Rainbow Children's Medicare Limited

Q1 FY-23 Earnings Conference Call

August 9, 2022

Call Duration	• 1 hour and 13 minutes
Management Speakers	• Dr. Ramesh Kancharla – Chairman and Managing Director • Mr. R. Gowrisankar – CFO • Mr. Saurabh Bhandari – Business Analyst
Participants who asked questions	• Praveen Sahay, Edelweiss Financial Service • Pritesh Chheda, Lucky Investments • Bansi Desai, JP Morgan • Girish Bakhru, OrbiMed • Prashant Kutty and Madanagopal Ramu, Sundaram Mutual Funds • Rahul Jeewani, IIFL Securities • Alankar Garude, Kotak Institutional Equities

Siddharth Rangnekar: Thank you, Nirav. Welcome to the earnings call of Rainbow Children's Medicare Limited to discuss the Financial Performance for the first quarter ended June 30, 2022. We have with us Dr. Ramesh Kancharla – Chairman and Managing Director; Mr. R. Gowrisankar – CFO; and Mr. Saurabh Bhandari – Business Analyst.

Before we commence, I would like to share that some of the 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 Q1 FY23 results presentation that is posted on the company's website and the stock exchanges.

I would now like to invite Dr. Ramesh to make his comments. Over to you, sir.

Dr. Ramesh K.: A very good morning, ladies and gentlemen. Welcome to Quarterly Call for Rainbow Children's Medicare Limited. I hope you all are well and healthy.

So, the COVID is still lurking around across the country, we continue to take measures like a mask. Just not COVID, there are many other viral infections what we've witnessed today. So, I'm sure it would protect us from the other viruses as well. So, this is our second conference call since listing. I feel it's important to recap our model, as some of you may be listening to us for the first time.

Rainbow Children's Hospital network comprises of 14 hospitals in 6 cities with a bed capacity of 1,500. Our pediatric services under Rainbow Children's Hospital include Newborn and Pediatric Intensive Care services, Pediatric Multi-specialty Care services, Pediatric quaternary care, including organ transplantation. Birthright by Rainbow is an integrated perinatal services, under which Obstetrics is offering normal and complex obstetric care, multi-specialty fetal care, and gynecology services. Rainbow Children's Hospital is built on strong fundamentals of multidisciplinary approach with a full-time consultant engagement model to serve 24 x 7 in a child centric environment. These are the 3 core fundamentals of a children's hospital.

On this basis, the children's hospitals have been built across the world. To reiterate once again, multidisciplinary is something very, very core philosophy of children's hospitals. Team of doctors have to work together to deliver great results for sick children. And also, the doctor engagement model has to be full time 24 x 7 because it is emergency based specialty. Children centric makes really all the difference at a Children's Hospital. These are the core 3 fundamental for children's hospitals across the world what we have seen. It is a very differentiated model. It is very organically built. Always we keep an institution first approach, and our unique doctor engagement model works as a full time in teams rather than silos to deliver better results. We follow a Hub and Spoke operating model for wider coverage of the city. The hub hospital provides comprehensive multi-specialty pediatric services with an advanced tertiary and quaternary care services. While the spokes provide an emergency care in pediatrics and obstetrics with a large outpatient services and inpatient services for obstetrics and pediatrics with a level 3 NICU services. Rainbow runs one of the largest academic training programs in the country in the private sector, offering postgraduate residential DNB training program and as well as fellowship programs.

Regarding our performance for Q1, I'm very pleased to share with you that we have witnessed our business normalizing close to the pre-COVID levels, with all the operating parameters demonstrating a healthy growth compared to the previous quarters. With the schools having reopened across the country and children returning to a near normal life, we expect to see significant growth in our outpatient footfalls as well as inpatient admissions. In the current quarter, outpatient footfalls have witnessed about 52% growth compared to Q1 of the previous year.

That Q1 also witnessed improved case mix, robust operating metrics and the ARPOB stands at over 52,600. Excluding COVID vaccination revenue in Q1 FY23 has grown by 17% compared to the Q1 of previous year. We continue to demonstrate industry leading PAT, EBITDA, ROCE margins. Our CFO will take you through the details in a while.

Regarding expansion, and growth plans of the Company, I'm happy to share that we are going to commence our first spoke in Chennai at OMR Road with 55 beds. It’s going to be commenced in a month’s time, in the second quarter of this year. Another spoke at financial district in Hyderabad city of 90 beds is going to be operational in fourth quarter of current year. So, total of about 145 beds are going to be commenced in this current financial year. So, other 2 projects which are going to be commenced next financial year are one in Hyderabad in Central City and Chennai in Anna Nagar. So, the work is progressing pretty well. We are hopeful that we may be operational by first quarter of the next year.

We have also signed 2 more hospitals, one in Bangalore as a spoke and also regional spoke in Andhra Pradesh in Rajahmundry.

To conclude, the year started off with strong operating metrics and we hope to continue the growth momentum considering a normal year. Our financial position continues to be strong with industry leading EBITDA, PAT and ROCE margins. On the growth front, we are working to ensure the timely execution of all undergoing projects. I hope to speak to you in the second quarter with great results. Thank you and have a great day. Over to Mr. Gowrisankar – our CFO.

R. Gowrisankar: Thank you. Good morning. Thank you for taking out your time and joining our earning call. I'm happy to take you through the financial results for the quarter ended 30th June 2022, this is the first quarter for the financial year ’23. So in fact it's a better quarter and our pediatric healthcare services are doing better in this quarter. And I'll take you through the consolidated and standalone results for this Q1.

So, Rainbow Children's Hospital has achieved a consolidated revenue of Rs. 237 crore in Q1 FY23 as against Rs. 246 crore of the corresponding quarter in the previous financial year. Compared to the Q4 FY22, that is the immediate quarter, our consolidated revenue has shown a growth of 12%. So, if we take out the COVID vaccination impact in the corresponding quarter of Q1 FY22. So, we have a growth of about 16% in hospital revenue that is through healthcare services compared with the corresponding quarter of the current year. Our standalone revenue for the first quarter is at Rs. 222 crore.

And our consolidated EBITDA for the first quarter is at Rs. 82 crore, which is again a post IND AS EBITDA and this compared with the first quarter of year FY22 with EBITDA was at Rs. 78 crore has shown a growth of 5%. So, if we compare this with the immediate quarter, the sequential growth, we have achieved about 71% growth. So, our EBITDA margins for the first quarter of FY23 is at 34.6% as against 31.8% in the corresponding quarter of FY22. So, there is a good growth in the EBITDA in terms of margin. This is on account of our original organic healthcare business is doing better. Our standalone EBITDA for the first quarter of FY23 is at Rs. 77 crore.

So, this quarter, we have seen better PAT margin, so our PAT margin for the first quarter is at 16.2% against 14.56% in the corresponding quarter of the previous year. So, PAT for the first quarter is at Rs. 38.7 crore as against Rs. 35.8 crore in the corresponding quarter of the previous year. So, there is a growth of 8% on year-on-year basis. And compared to the PAT of last quarter, the PAT has actually grown by 216%. The PAT for Q4 was Rs. 12 crore, and current quarter is at Rs. 38.7 crore. Our standalone PAT for the first quarter of FY23 is at Rs. 37.5 crore.

So, Rainbow Children's Hospital has delivered industry leading EBITDA as well as PAT margins. With respect to growth in volume, our OP volume has grown by 52% over the corresponding quarter of the last financial year. Our IP volume has grown by 22% and our delivery volume has grown by 12%. So, this shows our normal pediatric hospital business is coming back post pandemic.

On the occupancy, we have seen an uptick in Q1 of the current financial year over the Q1 of the last financial year. So, occupancy in Q1 of the last financial year was at 40%, this current financial year it is at 43%.

Our matured hospital has done well and achieved an occupancy of 46%, our new hospital has achieved a occupancy of 35%. With respect to ARPOB, so the Q1 ARPOB for the current year is at Rs. 52,603. This is against Q1 of previous year, which is Rs. 58,986. If we take out the COVID impact in the previous year, our ARPOB has grown by 8% actually, which is due to the case mix as well as tariff increase. And with respect to our ROCE and ROE, so the Q1, we have achieved a return on capital employed of 5% and our ROE is it 5.58%. So, there is a cash balance available in the balance sheet to the extent of Rs. 400 crore; if we remove that, the ROCE will be at 7%. See, all these are not annualized. On an annualized basis, we have delivered 23% ROCE and 26.6% ROE in the last financial year.

On the whole, our EBITDA margin, PAT margin, ROE, as well as ROCE are best in class in the industry.

Thank you once again. Now we'll open the call for your valuable questions.

Moderator: The first question is from the line of Praveen Sahay from Edelweiss Financial Service. Please go ahead.

Praveen Sahay: My first question is related to the Malviya Nagar, New Delhi facility. Can you elaborate like what kind of medical service, means like you had not included 130 beds in your capacity. And where the revenue like you account here?

R. Gowrisankar: Actually, the New Delhi Malaviya Nagar facility is a DDA property. So, we have a medical service agreement with the Madhukar Trust. And we charge 32.5% as a medical service fee, which is accounted in our healthcare service revenue.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, it would be helpful if you could give the pre Ind AS analysis of margins in Q1FY23 versus Q4FY22. And also, there was this price hike via the insurance route. Has it started to play out in the margin? That is my first question. My second question is based on whatever your capacity expansion plan that we have via function of addition in operational beds and the new beds that are going to come into the system, what is the kind of bed addition that we will see in FY'23 and what is the bed addition that you see in FY'24?

R. Gowrisankar: So, with respect to IndAS impact, we have about Rs. 14 crore of lease rental, which needs to be adjusted to get the pre IndAS EBITDA. For this quarter it is at Rs. 68 crore is pre IndAS EBITDA. And with respect to the previous quarter similar amount of Rs. 14 crore you have to remove to get pre-IND AS EBITDA.

Pritesh Chheda: Has the insurance price hikes started to play out in your number?

Dr. Ramesh K.: Yes, it just began to play out in the numbers. Started from June and yes, in some places we will have to close some insurance hikes, and especially in Hyderabad. Chennai, Bangalore and New Delhi, we were able to close it and I think that we started with the new tariffs from 1st of June.

Pritesh Chheda: So, now our pre IndAS margin looks like a number of 28%, 29% if I adjust the rental part. Is this the number we can look to work forward because this number is about 3%, 4% higher than last year's number of 24%, 25% pre Ind AS margin if I'm not wrong.

R. Gowrisankar: You're right. Actually, last year we had, COVID vaccine revenue which has got less margin compared to hospital revenue. So, that difference is there actually.

Pritesh Chheda: And if you could tell in the last year's revenue, how much is COVID revenue and what kind of growth do you see in the base business EX of the COVID, which is sum total of obviously occupancy addition, OP volume addition or via bed addition?

R. Gowrisankar: Please note there is no COVID revenue, it is COVID vaccination revenue. We had about Rs. 96 crore of COVID vaccination revenue in the last financial year. there was only COVID vaccination revenue, which is a onetime impact which you can take out. And otherwise with respect to occupancy also, we are getting back to the normalcy. So, the schools have opened and then our occupancies are bouncing back to the normal despite the fact that the last quarter as well as first quarter is subject to seasonality. So, we are seeing better occupancy. So, we used to have a similar occupancy pre-COVID actually. So, now we are coming back to 40%, 45% occupancy.

Pritesh Chheda: What kind of growth do you see in the business ex of COVID vaccination revenue?

R. Gowrisankar: So, we have delivered about 20% growth earlier. So, pre-COVID before FY'19, FY'20 and all, we are expecting similar growth actually in our business because we are seeing that this year is going to be a normal year for us, so it's organic year. So, we are expecting to continue the similar growth.

Pritesh Chheda: And sir, lastly, I had asked you on the bed addition. So, what kind of bed addition do we look at in FY'23 and FY'24 in terms of proper operational bed, either via the system beds getting operational or new hospitals coming in?

Dr. Ramesh K.: The bed additions are going to be in Chennai about 55 beds.

Pritesh Chheda: Sir, I wrote that. I want total bed additions for FY'23 and FY'24.

Dr. Ramesh K.: Total bed is about 145 beds are going to be commenced operational this year, current financial year. next year, almost equal number about 140 beds are going to be commenced FY'2023- 24, next operational year.

Pritesh Chheda: This is added from the existing hospitals because existing hospitals you have 1,500 capacity and 1,150 operational, so nothing coming from there as well.

Dr. Ramesh K.: There will be about close to 24 beds going to be added in Bangalore, our hub hospital in Marathahalli area. So, that work is in progress. That's going to be added soon, probably in about last quarter.

Moderator: The next question is from the line of Bansi Desai from JP Morgan. Please go ahead.

Bansi Desai: My question is on occupancy. So, sir, when I look at your mature hospital structure, they've reported an occupancy of 46%, I understand that Q1 is seasonally a weak quarter. So, can we assume that this number will meaningfully improve going forward? And for the mature cluster as a whole, by when should we see an occupancy level of 60% or so, which was a pre COVID occupancy for some of our mature units?

Dr. Ramesh K.: The occupancies in matured hospital will go past 55% because, remember, we are coming out of COVID now. And I think the anticipation is about mature hospitals probably will touch closer to the 60% and, consolidated level, I think we will probably have about 50% occupancy. That's optimistic. It may be a couple of percent more because, as it's looking now, the seasons and also normalized business. So, if we go back and see that pre COVID levels, we were about 56%. So, we are optimistic about consolidated at a group level occupancy, it will go past 50%. This is what our expectation is. It may be at 2% more than that, based on the season, how it's going to pan out next couple of quarters. So, the mature hospitals are always kind of would definitely do well, the maturing hospitals also picking up quite well now. Before we go to the first quarter, I think that number is actually as for me running the organization pretty impressive of 43%. So, we are expecting better growth.

Bansi Desai: Sir, on consol basis, fair to assume 50% occupancy level starting this year itself, right?

Dr. Ramesh K.: Yes. I think we should be able to do it.

Bansi Desai: And secondly, sir, on the ARPOBs. These are strong numbers. So, just wanted to understand, has the secondary pediatric business come back to our normal level? So, are these ARPOB numbers sustainable from a case mix standpoint?

Dr. Ramesh K.: Yes. See, what's happened is that now, we're quite happy to see that the business has come back to the pre COVID level, very, close to pre-COVID level. Our intensive care started doing very well, which has got a high ARPOB and our specialty pediatrics like pediatric specialties have started doing very well. For example, we were doing about 30 plus cardiac surgeries per month during the last year, and now it's kind of bounced back to 55 per month on average pediatric cardiac surgeries. And also transplant work has gone up and multispecialty work gone up significantly. Secondary care is something which keeps fluctuating as per the seasonality. The secondary pediatrics is more important for the spokes rather than hub, because hub mainly occupies most of the complex and specialty case mix plus obstetrics in the hubs.

Bansi Desai: Is it fair to assume that one should expect 6% to 7% growth on the ARPOB, which is closer to Rs. 52,000 that you reported in this quarter?

Dr. Ramesh K.: I think in the current quarter which we compare to the last year, whole year of this one, so we were able to demonstrate about 8%. I think that in the first quarter if you're able to demonstrate this kind of a growth, I'm optimistic about the year ahead.

Saurabh Bhandari: And just to add, Bansi, Saurabh here, whenever you look at ARPOB, please look at the annual ARPOBs and compare because as you right mentioned, we have fluctuations in ARPOB because of seasonality and the secondary care pediatrics, which are generally cold, cough and fever ARPOBs, which when their proportion increase in Q2 and Q3, the ARPOB slightly varies. So, in our kind of business, what is important is to look at ARPOB growth on a YTD basis and not on a quarter-on-quarter basis.

Bansi Desai: But even if I look at a longer-term trend, which is, past 3 years, on an annualized basis, you have been able to report ARPOB growth of 13%, 14% over the last 3 years. So, just taking that into consideration, I was thinking that is that kind of growth sustainable going forward? Or should we expect a moderate 7% to 8%, as sir just mentioned?

Dr. Ramesh K.: I would stick to 8% ARPOB growth because that is achievable. I think that we're optimistic about 8%.

Moderator: The next question is from the line of Praveen Sahay from Edelweiss Financial Service. Please go ahead.

Praveen Sahay: Can you give me a seasonality in your business, like on the quarter-on-quarter, which quarter is the best quarter and which is the lowest?

Dr. Ramesh K.: Generally, our businesses is like this, about 70% is pediatrics, 30% is obstetrics. The 70% pediatrics business carries the seasonality. The Q1 is generally a holiday season where children go on holidays, and Q4 is exams times. And also correspondingly these quarters you don't see a lot of environmental fluctuations, generally tend to be where seasonal illnesses will be low. So, if you look on average Q1, Q4 together, to Q2, Q3, the mid quarters, there'll be a variation about 7%, 8%. So, that's how it pans out. I think the Q1

& Q4 together somewhere around 42% to 43%. And Q2, Q3 will be busier months because of generally rain, seasonality onset of winter and a lot of pediatric infections and various other ailments comes through the season.

Praveen Sahay: And for this quarter, do you see any one offs in this quarter any like of surge in the elective surgery or something like that?

Dr. Ramesh K.: No, we don't have any one offs now, its normal business is coming back which is why what we witnessed is that when we do our normal business like a case mix of the intensive care, specialty pediatrics and secondary care and obstetrics, we do better ARPOBs and better EBITDAs.

Praveen Sahay: And on the expansion side, how much is on CAPEX you're doing for this year and the next year?

Dr. Ramesh K.: We have about close to 380-400 beds. These are going to take about an average about Rs.50 lakhs per bed for some of the spokes, smaller ones, the larger ones take about Rs. 60 lakh per bed. So, that's what it is, about Rs. 240 - 250 crore is the CAPEX which is to be deployed.

Praveen Sahay: In that like as you had also mentioned that one Bangalore and Rajahmundry you signed, so is that existing facilities where you are opening the segment or is it new?

Dr. Ramesh K.: Rajahmundry is getting built as a greenfield project. And one in Bangalore also is getting built. The Bangalore one, they have got already permissions. And Rajahmundry one, they have applied for permissions. I would expect Rajahmundry to be there in 2 years' time. Bangalore can be done much faster and it will take about 15 months.

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

Girish Bakhru: Just actually going back to the previous one. So, you're saying there's no pent-up demand reflected in this Q1, right?

Dr. Ramesh K.: It's not a pent-up demand. It's just kind of normal businesses which we're coming back to after 2 years period and children's healthcare across the world, the children remained at home, no schools, no going out. So, they've remained at home, which is why the pediatric business has been muted, overall spectrum of pediatric businesses, which has come back in the last year, we have done well in the revenues and EBITDAs. So, it was a bouncy year and quarter to quarter variation was so much. That's because of pent up demand coming back in, whenever the COVID subsided for a few months' time.

The surgeries have come back and all the specialties have come back. So, this year, what we see is that overall, the of mood of the nation, the people is that, yes, COVID is here and there lurking, but it's not something dreadful anymore. That's what people's belief is that now, that outpatients are coming back, and inpatients are coming back, the normal pattern of business is back. But there is one thing worth what we see is that normal seasonal illnesses, which are actually present in both pronounced in the sense that some of the viral infections, which comes and goes may not require admissions, they are requiring admissions because some portion of the children we discovered they have pneumonia needing admissions. So, I think this year is going to be I wouldn't say it's a bouncy here. We will probably see some of the seasonality, illnesses maybe more pronounced.

Girish Bakhru: And when you say the case mix was better, I mean, logically does it mean that more critical beds would be occupied? Like would you be able to give color on that?

Dr. Ramesh K.: I think that kind of granularity is difficult. Our intensive care occupancies have gone up significantly both pediatric and newborn intensive care, because the people are coming from the districts and faraway places for the intensive care services and within the city also, and people have come back after a long time to the cities, especially Bangalore and Hyderabad. Till recently, they all worked from home. Today, most of them, even the IT companies have said okay, come back to the city and work alternate 2 days or 3 days a week. So, the population has come back. That's what we see now.

Girish Bakhru: I mean ballpark, would you be able to give like, let's say, 33% of your network is largely critical beds. What's the occupancy there previously? And what is it now?

Dr. Ramesh K.: I think it varies from cities to cities and consolidated I don't have a number at the moment.

Saurabh Bhandari: So, ICU occupancy, Girish, would be in the range of 30% to 35% or closer to that. As Dr. Ramesh mentioned, it is difficult to put a number to it, but a ballpark number would be closer to that if we were to calculate that.

Dr. Ramesh K.: It's maturing or matured, everything put together. There are hospitals in the cities. See, what we see in Hyderabad we don't see in Bangalore. What we see in south, we don't see in Delhi. So, this keeps changing so much because each city is different. But overall, what we see the trends is that their occupancy is steadily going up in the intensive care services. And newborns especially started having much better occupancies than what we have seen entire last 1, 1.5-year time.

Girish Bakhru: And generally the trend of ICU occupancy will also increase in Q2, Q3, right?

Dr. Ramesh K.: Yes, of course.

Girish Bakhru: And just related to this, would it be possible to give some differential of ARPOB, how much would be the differential of ARPOB from critical beds to non-critical beds?

Saurabh Bhandari: So, the ARPOB difference, I'll just give you a ballpark estimate, Girish. the quaternary care and the women care have the highest ARPOB. So, these ARPOBs are higher than the company's ARPOB. So, critical care which is the tertiary care and women care would be higher than the Company's average ARPOB in the inpatient. And the secondary care is closer to 25,000, 30,000 kind of ARPOB. And rest is the outpatient ARPOB. So, if you look at it, you have the inpatient quaternary care, tertiary care, and the women care are the ones which are the group's average ARPOB.

Dr. Ramesh K.: To put it broadly, sometimes why I'm saying I'd not be able to answer question is that now a child who gets into intensive care is a neurology child, who takes significantly intensive care and outside intensive care. So, it's very difficult to differentiate specialties staying in intensive care, oncology patients staying in intensive care. So, overall, how we actually look at it is initially we did a better understanding of it. So, when we look at our ARPOBs, the Intensive Care Services and specialty services, obstetrics, all of them will have more than 60% ARPOBs generally. So, when you look at the secondary pediatrics, the ARPOBs will be somewhere about Rs. 30,000-35,000. So, combined, blended, adding plus outpatients' revenue, when you add to that. So, you get very a superior ARPOB, which is why this model has a better ARPOB because they've got a 3 to 4 operating metrics are very superior, which is intensive care services, specialty pediatrics, obstetrics plus our OPD revenues are significant. We actually on a total of revenue, 28% is OPD revenue. So, that gets significantly added to the ARPOB compared to the multi-specialty hospital.

Girish Bakhru: And just last one. So, I mean, I understand mature hospital is at 46% occupancy now. Can you give occupancies in the two hubs, Banjara Hills and Marathahalli?

Dr. Ramesh K.: I think Banjara is a 20-year-old hospital. It's occupancy will be about past 70%, 74% in average occupancy, 70% plus it would be. And Marathalli it would about 45% to 46% occupancy. But they're still maturing as it isabout 5-year-old hospital.

Girish Bakhru: So, in your CAPEX plan, there is no hub creation in the next 2-3 years given that these 2 are already there, but you don't think you need a hub also?

Dr. Ramesh K.: So, we're going to add probably beds in the hubs moving forward. We try to create more beds in the same place where we are in hubs. For example, we're adding about closer to 324 beds in Bangalore now because we were looking at adding more specialties in Bangalore. We require more beds in Bangalore in the hub hospital. Chennai, we are trying our level best to see how to increase the beds probably a year down the lineDelhi also we take the similar view. So, hubs expansions will take care, we need to look at the feasibility of adding beds and various other factors but we wish to kind of increase the bed numbers as the business grows, as more specialties get added.

Moderator: Next question is from the line of Prashant Kutty from Sundaram Mutual Funds. Please go ahead.

Prashant Kutty: So, first of all, just missed out if you had given the number of what was the COVID-related revenues in the base quarter?

R. Gowrisankar: Actually, it is COVID vaccination revenue of Rs. 44 crore was accounted in the corresponding previous quarter in Q1. So, there is no other COVID revenue.

Prashant Kutty: And was there any COVID revenue in the previous quarter?

Saurabh Bhandari: Yes.

Dr. Ramesh K.: It's dominantly a vaccination revenue what we have seen.

Prashant Kutty: Yes, I'm asking about vaccination revenue. How much was that in the previous quarter, sir? You said base was Rs. 44 crore. In Q4 was how much?

R. Gowrisankar: It is about 4 crore.

Prashant Kutty: And in this quarter, I believe nothing is there as far as COVID.

Dr. Ramesh K.: There is nothing significant, maybe I think less than Rs. 1 crore. See, what happened is COVID vaccine ceased. Number 1 is mean the sample, so much Government has procured for COVID vaccinations, their vaccinations were given everywhere free of cost. So, why would they come and pay it. Number 2 is the pricing has come down so low, so therefore that you already have your business that we wouldn't be kind of going out to do the COVID vaccinations anymore. So, the interest levels have gone down significantly even for children. This is a surprise to me in a different note, that we thought that there would be a lot of demand for the COVID vaccine for children, but there's not much. And even the Government is not willing despite the developed countries set up to 5 years to give COVID vaccinations. Still Indian Government has not decided to give less than 12 years, the vaccinations. Parallelly, the interest levels have also significantly gone down because people are not feeling that COVID is a serious disease in small children.

Prashant Kutty: Sir, second question over here was in terms of the ARPOB, obviously, a lot of the price hikes have largely happened. And you said that typically you would want to maintain about a 7% to 8% kind of an ARPOB increase? Are there any of the places where insurance is expected or is largely everything done? And what's the duration of the insurance hikes, what typically happens here?

Dr. Ramesh K.: It's supposed to happen at 2 years' time, but I think the think that post COVID, , insurance companies are behaving very differently because they had to pay a lot of money towards adult COVID. So, they are becoming increasingly difficult. I mean, supposed to be 2 years, but it gets extended sometimes 2, 2.5 years, it can be even 3 years' time.

Prashant Kutty: So, typically in a year, like FY23, would we mean that, that our ARPOB, which we spoke about an 8% kind of an increase would largely be driven by case mix and maybe to an extent some price hikes in general? Or if you could throw some light on that.

Dr. Ramesh K.: We do the inflation correction on those things, annually, that's pretty normal. And the case mix is something which we would anticipate driving ARPOBs moving forward. So, the price hikes, still Hyderabad has not been done our insurance tie-ups and pricing, so I think dominantly, the case mix and volumes, and as the maturity goes up, various other parameters kicks in. So, that's what is going to drive ARPOB.

Prashant Kutty: So, one more question with regard to the ARPOB part was that you already talked about Rs. 52,000 odd. And like you said, there is no such impact of COVID or something. And you said that the business is as usual. So, an ARPOB of Rs. 50,000 plus is like a more sustainable number which one can assume. That's a fair assumption to make?

Dr. Ramesh K.: Yes, I'm sure, mainly sustainable because as I explained earlier as to the previous question that we have the case mix, which can rise that ARPOB.

Prashant Kutty: Sir, last question from my end on the bed addition. You just gave a number to one of the previous participants about 140 odd beds being added. I think those were new beds if I'm not wrong.

Dr. Ramesh K.: Yes, they are new beds.

Prashant Kutty: But if I'm not wrong last time, you probably spoke about that you maybe have a target of adding about 200 odd beds annually. So, does it mean that the balance would come in from these existing hospitals?

Dr. Ramesh K.: The current financial year, there's going to be new bed added about 90 plus 55, 145. Plus, we have about 25 beds adding in Bangalore city, in our hub hospital, that's what is going to come this year. So, next year, there's already planned beds, which is about 140 beds. So, there's always going to be bed additions happening in the existing hospitals, which won't take much of time to add it. So, that's kind of an average about it could be 150 to 200, sometimes it can go to 250. It depends on the projects and the execution and various other factors.

Prashant Kutty: Sir, as new beds are concerned, it is about 140-150. That's the run rate?

Dr. Ramesh K.: Yes, that's the run rate, it will go up.

Prashant Kutty: The existing, it will go up to 200 or 250 depending upon wherever you are.

Dr. Ramesh K.: Yes, exactly, FY'24- FY'25 because lot of things are under plan under diligence of those things.

Madanagopal Ramu: Good afternoon, Dr. Ramesh. Madan here from Sundaram Finance. Sir, when you add this new bed in the existing facility in the existing hubs or spoke, the CAPEX there also is around Rs. 50 lakh or that will be much lesser?

Dr. Ramesh K.: I think it may be lesser. How we'll get these, it depends on what we are going to add. For example, if I'm going to add beds, and for the capacity building, as well as to what specialty I'm going to start. If I'm going to start cardiac services, definitely the cost of the bed is going to shoot much higher because you have cath labs, you have operating theatres and those things. So, if it's going to be just the addition of the beds, yes, definitely, it will be much lower.

Madanagopal Ramu: But how is it looking like whatever we are planning to add this year in Hyderabad and probably next year in the existing facilities.

Dr. Ramesh K.: Which is why it's kind of a cost between Rs. 55 lakh, Rs. 60 lakh upper limit. Mind you, it is significant, what we are witnessing is seeing that there is cement cost, steel cost, even old materials, especially electrical, everything has gone up by 20%, 25%. So, we're battling with trying to see that how to optimize the cost to what we have actually promised to do the bed numbers. It's become challenging actually. The price hikes are phenomenal everywhere, because of supply chains and various other factors.

Madanagopal Ramu: One additional question. The spoke that we are planning to add, like in Anna Nagar, Chennai and central Hyderabad, all these are on the lease, right?

Ramesh Kancharla: Yes.

Moderator: The next question is from the line of Rahul Jeewani from IIFL Securities. Please go ahead.

Rahul Jeewani: Sir, can you please comment on your IP and OP volume growth which we have seen during the quarter on a 3-year CAGR basis?

Dr. Ramesh K.: See, let's look at our OPD footfalls growth, we have grown to 52% from the quarter 1 of last year to current quarter. And we have grown by 22% of the inpatients growth from the quarter 1 of last year to the Q1 FY'23.

Rahul Jeewani: So, why I was asking that question is that our base business would have been impacted last year and hence the growth on that depressed base seems higher. But if you can generally comment on this 20% revenue growth which you are targeting, maybe 8% to 9% of growth will be driven by ARPOB increases. So, the rest can be assumed to be volume growth on account of bed additions?

R. Gowrisankar: It will be both, new locations plus the existing locations will have growth in the numbers. It will be both bed additions as well as volume growth.

Rahul Jeewani: And given that you are still targeting occupancies north of 50% for the overall group for the fiscal year, so would that mean that 2Q and 3Q, our occupancies have to be materially higher because of the seasonal benefit, which we will see in the portfolio during the second and third quarters?

Dr. Ramesh K.: Yes. I mean Q2, Q3 has always been higher than Q1 and Q4. So, the proportion is about there'll be a 6% to 8% variability there between the Q2 & Q3 to Q1 & Q4 occupancy together because of seasonality. So, this current quarter, the Q2 & Q3 will definitely be higher occupancies. So, which is why we estimate our occupancies will probably go past 50%.

Rahul Jeewani: And this 20% growth which you have been talking about, so for FY23, would you have this 20% kind of growth on a reported basis or adjusted for the COVID vaccine benefit, which we had last year?

Saurabh Bhandari: So, when we are saying 20% growth, it is after adjusting for the COVID vaccination revenue. once you remove that revenue on that 20% is growth is what we are talking about.

Rahul Jeewani: But Saurabh, wouldn't FY23 be a year of normalization, and hence the base business growth should actually have been higher than 20%?

Saurabh Bhandari: Yes, that's correct. But we also have to look into account that the COVID vaccination revenue was 10% of our overall revenue, so Rs. 1,000 crore.

Rahul Jeewani: No, Saurabh, I'm saying from a base business perspective. Now, if you say pre-COVID, we were growing at 20% kind of a run rate. And now over the past 2 years, our base business has been impacted. Even if we look at our OP volumes now, those are still trending below the FY20 annualized volume. So, given that the recovery, which we are seeing in the business, wouldn't the growth on the base business ex of COVID vaccination should be higher than 20% this year?

Dr. Ramesh K.: See, I'll tell you, Rahul. In Children's business, there's nothing like a pent-up demand, like what we see in adult hospitals. What we're are seeing is normalcy of our business both in terms of case mix as well as the numbers. If you look at our numbers, then we are getting back to our numbers, both in IPDs and OPDs with a growth of what we used to kind of have the growth of going back pre-COVID level. 20% growth was achievable target which we have always achieved it. Now coming back into this year, that 20% growth would definitely happen, because there's no pent-up demand. See, when there is a pent-up demand, you escalate that growth to a 24%, 25% or whatever it is. So, we don't have a pent-up demand in the children's because they're not elective. See, 70% of the Pediatric business is emergency based. So, pent-up demand doesn't really matter too much to us, it may be very short while. What we have seen pent up demand is in the previous year, the Q1 to Q3, Q3 to Q4, Q3 is a good quarter because of pent up demand because all the pediatric surgical cases have come back for operations and those things. And those things over the last six months' time, we had been doing all those things. There's not really much pent-up demand. What happens in children is you can't really postpone too much of surgeries required, we can't postpone for 6 months or 9 months or a year because it may have other effects on the patient.

Rahul Jeewani: So, that possibly explains why the growth room will be on a sustainable basis for us at around 20%. Sir, one last question from my end, if you can just speak about the profitability levels for Delhi cluster operations and as well as the due diligence of land which you are pursuing for your hub hospitals in Gurgaon and Noida.

Dr. Ramesh K.: So, we continue to do the diligence. We have taken approach to either, if the land costs are fair and workable, we would love to buy. And we're also looking at some the Brownfield projects. Some of them are in diligence process. But when we look at, Delhi, there are properties available. And diligence takes much longer than other parts of the country and there are complexities. So, we are being careful. We'll continue to work on that with various vendors and agencies. So, when we have an answer, definitely, we'll come back and present probably in the next quarter.

Rahul Jeewani: And just on the profitability of the Delhi cluster?

Dr. Ramesh K.: So, last year, we were able to breakeven Delhi hospital. This is tracking well this year so far, it's been profitable. The other one which is the luxury birthing center, which has been acquired by us 2.5 years ago, so that's the luxury birthing centers per se that we never believed in that as good a great business model. We are actually converting it to a proper birthing center, getting insurances, and we managed to get some of the insurance closed, some of them are still pending. So, we are working on that. And also, we are trying to get Rosewalk under Rainbow network in that sense, Rosewalk by Rainbow Hospitals. So, that will probably help in terms of branding aside.

Rahul Jeewani: So, would you be increasing the number of beds at Rosewalk given that you are transitioning the facility to a regular birthing center?

Dr. Ramesh K.: This is an interesting thing. We never believed in that kind of a small mom and pop stores. For us the smallest facility is about 50 beds. that's our operating model. The Rosewalk is something which is about 24 beds, which I wouldn't really like to have a hospital which is 24 beds. I would like to have a larger facility and a combination of pediatrics and obstetrics. So, unfortunately, here you can't expand it. It's very ring-fenced space wise. I can only operate 24 beds, dominantly obstetrics and obstetric-related work. So, nothing much of a significant pediatric work I can do because not much of space is left for the pediatric outpatients, emergency services or ICU services and those things. It will remain to be a birthing center. So, that will give us an experience of birthing centers well.

Moderator: Next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

Alankar Garude: So, just continuing on the previous question on Delhi, is now the Madhukar Hospital trending in line with expectations?

R. Gowrisankar: Yes. Last year, it has broken even. And this year, we are expecting it to kind of contribute to the overall EBITDA.

Dr. Ramesh K.: You see, it's doing well this year and the overall our outpatient numbers have started increasing and IPD revenues are increasing, our ICU is getting stronger and stronger. So, I think we expect Delhi to do well this year. And it's going to kind of post the positive EBITDAs.

Alankar Garude: So, in that sense, how many years should it take for the loan repayment by the trust to happen towards Rainbow?

R. Gowrisankar: It should happen in next 2-3 years maximum, not more than that. we will close it within 3 years.

Alankar Garude: The second question, sir, was on Bangalore and I think earlier you called out that there was a higher impact on footfalls at our Bangalore hospitals during the last 2, 2.5 Years. But then, I think earlier in the call, you mentioned that there's almost complete normalcy in footfalls for the network. So, just wanted to check specifically on Bangalore, would you be saying that you mentioned about work from coming off and people coming back to offices at least 3 days a week, but would you say that Bangalore is still maybe slightly lower as far as normalcy is concerned as compared to your overall network?

Dr. Ramesh K.: I think Bangalore is largely what we've seen is that Bangalore has come back largely, I wouldn't say that 100%, it's probably still about comeback by 80%, 85%. The OPD numbers what we have been seeing in the last couple of months are very, very significant in Bangalore. So, we are seeing whatever we expected the numbers that numbers we've been doing it even the inpatients volumes have grown up significantly, even our new facility in North Bangalore also kind of having good occupancies as well as the outpatient numbers. So, overall, 2 things in Bangalore is that our brand Rainbow is actually penetrating much stronger. And now, I think, next couple of years, Rainbow is going to kind of play out very dominant in Bangalore City and improve both kind of the case mix as well as operating parameters.

Saurabh Bhandari: So, just to add Alankar and give you a slight color on the growth in Bangalore post pandemic, the outpatient volume at the group level has increased by 50% as Dr. Ramesh mentioned earlier in the opening remarks, but the outpatient volume in Bangalore cluster has basically grown by 100% between Q1 of this year vis-à-vis Q1 of preceding year. So, from 20,000, it has gone to 40,000 plus outpatient volume in the current quarter. So, Bangalore has seen the fastest growth in this quarter as far as the outpatient volume or inpatient volumes are concerned.

Alankar Garude: And maybe Saurabh, if you can give a similar color on the Chennai cluster as well that would be helpful.

Saurabh Bhandari: So, on the Chennai front. Alankar, the outpatient volumes have grown by 60% in this quarter vis-à-vis the first quarter of last year. So, Chennai has also seen a strong momentum in the quarter 1.

Alankar Garude: And one final question from my side. See, so, we have a broad plan to add about 1,000 beds cumulatively give or take in the next 5 to 6 years. Now, assuming say Rs. 60 lakhs of average CAPEX per bed that would entail a total CAPEX of about Rs. 600 crore and if I add say about Rs. 150 crore odd of cumulative maintenance CAPEX on top of that, the total CAPEX requirement would be about Rs. 750, Rs. 800 crore over the next say 5 years or so. Now, given that we have about Rs. 400 crore of cash and we would be generating at least Rs. 150 crore of free cash flow each year, do you think there is scope to undergo further expansion, either organically or inorganically within the next 5 years?

Dr. Ramesh K.: I think, Alankar, one important thing is in pediatric this one, we cannot aggregate the business in pediatrics. This is an organically built business. So, we were able to build this kind of numbers of the beds. If you look at 60% of the beds are going to be added in the places where we are already existing, we are already present like in Bangalore, Hyderabad, Chennai, and NCR. So, the going out and doing in new cities, I mean, it's not an organic model, it takes its own time, number 1. Number2 is when you have large cash, we can also look at, possibly, if something which is philosophically aligned acquisitions, that may be another way of looking at it. Probably we've just done the listing I mean 3 months ago, I think we would probably start looking at it towards the end of the year or next year, to see how to deal with that. We need to take a view as a Company to see that, the cash is not going to be a problem. We are debt free. And we can look at it either kind of small chains or standalone hospitals, maybe better moving forward in future. So, that's something which we need to work on that data to organically all the times or to have some acquisitions, which are aligned to where we can operate and build those businesses.

R. Gowrisankar: Basically, it should be accretive to EBITDA margin as well as our ROE, ROCE.

Moderator: The next question is from the line of with Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I have 3 follow up questions. One when we look at the incremental bed addition, which is let's say not via hub and we have a lot of maturity driven operating leverage at Delhi and there is a natural growth. So, if you have to guide us on, what kind of margin expansions do you see on your business model as we go towards the next couple of years or next 3 years based on this operating metrics that you're putting through for your business? That's first question. My second question is, is it fair to assume that all your incremental investments in capacity creation are going to come at plus 35% ROCE considering that it is easily a 2x asset on business with a high margin? And my third question is, have we drafted any dividend payout plan because of the free cash flow generation that we have and lack of inorganic growth opportunity?

Dr. Ramesh K.: I'll take this question actually. I'll take the last bit first. So, I mean, we've been paying dividends for the last 10 years' time. We've been profitable while growing. So, this is, I mean me as a promoter, , I would like to be profitable while growing, that's absolutely an underlying statement. So, I wouldn't take a kind of risk to put the business at the moment or in future, that's very, very clear. We always had cash on the balance sheets, still here we could have added more beds, we've not done that. Because there needs to be reason to add the beds, there need to be a business to add the beds, there has to be a kind of a capability to execute and build a model for the beds.

So, first 2 questions are actually too complex, too difficult, I think that which means I have to do a lot of guidance, unfortunately, I wouldn't be able to do that kind of guidance or forecasting. But I can tell you one thing, we have been growing 20% year-on-year while adding beds. So, I'm talking about last 8 to 9 years' time, how we have grown, we continue to grow at the same pace of 20% of growth, both numbers and as well as this one, I expect to do the same thing, we continue to do the same thing. In terms of cash flows, as we have been asked earlier question what they were asking about is you are going to end up in a lot of cash on the balance sheet, so how do you deal with that. That's something which I would like to kind of have some time to kind of see that, what are the strategic acquisitions, we can think about it. These strategic acquisitions also when I would put a kind of a company balance at risk. As long as there is opportunistic, where we can add value, where we can add the scale of the operations to get our profitabilities, ROCEs, we will definitely be able to do it. So, I think we are somebody who kind of have a very clear thought process and a definitive thought process, with what we want to do is very, very clear.

So, the building of business is very, very important in these 4 cities, because as a hub and spoke model, Indian cities are very, very large, Hyderabad is moving forward and probably in a couple of years' time will be 1,000 beds in Hyderabad. You can imagine that in our Hyderabad, when you have a 1000 beds, the capacity building I can do in Bangalore, Chennai, and New Delhi, because they're much bigger. This happens always much faster than we anticipate and expect. And other states which are in actually Rainbow is a household name in the state of Andhra Pradesh and Tamil Nadu, we are going to be in Tamil Nadu. So, these 2 states we do kind of the regional spokes as well. That's how we look at it, rather than kind of a sporadic going around here and there to do it. Even acquisitions, we look at that in a very disciplined way. This is how we look at our business and what's more important for Rainbow is to build something which has not been there in the country. That is what Children's specialty hospital, and we are going to be kind of building the children's multi-specialty services for the country. And also, there's a lot of opportunity for us to do business within the country to get the patients from across the country as well as from the International. So, this is how we look at it not only building a cross sectional country and building vertical also, as we move forward, that's something I can tell you, what's in my heart, what's in my mind, but given our guidance to year on year is very difficult.

Pritesh Chheda: But sir, directionally do we see margin expansion continuing for some years to come?

R. Gowrisankar: We have been traditionally maintaining this 25% turnover margin that is pre IndAS basis, we are expecting to do that because see, we will not do something which will be margin dilutive, and in fact, we are expanding. In next 3 years also we are adding about 500 beds. So, we will be cautiously optimistic when we add actually. Definitely we will not do which will dilute this margin.

Pritesh Chheda: But sir, if your lean season margin is 28%, 29%, which you reported in quarter 1, obviously, the annual margin has to be higher than this, right, because your main season is quarter 2 and quarter 3.

R. Gowrisankar: We are adding beds actually. If you see typically next quarter, we are adding beds as well as in the next couple of quarters, we are going to add about 145 beds actually. So, I am taking the operational losses in the first year of those business as well. So, we have to take the margin, next we have to see the margin.

Dr. Ramesh K.: So, then, we talk about steady state, while adding the beds steady state, this is what we were able to achieve and do it 20% of growth in numbers as well as what we've been talking about EBITDA margin of 25%.

R. Gowrisankar: Yes, 25%, pre IndAS margin.

Pritesh Chheda: But sir, then we have a lot of low occupancy in the system, that occupancy is driving your growth. By virtue of that, you don't want to call out the case for margin expansion building in over next 2 to 3 years. Why the opinion of having a 25% flat margin?

Dr. Ramesh K.: See, they are too philosophical this is one is. One is, me as a promoter margin expansion is very important. The capacity building is equally important. And also building the more services are more important because I am a pilot project even today. I mean, I want to build this children's healthcare world to look at us. So, those are important goals, while protecting the investors and shareholders. There are many important goals here. So, this is a fine balance, which as an organization which has a lot of opportunity to grow in future to balance between the growth as well as to the shareholder's interest. That's how I look at it.

Moderator: Thank you. I'll now hand the conference over to the management for closing comments.

Dr. Ramesh K.: Thank you very much for all the analysts and investors who have been very patient with us. And we are happy to answer anyone who has further queries. I think already information is there for you to connect with our Investor Relations, as well as our CFO, numbers have been there. So, please do get connected to us. We'll be able to kind of answer your questions and further queries. Thanks once again. Hope to see you again in three months' time. Thanks a lot. Thank you.

R. Gowrisankar: Thank you. Have a good day.

Saurabh Bhandari: Thank you.

Moderator: Thank you very much. On behalf of Rainbow Children's Medicare Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you