October 19, 2020

**Shalby/SE/2020-21/80**

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| The Listing Department<br>**National Stock Exchange of India Ltd**<br>Mumbai 400 051. | Corporate Service Department<br>**BSE Limited**<br>Mumbai 400 001. |
| **Scrip Code : SHALBY**<br>Through : https://www.connect2nse.com/LISTING/ | **Scrip Code: 540797**<br>Through : http://listing.bseindia.com |

**Sub.: Transcript of earning conference call held on October 14, 2020 for Q2FY2021 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/2020-21/76 dated October 12, 2020 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 14, 2020 to discuss Unaudited Financial Results for Q2FY2021, which is also available in the investor section of our website.

We request to take the same on your records and disseminate the same to the members.

Thanking You,

Yours faithfully,
For **Shalby Limited**

JAYESH RAVJIBHAI PATEL
Digitally signed by JAYESH RAVJIBHAI PATEL
Date: 2020.10.19 17:18:03 +05'30'

**Jayesh Patel**
**Company Secretary & Compliance Officer**
Mem. No: ACS14898

**Encl.:** as above

# "Shalby Limited
# Q2 FY2021 Earnings Conference Call"

**October 14, 2020**

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| **MANAGEMENT:** | **DR. VIKRAM SHAH – CHAIRMAN AND MANAGING DIRECTOR**<br>**MR. SHANAY SHAH – PRESIDENT**<br>**MR. PRAHLAD INANI – CHIEF FINANCIAL OFFICER**<br>**MR. MAHESH PUROHIT – CORPORATE STRATEGY AND INVESTOR RELATIONS** |
| **MODERATORS:** | **MR. PARAM DESAI – ELARA SECURITIES PRIVATE LIMITED** |

**Moderator:** Ladies and gentlemen, good day and welcome to the Shalby Q2 FY2021 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. Param Desai from Elara Securities Private Limited. Thank you and over to you, sir.

**Param Desai:** Thank you. Good afternoon to all the participants in the Shalby Limited Q2 FY2021 Earnings call, hosted by Elara Securities. Today, we have with us from the Shalby Management, Dr. Vikram Shah – Chairman and Managing Director; Mr. Shanay Shah – President and senior management from Shalby. I will hand over the call to Mr. Mahesh Purohit, who is a part of the Corporate Strategy and IR Team. Over to you, Mahesh.

**Mahesh Purohit:** 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 the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. Kindly refer to slide number 20 of the Earnings presentation for a detailed disclaimer. Now, I would like to hand over the call to Mr. Shanay Shah – President, for his opening remarks. Thank you and over to you, sir.

**Shanay Shah:** Good afternoon everyone and a warm welcome to our second quarter of FY 2021 Earnings Call. I hope you and your dear ones are keeping well and safe during these times. On this call, I will start as usual with a quick overview of the company's performance during the quarter, and then hand over to our CFO, Mr. Prahlad Inani to discuss the financial performance in detail.

During the quarter, the company has shown agility and exemplary resilience, as a result of which we have seen a sharp rebound in both our business and key financial performance indicators. However, the most important responsibility continues to be managing both COVID as well as non-COVID facilities cases simultaneously. One of our top priorities was to respond to the COVID-19 pandemic across all our hospitals, except SG Shalby, and have continued to treat COVID-19 patients and provided the required infrastructure support and medical facilities and services needed to try to address this ongoing unprecedented health crisis. So far, we have treated over 3,250 COVID-19 patients in total across our hospitals group.

In these conditions, the company delivered a total income of close to Rs. 112 crores, registering strong growth of 174% on a quarter-on-quarter basis. The profit after tax was Rs. 24.2 crores with profit after tax margins at 21.6%.

Quarter-on-quarter growth was supported by both COVID-19 care and resumption of elective surgeries. Though the share of elective surgeries like Arthroplasty and Orthopaedics have declined, but the number of surgeries has increased on a quarter-on-quarter basis. Critical care and general medicine contributed 46% of revenue due to increased focus on COVID care. Total number of surgeries performed have doubled to 1,622 in Q2 compared to Q1, and we have achieved the highest ever occupancy in Shalby at quarter level in this period.

There was also increase in number of patient footfall: in-patients stood at approximately 7.5 thousand , day-care patients were close to 5 thousand and out-patients were close to 56 thousand. The increase in patient count across all care formats reflects Shalby's strong brand recognition.

The ARPOB increased to Rs. 24,837 in Q2 FY2021, which was primarily driven by an increase in arthroplasty and orthopaedic surgeries. We continue to see rising in non-COVID-19 patients and many of the elective surgeries that were postponed during the first quarter will spread over coming quarters. Furthermore, we have received a great response for home care service offerings, especially with respect to COVID-19 packages and we will continue to provide high quality and cost-effective homecare healthcare services to the patients.

Also, an important thing that has happened this quarter is that each and every facility of Shalby has been EBITDA positive, and to a large extent. The COVID-19 crisis is far from over and I would like to acknowledge the efforts of our entire team of doctors, paramedics and hospital staff and would like to thank them for their outstanding commitment.

Lastly, to update you on the recent fundraising announcement made by our company, in compliance of regulatory and requirement to increase public shareholding to at least 25%, the Board of Directors of the company have approved the resolution to evaluate various fund-raising options and take necessary measures to ensure compliance. We are evaluating alternatives present before us and will adhere to the regulatory time framework.

Now, I would like to hand over to Mr. Prahlad Inani, our CFO, to comment on the financial performance. Thank you.

**Prahlad Inani:** Thank you and good afternoon, everyone. I will discuss financial performance and key indicator of the company for the second quarter. The impact of COVID-19 clearly means that the performance of the quarter is not comparable to the previous periods on year-on-year basis, but sequential comparison highlights the recovery in the company's operations.

On a standalone basis, the company registered total revenue of Rs. 1,118 million in Q2 FY2021, compared to Rs. 408 million in previous quarter and Rs. 1,284 million in the same quarter last year.

EBITDA for the quarter is Rs. 314 million, compared to a loss of Rs. 25 million in the previous quarter and Rs. 307 million in the same quarter last year. EBITDA margin improved significantly to 28% as compared to 23.9% in Q2 FY2020. The margin improvement was primarily driven by higher occupancy from COVID-19 patients, coupled with lower consumption of materials, consumables and doctors' fees.

Net profit was Rs. 242 million for the quarter compared to the loss of Rs. 86 million in the previous quarter and Rs. 129 million in the same quarter last year. PAT margin for the quarter stood at 21.6%.

Our average occupancy rate was 41% with 489 beds occupied, the highest ever reported. ARPOB was Rs. 24,837 in the quarter, and our annual average length of stay for the quarter stood at 5.94 days compared to 4.07 days in the same quarter last year.

During the initial part of pandemic patients were deferring their planned treatment surgeries, but now we have seen improvement in patient footfall for elective and semi-elective procedures, though critical care and general medicine still continues to be largest contributor to patient count, as well as revenue. We continue to maintain a strong balance sheet with Net cash of Rs. 503 million at the end of the September 2020.

Thank you very much. We can now open the call to questions that you may have. Thanks.

**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta:** Sir, first question, if I look at your numbers, it appears as if most of the performance has been contributed by the fact that you were able to reposition yourself quite well for the COVID patient care. So if I exclude that, I see almost like a 60% drop in the in-patient volume, if I exclude 3,500-odd COVID patients. So, from 11,000 you have dropped to like 4,000. So, what's the sense going forward? I mean, when can we expect to normalize in terms of our excluding of COVID performance? Because it looks like still 60% of patients are not coming to us.

**Shanay Shah:** Yes. So, the 3,250 COVID patients are not only the ones that we have treated in Q2, that's a combination of Q1 and Q2 both, that's one thing. Apart from that, what has happened is that, if you look at our numbers, the arthroplasty work has grown three-fold. So if you look at Q1 versus Q2, the arthroplasty work has grown three-fold and we are at 35% - 40% levels compared to the pre-COVID level. So, what we internally estimated is that we will be able to get to about 65% - 70% of pre-COVID level for arthroplasty in Q3 of this year. Apart from that, all the other work has also grown more than two-fold, so if you look at all the non-COVID work, excluding arthroplasty also, that work has grown two-fold from Q1. So, things are coming back on track and I would say that contribution to revenue from COVID has been between 30% to 35%, and the balance is coming in from all the other specialties put together. Essentially this is happening because a lot of work cannot be postponed, or it cannot be indefinitely postponed. And that's the reason why we will see the numbers bounce back. There has been some kind of demonstration of this in the Q2 numbers, if you look at it.

**Sarvesh Gupta:** And if you just take the September monthly data of this year versus last year, how do they look like?

**Shanay Shah:** In fact, it will be more skewed towards the non-COVID work. Because the travel restrictions and all were still there in the early part of July and August. And in September, we have largely seen that patients are able to travel freely, etc. So, it has been more skewed towards non-COVID work in the month of September.

**Sarvesh Gupta:** Okay. And secondly, I mean, I am not that well acquainted with the company, so if I am looking at your overall bed count, it looks to be very high compared to your utilization,. So what is the strategy and if you can give some colour, because right now to me it looks like we are currently at a very low utilization level overall.

**Shanay Shah:** So that's right and that's where we see the opportunity, honestly, because if you look at last year FY20, we basically had an average occupied bed number of about 450 beds throughout the year, whereas the total bed capacity that we have is around 2,000 beds. So what we believe is that, within the existing capacity we can grow two and a half fold, from the FY20 numbers in top-line and slightly more probably in bottom-line because of the operating leverage that is kicking in. To see why we are in this position is because, it's very important to understand maturity of the bed cycles within the company. So about 1,000 beds out of the 2,000 beds, i.e. about 50% of the capacity for us is around three years of age, and we all know that within the healthcare space the operational breakeven usually comes by three years. So these units are yet to fire, for us they have been EBITDA accretive from one to one and a half year onwards. But there is a lot of potential yet to be unlocked in these 1,000 beds out of the 2,000 beds.

Now the balance 1000 beds, about 500 beds are roughly seven years old, so you can call them mature beds, which are growing at about 30% - 35% EBITDA margins. But having said that, there are these other 500 beds which are around four to five years old now and there is still an opportunity over there to, basically, increase your earnings potential. Now, if you look at our blend of new versus mature beds, you will see that about 70% - 75% are not yet mature, and if you look at any of our peer, you would see that this situation is exactly reverse. So 75% - 80%, in fact, 85% would be mature and balance 10% - 15% would be the new beds which have been launched over the last one or two or three years. So essentially, even despite that proportion, we have been able to maintain the highest EBITDA margins in the country. So I think we do believe that there is a lot of scope here.

Now, why will this revenue grow two and a half fold from year is because of several things that we have initiated within the company. We have a full-time doctor model and on top of that, over the last 12 years, through this full-time model we have been able to achieve a revenue split of 50 and 50 among arthroplasty and non-arthroplasty. Now, we are going to have the additional business coming in from visiting doctors, because we are working on that at full throttle. And we do believe that we have already started seeing a lot of positive response from some of the top leading visiting doctors from across the areas wherever we are present. So that is going to be one major revenue driver for us going forward.

The other two things are -- thrust on home care and the Shalby Care Card. The Care Card is a loyalty program that is going to bring in a lot of customer stickiness across the regions where we are present through the Gold and Silver cards that we have launched. And the other thing is that there is going to be a lot of consumer stickiness because of the homecare services that people have used during these COVID times. So a lot of treatment across diagnostics, providing attendants, nurses, COVID care, providing medicine, etc., has been done for homecare, and we do believe that this will also improve the customer stickiness. Essentially, we do believe that these are the three areas which will help us to drive the occupancy levels in the next two to three years.

**Sarvesh Gupta:** Understood and finally, one question on this fundraising part, since promoters hold 79%, so wouldn't it be better to just go for OFS given that we don't have any CAPEX plan and given that you already are a net cash company, so why not just go for an OFS for the 4.5% to comply with the shareholding norms?

**Shanay Shah:** See,we have 1,200 operational beds and the bed capacity is at around 2,000 beds, as we talk. So, basically to operationalize these balance 800 beds we will be requiring CAPEX of between Rs. 40 crores to Rs. 50 crores. So, that is one part of it. The other thing is that to operationalize these 800 beds, it will not take us more than two to three months, because all the infrastructure work has been done, it's just that some of the hospital furniture and other things have to be brought in.. The second thing is that we are having a project coming up in Nashik, which will be operational in the next 12 to 18 months, it got slightly postponed because of the COVID scenario. We are looking to spend around Rs. 25 crores to Rs. 30 crores there mainly for the medical equipments.

The other area is the Asha Parekh Hospital where we are going to demolish the existing structure and make a greenfield project there. So, there we have projected a capital outlay of around Rs. 160 croresfor a 175-bed facility. So, essentially if you look at the current outlay of these three projects, we are looking at anywhere in excess of Rs. 200 crores. So, it's not like we don't require funds, but these funds can be used for some of these projects.

**Sarvesh Gupta:** So you want to raise this Rs. 200 crores in one go?

**Shanay Shah:** No, we are not trying to raise Rs. 200 crores. See, we are already sitting on a net cash of Rs. 50-odd crores. So essentially, we are looking to raise only the amount that is required to comply with the SEBI guidelines, to have a minimum public shareholding of 25%. Tthe balance I think will be funded largely by internal accruals dnd if required, we will take a call on it.

**Moderator:** Thank you. The next question is from the line of Aditya Khemka from InCred Asset Management. Please go ahead.

**Aditya Khemka:** Shanay, a couple of questions. Firstly, following up from the previous participant's question on fundraising. If you just look at your business, so you have a cash balance of whatever Rs. 30 - 40 crores, and then you generate EBITDA of Rs. 30 crores a quarter like you did in this quarter.

So, assuming full year EBITDA of, let's say, Rs. 100 - 120 crores and if I consider taxation and everything, you would still be generating about Rs. 70-odd crores of free cash flow in a given year, before CAPEX. And given that this Rs. 200 crores of CAPEX that you are talking about is not going to be done in one year, you are going to basically spread it over the next two, three years, if I am not mistaken, and correct me if I am wrong, then your internal accruals should be sufficient to service all your CAPEX requirements over the next three years, if you plan to do the Rs. 200 crores CAPEX over three years. So, what am I missing here?

**Shanay Shah:** So what will happen is that, for the FSI requirement, initially a small chunk will have to be given in the first six months. Essentially, I think all the other things that you mentioned are absolutely right.

**Aditya Khemka:** And the second question, Shanay, and I think this is something which I have asked you earlier as well. But when I look at the location of your facilities, so you have facilities in somewhat, I would say, Tier 2 towns versus like metros, and you are now doing some CAPEX in metros. And Nashik is again like a Tier 2, let's say, but Mumbai, Santa Cruz facilities are either Tier 1 or metro facility. So as a company, what has your experience so far been? So you have had hospitals in Ahmedabad, heart of it, then you have had hospitals in the neighboring regions, what has your experience been with the hospitals in the Tier 2, Tier 3 cities versus a metro, or almost a metro like Ahmedabad? What has the experience been in terms of profitability, occupancy, if you can talk a bit about that?

**Shanay Shah:** That's a good question. We have largely got presence in Tier 1 towns, and we are also present in some of the Tier 2 towns. So, our experience has been that in a city like Vapi, it is not easy to get some of the top super specialists, etc. But having said that, in a city like Jaipur, in Indore, Ahmedabad, Mohali, where corporate hospitals are there since the last 15 - 20 years and availability of doctors and medical staff is high, essentially the internal benchmark that we have kept is, when a city has a population in excess of roughly 20 lakhs, it makes it extremely viable for us to put up a 200 bed hospital, and which is what our model is.

Now, having said that, we believe that metros have a lot of potential. The only thing with metros is that the cost of the project becomes too high. And which is why the Asha Parekh Hospital is a very lucrative option for us, because that is one property of roughly 1-acre. And most of the hospitals of our competitors, they would have spent between Rs. 2 - 3 crores a bed in Mumbai. And then to kind of breakeven at a fixed cost level, it takes at least 10 to 12 years, because the revenue that you generate is largely market driven. So, in our case, we have never looked at an opportunity for this reason and our internal benchmark for fixed asset recovery is much, much higher and much quicker.

So, one such opportunity that we got was this for this 1-acre plot of land the market rates would be close to Rs. 250 crores and we have received this land for a 60 years lease on a purely revenue sharing basis right. So, now if we are going to invest Rs. 150 crores for about 160 beds odd, we are looking at close to Rs. 1 crore of investment per bed. And that is what makes this opportunity very attractive. So, that is the reason why we are going for this hospital. Apart from that, we do believe that the demand supply gap is largely present in the Tier 1 towns in India where we are able to provide good care. So, we are continuing with that opportunity and we see a huge scope of growth in the areas where we are present.

Second thing is that we have chosen our locations in a very strategic way. So, if you look at our geographical presence compared to our peers, it is not scattered. So, we are largely concentrated on the western, central, northwestern India, because we do believe that this is the area where we have a big brand recall, we have treated innumerable number of patients from some of the towns that we are now having hospitals in. They have initially come or had experiences in our hospitals and from there we have expanded to some of these other areas where we saw a big potential. And we had a big brand recall, because only then will your occupancy ramp up will be faster, right.

So if I take an example of the city of Surat. So again, population of about 70 - 80 lakhs odd in Surat and we are the first corporate hospital to have a presence in Surat. We all know that the GDP per capita in a city like Surat is higher than even Ahmedabad and in Ahmedabad I can at least name 15 corporate hospitals on my fingertips. So these are the kind of areas and these are the kind of towns where we have chosen to put up our hospitals.

**Aditya Khemka:** Got you, Shanay. So on that, let's say, when you have a hospital in Mumbai versus having the same hospital in Surat or in Vijaywada, would a given procedure be priced differently in these three facilities? Or would you follow a routine pricing mechanism across your hospitals?

**Shanay Shah:** So basically, it is market driven. So the schedule of charges of Ahmedabad for Shalby would be slightly different than that of Jabalpur and similarly Vapi would be different. So, Ahmedabad, Jaipur, Indore would be on a similar trend, Jabalpur being a Tier 2 would be slightly lower. Whenever we come up with Bombay, we will see that the prices there could be about 30%-40%-50% higher than Ahmedabad as well.

**Aditya Khemka:** Makes sense. Just one last question on the cost side. So I was looking at the slide 10 of the presentation. So you have these several costs as a percentage of revenue marked out. And what I have noticed is that, while, obviously, understandably, your doctor cost in 4Q and 1Q as a percentage of revenue went up, because revenue itself was depressed. What explains the sharp decline in doctor cost as a percentage of revenue in 2Q versus, let's say, a 4Q? I am not comparing to 1Q, I am comparing Q2 to 4Q?

**Shanay Shah:** See, what happens is that the contribution of COVID care towards the revenue in Q2 FY2021 has been close to 46%, which was almost non-existent in Q4 FY2020. So, when you are looking at particular superseniority, the doctors take away a slightly higher chunk of the revenue compared to the patients who come for COVID treatment, or for that matter any kind of medicine treatment. So, that is the main reason that explains why the doctor cost is lower. So, if you look at any medicine branch of Shalby, forget COVID, you will see that the doctor cost is between 18% to 22% there.

**Aditya Khemka:** Right. Then let's say, Q2 FY20 onwards the total doctor cost is 25% or 24% in Q2, Q3 but if all medicine branches are between 18% to 22%, why in Q2 and Q3 the percentage of doctor cost to the revenue was 24%, 25%?

**Shanay Shah:** So, 24%, 25%, again, is because of the specialty mix. , this is a blend of your medicine doctors as well as your surgical doctors. So there would be some doctors who would be taking away a higher chunk, some doctors taking away a lower chunk and this is the blended average that you see here, Aditya.

**Aditya Khemka:** And the surgical doctors would be closer to 30%, is that understanding correct?

**Shanay Shah:** It depends on the brand also, Aditya. It doesn't only depend on whether it's a medicine or a surgical doctor, it depends on the status of the doctor also, the volume he is contributing to the hospital, etc.

**Aditya Khemka:** I got you, Shanay. The same explanation of COVID would stand for consumables as well, in terms of percentage of sales consumables dropping as COVID patients won't require many consumers, is that correct?

**Shanay Shah:** That's right.

**Moderator:** Thank you. The next question is from the line of Dikshit Doshi from Whitestone. Please go ahead.

**Dikshit Doshi:** A couple of questions. Firstly, in our Q1 concall, we mentioned that the Q1 occupancy was low. But at the time, you mentioned that July, August occupancy at pre-COVID level was 36%, 38%, but blended figure for the quarter is almost 41%. So I assumed the September occupancy would be much higher. So if you can just explain how much the occupancy was in September, and how do you see it going forward, let's say, in this quarter, or how it is in October?

**Shanay Shah:** So on an average, last year, FY2020, we hit an average occupancy in terms of bed count, of 450 beds and in this quarter, Q2 of FY2021, the average bed count was at 480 beds. In the month of September, we have clocked and touched 750 levels also, so average would be around 650. But I think on the higher side, we have touched 750 also in the month of September.

**Dikshit Doshi:** Okay. Do you see that this will continue even though recently the COVID patients are coming down?

**Shanay Shah:** Yes, we do believe, internally, our doctors and our management does believe that this will continue to stay with us over the next two to three quarters, if not more.

**Dikshit Doshi:** Okay. Secondly, so there was a sharp increase in the number of surgeries from almost 800 to 1,600. But if I see pre-COVID it was more than 4,000 - 4,500. So by when do you expect that we can reach those kinds of levels, by Q4 or maybe next year?

**Shanay Shah:** Yes. I think Dr. Vikram Shah would want to comment on that, please.

**Vikram Shah:** Good evening, everyone. As far as COVID is concerned, it is going to be there, more or less number, for at least four quarters from now, number one. Number two, as the fear of COVID is going down, the routine surgical work have start to increase. The peak of COVID has gone, so what Mr. Shanay Shah was talking about of 750 occupancy and average occupancy of 650 of September, is now coming down to 600 - 620. But simultaneously, cold surgery where people were not travelling have started travelling now and people from distant places have started coming to the hospital for bypass surgery, cancer surgery, joint replacement surgery. All other surgeries are also now happening in more and more numbers. And as I am saying this, this monthly we are doing much more than last month, cold surgeries. This month we are doing little less of COVID work. So it is going in that mix. But if we will continue picking up the pace for the entire this quarter, at the end of this quarter, we think that we will get back to normal cold work which we were doing in pre-COVID times.

**Dikshit Doshi:** Okay. Thank you. That's it from my side. Just one suggestion, sir. I think in this quarter, the presentation have not given the margins and ARPOB hospital wise, so if we can continue doing that, that will be very helpful.

**Shanay Shah:** So, Mr. Inani is part of this call, he will look into it. Thank you.

**Moderator:** Thank you. The next question is from the line of Jason Soans from Monarch Net worth Capital. Please go ahead.

**Jason Soans:** Just wanted to know, I mean, in terms of percentage efficiency on your consolidated numbers, you saved around 250 bps for your raw material and employee expenses also have come down on a Y-o-Y basis, which has led to better profitability. So just wanted to know the reason for that.

**Shanay Shah:** See, because of COVID in Q1 and Q2, there have been a lot of optimizing measures taken by the company across all fronts, whether it is our inventory, whether it is material, whether it is doctor cost, whether it is employee cost. So, we have kind of gone into introspection of what we were doing and how best we can optimize it. So, I would say that it is the result of that.

**Jason Soans:** Okay. I just wanted to get it right. I mean, in the earlier part of the call you mentioned that you have around 2,000 beds and around 70%-75% of the beds, you said, are still too mature and contribute to profits in a sizable way. Is that understanding correct?

**Shanay Shah:** That's correct.

**Moderator:** Thank you. The next question is from the line of Praful Rai from Arjav Partners. Please go ahead.

**Praful Rai:** I have two questions. One is the question on occupancy, you are currently operating at 41%, what is the peak occupancy you can achieve in the current facility? And what is the timeframe you have in mind to get there? That is question number one. Question number two, in the previous con-call you had mentioned that you are looking to manufacture medical equipments. Can you just throw some light in terms of what those equipments are? And what is the timeframe and what are we looking at setting up? And what is the kind of money you are going to spend for doing that?

**Shanay Shah:** Dr. Shah had just expressed the other day, his vision of going into medical devices, and that too largely for the knee and the hip replacement implants. We are internally talking about it and as and when there is something concrete that we can come out with, we will be happy to share with you. So it's not going to be possible to share numbers for that on this call. The second thing is regarding the speed at which we will go for the next few years. So again, looking at COVID and looking at other things right now, they are much better than what it was three, four months back. So, as I said, we can grow two and a half fold in terms of top line over the next three to five years. So, I would say, anywhere between three to five years we can grow to about two and a half fold from here.

**Praful Rai:** And will it happen at the same ARPOB levels or you expect ARPOB also to go up?

**Shanay Shah:** See, it will happen at largely the pre-COVID ARPOB levels.

**Moderator:** Thank you. The next question is from the line of Tarun Shah from PhillipCapital. Please go ahead. Hello.

**Tarun Shah:** Sir, my question is pertaining to the average length of stay. So, quarter-on-quarter that number have gone up to almost 5.94, so almost six days. So, because I believe the higher the length of stay, it will have a negative impact on our revenue as we won't able to take more patients then. So where do you see this number settling at and why it is going up?

**Shanay Shah:** See, it has gone up largely because of the COVID work that we have been doing. A COVID patient needs to be admitted for slightly longer period compared to some of the elective work that we used to do. Having said that, it will not impact the revenue because we are not in any hospitals rejecting any patient. Yes, it will have an impact on the ARPOB, and essentially that's the nature of COVID patients where they have to stay for longer. So we can't really help with that. But having said that, Dr. Shah just mentioned that we have been seeing that COVID work has gone slightly lower in quarter three, and some of the other work has picked up. So you will automatically see that this loss will drop.

**Tarun Shah:** So, what were the pre-COVID levels ALOS?

**Shanay Shah:** Pre-COVID levels, it was about four days.

**Tarun Shah:** Okay. And sir, when we have almost 50% of our capacity which is unutilized, so what was the rationale for expanding our capacity, I mean, going beyond the existing region?

**Shanay Shah:** See, it was an opportunity that Dr. Shah saw at that point of time, to put up hospitals across the different areas, because there was a period between 2010 and 2015 where a lot of capacity was not added, the company was extremely cash rich. So in order to make up for time, we had expanded heavily between the 2015 to 2018 range. But you must have realized it, if you are watching the company since the last three years, even though we have been net cash positive, we have been extremely prudent, and we have not made any acquisitions over the last three years, because we understand the importance of consolidating what we already have. And we do want to go to a much higher ROC, ROE levels before we start expanding again.

**Tarun Shah:** Okay. And sir, by when you are expecting this new capacity to commence, Nashik and the Santa Cruz one?

**Shanay Shah:** So, I would say that the Asha Parekh Hospital will take three years from now. And the Nashik facility will take a year and a half from now.

**Tarun Shah:** Okay. And sir lastly, what is the average occupancy rate for our maturity hospital? And what is the same figure for the new ones?

**Shanay Shah:** So, basically, I am not able to share the numbers hospital wise, but the mature hospitals are doing more than 60% - 65% kind of occupancy levels. SG, of course is doing slightly lower right now, because of the fact that a lot of elective work got postponed and in SG we are not treating COVID patients. But some of the other hospitals have a bigger opportunity to ramp up from here. At group level, you know that we are at about 41% odd occupancy levels.

**Tarun Shah:** Okay. And sir lastly, by when you are expecting the promoter holding to reach to 75%, as we have a resolution now?

**Shanay Shah:** So the deadline given to us is mid-December, so it will happen any time prior to that.

**Moderator:** Thank you. Next question is from the line of Jainis Chheda from Dimensional Securities. Please go ahead.

**Jainis Chheda:** Sir, congratulations for excellent set of numbers. Sir, I just wanted to have the information on the matured number of bed that you gave. So in total there are 2,000 beds, right?

**Shanay Shah:** Yes.

**Jainis Chheda:** And of which, more than seven years old are?

**Shanay Shah:** About 500 beds would be mature beds.

**Jainis Chheda:** Okay. 500 mature, 500 are four to five years, and 1,000 are less than three years, that's right?

**Shanay Shah:** Correct.

**Jainis Chheda:** Okay. And in terms of your occupancy, what is the peak occupancy, will it be 60% - 65% over the next five years?

**Shanay Shah:** Sorry, you are talking about the group level of occupancy?

**Jainis Chheda:** Yes, group level.

**Shanay Shah:** See, as I said, we have the opportunity to grow two and a half fold within the next three to five years from here.

**Jainis Chheda:** Okay. And currently, all your doctors are on the payroll or you have visiting doctors as well?

**Shanay Shah:** So, the fulltime model that we used to have since the last 15 years, we continue to have that model as it is. On top of that, we are also welcoming visiting doctors to come and bring their patients to operate in here. That is an additional revenue stream.

**Moderator:** Thank you. The next question is from the line of Ashok Ajmera from Ajcon Global Service. Please go ahead.

**Ashok Ajmera:** Thank you for a very detailed answers to many of the questions which are asked by various other colleagues. And I had a lot of clarity from your answers. But I, even at the cost of repetition, would like to know that you said that within three to five years the top-line will be almost about two and a half times when the entire 2,000 beds become operational. Am I right in understanding that or listening to that?

**Shanay Shah:** Correct.

**Ashok Ajmera:** So, like you said Asha Parekh Hospital will take about three years to commence the activity, and some of the hospitals are taking one and a half year or two years. So can we know what would be the FY2022 and FY2023 top-line growth?

**Shanay Shah:** No, as a company we are not giving guidance on that. So I am unable to comment on that.

**Ashok Ajmera:** Okay. In that case let us talk from the average occupancy, so say, in your peak you said you have achieved 650 and now average is around 600. So, say, maybe in FY2022, are we talking about 1000 average occupancy?

**Shanay Shah:** No, I don't have commented on one year forward or two year forward occupancy levels or top-line, I am just talking about the potential that we have in the existing facilities.

**Ashok Ajmera:** Yes, that is three to five years you said.

**Shanay Shah:** Correct.

**Ashok Ajmera:** All right. And then this plan of bringing down promoters holding, have you already worked out? I mean, is it a concretized plan, because the time is very short for you within the regulatory time limit. So has it been firmed up already or you are in negotiation or trying to firm up?

**Shanay Shah:** So, Mr. Inani is also with me, he will take that.

**Prahlad Inani:** We are continuously discussing and talking with the investors and we are coming to a close with the investors in a couple of weeks or four- or five-weeks' time. But yes, aggressively we are looking at it and we will be closing that. We have already received the Board approval and we are waiting for shareholders' approval, after which we will close the transaction.

**Moderator:** Thank you. Next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta:** So, I was referring to slide number 15 where you have put the CAPEX and ROCE information. Now, given where we are, would you say that given that we still have Rs. 200-odd crores of CAPEX lined up, so have we achieved the bottom of ROCE or do you think that we can still go down given that the CAPEX is still coming in the coming years? Or do you see the ROCE improving consistently from this year onwards?

**Prahlad Inani:** So, as you can see in the business, which is growing and the EBITDA margin and profitability which is now increasing, so this ROCE percentage which you are seeing is, we are looking at this at the bottom level, we are seeing a positive growth in that side. And another thing is, the Rs. 200 crores CAPEX compared to my total fixed asset pool and my capacity is not that big, which can give some pushback to my ROCE. So I am seeing a positive growth in my ROC from here.

**Sarvesh Gupta:** So when you have a target of, let's say, 2.5x in revenues over the next three years, so what can this ROCE number look like?

**Prahlad Inani:** So, we are not commenting right now on how it will look like, but I am saying that pressure is not that much because now our earnings are coming good, our PAT and all other things are supporting in better way , our EBITDA margin is better. So it certainly will go into the positive side. And the track record which you have seen, how we have moved from 13% to 11%, to again 40% to 48%, and then again, we came back, and we are 14%. So this way it will bounce back, and it will show you a good positive percentage.

**Shanay Shah:** See, we said that the occupancy levels as and when they ramp up in the given facilities, it can take three to five years to get there. And essentially at those levels, these hospitals can do at least 20% ROCE.

**Sarvesh Gupta:** Okay. And given that we get so much revenues from arthroplasty, so my question was that, of course, a lot of people may not have travelled to your hospital per se, I mean, what percentage of that revenues will be lost forever and what percentage of revenue would probably go to maybe other facilities, because they might have done it in a smaller city, closer to where they stay and all that? So, there will be three buckets, one is people who will decide to not do it at all, second would be people who would have done it somewhere else closer to where they live, and third would be people who would eventually return to get it done from Shalby. So what would be the roughly split between these three buckets?

**Shanay Shah:** See, most of this work is going to come back because this is elective work and it can be postponed, however, cannot be postponed indefinitely. So, we will not lose, it is not like these patients are not going to get this surgery done, number one. Number two, this is still considered a highly technical surgery, so which means that people will not largely resort to getting it done locally, they will wait and still go to their preferred choice of hospital, whether it is Shalby or whatever hospital they have shortlisted. So, people will wait to get this surgery done and we do believe that most of this work will come back. The question is, how quickly will it come back? Whether it will be Q3, Q4, it's hard to say.

**Sarvesh Gupta:** Understood. And for the remaining part of this year, one, of course, things that we are looking at is that COVID work will get reduced maybe to a certain extent and that would get replaced by the non-COVID work. So, that is one mix change for us. But apart from that, what are the growth levers for this particular financial year for the revenue growth. apart from just the mix change between COVID and non-COVID?

**Shanay Shah:** So, largely what we have seen is that most of the revenue that we are generating at the moment are coming in from hospitals. The franchisee model that we have earlier spoken about is yet to take form and shape, so, they will not be able to contribute in FY2021. Homecare and the Care Card in itself are a very small percentage of the revenue at the moment. So, it is largely the non-COVID work that will drive the revenue growth in the current financial year, as well as whatever COVID work we are able to do.

**Sarvesh Gupta:** And finally, for a very long time we have been relying on our in-house doctor model. Now, maybe because we are underutilized maybe you guys have decided to also allow the outside doctors, especially the star doctors to perform their surgeries at your place. But apart from that business being probably a lower margin business, have you also considered any sort of impact on the HR issues because, there can be some tussle between the in-house doctors as well as the outside doctors. So, there can be some human or the software issues which are related to changing of the model. So, if you can briefly comment on that, that would be helpful.

**Shanay Shah:** I don't think that is an issue because largely most of the hospitals that we know of, they work on both full time and under visiting doctor model. And only when there is a conflict of interest between the two, at that point of time it can create issues. But if you are having visiting doctors, star doctors coming and they are not getting the regular OPD of the hospital, and they are only seen by full time doctors, the full-time doctor should not have an issue, right. So, as long as there is no conflict of interest, it should be fine.

**Sarvesh Gupta:** Okay, understood sir. And congratulations for a good set of number and all the best for the coming quarters.

**Moderator:** Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

**Kunal Mehta:** And I like to admit that this is the first time that I am attending Shalby's call, and so pardon me if my question is somewhat fundamental. So, I want to understand only one thing from you, when I look at the capital allocation decision to invest in the Asha Parekh to set up a unit on the same premise where the Asha Parekh Hospital is there in Santa Cruz West. So, now I have had some time to understand this catchment area, in different capacities actually, so as a resident, as a past patient and also in some other professional capacity, I understand that this catchment area may not be as lucrative. I mean, I just want to understand what the thesis is of setting up this hospital and investing roughly Rs. 150 crores?

Because, I mean, this catchment area essentially is, in my opinion, somewhat overcrowded and plus, it may not even suit the core skill set which Shalby has. So, just wanted to understand, if you are evaluating the decision from a fundamental basis, first principles basis, can you just help us understand the rationale here? I mean, so is the reason just that we have been able to get this very, I would say, sweet deal of having to pay just the lease charges of the hospital and is that what makes the deal efficient? I mean, any view would be very helpful.

**Shanay Shah:** See, there are two things, one, we treat hundreds of patients from Mumbai every month in our Ahmedabad facilities. And I am sure, that a few more hundred are not able to come in as they actually want to get their treatment done in Mumbai itself. So that market will be completely tapped upon. The other thing is, if you look at Asha Parekh Hospital, and if you look at a six to eight-kilometer radius up to that hospitals, you barely have one or two corporate hospitals. And you and I both understand the density of population in Mumbai in a six to eight-kilometer radius. So, essentially, the potential is tremendous, capacity of the people in that six to eight kilometer radius is something that I may not need to talk about, because you very well understand what is the potential over there in that area in terms of the paying capacity of the people.

**Kunal Mehta:** Sure, sir. But this area essentially is pretty well supplied. I mean, I understand that within a six to eight kilometer radius there may not be a reasonable hospital, maybe there are a few but you can set up one, but in terms of the people living in this residence, in this whole area, it's pretty well supplied. And of course, this is just my perspective.

And secondly, just wanted to understand that when I look at the present utilization and the present metrics which we are running, sir don't you think that a right strategy right now would be to work first on the optimum improvement in utilization across our facilities and then maybe look at adding more capacity in whatever measure which we are doing? Or this simultaneous addition of capacity, despite of this we will still be able to produce a good return on capital three years down the line as you are thinking. So, how do you see that?

**Shanay Shah:** Probably, I have tried to explain this earlier, I will try and do it again for you. So, since 2017 if you look at, our IPO, from then until now it's been three years and we have not added any facilities and we have not made any acquisition because we consciously did feel the need to consolidate what we already have. The second thing is that the Asha Parekh Hospital, I spoke to you about what kind of potential we believe it has, and it is going to come in after three years from today. By then we are hoping and we are working towards the occupancy ramp up of the existing facilities. So, I am not talking about any acquisition of any other hospitals for the next two to three years.

**Kunal Mehta:** Understood. And this Asha Parekh Hospital, you are planning to have the unit in both the premises, I mean, the original premise were the hospital is right now, and the premise on the opposite end of the lane, that is the same whole premise, right, I mean, for this hospital?

**Shanay Shah:** So, it is a very old building, it is a 30-40 year old building, so we will have to break down the existing structure and make a new building there in the property.

**Moderator:** Thank you. Due to time constraints, we take the last question from the line of Ashish Thakkar from Motilal Oswal Asset Management. Please go ahead.

**Ashish Thakkar:** Sir, like we are maintaining one of the best EBITDA margins in the industry, so three, five years down the line, whenever you double your revenues, would you be comfortable saying that we can still maintain 20% EBITDA margin?

**Shanay Shah:** So I think we are still maintaining that margin while we are at about a 41% capacity utilization. We believe that the margin has a capacity to expand and considering that no other units will be coming in and if we are able to get to an ideal occupancy level, at a group level we can achieve 25% kind of EBITDA margin.

**Ashish Thakkar:** Okay. Fair enough. And any incremental buyouts you are looking out in the market?

**Shanay Shah:** You mean acquisitions?

**Ashish Thakkar:** Yes, acquisitions, something like Asha Parekh or some tie-ups or JVs?

**Shanay Shah:** No, we believe that our hands are full for now. And we are basically having a lot of work in terms of increasing the occupancy of the existing hospitals. And of course, for the new projects we are very excited about, both of them, the Asha Parekh Hospital and the hospital coming up in Nashik. These both hospitals will add about 300 beds to the existing capacity.

**Moderator:** Okay, thanks. Just one last question from my side. Sir, the OPD numbers that you mentioned in the call, were they online consultations or physically the patients and even the doctors are there present in the hospital?

**Shanay Shah:** It's a mix, but most of them have come into the hospital. The online consultations are still a very small part of the total OPD consultation.

**Ashish Thakkar:** Sir, do you guys have an app, some digitized mechanism for pulling the customers in?

**Shanay Shah:** Yes. We have an Android as well as iOS app for online consultations.

**Ashish Thakkar:** Okay. Fair enough. Thanks, and all the best.

**Shanay Shah:** Thank you everyone, for joining our Q2 FY2021 Earnings call. I think if you have any further questions, if anybody did not get a chance to ask their question, please feel free to connect with our IR team or email us, and we will be happy to get back to you. And please continue to stay safe. Thank you.

**Moderator:** Thank you. On behalf of Elara Securities Private Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

Notes:

1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2. 