November 7, 2023

National Stock Exchange of India Limited	BSE Limited
Exchange Plaza, Plot No. C/1, G Block,	Corporate Relationship Department,
Bandra Kurla Complex, Bandra (E),	Phiroze Jeejeebhoy Towers,
Mumbai – 400 051.	Dalal Street, Mumbai – 400001.
Symbol: RAINBOW	Scrip Code: 543524

Sub: Transcript of the Investor call - Financial Results for Q2 & H1 FY24.

Ref: Disclosure pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015.

Dear Sir/ Madam,

Please find enclosed the Transcript of the Investor call held on October 31, 2023, with regard to Financial Results of the Company for Q2 & H1 FY24.

The said Transcript is also available on the website of the Company and can be accessed through the following link:

Analyst-Concall-Transcript-Q2-H1-FY24.pdf (d2sn5i18drfi94.cloudfront.net)

We request you to kindly take the same on record.

Thanking You,

Yours faithfully,

For **Rainbow Children's Medicare Limited**

ASHISH KAPIL Digitally signed by ASHISH KAPIL Date: 2023.11.07 12:20:28 +05'30'

Ashish Kapil

Company Secretary and Compliance Officer

Encl.: As above

"Rainbow Children's Medicare Limited Q2 FY2024 Earnings Conference Call"

October 31, 2023

Management Speakers	• Dr. Ramesh Kancharla – Chairman and Managing Director • Mr. Sanjeev Sukumaran – Group Chief Operating Officer • Mr. Vikas Maheshwari– Group Chief Financial Officer • Mr. Saurabh Bhandari – Group Business Analyst
Coordinator	Mr. Rahul Jeewani – IIFL Securities limited

Moderator: Ladies and gentlemen, good day and welcome to Rainbow Children's Medicare Limited Q2 FY '24 Earnings Conference Call 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 '*' and 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. Please go ahead, sir.

Rahul Jeewani: Good morning, everyone. I am Rahul from IIFL Institutional Equities, and I welcome you to the 2nd Quarter Earnings Conference Call of Rainbow Hospitals.

From Rainbow, we have with us Dr. Ramesh Kancharla – Chairman and Managing Director, Mr. Sanjeev Sukumaran, Group COO, Mr. Vikas Maheshwari, Group CFO, and Mr. Saurabh Bhandari – Group Business Analyst.

Over to you sir, for your opening comments.

Ramesh Kancharla: Thank you, Rahul. Good morning, everyone., I am delighted to extend a warm welcome to this Earnings Call for the 2nd Quarter and the First Half of the current Financial Year. I trust everyone enjoyed the recent festival celebrations.

Historically, the 2nd Quarter is characterized by heightened occupancy rates, a surge in patient visits and a favorable financial performance. This year too, the 2nd Quarter displayed positive trends compared to the first quarter. However, certain environmental factors such as the delayed onset of the monsoon and a marked variation in seasonal rainfall, especially pronounced in the southern regions of India, influenced our performance. August was notably drier, a rarity we haven't seen in a century, impacting the typical seasonal pattern and prevalence of various illnesses. Despite these headwinds, we have maintained a consistent and positive trajectory in both our operational and financial indicators.

Against this backdrop, I would like to delve into the "Financial Metrics" for the 2nd Quarter:

In Q2 FY '24, our revenue registered a growth of 6.3% amounting to Rs. 332.7 crores. Similarly, our EBITDA saw an increase of 7.3% reaching 117.6 crores and the PAT, showing a growth of 2.7% reaching 63.2 crores.

For the quarter under review, our occupancy rate stood at 51.4%. Highlighting specifics, our Matured Hospitals recorded an occupancy of 60%, which was lower due to delayed onset of season. Additionally, our new hospitals reported an occupancy rate of 35% indicative of the nascent stage of their growth trajectory.

Coming to Expansion Plans:

After a relatively quiet first half of the year, we are now gearing up for significant expansion in H2 with the plans to add 270 beds. We are launching three new hospitals across Hyderabad, Bengaluru and Chennai, which will further strengthen our Hub and Spoke model in these cities.

- We have recently inaugurated a modern outpatient block featuring a contemporary IVF facility adjacent to our LB Nagar spoke hospital in Hyderabad. This initiative aims to elevate patient experience and support future growth at this hospital.
- Our new hospital strategically located in Central Hyderabad with 60 beds is expected to launch clinical operations on 14th November aligning with our foundational anniversary.
- Another 50-bed additional block at Hydernagar, Hyderabad branch, Hyderabad spoke is expected to be operational by December.
- Our new spoke hospitals in Anna Nagar, Chennai and Sarjapur, Bangalore each with a capacity of 80 beds are in the concluding stages of their construction. They are slated to become operational in Q4 of the current financial year.

This encapsulates our project roadmap for the ongoing fiscal year.

- The rest of the projects which is the spoke hospital at Hennur, Bangalore of 60 beds and the Regional Green Field Spoke Hospital at Rajahmundry in Andhra Pradesh of 100 beds are progressing well, are expected to commence operations in the next financial year.
- In the last quarter, we completed 100% payment to HSVP for two land parcels in Gurgaon and received the allotment later for these land parcels. Efforts are underway in collaboration with the government entities to secure possession of these land parcels and to go ahead with the registration process.

We maintain a confident outlook envisioning that this expansion will strengthen our presence in the growing cities of Hyderabad, Bengaluru, Chennai and the national capital region.

Beyond our growth plans, I would like to shed light on some significant achievements that underscore our dedication to pediatric healthcare excellence:

- We are proud to announce that our OMR Hospital in Chennai, which began its operation in September of the previous year, has been awarded the NABH accreditation. With this addition, 12 of our hospitals have garnered the NABH accreditation.
- Our commitment to advancing quaternary care has shown tangible results in the first half of the fiscal year. We successfully completed approximately 450 cardiac surgeries

and procedures along with 35 transplants encompassing liver, kidney, and bone marrow transplants.

- In a landmark achievement, we orchestrated the airlift of an 18-month-old infant suffering from severe influenza, pneumonia with lung failure from the Goa Medical College to Rainbow Children's Hospital, Hyderabad. This is perhaps the first air transport of a child on ECMO therapy in India. This child recovered after 29 days of ECMO therapy and ready to be discharged. This news was extensively covered by the Indian media couple of days ago.
- I would like to present another great example of multi-disciplinary teamwork where pediatric intensive care doctors, pediatric hepatology doctors, infectious disease consultants, and the liver transplant team worked together to give you a new lease of life for a 4-month-old child with 4 kilograms. Coming from Darjeeling, this baby was suffering from a multi-organ sepsis following a liver surgery, the baby was rescued initially in PICU and later underwent liver transplantation. This baby was discharged very healthy without any morbidities.

- Rainbow Children's Hospital successfully organized a conference of international and national level of pediatric gastroenterology, hepatology and nutrition ISPGHAN and in association with Commonwealth Association of Pediatric Gastroenterology and Nutrition CAPGAN between 26th and 29th of October 2023 in Hyderabad. The event was addressed by national and international faculty and over 300 delegates attended the conference from all over the world. The team Rainbow including Dr. Prashant Bachina, the Senior Gastroenterologist and Dr. Adarsh Kancharla, one of our promoters, jointly organized the conference. This was well recognized and appreciated the outstanding work carried out by team Rainbow.

- The Company remains focused on growing opportunities in the medical tourism. Having recently signed a MoU with the government of Tanzania in the presence of Honorable President of Tanzania in New Delhi, the MoU focuses on health, co-operation between two countries, and with this MoU, Rainbow expects to receive significant number of patients for the specialty pediatric problems, especially for bone marrow transplantation, liver transplantations, and complex pediatric surgeries.

- We have undertaken a pilot project focusing on Six Sigma in supply chain management. The objective is to refine inventory management practices and drive down supply chain-related costs.

- Recognizing the imperative of leadership in the pivotal phase, we have onboarded seasoned professionals in diverse domains compassing senior level leaderships in learning and development, projects and engineering, and core operations. Fortifying our leadership structure is paramount in our vision of sustainable scaling and organizational growth.

With this, I would like to pass the mike to our CFO – Mr. Vikas Maheshwari to take you through the Financial Update.

Thank you once again for joining us today. We look forward to your questions and insights as we move forward. Thank you.

Vikas Maheshwari: Thank you, sir. A very good morning to all of you, and thanks for attending this teleconference.

I am happy to brief the "Financial Performance and Key Developments" of Rainbow Hospitals for the 2nd Quarter and the First Half of FY '24:

- Our operating revenue for the quarter stood at Rs. 332.7 crores reflecting a growth of 6.3% when compared to the corresponding quarter of the previous financial year. For H1, our revenue stood at Rs. 619.8 crores reflecting a growth of 12.7% when compared to H1 of the previous financial year.

- Our EBITDA for the 2nd Quarter amounted to Rs. 117.6 crores marking a 7.3% growth compared to the same period last year. For H1, our EBITDA stood at Rs. 205.3 crores reflecting a growth of 7.1% when compared to H1 of the previous financial year. Our EBITDA margins improved for the current quarter to 35.3%, while for the H1 our EBITDA margin stood at 33.1%.

- The profit after tax for the quarter is 63.2 crores marking a growth of 2.7% in comparison to the corresponding quarter of the last financial year. The increased depreciation expense to the tune of approximately 4 crores year-on-year basis mainly towards the new units led to the lower PAT growth in this quarter. For the H1, our PAT stood at Rs. 105 crores reflecting a growth of 4.4% when compared to the H1 of the previous financial year.

- In terms of the operational performance, Both outpatient and inpatient volumes witnessed a minor decline of 2% and 1% respectively when compared to the corresponding period in the last financial year. Dr. Ramesh has already highlighted the reasons for the same in the opening remarks. Deliveries which are independent of the seasons grew by 4% compared to the corresponding period of the last year.

- Our return on capital employed and return on equity for the 2nd Quarter was 9.7% and 5.6% on non-annualized basis respectively. For the H1, the ROCE and ROE are at 16.1% and 9.3% on a non-annualized basis respectively. It is expected to go up as the new units commences operations.

- Our pair mix continued to remain robust and balanced with 50% of the revenue coming from the insurance and the balance 50% coming from the cash patients. For the H1, the pair mix stood at 51% cash and 49% insurance.

- Furthermore, I am delighted to note that our international business now constitutes roughly 4% of our total business for the 2nd Quarter FY '24 compared to the earlier figure of 2%.

- I am pleased to inform you that our Company's balance sheet remains robust with net cash position of Rs. 472 crores as of 30th September of this year, and this will support our ongoing capital expenditure plan as outlined by Dr. Ramesh, Chairman and Managing Director. Given our current cash flow and the anticipated internal accruals in the coming years, we remain confident in our ability to complete all planned capital expenditures through internal accruals without any debt financing. During the quarter, the Company invested approximately Rs. 55 crores in the capital expenditures.

With these insights, I conclude my financial update. I now invite questions and suggestions from the participants. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: My first question is to improve my understanding of your business model. So, Rainbow's EBITDA margins versus other listed multi-specialty hospitals are significantly higher despite lower occupancies and similar in-range ARPOB. Rainbow's EBITDA is 30% plus typically, and other multi-specialty hospitals are usually at early 20s level. So, I just want to understand if there is a structural difference in our cost structure due to the pediatric focus business model, which allows us to make high EBITDA margin?

Ramesh Kancharla: Obviously, the Rainbow business model is quite different from the adult hospitals. the Rainbow operates on 1. one is that the (setting is children centric) in a children's hospitals, 2. the outpatient business is significant. About 30% of revenue comes from the outpatient services, whereas in the multi-specialty it is about 16% to 18% of revenue.

Second important thing is that our average length of stay is significantly lower, which varies between 2.6 to 2.8 days. The adult hospitals ALOS could be north of four days. And also, when you look at kind of the case mix, we have obstetrics which are kind of a short stay and higher revenue generation and also intensive care services, 30% of beds are in intensive care services which again generates higher revenue.

What actually don't do much of per day revenue generation is routine seasonal pediatric patients are the ones too, but they are bulk of the patients in seasons. So, therefore, when you see in the current quarter, our ARPOBs are pretty high and that is because of the seasonal business is much less because of a delayed monsoon, which is why our ARPOBs are pretty high. Still we manage to maintain the industry leading EBITDA.

Nitesh Dutt: That is clear. ARPOB angle is clear, but is there any specific difference in cost structure as well, for example, cost of consumables or employee cost savings versus other hospitals?

Ramesh Kancharla: The professional cost is the same. We also pay about 23%- 24% and the HR cost is more or less similar. Our consumable cost is about 4- 5% lower. In adult health care, you have a lot of stents, devices all those things (high end consumables). We don't have much of those devices, stents because we don't do kind of implants and devices and those stuff. So, there is about 5% difference in the supply chain cost.

Nitesh Dutt: I have couple of more questions specifically for this quarter. So, first is on occupancy levels. You mentioned delayed onset of rainfall and seasonal deficit, right? But is there any other reason? Because occupancies are drastically lower. So, 51% is even lower than Q4 of FY '23. So, that is one. And second, any guidance for Q3 and full-year occupancy numbers from your side?

Ramesh Kancharla: Occupancy is definitely lower. We are still discovering what is the post-COVID pattern. During the COVID, the occupancy was quite muted. Post-COVID during last one, one-and-a-half year, the occupancy has been very heightened and there is pronounced illness pattern, Now, this year what we have seen is that we have not come back to the normal pattern of the year because of the delayed rains and all the seasonal variations. We are still kind of not very sure how the rest of the year H2 is going to go.

We expect our occupancies to be around 50%. That is blended including the new hospitals which have come into operations. From the last year to this year about 11% of the beds been added in the two hospitals (OMR, Chennai and Financial District, Hyderabad). We need to take into this significant fact into consideration We are going to add some more beds, about 16% of the existing bed capacity this year. With all these additions of beds, if we could reach 50% of occupancies, we would be pretty happy with that.

Nitesh Dutt: And sir, on ARPOB also, ARPOB has significantly increased by 16%. So, any factors that have led to a better case mix? And is it sustainable? How sustainable is this Improvement? Also, same question. Any guidance on ARPOB growth on full-year basis?

Ramesh Kancharla: We expect the ARPOB to grow about 5% - 6% (on an annualized basis). When you have a lower season definitely the case mix will be different, as we don't have much impact of seasonal business. That actually gives a better ARPOB because what remains is high cash generating business. And also, case mix is changing year-on-year. So, that is a significant factor.

And some price escalation is a second thing.

If you look at the international business it was 2% last year, this year it is over 4%. So, these are all the macros to have better ARPOB. But however, we do expect when the season picks up, the ARPOB to get moderated because of the volumes. When we do overall better business, the ARPOBs will get moderated.

Nitesh Dutt: Last question from my side is on the expenses front. So, both our gross margin and OpEx as percentage of revenue are down Y-o-Y and our employee expenses have reduced sequentially even at an absolute level. So, what are the reasons? And how do you see these expenses moving in Q3 and Q4 with the commissioning of new hospitals?

Ramesh Kancharla: Obviously the employee cost will go up when you add new hospitals because our model is a full-time doctor and also, we employ significant number of people to train them to be positioned for the future business.

But at a group level what happens is that when you don't have a huge seasonal business we also try to work around to moderate or optimize the cost. We take the handle off on the attrition and also there won't be any kind of additional payments in terms of overtime and those things would get moderated.

This is something which is based on how many new beds are going to come, what is your existing business? Is it running at high occupancies? Sometimes we do kind of transfer our employees from one organization to newer organizations. We do this math all the times to optimize our overall HR cost.

Moderator: Thank you very much. The next question is from the line of Girish Bakhru from OrbiMed. Please go ahead.

Girish Bakhru: Actually, just again we wanted to reconcile this gross margin expansion despite fall in occupancies and ARPOB. Why is gross margin higher?

Vikas Maheshwari: You are comparing it on year-on-year basis or quarter-on-quarter?

Girish Bakhru: Quarter-on-quarter.

Vikas Maheshwari: Quarter-on-quarter, definitely there is a lot of change because if you look at in the quarter first, the occupancies were in the range of 41%, and this quarter occupancy is slightly higher. So, one the operating leverage which has kicked in. All the other expenses if you look at as a percentage of revenue has improved because of the operating leverage. There was a question on the staff cost quarter one call, which Dr. Ramesh, MD and Chairman has already explained you.

One more reason which was there is that in the quarter first the sequential HR cost has come down because in the quarter first, there were some one-off payments also because of the senior leadership hiring which we have paid for. (In this quarter) this (one off) amount was not there.

And then obviously, since the quarter second occupancy was not as per the full expectations, so there was some less OT payments and the escalation of the staff cost. So, that was the reason.

Otherwise, if you look at all the expenses in absolute terms has definitely gone up because of the two units Sholinganallur, Chennai and the Financial District, Hyderabad has opened up. So, mainly is the game of the operating leverage.

Girish Bakhru: And just if you look at this overall mix in the revenue which you were mentioning before, 30% is from outpatient. There is a high ICU critical beds contribution. Where would be the surgical mix? How much, let's say, revenue would be from surgical procedures?

Ramesh Kancharla: Surgeries are far less in the Children's Hospital. Children's Hospital are dominantly medical, if you take the obstetrics separately. Let's put it this way, if you have to look at our surgical numbers at group level it would be around 8,000 to 9,000 surgeries annually. Children's Hospital is mainly a domain of medical, lots of intensive care and specialty patients.

Surgeries are mainly from specialty side like cardiac or pediatric surgery. We do have all the specialties like orthopedic surgery but pediatrics is not wear and tear. Pediatric is either acute or genetic. Hence, it's not comparable with multi-specialty.

Girish Bakhru: I understand because last couple of calls you were discussing this, the ARPOB is highest in your quaternary procedures, which I would assume would include surgery, and obstetrics would come at the similar higher level, and then secondary and OPD would come lower. So, the sensitivity of the ARPOB, is it higher to surgical procedures or delivery?

Ramesh Kancharla: The quaternary care is the complex neurosurgeries , liver transplants , cardiac surgeries , renal transplants, BMTs and related intensive care along with these patients. This quaternary care, is a growing segment in the Rainbow Group. All quaternary care is fairly nascent. It's about four, five years old. The growth of quaternary care is fairly impressive.

Girish Bakhru: So, this change in ARPOB, is it sensitive more to the deliveries as of now? Is the sensitivity highest there? I am just trying to figure out what exactly.

Ramesh Kancharla: I think it's a combination of factors. It is to an extent the deliveries, to an extent the complex surgeries , to an extent it is international business and to an extent it is pricing. I don't think there is any one dominant factor among them. It is a combination of these stuff.

Girish Bakhru: And just lastly, can you share of these 755 doctors, how many are surgeons?

Ramesh Kancharla: The surgeons will be about 10% to 15%. 10% maybe outer limit.

Moderator: Thank you. The next question is from the line of Rishi Modi from Marcellus Investments Managers. Please go ahead.

Rishi Modi: So, first, just a bookkeeping question. The loans that you have given to Madhukar Hospital, how much is still pending for us to receive from that hospital? I think FY '23 we had around 40 crores remaining to receive. So, Q2, how much is left?

Vikas Maheshwari: Rs. 3 crores in this quarter we have received. The amount has got reduced to that extent. That is the update on this Madhukar one.

Rishi Modi: 3 crores that we have received in this quarter?

Vikas Maheshwari: Yeah.

Rishi Modi: In Q2 or half year?

Vikas Maheshwari: This is for the quarter second which we are updating. We are not worried about this Madhukar loan which we have given. That unit is doing well and we have learned a lot about the North Market, how does it operate and we are pretty confident that whatever the money we have given over a period of time we will be able to recover it. It is just time and the money which we have invested on that, and we are pretty sure that this money will get recovered over a period of time. There is not too much of the worry for us right now.

Rishi Modi: Second, on the international business front, so we are at 4% of revenue. Is there any target that we are targeting over say the next three to five years? And how different is the ARPOB for international patients versus domestic patients, if you could give some understanding out there?

Ramesh Kancharla: It's a very early phase now. We started our international business post pandemic actually. We are trying to two things in international business. One is that, so far, no Children's Hospitals has been presented to the international patients or international doctors. So, our approach is that the people need to know what is Rainbow Children's Hospital and its capabilities.

Number two is influence more at the doctoral level, have associations and agreements at the country level, the government level, foundations level and other levels.

Number three is to try to get other agencies. So, work at a multipronged approach and try to see that maximum coverage over one-two years' timeframe.

So far there are some of the countries which are kind of very promising basis the number of the patients what they are sending and all the feedback what we are getting. So maybe by next year we will have a better idea about this, how we can actually position ourselves, what is the expectations on international business.

On other hand, what we are trying to do is to establish quaternary care in the Bangalore and Delhi also. All these things are going to be important to drive the international business to our network group hospitals. Right now, Hyderabad is a dominant player followed by Delhi. So, we just need to see that balance between all of them.

In the recent concluded conference, which is the Pediatric Gastroenterology Conference of the Commonwealth and Indian Society, lots of doctors have come from Africa, Middle East and Indian neighborhood countries like Bangladesh and Russia. They have all seen and appreciated what we are doing. They were quite surprised to see that the Children's Hospital is doing all the quaternary care procedures.

It is the journey which we have embarked on and it will take some time for us to strengthen our position and to really have proper estimates. And so far, it's pretty encouraging. I think we have guided about 3% to 4% . I think the last two quarters we have been doing 4%, which is pretty encouraging.

We just signed an MOU with the Tanzanian government; the Health Minister came and visited the hospital recently and I signed MoU in presence of the Honorable President of Tanzania. They are quite happy to send their children to Rainbow Network for all the tertiary care and quaternary care.

Rishi Modi: And if you could just give an understanding of how different is the ARPOB? Is there any multiple on that difference versus our Company average?

Ramesh Kancharla: I think it's definitely above the Company average, but in the initial phase we want to show the results. My aim is to see that the results are better when the treatment (patients are treated) is done in Children's Hospital. First, I probably want to bat for that than the ARPOB.

Rishi Modi: Finally, you mentioned that you all hired some senior employees in this quarter. Could you just give us a brief understanding on who all have you all hired in this quarter on the operations front as well as on the medical side of things? And what are they bringing to the table? What are their cares? How are you all planning to use their capabilities?

Ramesh Kancharla: We have hired all the senior management in the last 6 months' time. Now this is one of the important things because we got a large CAPEX and significant bed expansion. So, we need very seasoned projects head to drive the projects on time. That's one position which we have onboarded. And also, as we increase the number of units, I think learning and development is one very important area, because this is a very service driven, the Children's Health Care. So, a lot of focus and emphasis goes on that. So, we are trying to work on that.

And also, even the sales and marketing space, because Rainbow has always been very, very organically grown, I think sales and marketing space is something which we are trying to build. Mr. Sanjeev Sukumaran has actually come from a very seasoned background of sales and marketing and operations background. So, he is trying to work very seriously on that (sales and marketing). so that is something we are going to have a big leverage on that as we move forward with increased number of beds as we are strengthening our hub and spoke model in next two, three years' time.

Moderator: Thank you. The next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

Alankar Garude: Sir, first question. Were there any specific cities wherein the year-on-year impact on occupancies was more pronounced in this quarter? Or was the impact widespread for us?

Ramesh Kancharla: No, Alankar, to be specific, actually, we have seen this across the group. I think we have seen that to an extent a little more in Chennai, to an extent in Hyderabad and Andhra also. I can feel that there is some degree of seasonal variation. What we have seen is that the last year season lasted till March and April onwards became kind of quietened up, and then we had delayed monsoon. So, that is good for the society that healthy period continues to go on till August and middle of September. So, what we had is about kind of some degree of seasonal business only last five weeks of this quarter.

So, that's why we see that there the occupancies plummeted to the extent to the tune of 8% in matured hospitals, about 11% to 11.5% in the growing, the new spokes. That's seen across the southern parts. Maybe Bangalore is slightly better than compared to the Chennai, Andhra and Hyderabad.

Alankar Garude: Sir, the second question is, given the big expansion phase over the next six months or so and even beyond that, but more focused on the next six months, possibly, this is the highest ever in the Company's history. Are there any meaningful execution risk which you would like to highlight here?

Ramesh Kancharla: I think the execution challenges may be there, but risks may not be there. The challenge, I mean, always will be when you commence four or five hospitals in four, five months' time. There are a lot of executional challenges, which I am sure with a large team now, we should be able to troubleshoot.

One of the important thing is, in Hyderabad there is no challenge because enough number of people are there and Hyderabad when we do expansions, we always do it for demand. the last expansion at Financial District is doing very well, and it's posting significant positive EBITDA. So, therefore, when we do in Central City or additional block in Hydernagar, these are all for the demand.

So, Chennai, when you look at it, we want to expand the hub and spoke model. I would say that it still takes 12 to 18 months for break even in Chennai. On execution, since we are already there with the two units, I am sure we will be able to orchestrate.

Bangalore, we have already have three units and adding one more unit is not going to be a big challenge. The area where we are going to operate in Bangalore is a pretty promising part of Bangalore which is Sarjapur, Bellandur area. lot of doctors are interested to work with us. it's in a way for the demand in Bangalore also. So, that's why we are kind of fairly confident about though it is 270 beds, we should be able to kind of manage well.

Vikas Maheshwari: Alankar, if you look at the breakup of the beds which are coming up (270 beds), out of that, 110 beds are coming in Hyderabad which is our forte which is roughly 40% of the beds coming into the Hyderabad. So, we are not worried about that.

And more importantly, these two units are almost ready Central Hyderabad and Hydernagar. Central Hyderabad is going to open in next 15 days' time or 14 days to be very precise. Hydernagar, which is just an extension of the existing unit and will be open by December. So, we are not worried about that at all.

And with this, you know, we will be reaching the capacity in Hyderabad to roughly 950 beds, which is sizable for the pediatrics and the mother and child focused hospital. And as being told by MD, in Bengaluru, we have already three hospitals, adding one more for the growth, and Tamil Nadu 80 beds. And those are in also good shape. So, that should get opened by March. The execution risk more or less what was anticipated is on the timeline etc., I think we are meeting that and pretty confident that this will get opened on the timelines which is being stated.

Moderator: Thank you. The next question is from the line of Bansi Desai from J.P. Morgan. Please go ahead.

Bansi Desai: My question is on margins in this quarter. So, despite sharp decline in occupancies, we have reported margin of 35% plus. I understand there was a benefit of case mix, also cost control, which would have driven these margins. But just trying to understand, had this quarter been a normal quarter, would our margins be any different? Just trying to understand, you know, is case mix a bigger driver of margins or occupancy for us?

Ramesh Kancharla: I think the margins always with the case mix rather than occupancy. I think what happens is beyond critical occupancy, the additional case mix will kick in more operating efficiencies because you have the same doctor, same HR, same system everything else. That's what typically happens in the seasons in quarter two and quarter three when you are doing well on top of it and season adds to it, so that will kind of push lots of outpatients. That generates a lot of revenue and also the seasonal business. It's like a icing on the cake. So, that gives a kind of a more of operating leverage and ARPOBs will get moderated, but you will have additional revenues will kick in.

Bansi Desai: And sir, how has the occupancy trended for the month of October for us? We have heard, you know, there has been rise in Dengue cases etc. So, have you seen any improved occupancy in this particular month?

Ramesh Kancharla: So, definitely, there has been an improvement in the last two months' time and from October onwards, September onwards. So, there is an increase in occupancies. There is some city-to-city variation. Some places I think some of the adults are pretty sick and still few adolescents are also pretty sick, but mostly the smaller children under five years, they of not getting very critical requiring intensive care which is good.

Bansi Desai: That's good to hear. And my second question is on occupancy. So, for the newer beds, we have reported 35% occupancy. So, if you were to adjust for the new beds which got commissioned in the last four quarters, what would have been the occupancies like for that cluster?

Ramesh Kancharla: It would be 40% plus. Just over 40%.

Vikas Maheshwari: let me add. So, this is a lower occupancy we see as an opportunity. So, that shows the Delta which we have got for the growth, and which can drive the revenue and the EBITDA in the coming quarters as we ramp up the occupancy at these new units.

Moderator: Thank you. The next question is from Mr. Rahul Jeewani who is a coordinator for the call from IIFL Securities Limited. Please go ahead.

Rahul Jeewani: Sir, would it be possible for you to quantify the contribution of the seasonal business this year versus last year in terms of how much did it contribute to you?

Ramesh Kancharla: It varies from year to year. I think, you know, let's put it this way. It is probably about 12% to 15%, I would say.

Rahul Jeewani: So, then this year, maybe the contribution was lower than this 12% to 15% usual, right?

Ramesh Kancharla: Yeah.

Rahul Jeewani: And sir, you talked about, let's say, you are targeting break even in the Chennai market for the new hospitals from between a 12 to 18 month period. Can you similarly talk about what would be your targeted timelines for break even in Bangalore, which is again a home market for us and then maybe in some of these tier two, tier three markets like Rajahmundry, which you are planning to enter into next year?

Ramesh Kancharla: I would expect Rajahmundry to do breakeven in two calendar years' time and the Bangalore would be the same 12 to 18 months' time.

Rahul Jeewani: And sir, Vikas indicated that the Madhukar Hospital has been doing well. So, any operational parameters which you can share of Madhukar in terms of what kind of EBITDA margins the hospital is currently running at? And I think we were trying to convert the Rosewalk Hospital into a normal birthing center versus their previous positioning of being a premium birthing center. So, any updates with respect to your plans for the Delhi NCR market in terms of existing hospitals?

Vikas Maheshwari: So, Rahul, as far as the Delhi is concerned, we are happy to brief that the performance has improved a lot. Since we provide only the medical services there, so we don't track their operating metrics so closely as we track for all our 16 hospitals, but it has improved over a period of time, and we have seen it is a cash positive and they have been able to repay our loans which we have given for the operational performance etc. As far as the Rosewalk is concerned, I will request Dr. Ramesh to brief on that.

Ramesh Kancharla: Rosewalk there is no bleed from the operational point of view. It's breaking even. So, what we are trying to see is it's a small hospital, number one. So, as a group, we never believed in this boutique businesses or we kind of not really been big fan of a small, small hospitals because you wouldn't be able to kind of display your strength and your ability to offer the patients the large care.

So, this has been a problem of Rosewalk like many other boutique centers in the country. So, therefore, we are constantly trying to see that remove that the luxury brand, but unfortunately, it's not getting removed. So, the people still in the minds of the Rosewalk and say that, you know, this is the luxury hospital brand. We have recruited some full-time doctors and even the doctor's concerns are okay, this is luxury hospital. So, I may not be able to see large number of patients. So, I can't stop my clinic to depend on completely Rosewalk. So, there multiple things are there.

I will give the mike to Sanjeev Sukumaran. He is fully into Rosewalk now. So, he should be able to give you a little better outlook of Rosewalk. One second, Rahul.

Sanjeev Sukumaran: I think it is a pertinent question, Rahul. So, couple of things that you spoke about. Do we convert this into any other birthing center? And Dr. Ramesh did touch upon that, but I think it's important for us to also know and understand that Rosewalk is in the southern part of Delhi, the South Delhi. So, there is a demand for what we call as a boutique center, and though we try to come back to a normal birthing center, there has always been a consistent demand on this.

What we have been doing over the last two quarters is trying to beef up a team of marketing so that we start to position our brand in a much more compulsive manner. We are starting to see some results on that. We have hired a few full-time doctors, which are very, very prominent in the Southern Delhi space. So, we are starting to see leverage of that, and we are building those. We are building the portfolio of doctors in that area. And I am quite positive that over the next few quarters, we will start to see an uptake in what Rosewalk contributes.

Rahul Jeewani: And sir, just one last request from my end. Can you please start disclosing the payor mix and case mix data on a quarterly basis? Because that would be helpful to us in terms of analyzing the numbers and given that most of your peers do disclose that data, so that would be very helpful.

Vikas Maheshwari: We will do that, Rahul. The payor mix, obviously, we are covering under our opening remarks, we will include into our presentation, and we will also look to explore the possibility of putting up the case mix. Because the case mix which we put up in our matrix in the Children's Hospital is slightly different. We will discuss it offline with you and the others to see how best we can disclose that.

Moderator: Thank you. The next question is from the line of Sandeep Jain from Baroda BNP Paribas Mutual Funds. Please go ahead.

Sandeep Jain: Most of the questions have been answered. Only one question on new hospital and ALOS and all. So, the advantage what we have got in the ARPOB is the reduction in the ALOS and a couple of other things, but which is largely happening in the new hospitals, right? If I look at the year-on-year basis, the new hospital ALOS has declined from 3.67 to 2.9, and as well as the occupancy also. So, how we are looking at it means in terms of if I look at occupancy, ALOS going ahead or in terms of the growth overall going ahead, what kind of ALOS or what kind of occupancy we are targeting in the new hospital with the new bed and all so that I can get a more sense on the ARPOB? That's the first question, and there is one follow-up.

Vikas Maheshwari: So, as far as the new units are concerned, you know, as they mature and whatever the matured hospitals are showing the ARPOB, ALOS and occupancy, we believe that that will also be our new hospitals which is not matured less than 5 years which we are classifying will display the same type of characteristics plus minus 6 months, one year here and there, but they will reach there. So, we see this is an opportunity for the growth which will come in the coming quarters from the new hospitals.

Sandeep Jain: And up to the desired level of occupancy of somewhere around 50%, 55% kind of thing, how much time we can take?

Vikas Maheshwari: So, from the date of the operation of the hospital, it takes four to five years' time, and obviously, we will reach there.

Sandeep Jain: And by the end of this year, we have somewhere around 100 new beds are coming. Is my this thing, calculation is right?

Vikas Maheshwari: So, 270 beds we are opening in the next five months, and which will get commissioned by 31st March.

Sandeep Jain: 270 new beds, fine.

Ramesh Kancharla: Yeah, 270 new beds.

Moderator: Thank you. The next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

Alankar Garude: Sorry, I got dropped off earlier. Just one final question. If we look at Bangalore as a market for us, we have been present for about eight years now. So, in terms of the margin trajectory in this cluster, would it be fair to say that over a period of time, the margins in this cluster would largely be in sync with our margins in the Hyderabad market or would you like to say that Hyderabad being a home market will always have that advantage for us compared to any other geography we enter into?

Ramesh Kancharla: Yeah, I think the margins in Bangalore have been fairly good and as the hospitals are maturing, we can see that one of the hospitals has almost reached to the Hyderabad level, but I will tell you, Hyderabad always will have an advantage, the home advantage will always be there in terms of your pricing power, in terms of case mix, maturity. All these things play up. It's not only with Rainbow, it's for every hospital chain, home ground of every group displays that strength, and I think Rainbow also displays the same strength.

But that doesn't mean that Bangalore will be significantly lower. For what I think, we would continue to be industry leading in Bangalore as we move forward in next couple of years.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: So, most of the questions have been answered. I have two clarifications. First, are you done with tariff hikes for all the clusters which you intended for this year, or something is yet to be done?

Saurabh Bhandari: Yes, Damayanti, we have done the negotiations

Ramesh Kancharla: We have done most of the negotiations and all the tariffs have been negotiated with the TPA.

Damayanti Kerai: So, all been done and then maybe we will see in next cycle only, but for time being it's all negotiated as you said?

Ramesh Kancharla: Yeah, most of them are closed actually. Hyderabad was pending when we spoke last time. That's also been closed.

Damayanti Kerai: My second question is on ARPOB again. So, 16% year-on-year growth, can you broadly help understand like what is the contribution here from price hike and what kind of contribution came from case mix so that, I guess, we have understanding about the drivers better?

Ramesh Kancharla: Damayanti, we have to look at kind of yearly ARPOB. That's what we have guided earlier about 5% to 6% yearly ARPOB growth, but what we are seeing at the moment is that the 2nd Quarter to now is 16% ARPOB growth. This is largely because one is that we don't have seasonal business. Number two is our case mix. Number three is our kind of price optimization. Another reason is about the international business. All are put together I think we had a significant growth in ARPOB.

Suppose if this quarter had a significant season about another 10% to 12% of occupancy increase, that would have got APROB optimized significantly, to somewhere around 52,000 or 51,000. That usually happens year-on-year to us. So, we can talk about ARPOB on a year-on-year basis rather than one quarter comparison.

Damayanti Kerai: So, sir, this annualized 5% to 6% increase in ARPOB, will it be mostly driven by the price hike part or other factors like mix, and all will also play important role?

Ramesh Kancharla: We expect significant to be in the case mix. Factor number one is the case mix. Factor number two is the international, and number three is price hikes.

Vikas Maheshwari: And also, Damayanti, if you can go through the presentation slide number 23, if you look at the most of the ARPOB growth as a percentage if you look at has come from the new hospitals, right? So, the new hospital ARPOB for the H1 has grew by 30%. So, that shows that those hospitals have started gaining the pricing power plus the clinical mix is going up on those hospitals. So, that also helps.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from White Oak. Please go ahead.

Dheeresh Pathak: Sir, I was asking that last year the OMR and Financial District, the newer spokes that we had opened, their occupancy and their break even if you can just talk to that?

Ramesh Kancharla: we don't give a unit wise break-up. I can give you an overall broader perspective. OMR I think by end of the year, we will have break even. So, Financial District, I think we are already break even. This year, by end of the year, we will post positive EBITDA.

Dheeresh Pathak: And just on this reclassification, so Rainbow Children's Hospital, this is Madhukar, right? This has been now mature.

Ramesh Kancharla: Madhukar, yes.

Dheeresh Pathak: So, that has also then impacted the ARPOB of the newer and the mature, right? Because you don't count the bed capacity, but you show the revenue, right? So, that's why I am seeing lower ARPOB in new bucket versus and slightly higher ARPOB in the mature market. Is that also one of the reasons?

Ramesh Kancharla: Yeah.

Vikas Maheshwari: Yeah, that is one of the reasons. And Dheeresh, this will continue to happen because the sizable hospitals which are under five years has not matured, will move to the mature. So, that plus minus will continue to happen. But what is more important to see at the group level, what type of matrix we are showing, and all the new units, how they are progressing to the matrix to achieve the matured hospitals' matrix. So, I think we are focused more on that.

Moderator: Thank you. The next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Few questions. One is, sir, in a previous question, you mentioned that even though in Bangalore we are now 8 years old, the profitability matrix for the Bangalore cluster will remain, is currently below the profitability matrix Hyderabad market has.

But if I extend it over next five years and the whole idea of our, the whole proposition, and I could be wrong here, is that we are able to take market share from smaller clinics or from smaller independent practitioners, which means that even in markets like Bangalore where there is a lot of incoming crowd, our brand should be able to gain a premium over the pricing which would be prevalent.

So, when do you see that a market becomes good enough for us to improve profitability? Because eventually, the profitability for Bangalore or Hyderabad, any other cluster should not be too different as our brand keeps gaining scale unlike, so that should be the proposition, right? Or am I understanding something wrong here?

Ramesh Kancharla: Well, what happens is we are in eighth year of operations in Bangalore. So, with Hyderabad, we are about 20 years of operations, right? So, you see, it's purely a maturity and your pricing strategy, your overall business mix and also the number of the operating metrics are all very different. You can look at even adult hospitals which are home-based. All other hospitals will display the same strength because of sheer maturity, and also your cost structures also, revenue generation dominates over the cost structures and post very impressive returns. So, that is the home ground effect, number one.

That doesn't mean that other cities don't do well. So, I would say in the next 5 years we will be a dominant player in Bangalore. There is no doubt about it because when you look at your hiring, your inclusion of the doctors, what is today versus what was 10 years ago, it's very different, right? Isn't it?

If I want to hire a doctor, if I want to hire a manager, today from now to future is very different. Cost structures have changed. So, which is why you may do a top line very well. You may have a good EBITDA. You may have a very well-run hospital, but still that original hospital where you started commenced, that will never match that. So, I think that's my understanding of it.

But one thing I am very sure is that any home base of any healthcare chain displays the same pattern. That doesn't mean that other cities people have not done well. People have done very well in other cities ,Fortis has done very well in Bangalore. So, that's not a question about it. So, we will do very well in Bangalore, Chennai, all those domains. But that kind of a comparison, I don't know, it's how do you compare with that. It is always home ground and you have control on what's happening at micro level. That's what I would say.

Nikhil: But just one question here. See, in a multi-specialty, there are multiple areas where a hospital can focus on, say, oncology, or someone could be very strong on cardio, while in a Children Hospital, what I understand is that those permutation combinations of multiple specialties is limited because children don't have all those. So, very rare issues might be happening, but on an average the infection pattern or the disease pattern would be similar across geographies.

So, eventually, because there are not many permutations and combinations which can come on the specialty side, the treatment or the treatment focus for a children would be similar whether it's in Hyderabad or in Bangalore. And as the brand or the presence of the brand gets felt more and more, the footfalls would come inherently for the Company. We should be able to pull the footfalls.

So, I am just trying to understand, for a specialty I understand that home market makes a big difference, and we have seen across chains, but for our kind of a model, would the home market versus a Bangalore or a Chennai or any new market, eventually, it should even out, or it should converge to a similar profitability.

Ramesh Kancharla: Yeah, we can talk on the subject for a fairly long time because it's based on multiple parameters. You see, for example, at Hyderabad, someone comes from 250 kilometers just to show us, if the child is all right. From Adilabad they come to Rainbow just to show and check that their child is okay because they know, they have heard about Rainbow is the best children's hospital.

So, this is a network. This is an effect of longevity and also brand which is penetrating not only in the city, into the kind of a people of the rural. So, there are many factors that will be there in that. The city factors are to an extent, but in the larger picture, the multiple factors work around.

And also, what is important in children's healthcare is the destination. So, Children Hospital is a destination. It is not like adult hospitals. If 10 doctors moves, Patients also moves along with them. In Children's Hospital, it's a destination effect. So, and so hospital is still good. It is a destination for everything. People just come to you because it's a destination rather than a kind of a hospital. With few doctors moving around, they won't be able to take patients. So, which is why the maturity of the hospital is an impression, gives a lot of positive impression among the public, and not only in the city, in the peripheries across the state, beyond state borders. It's a large subject, we can discuss.

Nikhil: Sure. Moving on to the second question, this is more a, see, one clarification first. So, you said on the newer hospitals, we are at 40%. So, the older hospitals which were not added in last, say, one year, our occupancies are around 40%. Is that the number you mentioned earlier?

Ramesh Kancharla: No, the matured hospitals which are old, they have kind of we had about 60% occupancy versus 68% occupancy in the last year. Without the addition of any beds, there is an 8% drop in occupancy. That is because the season did not kicked in. This is what I was trying to say.

Nikhil: No, my question was on the newer hospitals. So, if I average out, say, June 22 and September 22, last year first half versus current first half, we have added on an average from we were at 448, 500 to now 600 or around 130 beds have been added. So, on the older beds of average count of 320, we are at 40% is what the understanding.

Ramesh Kancharla: Yeah, exactly. That's true.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for the closing comments.

Vikas Maheshwari: Thank you everybody and participating on the conference call. We will look forward to receive any other further questions if the participants have. They can send. They can contact Mr. Saurabh Bhandari or myself. The email IDs and the coordinates is already given in our presentations. Look forward to meeting all of you in the coming quarters. Thank you very much.

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