

11th August, 2023

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

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

In continuation to our letter dated 1st August 2023, the Company organized a conference call with the Investors/Analysts on Tuesday, 8th August 2023 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 this intimation on record and oblige.

Thanking you,
Yours truly

For Krishna Institute of Medical Sciences Limited

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UMASHANKAR

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UMASHANKAR
Date: 2023.08.11 11:34:36 +05'30'

Uma Shankar Mantha
Company Secretary & Compliance Officer

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“KIMS Hospital
Q1 FY ‘24 Earnings Conference Call”
August 08, 2023



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 Q1 FY24 Earnings Conference Call of Kim's Hospitals hosted by IIFL Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jeewani from IIFL Securities. Thank you and over to you.

Rahul Jeewani: Good morning everyone. I am Rahul from IIFL Institutional Equities. I welcome you all to the quarter one earnings conference call of Kim's Hospitals. From Kim's, we have with us Dr. Bhaskar Rao Bollineni, Founder and Managing Director, Dr. Abhinay Bollineni, Executive Director and CEO, and Mr. Sachin Salvi, CFO. Over to you, sir, for your listening comments.

Management: Good morning, everybody. A warm welcome to each of you. Heavy rains and floods have battered many parts of our country, causing havoc. My heart goes out to those who suffered losses on account of nature's fury. Kim's is known for its clinical excellence and repeatedly demonstrated the same over the years. I would like to share with you a few of the rare surgeries performed at our various centers which are primarily Tier 2 and Tier 3 towns. It is a matter of great pride that such rare procedures are undertaken in these relatively small towns, wherein previously patients were required to go too far off cities involving heavy expenditure, loss of precious time, and severe strain on account of staying away from home.

This phase marks an advancement in medical reach to the population in urban and rural areas. Time is crucial in many cases and a few hours of delay can make the difference between life and death. I am going to talk about a few rare cases in the different hospitals in our group. In a first at Nagpur, doctors at Kims Kingsway performed an awake bypass surgery on a 72-year-old man without administering general anesthesia the patient was awake and talking during surgery and one more 11 months Anushree was Central India's youngest cochlear transplant recipient. The 11 month old had severe profound hearing loss at birth. She was gifted hearing capability through cochlear implants a very advanced solution in hearing sciences by doctors at Kims Kingsway, Nagpur.

A baby born in the seventh month was cured of a rare CMV infection after treatment for 90 days. He underwent multiple episodes of ventilatory days, lung infection and lung collapse, transfusion-related lung injury, feed intolerance, transient renal tubular acidosis, neonatal jaundice, and low platelets. The doctor successfully treated the boy who was discharged after 90 days of neonatal intensive care unit stay.

Complex heart surgery, an emergency complex heart surgery within 30 hours of birth was performed successfully at Kim's Cuddles, Vizag. It was technically a big challenge for surgeons to perform such a surgery on a neonate whose tissues of the heart are very fragile and tender. Such a treat is one of its kind in the history of Vishakhapatnam. After one month of discharge, the child is gaining weight and spreading joy.

Kidney and liver transplant to the same patient on the same day. A 50-year-old patient suffering from liver cancer and chronic kidney disease was given a new lease of life by doctors at Kims Icon by transplanting both kidneys and liver. Availability of the state of the art equipment and a dedicated team of doctors enable the hospital to perform more and more organ transplant surgeries.

A hydrated cyst of the kidney is a very rare condition with an incidence of 1 in 5 lakh population. The surgery is difficult because if the cyst gets ruptured and the contents spill, it can lead to immediate anaphylaxis and the patient can die on the table. The surgery was done free of cost under the Aarogyasri scheme at Anantapur.

A 36-year-old woman from Maharashtra came to the hospital with repeated shocks for ventricular fibrillation, which means it is a rapid heart rhythm leading to cardiac arrest. She would experience as many as 30 shocks in a single day. The doctors designed a special strategy and a two-hour-long procedure was performed. The patient was able to walk on her own on the next day and she was discharged on the following day. The kidneys of a brain in a dead baby were transplanted successfully to a 60-year-old woman.

This is the youngest kidney of all time in Kim's history and the second such successful transplantation in Telangana and AP states. This is technically challenging in the view of pediatric donors. The extraordinary task could not have been possible but for the kindness and selfishness of the donor family. Their act of humanity exemplifies the power of organ donation and serves as a sterling inspiration.

A complex pancreatic surgery was performed laparoscopically on a 49-year-old patient. It was done in a laparoscopic surgery, nose as the ripple procedure where the incision is very small. It causes less pain and enables faster recovery. The patient recovered quickly and was discharged within one week. Due to its technical complexity and skill required, the procedure is done in very few centers in Hyderabad. Better quality of life is also possible in these surgeries compared to open procedures. This has been done in Kims, Kondapur.

The patient was suffering from a stiff neck and spine for over 5 years and was not able to walk, erect and bend or sleep properly. A complex surgery called Pedicle Subtraction Osteotomy lasting 8 hours was done by the doctors and the patient at last is able to stand erect and regain his dignity. The deformity is gone.

A 48 year old woman came to the hospital complaining of severe pain in urinary bladder. There was a tumor and it tested benign. However, before the surgery could be performed, the tumor first slipped down and blocked the urethra. She stopped urinating. Immediate surgery was done and tumor was removed. When it was first sent for testing, it was found to be a rare type of inflammatory pseudotumor. It is rare in medical history. There are only about 100 cases worldwide to data. Such a case was done in KIMS Hospitals Kurnool successfully and the patient was relieved.

Doctors at KIMS Kurnool treated a 19-old boy who was suffering from the rarest NORSE disease (New on-set Refractory Status Epilepticus) which is a rare devastating conditions that can abruptly occur in previously healthy people mostly children. Awareness of this disease is a very limited even among our medical community. The boy remained in the hospital for 6 weeks before he was treated and discharged he has also performed in Kurnool. Doctors at KIMS Kurnool performed a complicated surgery on a 43-old women having a tumor like thing around her liver which is called hemangioma in a medical parlance.

There was swelling in the liver due to internal bleeding. To arrest further bleeding all the blood vessels were blocked and next day surgery was done and tumor removed. It was done free of cost under Aarogyasri scheme again from Kurnool Hospital. An 8-day old baby successfully treated and discharged. 8-day old baby was put on peritoneal dialysis for 5 days continuously and successfully treated for renal failure and seizures. The baby was discharged after 21 days of NICU the treatment was done free of cost under Aarogyasri scheme.

Let me now present the financial highlights for Quarter 1 FY23. Gross revenue at INR609 crores, a growth of 21.6% on year-on-year and a 4.9% on a quarter-on-quarter basis. Operating EBITDA of INR160 crores, an increase of 12.4% year-on-year and a decrease of 4.7% on quarter-on-quarter. EBITDA margin at 26.3% versus 28.5% in quarter 1 FY23 and 28.9% in quarter 4 FY23. PAT at INR87 crores in quarter 1 financial year 24 against INR79 crores and INR99 crores in quarter 1 FY'23 and quarter 4 FY23 respectively. Conducted 3.83 OPD consultants, consultations in quarter 1 FY24 up by 18% and 0.4% in a year and quarter-on-quarter basis. Bed occupancy in Q1 FY24 at 70.4% up 5% year-on-year and down by 0.4% and quarter-on-quarter basis.

The average revenue per operating bed increased to INR31,697 in quarter 1 FY'24 showing a 4% year-on-year and a 3.7% growth in quarter-on-quarter basis. Cash and cash equivalents at INR178 crore in Q1 financial year 24. Net debt-to-equity ratio at 0.22. Academics, I'm happy to share with you that recently KIMS Hospital is accredited by American Accreditation Commission International for having demonstrated compliance with the international accreditation standard for excellence and patient safety. This is yet another feather in our cap as we dedicatedly continue our march in pursuit of excellence.

The events, the conferences that we have done in KIMS, a two day Annual Conference of Indian Neuro Gastroenterology and motility association was hosted by KIMS on 29th April, 2023, attended by several experts in the field from throughout the country. The Department of Clinical Immunology and Dermatology, KIMS organized a Lupus ramp walk and Lupus awareness program on the world Lupus day on 10th of May 2023, participated by the local doctors and the patients who have been cured.

An exclusive inflammatory bowel disease clinic is inaugurated at KIMS Secunderabad and a workshop with wide participation was conducted on 27th April 2023 so that exclusively all the people who are suffering from inflammatory bowel disease will do get benefit out of this. The Department of International Pulmonology conducted a THORACOSCOPY concern with diabetic lectures and hands on workshop on 28th May, 2023. So, that with a minimal invasive

is enable to treat without operations of all the lung conditions. Awards and Honours Dr. Raghu Ram our breast cancer expert surgeon was conferred honorable fellowship by American Surgical Association. This is the highest recognition from ASA and there are only 99 honorary fellow from throughout the world under this.

Two studies of doctors in Euro Gynecology Department has been accepted for presentation International Continence Society Annual Conference 2023 at Toronto. Our DNB students was awarded the best poster award in Euro-Asia Critical Care Conference by the European Society for Critical Care. Our projects are moving a pace as per schedules. This quarter we launched an exclusive single specialty hospital for gastro sciences, went to operation at Vishakhapatnam, Andhra Pradesh.

We launched KIMS Cuddles mother and child brand at Nagpur and Vishakhapatnam, both the places. We have done well in Q1 and do hope the performance will be even better in the upcoming quarters. Winston Churchill said, my tastes are simple, I am easily satisfied with the best. We at KIMS too are satisfied only with the best and best in all aspects to the patients and investors. Thank you for your continued trust and support. We are open for questions.

Moderator: Thank you very much. We have a first question from the line of Dhara Patwa from Smifs Limited. Please go ahead.

Dhara Patwa: Yes, thank you for the opportunity. So I have two questions. First is like, finance cost in this quarter has actually doubled. So what was the driver for this?

Management: Thank you, Dhara, for the question. So finance cost has doubled because we have gone down from our limits for our Sunshine units. That is one of the reasons.

Dhara Patwa: Okay, so this will stay for the next few quarters and we should assume the same run rate for the coming years onwards?

Management: It depends upon the requirement Dhara. So there are two options available here. We can use our existing limits to spend on these capital expenditures or we can draw from the available profits.

Dhara Patwa: Okay, so next question, like the Telangana and AP cluster are pretty much stable and have an occupancy of around 80% level. So from where will the next like of growth would come? I understand that we are doing expansion in other regions, but these will take time to scale up to a level, right? So if you could throw some light on this?

Management: So there are like, we have always mentioned, if you look at our Telangana and Andhra cluster even this year, year-on-year basis we have grown at a revenue at 15%. So there is still more opportunity in the same Andhra and Telangana cluster by adding new specialties like oncology, mother and child and many more interventional procedures which will drive growth. So we don't see that Andhra and Telangana are fully saturated. There is a lot of opportunity in our existing hospitals by adding these new specialties to be able to see growth.

And also there is a lot of margin expansion opportunity in the Andhra Pradesh cluster. If you look at Telangana, it is at 31%, whereas in Andhra it is still at 22%. There is an opportunity for us to improve that by at least 4% to 5% over a period of time. Likewise, there is also opportunity for us to grow Sunshine Hospital, which we recently acquired a while ago. But given there is some delay in the movement into the new facility, there is a delay in wrap-up. But once that happens, there is more opportunity for growth there as well.

Dhara Patwa: So what I understand is the next level of growth, majorly in Telangana and AP would come from ARPOB, right? If we are adding more specialties, it would fetch more ARPOB. So will the occupancy go to like 80%, 85%, 90% or at occupancy of 80% we can expect some improvement in ARPOB going forward?

Management: So there is a lot of bed capacity addition that we are also doing in Andhra and Telangana. We are adding close to 1500 beds over the next 24, 36 months to accommodate the growth that is happening in this market plus to introduce a lot of new specialties. So with that incremental bed we will still be maintaining at around 70%-75% kind of an occupancy.

Dhara Patwa: Okay so just one last question. Recently some North-based players know they are saying that the industry is facing some challenge on the staffing and nursing side, like due to some scarcity of human resources. Since we are mostly based in South India, so are we facing any such issue or challenge, any color on that would be helpful?

Management: There has been a constant challenge on nursing staff and paramedical for a long period of time. It's not something new. It's been there in for a long period. So we are trying to solve that by setting up our own nursing colleges, tying up with the reputed nursing colleges to source staff. So I don't think it's something that is worrying us at this point in time, but the long-term solution is to increase the number of nursing colleges and bring more people into the system.

Moderator: Thank you. We have a next question from the line of Reshab Sisodiya from Sameeksha Capital. Please go ahead.

Reshab Sisodiya: First of all, congrats on a good set of numbers. I have a few questions, sir. So first, on the AP assets that we have combined from this quarter, the reporting, so if I compare it on a like-to-like basis on a rough calculation, so I find that the margin improvement has slightly slowed down. And is it also that because we added capacity in Vizag, if I'm not wrong, for Gastro. Are those of the reasons that is why we see the margin trajectory has slightly slowed down in the AP assets?

Management: Yes, that's the reason why the, because of the capacity addition in Vizag, the new Gastro unit, which will be EBITDA negative for this financial year and should be turning positive towards the end of the year. That's why there is a drag.

Reshab Sisodiya: If I look at our total cluster basis on the overall hospital space, so our ARPP has almost grown 3% quarter-on-quarter. So how much of this would be because of price hike and other difference would be because of change in mix and introducing more speciality. If you could put more color

on that. And if I look at historic, so our orthopedics as a percentage of total share has grown from 5% to 15% in the last two years. So any specific specialities that you are looking at that you want to grow those further, if you could get some sense?

Management: In Andhra and Telangana, a significant growth in the future will come in from mother and child and oncology. But having said that, there is a lot of focus on pulmonology, gastroenterology and few other services that we are trying to focus. But you will see the bio of mother and child and oncology expand in the Andhra and Telangana cluster. As far as orthopedic expansion, because we acquired Sunshine Hospitals, naturally because it is a very dominant orthopedic brand, the share of orthopedic revenue as a percentage of the overall revenue has increased.

So far, there are few, 50% of the insurance renewals have happened in the last quarter, towards the end of last quarter. And we are expected to complete the rest of them towards the middle of quarter two or the beginning of quarter three. That's the price impact that you could see. But we have not still done a cash price hike so far because we are pretty confident about growth in volume. We don't want to focus on doing a price hike at this point in time, further cash basis.

Reshab Sisodiya: Okay, so just last one if I can squeeze in. The Nagpur hospital, we are facing some doctor attrition over there. So has that issue been resolved? Have we added almost all the doctors that you said that, we are adding in this year for this facility? And the margin expansion looks healthy on a sequential basis. What is the trajectory over here and the same for Sunshine?

Management: So like I explained in my previous call, as far as Nagpur was concerned, there was not a significant attrition. We lost two-three doctors, but the problem there was a lot of insecurity among the doctors, who were practicing. It was more to solve for that problem and stabilize the unit before we go out and acquire new doctors. It took us six, by the time we acquired it and set up our system, it was November, December.

We took good six months to stabilize internal processes to ensure that, the doctors are more comfort with the management before we start introducing a lot of doctors. Having said that, we are pretty positive on how things have shaped up and the confidence level within the hospital. We have recently had one new doctor join us, who is a very prominent cardiac surgeon and doing around 30 to 40 cardiac surgeries a month.

So with him joining, there is a lot more confidence in the market. So, we are anticipating a lot more new doctors to join us in the next two quarters and once they do join us, we will start seeing an improvement in revenue, two quarters, three quarters from there. And automatically, as a result of which, the EBITDA margins also will fall in place.

Reshab Sisodiya: Sure, sir. Overall, doctor attrition in our combined company business would be? Near doctors?

Management: Less than 0.5%.

Reshab Sisodiya: Okay, sir. Sure that's it from my side. Thank you, sir.

- Moderator:** Thank you. We have a next question from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.
- Nikhil Mathur:** Hi, good morning everyone.
- Management:** Hi Nikhil.
- Nikhil Mathur:** Hi. Sir, my first question is on the margins for the different clusters. Andhra Pradesh, I understand that because of the gastro unit set up in Vizag, the margins have compressed Y-o-Y. But what is the problem in Telangana because if I look at it on a Q-on-Q basis, the revenue is stable but still the margins are down almost four percentage points?
- Management:** Right. So, as far as Telangana. Nikhil, we have invested a lot. So because our new expansion is happening and we are starting to acquire a lot of talent. So lot of the corporate, actually all of the corporate cost is booked in the Telangana cluster. So the dip is largely one because of the corporate cost that got added in for the future expansion. Number two, there is a seasonal variation in terms of the electricity cost going up in the first quarter, which is the usual trend across.
- And there is some high cost of consumables, which have been used in this quarter because of the case mix change. So that is why the margin kind of went down from 35% from Q4 to 31% in Q1 of this year. But if you look at the full year of FY '23, we were at 31%, which is in line with Q1.
- Nikhil Mathur:** Right. So, sir, this cost going up, is it more related to expansion or is it some sort of, not abnormal, but slightly higher inflationary pressure that the hospital space is starting to see a bit?
- Management:** Not really, because the revenue growth has been quite healthy. So, the growth in revenue will take care of the growth in costs that happen on a year-on-year basis. It is largely towards the expansion of new hospitals. There's a seasonal impact. Usually, if you look at, historically, all our Q1s have always had compressed EBITDA margins, when compared to the rest of the year. So that's the impact.
- Nikhil Mathur:** Right. Secondly, sir, can you revisit some of the expansion initiatives? I know you talk about that in your con calls a lot. I can always revisit my notes from last quarter, but it would be helpful, if you can brief us on most of the expansion initiatives.
- Management:** Sure. Other than the ones that are currently operational, are you referring to those?
- Nikhil Mathur:** So Nagpur Sunshine, I can see you disclose it separately, but apart from that, Bangalore, Thane, and all those, what are the number of beds and timelines, we are looking at?
- Management:** Sure. So we are talking about two hospitals in Bangalore, combined bed strength of 750 beds, both of which should be operational in quarter two of next financial year, between quarter one and quarter two of next financial year. The total outlay for both the projects in Bangalore will be around INR650 crores, that is around INR80 lakhs per bed. And both of them should be

operational one months, two months apart from each other. So as far as Bangalore, we're pretty much on track in getting these facilities operational.

As far as Thane, we've started work. We have, like we mentioned in the previous call, we are looking to bring an investor. We have signed an SPA with the investor. We are looking to close the transaction in the next 15 days. When I say close the transaction, we are talking about transferring the money to [Anand Dhani 0:26:37] to completely acquire the asset.

The work on site has already started. So by the end of first quarter and financial year, we should hopefully have that operational as well. Nashik is something that will be operational by Q4 of this financial year or early Q1 of the next financial year. So these are the four projects that we have currently, which are going to be operational in the next 12 months to 18 months.

And then beyond this, we have expansion that's happening in Andhra, which is adding oncology centers across five of our seven facilities, adding mother and child in five of our seven facilities. And then you have the Kondapur expansion, which is an incremental 400 beds, which is slated to begin two years from today. Yes, that's about the expansion.

Nikhil Mathur: Okay, so we are roughly adding almost 1,700 to 1,800 beds by end of FY '25, right?

Management: FY '25, yes, we should be adding. Correct, you're right.

Nikhil Mathur: And these would be capacity beds, so operational beds would be more like 1,300, 1,400?

Management: Correct, or a little less, because in the first year, we may not even operationalize more than 40% of the bed.

Nikhil Mathur: Okay. So, sir, if I look at your consol EBITDA per bed today, it is somewhere around INR25 lakhs. I know there are some underutilized assets like Sunshine Nagpur, where the cost will still be pretty high versus the revenue generation. But if I, let's say, were to do a rough math of these incremental bets in FY '27 or FY '28, what kind of EBITDA per bet should we be looking at? Should we be benchmarking these newer assets to, let's say, a mature center like, mature cluster like Telangana or somewhere in between? So any indication of EBITDA per bed of these incremental capacities in FY '27- '28 would be very helpful?

Management: How we typically look at it is, Nikhil, Telangana, whatever incremental revenue comes in, we should assume 40% of that will straightaway flow to EBITDA. As far as Andhra, it's the same, but there is the potential EBITDA margin that we can reach is around 25% to 27%, anywhere between 25% to 27%. As far as Sunshine, we will be in line with, how we are achieving things at Telangana, in Telangana KIMS. We will get to a 30% margin over the next 24 months. And then from then on, whatever incremental revenue comes in, 40% of that will flow through.

As far as Nagpur is concerned and Maharashtra, given that the cost structure is slightly higher than Telangana in other expenses, we believe that 25%- 27% EBITDA margin is, what is do able at this point in time. But as we scale, there is potential for the margin to expand as well. And since a lot of the beds are getting added to our Telangana and Andhra cluster, not in the

next 12 months, but beyond, a lot of the beds are getting added to the Andhra and Telangana cluster, you will see a lot of these incremental beds. Even there, 40% of the revenue growth will flow into the EBITDA.

Nikhil Mathur: Okay, sure. And sir, one final question. Now, a couple of Northwest hospitals have reported this quarter, and you have also reported. It seems, they seem to be a bit done.

Management: Sorry, Nikhil, we lost you.

Moderator: Sorry, we lost his connection. We'll take the next question from the line of Dheeresh Pathak from Whiteoak. Please go ahead.

Dheeresh Pathak: Yes, thank you. So, this, you said the Telangana cluster, the EBITDA is lower because there is a higher cost of goods and there is corporate overheads. So I would suggest that...

Management: Can you repeat the question please, sir? Your voice is very feeble. Can you please repeat the question?

Dheeresh Pathak: So, if I understand correctly, you said that, in the Telangana cluster, the main cluster, the EBITDA is lower because there is corporate overheads and higher cost of goods sold. And I am referring mainly sequentially because the revenue is similar, but EBITDA is lower by about INR30 crores odd.

So the question is that, how much of this is dragged from corporate, higher corporate overheads as you are building capabilities and capacities for expanding into newer markets. And it will be better if you can, unallocated corporate overheads, if you can put it in a separate bucket altogether, so that at least we get a true picture of the Telangana cluster?

Management: Yes, we'll do that. From next presentation, we'll put all the corporate costs, unallocated corporate costs into a different segment. But at this point in time, you should assume 50% of the dip in margin is because of the corporate cost and the remaining 50% is because of growth in cost of consumables and some seasonal variation because during summers, the electricity costs are much higher in Q1.

Dheeresh Pathak: Okay, understood. And on Sunshine, this maybe, I am not able to recollect properly but on the numbers, it seems that the ramp up is not that much like for the last three quarters- four quarters, the occupied beds seem to be in that same range, revenue seems to be similar INR110 crores although margin profile has improved. So, what is the you know guide path for scaling up of the asset?

Management: So Sunshine has two facilities one in Begumpet and one in Gachibowli. Gachibowli, like I mentioned in the past, it took us one year to get rid of the high cost doctors and then start onboarding doctors at an optimum cost. We have finished almost all the onboarding except for one or two doctors. In my previous quarter, I mentioned there were five, six doctors pending. Most of them have joined. Now, just one or two are left.

So in the month of July and in the month of August, we are seeing a good improvement in the revenue. It will get reflected in Q2 performance. So we believe over the next 24 months, 36 months, Gachibowli will hit a 70% occupancy. All the doctors for us to be able to achieve that are more or less in place and the EBITDA margin correction is also done. So whatever incremental revenue happens in Gachiboli, almost 50% of that will flow straight to EBITDA.

There is one other contract that will end in October at Sunshine Hospitals, which is a contract with a third-party diagnostic vendor, where we are losing close to 2%- 3% margin because of that outsourced element. That contract ends in the month of October. After that contract ends, there is an opportunity for the margin to further expand. As far as Begumpet is concerned, whatever margin correction we could do, we did. And the reason we have not been able to scale that hospital is only because of the poor infrastructure that it currently has.

Once we move to the new facility, then we have already identified key departments that we want to add and key doctors that we want to onboard. So with moving to the new facility, we will start seeing growth happening there. And as we speak right now, we are actually moving into the, we're starting OPD on August 9, and we will move completely into the new facility in the next 30 days-35 days. So from Q3 and Q4, you will start seeing lot of growth in both revenue growth in Sunshine hospitals other than the margin growth.

Dheeresh Pathak: Understood, okay. And in Bangalore, when you said, so just can you refresh the asset status like INR650 crores, INR80 lakh per bed, are we owning the real estate or we are leasing it? If you could just explain that again on the two assets in Bangalore.

Management: So one asset we own 50% of the land and building. The remaining 50% is on lease. The other asset is on a revenue share model. Where we bring in medical equipment and parts of the interiors. Cost is what we incur and rest of it is on a revenue share model.

Dheeresh Pathak: Okay. Thank you so much for taking the question.

Moderator: Thank you. We have a question from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead, sir. Mr. Nikhil Mathur, your line is unmuted. Please go ahead. Since there is no response, we'll move on to the next question from the line of Sagar Shah from Philip Capital PCG. Please go ahead.

Sagar Shah: Yes. Good morning, sir. and first of all congratulations for a healthy set of numbers. Now my, I have just few questions actually on this. First of all, my first question was related to your Sunshine Hospital. Sunshine Hospital, we are facing almost delay in shifting our Secunderabad Hospital and finally, as we have said, we are moving the SKU to FY '24.

So first of all, you have already mentioned the key drivers behind the improvement and margins and occupancy and everything. But I wanted to understand that, basically apart from this, will you be adding other specialties in this year itself to maybe to improve your occupancy at these levels?

And secondly, also Nagpur, what are the key strategies apart from hiring doctors that you are going to do to actually achieve scale in these two hospitals, which are actually one of the biggest growth drivers for us in the next two years? That is my first question.

Management:

This concerned, Gachibowli, we have more or less concluded on the clinical specialties, the talent they've joined, it's more or less in place except for one or two specialties, which we will fix soon. Begumpet, if you look at the revenue today, 70% of the revenue comes from two departments, which is orthopedics and cardiac, which is usually not the case for KIM.

It is quite spread out and we don't have more than 10% of the revenue coming in from any one specialty. But having said that, given the dominance of orthopedics there, it is very difficult to bring it down to 10%. We believe it, we will continue to have a significant share, but the aspiration is to see how we can bring it down to maybe 35% versus the current 55%.

And yes, the idea is to bring in a lot more specialties or a lot more doctors in the current specialties that exist, strengthen them further. The same is the strategy with Nagpur. I think the current set of doctors are extremely talented and very good. It's just that typically any hospital of 350 beds, 400 beds, you need close to 70-80 doctors to ramp up the hospital. That hospital currently has only 30-35 full-time doctors.

The more doctors that we bring in, the incremental revenue will flow in. But before you bring in more doctors, you need to make sure that the current doctors are very secure about their position. They are feeling confident that the management is only trying to grow it and not trying to create insecurity in the hospital. So that is what we have established. And once we bring in these incremental 25- 30 doctors, I'm sure the revenue will start flowing in.

Sagar Shah:

Okay, so basically in the last quarter, once you had said, that in the Begumpet Hospital, we were facing the doctors weren't ready to join actually. Something was in the Begumpet Hospital. Hasn't the issue resolved?

Management:

No. So Begumpet, Sunshine has two facilities. So the current facility is a very old facility and we cannot do much beyond operational efficiency, which we have already completed. Now what we are trying to do is, when we move to the new facility because of the size of the new facility, the main road presence of the facility and new infrastructure, a lot of doctors are showing interest to join. But the old facility, no one is willing to join, no big doctors are willing to join. That's the concern.

Sagar Shah:

Okay, got your point. Now my final question was regarding to your expansion actually. In your expansion, if I'm not wrong, we are planning for three hospitals. The first one is Bangalore, the second one is Nashik and the third one is the Thane project, which you haven't declared still on Board actually.

So basically, I wanted to understand in the last quarter already you mentioned that, the Thane project that you will be giving the project to Hiranandani builders and the capex will be around INR400 crores, correct me if I am wrong. So that is on course or something like, will there be

only oncology specialty there or have you changed the strategy and can you give certain number. What is the bed capacity would be over there?

Management: So that is a 300 bedded hospital. It will be a multi-speciality hospital. Unlike our other facilities, where we have always added oncology later, here we will have oncology from day one. So it is going to be like any other KIMs hospital with oncology on day one, focusing on all specialties including transplant.

Sagar Shah: That will be the capacity...

Moderator: Mr. Shah, I request you to join by the queue sir.

Sagar Shah: Okay, sure.

Moderator: Thank you. We have our next question from the line of Ashish Thavkar from 360 One AMC. Please go ahead.

Ashish Thavkar: Yes, hi, thanks. Just wanted to ask this, Mr. Rao's investment in Som Datt Financials. If you guys could provide some color around that, it would be helpful?

Bhaskar Rao: Basically this is an NBFC, we have been taken for one of my cousins and because he's an young guy to grow and second important thing, he cannot able to acquire this because of his financial status and other things. My involvement in that is not there at all, except because to get the permissions from the SEBI and the Reserve Bank, and I have little stake in that, and even my time investment in that is absolutely zero.

It is only to help that person and once it has been established and I know, there is a lot of regulatory things, when compared to the hospitals NBFC has, but we are going to put the total completely professionals on that. They will run on their own. Maybe over a period of time, once it is established on its own, I may able to step out of that as a Director also in that.

Ashish Thavkar: Yes, okay. So this clarifies a lot of things. Thank you so much. Secondly, on this, so you mentioned about ARPOBs, right? So you aim to be around 70%- 75% of the occupancies, but as far as the ARPOBs are concerned, so this time around it was 5% Y-o-Y growth. On a longer term basis, or at least in the near term, FY '24, what kind of ARPOB growth are we building in?

Management: Our ARPOB growth can happen because of case mix change or price change. We are not focusing on increasing prices to the customer, especially in cash patients. We are adding a lot of new clinical therapies, which the ARPOB of those clinical therapies are in line with what we are currently doing. So we should expect maybe around a blended 3% to 5%. Historically, that's how it has moved.

Ashish Thavkar: Yes, and this also includes the pricing benefits, the government laying out new price stack, so it includes all those things, right?

Management: Correct.

Ashish Thavkar: Okay, fair enough. And so in the longer run, so I guess so as far as FY '24 is concerned, so this fiscal, there are no issues, but since most of the capex starts sitting from next fiscal onwards, so how do we see, are we confident of maintaining EBITDA margin upwards of 35% or you feel at least for that one particular year, where 40% of the beds will get operational, margins could come down below 35%? Is that a fair assessment?

Management: Yes, Shyam.

Management: The way to read, it will be better if we can read it from a cluster point of view. New facilities will keep coming, the turnaround of that will happen, but as long as the other clusters that are already mature or are maturing are showing a progressive trend, I don't think, we should, one should really look at it at a consol level, is my understanding.

But having said that, given the base of the current revenue and EBITDA is so high, that the incremental bids may not have a significant impact on the EBITDA margin. Because there will be growth in Sunshine and Nagpur, which will set off the EBITDA loss that we will incur from the new facilities.

Ashish Thavkar: And Sunshine will get operational from next quarter onwards, right? Or as we are speaking, is it operational already?

Management: What are you referring to, sorry, could you come again?

Ashish Thavkar: Does Sunshine want the new asset?

Management: No, from 10th of August, we're trying to move our OPD services, that is day after tomorrow. And over the next 35, 40 days, we will shift all the IPD as well.

Ashish Thavkar: Okay, perfect. This helps, thank you so much.

Moderator: Thank you. We have our next question from the line of Harsh Bhatia from Bandhan Mutual Fund. Please go ahead.

Harsh Bhatia: Yes, hi, Dr. Abhinay. Good morning. Just two or three quick questions from my side. In terms of the mother and child care aspect that we are trying to bring in the AP and Telangana markets, if you could help us understand the initiatives in terms of the outreach, the awareness, because from an outsider, the patient pool is very different from the multi-specialty business and the pediatric specialty business.

So one would be in terms of your outreach and awareness, the initiatives that we're taking, how are we looking at the overall market dynamics for this particular segment? And lastly, in terms of the talent pool availability in terms of specialty pediatricians, let's say an onco-pediatrician or a neuro-pediatrician, your thoughts would be helpful?

Management: Sure, so we have successfully done one hospital at Kondapur, which is Cuddles, which is part of our Kondapur hospital. In fact today in that micro market, in a 10 kilometer radius, that is the

largest mother and child hospital and we've been able to do that in just four years or five years in spite of dominant standalone mother and child brands being there.

Now we look, after seeing the success there, we're looking to expand, those services to our rest of our hospitals. And I the formula, we followed there was very simple to what we do in our adult hospitals. We bring in the right clinical talent, who have some of whom who have practices, some of whom, who have great clinical capabilities to showcase.

So, we continue to bring and acquire these clinical practices, which are probably today in standalone hospitals or in nursing homes, who are willing to consolidate and move to larger facilities. That's how, we're trying to focus and build our obstetric and pediatric brand.

And once we have the right clinical talent, branding and awareness is not going to play as much as a significant role as much as acquiring the right clinical talent. And that's what, we have historically demonstrated and we believe is what will be helpful to grow the business.

Harsh Bhatia: Sure, would it be right to say that, doctor for specialty pediatric care would have or would not have any overlap with the multi-specialty business that you're already doing, the multi-specialty services that you're already providing? So the medical department would be entirely different in that sense.

Management: Yes, so Neonatology is absolutely different. There is no overlap. Pediatrics also up to their certain age group up to 11 years, there is no overlap. But there could be some overlap between the age group of 11 to 16, where historically they have probably been going to adult specialties. Now because we are also offering a larger pediatric service and pediatric sub-specializations and super specialties, there are chances that, there could be that overlap in that age group. But otherwise, there will not be a significant overlap.

Harsh Bhatia: Right, and lastly, I missed your earlier comment in terms of the price hike. So you're seeing cash, you have not taking any price hike, but insurance is where we are taking some bit of price hike. But would you be able to quantify, what would be the blended price hikes for this quarter on a Y-o-Y basis?

Management: Sorry, how much is the impact of price hike?

Harsh Bhatia: Yes, blended price hikes on a year-on-year basis?

Management: So, on this quarter, we would have had a INR3 crores impact on because of price hike from insurance companies. And CGHS price hike that happened for the full quarter. But given that it happened in the middle of the quarter, we should take INR1.5 crores for this year, for this quarter.

Harsh Bhatia: All right, sir. Thank you.

Moderator: Thank you. We have our next question from the line of Reshab Sisodiya from Sameeksha Capital. Please go ahead.

- Reshab Sisodiya:** Hi sir, thank you for the follow-up. Just small detail on the payer mix. So our government share has been reducing, it has reached close to 7%. So is there anything specific, we are doing and the government? Share mix or how is the margin and the data profile moved after the last price is taken by ECGS?
- Management:** So we have not done anything deliberate to reduce the government scheme patients. I think the growth has largely happened in cash and insurance. And that's why the percentage things are changing. But there is a continuous effort and effort to treat all sorts of patients, whether it's cash insurance or scheme patients. There's no deliberate effort that we have taken so far.
- Reshab Sisodiya:** So we are not obligated to take any specific government patient to fill up a quota or anything is that in any of our hospitals?
- Management:** None of our hospitals are obligated to do such thing.
- Reshab Sisodiya:** Okay sir and as you mentioned in one of your comments that, you are looking at adding colleges, so all of that is on the promoter entity. How is that?
- Management:** So, whenever we the current hospitals, we have sufficient nursing pool and paramedical pool but moving forward, wherever we are setting up hospitals like in Bangalore in Thane and so on and so forth, it makes sense because these are all long term assets. To also have nursing schools associated with the hospitals and it'll be part of that entity itself.
- Reshab Sisodiya:** So we'll be having nursing schools within these spaces, right?
- Management:** Yes, not in the campus, maybe in that geography.
- Reshab Sisodiya:** Okay, and that will be part of our own books, right?
- Management:** No, what we have done is, we already having a 5-6 nursing schools and moving forward, every hospital do have required a nursing school and a nursing college and paramedical courses, that's why we created an 100% subsidiary of KIMs education. Now there is a KIMs education society, we have been created. This society is going to run all those schools and all. We will utilize those people into KIMs hospitals.
- As a regulatory body that, we cannot run nursing schools and colleges and the corporate hospital. So that's why, we created this KIMs Educational Society, that is an independent body. Nothing to do with KIMs but only thing is, those nursing students will come to our hospitals to get trained. In turn we can able to absorb them once they finish their course and they'll stay up most their course for two years and then there will not be any issue, either nursing attrition is concerned.
- Reshab Sisodiya:** Okay sir. Thank you. That's it is all from my side. Thanks.
- Moderator:** Thank you. We have our next question from the line of Alankar Garude from Kotak. Please go ahead.

Alankar Garude: Hi, good morning everyone. So firstly on Sunshine, we have seen a sequential improvement in this quarter and now in the second quarter as you said, August OPD and then in the next 30-35 days, we will be starting operations and maybe we will have the full impact of the doctor additions in the third quarter and hence, the duplication of cost.

So overall should we expect a meaningful dip in the Sunshine margins from the current 23% for the next two quarters and after which, we should see an expansion. So just wanted your thoughts on both the near-term trajectory as well as how should we look at margins for Sunshine in FY '25, so for a quarter?

Management: For the quarter, Alankar, there will be an impact because we will be paying rent on both facilities. We will be maintaining both the facilities for around 45-60 days. But and after that, like you rightly said, we will be onboarding doctors. So the next two quarters will be tricky.

But I don't think, we are hopeful that, we will not see any significant margin dip. But after the two quarters, maybe from Q4 or Q1 of next year, we will start seeing a significant growth in revenue and margin improvement. And from then on, in the next four quarters to six quarters, it should be in line with our KIMs Telangana cluster.

Alankar Garude: Understood. The second question is on Nashik. Broadly similar question. Now, you mentioned about 25% to 27% margins at peak. Currently, we are at 6%. So how should we look at this journey now that the current doctor setup is stabilized, it's more of a question of adding further doctors and specialties. So is it something which can be done in the next two years, two and a half years or could possibly take longer?

Abhinay Bollineni: No, so Alankar, what will happen, there are three things that we need to fix in Nagpur. One is on the cost side and one is on the revenue side. As far as cost is concerned, consumables have been addressed to a large extent. We had seen 4%- 5% improvement in the consumable cost itself. Doctor cost, we have taken action.

Part of the action is still left because the doctors believe that, if time is given to them, they will start performing and the minimum guarantee will get compensated. So that is a time consuming process. Over the next six months, we will know which direction that is going. If they are not performing, then their minimum guarantees will be reduced. If they are performing, then it will get compensated.

And the other cost is largely on the nursing cost, which is currently significantly high in Nagpur and in general, in Maharashtra. So we are using our nursing colleges, nursing schools in different parts of Andhra and Telangana to source a lot of these nurses and put them there. And this is going to take time because it is attrition needs to play its role and then we are able to bring in these new nurses, onboard these new nurses at a much lower cost, delivering the same care. So this is an initiative that we need to address on the cost.

On the revenue side, like I said, most of the onboarding, at least 70% of the onboarding should be completed over the next three quarters and then from there in three quarters to four quarters,

you will start seeing significant improvement in revenue. We have already started seeing good improvement in revenue in the July and August months.

So that is after having two, three doctors on Board. But I'm sure given more and more doctors on Board, the confidence in the local market, confidence in the hospital will only go up and then we'll start seeing an improvement. By the end of the financial year, we should see at least 60%-70% of the doctor on-boarding to be completed.

Alankar Garude: Thank you Dr. Abhinay, that's helpful. And maybe just one final question, Dr. Bhaskar, what is the quantum of investment for acquiring that 64% stake in Som Dutt Finance and would that lead to any increase in pledging in KIMs?

Bhaskar Rao: No, it is only INR20 crores, INR22 crores total, both put together myself and my cousin and we have not taken any pledge from, we have not used any shares to raise this fund.

Alankar Garude: Understood sir. Thank you and all the best.

Moderator: Thank you. We have our next question from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Yes, sir. Thank you for taking my question. Just wanted to understand in the Telangana cluster, what would be the number of doctors that were added additionally and what were the existing numbers since you mentioned that, there was margin pressure due to that?

Management: Margin pressure is because of the increase in manpower that is largely the corporate cost. Doctor addition has not been more than three or four doctors, revenue contributing doctors in Telangana.

Pallavi Deshpande: Yes, no, so just wanted to understand, like you said, like, the capacity addition, 1,500 beds coming up in the near future. So would you be adding the doctors just now for, that addition? Would there be any excess?

Management: We will not require to add any doctors upfront today. As in when the hospitals get operational, we will keep adding doctors. And it's also part of the capacity will be utilized because we're running short of capacity in the current facilities. So the current doctors are enough to handle a part of the occupancy.

Pallavi Deshpande: And sir, secondly, on the pricing side, like you mentioned, you don't want the height, but in terms of the mix, how much can the mix contribute to the pricing ARPOB increase on the next two year to three year basis?

Management: I'm sorry, could you please repeat the question? Not very clear.

Pallavi Deshpande: Yes, so on the pricing side, how much can the mix change contribute to the ARPOB annual increase? What kind of increase can we see to do a mixed change over the next two year to three years?

- Management:** ARPOB will continue to grow at around 3% to 5% growth rate on a year-on-year basis. This could be a function of price hike, could be a function of case mix change and clinical case mix.
- Pallavi Deshpande:** Sir, I'm just trying to understand, are we being conservative on this guidance because that would be just in line with inflation and if the mix change is coming in, it should be a higher number than that.
- Management:** Yes, but there is also volume growth that, we are hoping that, there will be more volume growth than price change. Historically, we have delivered more than 5% but we have never modelled more than 3%- 5% because just to keep some up.
- Pallavi Deshpande:** Okay, thank you, sir.
- Moderator:** Thank you. We have our next question from the line of Bino Pathiparampil from Elara Capital. Please go ahead.
- Bino Pathiparampil:** Hi, good morning. Thanks for taking my question. First, why have you stopped giving Andhra Pradesh assets mature and acquired separately and is this going to be the way you report going forward combined?
- Management:** Yes, we didn't see any need to further separate it because most of the hospitals, both acquired and mature, have reached healthy EBITDA margins. The growth profile has been quite stable. Occupancies have been stable. So we didn't just want to create more confusion by dividing it. And that's why, we had consolidated into Telangana, Andhra, Sunshine, and Nagpur. And as Sunshine matures, we will consolidate that into Telangana. So that was the thought process, but if there is a request for data to be made available, we can do that.
- Bino Pathiparampil:** Okay, going forward on an ongoing basis, you'll be reporting this component?
- Management:** As and when, these hospitals start maturing, we will consolidate them into those clusters.
- Bino Pathiparampil:** Okay. Second, I'm looking at your Telangana numbers. Y-o-Y compared to Q1 FY '23, the occupancy has come down from 74% to 71% in Q1 FY '24. What has led to this?
- Management:** Sorry, could you please repeat the question again?
- Bino Pathiparampil:** In your Telangana cluster, occupancy level has come down from 74% to 71% Y-o-Y.
- Management:** If you actually look at the IP volume, there is a 7%- 8% growth from a Y-on-Y basis. It is because the length of stay has come down from 4.3 to 3.9, that's why you're seeing a dip in the occupancy. So the real indicator would actually be the growth in IP volume versus occupancy or ARPOB.
- Bino Pathiparampil:** Understood. And finally, just following up, what Nikhil Mathur was saying, it would be great, earlier you had to – you used to give a slide about the upcoming projects and timelines. It would be great if you consistently give that in your presentation.

- Management:** Sure.
- Bino Pathiparampil:** Thank you.
- Moderator:** Does that answer your question, sir?
- Bino Pathiparampil:** Yes. Thank you very much.
- Moderator:** Thank you. We'll take our last question from the line of Namit Arora from Indgrowth Capital. Request you to ask two questions, sir.
- Namit Arora:** Yes, thank you for the opportunity and thank you Rahul for hosting this call. My first question is to Dr. Bhaskar and Dr. Abhinay. You clearly have a lot going on both in terms of organic and inorganic, and obviously there's been a lot of success, but do you feel the need to augment the senior leadership team at a group level, either as a chief operating officer or just augmenting the bandwidth, given that there is a lot going on, number one.
- And then my second question was that going forward, would you be now in a phase of sort of digesting and integrating and executing all the initiatives that you've launched, or will you continue to look at acquisition opportunities selectively or new Greenfield organic efforts as well? Will that process continue or do you think you already have enough on your plate? Thank you very much.
- Management:** As far as senior leadership is concerned, what we currently have which is Andhra, Telangana, Sunshine and Nagpur, the team is more or less in place. Things are pretty much in auto mode. Our bandwidth consumption for that is significantly low, except for onboarding new doctors on a day-to-day operations, where hardly our bandwidth gets consumed.
- Most of the expansion is where our focus is, but again there is an operating team because these hospitals are not operational. The team hasn't joined us yet. But at the right time, we will onboard the team and we will showcase the organogram in each of those clusters. So we're pretty confident that, with the new team joining, we will not have any bandwidth constraints. As far as – does that answer your question on the bandwidth?
- Namit Arora:** Very comprehensively, thank you.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.
- Management:** Thank you very much for the good questions that you people asked, so that it will be able to excite us to build little better. And as you all know that KIMS is also an affordable quality care. We are all keep mentioning that, all these years in Tier 2 and where we can able to do only the primary, secondary and low-end tertiary care. Whereas in Tier 1 cities, we are doing about high-end tertiary and quaternary care.

Now with so much of consultations that are available in the district itself, we are trying to strengthen the existing hospitals by creating a high-end tertiary care, like advanced gastro, women and child, and oncology units and all those things that, we'll be able to do some growth.

And it's a continuous journey in the next three years to five years of going organic and inorganic growth. That's why there will be a little bit of fluctuations on the EBITDA and all, but we'll expect a continuous growth on the top line and bottom line. That is one. And also, we are not very averts of the government schemes. Our aim is to provide a good quality care to each and every person.

When there are many other small hospitals are coming and nearby to that government scheme patients, they will go there. That's why the scheme is coming down. And the other important thing is, as far as the organogram is concerned, I feel the entire health care is mostly driven by the doctors, the good, passionate doctors who are able to select.

Then the management will be not a very big issue. The other important thing, a lot of concern on all of you as somebody has pointed out also, the finance company. We have only invested about INR22 crores and that's all our personal to help one of my cousins. And I have nowhere concerned spend any time on that.

The entire professional team, we are going to take it. It is a slow growth on its own, so I don't need to spend much of our time and other things. So to clarify more and more, there is nothing to do. My entire dedication, passion, commitment for lifelong will be for the KIMS hospitals and whatever we do to improvise and with all these things of your investments in this company.

As I mentioned in the patient care small hospitals in type 2 and type 3 places, where we could able to provide a very good quality care otherwise not a many chains that can able to provide this type of type 2 type 3 that is a big satisfaction for you as well as for me, we are in this space. Thank you very much for patient hearing and satisfied with all our answers.

Moderator:

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