhra cluster could expand to 27%, 28% kind of an EBITDA margin. This could happen over the next 24, 36 months.
- Tushar Manudhane:** Which are the ones which are pulling down the margins?
- Abhinay Bollineni:** Right now, 1 unit in -- they're all in their growth phase, I wouldn't say pulling down the margins. The unit in Kurnool, the unit in Vizag and Srikakulam are where they're still in the growth phase because of which the margins are still on the lower side.
- Tushar Manudhane:** Understood. And similarly on the Telangana cluster, sir, if you could also explain there?
- Abhinay Bollineni:** So Telangana, I think both the hospitals are mature. We're continuously investing in new project -- new areas of treatment and new doctors. And also a lot of the corporate cost expansion has happened in Telangana for the group. That is reflected in Telangana for the group. That is why you see a dip in the margin. But there's a drag of almost INR1.5 crores from doctors who have been recruited but yet to see maturity in those. Or yet to even break even.
- Moderator:** The next question is from the line of Charul Agrawal from Bank of America.
- Charul Agrawal:** Congratulations on a good set of numbers. My first question is regarding the Nagpur facility. So we have seen a new competitor entered the market. Do we see any kind of competitive pressure in terms of doctor hiring? And you also announced that you were -- you might be looking to expand in Nagpur region. So any sense what is happening from a competition perspective on that locality?
- Abhinay Bollineni:** I think our doctors have been approached by competition, but the good part is, we have not lost anyone. And in spite of competition coming, I think our growth has been -- it's been the best

growth over the last few quarters. So we don't see -- I think there is space for all of us. We continue to grow and I hope our competition also continues to grow.

Charul Agrawal: Sir, my next question is on the insurance that you did mention about insurance being a significant growth driver in your opening comments with some regulation changes. I just wanted to understand that if we think of it from a metro city versus a Tier 2 and beyond approach, I think in the past, you have highlighted that insurance is more of a Tier 1 and metro city phenomenon. But if you put it in terms of your growth drivers, do you see insurance of significant growth drivers specifically for the Tier 2 and beyond?

Abhinay Bollineni: Not in Tier 2, Tier 3, it's still growing very slow there. There is a significant growth in metros and Tier 1 only.

Charul Agrawal: Okay. And how do the recent government steps that you mentioned, how do they change outlook for KIMS? Is it going to be significant?

Abhinay Bollineni: Your voice is not very clear. Could you please. There's a lot of disturbance.

Charul Agrawal: Is it better now?

Abhinay Bollineni: Yes. Better.

Charul Agrawal: I was just asking that since you were mentioning the recent changes in the insurance norms, in your opening remarks. Could you help us understand if that changes anything significantly for KIMS in terms of growth drivers?

Sachin Ashok Salvi: So, I think it is mentioned in the opening remark that only that Union Minister has proposed that the GST, which is there on the insurance premium can be reduced. It is not yet implemented.

Bhaskara Rao Bollineni: So the proposal by the Union Minister to the Finance Minister, removal of the GST, which is 18% on insurance premium. Suppose if they remove that 18%, there are more and more people will come into the insurance bracket. So that then affordability will become a good challenge for them.

Charul Agrawal: Got it. And sir, one last question, if I may. So you have announced quite a bit of expansion plans and you're also building upon it. So I wanted to understand how much more headroom do you see in terms of adding more capacity, what would be the metrics basis which you could decide that now from an expansion mode, we might want to consolidate a bit. So how should we look at it from a medium- to long-term perspective?

Sachin Ashok Salvi: So Charul, I was answering your question. We are currently managing 4,000 beds. We can expand the number of beds, but the limited -- the limit which we are having is the capital constraint. We have said we don't want to exceed a debt equity of 0.75:1, debt-to-EBITDA of 1.75:1. As far as we are within that range, I think we can -- there is no other limitation and it is already there. The only limitation, as I've said, is the capital constraint. At that point in time, we will reconsider our decisions if any expansions are in pipeline.

- Moderator:** The next question is from the line of Parvati Rai from Equentis Wealth Advisory.
- Parvati Rai:** A quick on the margin. So while we did say that it's sustainable for this year and the current quarter level margins of around 26.5% despite when you are -- I mean, the Nashik coming in, where the loss would be opposite. For next year, given Q4 and Q1 would see a couple of other hospitals coming online. Any colour if we can have there? What would be the sustainable EBITDA margin with these new hospitals coming in?
- Abhinay Bollineni:** I think as soon as this financial year, we have Queen's NRI coming in. And we also have -- which is already an EBITDA-generating asset. We have Nashik that could potentially have some drag for the first 2 quarters. And that's why we said, given that both of them have set off, we would the margin of the other units will continue to sustain.
- Parvati Rai:** Yes. So any colour possibly with the other units. So I mean from a next year perspective as well should we see this level sustaining? Or will there be a slight change with the new hospitals coming in?
- Abhinay Bollineni:** So the next year, I think the growth will continue to sustain for the existing hospitals. There will be incremental growth coming in from Nashik and Queen's NRI that has been acquired. But there will be drag on Thane, Bengaluru, both the facilities in Bengaluru. We were expecting -- or we have modelled a drag of not more than INR30 crores to INR40 crores across these 4 facilities -- across these 3 facilities.
- Parvati Rai:** Okay. That's good. And with respect to the average revenue per operating bed while there have been questions and you did kind of give your views. So for the full year, while this quarter has seen a massive jump and we understand the change that you spoke of and the driving factors, will this kind of level sustain? Or again -- so what is the sustainable ARPOB for the whole year that you're looking at largely, given the mix change or the scheme or the changes that we saw, the insurance or the incremental revenue picking up?
- Abhinay Bollineni:** I think the numbers are sustainable at the same range, 38,000 -- is -- 36,000 to 38,000 which is a sustainable number.
- Moderator:** The next question is from the line of Alankar Garude from Kotak Institutional Equities.
- Alankar Garude:** Sir, first question for Nashik, Thane and 2 Bengaluru hospitals. So from where are we hiring the doctors? Is it largely some other corporate hospitals or relatively smaller hospitals?
- Abhinay Bollineni:** A mix of both. They are largely -- in Thane -- it's a mix of 50-50 from closest competitor and smaller hospitals are willing to consolidate and move to bigger hospitals. But in a place like Bengaluru, it will largely be from similar competition.
- Alankar Garude:** Understood. And Abhinay, any thoughts on the seniority profile of the doctors? And how would you compare the seniority profile to, say, the Secunderabad hospital?

- Abhinay Bollineni:** See, Secunderabad is a 20-year-old hospital. So it's very unlikely to have that level of seniority across these facilities. But you will -- we will find a similar skill set that we have at KIMS Secunderabad in both Bengaluru and in Thane.
- Alankar Garude:** Understood. The second question is on Secunderabad. You had mentioned earlier some time back that there is also a possibility of doing brownfield in that hospital, if the need be. Now given the lower ALOS as well as lower occupancy, would it be fair to assume that there will not be any expansion in Secunderabad over the foreseeable future?
- Abhinay Bollineni:** So Alankar, in our previous call, we had mentioned that of the 1,000 beds that we have in Secunderabad, 200 beds are present in Block 1 and Block 2, the current situation -- and that's a 20-year old facility. Though we have those beds available, they are not in a state that can be properly utilized for growth.
- Hence, we have demolished Block 1, Block 2, we're building a new tower there, which can accommodate an incremental 350, 400 beds, but we will operationalize them or -- we will incur that capital over a period of time as and when required.
- Alankar Garude:** So precisely on -- yes, sorry. Go ahead.
- Abhinay Bollineni:** We are building the structure to have an incremental 300 beds. But as and when required, we will start utilizing that.
- Alankar Garude:** Understood. Sir, the question essentially was from an operationalization standpoint, do the plans get delayed a little bit, given the lower ALOS and lower occupancy now?
- Abhinay Bollineni:** There are no plans to delay it. There is a lot of services that we want to start and we are constrained with space. It could not be big, but there's a lot of outpatient daycare services that we want to start, but we are constrained with space. So we will continue to go ahead.
- Alankar Garude:** Fair enough. And one final question. As on date, at a corporate level, how many doctors would be under the equity model? And if you could bifurcate those between the listed company and the subsidiaries? And maybe the second one there would be what was the minority share of EBITDA in the first quarter?
- Abhinay Bollineni:** Minority share is around 10%, 11%. But on the share of doctors, we'll come back to you.
- Moderator:** Ladies and gentlemen, this will be the last question. It's from the line of Aditya from Sowilo Investment Managers.
- Aditya:** I don't know if this was asked before, but my question was more on the lines of -- I mean there was this government order that they try to cap the prices of private hospitals. So anything on that?
- Bhaskara Rao Bollineni:** Nothing, I think. See basically, now the Supreme Court has requested, the central government are asked to look into that and go over. And then later on, all these hospitals have been contested

and then they are looking at it. I think it looks like it is a standstill and a few governments are working and the state government if you able to work and negotiate with the prices, which even before we said that it is a very tough job to do all these things. It's a very complex way of dealing these things. We cannot be able to fix the pricing. I think that may not be any risk in the health care as of now in India.

Moderator:

Sorry to interrupt, sir. The current participant has been disconnected. As there are no further questions from the participants, I would now hand the conference over to the management for their closing comments.

Bhaskara Rao Bollineni:

Let me summarize all the questions that have been put forward and auditable questions and thanks for asking all these questions. Initially, when we were talking about the affordability, accessible, quality, a couple of decades back, there was not many players in the healthcare who are doing all these variety of patients to take care of the remote places, that's the way we are putting.

Now many healthcare players are coming, small, small hospitals and all these scheme patients and lower patients, lower socioeconomic group people are getting treated in those areas. It has been well strengthened in all the entire countries, thanks to all the Ayushman Bharat or the Aarogyasri.

So now insurance penetration also is increasing. So once the insurance penetration is increasing, then again, the affordability increases and the ARPOBs and average revenue per bed to keep on increasing. It is not we really, particularly to improve these things, automatically shift is happening in the Indian healthcare. And as we all mentioned that before, whenever we look for any acquired new geography and new acquisitions, we'll thoroughly investigate and put forward and how much is the growth we are going to anticipate by those particulars.

But even then we keep telling, and then we have been proved time and again. Onetime '18, '19, we acquired about 3 hospitals, the Ongole, Kurnool and Anantapur. We could be able to turn around and continue to grow. And the last time, again, we took about 3 hospitals in Nagpur, Sunshine and 2 Sunshine hospitals in Hyderabad. Even though Sunshine Hospital was a single branch dominated one, people will have some reservations so we are going to change and we thoroughly done a lot of due diligence and then investigations here in Nagpur.

So that's why we could be able to turn around now and that gives a lot more confidence and comfort towards our investors. And the other important thing now we are going -- having been shown turnaround in Nagpur, Maharashtra. Now we are going to move forward with Nashik and Thane. The way which we have been anticipated in Nagpur, we also should able to anticipate.

Now the Karnataka cluster, we are going and then we got a good management skills with our efforts and brand, which is in Karnataka also, KIMS has a lot of Telugu-speaking people are there. So these both combinations and we can turn around the Karnataka cluster. And the more important whenever we go, we always -- from the beginning, we want to partner a few of the doctors and management, so that they will also have a skin in the game, at least 15%, 20% of

the entire cluster. And that way, we can be able to move on. As we're promising in the mother and child and oncology in Andhra units, we are doing that.

Whenever we get an opportunity, some of the things we will be able to slow down, take over the opportunity because of the cash cost mismatch that right now, we've got the Vizag unit, which is a good one, what we feel. So these things we're able to look and it is very promising. And then whenever based on the opportunities, the existing units that we need to be able to look, we'll be able to channelize the capex so that it will be able to move forward.

And the other important thing when we keep on improving and the absolute number of bottom line may not keep -- continuously keep growing because in the beginning, the new unit comes, the percentage may come down. But the absolute numbers will keep going. And the LRs and other things are different seasons in different quarters. There are a few important things. One of the elective surgeries, emergencies and the complex procedures, in that quarter, if you have any -- more of emergency and complex procedures, the ALOS may a little bit grow.

And mostly on elective cases, the ALOS will come down and then we are adding the new therapies there. Some of these things may not be able to take a longer time. That's why the ALOS will also come down. These are all a few important things. And as we mentioned that the capex and the EBITDA, which we were not able to be very, very cautious about it. Maybe in 2, 3 quarters, we may cross that limit what we have, but that we'll be able to separate after that. So, we don't need -- because the opportunities are there, either I have two options, either I should be able to raise the IPO or I should be able to take a little bit leverage of the debt and then expand and come back a number.

These are all the few that whatever is the good for permission for the company [inaudible 1:06:54] we want to do with our own internal accruals and debt. So that the growth is -- pertaining to growth and the opportunities will also look forward. Thank you very much for patient hearing and I'm sure that we satisfied most of your questions.

Moderator:

On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.