"Rainbow Children's Medicare Limited Q2 FY25 Earnings Conference Call"

October 28, 2024

Call Duration	1 Hour and 1 Minute
Management Speakers	• Dr. Ramesh Kancharla – Chairman and Managing Director • Mr. Vikas Maheshwari – Group Chief Financial Officer • Mr. Saurabh Bhandari – Head Investor Relations & Group Business Analyst
Participants who asked questions	• Ms. Damayanti Kerai, HSBC Securities and Capital Markets • Mr. Bino Pathiparampil, Elara Capital • Mr. Sumit Gupta, Centrum Broking • Mr. Rahul Jeewani, IIFL Securities Limited • Mr. Ritesh Shah, Lucky Investment • Mr. Alankar Garude, Kotak Institutional Equities
Moderator	• Mr. Rahul Jeewani - IIFL Securities Limited

Moderator: Ladies and gentlemen, good day and welcome to the Rainbow Children's Medicare Q2 FY25 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Jeewani from IIFL Securities Limited. Thank you and over to you, sir.

Rahul Jeewani: Yes, thanks Sejal. Hi, good morning everyone. I welcome you all to the second quarter earnings conference call of Rainbow Hospitals hosted by IIFL Institutional Equities. From Rainbow, we have with us today Dr. Ramesh Kancharla, Chairman and Managing Director, Mr. Vikas Maheshwari, Group CFO and Mr. Saurabh Bhandari, Head Investor Relations and Group Business Analyst. Over to you, sir, for your opening comments.

Dr. Ramesh Kancharla: Thank you, Rahul. Good morning, everyone and a warm welcome. It's a privilege to address such a distinguished group to discuss the earnings for the second quarter and the first half of the financial year 2024-25, reflecting on our company's progress, vision and exciting opportunities ahead.

In a rapidly evolving landscape, our commitment to innovation and excellence remains steadfast. Today, I will share insights into our recent achievements and the strategic initiatives. I believe that transparency and open dialogue are key to fostering trust and collaboration with our stakeholders.

As we reflect on the second quarter, I'm pleased to report that we have made a significant stride in several key areas. Here are the highlights of the second quarter and the first half of the year.

- We have strengthened our hub-and-spoke model further with the addition of the new hospitals commissioned in the past year. They have progressed impressively, reaching operational stabilization, standardization and integration into the Rainbow operating model. We believe this will not only enhance our operational effectiveness as a group, but also strengthen our position as a leader in children's health care.
- As expected, we have come up with a strong performance in the current quarter with a growth in all key operating metrics across the group including newly opened hospitals in Hyderabad, Bangalore and Chennai.
- The progress in our IVF services has been notably promising, gaining significant traction. We are optimistic about sustaining this momentum and achieve further growth in the IVF segment in the coming quarters.
- We have maintained a strong emphasis on the cost management, ensuring that we optimize our expenses wherever possible. This disciplined approach has been crucial as we manage the additional cost of our newly operating hospitals while maintaining our group's profitability. As a result, we achieved our highest quarterly revenue, EBITDA and PAT figures along with the positive patient feedback.

- We are facing some challenges in international business, particularly in some countries such as Bangladesh, Oman, Kenya and Sudan because of geopolitical situations. These countries have significantly decreased the issuance of health permits for patients pursuing medical travel. In response, we are actively pursuing with the health authorities of these countries and simultaneously we are also exploring opportunities in other potential markets.
- We have largely a retail brand named Butterfly Essentials, a specialized retail store designed to cater to the unique needs of women and children. Butterfly products aim to transform the retail experience within our hospital facilities for customers by offering a wide selection of items that prioritize organic and natural ingredients for mothers, babies and children. In the first phase, we plan to open Butterfly Essentials stores in most of our existing facilities.
- I would like to bring something different now with most fascinating sequence of events in human life is in early childhood development. Any aberration would result in long-term consequences in neurodevelopmental milestones. We are witnessing a significant increase in childhood developmental and behavioral problems. We recognized the need for a comprehensive child development center to support these children. We have set up an 8,000-square-feet state-of-the-art comprehensive child development center adjacent to a cardiac center in Banjara Hills Hyderabad is expected to launch on 14 November, Children's Day aligning with our Foundation Day.
- Our steadfast commitment to quality has allowed us to provide outstanding clinical and patient care. In line with this dedication, our Vishakhapatnam Rainbow Children's Hospital has recently achieved NABH accreditation. With this, 13 of our hospitals are NABH Accredited and three have earned JCI Accreditation. Notably, we are the only Paediatric hospital chain in the country with three JCI Accredited hospitals facilities.

Now, delving into the numbers for Q2 FY25, our revenue registered a growth of 25.5% amounting to INR417.5 crores. Simultaneously, our EBITDA increased by 25.1%, reaching INR147.1 crore while the PAT registered a growth of 25.1% to INR79 crores. I'm happy to share that all these growth numbers of 25% realign with our Silver Jubilee Year.

Our overall occupancy rate for the quarter was 59.9% with the mature hospitals achieving 68.6% occupancy and the new hospitals including the recently commissioned hospitals in Hyderabad, Bangalore and Chennai recording a 43.2% occupancy rate.

Coming to the update on upcoming projects,

- The project work of our regional hub hospital in Rajahmundry Hospital, 100 beds is progressing quite well and is poised to commence operations by March of 25.

- The spoke hospital in Hennur, Bengaluru which is a 60-bed hospital is expected to be delayed due to the conflicts between the landlord and the builder. However, all these issues have been sorted and now the hospital looks to be commissioned by end of a H1 FY26.

- The project work for our regional hub hospital Coimbatore of 130-bed hospital has just started and is expected to be completed in 24 months' time.

- On Gurgaon projects, we have submitted the drawings to HSVP for building sanction approvals for sectors 44 and 56. We are waiting for the approvals from HSVP to start the project work.

- We signed a lease agreement for a 90-bed Brownfield Spoke Hospital, a rapidly growing population in Electronic City, Bangalore City. This building is in the final stages of construction. We shall commence the interiors very soon and we expect this hospital to commence operations by Q3 FY26. With this, it will be the sixth hospital of Rainbow Group in Bangalore City.

Beyond our growth plans, I would like to highlight some of our significant achievements that underscore our dedication to pediatric and perinatal healthcare excellence. During the last six months, we have treated a lot of sick children in pediatric intensive care and as well as pediatric subspecialty children. I would like to discuss a couple of such cases.

- A 21-month-old child was diagnosed with a spinal muscular atrophy. It's called SMA. It's a rare genetic condition, which carries a significant developmental delay. It delays motor milestones, especially. The treatment to this genetic condition includes administering ZOLGENSMA. It's an expensive gene therapy drug, which costs up to INR14.5 crores. This child was very fortunate to have financial support from a large Indian public sector company and its employees to raise a full amount to support this child. Our pediatric neurology team at Rainbow Children's Hospital, Secunderabad, led by Dr. Ramesh Konanki, one of the top experts in the country with a large experience in treating spinal muscular atrophy. This child received gene therapy under special clinical circumstances. The follow-up of this child following therapy indicates the child is gradually improving motor skills and approaching independent walking.

- In another case, there is a two-month-old child who has been having breathing difficulties since birth. A 2D echocardiogram revealed a right ventricular outflow obstruction, a mass which is adjacent to the pulmonary walls causing the obstruction. This baby required an open-heart surgery at two months, discovered a large mass occupying almost 90% of the right lower heart, which is one of the chambers, right chambers, and obstructing the outflow of the blood flow. The cardiac surgical team could meticulously extract and remove the entire mass, and the baby made a full recovery in a weekdays' time. The histopathology of the mass demonstrated is rhabdomyoma. Rhabdomyomain children is fairly benign, and we expect this child to lead a normal life.

  These cases emphasize the importance of a multidisciplinary approach for tertiary and quaternary care for children to achieve better outcomes.

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

With that, I will now pass the mic to Group 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 with us.

Vikas Maheshwari: Thank you, sir. A very good morning to all of you, and thank you for attending this investor's conference. I'm pleased to brief you on the financial performance and the key developments of Rainbow Hospitals for the second quarter and first half of financial year FY '25.

- Our operating revenue for the quarter stood atINR417.5 crores, reflecting a growth of 25.5% when compared to the corresponding quarter of the previous financial year. For H1, our revenue stood at INR747.6 crores, reflecting a growth of 20.6% when compared to the H1 of the previous financial year.

- Our EBITDA for the second quarter amounted to INR147.1 crore, marking a 25.1% growth compared to the same period last year. For the H1, our EBITDA stood at INR240.8 crores, reflecting a growth of 17.3% when compared to H1 of the previous financial year. Our EBITDA margin for the current quarter is 35.2%, while for H1 our EBITDA margin stands at 32.2%.

- The profit after tax for the quarter is at INR79 crores, marking a growth of 25.1% in comparison to the corresponding quarter of the last financial year. For H1, our PAT stood at INR118.7 crores, reflecting a growth of 13.5% when compared to H1 of the previous financial year.

- In terms of the operational performance, both outpatient and inpatient volume increased by 20% and 22%, respectively, when compared to the corresponding period of the last financial year. Deliveries grew by 12% compared to the corresponding period of the last year.

- Our payor mix continued to remain robust and balanced with 52.8% of the revenue coming from the insurance and the balance 47.2% coming from the cash patients. For the H1, the payer mix stands at 47.7% cash patients and 52.3% as insurance patients.

- Furthermore, I would like to inform you that our international business now constitutes approximately 2% of our total business for the second quarter. As highlighted earlier by our CMD, we are facing some challenges in the international business and working on this simultaneously.

- I am pleased to inform that our company's balance sheet remains very robust with a net cash position of approximately INR580 crores as of September 30th of this year and will support our ongoing capital expenditure plan. Given our current cash and anticipated internal accruals in the coming years, we remain very confident in our ability to complete all the capital expenditures through internal accruals without any debt financing.

- During the quarter, the company has invested approximately INR23.4 crores in the capital expenditures.

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

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

Damayanti: Hi, good morning and thank you for the opportunity. So my first question is on your plan for child development center. So can you talk a bit more about this new initiative in terms of what kind of demand you are seeing in the market? Say, out of 1,000 children, how many might require this sort of treatment? So any color on this new initiative will be very helpful.

Dr. Ramesh Kancharla: So, Damayanti, in modern society—particularly in a rapidly growing one—we're increasingly observing behavioral and developmental issues in children. Developmental problems often arise from various neurological and other pathological causes. Early childhood infections form a significant part of this group. Another major area is the behavioral spectrum, which includes conditions like attention deficit disorders, autism, and autism spectrum disorders, as well as other early childhood psychological issues. These issues collectively represent a substantial portion of the population affected

For example, autism alone affects about 1 in 80 children, with recent reports suggesting a rise to almost 1 in 60. This means a large number of children require long-term therapy, which necessitates a specific approach. Currently, in Hyderabad, we have about six pediatric neurologists in the Rainbow Group, each of whom sees a patient population where around 20% present with behavioral and developmental issues. So, this definitely requires not only the Rainbow Group, the country definitely requires to address this problem very seriously, because there's increasing numbers year-on-year.

What we observe is that while children are now coming to hospitals, they require a specialized environment with specialized therapies and specialized professionals. This includes a multidisciplinary team consisting of educational psychologists, physiotherapists, occupational therapists, and developmental physicians. We already have about 80% of this team in place. We're segregating, collecting all of them together in one place and trying to deliver excellence to these children. The behavioral problems for children are a serious curse to the mother, who are actively seeking these kinds of facilities

Damayanti: Okay. So, you mentioned - you have already say 80% of doctors and other medical people who are available in this segment, but it will be in a different unit altogether dedicated for this particular center?

Dr. Ramesh Kancharla: Exactly.

Damayanti: And doctor, did you mention all the neurologists, top neurologists in your hospital, almost 20% of patients which they receive face some or other such issue? Did I hear that correctly?

Dr. Ramesh Kancharla: "Yes, in the outpatient department, about 20% of volumes involve some form of neurodevelopmental or behavioral issues. This segment of neurodevelopmental care differs significantly from mainstream neurology, requiring specific focus and specialized attention. A multidisciplinary team approach is essential, rather than one single individual.

Additionally, many therapies are now available for these children, often delivered in sessions. For instance, behavioral modification for attention deficit disorder differs greatly from the approach needed for an autistic child. And this is something which is a need of the hour for the country"

Damayanti: Sure. And again, I think similarly, I want to hear some more update on your new initiative, Butterfly Essentials. So, I understand your hospital already have pharmacies, right, which are like supplying these baby and mother related products.

So, why like this new initiative, which is coming up when you already have pharmacies? And then just want to check here, products will be all private level or it will be a multi-brand store sort of facility in the hospital?

Dr. Ramesh Kancharla: "Okay. So, as a pharmacy, we can only cater to a small segment. In terms of visibility, mothers and families often expect a pharmacy to offer a comprehensive range of products for pregnant women, babies, and children.

What we aim to do is develop a specialized vertical within this segment. Currently, the number of people buying outside the hospital is relatively low because people perceive the pharmacy differently than a retail store. We are working to create a niche retail space focused specifically on medically aligned products, enhancing both comfort and accessibility for patients.

As a hospital-affiliated pharmacy, we take certain degree of ownership in selecting the products and take responsibility for offering a reliable product range. By aligning more closely with patient needs, we can provide a wider selection of items—from soaps and shampoos to nappies and everything else. We can curate it better and offer them a wider range of the products within the hospitals —so patients have everything they need without having to go elsewhere."

Damayanti: Sure, that's clear. And my last question is on the IVF services, which you initiated a quarter back or so. So you mentioned you have seen good momentum. So, can you put some number, like how things are picking up on that vertical?

Dr. Ramesh Kancharla: As I mentioned in the previous call, we are focusing on organic growth in the B2C segment for our IVF services, and it's unlikely that significant growth will come from B2B, given our primary focus on mainstream obstetric service delivery. Within our group, word of mouth and B2C channels will play a dominant role in building our IVF services.

So far, we've seen positive results: previously, we offered IVF in three centers, and compared to the first half of last year, we've seen about 50% growth, which is significant. Additionally, our revenue has grown by approximately 40%

Vikas Maheshwari: Yes, 73%.

Dr. Ramesh Kancharla: 73% growth rate. We're in the early phases, but we're quite happy, and the results are very encouraging. The doctors within the hospital are also very optimistic, particularly regarding, first, our service delivery for these patients and, second, the overall satisfaction of both doctors and patients

Damayanti: Sure, doctor. Thank you very much for your response. Thank you.

Dr. Ramesh Kancharla: Thanks so much.

Moderator: Thank you. The next question is from the line of Bino from Elara Capital. Please go ahead.

Bino: Hi, good morning. I wanted to understand the ramp-up in the newly opened centers over the last few months. Last year, we have opened a couple of centers. What is the occupancy level there, and are we profitable there already, or what is the profitability?

Dr. Ramesh Kancharla: We opened toward the end of the last quarter of the financial year, and the centers are tracking fairly well. For example, the Hyderabad center is performing very well since it's our primary location. Other centers are also seeing good traction, both in peak and off-peak periods. I think we're close to reaching break-even. Of course, it's a busy season now, so we need to be careful. But overall, the trajectory is very encouraging. Things are going pretty well

Bino: Okay. So we are almost profitability. So in the next couple of quarters, probably they should break-even and then onwards slowly improve. Is that the right assessment?

Dr. Ramesh Kancharla: Yes.

Bino: Okay, got it. Thank you.

Moderator: Thank you. The next question is from the line of Sumit Gupta from Centrum Broking. Please go ahead.

Sumit Gupta: Thank you for the opportunity. Sorry, I joined the call a bit late. So sorry for the repeat question, if it may. So for the matured hospital, the revenue growth is tremendous, I understand, because of the occupancy. But what is driving that majorly? I understand 2Q is relatively strong, but still I just want to understand more on the fundamental aspect of it.

Dr. Ramesh Kancharla: Vikas.

Vikas Maheshwari: Yes, Sumit. For our established hospitals, the busy season typically begins in the second quarter for most, including both adult and pediatric care, leading to increased activity. Since these mature hospitals have been serving the community for over five years, many patients have prior experience with us. As a result, for any pediatric or maternal care needs, they continue returning to our hospitals, which drives our growth.

We're seeing growth in both inpatient (IP) and outpatient (OP) volumes at our mature hospitals. This is steady, organic growth, across all our matured hospitals.

Sumit Gupta: Understood. And so what kind of margins are there for matured and new?

Vikas Maheshwari: We don't disclose the margin based on the maturity.

Overall, at the company, we show as margins. But obviously matured hospitals will have a better EBITDA margins than the new ones because every year we are adding capacity. Matured hospital will have always some impact of the new hospital which is getting opened. So, obviously, the matured hospital will always have the better output which is the industry phenomena.

Sumit Gupta: So like this is a super 35% kind of margins and in 2Q obviously do this kind of margins. So in the second half also, we can expect around 30% to 33% kind of margin?

Vikas Maheshwari: What we have guided Sumit is that over a longer period we will be able to sustain this margin whatever we have shown in H1. So because of a little bit of seasonality. In the quarter first, the margins will be always a little bit impacted because in the hospital there is an operating leverage which gets kicks in, but the business is generally the quarter 1 is the weakest quarter for us and the quarter second is the strongest quarter.

So, if you look at the H1 figure whatever the EBITDA margins we are showing which is again is a post INDAS numbers, we should be able to sustain those numbers plus minus 1% depending upon what type of capacities we are adding, based on that we should be able to maintain that EBITDA margin.

Sumit Gupta: And lastly, on the EBITDA per bed, so what kind of EBITDA per bed do you target? So as of now, so this quarter it was a decline of nearly 9% to 10% on a Y-o-Y basis. So just on an annualized basis or for let's say over the next two to three years what kind of EBITDA per bed we can target?

Vikas Maheshwari: If we are keeping the EBITDA margin same Sumit, I think per bed EBITDA will also not change. What you have to factor in is that whatever the H1 number has come, you have to take it as a realistic basis and then project that accordingly.

Sumit Gupta: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Karan Gupta from Invest Portfolio Management. Please go head.

Karan Gupta: Hi. Good morning. So my first question on the ARPOB side is continuously from the last quarter decline…

Vikas Maheshwari: Karan there is a lot of disturbance on the voice, if you can just be very close to your handset, please.

Karan Gupta: Is that audible now?

Vikas Maheshwari: Same, a little bit. But okay, we can continue.

Karan Gupta: So my first question on the ARPOB side was the case mix in this quarter is continuously on the decline side. And the second one on the bottom slide retail stores what kind of products we are...

Moderator: Mr. Karan, I would request you to please use your handset. Mr. Karan, we are not able to hear you.

Karan Gupta: Hello. Now it is audible?

Moderator: Yes sir.

Dr. Ramesh Kancharla: Yes, you are better now.

Karan Gupta: So first on the ARPOB side what is the case mix this quarter and the second one on the bottom slide side, what is your...

Moderator: Ladies and gentlemen, we have lost the connection of the current participant. We will move on to the next participant. The next question is from the line of Rahul Jeewani from IIFL Securities Limited. Please go ahead.

Rahul Jeewani: Yes. Hi, sir. Sir in Bangalore now with, let's say, the Hanur and Electronic City expansions coming up next year, we will have almost close to 600 beds in Bangalore and Hyderabad capacity right now is around 950 beds. So what kind of a potential do you see in the Bangalore market over the next 5 years to 6 years period? So can we get to, let's say, the kind of capacities which we have in Hyderabad and maybe potentially overtake in terms of the capacities which Bangalore could have versus Hyderabad 4 years to 5 years down the line?

Dr. Ramesh Kancharla: The story in Hyderabad spans about 25 years, whereas in Bangalore, it's only about 8 to 9 years, Rahul. In Hyderabad, we only expand when there is clear demand. In Bangalore, however, we're taking a more opportunistic approach since it's a city driven by micro-markets. Currently, we have four hospitals in key areas, and we're planning to add two more, one in Hennur and another in Electronic City

With this, we'll have a well-distributed network across Bangalore. Over the next 2 to 4 years, we'll evaluate the performance of these hospitals and consider further expansion as demand arises. For instance, central areas like Rajajinagar may be potential locations in the future. However, we don't want to rush into expansion without careful consideration

Once these two new centers are established, my focus will be on building their profitability and strengthening our hub before pursuing additional expansion. This demand-driven approach makes future growth more manageable and strategic. This will be our approach for Bangalore.

Rahul Jeewani: Sure, sir. So wherever you see demand, let's say in Hyderabad and Bangalore, you would be keen to add incremental capacities in these markets?

Dr. Ramesh Kancharla: Exactly, yes.

Rahul Jeewani: Sure, sir. And, sir, in the Hyderabad market one of your peers is entering into the Hyderabad market with 300-bed women's and child hospitals. So how do you see the competitive intensity in your core Hyderabad market?

Dr. Ramesh Kancharla: No, I mean, we welcome anyone who wants to do high-quality work in the pediatrics domain, anywhere in this country or whichever is the city. That's not a problem. However, I don't anticipate any issues because we always faced competition in Hyderabad. This competition has consistently made us better, improved our performance, and helped us realize our potential. That’s how I’ve always viewed it.

I always welcome competition, but one thing to consider is that a multi-specialty practice trying to focus on a single specialty will not find it easy. My focus is solely on one agenda, 24/7. How effectively they can maintain that focus while being a multi-specialty practice is a big question. I’ll leave that for others to answer, but if someone is as disciplined as we are, I’m sure they’ll be able to succeed."

Rahul Jeewani: Sure, sir. So while we appreciate sir then maybe some of these multi-specialty hospitals haven't been as successful in scaling up children-dedicated hospitals, but with increasing competitive intensity in Hyderabad would we see some sort of an impact in terms of our doctor talent and that maybe these other competitors become more aggressive in poaching doctor talent from us?

Dr. Ramesh Kancharla: What happens is that, unlike adult hospitals, in pediatric hospitals doctors cannot easily take the business away because everything is very interlinked. The brand and overall service system are more important than any individual doctor. This is a medical specialty, not like a surgical specialty where a surgeon can leave and take 70% of their surgical patients with them. Somebody needs to understand that.

Another key point is that we train a lot of doctors internally for our needs. As long as we maintain a balance and are supported by doctors in Hyderabad, we don’t foresee any problems. I wouldn’t expect people to make decisions that would lead to patient movement because, in the pediatric domain, patients typically do not switch doctors as easily. This is a critical factor.

We experienced this in the past, around 2009-2010, when some of our doctors left to start their own ventures, yet they couldn’t take even 5% of the patients with them. This illustrates the strength of our brand, the robustness of our operating model, and the trust that people have in both the brand and the model."

Rahul Jeewani: And, sir, last question from my end. We were looking at M&A opportunities in, let's say, Northeast and West India market. So any progress in terms of inorganic research?

Dr. Ramesh Kancharla: It's in early phase to discuss. I think when companies are consolidating, when it's (M&A) happening, definitely I would come forward and let you all know.

Rahul Jeewani: But, sir, anything which you can call out in terms of, let's say, the potential sizes of these assets in terms of which you are evaluating, either on bed number or what kind of, let's say, hurdle ratios would you be using for evaluating these assets?

Dr. Ramesh Kancharla: Well, sir, we are in a very early phase, sir. I think let's give some more time to discuss on those things.

Moderator: The next question is from the line of Ritesh Shah from Lucky Investments. Please go ahead.

Ritesh Shah: I have a few questions. One, can you tell me, on the slide, I couldn't see the margins that you would make in a new hospital and margin that you would make in a matured hospital. Other details are there, but if you could just share at this stage of occupancy ratio that you have put in a new hospital, what are the margins?

Dr. Ramesh Kancharla: New hospitals, Ritesh, are a mix of very newly started facilities and those that are up to four or five years old, right? This makes it complex to categorize them by individual units, such as one-year-olds or two-year-olds. That's why we always group them into two buckets for consistency and legibility: mature hospitals and new hospitals (those under five years old).

Ritesh Shah: So, in the new hospital bucket, whatever bucket you have today, irrespective of the vintage of that bucket, what will be the margin there?

Vikas Maheshwari: Ritesh, let me take this question. A a company, we don't and would not like to share the margins on the matured hospitals and the new hospitals.

Ritesh Shah: No problem. Can I ask you differently then? At what utilization level does a hospital start becoming profitable?

Dr. Ramesh Kancharla: So, it depends on geography. If I do a hospital in Hyderabad, very likely in the end of the year, it will be either break-even or profitable. In Bangalore, it will take about 12 to 15 months' time. Chennai maybe takes 18 to 24 months' time. So, depending on your brand, recognition. And also, on micro-market where you are in and the doctors you're able to curate for that particular center. So, these are all things that go hand in hand together.

Ritesh Shah: And what utilization will it be, sir? And that utilization level will be 20%-25%?

Dr. Ramesh Kancharla: I think 30%-35%.

Ritesh Shah: The other question is, in your focus markets of Hyderabad, Bangalore and Chennai, if you could tell us the ratio of a pediatric hospital to a normal specialty hospital, what will be the ratio of beds or ratio is it one is to…

Vikas Maheshwari: So, more or less, in all of our hospitals, pediatrics beds and the mother care beds, the ratios will not change actually. It will be more or less the same.

Ritesh Shah: No, my question is, if, let's say, 100 is the total pool of beds in, let's say, Hyderabad, across all hospitals, across all types, in that, how many beds obviously, how many beds will be a pediatric bed? One bed, 200, two beds, 200, 10 beds, 200?

Dr. Ramesh Kancharla: Okay, here's how it works. We have a different structure for our hospitals. Typically, 30% of the beds are dedicated to obstetrics, and in some facilities, this can go up to 40% or 50%. It depends on the micro-market and specific requirements. We position the bed allocation based on these needs.

For our hub, the distribution is around 70% pediatrics and 25% obstetrics, which reflects the separation of the beds.

In terms of business, the numbers are consistent. When you look at the overall figures, approximately 30% of our business and patient volume is in obstetrics/gynecology compared to pediatrics.".

Ritesh Shah: Sir, I was actually asking for the market. I know for your company, but for the market, if there were 100 beds treating all types of patients, your place pediatric beds will be what? 1%, 2% of that? See, because in US, we have for every 10 or for every 20 hospitals, we have one dedicated pediatric hospital. So, I was just figuring out that, what is the ratio that we have reached in India?

Dr. Ramesh Kancharla: Sir, we don't have a knowledge about other hospitals or anyone else. People like you should do this diligence, frankly. I wouldn't be able to tell you about other hospitals.

Ritesh Shah: Maybe you can have a paid consultant to probably do it. And last question is, sir, in the Hyderabad market, Bangalore and Chennai, in your opinion what can be a pediatric bed potential in terms of number of beds?

Dr. Ramesh Kancharla: There is a growing market, particularly in Bangalore and Hyderabad, especially for the young population. If you look at the JLL report on the consumption of retail space, IT space, and the number of residential units being developed in these two cities and Pune, you can see that population growth is definitely on the rise, with an increase of about 15%. Most of this addition consists of young individuals. This is why we can make this assessment. However, I don’t think it’s a precise estimate; it’s a rough estimate

Ritesh Shah: Sorry, I didn't get it, sir.

Dr. Ramesh Kancharla: When you look at the growth in real estate, including office space consumption, IT consumption, and residential properties like flats and villas, the year-on-year growth in the markets of Hyderabad, Pune, and Bangalore is definitely not just 15%. While I can't say that the number of buyers of new houses is absolutely at that figure, there is a noticeable increase of around 12% to 15% in the younger population in each of these cities’ year-on-year.

Most of the population moving into the cities consists of young people, which is significant. This is why I believe growth is not an issue in vibrant cities like Hyderabad, Bangalore, Pune, and Gurgaon

Ritesh Shah: And after these three markets, if there can be another focused market which can eventually be a target market for you, what it should be?

Dr. Ramesh Kancharla: I think right now that’s where we are, our next focus is in NCR. NCR in itself is huge. And I think if you focus NCR and when we start our Gurgaon hospitals, then obviously we're going to look around more micro-markets in the NCR.

Ritesh Shah: And lastly, in the next 24 months, what is the beds which will come on screen for us, the number of beds?

Dr. Ramesh Kancharla: 24 months, I think we have about...

Vikas Maheshwari: So Ritesh, so roughly 380 beds will come which will be Rajahmundry, 100 beds, which we are starting by March 25. And then two hospitals which is coming at Bangalore, which is Hennur and Electronic City roughly 150 beds there. And Coimbatore which will be the fag end of FY26, 130 beds. So total 380 beds are expected in next 24 month's time.

Ritesh Shah: Okay. So, when I look at your Occupancy at about 69% in the quarter for a mature hospital, looks like that the annual Occupancy is about 60% there. I remember last calls, historical calls used to always say that Pediatrics usually on an annual basis is about 60% Occupancy business because we have a seasonality element in it?

So is it fair to assume that the matured hospital for you, which is like this 1200, 1300 beds is peaking out in terms of Occupancy -- in terms of Occupancy you may have an ARPOB that increase, that's different. But on Occupancy is this comment correct or you want to modify this?

Vikas Maheshwari: In the peak season, we have multiple levels currently to accommodate the patients, which we have done, all of our units have done to accommodate the patients with the faster turnaround, adding few additional beds on a temporary basis. We try to manage. I think we will continue to do this and what you are saying is that, 60% on the matured is peaking it, which I partially agree. It has another 5% delta, it can come.

Ritesh Shah: Another 5% delta. So, which means that the matured hospital for once on a volume basis can have this 5%, 10% delta and whatever is a case mix price led increases which will flow in your matured hospital?

Vikas Maheshwari: So, that's what happen in a medical hospital. So, any matured hospital which is growing, what the company or the hospital should do is keep adding the other super specialties and...

Ritesh Shah: Yes, that's why I said case mix and price

Vikas Maheshwari: So, that will continue. Some price corrections will continue. And obviously, if the demand is high, we will not be shying away from adding the beds. Which we have done in one of our hospital at Hydernagar in Hyderabad. We have added capacity, if we see the robust demand. So we will keep on adding the beds on the existing hospital if the demand is sustainable and we continue to grow.

Ritesh Shah: So, you have the structure is it a warm shell type structure where you can add beds, but there will be a limit to what you can add, right?

Dr. Ramesh Kancharla: What we do is take multiple approaches. Sometimes, we move out of certain services, add more beds, and enhance our facilities for diagnostics and related services. We create additional beds, and if there's available land, we might build a small block to accommodate more capacity. For instance, we recently added 50 beds to the Hyderabad Nagar facility, adjacent to the existing building.

Additionally, we have added about 12 beds at LB Nagar to meet demand by creating space from our existing facilities. We also secured space for the obstetric outpatient and IVF center in an adjacent building. We continue to explore these opportunities as they arise. When business demands it, we discover how to capitalize on those opportunities

Ritesh Shah: And lastly, sir, can you give us the revenue mix for H1 in terms of at least the revenue mix between matured and new? What is the revenue mix?

Dr. Ramesh Kancharla: Again, we don't share this. Just figure it out by multiplying Beds, ARPOB and occupancy. We have given you all the information.

Ritesh Shah: No problem. Thank you, sir, and all the best.

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

Alankar Garude: Sir, we had mentioned once that if there is demand, we might look to add another hub in Hyderabad at the appropriate time. Now given incremental supply coming up from competition, do you think there is enough demand to add another hub in Hyderabad over the medium term?

Dr. Ramesh Kancharla: I can't speak for others, but I definitely feel that another hub will be required. I'm not sure if this will happen within a two-, three-, or five-year horizon, but I believe we will establish another hub in Hyderabad at some point in the next five years. That is my thought process.

It hasn't been fully consolidated yet, but we would pursue it because this is a place where people trust us and believe in our services. It's not just Hyderabad; we have support from the entire Telugu-speaking population across two states, as well as from nearby regions like northern Karnataka and parts of Maharashtra. This is a large market, and we have established ourselves as a choice hospital for these areas.

We also need to focus on improvement as we look to the future. We plan to build more strength in specialties and expand our services based on how things develop over the next three to five years. For instance, we currently have 100 beds in the financial district, and it is doing very well.

I don't anticipate needing more beds in the financial district of Hyderabad at this time; however, I may decide to create larger hub hospitals elsewhere. Building new facilities is another consideration. I could potentially utilize a Brownfield site that has been constructed but remains vacant. Ultimately, this decision will be made based on careful analysis of our needs and opportunities."

Alankar Garude: Sir, and if you look at the last decade, we have entered into several new markets. So Bangalore, Chennai, then the two hospitals in Delhi now. I mean, maybe we can also include the upcoming Gurgaon there is Vizag as well. So if you look at the next 5, 10 years, you mentioned about Delhi NCR and the plans over there. But apart from that, apart from these existing markets, which other markets can we potentially look to target?

Dr. Ramesh Kancharla: I believe we have always been very disciplined in our approach. Wherever we expand, we aim to establish a position of strength. I anticipate that Bangalore will develop similarly to Hyderabad over the next five to seven years. Chennai will also see a significant increase in the number of beds, as will Andhra Pradesh. This is the South story.

Now we are looking at Gurgaon. Once we start operations there, I will certainly consider expanding into the NCR region. This includes assessing areas like Noida, Greater Noida, Ghaziabad, and Faridabad, as there are many micro-markets to explore. Our understanding of these areas will improve significantly once we establish hospitals there, and we will definitely view NCR as a key area for our expansion.

If we explore other geographies, whether in the West or Northeast, we will apply a similar strategy to what we have done in these four regions. I think that is our approach. It is very unlikely that we will pursue sporadic small hospitals of around 100 beds in one city; that is not something we are keen to do."

Alankar Garude: Fair enough, sir. And one final question, possible to qualitatively comment on the performance of Bangalore, Chennai and Madhukar particularly Chennai and Madhukar, if you can comment?

Dr. Ramesh Kancharla: I think that Bangalore is performing quite well, and in Chennai, there are many new beds available. We have been operating in Chennai for about five to six years, and there are two new hospitals—one of which is less than two years old and other is recently opened. I see Chennai as a very good market, although it takes a little time to progress and build. It has good doctors and a solid reputation, and I believe we have done well there. Last year experienced a bit of slowness, but we addressed all the issues, and things are going fairly well now. I think that we have done quite well in the last quarter.

Even Madhukar has seen positive movement; the top lines are strong there as well. However, Madhukar will not generate the same EBITDA margins as our other Rainbow hospitals because it simply isn't our model. We manage the beds, and the structure is very different. If I can achieve about 12% EBITDA at Madhukar, that would be good. For me, Madhukar is about establishing our brand, service model, and understanding the Delhi market, which will be helpful. As long as we maintain an EBITDA of about 12% to 15% over the next one to two years, that would be satisfactory. We are not expecting anything more than that, as we cannot manage more. For instance, I provide about INR 70 to 75 lakhs in free treatment every month, which otherwise would contribute to EBITDA. Additionally, we primarily manage beds, which means a significant amount of money flows back to the owners in the form of rent and other costs

Our capital expenditure for beds is low. When we consider all these factors together, our costs are not high. We have seen other hospital groups, such as Narayana, which run a similar model. For example, they operate a hospital in East Delhi and also struggle in the same way—while the hospital performs well, generating EBITDA remains challenging.

Alankar Garude: Just one follow-up there on Delhi NCR. If you look at the two sectors wherein we are opening our hospitals in Gurgaon, clearly there are a lot many more multi-speciality hospitals coming up for expansion over the next three to five years in that same micro market, if I take a certain radius. I understand that our model is different, but just can you share your thoughts on whether incremental multi-specialty capacity coming up, significant capacity coming up in that same micro market.

Is it something which worries us? Is it something which is something which we are actively considering? And also, I mean, when I look at our future plans, do we also consider upcoming capacity of multi-specialty beds coming up in any of the newer markets for us?

Dr. Ramesh Kancharla: No, what happens is that Gurgaon is perceived differently by people. You can talk to other promoters as well, but I don't think people are looking at Gurgaon as just a micro-market. Instead, they view Gurgaon as part of a larger health city overall. From the perspective of NCR and the North, everyone sees it as not just for Gurgaon, but for the entire NCR and even internationally. Every hospital seems to be aligned with this vision, so if you are in Gurgaon, you want to seize the opportunities.

In my view, the long-term network effect of Gurgaon will create a large ecosystem for medical care in the country. I'm not sure about other promoters, they may have more knowledge about it because they've already been running the hospitals You might see it become one of the healthcare hubs in the world. This is how I envision Gurgaon shaping up. If you observe the investments and the quality of hospitals being built, you can see that every promoter is proud of what they are contributing to Gurgaon. That is how the network effect benefits everyone.

I don't think the competition will be just about competing with one another; while there will be competition, the opportunities will also be greater. People will come from wider parts of the country and even internationally, flocking to Gurgaon. That's how I see it unfolding.

For me, when I'm looking at building 300 to 400 beds in Gurgaon, I'm not just considering Gurgaon; I'm thinking about NCR, the North, and the international market. That is the positioning I have for that hospital. This is, I believe, the way forward. I understand what other promoters and hospital groups are doing; everyone is looking at Gurgaon as a major healthcare hub.

Vikas Maheshwari: And also, we have gone through your report, right? I think that gives you some comfort. If you look at Bangalore, Chennai, Hyderabad, and even Mumbai, they have more beds per million than NCR, based on the projections you provided. It is expected to have roughly 2,700 beds per million, whereas Bangalore has 4,300 beds per million, Hyderabad has 3,600, and Chennai has 4,000 beds. So, I think there is a lot of scope.

As the doctor is also saying, we should not project NCR's healthcare needs based solely on its population. The road connectivity to nearby states, which have limited healthcare infrastructure, should also be considered. Therefore, Gurgaon is going to emerge as a healthcare center for all of North India, and even internationally.

Alankar Garude: Understood. That's helpful. Thank you and all the best.

Dr. Ramesh Kancharla: Maybe you should tell me, because you interact with all the promoters, so you can give me a better view about it. Next time when we meet together.

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

Dr. Ramesh Kancharla: Thank you. We appreciate your participation in today's conference and thoughtful questions. Your support is integral to our strategic progress and we value the time invested by all of you in understanding our business model and future plans. For further information, please reach out to Mr. Saurabh Bhandari, Head, Investor Relations, or investorrelations@rainbowhospitals.in. Thank you.

Vikas Maheshwari: Thank you.

Dr. Ramesh Kancharla: Thank you everybody.

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

Note:

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