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Sub.: Transcript of Earning Conference Call held on October 28, 2021 for Q2 FY 2021-22 Unaudited Financial Results

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

Dear Sir/Madam,

With reference to earlier intimation vide our letter no. Shalby/SE/2021-22/67 dated October 26, 2021 and pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith transcript of earning conference call held on October 28, 2021 wherein Unaudited Financial Results for Q2 and FY2021-22 were discussed.

The said transcript is also available in the Investors Section of our website.

We request to take the same on your records.

Thanking You,

Yours faithfully,
For **Shalby Limited**

SHALBY LIMITED AHMEDABAD

Tushar Shah
AVP & Company Secretary
Mem. No: FCS-7216

Encl.: Conference call Transcript

"Shalby Limited Q2 FY2022 Earnings Conference Call"

October 28, 2021

ANALYST: **MR. ABDULKADER PURANWALA – ELARA SECURITIES PRIVATE LIMITED**

MANAGEMENT: **DR. VIKRAM SHAH – CHAIRMAN & MANAGING DIRECTOR – SHALBY LIMITED**
MR. SUSHOBHAN DASGUPTA - VICE CHAIRMAN & GLOBAL PRESIDENT – SHALBY LIMITED
MR. SHANAY SHAH – PRESIDENT – SHALBY LIMITED
MR. PRAHLAD INANI – CHIEF FINANCIAL OFFICER – SHALBY LIMITED
DR. NISHITA SHUKLA – CHIEF OPERATING OFFICER – SHALBY LIMITED
MR. BABU THOMAS – CHIEF HUMAN RESOURCES OFFICER – SHALBY LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Shalby Limited Q2 FY2022 Earnings Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abdulkader Puranwala from Elara Securities Private Limited. Thank you and over to you Sir!

Abdulkader Puranwala: Thank you Lizzan. Good afternoon everyone and we welcome all the participants to the Shalby Limited Q2 FY2022 earnings call hosted by Elara Securities. Today, we have with us the senior management representatives from Shalby. We will start with the opening remarks from Mr. Sushobhan Dasgupta, Vice Chairman & Global President and Mr. Shanay Shah, President followed by discussion on the financial performance by Mr. Prahlad Inani, Chief Financial Officer. After that we will open the floor for Q&A to all participants. I will now hand over the call to Mr. Puneet Maheshwari from Shalby for important disclaimers regarding any forward looking statements that will made in today's call. Over to you Puneet.

Puneet Maheshwari: Good afternoon everyone. Our earnings presentation is uploaded on the stock exchange website and our company website shalby.org. We do hope you have already had the opportunity to go through the presentation. Please note that some of these statements made in todays call maybe forward looking in nature and may involve risk and uncertainties. Kindly refer to slide number 24 of the investor presentation for a detailed disclaimer. Now I would like to hand over the call to Mr. Sushobhan Dasgupta, Vice Chairman & Global President for his opening remarks. Thank you and over to you Sir.

Sushobhan Dasgupta: Thank you Puneet. Good afternoon everyone and welcome to Shalby's Q2 full year FY2022 earnings call. All of us at Shalby sincerely hope that you, your families and friends are staying safe and healthy. I believe most of you may have been able to review our quarterly results presentation by now and can see that our Q2 full year FY2022 results clearly demonstrate Shalby's strong performance across all business areas. During the quarter we saw a declining number of COVID cases across our hospitals mainly as a result of a higher number of vaccinations, which is a good sign for everyone across India. With only 14 of COVID patient admissions we can say that this quarter was affectively a non COVID-19 quarter for us at Shalby. Overall, our Shalby delivered a robust financial performance underpinned by growth in core specialties and increasing surgery counts. The non COVID inpatient count including daycare patients increased to plus 15,500 reaching our pre COVID levels, which is indeed great news. In this quarter, our non COVID revenues registered a growth of 130% on a year to year basis and if we compare it to our Q2 of full year FY2020, which is a good like to like comparison since that quarter and full year FY2020 was also a non COVID quarter, our growth stands at a very healthy 26%. This underline performance was driven by Shalby sustained efforts over the years to further strengthen its core hospital platform, healthcare services and build on its trusted brand awareness. Before we go further into the details of the quarterly results, I am keen to take this opportunity to reinforce a couple of aspects of the Shalby business strategy and growth story looking forward. Our core growth strategy comprises of further strengthening the existing hospital business, roll out the franchise model across India and turn around our orthopedic implant business we recently acquired in the US. All these three businesses are fully synergistic with our core specialty of arthroplasty and poised to deliver accelerated high growth in the coming years.

Let me first cover our hospital business. In the last few years, we have built a strong infrastructure of hospital with bed capacity of around 2000 beds out of which 1200 beds are operational and the remaining 40% of total bed capacity is still available to support our organic growth trajectory and with limited additional capex. The upcoming Nasik and Santacruz Mumbai hospitals are on track within development budgets and will provide future access to important markets in Maharashtra. Shalby has diversified from its core specialty of arthroplasty and orthopedics with oncology now contributing 8%, cardiac sciences another 8% and neurology contributing 5% to the Q2 full year 2022 revenues. We are also leading various innovative digital and market awareness programs which continue to reinforce the Shalby brand nationwide and thereby further increase our occupancy. The franchise model will also rapidly create additional brand awareness about the Shalby group, which in turn would drive patient visits at our core hospitals.

Now a quick update on our franchise model, our franchise model is unique, innovative and first of its kind with a focus on inpatients and has already started to deliver immediate traction and results. It is an asset like model leveraging Shalby's expertise and branding across arthroplasty and orthopedics allowing for faster market penetration across India without significant additional cash flow investment. As highlighted in our last call, we mentioned that we are in the process of finalizing two franchise hospitals and I am now delighted to report that in September we launched our very first franchise owned and franchise operated hospital at Udaipur in Rajasthan and the initial performance is very encouraging. Our next franchise hospital will open in Rajkot by the end of this fiscal year. We are committed to establish over 50 Shalby franchises across India within the next three years.

Finally, an update on our orthopedic implant business in the United States. Our acquisition of the consensus, very high quality implants manufacturing facility in the United States of America in May of this year was at an attractive valuation. The acquisition is fully in line with the status strategy to grow the orthopedic business. We appointed Daniel Hayes, the original founder of Consensus as the CEO and during the quarter we have onboarded other senior executives to drive this business forward. Our immediate priority is to reestablish market presence and revenue base in the core markets of the US, Japan and parts of Latin America. This will be closely followed by entering the high growth markets of Asia particularly India, Indonesia, Vietnam, Philippines and Bangladesh. Shalby is the leader in joint replacement market consumes 10,000 plus implants in a year and this transaction enables Shalby to also procure quality implants from Consensus at a competitive price for its own consumption in India. Furthermore, the demand for implant from upcoming hospitals under the franchise model can be met by Consensus. So to summarize, we see great potential in all the three segments with business being fully synergistic. Together we create a unique healthcare platform enabling Shalby to deliver high quality and affordable healthcare services and products at an accelerated pace. Now I will hand over the call to Shanay to discuss our company's performance during the quarter.

Shanay Shah: Thank you. Good afternoon everyone and thank you for joining in. In Q2 of FY2022, the healthcare sector showed signs of normalization with declining number of COVID-19 cases in India. As a result, we saw a strong rebound in elective surgery. The total surgery count increased to 6190 as compared to 2536 in Q2 FY2021 and exceeded the pre COVID period average count of 5000 surgeries per quarter. In line, our performance increased significantly to Rs.33977 as compared to Rs.24837 in Q2 of FY2021. Overall Shalby's performance during the quarter was underpinned by growth in core specialties such as arthroplasty, orthopedics, oncology and cardiac sciences, which contributed 37%, 11%, 8% and 8% to the revenues respectively. We have been consistently delivering one of the highest EBITDA margins in the industry and furthermore, I am proud to report that Shalby has delivered a double digit ROC of 13.1% on first half of FY2022 on an annualized basis. In our constant endeavor to further strengthen and diversify our core offerings, we have undertaken various innovative initiatives. During the quarter, Shalby has launched a state of the art digital spine operation room at SG Shalby Hospital. It is equipped with cutting edge digital technology supported by an equally efficient and experienced in-house surgical team. We also aim to diversify our service offerings therefore we have launched a kidney transplant centre at Mohali and Indore. Our cardiac specialty is also getting wide recognition and the Indore unit performed the highest number of minimally invasive heart surgeries in Central India. We have also introduced four new cardiac care technologies as Shalby Indore through Shalby Institute of Cardiac Sciences. As Mr. Dasgupta mentioned earlier, we have launched our first orthopedic franchise owned franchise operated that is FOFO as we call it in the country at Udaipur. It will be offering OPD as well as IPD services to the patients in the state. We took our time in order to launch the first franchise hospital and with all the learnings across systems and processes, we plan to establish 50 franchise hospital in the next three years. During the quarter we have also launched Shalby Institute of Rehabilitation Sciences at Shalby Krishna Hospital in Ahmedabad. The rehabilitation centre was conceived and now managed by an experienced medical specialist team. Our motto is freedom from disability and it is a unique and arguably the only rehab centre providing 24 x 7 in-house medical and emergency services by specialist doctors for people from children to the elderly. Shalby remains fully committed to building a long term sustainable high growth business and I can confidently say that we are very well positioned to deliver stakeholder value in the coming years. Now I will hand over the call to Mr. Prahlad Inani to present company's financial performance.

Prahlad Inani: Thank you Shanay. Good afternoon everyone. I will walk you through the financial performance of the company for the Q2. As you all know that the first quarter was majorly driven by the second wave of the COVID pandemic however in the Q2 we saw a strong resilience in non COVID patient count. As Shanay mentioned already that the surgery count was 6190, which exceeded the pre COVID period average count of 5000 surgeries per quarter, which is showing our growth in our core business. On a standalone basis, the company registered total revenue of Rs.1770 million in Q2 FY2022 compared to Rs.1180 million in the same quarter last year. Total revenue grew by 53.5% on a year on year basis. Our top line was primarily driven by increased non COVID-19 patients and strong rebound in surgery count. As Shanay earlier mentioned, COVID-19 patients were only 14 as to 2463 in the same period last year. EBITDA for the quarter in Rs.345 million compared to Rs.314 million Q2 FY2021. EBITDA margin were 20.1% as compared to 28% in Q2 FY2022. The margin percentage is lower on year on year basis due to still margin in vaccination and change in patient mix from medicine to surgical and increase in business promotion, repair and maintenance expenditure. Reported net profit was Rs.167 million for the quarter compared to Rs.242 million in the same quarter last year. I would also reiterate the fact that Shalby is under MAT regimen which kept its expenses around 18% and if we consider that our adjusted net profit was Rs.201 million in Q2 FY2022 as compared to Rs.199 million in the same quarter last year. Reported PAT is lower due to additional tax expenses as per the accounting treatment that is the deferred taxation. From a balance sheet perspective Shalby continues to maintain net cash position with Rs.1036 million at the end of September 2021. We have also released consolidated financial statement for the quarter and reported revenues of Rs.1844 million as compared to Rs.1180 million in Q2 of FY2021 a growth of 56% on year on year basis. You will notice that operating EBITDA margins were slightly lower which is primarily due to Shalby advanced technologies expenses, which began operations from May 14, 2021 and this was the first complete quarter. EBITDA for the said business has reduced from Rs.38 million in the last quarter of operations, which was 45 days to Rs.15.4 million in the first full quarter for the year on account of higher operational efficiencies. At the consolidated level, we continue to maintain net cash positive balance sheet and Shalby has registered double digit ROC of 13% in H1 FY2022 on an annualized basis. Thank you very much. We can now open for any question you may have.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Thanks for the opportunity and congrats. The first question is on the brand business Sir? Obviously you have indicated that the 100 day turnaround plan is working well you have progressed on that front of implementing or adding new people or able people for that business and expanding the businesses globally so if you can just a bit elaborate on that how should we see in terms of volume realization, pricing strategy in terms of value kind of a progression and also if any promotional spend which would be there currently and that will be impacting the existing surgery consolidated equipment so some sense on that would be helpful?

Sushobhan Dasgupta: I will take this question. Thank you Mr. Patra for the question. Let me first tell you that we are completely on track on the 100 day turnaround plan for implants so under the leadership of Daniel Hayes and I directly oversee that business as well and if you may know my background, I have been in Johnson & Johnson for 30 years and I was the President of the Asia Pacific implants business or the joint replacement business for Johnson & Johnson and have lead the business on the medical division business for India as well so the reason I am saying this my experience in joint replacement and implant business is pretty significant. With that context when you look at the overall picture of the implant what happens is implant business has turned around due to four reasons and the four basic pillars. One is the products, one is the people, the third is the promotion aspect and the last one is a very, very important, which is the supply chain and service. When you look at the product first of all the products that Consensus has so we have implanted thousands of implants in the US and when you look at the thousands of implants in the US and we take a feedback and we look at the performance of those implants, it is a benchmark. It is one of the best in the industry so the hip and knee implants that we have are one of the best. What happens is we have once we took over we accelerated the launch of a new product. We are in this quarter which if everything goes right in November we will be able to launch a new product which is a unicompartmental knee, which is now you can imagine within the five months of taking over and acquiring the assets of a company, we will be able to launch a product so that is the way we are going fast so the hips and the knee as well as the new product that I talked about is one pillar. The second pillar is the people. We have Daniel Hayes who has 27 years of orthopedic experience, a fantastic engineer and a great commercial leader so he has established Consensus way back. He has moved out of the company. We have got him back as a CEO. We have a fantastic finance person. We have recruited an HR person. We have one of the best manufacturing person and we have been recruiting a lot of experienced people, people who want to come back who have left the organization, the machinists and the shop floor workers are coming back as a result. So that is the people aspect and then you talk about people one is the manufacturing side. We need to also understand the demands side. We have one of the best sales and marketing leaders who have joined us called Danny Merrell and he is looking after the entire sales and marketing area has an experienced of up close to almost 25 years working in big companies including Zimmer Biomet. Now the third part is the customers. When you look at the customers we have a very clear understanding. Let us look at the history. Over the last five years the company was not doing well. The reason is they were not being able to inject sufficient funding and because the funding was not there the supplies are the problem and if the supplies are not there what happens you have very unhappy customers in spite of you having very quality products you have unhappy customers. Our first job was to connect reconnect and re-engage with those customers, the loyal customers, and I am very happy to say that we have almost got 100% commitment from all the loyal customers who left Consensus because of supply issues. So our first priority when we start the manufacturing process is to ensure that we cover the loyal customers. In addition, we are not blind to new customers. We recently participated in a double AOS or the largest orthopedic conference in the American Academy of Orthopedic Surgeons meeting in San Diego. We have got interest of a lot of new customers who can come. We are holding them because we need to get into a full fledged manufacturing and that is what brings me to the last point that is the supply chain and manufacturing. I am very delighted to tell when we started versus what we are today we have increased 4x our capacity. Today we are running close to 50% capacity by getting people and getting raw materials. The turnaround time to get raw materials and getting into casting, forging, finishing and labeling of sterilization takes around 16 to 17 weeks for a certain category of product. We are there already. We have been able to get into a 50% capacity level. With this in mind, to your question, we are extremely confident that we will be able to reach around Rs.45 crore to Rs.50 crore of business this financial year and next year we aim to double it so we will be crossing Rs.100 Crores. If you ask me from a dream standpoint, we are aspiring to make this Rs.1000 Crore Company within the five to six years of timeframe. So this is very exciting business. It is a long lined answer I gave you, but I think I have covered everything you wanted.

Surya Patra: That was very useful Sir. Sir just I am extending it a bit? When you say that from Rs.100 Crores kind of business by FY2023 so what is the kind of utilization that you are factoring and as per your experience Sir such business what is the optimal kind of margin profile one should anticipate and in what time line?

Sushobhan Dasgupta: So basically what happens is first basically the margins depend upon on how you cater to your business. For example, the higher the volumes your cost of goods manufacturing comes down and that is what we are focusing on. Today right now we are trying to increase our capacity and as I said, we have 50% capacity. We are producing close to 2500 components in a month so if you multiple it by 12 you understand that we will be landing at 30,000 components in a year and that will be able to take care of our business for the full year 2023, so to answer your quarter that is where we are attempting to. So if we can continuously maintain this, we will be able to cater to our next year goal of Rs.100 Crores for full year 2023. The second question to your point in terms of the margins so what happens if you look at the bigger margins, the bigger margins one it will reduce the cost of goods and secondly your expenses. Your biggest expense is your logistics and your procurement of raw materials. We are actively looking at how we could be able to reduce and bring in efficiency in the raw material as well as the logistics cost and along with that we are also looking at how we could be having a mix. If you look at the business, the business is a lot dependent on wholesalers and retailers. Let me explain to you what wholesaler means. Wholesaler means you sell the product directly to a distributor. The distributor buys the products from you and then they sell it at a certain price. Then when you view your wholesale business, your margins or your prices are much lower versus the retail business. When you do a retail business what happens is you actually give the product to them on a consignment basis that will help them to generate demand, but your margins are much superior. Just to give you an example. The price of a knee in the US is around $3400 okay. Now when you give it a retailer, the retailers sell it at $3400 to a hospital. The hospital pays you directly because you are invoicing and the hospital pays you directly $3400 and then you pass on a commission and the commission ranges between 20%, 25%, 30% as we negotiate so the margin that comes up comes directly back into your fold whereas in a wholesaler though you are selling the hospital to $3400 you sell the wholesaler at $1600, $1700 and the wholesaler keeps the margin so what we are doing today when we took over Consensus, our business between wholesaler to retailer was 90:10, 90 wholesale and 10 retail. Our one of that 100 day plan is to convert into a 50:50, 50% retail and 50% wholesale so you can imagine how much bandwidth we will be generating on both our top line and bottom line when we convert the ratio from 90:10 to 50:50. Does that answer your question?

Surya Patra: Sure. Just last one question on this Sir. When it is also considered that Consensus is going to supply all of our requirement, internal requirement of over 10,000 odd implant annually so how quickly that can be paid for Shalby?

Sushobhan Dasgupta: Again what happens is when you look at this is a regulated product right. It is a class two and class three device as you know and currently our FDA approval is in the US and in Japan. These are the two countries. We are in the process of getting registration done in India and in other parts of South East Asia as I talked about. We are assimilating a lot of our documents and the document requirements are pretty stringent I can tell you and lot of documents are getting in there. We are almost there. We have collected 80% of the documents. We actually very recently had a California FDA visit done just two weeks back though the reports have not come in, but we have been verbally told that we have passed the audit in flying colors and that helps also in the registration process so these are fine. It will take around four to six months to register and we will be able to get the products in India and other parts of the world as we were talking so that will be taking care of this internal consumption.

Surya Patra: Thank you. All the best Sir.

Moderator: Thank you. The next question is from the line of Vineet Gala from Monarch Networth Capital. Please go ahead.

Vineet Gala: Thanks for the opportunity. It is Vineet Gala. Sir in continuation of the previous participant my question on the implant business is we are guiding Rs.100 Crores topline for FY2023 but given that this particular unit already did around Rs.56 odd Crores in FY2021 which was also impacted on account of COVID so does not your guidance seem to be a bit conservative? What is your sense on that?

Sushobhan Dasgupta: If you look at the situation of COVID full year 2022 we will be around close to Rs.50 Crores right so when you are saying full year 2023 is Rs.100 Crores we are doubling the business so the doubling the business I think is very good in your second year of operations according to me that is number one. Secondly, I do not believe that the COVID had any impact in the US this year. If you look at the US market, it is growing at over 15%. The COVID impact has happened in India because of the second wave that has happened. I was travelling to the US. I was in the AAOS meeting. I can tell you it is as normal as anything in the US and the hospitals are having a lot of surgeries that are happening so COVID impact is not there. What has happened is in the first year, you can say that we will be at 10.5 months. In 10.5 months with May onwards, we started from May 15, 2021. We will be ending at Rs.45 Crores to Rs.50 Crores and in the second part of 2023 which is basically from April onwards we will ramp our production. We will get new customers because what we have calculated. When you look at the calculation and the math that we did is the Rs.50 Crores will generally come from loyal customers because we have to serve the loyal customers. They have been stopped for so many years. We have to get their confidence back so we are going to serve the loyal customers and the rest of the 50 will come from new customers and if you understand in orthopedic surgery, in joint replacement surgery it is very difficult to lose a customer and it is very difficult to gain a customer. It takes time. The reason being is the attractive portion and the tactile feedback that they have by using an implant it extremely high so that is very high so we believe that when we get those new customers, it will take a bit of time. It takes a bit of you wooing because you can understand there at least close to 50 or 60 good implant companies operating in the US. It will take time, but then what happens the first Rs.100 Crores that comes in that is the second and the third Rs.100 Crores will be coming very fast. That is the reason I was very confident when I said that the first Rs.100 Crores will come in full year 2023 but then I talked about the Rs.1000 Crores in five to six years time. The reason is once we get to the benchmark of Rs.1000 Crores you get into the rhythm and that will help you to get into the Rs.1000 Crores. Does it answer your question Mr. Gala?

Vineet Gala: Fair enough Sir. Our opex that is the post gross margins of around 50% we are spending around $700,000 so the only clarification that I wanted is how much of it is, is there any kind of one off element on account of any up fronted regulatory expenditure on approvals or something of that sort or this is the sustainable base which has to be extrapolated for all the quarter's end?

Sushobhan Dasgupta: Right now there is nothing much on the regulatory front because we already have all the regulatory approvals in the US so the main bulk of the expenses that have come up is in raw materials because as you know there is a lot of raw materials to be purchased including metals, including poly, including sheets, and then we have to buy the castings and the forgings from outside before we finish it in our factory. We need to buy ceramic heads from a certain company which almost has a monopoly in the world so all these things are contributing to the bigger cost but what happens as I said. Once you get into volumes two to three things happen. When you get into higher volumes you have better negotiation power because then you can negotiate the cost. Secondly your variable cost also gets into it because you are manufacturing much more with the same number of people so your productivity also increases. That is the reason I am being very confident that over the next few months you will see a lot better in terms of efficiencies and cost coming into play.

Vineet Gala: Fair enough Sir. Sir my next question is on the hospital side of the business so we have reported that the non COVID surgery count is around 6200 which is very impressive for this particular quarter so first is like what would be the proposition of arthroplasty surgery in this and secondly is give the nature of these surgeries they are largely elective in nature so post COVID has there been any bulking up of surgeries or 6200 as a base will continue over the next couple of quarters?

Sushobhan Dasgupta: I will start answering this question before I pass it to Shanay and Dr Shah because I have now started getting very involved in the hospital business and I have been sitting through all the meetings, through all the presentation, and meeting up with people virtually so I would like to answer this first and then pass it over to Shanay and with Dr Shah if you do not mind. From your question, 38% of the 6200 surgeries is from arthroplasty. 11% is from orthopedics and the rest is from the others including internal medicine around 13%, then cardiac sciences around 8%, oncology 8% and then your neurosciences is around 5%. That is it to your first question around 38% is arthroplasty and if you take arthroplasty and orthopedics together that is 49%. Secondly to your second what you asked is yes there is a lot of bulking up because you need to understand also that there have been five quarters where the surgeries were not coming in except for the last quarter of the previous year where surgery rates improved dramatically because the first wave went away and people came back again and then the second wave came it. There has been a buildup. That buildup will help us to get into our more surgery floor in the quarters to come. That is my answer. May be Shanay and Dr Shah could add up.

Shanay Shah: I think you covered all the points. Thank you.

Sushobhan Dasgupta: I passed. I am very happy.

Vineet Gala: Sir my last question is on the franchise side of the business so what can be the peak revenue potential when we expand to around 50 franchise over the next three years and on this additional marginal revenue what can be the peak added margins that the business can generate? I am just looking for ballpark numbers over a medium term?

Sushobhan Dasgupta: I will try and give you the number aspect and may be the financial part, I will ask Shanay or Mr. Inani to comment but if you see as I said we will be looking at getting into 50 plus franchises over the next three years, but if you see the model the way we are looking into the model it is revenue sharing model. It is either FOFO or FOSO as we call it which is either Shalby operated or it is a franchise operated but we give the technical expertise and what happens is also that these are hospitals which are smaller in size. Basically I was saying that when you look at these hospitals which we are going in for partnership with the FOFO or the FOSO model it is basically a 30, 50 and 60 bed hospital so we are not going for bigger hospital. Internally we are lending our expertise in orthopedics, which is arthroplasty and other orthopedic areas of business so we would not be going into a 150 or a 200 bed hospital. We are going into smaller hospitals and if you calculate 50 hospitals multiplied by 50 beds you could understand that where we are going in and from a revenue standpoint or the EBITDA standpoint I may be ask following it up by Shanay or Mr. Inani to answer the question.

Prahlad Inani: Thanks Sushobhan. That was precisely articulated well say 2500 beds if you are having then if you consider that even the revenue side you can easily consider that even going for the conservative amount also, the revenue will be falling around Rs.800 Crores to Rs.1000 Crores if we consider 50 franchisees over there and certainly the EBITDA margin on the franchise is equally as the hospital side because we are giving them the benefit of economy of the scale with respect to material consumption in plant and other things and the second thing is the best of quality in our protocols and procedures and our best surgeon they will be just delivering the services over there so roughly when I see that there is 50 franchise network and I consider this must be the revenue in three to five years time and EBITDA is around similar 20% you can consider with respect the margin perspective.

Shanay Shah: I will just kind of add to what Mr. Sushobhan and Mr. Inani have said. I think the topline and earnings will also depend a lot on whether it is a FOFO or a FOSO model so if it is more of FOFO which is franchise owned and franchise operated we will be just getting a revenue share out of that and that will straight away translate into earnings for Shalby. In the case where it is FOSO what will happen is which is franchise owned Shalby operated all the revenue will be booked on Shalby's books and basically revenue share will be given to them and then all the other expenses will have to be incurred by Shalby and which will be basically then result in a normal kind of EBITDA that any hospital of our makes. At the end of the day it will really depend on the mix of the FOFO and FOSO within the franchise model. We do expect franchise to be the third pillar after the hospital business and the implant business to really contribute for us over the three to five year period.

Vineet Gala: Thank you all. That is it from my side. I wish you all the best.

Moderator: Thank you. The next question is from the line of Rahul Singh from ABF Consultants. Please go ahead.

Rahul Singh: Good evening everyone. My question is when we look at your EBITDA margins it is relatively very high in the healthcare industry but when I look at your PAT margin it is quite fluctuating? May I know the reason behind this?

Prahlad Inani: Thanks Rahul that is a good question. If you see here that the first thing is we are falling under the MAT so once you see the published results you will see the current tax which is around 18% is the tax. The other thing which you are saying about the PAT, basically PAT is driven by deferred taxation also since we were having our four hospitals which is catering to the specific business towns with respect to the tax aspect and the rest of the business which is nonspecified so giving the effect of those specified and nonspecified business and with respect to the depreciation benefit which we have taken in the initial years you will find that some deferred liabilities has been used here and that is why you are seeing a little bit fluctuation with respect to PAT margin. Having said so, as per our calculation and we have accumulated losses we will be another two years in the MAT regime only and our cash outflow will be around 18% due to the MAT right.

Shanay Shah: I will just add to what Mr. Inani is saying so right now when you see the numbers from PBT to PAT what happens is 35% is usually charged as tax. What I think we are trying to say is that only 18% is the real outflow of cash for the payment of tax and this is likely to remain for a few years from now.

Rahul Singh: So can I conclude that the cash profit is much higher than what is reported in the financials?

Prahlad Inani: Certainly. Our cash profit is higher. If you go through the cash flow statement you will find there also so that is precisely correct statement.

Rahul Singh: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Abdulkader Puranwala from Elara Securities Private Limited. Please go ahead.

Abdulkader Puranwala: Thank you for the opportunity. Sir there are two new hospitals which are going to come in the next few years could you please throw some light as to what would be the bed capacity and what would be the capex plan for those hospitals?

Shanay Shah: Sure. We have two hospitals coming up. One is you know the Asha Parekh Hospital in Mumbai which is basically a 40-year-old plus institute which we are going to break down and it is going to be a Greenfield project for the company. We are looking to invest close to Rs.160 Crores in that hospital and it will be roughly having a capacity of about 175 odd beds. The other one is coming up in Nasik which is again going to be a 150 bedded hospital where the land and the building are going to be given to us by the partner and we will be investing in the medical equipments and we will be giving them a revenue share. The good thing is that we have moved towards a completely asset like model even when it comes to hospitals and both these hospitals are going to be asset like whereby the land will not belong to the company.

Abdulkader Puranwala: One more question on the ARPOP which we have seen to be quite high in this quarter as well as the occupancies is now being normalized is what we were earlier to the pre COVID levels so going ahead how should we see the occupancy rate and ARPOP panning out for us?

Shanay Shah: Sure the way I would say that half of the surgery and half of the 6200 surgeries done in this quarter have been arthroplasty surgeries right and essentially arthroplasty has a much higher ARPOP which is why you see the ARPOP to be close to 34,000 in his quarter right. Having said that we do believe that arthroplasty will continue to be between 35% and 50% of the number of surgeries that we do for the next 12 to 18 months at least so you will see a healthy ARPOP around this level going forward unless you have another COVID wave.

Abdulkader Puranwala: Sure Sir and just the final question if I may so what will be the contribution coming to the topline from the vaccine administration for the quarter?

Shanay Shah: So for the quarter we have done about Rs.10 Crores of topline from vaccination whereby we have inoculated more than a 100,000 people.

Abdulkader Puranwala: Understood. Sure Sir. Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Abdulkader Puranwala for his closing comments.

Abdulkader Puranwala: On behalf of Elara Securities, I thank everyone for joining this call and I thank the Shalby management for giving us this opportunity. Over to you for some closing remarks.

Sushobhan Dasgupta: Thank you Abdul and thank you ladies and gentlemen for joining our Q2 full year 2022 earnings call. As you can tell from my voice as well as from the others who are participants of the call, we are very excited about the clear strategic direction, sound business principles and prospects and healthy financial performance. Please feel free to reach out to us in case any questions remain unanswered. Thanks again for your time and best wishes for a very festive season ahead.

Moderator: Thank you. Ladies and gentlemen, on behalf of Elara Securities Private Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.