



Rainbow Children's Medicare Limited
Q3 & 9M FY23 Earnings Conference Call
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Call Duration	• 1 hour and 9 minutes
Management Speakers	<ul style="list-style-type: none"> • Dr. Ramesh Kancharla - Chairman and Managing Director • Mr. R Gowrisankar – Chief Financial Officer • Mr. Saurabh Bhandari - Business Analyst
Participants who asked questions	<ul style="list-style-type: none"> • Madanagopal Ramu, Sundaram Mutual Fund • Pritesh Chheda, Lucky Investments • Bansi Desai, JP Morgan • Tushar Manudhane, Motilal Oswal Financial Services • Mayank Hyanki, Axis AMC • Vinayak Mohta, Stallion Asset • Karthik Narayan, SCP • Naman Bhansali, Perpetuity Ventures LLP • Arpit Shah, Stallion Asset • Aneesh Deora, Nomura

Mit Shah:

Thank you, Aman. Welcome everyone, to the earnings conference call of Rainbow Children's Medicare Limited to discuss the financial performance for the third quarter and nine months ended December 31, 2022. We have with us Dr. Ramesh Kancharla, Chairman and Managing Director Mr. R Gowrisankar, Chief Financial Officer and Mr. Saurabh Bhandari, Business Analyst.

Before we begin, I'd like to point out that certain statements made on today's call could be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q3

FY23 results presentation, which is available on the company's website and also on the stock exchanges.

I'd like to invite Dr. Ramesh to make his opening remarks. Thank you and over to you, sir.

Dr. Ramesh K:

Good morning, everyone. I extend New Year greetings to all of you. Wish you all a healthy and a prosperous New Year. It gives me immense pleasure to welcome you all to the earnings call for the third quarter and nine months of the current financial year. Rainbow was the first stock exchange listed paediatric chain in the English speaking world. Consequently, there was no peer comparison for the analysts and investors in the listed universe. So even after IPO, we had to assiduously engage investors both in India and overseas and explain the various building blocks of the rainbow business model, its key differentiators and the significant market opportunities. Our efforts are bearing fruit, and there is perceptively a better comprehension of our business model among the investor and analyst community today.

Before dwelling on results, I would like to highlight the salient aspects of our operating model given that we are a listed company for the benefit of new listeners. The Rainbow is currently country's largest paediatric hospital chain with 15 hospitals, 1,555 beds across six cities. Our paediatric services under Rainbow brand includes newborn and paediatric intensive care services, paediatric multi-specialty, paediatric quaternary care, including organ transplantation.

Birth Right by Rainbow is an integral part of Rainbow Hospital. This is a perinatal centre offering normal and complex obstetric care, multidisciplinary fetal care, perinatal genetics and fertility, in addition to that gynaecological services. Rainbow Children's Hospital is built on a strong fundamentals of multidisciplinary approach with a full-time 24x7 consultant-led service in a child-centric environment.

Children's hospitals across the world have been built on these core fundamentals. We follow a hub-and-spoke model, where the hub hospital provides comprehensive multi-specialty paediatric services with an

advanced tertiary and quaternary care services. While the spokes provide 24x7 emergency care, large outpatients as well as inpatient services for the wider coverage of the cities. We run the country's largest academic training program for paediatrics and paediatric super specialties in the private health care sector, offering post-graduate training in the residential DNB program as well as fellowship programs.

Coming to performance for the quarter, historically, the strong momentum of the second quarter continues into the third quarter i.e., high occupancy, large out-patient footfalls and relatively robust financial performance. We experienced a similar trend from the second quarter into the third quarter across all key operating metrics like occupancy, outpatient, inpatient, and delivery volumes across all our hospitals.

The occupancy for the current quarter was 57.06%, compared to the 51.55% in the corresponding year of the last financial year. The occupancy were lower compared to the previous quarter as a result of a significant seasonal volume witnessed in the second quarter. The ARPOB for the current quarter was INR. 48,700/-, a growth of 7% compared to the INR. 45,600/- in the corresponding quarter of the last financial year and a growth of 4% compared to the previous quarter ARPOB of INR. 47,000/-.

I'm pleased to inform you that the company has delivered robust quarterly performance led by high patient footfalls across all hospitals in every geography. The revenues for Q3 stood at INR. 306.4 crores, the growth of 23.17%. EBITDA of INR. 106.7 crores, which stands at 19.59%, compared to the previous year. The PAT for Q3 FY23 is INR. 58.2 crores, which has grown by 28.87%, compared to the previous year.

Further, we have concluded our negotiations with the insurance companies for the Hyderabad cluster and the new insurance tariff will be applicable from the next month. With this, we have renewed all our major insurance contracts across the group.

In terms of expansion, the spoke hospital in OMR Road, Chennai has commenced operations in September 2022, and is going as per the

expectations. The new 100 beds hospital in Hyderabad, at Financial District with, is close to completion. It's going to be operational in a few weeks' time. This is strategically located in rapidly growing Financial District of Hyderabad with lots of young population we are adding another 50 beds to our Hyder Nagar branch, which is having a difficulty in accommodating the volumes. So this is a block, which is getting built adjacent to the Hyder Nagar for that demand, which is expected to come in over the next six months' time.

So another branch in the Hyderabad city, which is in the central Hyderabad is expected to come in the next financial year. So we'll deepen our presence in Chennai city with another 80 beds hospital, which is currently in construction phase. It's going to come into operations by next financial year. The work commenced for 60 beds spoke hospital in Bangalore and the 100 beds regional spoke in Rajahmundry, Andhra Pradesh are expected to be completed in 18 months and 24 months, respectively.

To quote a bit of clinical excellence, from the clinical side, I'm pleased to inform you that we have surpassed outpatient volumes of last full year and current nine months and close to inpatient volumes of the last full year. As the current year being normal with the regular schools, we have witnessed significant increase in the outpatient and inpatient volumes with pronounced seasonal variations. And some of them were actually very sick, requiring intensive care services.

Our doctors and paramedic staffs have been extremely busy all through the nine months, and the trend seems to be continuing. I am pleased to share that our outcomes of tertiary care have been very good. The liver transplant survival for the last nine months has been over 90%, which is very close to the Western standard. And the paediatric cardiac surgical mortality is less than 2%, which is close to international standards, with 50% being the complex congenital heart conditions.

So I take this opportunity to thank all my doctor colleagues and paramedical staff for putting in untiring efforts to deal with such large volumes, yet achieving excellent outcomes.

The CDC exit during this quarter, our long-term investors for nine years, British International Investment Plc, formerly known as CDC Group Plc and CDC India Opportunities Limited, divested the balance equity shareholding of 14.45% stake in the company, which was subscribed by marquee long-term investors.

I welcome all the new investors to the company. In conclusion, to summarize the current quarter, the first nine months of the year largely been as per the expectations. The business has returned back to normalcy with our operating parameters demonstrating a strong growth. With that, I conclude and hope to continue our conversation in the subsequent quarter. Over to our CFO, Mr. R Gowrisankar to present the financial numbers.

R. Gowrisankar: Thank you very much, sir. Good morning to you all. I'm wishing you all a very happy and healthy new year. I would like to thank you all for taking out your time and joining in this earnings update call.

So I would like to share few insights on our financial performance during the period under review. First, I will go with the quarterly performance. Moving on to the quarterly performance, revenue stood at INR. 306.4 crores, growing by 23% over the corresponding quarter of the FY '22. EBITDA margin for Q3 FY '23 stood at 34.84%, which is at INR. 106.76 crores. EBITDA has grown by 20% over corresponding quarter of last financial year.

PAT for Q3 FY '23 stood at INR. 58.24 crores. PAT margin for the quarter stands at 18.5% and PAT margin for the current quarter Q3 grow by 29% over corresponding quarter of the last year. OP and IP volumes for the current quarter grown by 37% and 16% over the corresponding period of FY '22. We have recorded an impressive 57% occupancy during the quarter. Matured hospitals have witnessed 63% occupancy and new hospitals have witnessed 42% occupancy during Q3 of FY '23. Our return on capital employed and return on equity stands at 8.23% and 5.96% for the Q3 of FY '22, which are not annualized. Our payer mix for the quarter stands at 49% credit and 51% cash.

And with respect to nine-month performance, on the basis of consolidated financials for nine months FY '23 we have delivered a revenue of INR. 857 crores as against INR. 761 crores in the corresponding period of last year. The top line has grown by 12.5% over last year and if we exclude the COVID vaccination impact of INR. 92 crores, which was one-time, so the normalized revenue has grown by 28% over the last year actual revenue.

EBITDA margin stood at 35% growing by 16% over the nine months period of FY '22 and stands at INR 298 crores. Profit after tax for nine months FY '23 stood at INR. 158 crores as against INR. 126 crores for the nine months FY '22. PAT margin had grown by 25% over the last nine months FY '22.

OP volume grew by 47% and IP volume grew by 24% and delivery numbers have grown by 12% over the corresponding period of FY '22. ARPOB for nine months ended December, in FY '23 has shown a growth of 7% over corresponding periods ARPOB with excluding the vaccination, the one-time COVID vaccination impact. Occupancy stood at 54% for nine months period in FY '23 compared to 46% of the corresponding period of FY '22.

So during these nine months, we have incurred capex of about INR. 88 crores and for Q3 we have incurred about INR. 29 crores of capex. This is towards our OMR, Financial District, Anna Nagar and Marathahalli projects and our regular capex. So we have utilized INR. 60.9 crores from the IPO proceeds towards repayment of NCD and for project capex as stated in our prospectus.

With this I conclude my remarks. Once again, I would like to thank you all for joining this call. We can open for question-and-answers.

Moderator:

The first question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Congrats on the good set of numbers. I had just one question. From an occupancy point of view, sequential decline in new hospitals, but in the same period, mature hospitals occupancy has improved sequentially. How do we read this? And from a next, say, one- or two-year's perspective, how do you see the new hospitals improving the occupancy levels, if you can comment on it?

Dr. Ramesh K: Yeah, Thank You, Mr. Madan Gopal. Generally, the occupancy, which we're talking about is quarter wise, right? So when we look at the quarter-wise, even in the mature hospitals, we have seen some decline from 67% to 63% in the maturing hospitals, 47% to 42%. This is because what we do is generally second and third quarters are the peak seasons for the paediatric business. But, however, it did change a little bit. What we have witnessed is in the second quarter is there was significant illness, which required admissions and more of a short-term admission, like a viral illness, people coming into hospital for a day or two. That pushes up the occupancy. So that is seen in both mature and maturing hospitals.

When we look at moving into the third quarter, what we have seen is though there is a decline of an average of about 3.5%, but we don't see that significant revenue dip as well. So that quality comes into the play. So at some point, sometimes it moves to the third quarter, sometimes it comes in second quarter, it all depends on the monsoons, seasons, and various other factors.

Saurabh Bhandari: And also, Mr. Madan to add to Dr. Ramesh, the OMR facility, which was there in Q2 only for a month had a full impact in this quarter. It is a very recent facility where the occupancy tends to be lower. Hence, you see that impact of occupancy on a sequential quarter being lower.

Madan Gopal: So how do we see this new hospital's occupancy improving say in two years, should we look at from a yearly perspective then touching around 50%, 55% levels, is it 55% looks possible in the new hospitals?

Dr. Ramesh K: Yes.

Madan Gopal: Obviously some new hospitals are coming up now also. I am talking about the ones, which are already operational and categorized as new hospitals?

Dr. Ramesh K: Yeah, I think well we have discussed this in the past as well. So what happens in the paediatric hospitals business is very organic, unlike multi-specialty we don't do much of government business, it's more of an organic business. So it takes its own time. But at the same time, when you look at it, breakeven in our hospitals at 30% occupancy, compared to multi-specialty, which is at 40%.

So, therefore, I think the growth for us is kind of a pretty steady. It takes its own time to grow. The capacity building is always very important because that is what we see today in Hyderabad where we are having difficulties in accommodating patients. So that we are expanding in Hyderabad significantly.

Madan Gopal: So, you're saying it's a steady improvement from the current that should be expected?

Dr. Ramesh K: Yeah.

Madan Gopal: One more question on the new facility that you have added in OMR in Chennai. Typically in the first two years, what sort of occupancy do you really target compared to the overall other hospitals are coming up?

Dr. Ramesh K: I think, we rather than targeting it, what we look at is our predictions always been like how do we capture the market to see in terms of OPD footfalls. Then it comes to the other metrics like our ICUs are filling up, how the delivery numbers are increasing. That's how we look at it.

In terms of occupancy per se is something it moves to end of the year 30% is pretty impressive for us. Whenever we see our occupancy clocking at 30% end of the year is a success story for us, because we breakeven at that point. I would expect OMR to go that way in Chennai.

- Moderator:** The next question is from the line of Pritesh Chheda from Lucky Investments Managers.
- Pritesh Chheda:** Yeah, sir. I have three questions in continuation to the previous participant. How much time does it take to reach the 30% occupancy once the hospital is open? That's my first question. My second question is on the insurance price hike that we received at the beginning of the year. Has that flowed down to your revenue number, or is it yet to flowdown to your revenue and margin?
- And my third question is, I just want to understand the count of beds that are going to get added and have been added in FY '23 or supposed to be added in FY '23 and FY '24?
- Dr. Ramesh K:** The first question is that why we typically breakeven at 30- 31% of the occupancy, which normally we guide we expect that our breakeven, cash breakeven comes about 18 months in the existing cities where we are already present. So from there it keeps moving on. The second question is about?
- Saurabh Bhandari:** Insurance price hike.
- Dr. Ramesh K:** Price hike. last year we have already had a price hike of insurance in Chennai, Bangalore and Delhi of 25% hike, and currently in Hyderabad we have matured that with pace where I think our price hike is about...
- Saurabh Bhandari:** 6%
- Dr. Ramesh K:** Yeah, around 9% to 10% price hike what we got in Hyderabad.
- Pritesh Chheda:** And that is about more than 50% of our business, right?
- Dr. Ramesh K:** Yeah that's right.

Saurabh Bhandari: Only on the inpatient business, Pritesh. Just to confirm, the outpatient business is separate. Whatever insurance tariff hike that we are talking is on the inpatient business.

Pritesh Chheda: So can you quantify what portion of the total business of 50% is Hyderabad and inpatient is how much percent of that?

Saurabh Bhandari: So inpatient is generally about between 70% to 72% of our business and about 28% to 30% of our business is outpatient business.

Pritesh Chheda: So which means 40% of our business and then there will be a payer mix of insurance, which is another 40%. So let's say one-fourth of our business has got the 8%, 10% price hike?

Saurabh Bhandari: Correct. You are right.

Pritesh Chheda: And that should start reflecting from next quarter, right?

Saurabh Bhandari: So for Bangalore, Chennai and New Delhi, it was done in last year. So you have already seen that being reflected in the ARPOB and the revenues over the period. It's the Hyderabad only that we have done now and the tariff hike would be there from next month onwards. So you will see the impact coming in from the Q4, half of Q4 and Q1 onwards, particularly in Hyderabad market, rest is already priced there.

Pritesh Chheda: Yeah. So we calculated Hyderabad after all calculation as one-fourth, right? More than 50% business is Hyderabad, in which inpatient is 60%- 70% in which payer mix is about 40% via insurance, so that's how we calculated, right?

R. Gowrisankar: Yes sir, you are right.

Pritesh Chheda: And sir, the bed count, if you could tell us what is the bed count addition in FY '23 and FY '24, incremental beds I want to know? Okay. So we had earlier guided, I think about 150 beds per annum. Where are we on that.

- Dr. Ramesh K:** I think we are on the right track . Currently we have done 55 beds in Chennai and there is 100 beds to be inaugurated in the last quarter of the current financial year. Moving on to next financial year, we have about 80 beds coming in Chennai city in Anna Nagar, and also we have 60 beds coming in Hyderabad, as a Central Hyderabad, another 50 beds coming in the addition to one of our spokes in Hyderabad, counting adding into about 200 beds are going to come next year.
- Pritesh Chheda:** So, you mentioned 55 has already come in Chennai plus 90 at the year end plus another 50 next year. That is Chennai, right? Then you mentioned Hyderabad as next year only all the beds, how many you said?
- Dr. Ramesh K:** We are going to add 200 beds from now to the next 10 months time. So the current year, we will have about 100 beds addition. The next year we will have about 80 plus 60, 140 beds.
- Pritesh Chheda:** This is what? This is in Hyderabad?
- Dr. Ramesh K:** Yeah, Hyderabad.
- Pritesh Chheda:** 80 plus 140?
- Dr. Ramesh K:** 80 plus 50, 130 beds.
- Pritesh Chheda:** 80 plus 50. Okay, done sir. Thank you.
- Moderator:** The next question is from the line of Banshi Desai from JP Morgan. Please go ahead.
- Banshi Desai:** Yeah, hi. Thank you for taking my question. Sir, I have two questions. So firstly, on the mature hospitals, we've done good occupancy of 63% and I'm assuming Hyderabad cluster would have done better than this. So my question is how are the other hospitals, especially in the Bangalore cluster doing for us? Marathahalli, BG Road, I guess these two had a lot of scope of improvement in terms of occupancy margins. So if you can just comment

on how are the trends here, what are you seeing and what's the outlook for these two names especially?

Dr. Ramesh K: As I said, Bangalore is doing well and we had occupancy of, we put it as a matured and maturing hospital. So in Bangalore we had one matured hospital two are maturing hospitals. Together, our occupancy is about 40% occupancy

Saurabh Bhandari: 42% in Bangalore cluster.

Dr. Ramesh K: 42% Bangalore cluster.

Saurabh Bhandari: All put together, which was 30% in last year 3rd quarter.

Dr. Ramesh K: Yeah, all put together. So what we have seen in Bangalore is a significant fraction of outpatients are built up in the last one year. And also there is occupancies have increased in both our main hub hospitals, as well as Bannerghatta Road hospital. So when you look at these two hospitals together, we have crossed 50% of occupancies.

Bansi Desai: You've crossed 50% is what you said?

Dr. Ramesh K: Yes, close to 48.8%.

Bansi Desai: Okay. That's nice to hear. And sir my second question is on the New Delhi cluster. So I remember last time you mentioned in the previous quarter, Delhi was seeing good traction. So if you can comment on how it has done in this quarter and where are you in terms of expansion plans in Delhi. You've spoken about adding 200 beds in the next two, three years. So any update on that?

Dr. Ramesh K: Yes, Delhi is actually tracking well. This current year, one is our Madhukar Rainbow Children's Hospital and other one is Rosewalk. Rosewalk is only the boutique centre. The main hospital in Delhi is doing well, it's a positive EBITDA this time. And we are clocking about 40% occupancy this year. And deliveries have picked up very well in South Delhi. I think we do largest

number of deliveries in South Delhi today, even in terms of cases are getting busier. So we see a positive traction in Delhi, Madhukar Rainbow.

The Rosewalk, which was, kind of, a loss making last year, and it's come to the EBITDA neutral today. So we have changed our model to Rainbow model. Earlier it used to be a luxury birthing centre. So we changed the model to more like our Birth Right services. So ever since that things are changing in a positive direction. So we hope to do well in the coming year.

Bansi Desai: Okay, sir. And any update on the expansion?

Dr. Ramesh K: Expansions, I think the work is in progress, probably I think I will be able to give a better update in the next quarter earnings call.

Bansi Desai: Sure, sir. Thank you. I have more questions. I'll join back the queue.

Dr. Ramesh K: Thank you. Thanks a lot, Bansi.

Moderator: The next question is from Tushar Manudhane from Moitlal Oswal.

Tushar Manudhane: Okay. Thanks for the opportunity. Sir, just on the OP side on the existing hospitals, how much is the further scope to increase the OP volumes, because if I take the current volume and it make the number of hospitals to be 15, so it roughly comes out to be 3000 per day, sort of, OP volumes. So, how much is the further scope to sweat?

Dr. Ramesh K: There is significant scope to increase further volumes, because we have almost 40% of the new hospitals. We keep adding the new hospitals. That's where the OP volumes keep building it up. And also even the existing hospitals also continue to grow, because there is a lot of services are there, like specialty services, so they keep growing. So when you look at it, this is the first year coming back from the pandemic. What we have seen is almost, 47% growth from the last year, in our outpatient volumes. And we expect to see that significant growth year-on-year. As we grow number of hospitals, the OPD volumes keep growing further.

Tushar Manudhane: And sir what's been your experience in terms of any seasonality related to OP volumes?

Dr. Ramesh K: Yeah, of course, seasonality plays a big role in the paediatric business. The seasonality variation is almost 25% to 30% volume, which we see, for second and third quarter volumes will be almost 20% different from the first and fourth quarter. So that's being the season.

Tushar Manudhane: So fourth quarter would be better off, right, compared to third quarter?

Dr. Ramesh K: Yeah.

Moderator: Thank you. The next question is from the line of Mayank Hyanki from Axis AMC. Please go ahead. Mayank, your line is unmuted, so I request you to please unmute yourself and proceed with your question.

Mayank Hyanki: Yes, hi. Thank you. Yeah, good morning. My question is on Madhukar Trust Hospital basically. So just like you mentioned the profitability levels in the Rosewalk, if you could highlight the profitability of Madhukar Hospital, how is it trending? And on the ICD's part, is the hospital now able to service its ICD interest rate payments to the parent company?

R Gowrisankar: So, yes, this year I think the Madhukar Hospital has done about 10% EBITDA, there is a positive and the trend is picking up well. And with respect to this serviceability of that ICD, yes, in the last quarter, we got back about INR 2.5 crores of ICD money back from that hospital. And we are not infusing any funds. So it is sustaining as well as it started repaying the money as well.

Mayank Hyanki: So this year basically we should see the overall outstanding amount of ICD plus interest coming off in this year.

R Gowrisankar: Actually not in one year, maybe it may take two years, but we can get it. So in the coming year as well as the next year, we will do it actually. We can get back the money.

- Mayank Hyanki:** Sir, I'm just saying it will start coming off. The number will start coming off this year itself.
- R Gowrisankar:** Yes, you are right. It will come down.
- Mayank Hyanki:** Got it. Secondly, on the doctor consultancy charges, has there been any change in the model that, well, this number is moving much ahead of the top line, and I mean bearing FY '21 where the top line gone impact we have seen this ratio as a percentage of sales was also quite lower, not quite lower, but a few percentage points lower than what it is in this quarter per se. So is it just because of the new hospitals where the cost is upfront or has there been any change in the way either the remuneration is paid out or any change in the structure completely?
- Dr. Ramesh K:** So generally in a growing stage of hospitals, we've always been a growing stage and our professional charges, which is to doctors is about normally we guide about 24%. So it varies between 23% to 24%, maybe a little over 24%, depending on the number of new beds added. So when you have a new hospital, because Rainbow always hires doctors on full-time basis, and also on the retainer basis, definitely when you have a more new beds, it would probably go up by half percent or so at the consolidated level.
- Mayank Hyanki:** Okay, got it. One more question, which I had was on the attrition side. So while the attrition for the industry is pretty large, we have seen that even at the time of IPO, attrition was pretty high, for FY '21 it was clocking at about 45% or so. So how is the attrition now and is there any steps that you are taking to address this issue?
- Dr. Ramesh K:** There are two things. One is the attrition at the doctor level is very minimal for us. The attrition at the staff and the nursing level and those things, so during the pandemic time, we have witnessed quite a significant number, because even pandemic has negatively played on the children's hospital. So those days we were actually not too concerned also to lower the numbers, because we were not doing a great in occupancies as pandemic has no impact on children's health care. So now currently what we've

actually got back to the industry standards and we are doing pretty well about 22% that's well within the industry standards.

Mayank Hyanki: So 22% is for the non-doctor staff or for the company altogether?

Dr. Ramesh K: Non-doctors.

Moderator: The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

Vinayak Mohta: Yeah, so sir the first question I wanted to ask is, two-fold. I just wanted to understand what is the potential that you see in the existing South location? Like what is the potential number of beds or hospitals that you could have add over the next five, seven years, whatever potential you see?

The second question was in general, when you move into a new location like a Delhi or you will be moving forward into new locations. How long does it take to breakeven or to generate that traction there, because what I understand from the children hospital, every region or a sub-location within that region as well has a certain hospital, which people prefer going to or which they have seen their parents or some relatives go to. So people don't generally very thoughtful about going to a certain hospital that they know when it comes to a child. So how do you build that traction and how long does it take to, yeah.

Dr. Ramesh K: Yeah, it's a very good question. The reason is, one is that now how large we can get to. So I never imagined that we could grow to this large scale in Hyderabad city. So we are marching towards 1,000 beds probably in a year down the line, in Hyderabad city. So that's the size, which we have almost come to a closer to the multi-specialty size in Hyderabad city.

So when we look at going to Bangalore and Chennai, which we're adding more and more spokes and getting larger and larger. So when you typically go into a new city, so this is something what we typically do is when you go into a new city, we normally look at building a hub hospital. So what is a shortage in children's health care for any city is that a multi-specialty

children's hospital. That's what is shortage. There are many small, small mom-and-pop stores everywhere. So they have to cater for seasonal, minor illnesses, regional illnesses.

So we go into the city with the concept of a children's hospital, which is a multi-specialty, where there is a children who could be treated for the complex conditions or critically unwell children. So that is our drive. That's always been our drive. That's how we went in Bangalore, we went in Chennai, we went in Delhi, now we went in Visakhapatnam.

Once you establish a hub hospital, which typically takes like multi specialty, going into new city, will definitely take three to four years time to get into the game. Then you start building the spokes. Spokes in the area, which is the rapidly growing part of the city. One is to achieve wider coverage of the city.

Second thing is, by then your brand would have build and more people want to come to you, because the cities are all large and the distance are also, kind of, a travel time is much significant. So, therefore, we try to work around the spokes. This is a typical model, which we actually have seen is the most probably a way forward for children's health care is a hub and spoke model to cover the wider part of the cities of our Indian cities.

So we're talking about two different things. One is that small children's hospitals, women and children's hospitals of five beds, 10 beds, they're all nothing on level or very smaller setups. So Rainbow looks at a very different spectrum where we don't compete with those even individual paediatricians who are doing smaller, perhaps most of them eventually becomes our network, smaller hospitals or network doctors to refer complexities and specialties towards our site, towards Rainbow. That has happened in Hyderabad, that's tracking in Bangalore and Chennai. So this is what we expect to do whichever city we enter in.

Vinayak Mohta:

Understood. So it is hence to assume that you will, because you are reaching that mature stage in Hyderabad, Chennai and now eventually you will in Delhi after a couple of years. So then you'll have scope to move to 1,000, closer to 1,000 beds into these cities and eventually you will move to

a new city then like you did in Delhi to build your three, four year of gestation period before, which you can start expanding into the spokes and eventually towards the 1,000 potential beds that come in those cities right?

Dr. Ramesh K: Yeah it keeps happening in parallel, the new city, as well as the spokes in the existing city.

Vinayak Mohta: Understood. And sir generally, what is your capex per bed in general in the spokes and the hub hospital and what kind of ROICs do you see that generally, for example, would be coming off in Hyderabad? And how long does it take a new hospital to reach to that kind of ROIC?

Dr. Ramesh K: See, typically what happens is in places where we are already present, for example, we are at Hyderabad, we are a super mature hospital. So if we do a hospital in Hyderabad, it's very unlikely to have any EBITDA negativity for the end of the first year. So it will be the breakeven or post some positive EBITDA. Because that's the brand recall and image what Rainbow enjoys in Hyderabad.

So places like Bangalore and Chennai, now I think we would do a positive EBITDA probably in 15 to 18 months time. So there also that brand recall is high, people know about Rainbow model. So we are now working in Delhi, because Rainbow is kind of started doing well in Delhi, now we look at Delhi differently. We started looking at more of NCR rather than Delhi alone.

So in terms of cost per bed, when you go for a brownfield project, it depends on building to building and also location-wise. Normally we expect it to be about INR 60 lakh per bed, and if we do a greenfield project, I don't think will be any different from the multi-specialty, because today's standards are pretty same for the children's hospital or multi-specialty hospital to build to the standards of national building code or to all the other statutory and regulatory.

Vinayak Mohta: Understood. And one last question. So, we have around 1,555 as capacity and 1,171 operational beds, where do you see this gap moving towards in

the next three years? What kind of operational beds do you see in the next two to three years? And how much does it cost you to move a normal capacity to an operational bed? Is there some incremental cost that you incur?

R Gowrisankar:

We are going to add this year, we are going to add another 100 beds actually. So next year we are going to add about 200 beds. So in the coming year after also another 200 beds will get added. So if you see, we will be adding about 500 beds actually, which will cost us almost about INR 300 cores.

And moreover these are all new beds and with respect to the existing one, we don't have much of capacity. There is always, we are explaining that the capacity beds and the operational beds and whatever, we have that non-census beds actually. So we have a lot of triage beds and all that, which will not be taken into account for occupancy count actually. So there we may not be incurring much for adding the capacity. The capacity addition will be towards the new facility and the capex will be towards the new facility.

Moderator:

The next question is from the line of Karthik Narayan from SCP. Please go ahead

Karthik Narayan:

Thank you. Again, congratulations on a fantastic set of numbers and thanks for all that you do. Both my questions are follow-up questions to earlier questions. The first one was with respect to the insurance hike. So you mentioned around 8% to 10% in Hyderabad, which will reflect in the future on the coming quarters. What was the hike you received in the other cities, which has already been reflected in the numbers? I think that's the first question.

Dr. Ramesh K:

Yeah, I think what we had, because Hyderabad is sequentially, we've been kind of going on the hikes. So the Chennai, Bangalore and Delhi, the hikes have happened after a long time, post-COVID first time, which is why we had a, fairly a decent correction to the 25% we got most of all the three geographies that's already reflected from the second quarter onwards.

Karthik Narayan: Understood, sir.

Dr. Ramesh K: Hyderabad is about 9% that's because we enjoy fairly our premium rates in Hyderabad.

Karthik Narayan: Understood. That's helpful. And my second question is related to the doctor cost. I think a gentleman had asked about the change, is there a change in business model, where you mentioned that it is with respect to new hospitals coming on stream versus the 24% or 25% revenue growth, we have close to 40% or 38% to 40% doctor cost increase. So is it fair to assume that will likely be the increase moving forward as well given our expansion plans of 100, 150 beds every year?

Dr. Ramesh K: I think, I expect it to be around 24% if you ask me that, so this is how it is, unless we take a completely different tangent in hiring doctors differently, but as a Rainbow model, we always stand on full-time doctor engagement model. So we do retainers significantly.

We also look for the talent rather than practices of doctors. See what happens in the children's health care scenario, see a doctor who has got 100 patients will not transfer the business to Rainbow, because he's only a primary care doctor. So we look at a doctors who are qualified, who are intensive care doctors, who have been trained very well from central institutes or outside the country.

So, obviously, we need to give them a retainer for them to be comfortable to work with you for longer periods. So there's investment, which we make. So as a good number of expansions going on, we recruit more number of these retainer doctors. That's what pushes up.

At the same time, the doctors who are in the hospitals, which have been in full capacity running hospitals, so it moderates the overall doctor cost. So blended what we look at it, if you ask me where I wanted to be? I wanted to be between 23% to 24%. One, I wanted to achieve, me, being a doctor promoter, being a medical hospital, and our doctors have got a very different responsibilities also. They've got to cover the hospitals in the

middle of the night as well. Almost all the hospitals are manned by a senior consultants. So compared to the combination of all those things, I think that's very fair that, you know, what we do to the doctors is very good, which is why we are very popular. We are very popular among doctors.

So second important thing is where we get our optimization, when you look at the peer groups of adults where there is some moderation, I mean, advantage for us in the consumables, the price percentage difference is there. We can optimize other costs. So we don't have so much of a marketing cost like other adults. So there are a lot of other areas, which we optimize it and try to see that doctors are paid well and they work well also. This is understood. These are the primary goals of children's hospital.

Moderator: The next question is from the line of Naman Bhansali from Perpetuity Ventures LLP. Please go ahead.

Naman Bhansali: Hi, sir. I have just one question. What would be a pre- Ind AS margin for the quarter?

R Gowrisankar: So pre-Ind AS margin for the quarter stands at INR. 91 crores.

Dr. Ramesh K: Percentage?

Dr. Ramesh K: In terms of percentage, it will be about 29%.

Naman Bhansali: Okay. And during the pre-IPO meeting, I thinkin the post-IPO the first con call, we have mentioned about the sustainable margins to be around 24% to 25% on pre-Ind AS basis. So what is the gap we are seeing on the 29% to 25%, and going forward how would you look at it when new hospitals are coming in?

Dr. Ramesh K: Well, naturally we know we have tried to grow in future and we would like to keep, if we can keep about 25% guidance, I think it is pretty good for me, achieving our goals in the organisation in the long-term. I wouldn't really be ambitious to, what I think we post now today is our numbers pre-Ind AS is 29%, post-Ind AS is 35%, probably the industry's best So I can't be

ambitious to continue to do well-growing, building a children's health care for the country.

So, I think our optimism is about growth of 20%. That's what we have been saying, 18% to 20% growth year-on-year is something, which we can expect. Even we plan our expansions also keeping that in the mind.

Naman Bhansali: Okay. So I was just coming from the point that what would be the gap, which we have between the 25% to 29%, initially we had a plan of sustaining around 25%, and what has been the change, which we have seen between the 400 bps?

Dr. Ramesh K: I'll tell you the reason. The last two years if you look at it, our number of beds has been already higher. Most of the beds have reached the mature stage and Hyderabad is super mature and also the Bangalore and Chennai joined the party. Chennai perhaps joined the party quite early. So Visakhapatnam broke even in the second year itself.

So these are all the things that made us to kind of accelerate our profitability. Hyderabad being a super mature and not having many beds being added in the last one-and-half year time. In Chennai and Bangalore, there's no hospital, which is eating away money at the moment, which is why we are under the peak of performing very well.

R Gowrisankar: Basically, the advantage of leverage is the fixed cost. When we add a new bed, we will be incurring additional fixed cost. So, since our expansion is less in the last two years, we are enjoying the benefit of leverage. So, that's where the margin has gone to 29% and we are saying that we are going to add 1,000 beds in the next five years actually. So considering that, we said we will achieve EBITDA optimistically at the 25% .

Moderator: The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: Yeah. I just wanted to understand the peak occupancy a mature hospital can have. Right now we are around 63% occupancy levels for our mature

hospitals. That was my first question. My second question, I just wanted to, if you can just identify, which are the hub hospitals and spokes hospitals in your portfolio?

And even the previous participant had asked that our operational capacity is around 1,171 beds and our total capacity is 1,555 beds. So typically what will be the ratio from operational to total capacity? Typically what it should look like? And my fourth question would be around the reinvestment side. So we are broadly going to be generating about INR 250 crores to INR 300 crores of cash flow from operations almost every year in the next three years or so. And we'll be spending about INR 30 crores to INR 40 crores on capex..

So what would be the rest of the capital be doing on your balance sheet? Would it be dividend pay-out? Or would you be looking to buy like go for some greenfield expansion, let's say, Noida, Gurgaon. So anything on that, if you can highlight?

Dr. Ramesh K:

Yeah. I think, one is our occupancy levels. And I think we have reached 70%, 70%-plus occupancy also in Hyderabad City. And what we're talking about is blended occupancies at a consolidated level. So when you look at the Hyderabad and Vijayawada, they have reached to the, 70-plus-percent occupancies. But it's very difficult to achieve occupancies of 80-plus occupancy, because of a differential area of beds. For example, we have 18% of the beds in newborn intensive care, newborn intensive care is all incubators. So we can't keep any other patient there, but also some isolation wards and some paediatric intensive care.

So, therefore, differential areas are there within the hospitals, which is why we see in Hyderabad is probably the peak, which can happen to anywhere in the world in a children's hospital. So in terms of operational beds to other triage beds practices, usually if you can achieve it to the 80/20, 80/20 is very good. So I think that's where we are in somewhere range.

Moving forward in the future we were trying to work on that, how can we reduce that to a 15%? So this is an exercise, which we are in the progress

now, especially existing hospitals, we are working on that. How to make them at least partially revenue generating beds, like a daycare beds and those things. So this is the exercise on cards now.

R Gowrisankar: we have currently about INR. 500 plus Crores of cash balance, including the IPO proceeds. We have a 1,000 beds expansion plan. So that is about INR. 600 crores to INR. 700 crores we have to invest on that. And the balance money, anything is there, definitely the directors will consider based on the situation they can consider dividend. And other than that we will be consistently looking for good opportunities for acquisition as well . So right now it is not on under consideration. We'll be looking for it .

Arpit Shah: Can you just identify, which are the hub hospitals and spoke hospitals in your network?

Dr. Ramesh K: Yeah. Hyderabad, Banjara Hills is a hub. In Bangalore, there is an Outer Ring Road near Marathahalli is a hub. Chennai is a hub. And Delhi, Malviya Nagar is a hub. And Vijayawada size is fairly big, about 135 beds. Visakhapatnam, we have built a capacity of almost like 175. We operate only 110 beds at the moment. That could go up also, because those are all regional spokes.

What we plan with our experience of the past 20 years' time, when you look at the regions, when you go into the cities like two-tier cities like, place like Coimbatore, Vijayawada, Vizag, these are the cities that definitely requires about 125 to 150 beds, because there won't be a spoke model. There will be one hub model. So places like in Hyderabad now where we are, probably we require one more hub in future. That's what we usually our thought process is. And Delhi, what we are doing, we've been in discussions and doing diligence to probably do a large hub in Delhi, probably our next financial results, I will try to cover those aspects of it.

Arpit Shah: So do you see the top eight cities as potential for hubs? And what you see for the next decade, because you've already been in Hyderabad, Bangalore, Chennai, now Delhi. But do you see Bombay, maybe in Gujarat,

maybe in the east also, where is potential for creating new hubs in the next decade?

Dr. Ramesh K:

Yeah, absolutely. Because, we are the only one operator now at the moment. The problem with the children's healthcare is that, it's very organic. It's very demanding, because you deal with the digital native population. Most of the sickness is critically ill, unpredictable, these ones. So lot of emotional, a lot of these things. So you need to have a very, very robust operating model, as well as a very strong doctor model. It's not something doctors coming and going out is not acceptable. You need to have full-time doctor engagement models.

So, when you look the developed world, in the US there are about 250 children's hospitals, still they feel shortage. The country like ours, which is prospering in every possible way, I mean, every of our cities, almost whichever is got a 40 lakhs, 50 lakhs population, definitely requires about 200 beds hospital to cater for the serious elements and the critical care and specialties. Opportunity is huge, but it takes time to build it.

Arpit Shah:

So the kind of competition you will be facing in some of these cities will be very high right? Say something in Bangalore where you have a couple of chains operating. Let's say even in Bombay you will be having a couple of chains operating. And then Delhi you will be seeing a good amount of competition. So how would you be fighting on those competition?

Dr. Ramesh K:

Honestly competition is very minuscule. The competition is there only at some small segments where there's birthing and those things. Our driving is children's healthcare, not birthing. Birthing comes along with us, because we believe that the best place to have a child's birth is children's hospital, because anyone who is anticipating a high-risk pregnancy, they should deliver in children's hospital. This is our slogan. This is how we go about it. We are not a mom-and-pop store, or we are not a small children's hospital. I'm not against it. I would like a small children's hospital, street children's hospitals to be there, because to cater for the close by needs. But what we are expecting to do in the country is to cover the city for the sickness, or critically ill children or complex problems or speciality problems.

These are the things, when you say children's hospital that is where it cuts across. It doesn't cut across with the smaller centres with a five beds, 10 beds, 15 beds. So that's why I still believe that we are a pilot project in the country, and still, I mean, there's a lot more tricks to explore and do it.

Arpit Shah:

Got it. So would you be looking to explore higher growth rates, because the kind of opportunity, which presents you and you're probably one of the only players doing what you are doing right now. So would you be targeting let's say more than 18% to 20% growth rate, because that kind of opportunity is present there? And you've already set the model, how we want to operate in terms of margins, in terms of execution. So would you be looking at higher growth rates?

Dr. Ramesh K:

Certainly that, so whatever we have been doing, I think is pretty impressive in healthcare segment so far. But at the same time what's more important is that, we need to be disciplined on what we are offering to people and what the breadth and depth we are building it. And see Indian healthcare is not only for Indian healthcare, it is for the pan-India and also for the Indian neighbourhood is again a huge opportunity where people can come. A multi-speciality is doing a lot of international business. Probably in the years to come that we will be looking at a huge opportunity coming, international business coming into the paediatric segment in this country.

Moderator:

Thank you. The next question is from the line of Aneesh Deora from Nomura. Please go ahead

Aneesh Deora:

Yeah, thanks. Just one question from my end. I just wanted to know what is the frequency of the price hikes that we take on insurance contracts, like the 8% to 10% that we took now, again, when would the revision happen?

Dr. Ramesh K:

Well, ideally, it is a two-year cycle. But it keeps going a little, kind of, two-and-half to three years sometimes. So, insurance Companies have got their own way of delaying things.

- Aneesh Deora:** Understood. And on the normal cash patient, what are the average price hikes annually that you see?
- Dr. Ramesh K:** Depending on the city and depending on what offering we're doing and also the positioning of the, it's within the same city and we have a differential price, because we have a market, which is a high paying, we have a market, which is a little moderately paying, it depends on the payer mix, which we look at it. So, I mean, definitely there is yearly, year-on-year we need to look at the inflation correction. That definitely we do it. And secondly, what we look at is we do the price benchmarking once in two years time to see what is the opportunity, based on that we work on it.
- Moderator:** The next question is from the line of Mayank Hyanki from Axis AMC. Please go ahead
- Mayank Hyanki:** Hi, sorry, I had a clarification on the Madhukar Hospital again. So the 10% margin, which you mentioned is post-Ind AS margin, or this is after accommodating the rent out payments? That's one. And did you see that the occupancy there we are running currently is about 40%?
- R Gowrisankar:** Yeah, we are doing about 40% occupancy. The society will not have Ind AS adjustment actually. So it's a 10% pre-Ind AS adjustment.
- Mayank Hyanki:** Okay, pre-Ind AS only. Okay, got it. So on the hospital itself, the occupancy is still running lower to what our group level occupancy and the run rate is still low versus other hospitals that had that kind of age profile. So we are now in a post-COVID scenario, I think we were also talking about at some point of time we had a doctor's issue there in terms of we did not have a full-fledged team of doctors at some point of time. So from these perspectives, do we now have a full offering of full range of care across all the departments? That's one. And secondly, any specific issue, which is resulting in lower occupancy of that hospital versus the other hospitals?
- R Gowrisankar:** Now the full set of doctors are there actually. So the business is definitely picking up. As post-COVID, we have seen lot of change and definitely the 10 other centres are doing well.

Dr. Ramesh K:

I think we need to add more specialties to Delhi now. See, the thing is we have seen, this is the, let me give you a little brief about it. It's a, of all the hospitals, this is one which have low capex model and very high rental model. So, what I've invested is about INR. 40 crores for 140 beds. So that's the low capex when you look at it.

The second important thing is that it is in the South Delhi. And what I realize now is that it's not in the most children rich areas. The population is more of the aged populations. Still, when we look at the doctor engagement model there, Rainbow has certain definitely a different way of doctor engagement model, which we had initially difficulties because most doctors don't believe in full-time engagement model. So over a period of time, we've done to hybrid, we've done to the more towards our model now.

So now when you look at it our numbers, we had a huge impact of COVID, because the Delhi government made, because this is a trust hospital, so government has a say. The government has made this as a children's COVID hospital for one-and-half year time. So that means we've, out of four-and-half years, one-and-half year has gone out of the block. So we have come back now and from the losses, we have come back to the recovery phase. Our occupancy is that the blended comes to across the year, about 40%. In the busy season, it goes to 55%.

Second important thing is that the number of specialties what we have, here's a mainly where our focus is the intensity at services, obstetrician gynaecology and paediatric surgery, and couple of specialties. As we move forward, we need to increase the number of specialties in Delhi. That's the plan, which need to be executed. But having said that, specialties don't grow like a multi-specialty, adult specialties. It takes time to grow. So Delhi story will definitely will take some time to grow. But what I am, my optimism is that, yeah, we are in the right part of the city. It's an important area to be in.

Second important thing is we are tracking a good name now. That's most important for me in Delhi. Thirdly is that now, it's a EBITDA positive now

and it's going to pay back its money. And I've not bled a lot of money in this overall, you know, turning the Delhi hospital. If you give me entry door, now I know Delhi. I think when I look at my business plan for the Delhi, I'm absolutely bang on now. I know what is exactly Delhi, how do I operate myself. Probably I think in the next coming earnings calls, I'll present my business plan for Delhi. So I just kind of request all of you to wait for some time.

Mayank Hyanki: Got it, got it. We look forward to your Delhi plans being unfolded. But just from business and financial perspective, even as we await addition of more specialty in this hospital, the performance of this hospital in terms of pubs or occupancy or profitability in the meantime, till you announce your plan, should keep on improving from here on, despite whatever challenges you mentioned around the hospital and the area, right?

Dr. Ramesh K: Yes.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for their closing comments. Thank you, and over to you.

Dr. Ramesh K: Thank you very much. Thank you. Thanks for everyone to be very patient to listen to us. Thank you very much. Once again, we'll meet you in the next earnings call. So I wish you have a great day and a great year ahead. Thanks a lot. Thank you very much.

Saurabh Bhandari: Yeah. And should you have any questions, please write it to us at investors@rainbowhospitals.in. We would be happy to engage further with all of you. Thank you so much.

R Gowrisankar: Thank you.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Rainbow Children's Medical Limited, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.

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