



“Rainbow Children's Medicare Limited Q4 FY '24 Earnings Conference Call”

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Call Duration	• 1 hour and 4 minutes
Management Speakers	<ul style="list-style-type: none"> • Dr. Ramesh Kancharla – Chairman and Managing Director • Mr. Sanjeev Sukumaran – Group Chief Operating Officer • Mr. Vikas Maheshwari – Group Chief Financial Officer • Mr. Saurabh Bhandari – Head Investor Relations & Group Business Analyst
Participants who asked questions	<ul style="list-style-type: none"> • Ms. Bansi Desai, JP Morgan • Ms. Damayanti Kerai, HSBC Securities and Capital Markets • Mr. Nitesh Dutt, Burman Capital • Mr. Karan Gupta, Varanium Capital • Mr. Abhay Sahukar, Individual investor • Ms. Dhara Patwa, SMIFS Limited • Mr. Alankar Garude, Kotak Institutional Equities • Mr. Harsh, Bandhan AMC
Moderator	• Mr. Rahul Jeewani - IIFL Securities Limited

Moderator: Ladies and gentlemen, good day and welcome to Rainbow Children's Medicare Limited Q4 FY24 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jeewani from IIFL Securities Limited. Thank you and over to you, sir.

Rahul Jeewani: Good morning, everyone. I am Rahul from IIFL Institutional Equities. I welcome you all to the fourth quarter earnings conference call of Rainbow Hospitals. From Rainbow, we have with us today Dr. Ramesh Kancharla, Chairman and Managing Director, Mr. Sanjeev Sukumaran, Group Chief Operating Officer, Mr. Vikas Maheshwari, Group CFO, and Mr. Saurabh Bhandari, Head Investor Relations & Group Business Analyst. Over to you, sir, for your opening comments.

Dr. Ramesh Kancharla: Thank you, Rahul. Good morning, everyone. I'm delighted to extend a warm welcome to the earnings call for the fourth quarter and the financial year 23-24. As I reflect on the quarter and the year, the last quarter witnessed the highest revenue and significant addition of the new beds across the group. However, the year witnessed flat trend without any seasonal uptick in occupancy in Q2 and Q3, which normally are our seasonally strong quarters. The lower occupancies were a result of delayed monsoon, lower seasonal illness-based admissions, cyclone effect in Chennai and parts of Andhra Pradesh.

Despite these headwinds, we did well for the quarter and the year as a whole, both operationally and financially. There were so many milestones that we achieved during this quarter and the year.

- Firstly, we commissioned 280 beds in the last quarter across three new spoke hospitals, one each in Hyderabad, Bangalore and Chennai and also added a new block to the existing hospital at Hydernagar in Hyderabad City. Apart from these hospitals, we opened an outpatient clinic in Hennur, Bangalore City. This is the first time that we had such a large capacity getting commissioned in a short span of time. Our projects and operations team have meticulously executed on ground to ensure the projects were commissioned on time. With these expansions, Rainbow now operates 2,000-plus beds including the managed beds at Delhi.
- The second highlight is I'm extremely happy to share the Rainbow Children's Hospital flagship facility in Bangalore was awarded the prestigious Gold Seal of Quality approval by the Joint Commission International, JCI. This recognition underscores our dedication to delivering world-class healthcare services to children. This makes us the only pediatric hospital chain in the country to have three hospitals accredited by JCI: the flagship facility hospitals in Hyderabad, Bangalore and the Kondapur fertility centre in Hyderabad.

- We have expanded our IVF services across the group from three centers who were providing IVF services last year. Now we have about 11 centers offering IVF services. Fertility services have further strengthened our Birthright by Rainbow offering. We plan to add more IVF services, wherever possible in our existing hospitals and also in the upcoming new hospitals as well.
- During the quarter, the company recorded its highest ever revenue. The key operating metrics during the quarter have been resilient despite all the capex and challenges during the year. We have done well on maintaining the financial discipline. As I stated in the previous call, we sensed the probability of having a muted season and have kept sharp focus on all the cost line items to optimize the cost.

With these, I would like to dwell into the financial metrics for the fourth quarter.

In Q4 FY24, our revenue registered a growth of 7.6%, amounting to 341.1 crores. Similarly, our EBITDA saw an increase of 7.7%, reaching to 105.5 crores. And the PAT was down by 5.2% to 51.14 on account of higher depreciation and finance cost.

For the quarter under review, our occupancy rates stood at 48.5%, highlighting specifics our mature hospitals recorded an occupancy of 59.2%. Additionally, our new hospitals reported an occupancy of 32.1%, which includes the newly opened hospitals in Hyderabad, Bangalore, and Chennai.

Coming to upcoming projects update:

- The spoke Hospital at Hennur, Bangalore of 60 beds and the regional spoke Hospital, Rajahmundry in Andhra Pradesh of 100 beds, are progressing well, and expected to commence operations in Q4 FY25.
- For the regional spoke Hospital in Coimbatore the project work has just begun. It is expected to take about 24 months for completion.
- We have now received procession letters for both land parcels in Gurgaon, and working to get the conveyance read done probably in a couple of weeks' time. Simultaneously, we are in the process of finalizing the architectural designs and expect to do the ground breaking to happen in about three to four months' time.

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

- Our commitment to advancing coronary care has shown tangible results. In the last fiscal year, we successfully completed approximately 1,000+ cardiac surgeries, including cardiac cath procedures, along with 75 transplants, encompassing liver, kidney, and bone marrow.
- I would like to dwell on a couple of clinical cases, which were challenging ones. The five-year-old child was referred to Rainbow Children's Hospital, Banjara Hills, with a fulminant liver failure and a severe renal dysfunction. This child was ventilated with a liver support measure and the haemodialysis. We have evaluated for an urgent liver transplantation for a fulminant liver failure, but the donor, child's mother, there was

blood group mismatch, which poses serious problems during the transplant, that was mitigated with plasmapheresis and rituximab, which is an immunosuppressive agent, to prevent the rejection of graft-versus-host disease. The liver transplant was performed under great supervision by multiple teams. The child was very critical, and the preoperative and postoperative periods are very turbulent. However, the liver started functioning in a few days' time. That started improving the renal function as well and the overall general condition. The child was in ICU for 20 days and was discharged after six weeks very healthy.

- In another case, the 16-year-old boy from Nairobi, Kenya, came to our Heart Institute with a pumping heart, rather bouncing left chest after a blunt abdominal injury while playing football. The child underwent a stenotomy for left ventricular aneurysmal repair in Nairobi 10 years ago. Once again, after the abdominal blunt injury, he developed aneurysm again in the same place. Therefore, our cardiologists have taken a unique approach of closing the aneurysm through the catheterization. A VSD device was deployed angiographically across the mouth of the aneurysm, and the position was confirmed by an angiogram. Post-procedure, the pumping heart, the bouncing heart completely disappeared with a normal cardiac function. This boy was discharged in 48 hours' time.

With these cases, I want to emphasize the need of a multidisciplinary approach for testing in quaternary care patients for better outcomes.

In conclusion, the year was challenging but very eventful. However, I am optimistic and hopeful as we move to the next year. We have put in a lot of hard work to strengthen our operations, added leadership teams in corporate sales, projects, nursing, and learning and development. This foundation will help us to achieve growth in the coming year.

As we celebrate our silver jubilee year of providing world-class children's health care in India, I extend my heartfelt gratitude to our doctors, nurses, and the entire Rainbow family, along with the valued stakeholders and young parents who have contributed to the incredible Rainbow journey.

With this, I would like to pass the mic to our group CFO, Mr. Vikas Maheshwari, to take you through the financial updates. 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 fourth quarter and FY 2024.

- Our operating revenue for the quarter stood at INR341.1 crores, reflecting a growth of 7.6% when compared to the corresponding quarter of the previous financial year. For the full year, our revenue stood at INR1,297 crores, reflecting a growth of 10.5% when compared to the previous financial year.

- Our EBITDA for the quarter amounted to INR105.5 crores, marking a growth of 7.7% compared to the same period last year. For the full year, our EBITDA stood at INR428.9 crores, reflecting a growth of 8.2% when compared to the previous financial year.
- The EBITDA margins for the current quarter were 30.9%, while for the full year, our EBITDA margin was 33.1%.
- The profit after tax for the quarter is INR51.1 crores, with a degrowth of 5.2% in comparison to the corresponding quarter of the last financial year. The increased depreciation and the interest expense to the tune of INR7.9 crores, mainly towards the new units impacted PAT growth. For the full year, our PAT stood at INR218.3 crores, reflecting a growth of 2.8% when compared to the previous financial year. For the full year, the impact of depreciation and interest costs on account of new units was INR12.5 crores.
- In terms of operational performance, the outpatient and inpatient growth was 3% and 1% respectively for the current year when compared to the last financial year.
- The deliveries grew by 7% compared to the last year. For the year, the ROC and ROE are 29.6% and 18.8% respectively. It is expected to go up as the new units commence operation and deliver healthy growth.
- Our payor mix continued to remain robust and balanced for the quarter, where 53.3% of the revenue coming from the insurance and the balance 46.7% coming from the cash patients. For the full year, the pair mix stands at 49.4% cash patients and 50.6% from the insurance segment.
- Our international business was 2.5% of our total business for the fourth quarter and 3.4% for the full year. Our total international business for the year was approximately INR44 crores.
- I am pleased to inform that our company's balance sheet remains robust with net cash position of INR515.9 crores as of 31st March of this year and will support our ongoing capital expenditure plan as outlined by Dr. Ramesh, Chairman and Managing Director. Given our current cash flow and anticipated internal accruals in the coming year, we remain confident in our ability to complete all planned capital expenditures through internal accruals without any debt financing.
- For the quarter, the company has invested approximately INR50 crores in the capital expenditure.
- I am pleased to share that the Board has recommended the final dividend of Rs.3 for the year.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Banshi from JP Morgan. Please go ahead.

Banshi: Hi. Thank you for taking my question. My first question is on the IP and OP volume growth that we have seen this year. We understand this year was seasonally softer for us. But despite that, the volume growth of 1% and 3% both respectively for IP and OP seems very low. Is there any

other reason besides the seasonality? And how should we think about a steady state volume growth for our business?

Dr. Ramesh Kancharla: Thank you, Ms. Bansi. The last year was kind of a year, we rarely see. This kind of flattish year. Usually, during the Q2 and Q3, we do see about an average of 6% uptick in the occupancies, resultant revenues as well, in both these quarters. That's completely not seen in the last year, which is unusual.

What I have experienced in the last 25 years of my journey is: we do see that there is a period of three-four years run, and then there's a pause for a year time, and then it gets settled after that. So apart from these, some of the kind of seasonal plus the local factors like the floods and cyclones, we haven't seen any other factors that really impacted the admissions and occupancy.

Bansi: Okay, so assuming this year to be a normal year in terms of monsoons, should we then assume like a good mid-single-digit kind of growth in IP volume?

Dr. Ramesh Kancharla: Yes. If we go back and see, we've done the revenues fairly well for the year and business has come from the obstetrics, intensive care services and specialty services. If we foresee, that the season is going to be normal with monsoons coming at the right time and overall there are no other significant factors. I don't foresee it (any significant factors) because of the elections everything is done.

I would expect this year is going to come back to good occupancies and volumes, and on top of it, last year we've been pretty busy with building up the capacity. This year, single most focus is to build the business.

Bansi: Understood, thanks. And my second question is on IVF expansion that we've announced. We've done 11 hospitals now where we are providing the services. There's significant ramp up this particular year. So just wanted to understand, this category has always remained quite promising. So what prompted us to be aggressive this particular year?

Are there any changes in regulation that has come through, and how should we think about this opportunity say over the next four to five years, how meaningful can it be for Rainbow? And what kind of investments will be required for you to grow this business?

Dr. Ramesh Kancharla: Okay. As we are building more and more spoke hospitals in Hyderabad, Bangalore, Chennai and Andhra Pradesh, we have seen is that our obstetrics volumes, delivery and outpatient numbers are going up significantly. So, the IVF will naturally grow within the system.

The patients have a lot of trust in us in terms of the woman's care. IVF addition at this point of the time, we thought and we deliberated and it started to make sense. We have our own captive population who are coming to Rainbow and also the people who are expecting to have a very ethical IVF. Look at all the centres this is what we have built.

We have not done any standalone IVF centre. They've all been built in the existing hospitals. This is the approach we want to take, because we have 19 centers. We would try to do or add IVF centre wherever the opportunity is good. We would like to see the ramp up of the fertility

services. That is the conscious decision we have taken. And we are optimistic about the growth of IVF services within the gamut of Rainbow.

Bansi: And in terms of investment, sir, if you can call out, what are the kind of investments are we looking at?

Dr. Ramesh Kancharla: I think IVF generally when people do it, it's a very cookie cutter model. It's about 1.25 Cr to 1.5 Cr per centre. But when we are doing within the hospitals, especially the new hospitals or existing hospitals, we have done it as an inclusive. And when you look at our centers, I mean, the quality-wise, they're very well taken care.

So, I would say that it's going to be kind of probably 1.5 Cr to 1.75 Cr. I don't have an accurate number at the moment of how much capex we have invested, because they always go together along with the overall unit development rather than a separate capex (for IVF), a separate space. Because space is already there and we try to re-organize ourselves to fill the spaces within the existing facilities.

Bansi: Okay. And fair to assume this would be very profitable?

Dr. Ramesh Kancharla: Yes, I think so. You'll have to see that probably a year down the line when we'll have experience to let you know that what are the profitabilities in IVF. Because at this point of time, we are looking to build this like normally a full-time doctor engagement model. We are recruiting the doctors who are well-trained and can build their capabilities in IVF and with good results. That's what we're focusing on now. I think as we pass the year we'll know what is the kind of profitability is there in the IVF.

Bansi: Got it. I have more questions. I'll join back the queue.

Moderator: Thank you. The next question is from the line of Damayanti Kerai from HSBC Securities and Capital Markets, India Private Limited. Please go ahead.

Damayanti Kerai: Hi. Good morning and thank you for the opportunity. My first question is on your payor mix. So now insurance is more than 50% of your total payer mix. So do you see more headroom to grow it? And if you can also update us if you are done with tariff hike and rate negotiation for the cash as well as insurance channel?

Vikas Maheshwari: Damayanti, it's a good question. For the quarter, we have seen the uptick of the insurance business, which is around 53%. And for the full year, it's almost 50-50 with cash and insurance. But since our penetration is increasing in Bangalore, Chennai and Hyderabad, and which are more of, you know, formal economy is very great here and a lot of overseas companies and the domestic companies which are setting up their service centers, we expect it to keep on increasing. Also, the awareness about the insurance in particular we have seen is going up.

So we expect that, yes. It should see some uptick going forward. But let us wait and see how it progresses quarter-on-quarter.. As far as the renewal of GIPSA and the cash insurance tariff is concerned, it is an ongoing process. And then as and when those tariff are due for renewal, we

keep taking it up with the insurance companies and finalize the tariff. So this is what the status as on date, Damayanti.

Damayanti Kerai: So your renewal cycle is only two years, right?

Vikas Maheshwari: Correct.

Damayanti Kerai: **that's** when you renegotiate your tariff, etcetera?

Vikas Maheshwari: Correct.

Damayanti Kerai: Okay.

Vikas Maheshwari: Generally, it is taking longer period for the finalization nowadays because between both parties, there is a push on the tariff side. So, it is taking a little longer cycle though it (tariff renewal) is due for two years. But our team is working on that, and we are finalizing as and when we feel that it is a good tariff to close.

Damayanti Kerai: Okay. And this cash part, do you take first of April every year or there is any other cycle? How does that cash division work?

Vikas Maheshwari: On cash tariff, we keep evaluating our cost structure and the market pricing and based on both the components, we take a call. It is not necessary that it should be the year beginning exercise. It can be a mid-year exercise. As and when the demand requires to react on that, we react on that. We have a tariff committee who keeps looking at the cost and the pricing and the pricing which our competitors are charging. And based on that assessment, the committee takes a decision on that.

Damayanti Kerai: Sure. And then I guess we have seen very strong growth in the ARPOB numbers across the quarter for last fiscal. And I believe the majority of this is driven by this improving penetration in the insurance channel. Do you attribute case mix to be a big contributor there?

Vikas Maheshwari: Mostly the case mix, we have witnessed that our quaternary and tertiary care business has gone up where the ARPP is higher. Obviously, ALOS also plays a role in deciding the ARPOB. But what we have seen on an average, the quaternary care business has gone up in the last year. And that is why we are seeing the uptick on the ARPOB. Obviously, there is some impact of price increase which we have taken in between, but mostly from the tertiary and the quaternary care which has gone up.

Damayanti Kerai: Okay. And just to confirm, this price hike which you take is in single digit, right? Maybe a lower single digit which you might have taken. And then next year...

Vikas Maheshwari: Actually, the inflation adjusted between 5% to 7% Damayanti.

Damayanti Kerai: 5% to 7%. Okay. And my final question is on your strategy for international patient segment, so around 3.4% which you mentioned for FY '24. So do you have any target for next two to three years which you would like to achieve?

Dr. Ramesh Kancharla: Damayanti, this (International Business) is a fairly nascent initiative. However, we have done fairly well ~3.6% of revenue last year. We expect to do about 5% for the current year FY'24-25. This is how we look at it. So, what we are trying to do is to engage more with the governments the African and neighbouring countries and those things.

Second initiative we want to do is to get connected to more and more doctors. Children's business is always better to connect with the doctors. If the doctor starts helping you, that becomes more organic.

So, this is what we have been trying to do rather than trying to go and get the business through the intermediaries. This is what our long-term focus is for now. Being a super specialty children's hospital, we will try building our reputation and brand across the Indian neighborhood and also in Africa and the Middle East and parts of the country. It's a long journey, but I think that's going to be more sustainable and going to be more organic. That's our view of the international business. However, we expect about 5% business in FY24-25.

Moderator: Thank you. The next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: Hi, good morning. My first question is on the new hospitals operationalized this quarter. So what was the EBITDA loss from these new hospitals? And also, what was the occupancy and ARPOB? And how soon do you expect breakeven from this?

Vikas Maheshwari: Hi, Nitesh. The three units which we have opened at three cities respectively, were opened in the last quarter. And the EBITDA losses was in the range of roughly INR 5 Crores to INR 6 Crores from these units. And as far as the occupancy and the revenue, I think this is very early stage to judge and give any comment on that.

From our side, whatever the clinical side and the doctor's side is required, the recruitment, etcetera, we have done that. We are also seeing some progress on the revenue ramp-up across all the three hospitals. But let us wait for another quarter before we give any judgment on that, how we feel about these three hospitals, ramp-up and guidance on that.

Nitesh Dutt: Sure. Second question is the mature hospitals in Q4 had a higher occupancy versus in Q3. So what was the reason for this occupancy increase? Because overall the occupancy has gone down?

Dr. Ramesh Kancharla: Yes, that's correct. As you know, our business is a little cyclical business. And the quarter second is generally going to be the best quarter. And quarter three and quarter four, successively comes down.

But if you look at our peak quarter, which was the September quarter, and the March quarter is more or less a flattish one. So that is what we are seeing. And second, we have added a few beds, right? We have in our unit, which is the matured hospital, we have added 50 beds there. So, the impact of that is also reflecting on the occupancy.

Nitesh Dutt: Just asking that Q4 should be a lower quarter in terms of occupancy. But actually for mature hospitals, occupancy in Q3 was 57%. In Q4 it is 59%. So just trying to understand the seasonality pattern. And it's not repeating for mature hospitals, but occurring for new hospitals?

Dr. Ramesh Kancharla: Yes, the variability is not that significant (this year) to be honest. I think that, it's probably that occupancy is slightly more because of the Hyderabad and the Andhra cluster as they have clocked a little more occupancy, which is why we are seeing a little uptick in the occupancy compared to the last quarter.

But overall when you look at it (Q4 FY24 Vs Q4 FY23), the last year (Q4 FY23) was a completely different year with a lot of viral infections and the occupancy was kind of all over, it was very high in the last year at a group level.

Nitesh Dutt: Got it. And so when this normalizes, assuming occupancy has come back in FY '25 and seasonality pattern also comes back, so will our case mix be getting back to earlier levels? So meaning the ARPOB that we are seeing currently, do we expect it to come down for FY '25 if occupancy comes back?

Dr. Ramesh Kancharla: See what happens in our business, we expect our case mix to improve year-on-year in terms of the specialty services, obstetrics, intensive care services as well as quaternary care. That is the trajectory we would like to see. The occupancies will actually vary because of the seasonal business, which is secondary care, which is more of pediatric admissions, the season related admissions and those things.

That (Secondary admissions) will give a bump up of the occupancy. Usually you see in the Q2, Q3 with some variability. When you have this blend, what results in is higher outpatient turnover and higher overall occupancy levels and you may have noted that. If you see we had a 14% ARPOB growth because there's not much of a seasonal business this year. When you have a lot of seasonal business, ARPOBs will get kind of marginalized to an extent.

Our regular business was pretty good last year but the seasonal business was muted. As for expectation this year, we expect normal rainfall and more of a regular year. We will have higher occupancies, we would expect occupancy of about 55% at the year level. That will give us a both a blend of good complex business as well as a seasonal business and also higher outpatient volumes. Overall results in higher occupancies, higher revenues and a better EBITDA.

Nitesh Dutt: Correct. Thanks for that, sir. Any expectations of guidance for ARPOB for FY '25?

Dr. Ramesh Kancharla: I think last year, when we look at it, we have taken most of the insurance price hikes. (negotiations have been done and the price optimization, the price hike has been taken). Last year significant complex business has happened. We expect a lot of seasonal business (this year), then our ARPOB maybe may stay the same or may actually be a kind of a plus or minus 1%.

I'm not looking at the ARPOB growth this year. We would like to see the growth in numbers, both in IPs and OPDs and overall occupancies. That's what I would look at the trajectory this year.

Moderator: Thank you. The next question is from the line of Karan Gupta from Varanium Capital. Please go ahead.

Karan Gupta: So my first question is regarding seasonality. I'm not able to understand the seasonality part because last year, first quarter, we said there was the holiday of doctors. So we were down in the quarter one. In the second quarter, we were seeing that there is a heavy rain in the southern part of India. So we were down.

In the third quarter, we had festivals. So that's why the seasonality part will come. And the fourth quarter, so what is the seasonality part? You said quarter two and quarter three were down last year because of the seasonality. And now you're seeing quarter three and quarter four. So just say the seasonality and what's the reason behind that?

Dr. Ramesh Kancharla: Yes, Mr. Gupta. Actually, we are a children's hospital. We don't do government business, CGHS, state government programs, any of those things. We are purely a private hospital. Therefore, most of our business is very organic. In the children's hospitals, we have three different types of businesses.

One is the regular pediatric business and outpatients plus regular inpatient admissions. Number two is the intensive care services. Number three is specialties and the quaternary care services, which includes all the super specialties, neurology, gastroenterology, nephrology, plus organ transplantation, all that stuff. And number four is the other part that is significant is the Obstetrics and gynaecology.

What affects the seasonality to a large extent is the pediatric admissions which are kind of pneumonias, fevers, viral illnesses, dengue, whatever is a whole bucket of season, monsoon-related or winter-related viruses, which makes the community become sick.

Children are more vulnerable and prone so they require a greater number of admissions. That's what it is. As a result, sometimes because of the heavy load of seasonal illnesses, some of the children become more and more sicker. They require intensive care services. Therefore, the intensive care services also become busier because of some encephalitis, meningitis, this kind of a serious illnesses. So that usually happens from July till December, which is Q2 and Q3. *(Q3 was inadvertently stated as Q4 over call. Regret the error)*

Q1 is actually April, May, June which is the holidays for children and parents and everyone. People go out of cities, and it's fairly healthy season as well. You don't see people falling sick. What do we do in that kind of time? During those times, we did a lot of children's surgeries, ENT surgeries, pediatric surgeries, and obstetrics and gynecology. They take the lead, and also cardiac work and transplant work both take the lead.

So occupancies will be lower in these things because of the absence of seasonal illness and also people going out of the town. And the Q4, again, is going to be kind of January to March. Generally, this period is marked with a fairly healthy season. And in March, exam starts, people start preparing for exams. In Q4 also not so much of higher outpatients or inpatient admissions will be there, there are routine admissions. This is how overall our business takes a varied pattern. The Q1 and Q4 are lower. Q2 and Q3 are higher.

- Karan Gupta:** Okay. Second, as related to our patient acquisition part, what's the update you were seeing in the last quarter that small mother and care children hospitals, we were approaching that those hospitals don't have much specialty treatment, so they will refer to us. So what the steps you are taking in and any advertisement or this kind of thing you are doing for the patient acquisition that we are providing the best services for the children care so patients will attract to us? Anything like that?
- Dr. Ramesh Kancharla:** See, our positioning is still different. We are not a mother and baby hospital or mother and child hospital. We are children's hospital. We also have a significant maternity. That bucket is Birthright, by Rainbow. It is perinatal service. So our face is children's hospital. Our drive is children's hospital. We have 24/7 children's services, 24/7 emergency services and 24/7 transport services.
- That's why people know us as a children's hospital. I think that's what our positioning is. We don't conflict with the boutique centers like delivery centers and the birthing centers. I think there is absolute clarity in the southern part of the country and also Delhi people know very well what the rainbow children's hospital is for.
- Karan Gupta:** Okay. My question was if we are approaching to small mother care hospitals that don't have much specialty treatment. So if the hospitals, those who are just giving birth to the babies? So if there are any critical illness happening to the children that they don't care.
- Dr. Ramesh Kancharla:** We do get referrals. We do get referrals from mother and baby hospitals. We do get referrals from small children's hospitals. The services we offer are level three, level four, newborn and pediatric intensive care services. Obviously, if someone is short of it, they will refer the patients. Our patients themselves are very clever nowadays. They know where to go. When a child is sick beyond the point, when the baby is sick particularly when it's a smaller baby, less than one kilogram, they know that what is kind of a way to go.
- So, there are two ways it happens. The hospital refers and also a lot of times the parents themselves decide to come over. They come and take opinions. They come and talk to us. They come and see. Then they make a decision.
- Karan Gupta:** Okay. Yes, thanks for the answers.
- Moderator:** Thank you. The next question is from the line of Abhay Sahukar, an individual investor. Please go ahead.
- Abhay Sahukar:** Hello. Good morning, My question is on the growth side of the business. Let's say in FY'22 and 21, our base was very small, and we were growing at all 20, 20 plus growth in the top line. But after Q2 of FY'23, our revenues are really growing at 8% to 9%. So what growth can we expect in the top line and the bottom line for the coming years?
- Dr. Ramesh Kancharla:** I think we need to see that our growth is probably going to be in mid-teens. This is what we would expect. If we do mid-teens revenue growth, then automatically the bottom line will follow that.

Abhay Sahukar: Okay. Can you quantify the number in the future growth?

Dr. Ramesh Kancharla: I think, see, as we move forward the organization is becoming larger, and we continue to add new beds. We have added almost about 400 beds or something in the last two years' time, and we have about another 600 in the pipeline for the next three years' time. The organization, the hospitals are in the building stage and therefore growth is an important factor and also the margins and we are fairly cognizant about these.

We have always given our guidance of where our margins are going to be. But it depends on sometimes how much new capacity is coming in. That (Capacity addition) will definitely moderate to an extent the margins.

So therefore, we'll continue to grow about 15%, 18% on revenues and the bottom line closely follows it. This is how we have been very disciplined in terms of our growth versus the top line and bottom line. This is the discipline we've always followed. We continue to follow that but at the same time the nation needs a larger footprint of children's hospitals and building that is also very important.

Abhay Sahukar: Okay, great. So my next question is on the network of our brand record in the Chennai. So what are we going to improve or make our framework strategies to improve our brand record in the Chennai and Andhra Pradesh?

Dr. Ramesh Kancharla: I think in South we are a pretty household name in Telangana, Andhra Pradesh and in Chennai. I won't say that entire Tamil Nadu but in Chennai and Bangalore, in these areas the brand recall is pretty high. There are two ways of going about it. One is inclusivity with the doctors. Being a children's hospital, our inclusivity is mostly with the pediatricians. That's one group of that.

But, generally for the public awareness, I think nowadays whatever you do ADL, BTL, they're not really going to work very well. It's more of digital now. And one of the things, recently we started doing more and more is suppose in Chennai, the digital media in the local language Tamil is very strong.

So, we are trying to be more regional, speak in the regional language than a at a national level. When you go in Chennai, we should do the Tamil more. And similarly, do more of Kannada in Karnataka. So, this is a lever which we are actually taking it more strongly now.

Abhay Sahukar: Thank you so much. That's all from my side.

Moderator: Thank you. The next question is from the line of Dhara Patwa from SMIF Limited. Please go ahead.

Dhara Patwa: Thank you for the opportunity. Just one question, sir. My question was an IVF unit. Usually it is a non-invasive procedure and a daycare procedure. So do you think the capex of INR1.5 crores to INR1.7 crores per bed is quite high? So is the cost higher on the clinical talent side or on the infrastructure side? Thank you.

Dr. Ramesh Kancharla: We look at the board. We are a quality hospital. We always look at our services to be futuristic. I mean whatever the hospitals we build, whatever we do, the standards are going to be looked at very differently. So as I told earlier, I don't know what is the exact amount for the IVF specific. It is difficult to delineate also because we are doing it as a part of our existing space. If I do it standalone then I know exactly the capex. It is difficult to pinpoint the exact amount for IVF. When you look at the capex for the equipment, yes, you can do that.

When you do an interior environment, it has to be a Pari-passu for the rest of the hospital. It can't be downgraded. The standalone IVF centers are very different. They can take whatever the approach they want to take it, but unfortunately being a hospital and also the level of the significance of building a good hospital for children and women's care has always been a higher standard for us.

Dhara Patwa: Sure, sir. Thanks.

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

Alankar Garude: Hi, good morning, everyone. Sir, can you provide some qualitative comments on the performance across Bangalore, Chennai and the Madhukar Hospital in FY24?

Vikas Maheshwari: Hi, Alankar. As far as Bangalore and Chennai is concerned, I will say compared to the Hyderabad standards, the Bangalore has picked up well. All the three units are working fine, doing good. The new unit which we have opened at Sarjapur has seen a very good traction. It is growing as per our expectations. So that cluster is doing very well. And we expect that as we ramp up our operations there and grow more units in the future, I think the brand recall and the growth will be similar to what we are seeing in Hyderabad or slightly less than what we are seeing in Hyderabad.

As far as Chennai is concerned, that is the cluster which is slightly below our expectations. But the team is working hard on the ground. We have seen some change in the leadership there, putting up more effort on the marketing and sales there. And we expect that this year it should see the performance as per expectations. So this the brief commentary on the cluster.

As far as Delhi is concerned, again, we have put up a lot of effort on that. And for the March quarter, I will say the benefits are not being seen much there. But hopefully in this year, we will see the good traction coming up for whatever the seeds we have shown in the last one year, the efforts which we have taken, that should start showing some results.

Alankar Garude: Thank you for that, Vikas. And just to follow up on Madhukar, what is the outstanding amount now? And safer to assume that the hospital is making EBITDA margins in the range of early double digits even today?

Vikas Maheshwari: It is a high single digit, Alankar on the EBITDA margins and is improving. If I say whether the performance has improved versus last year, the answer is yes. And they have been able to pay the loan. So as on date 31st March, the loan outstanding was roughly INR20 crores -21 crores.

So they have paid some INR5-6 Crores in the last year. Whatever the EBITDA they have generated, we have taken it back.

Alankar Garude: Understood. The second question is, so we have two land parcels in Gurgaon. I know it's a bit early, but do you broadly plan to commence operations at both the hub and spoke around the same time? And if it's yes, would that be a slight deviation from your usual strategy of opening a larger hospital first and then adding spokes?

Vikas Maheshwari: Alankar, it's a good question. Now we are seeing the light at the end of the tunnel as we have got the possession letter. We have paid for the registration fee and we expect it to get registered in a couple of weeks. Hopefully, we'll get it done. At the same time, the management has also appointed the architect, the conceptual design, etcetera, work in progress. And we expect it to have a ground breaking in three to four months' time.

The effort is that the first our smaller hospital which is the spoke hospital be up and running. So the effort is that we should start that. And within six months of that time period, the hub hospital should also be ready up and running. And so that is what we are planning as on date for this. As far as your questions regarding the first start hub and then a spoke, I think that this spoke hospital will be also be a large hospital. And then it is good to go if it is ready ahead of the time (hub), right? We already have some presence in Delhi market.

Dr. Ramesh Kancharla: Well, Alankar, as we earlier guided the large (hub) hospital is going to be 300 plus beds and is going to be a standalone pediatric super specialty hospital largely focused on the tertiary and quaternary care. This is how we want to look at it. Like how you look at the proper adult multi-specialty. Maybe a little more focused one. That's what as a doctor, what I've been running the healthcare 25 years. I see that opportunity. I see that the country requires. That's number one.

The hub hospital is not going to be focused for Gurgaon alone. That's going to be focused for the north, perhaps for India, and also for the international. So the positioning of the hospital is going to be very, very different. The second thing is that, you know, the spoke hospital, another one on the Gulf course road, which is going to be about 125 beds hospital. So that will be for large intensive care and obstetrics, large obstetrics, and large newborn intensive care,

It's mainly a place here, significant role for the Gurgaon and also expanding portions of the Gurgaon and Faridabad and those areas. So this is how we would like to position that. We don't want to have too much of a confusion between the children's hospital of high standard or children's super specialty hospital of more focused approach. This is how we envisage these two hospitals.

Alankar Garude: And one, finally, one suggestion, given that we now have a sizable number of hospitals, 19 in number, which are largely across four major clusters, it would be really helpful if we can start providing the financial and operating metrics across clusters. This mature and new hospital, that number keeps on changing and that issue will only get exaggerated as we keep on adding more hospitals. So for a like-to-like comparison, it would be really helpful if we get more details on each of these clusters?

Dr. Ramesh Kancharla: We will review and see how it can be done. Because one of the reasons what we see is the clusters which are maturing.

In Chennai's we have added one more spoke recently. There's going to be one more spoke as we move forward. Bangalore requires more spokes. we are continuously building our capacity. I always believe in this, that in the Hub and spoke model for children's hospital, capacity building is important. That is how actually you're able to cover the city at large and also provide wider coverage of the city for children's emergencies. That is the vision of Rainbow.

So, which is why we always felt that mature and new hospitals bucket probably makes more sense in terms of presenting to the investors and analysts. We will review once again Mr. Alankar and see what's right at the end of the day.

Alankar Garude: Sure, sir. Thank you.

Dr. Ramesh Kancharla: Thank you.

Moderator: The next question is from the line of Harsh from Bandhan AMC. Please go ahead.

Harsh: Just two quick questions. One, between matured and new hospitals, just from a fourth quarter perspective, the ARPOB improvement, and this goes back to the comment that you made, that there's some level of case mix improvement as well as the pricing. So you have the quaternary and specialized care mix improving.

I'm just trying to understand whether only new hospitals are seeing a significant level of case mix improvement and the pricing component is substantial for matured hospitals or it goes both ways. As in matured hospitals are also seeing, continue to see a lot of case mix improvement as well as pricing. I'm just trying to understand the split of that ARPOB improvement?

Dr. Ramesh Kancharla: I think what's important is what category of hospitals. Is there difference between a hub hospital and the spokes?

The spokes as they mature definitely will have better realization because you have a lot of outpatients and it keep building up, which is a significant part of our revenue, number one. Number two is that as we move forward, the ARPOB may not increase significantly as there is limited variability in the spoke hospitals.

When it comes to the hub hospitals, ARPOB may play some role because the case mix in the higher category improves. That's how we look at it. So it varies between the hub and spokes, but at the same time, when you see ARPOBs between the hub and spoke, the variability may be about 5%, not very significant because the spokes does a lot of turnover.

The ALOS will be shorter much shorter (at spoke hospitals) than hub hospital. And the outpatients are one and a half fold higher than hub hospital. So these are the factors which actually make sense. It creates a nice blend between the hub and spoke. We wouldn't have so much of variability of the ARPOB (between hub and spoke hospitals).

Harsh: And on previous comment on insurance pricing, just to clarify, you are expecting some insurance contracts repricing to pick into FY'25. I understand that there will be multiple moving parts to this, but you are awaiting insurance pricing in certain contracts and certain regions. Is that correct for FY'25?

Vikas Maheshwari: Yes. It's a time cycle when it lands for the renewal. When these contracts keep coming for renewal, we keep doing it. So it's an ongoing process. Every quarter there will be something for the renewal.

Harsh: Sure, sir. Thank you.

Moderator: The next follow-up question is from the line of Nitesh Dutt from Burman Capital. Please go ahead. Hello. Nitesh, your line has been unmuted. Please go ahead with your question.

Nitesh Dutt: Hi. Thanks for the opportunity again. So my question is on, I am trying to deconstruct our revenue into ARPOB and occupied bed days. So when I look at our occupied bed days, basically a multiplication of the total operational beds and occupancy for FY'23 and FY'24, the occupied bed days have gone down by 3%.

But at the same time, our inpatient volume has gone up by 1%. So just trying to understand what's the discrepancy here. Am I missing something?

Vikas Maheshwari: No. Your calculation is 100% correct, Nitesh. What is the function? See, the ARPOB is a function of multiple things. What you have to see What is our payor mix, case mix, and what is operational efficiency, which is ALOS. So, if you consider this ALOS also into the picture, I think that will give you a better picture.

Our ALOS has slightly come down from last financial years from 2.76 days to I think, 2.65 days. So that is one major portion which plays on that part.

Nitesh Dutt: So ARPOB is clearer. It's trying to understand on the volume aspect, right? So revenue is a function of ARPOB and occupied bed days. So ARPOB has gone up by 14%. Our revenue has gone up by 10-odd percent, and bed days have gone down by 3%, 3.5%. But at the same time, the volume of patients have increased. So inpatient volume has increased by 1%. So just trying to understand on that?

Vikas Maheshwari: So what we have seen that our ARPP per patient was gone up by roughly 8%. So that is also one kicker, meaning the high quaternary care work and the tertiary care which we are doing.. So if you look, I think we are not publishing that information, but our IP-ARPP was roughly INR 94,000 last year, which has gone to roughly INR1,01,000 in this year.

So which reflects off, as we are saying is a high quality and tertiary care. 8% increase in IP-ARPP. Though the volume was down (*IP volume is up 1% in FY24 compared to FY23*), but the revenue growth has come because of the higher ARPPP.

Nitesh Dutt: So I think what you're talking about average revenue per patient, that gets taken care into ARPOB?

Vikas Maheshwari: So there is an OP-ARPP also which comes. That has also seen some uptake last year by 9%. So that is also one factor which comes on that factor.

Nitesh Dutt: Got it. Thanks.

Moderator: Thank you. We'll take this as a last question. And I'll hand the conference over to the management for closing comments.

Vikas Maheshwari: Thank you very much for asking right questions and picking up a few insights for us. We expect to connect with all of you for the quarter one FY'25 conference shortly. Thank you everybody for joining us. 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. Thank you.

Vikas Maheshwari: Thank you.

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