

18th August 2022

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

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

In Continuation to our letter dated 4 August 2022 the Company organized a conference call with the Investors/ Analysts on Thursday, 11 August 2022 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 on the Company's Website at <https://www.kimshospitals.com/investors/> > Disclosures under Regulation 46 of SEBI (LODR) Regulations, 2015 > Analysts Calls schedule, PPT & Transcripts > Transcripts, Audio & Video Recordings.

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 FY-23 Earnings Conference Call”

August 11, 2022



MANAGEMENT: **DR. BHASKARA RAO BOLLINENI - FOUNDER AND
MANAGING DIRECTOR**
**DR. ABHINAY BOLLINENI - EXECUTIVE DIRECTOR AND
CHIEF EXECUTIVE OFFICER**
MR. VIKAS MAHESHWARI - CFO

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

Moderator: Ladies and gentlemen good day and welcome to the KIMS Hospital Q1 FY 23 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participants' 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: Hi good morning every one this is Rahul from IIFL Institutional Equities I welcome you all to the First Quarter Earnings Conference Call of KIMS Hospital hosted by IIFL. I thank the KIMS management team for giving us the opportunity to host this call today from KIMS we have us Dr. Bhaskara Rao Bollineni – Founder and Managing Director, Dr. Abhinay Bollineni – Executive Director and CEO and Mr. Vikas Maheshwari – CFO. Over to you sir for your opening comments.

Bhaskara Rao Bollineni: Good morning and a warm welcome to our dear investors. The nation is celebrating Azadi Ka Amrit Mahotsav and we are just 100 hours away from the land mark 75th anniversary of our Independence. As such the country is gripped in the state of patriotic fervor, I share with you the elevated mood of the nation on this great occasion and extend you a healthy welcome to this investor's meeting. It gives me great pleasure to appraise you the financial results of quarter 1 for the financial year 2022- 2023. As you are aware last year, we entered into a definitive agreement to acquire a majority stake in the prestigious Sunshine Hospital which has national reputation in the orthopedics segment. Now that the process of acquisition is complete. We are able to witness demonstrable results in Q1 2022-2023.

In the coming quarters as the indication gathers further steam coupled with revenue growth and rationalization of cost, we expect the acquisition to give much better results. We remain very optimistic about the potential of the acquisition. The combined strength of these two entities are expected to yield good results due to enhanced patient reach, increased in patient comfort and professional expertise. KIMS has already carved a special niche for itself in the areas like organ transplantation, neurosciences, oncological sciences, renal sciences and gastro sciences. The acquisition of Sunshine Hospitals will enable us to reach more patients particularly from the orthopedic segment. The financial results for the first quarter of the year are as follows.

Consolidated revenue from operation grew by 33% quarter-on-quarter basis to Rs.4955 million consolidated EBITDA excluding other income and Ind AS adjustment grew by 9% on quarter-on-quarter basis to Rs. 1312 million. Consolidated EBITDA margin excluding other income and Ind AS adjustments stands at 26.5%. The slight decline in EBITDA margin is due to the consolidation of Sunshine Hospitals which is operating at 17.8% EBITDA margin had also increased cost for employees, doctors and power and fuel cost at existing KIMS Hospitals. We all know that the first quarter we do not increase every year the price hikes for the patients that is why because of the employment expenditure will bring down but it will be able to shut down

in the coming three quarters. The group continues to have a very strong balance sheet along with a healthy operating cash flow and as a built strong financial foundation for the next phase of growth. Group continues to be net cash positive Rs. 1961 million which will be deployed for ongoing and upcoming projects. On the operational side both IP and OP volumes have shown growth by 21.7% and 19.9% respectively on quarter-on-quarter basis. The average revenue per patient, the average revenue per operating bed has improved by 8.5% and 20.1% respectively on quarter-on-quarter basis. Average length of stay has improved to 4.14 from 4.59 on quarter-on-quarter basis. Since inception, we have been able to continuously introduce new therapies departments onboard and qualified consultants to growth our business. Besides this having sharp focus on strategic acquisitions and mergers at our core market which is Andhra Pradesh and Telangana, we have been able to increase and deepen our footprint in both tier 1 and tier 2 cities and reach to 3600 beds in only two states AP and Telangana. All the expansion and acquisition were done in a very prudent manner and at a very lucrative valuation which is reflected in the industry leading EBITDA margin and ROC. Over the period of time all the internal approvals and funds raised were deployed, very prudently and efficiently for the growth of the company. Even after the acquisition, of Sunshine Hospitals, the company remained net cash positive which will be deployed for further growth in the company. We are confident that the projects undertaken by the company will yield good results and improve the financials of the company in the coming quarters.

Let me now speak about the accomplishment of our doctors, we are proud that our Chief neurosurgeon Dr. Manas Panigrahi had performed more than 20,000 surgeries in his career which is rare feat not matched by many in the world no wonder patients come to him from all parts of the world. I hope all of you have seen the annual report, my statement therein amplifies our vision, our philosophy of growth and our values. We have imbibed what the famous jurist Nani Palikhivala said, “It is good to be big, better to good, and best to be both.” We intent to be both in our journey ahead. I conclude now summing up our values as mentioned in the Chairman’s statement, the best single word ‘we’ not ‘I’, the best two words ‘serve others’, the best three words ‘be the best’, the best four words ‘let us all grow’, the best five words ‘fruits of efforts to society.’ Thank you very much for a patient hearing.

Rahul Jeewani:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line Chintan Seth from Sameeksha Capital. Please go ahead.

Chintan Seth:

Sir, two sets of questions, one is related to the quarter, if I look at your IP volumes. It seems that the occupancy on the total bed capacity has both sequentially as well as on a year-on-year basis has soften a bit. Is this related to seasonality and second is on the ARPOB side, given the base quarter had COVID patients into the IP volume this ARPOB seems to still continue to grow on that based on a year-on-year basis. If you can highlight, how should we expect, what will be the trajectory of ARPOB given the mix will move down to normalization with lower cash and increase in schemes and Arogya scheme patients in the ensuing quarter, that is second and third is on the pledge share if you can provide some color on when should them to, because from

December quarter to June there is an increase over there. So, if you can throw some light how should we look at it going forward. That are the three questions.

Dr. Abhinay Bollineni: Dr. Abhinay speaking, so on your first point, we had seen a very dull first month of the quarter. So, April and part of May was unusually lower than what we had expected it to be. Honestly, we have done some work across the country to understand why this pattern is been there but were not able to figure out why and anyways thankfully mid of May and June-July have been continuing to do quite well. We believe that there is a one-time lull on the market either the overall hangover after COVID and people wanted to take a break from a left procedures and all of that because of which we have seen a dip in volume both in April and mid of May which resulted in lower occupancy and as the law and elective works stopped coming down there has been some impact on the ARPOB but the month of May, June, July and even in the month of August, things are completely back on track as per budget.

Mr. Vikas Maheshwari: So, to add to what Dr, Abhinay has told if you look at our ALOS have slightly improved. Those are ARPP has increased, so we have improved our ALOS from 4.6 in the March quarter to 4.3. So that has also resulted into the lower occupancy but the revenue though as Dr. Abhinay has told the April and part of the May was little dull. We could have been able to match up the revenue and occupancy slightly got impacted because of the ALOS also improved. So, able to improve both ARPOB and ARPP both year-on-year basis and quarter-on-quarter basis.

Chintan Seth: So how should we look at ARPP and ARPOB going forward because you are saying electives were lower. I presume there were no COVID patients in this quarter and cash mix. It seems sequentially there is little change assuming slightly lower 57.5 in Q4 2022 versus 54.7% but insurance has increased from 17.5 to 24. So given the mix is slightly lower in the cash segment. Still our ARPOB and ARPP has improved. So I am just trying to understand that how should we read ARPOB going forward.

Mr. Vikas Maheshwari: Though this was the very normal quarter, June quarter was very normal quarter and free of COVID because over the last eight quarters two years we have seen COVID coming, COVID going on disruption year but the quarter first of this year thankfully was free of the COVID and we saw the normalization of the business except for the April month which was aberration. So we believe that whatever the ARPP and ARPOB we have shown, we should be able to maintain that trajectory and grow slightly as we go up till the coming quarter and the same time cash and insurance has slightly got tinged because of integration of the Sunshine Hospital at the Group level but at the KIMS level it more the less remains the same. Since Sunshine was having slightly higher portion of the insurance, the mix has got changes but if you look at the both cash and insurance together we have been able to maintain at roughly 80% +/- 1% which was the earlier case.

Chintan Seth: So that mix we are targeting to maintain going forward.

Mr. Vikas Maheshwari: 80% cash and insurance, we should be able to maintain +/-1% because that we cannot predict and Corporate and Aarogyasri should continue to be at around 19%-20% going forward.

- Chintan Seth:** And sir on the pledge, if you can update.
- Bhaskara Rao Bollineni:** I think the pledge will be definitely will come down in one or two quarters but it will sustain for another 1-2 years because the shares that has been pledged in the medical school that over a period of time it will go off. The increase of this pledge is because the price fluctuation is there to cope up that we need to put little more increase on that and actually we were planning to shift from one bank to another bank because of the interest benefit we are getting that is the reason.
- Moderator:** The next question comes from the line Sagar Shah from Phillip Capital. Please go ahead.
- Sagar Shah:** My question was related to occupied beds. Out of your bed capacity 3666, your operational are 3222. So basically, first of all I want to clear that how do you derive this out of 3666 bed capacity what is operational and what is non-operational.
- Vikas Maheshwari:** So, if you can go through with the presentation page no.18 this was the query from most of the question earlier also. So if you go through the page no.18 at the group level including Sunshine we had a bed capacity 3666 out of that 3222 is operational means this is the bed which is open where we can admit the patient, therefore the capacity of 444 beds are capacity which as the occupancy go up we will open over a period of time. Now this 3220 are being divided between census and non-census beds. So the census beds are 2760 and 462 is the non-census which is your emergency dialysis, daycare beds etc. Now that the occupied beds for the quarter at the book level 1807. So this 1807 is being calculated based on the census bed operational which 2760 based on that the occupancy is being calculated. To clarify little more the question what you asked what you mean by 3200 that these are all the beds, that has been employed by the nursing staff, the class 4 employees and everybody. The rest of the 400 are also everything is there we do not need to put any capex further which is being a healthcare is going to be seasonal at that time, we will try to accommodate those beds also. So as on today, everyday we will be able count only these 3200 beds. In extraordinary cases when there like pandemic like dengue seasons and all if there is a need we will be able to open those beds so operational capex we want to minimize that is why we call this operational and non-operational beds.
- Sagar Shah:** And my second question was related to your AP mature assets and AP acquired Assets as we have seen your ARPOB trajectory going up actually when we compare FY 2022 and now Q1 FY 2023, Now my question was that do you see these ARPOBs going to level of Telangana to KIMS Mature Assets which are already having an ARPOB of 42000 FY 2021.
- Dr. Abhinay Bollineni:** These are two different markets all together in the foreseeable future I do not see the AP either matured or acquired getting anywhere close to the ARPOBs of Telangana markets. They are completely different micro markets and it will be unrealistic to assume that they will get closer to that number.
- Sagar Shah:** Since they are in tier 2, tier 3 cities, right?
- Dr. Abhinay Bollineni:** Exactly.

- Mr. Vikas Maheshwari:** Just to add what Dr. Abhinay, has told if you look at the trajectory which is in the page no.19 of the presentation in FY 2021, the ARPOB of AP mature was 13000 roughly 600 which moved roughly 17000 and in case of acquired assets which was less 10000 has reached to the 14000. So, the trajectory of the growth is there but obviously it will not match up to the Telangana market which is Hyderabad market facility where operate which different market all together. It will keep on improving.
- Sagar Shah:** Going ahead when occupancy improves in AP mature and acquired assets where do you see the ARPOBs reaching for these two?
- Bhaskara Rao Bollineni:** The other important things what you also know these Telangana one per bed investment is entirely different from the tier 2, tier 3 of Andhra the per bed investment is also, accordingly based on these ARPOBs.
- Sagar Shah:** Where do you see the AP mature and ARPOBs reaching sir in the next two years.?
- Dr. Abhinay Bollineni:** I think it will steadily grow, the mature assets have growing at 4%, 5% that is how it will continue to grow over a period of time.
- Sagar Shah:** My next question was related Sunshine. Sunshine current occupancy is only 39.5 % where as your ARPOBs are almost 62506 which are almost **(Inaudible) 21:02** compared to all your assets but still your EBITDA is around 17.5 so basically do you see the occupancy level go up for Sunshine. Also, the EBITDA margins going up for Sunshine in the next 1 to 2 years, one. All the KIMS facilities to the Sunshine once you integrate all the other treatments also in Sunshine with KIMS.
- Dr. Abhinay Bollineni:** As far as Sunshine is concerned we just changed the brand name from Sunshine to KIMS a week ago. Between the facilities that we are focusing on Gachibowli most of clinical programs have been on boarded or will be onboarded in the next one to months and six months from there we should see that hospital occupancy go up further and dependency on orthopedics come down. As far the Secunderabad hospital is concern we are likely to move to into the campus by end of the year or early part of quarter 4 and once that happens, we will then induct lot more clinical talent which will then reduce the dependency on orthopedics and make it a more multispecialty hospital. When these two things have executed, we are pretty confident we get to a higher occupancy level that we are seeing in KIMS hospital in Telangana and also the margins should stabilize somewhere close to what the margins are in the current KIMS in Telangana hospital. The margin profile will also be very similar to what we are seeing at KIMS Telangana today once these two hospitals of Sunshine mature and the new clinical teams are onboard.
- Mr. Vikas Maheshwari:** Just to clarify why the Sunshine ARPOB is higher because that is roughly 46% of the revenue of Sunshine comes from the ortho. So that is why their ARPP and ARPOB is slightly is higher.
- Dr. Abhinay Bollineni:** Their ALOS is much lower than KIMS currently because of its dependency on just one specialty or 50% of it coming from one specialty as we make it more multispecialty, the ALOS will

increase the ARPOB could potentially come down but we are pretty confident we will be able to maintain the same margin profile that we are maintain at KIMS Hyderabad.

- Sagar Shah:** What is progress of the new hospital that you are building in Nashik and Bangalore.
- Dr. Abhinay Bollineni:** Like we said we have completed both Nashik and Bangalore and we pretty Bangalore should be operational in the next 15 months likewise Nashik also should be operational in 15-18 months.
- Moderator:** Thank you. The next question is from the line of Rahul Jeewani. Please go ahead.
- Rahul Jeewani:** Sir, you indicated that our occupancy have been lower because of sort of an impact in April and May. So, if you can quantify what would have been our occupancy during the quarter had we not seen this impact and then what is your guidance for your full year occupancy for the KIMS based business ex Sunshine.
- Dr. Abhinay Bollineni:** I think it would have been very similar to what had seen in Q4 Rahul. It is not for this that something had happened in April and mid- May we would have been what we are seeing in June, July and so far in August our occupancy which are very similar to Q2 or little higher in fact.
- Rahul Jeewani:** So closer to 74%-75%.
- Dr. Abhinay Bollineni:** Correct. So, June, July and August, so far the occupancy tend has been around the same number.
- Rahul Jeewani:** And with respect to Sunshine for the five months of last year's fiscal where the assets we had EBITDA margins of around 20%-21% for Sunshine and this quarter margins on Sunshine have dropped to 18%. So, what has led to this margin drop on Sunshine.
- Mr. Vikas Maheshwari:** Rahul, the Sunshine has got integrated line by line this time for the first time. In the Sunshine quarter 4 there was 4-5 crores of the other income, earlier we were including that has a part of the EBITDA now after getting the feedback from all the investor we understood that other income should be excluded from the EBITDA margin. So if we exclude that we should on the same type of trajectory, Rahul.
- Rahul Jeewani:** And earlier you had indicated that Sunshine can possibly get to 25% margins and the margins in Sunshine will be lower than what KIMS does in its mature hospitals in Telangana because of the rental expenses at Sunshine now given that you are relocating the Secunderabad hospital to this new campus where you might have the very good savings again what is your outlook on Sunshine's EBITDA margins 2-3 years down the line.
- Dr. Abhinay Bollineni:** As the revenue ramps up we should be able to get to the KIMS Telangana margins, we should be able to get to the same number as Sunshine owns.
- Rahul Jeewani:** And in terms revenue ramp up if you can just elaborate what kind of a revenue ramp up you are looking at Sunshine Hospital.

- Dr. Abhinay Bollineni:** I think the current occupancy as low as 40% there is headroom for growth by almost 30% to maintain the level of occupancy that we typically seeing at KIMS Hospital and given that 50% is driven by just orthopedic and 75% of the revenue is driven by orthopedics and cardiac. So all the other specialties together typically account only for 25% but where as in a KIMS like hospital you will see that both these specialty do not contribute to more than 30%, Now it may not be possible to bring it to as low as 30% but the intent is to bring a lot of new specialty and add on the new clinical talent and be able to scale up bring down dependency of ortho and cardiac from the current 75% level to around 40%-45%.
- Rahul Jeewani:** And with you targeting to improve the multispecialty mix at Sunshine obviously you will have to onboard new clinical talent around some of the other specialty. So how have those discussions being ongoing with respect to onboarding new clinical talent at Sunshine.
- Dr. Abhinay Bollineni:** We are currently focusing on Gachibowli because the hospital is operational and things are in place, we been able attract 60%-70% that we had planned most of them have joined the others should be joining as we speak in the next few weeks. By October we are pretty confident most of the talent gaps will be completed and from October onwards one year from there we should look at that hospital reaching a certain level of maturity.
- Rahul Jeewani:** And these are all new medical talent you will not be moving any of your existing doctors from KIMS flagship hospitals to any of these Sunshine Hospitals.
- Dr. Abhinay Bollineni:** No, we have in the plans so far we have not seen anyone moving from our flagship hospital or from our Kondapur Hospital to any of these hospitals.
- Rahul Jeewani:** Can you just elaborate on your expansion plan for organic and inorganic in terms of what is your inorganic pipeline looking at over the next 1 to 2 years period?
- Dr. Abhinay Bollineni:** There are quite of a few opportunities Rahul but I do not think I am allowed to speak on any of them currently because we do not have anything definitive but we are seeing good traction that we are getting in the southern markets where we have some good hospitals available for a transaction but as far as what is available in the public space is our Nashik facility and Bangalore both of which are on track and we should be able complete them in the next 15-18 months but hopefully by the next investor call we should bring a couple of new proposal on the table and couple of new announcement on the table.
- Rahul Jeewani:** And in terms of markets which may be interested in for some of these inorganic assets would largely be the West and the South India markets or the Karnataka markets.
- Dr. Abhinay Bollineni:** I think we are continuing to just focus on these markets we are not looking anywhere beyond this I think the opportunity here itself is quite large if we continue to just stay focus we will be able to deliver the same set of numbers like we are doing at KIMS Andhra, Telangana. We should be able to scale up sizably here.

- Rahul Jeewani:** You were planning to add 1000 beds in your Core AP and Telangana market over the next 3-4 year period where 180 incremental bed coming up at Kondapur. So how are those plants progressing and when can we see this incremental capacity coming in your Core market.
- Dr. Abhinay Bollineni:** We are sticking to the timelines that we had published, Rahul. Kondapur is going fairly on track and we should be able to move into the new campus based on what we had earlier projected 36-48 months, we are on track to move there. Except for Dilshukhnagar which we had earlier planned, everything else is on track. We are trying to see how we can expedite Dilshukhnagar. Yes most of other projects are all in track to complete.
- Moderator:** Thank you. The next question is from the line of Praveen Sahay from Edelweiss Wealth Management. Please go ahead
- Praveen Sahay:** Sir my question pertains to Telangana KIMS mature asset where there is last year to this year, the ARPOB were on the lower side. so can you give detail that is it because of the COVID or because of a higher occupancy or something this is down or is there something else also.
- Dr. Abhinay Bollineni:** It is definitely lower even if you look at the Q4 number for Telangana mature is around 44000 versus FY 2022 has been around 46000. So there that 5% difference in the ARPOB and we should attribute that to some of the high end work we had done during COVID on the lung transplant on the ECMO services that we offered and the other transplant services which we had seen a little dip in the first quarter of this year but again if you look at June, July, August we have seeing a very good healthy trajectory on the transplant services as well as the other services that we are offering. We should assume that the ARPOB will be between the range of 42000 to 45000 moving forward for the Telangana mature.
- Praveen Sahay:** Okay 42000-45000 would be the normal range for this mature facility.
- Dr. Abhinay Bollineni:** That is what we have seen Q4, Q1 and the next last two months July and August.
- Praveen Sahay:** Is there any further scope for improvement in the payer mix or at a price hike.
- Dr. Abhinay Bollineni:** There is potential for price but the way we have always been doing price hikes. If we do not see visibility of growth through volume or through adding new specialty that is when we resort to price hike but the idea is to see how we can keep the cost lower to the end consumer. So at this point, we do not see the need for any price hike in most of our hospitals we see great visibility of growth coming in from the current facilities through addition of new specialty or the current newly added specialty are also continuing to grow. So I think at least for the foreseeable next few quarter we do not see any intent to a price hike on the cash patients. Insurance patients any way there is an auto renewal that happens once in two years which are continuing to pursue with all the insurance companies.
- Praveen Sahay:** So that is a two-year period when it is due, like last year?

- Dr. Abhinay Bollineni:** Yes, the contract says two years by the time we executed it becomes 2.5 to 3 years because of the lag from the insurance company providing.
- Praveen Sahay:** But due is when?
- Dr. Abhinay Bollineni:** They are all different contracts that we have signed in different time zone so you should assume most of them will undergo a renewal this financial year at least 50% of them.
- Praveen Sahay:** The next question is related to the AP acquired asset and related to the occupancy what is the normal rate one can see for this acquired asset in terms of the occupancy.
- Dr. Abhinay Bollineni:** What is the occupancy rate that we should assume?
- Praveen Sahay:** Yes, in the normal scenario not like the COVID is gone. So now what is the normal 75%-76% is the normal rate of occupancy out there or it is on the higher side.
- Dr. Abhinay Bollineni:** I think 75%-80% is what we have been seeing in our AP matures assets in the past. We should be able to get to that kind of a number even in our acquired assets moving forward.
- Mr. Vikas Maheshwari:** And also Praveen just to add if you look at the AP acquired assets the ALOS improvement has been good. So you should also factoring that while calculating the occupancy if we are comparing like-to-like basis.
- Praveen Sahay:** Also, to extent this question, as you mentioned that the ARPOB in the entire AP mature or acquired asset has improved so that is largely because of a mix changes, in clinical mix changes or the price hike or something you had done.
- Dr. Abhinay Bollineni:** The ARPOB in the acquired assets from FY 2022 has changed to Q1 FY 2023 is that the question?
- Praveen Sahay:** Yes overall, in the last three years 2021, 2022, 2023 first quarter we had seen in a concurred improvement in the ARPOB for the mature and as acquired for AP. So what exactly driven those numbers those numbers.
- Dr. Abhinay Bollineni:** If you look at the ALOS for the acquired assets lets speak about the acquired assets first ARPOB is moved from 9881 in FY 2021 but also the ALOS has reduced from 6.82 to 4.36. A part of this driven because of the reduction in ALOS we have not done any change in price hike. We have not done any price change for the last one and half year in most of these acquired assets and because the acquired assets are only 4 to 4.5-years-old. So in FY21 they would have been 2 years old so as KIMS mature in the hospital, the specialty also mature and start doing **(inaudible) 38:19** quarterly care work. So that is what has driven the growth in ARPOB.
- Moderator:** Thank you. The next question is from the line of Gagan Thareja from ASK Investment Management. Please go ahead.

- Gagan Thareja:** My first question is on the depreciation it has grown. I understand and you have Sunshine line by line consolidation this quarter but there is a fairly outsize increase in depreciation. Could you explain the break up of depreciation and amortization on that entry?
- Mr. Vikas Maheshwari:** Your point is 100% correct the depreciation has increased because of the Sunshine mainly. In the Sunshine, we have operationalized one of the cath lab and robo which we have bought in got capitalized in this quarter. So, one depreciation has come because of that. Secondly, we have declared that Secunderabad facility we are moving to new facility at Begumpet location and these assets are leasehold building so whatever this leasehold improvement portion is there some accelerated depreciation has come because of that.
- Gagan Thareja:** So the current rate of depreciation is sustainable going ahead?
- Mr. Vikas Maheshwari:** For the next one or two quarters it will be there because of we are shifting to the new facility once the facility is up and running. We are investing some like that of INR 80 crores of the money for the refurbishment and better facility for the Sunshine so that depreciation will start so. Yes, the run rate should be the same, may be slightly higher but it should be on the same range.
- Gagan Thareja:** Also, since this consolidation probably happens only starting FY 2023 if you could give some idea on how does the gross block and goodwill and intangibles compare and stand today and how does it compare versus last year.
- Mr. Vikas Maheshwari:** The provisional PPA work is being done and based on the provisional work roughly INR 180 cores of the equipment which is coming and roughly 140 crores of the goodwill which will come and from goodwill brand intangible of roughly INR 20 crores will be coming.
- Gagan Thareja:** What is the current cash position and the debt position?
- Mr. Vikas Maheshwari:** At the group level we have a cash or roughly INR 350 crores and the gross debt or INR 150 crores. So net cash of roughly INR 200 crores. I think is INR 196 precisely. Is the cash which is available including Sunshine at the Group level.
- Gagan Thareja:** Your capex budget for this year? I think you have been talking of if I remember correctly your annual capex of INR 300-350 crores. If you could sort of validate that number and also funding for the capex would you be taking cost to debt for funding the capex.
- Mr. Vikas Maheshwari:** For the ongoing project which is at our Bangalore and Nashik we have already told this in the 18 months we will be spending that much of the amount depending upon that. Other projects which we are pursuing in the South India it all depends upon what type of opportunity whether it is leased as sales, we are buying it out or it is acquisition depending on that the capex plan will change or the capital outlay will change.
- Gagan Thareja:** What will be the capital outlay for budget for FY 2023?

Mr. VikasMaheshwari: For the Bangalore, we are spending something like that INR 350 out of the INR 60 crores has gone. So, the balance money will be spent at around 18 months' time and the balance INR 170 crores of the Nashik which we have given the indication INR 171 to INR 180 crores of capex, that will go will in 18 months' time. So that is broader two projects which is concrete and for which we are spending the money. Rest all depends upon what kind of opportunity we getting whether it is leased, old, buy out or some acquisition opportunities which we are looking at. So based on that the capital outlay will be there but to give an assurance to you, right now we are having an INR 300 crores cash lying with us or net cash of INR 200 crores. We are generating something like that INR 350 crores free cash flow every year. so even if some opportunity comes of INR 300-400 of acquisition there may be an intra quarter, intra year there may be loan, but over a period of time, it should be paid out of the internal accrual.

Gagan Thareja: I understand that Sunshine will scale up over the next 12-18 months. You have your plans around it but then by the time Sunshine reaches an optimal sort of occupancy and its benefits start flowing to the operating margin level. Your new facility is in Bangalore and Nashik start coming in, would it then be, a reasonable inference that net-net margins at the operating level should remain stable at where they are or do you feel that there is in spite of those new additions coming through is there is room for margin expansion because of efficiency.

Mr. Vikas Maheshwari: Sunshine let me bifurcate into two parts one is the KIMS and one is the Sunshine. Sunshine as you told correctly it is sitting on the operating leverage and as the incremental revenues start coming in almost 50%-60% of that directly gets added to the EBITDA and the profitability after the tax it get added on that. So that is one kicker which we are seeing and we have the given the indication that the Sunshine is a great appreciation, our great potentials to grow and we can develop the EBITDA from here in the next 18-24 months' time, So that is the great potential as far as the KIMS is concern this quarter particularly for the Telangana market the EBITDA got little bit impacted because of the increments to the doctors and other employees, non-medical employees etc. and there was some cost increase in the power and fuel cost. Now as the rainy season has started and the winter comes we hope that at least the power and fuel cost which we have seen going high should get little bit moderated and as the revenue ramp up happens that cost on the incremental of the doctors or the salaries should get absorbed so the EBITDA margin which we have shown I think should be sustainable from there and little bit scope for the improvement from there.

Gagan Thareja: Post 18 months from now when the two new hospitals come onboard obviously their occupancy will ramp up over a period of time but the cost will kick in right away would that put some pressure on margins it might be trajectory but I am simply trying to understand would there be some pressure on margins because of them.

Bhaskara Rao Bollineni: I do not think we will see any pressures on the margins, may be we have plans we are negotiating, that is how we have been historically looking it when these are all there for a 18-24 months. Now onwards we will look how to improvise our margins beyond 24 months. So, I think maybe we can sustain.

Gagan Thareja: If you look at the hospital segment as a whole segment as a whole, there is a list hospital segments. FY2022 has been a year, everyone, every hospital has shown an ARPOB increase of significant 15%-20% and individually when you talk to them says case mix, tier mix. My assessment or understanding is that in any catchment area the incidence of any disease cannot drastically change in any given year that being the case. You know how do you put down a 15%-20% ARPOB increase for the entire industry down to these factors I would have thought the only possible explanation is that there has been a reset in the prices, procedure cost syntax that is what led to it. If that is the case, would it not be an unsustainable phenomenon going ahead.

Mr. Vikas Maheshwari: It is a great question actually. So, I will not be able to comment on the other companies but since we are recently listed and lot of data is available in the domain. I request to you if you look at our FY 2019. Our Corporate and Aarogyasri mix was roughly 30% and cash and insurance was 70% which every year on the improvement on the payer mix we have brought it down the Corporate and Aarogyasri mix which right now including Sunshine integration stand at roughly 20%/. So 10% movement from the Corporate to cash and insurance. This is one which have got added into the ARPP and ARPOB improvement. Secondly, we have added few of the clinical program like heart and lung program which are high ARPP programs etc. and giving us a good visibility and the revenue in the last, we started this program 18 months before, right? So 18 months if you look at that has also given us a flip towards the increase in the ARPP and ARPOB this quarter in spite of there is no COVID because there was always a with analysts and investors how much is the COVID or non-COVID that debate was always there. But since the June quarter was full clean, normal business, none of the COVID business even the vaccine business is also not there what about the EBITDA and revenue and occupancy, ARPOB, ARPP have shown. I think that is more the less is sustainable.

Dr. Abhinay Bollineni: And also if you look at the numbers at KIMS especially if you refer to slide no.19 and you look at Telangana KIMS mature the ARPOB was 2 years ago was 39000 now it has moved to 42000. So, it is not that pre-COVID and post COVID things have changed substantially at least at KIMS and like Vikas rightly said, what changed in Telangana KIMS mature growth in ARPOB these are our cash patients have increased and that is because of introduction of two new specialties on the transplant Services where the ARPOB is as high as 1 lakh per day, per bed, and also because a lot of new doctors got added which increased a lot of cash patients and insurance patients. So whatever growth has happened is because of those two specialties and those two doctors plus the degrowth in the ALOS from 4.74-4.27. So, these two factors very clearly indicate the reason for growth in ARPOB and also the growth is not more 10% at Telangana level. Same is the case with mature assets and acquired assets of AP. It is largely driven by degrowth in ALOS plus a lot of these new specialties maturing that is how we have seen it.

Gagan Thareja: But what was your ALOS pre-COVID. I think your ALOS pre-COVID was already lower and then it moved up during COVID and then is gone back to where it used to be. If I remember it correctly.

Mr. Vikas Maheshwari: Yes, that is correct, we were at 4.5 and 4.3 now we have come back to the normal level at 4.3. That is correct, so because of the clinical program and ARPP going up, it has moved up. The ARPP was something like that 81000- 82000 in FY 2019 with ALOS of 4.5. Now the ARPP has moved to roughly at the KIMS level at INR 113,000 and the group level INR 125,000 with ALOS of 4.1. so the ARPOB is 25000-30000. So obviously, as Dr. Abhinay has told there is lot of clinical deployment which we have done and the new doctor's team and high-end facilities which we have added that has also resulted into the increase ARPP.

Gagan Thareja: One final question on the inpatient volumes and OPD volume flow. I has all been disrupted over the last two years because of COVID this quarter every one reported very strong OPD flows might have grown but not at the same rate but once all of this cleans up on a normalized basis if I look at inpatient volume growth CAGR for any hospital over a 5 or 7 year timeframe its normally 4, 3%-5% is the CAGR range. Would you concur with the view and would you think that going a head barring COVID or COVID like situations that is the base line growth for inpatient growth in a given hospital I understand, you might add new hospitals and so on but for existing base of hospitals.

Dr. Abhinay Bollineni: Yes, you are right I think from a mature hospital point of view the IP volume growth will be in that ball park range.

Gagan Thareja: And OP volume would generally be 8-10 for multiple of IP volume.

Dr. Abhinay Bollineni: That is how it should be.

Moderator: Thank you. The next question comes from the line of Bhavya Gandhi from Dalal & Broacha.

Bhavya Gandhi: A couple of questions, sir I just wanted to know whether we maintained our revenue guidance and what would be our ROC level, target ROC for the entire year and may be for couple of next to 2-3 years after the Sunshine merger.

Mr. Vikas Maheshwari: I do not think we can give any guidance for any particular year but we have always stated that overtime we have **(Inaudible) 53:45** CAGR our growth is a combination of both organic and inorganic growth and efforts is absorbed and we should be able to maintain the 15% revenue it may be one quarter or two quarters here and there but overall on the trajectory we should be able to maintain this both organic and inorganic mainly with the inorganic growth and new greenfield projects which is coming we should be go ourself along with that. As far as ROC is concern consent SUNSHINE integration has been completely done with us and this the large amount of the goodwill which has come into along with this excluding goodwill which shows the underlying business ROC which is getting deployed **(Inaudible) 54:34** 27% and based on the capital employed if take it in the goodwill it is at around 22%-23%.

Bhavya Gandhi: Any reason for not inpatient revenue and outpatient revenue split. Because as I understand our ARBOP is a result of inpatient and outpatient both and from FY 2018, we had around INR 150

odd crores of outpatient revenues which got sort of hiked to INR 280 odd crores in FY2021, so is it because that outpatient revenue is softening going forward or how is it?

Mr. Vikas Maheshwari: No, there is no intention to that we should not give because it is our **(Inaudible 55:18)**. Historically we have decided that we will give one revenue which is a total revenue and the IP/OP volume separately. If it is required by the analysts, we are happy to provide that information separately actually this is the first time in the call somebody has requested for this information if that is vital information for all the analysts we will discuss and then we will be happy to disclose those information.

Bhavya Gandhi: Could you just give the number for this quarter is it possible broadly inpatient revenue and outpatient revenue on company level?

Mr. Vikas Maheshwari: We don't have information of this, if you can drop me a mail Bhavya on this I will be happy to share that information.

Bhavya Gandhi: And sir going forward do not we see slowdown in cash flow from operations because already we will be deploying money for couple of acquisitions and acquisitions are at lower margins, so cash flow generation will it slowdown going forward because right now KIMS standalone is generating 30% margins your cash flows are also accordingly getting generated and then you have Sunshine which is at 18%, so proportionately will it reduce going forward, was my question audible or should I repeat it?

Mr. Vikas Maheshwari: Yes, it would be better if you can just repeat it again.

Bhavya Gandhi: Sir going forward will we see slowdown in cash flow from operations because our standalone KIMS was at 30% margin and your cash flows are resultant of margin and Sunshine coming at 18% and we have already planned for 18 months of capex, so post that will there be a slowdown?

Mr. Vikas Maheshwari: No, I do not think so the operating cash flow is the function of how much is the EBITDA and net of the working capital how much we have got it converted post that and non-cash adjustment or interest etc. So, for the quarter first at the group level since the collection was good so we have seen a very healthy net operating cash flow. What you are talking about is that after the cash flow from the net operating cash flow whatever the amount is getting deployed for the capex. So, the free cash flow will come down that is what is the question?

Bhavya Gandhi: No sir cash flow from operations itself because your Sunshine is at 18% margin, right?

Mr. Vikas Maheshwari: So that is a net addition because there is no equity dilution for this. So, whatever the EBITDA is coming from that net of interest and tax and plus working capital adjustment that remain positive for the Sunshine. So, that gets added into the net operating cash flow of the KIMS also. So, at the net level it will be higher only. What your question is that since it is 18% the run rate of the addition maybe little slow, but it will add on that.

- Bhavya Gandhi:** Run rate may slow down, but there will be net addition only?
- Mr. Vikas Maheshwari:** Yes.
- Bhavya Gandhi:** And sir what would be normalized ARPOB maybe for at least next two, three quarters?
- Mr. Vikas Maheshwari:** So, this quarter was pretty normal quarter and we believe that this is ARPOB and ARPP whatever we have shown is a sustainable for sure and with further improvement going forward.
- Bhavya Gandhi:** Sir just one last question if we look KIMS as a standalone business, we see revenue growth of either 2% to 3% on sequential basis, any reason like what has led to the slowdown in revenue growth?
- Dr. Abhinay Bollineni:** So, two things that happened one your quarter has been quite bad that is what we attribute most of the issue too. Mid of May has been quite bad, but things after that have improved and we are seeing a healthy in the standalone facilities. The other thing for degrowth in revenue is in one of our facility in Nellore and we empanelled ourselves from Aarogyasri. So, there is no impact on the bottom line, there has been some degrowth on the revenue these are the two contributing factors while sequential growth is only to the tune.
- Moderator:** Thank you. The next question comes from the line of Hardik Vora from Union Mutual Funds. Please go ahead.
- Hardik Vora:** So, the first I just want a clarification on the depreciation number is there any amortization of any intangible over here in the depreciation?
- Mr. Vikas Maheshwari:** Yes, a small portion has come because of the brand value which has come so that amortization has come there. The amount maybe some INR 70 lakh, INR 80 lakh because of that.
- Hardik Vora:** Just a clarification here because the data that you used to show in the previous presentations on Sunshine hospitals the depreciation number over there if I sort of divide it into months and see what it could be for the quarter I would have assumed another 10 crores being added, but a larger chunk has been added compared to that number, so am I missing something here?
- Mr. Vikas Maheshwari:** Second part was this cath lab and robo which they have capitalized in this quarter for additional impact because of that. You are 100% correct.
- Hardik Vora:** So just one more clarification from the previous quarter call so I think on this call there was clearly mentioned that there is this gap between the capacity and the operational beds for KIMS group x of Sunshine and the indication given was that these beds will be operationalized the gap the balance 400 odd beds would be operationalized over the next 24 months to 36 months as the demand improves and that would also be an important growth driver going ahead that continues to be the case, right?

- Mr. Vikas Maheshwari:** If you note that 30 beds, we have opened at Kondapur so it was 2,590 now it is 2,620 so that has got lot of demand there. So, as the occupancy goes up definitely, we will improve so that was also one point that 30 beds has got added operational there. This overall occupancy you may be seeing from 74% to 71% because of these 30 beds also some small portion is getting attributed towards that also.
- Hardik Vora:** These beds can I expect them to be operationalized over the next 24 months to 36 months or would it be further than that?
- Mr. Vikas Maheshwari:** Yes 18 to 24 months' time.
- Hardik Vora:** One final question from my side is on Sunshine so I think you indicated that ARPOB are higher, but ALOS is lower given the fact that they are more focused on orthopedic, so when you achieve complete integration in the sense that the margins go to 25% you have streamlined the operations in line with the overall KIMS group strategy, will the occupancy also go up to let us say 65%, 70% or higher or would it lower than the overall KIMS group in terms of occupancy?
- Dr. Abhinay Bollineni:** So, I think we should give to a 65%, 70% kind of an occupancy at Sunshine.
- Hardik Vora:** So, relatively lower occupancy, but higher ARPOB is how that hospital would play out?
- Dr. Abhinay Bollineni:** If Telangana matured is at around 75%, we are pretty confident that Sunshine will get to 70%.
- Mr. Vikas Maheshwari:** Rahul if there is no other participant we have some time pressures of some other engagement, can we conclude in next two to three minutes time.
- Moderator:** The last question comes from the line of Nidhi Babaria from Envision Capital. Please go ahead.
- Nidhi Babaria:** Sir I just wanted to ask that Bangalore is a pretty new geography for us and plus it is a crowded market also, how are you planning to go into that market and what would be our focus area in that region specifically?
- Dr. Abhinay Bollineni:** So, Nidhi like we mentioned in our previous calls Bangalore I do not know why people perceive it as a very crowded space, but lot of peer hospitals had entered the market in the last 7 to 8 years they have been doing extremely well. All the large hospitals are about 200, 250 beds have been able to scale up to 70% occupancy with heavy margins. So, there are pockets within the city which are still untapped and that is where we are looking to focus on and the city also comes with a lot of growth potential for the future. So, once we establish few of these pockets, we have the opportunity to scale up more hospitals in that city.
- Bhaskara Rao Bollineni:** Thank you all for your participation. As I keep saying you are our growth engines that keep the company moving ahead. I am happy with the regular interaction with you as it provides us good insights in protecting and promoting the interest of your company. Once again, I thank you for your active participation and contribution.



*KIMS Hospital
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Moderator: Thank you. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.