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Shalby/SE/2023-24/50 July 25, 2023

The Listing Department **National Stock Exchange of India Ltd** Mumbai 400 051. **Scrip Code : SHALBY** Through : https://neaps.nseindia.com/NEWLISTINGCORP/	Corporate Service Department **BSE Limited** Mumbai 400 001. **Scrip Code: 540797** Through : http://listing.bseindia.com

Sub.: Transcript of Earning Conference Call for Unaudited Financial Results for quarter ended June 30, 2023 – Reg. 30 of SEBI LODR

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith transcript of Post Earning Conference Call organized by Company on July 21, 2023, wherein unaudited Financial Results for quarter ended June 30, 2023 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**

Shah Tushar Dineshchandra
Digitally signed by Shah Tushar Dineshchandra
Date: 2023.07.25 19:17:43 +05'30'

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

Encl.: Concall Transcript

"Shalby Limited

Q1 FY '24 Earnings Conference Call"

July 21, 2023

MANAGEMENT: DR. VIKRAM SHAH – CHAIRMAN AND MANAGING DIRECTOR – SHALBY LIMITED
MR. SUSHOBHAN DASGUPTA – VICE CHAIRMAN AND GLOBAL PRESIDENT – SHALBY LIMITED
MR. PARAG AGARWAL – CHIEF BUSINESS OFFICER – SHALBY LIMITED
MR. AMIT PATHAK – CHIEF FINANCIAL OFFICER – SHALBY LIMITED
MR. SHANAY SHAH – PRESIDENT – SHALBY LIMITED
MR. PUNEET MAHESHWARI – AGM INVESTOR RELATIONS AND CORP STRATEGY – SHALBY LIMITED
DR. NISHITA SHUKLA – GROUP CHIEF OPERATING OFFICER – SHALBY LIMITED

MODERATOR: DR. BINO PATHIPARAMPIL – ELARA SECURITIES INDIA PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Shalby Q1 FY '24 Earnings Conference Call hosted by Elara Securities India 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 need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bino Pathiparampil from Elara Securities India Private Limited. Thank you, and over to you.

Bino Pathiparampil: Thank you. Good afternoon to all of you and again welcome to the Shalby Limited Q1 FY '24 Earnings Call hosted by Elara Securities. Today, we have with us senior management representatives from Shalby. We will start with opening remarks from Mr. Sushobhan Dasgupta, Vice Chairman and Global President; and Mr. Parag Agarawal, Chief Business Officer. This will be followed by a discussion on financial performance by Mr. Amit Pathak, Chief Financial Officer. After that, we will open the floor for Q&A for all participants. I will now hand over to Mr. Puneet Maheshwari for important disclaimers before the call. Over to you, Puneet.

Puneet Maheshwari: Thanks, Bino. Good evening, 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 risk and uncertainties. Kindly refer to Slide number 36 of the investor presentation for a detailed manner.

Now I would like to hand over the call to Mr. Sushobhan Dasgupta, Vice Chairman and Global President, for his opening remarks. Thank you, and over to you, sir.

Sushobhan Dasgupta: Thank you, Puneet, and good evening, everyone. I'm pleased to welcome you all to Shalby Limited's First Quarter 2024 Earnings Call. At the outset, the first quarter of this year was a robust quarter for our overall Shalby Group. This quarter reflected our best hospital business performance in any quarter so far since the inception of Shalby across most financial and operating parameters, recording significant growth year-on-year and quarter-on-quarter.

Our hospital business continued to grow at high double digits in the key metrices of In-patient counts and surgery counts growing by 24% and 14%, respectively, year-on-year. I'm also pleased to report that our hospital occupancy levels, which has been a major focus area for us since some months have improved by 12% year-on-year and 8% quarter-on-quarter to 626 beds and has reached to 50% occupancy rate in the first quarter of full year 2024.

These results truly reflect our conscious efforts to improve occupancy levels across all our hospitals through various business development activities. We firmly believe that these initiatives will continue to ramp up our occupancy levels in the coming quarters, too. Our core specialty, Arthroplasty has performed stupendously in quarter 1, and we are proud to say that

Shalby has achieved a landmark of 150,000 joint replacement surgeries since its inception in the last quarter.

And with this, we continue to maintain our significant leadership position in global volumes in the Arthroplasty segment.

At Shalby, we remain focused to demonstrate clinical excellence that performing critical surgeries across many of our units. A few of them, I can cite here, the removal of a tumor attached to a heart valve with complete conservation of the valve at Shalby Indore, implantation of a Micra AV leadless pacemaker, which is the world's smallest pacemaker and does not have any wire in a patient who had previously infection in previously implanted pacemaker, and Microvascular decompression of Trigeminal Nerve performed with Minimally Invasive approach. Though small in numbers, we are proud to inform that we have performed more than 250 kidney and liver transplant at SG and Indore units so far. We are awaiting to receive hand and heart transplant licenses at our SG unit and kidney transplant license at our Naroda unit. Our home care business services have demonstrated some excellent performance again in quarter one, growing by 70% year-on-year and 30% quarter-on-quarter to revenues of INR3.6 crores and patient count of 7,700 that grew by 30% year-on-year basis.

Additionally, revenue from our international business clocked revenues of INR2.5 crores in Q1 FY24, growing by 3% year-on-year. As a part of our social commitment, we continue to spread awareness about the importance of health and well-being through various social media platforms and created 95-plus videos during last quarter and also created 14 additional long and short healthcare video contents in partnership with Google, through its arm YouTube.

We also conducted more than 230 healthcare camps and 80 healthcare talks across all our units during the last quarter as a part of our various community outreach programs.

Our organization also takes pride in nurturing young talent through our Shalby Academy with 290-plus students registered in the various healthcare programs during the first quarter of full year 2024.

Our knee and hip implant manufacturing business under Shalby Advanced Technologies in California U.S.A. had a slightly softer performance than plan during the first quarter of full year '24. We recorded revenues of INR16.5 crores versus INR21 crores in Q4 FY'23, mainly due to lower patient flow into elective surgeries in the U.S., delay in full commercial launch of our unicompartmental knees across the U.S. due to some delays in instrument manufacturing and an unanticipated delay in our full commercial launch of our new Ambition brand Knee in India. The contribution in sales mix last quarter from U.S. and India accounted for 70% and 30%, respectively. We are expected to receive the full instrumentation of TUKS next month that would enable us to grow for a full commercial launch. We also have recently received the bulk order from our distributor in Indonesia and supplies are expected to happen next month. We are also exploring opportunities in Malaysia, and we'll soon be receiving registration approvals to launch our SAT products in Latin American countries like Argentina and Paraguay in the coming quarters. We are also hiring new people in key areas in SAT such as sales and engineering that would be direct contributors to our growth road map as well as continuously work on improving operational efficiencies in an incremental manner and hence substantially bring down our procurement and day-to-day operational cost so that we can return this company to a mid-single-digit EBITDA contributor by the end of this year for SAT. With all these key strategies, ruthless and flawless execution will be the key to our success, having the right people and leadership in place. All this, in turn, will help create continued sustainable value for all stakeholders at Shalby Limited. Now I will hand it over to Parag to discuss our SOCE quarterly performance. Parag, over to you.

Parag Agarawal: Thank you so much, Sushobhan, for sharing quarterly developments on hospital and the implant business. Hospitals definitely have done far better.

A very good evening, everyone. Let me share the Q1 FY '24 performance for SOCE franchisee vertical. As you all know, we now have 4 fully operationalized units at Ahmedabad, Udaipur, Lucknow and Gwalior. This has a total bed capacity of more than 130 under the vertical. We have performed a total of 154 surgeries in this quarter, which is a growth of 44% quarter-on-quarter and 38% year-on-year.

Total revenue from operated and managed SOCE units has also grown by 31% quarter-on-quarter and 40% year-on-year. I'm pleased to inform that Shalby has signed an agreement with Divine Super Specialty Hospital, Ranchi, Jharkhand, to operate our franchise-owned Shalby-managed hospital in that region. The hospital will have a capacity of 60 beds, which can further be expanded to 100 beds.

The units will be operationalized from next month under the brand Shalby brand. Around first week of August is where we plan to operationalize and know-how our brand giving services in the city. We have been very diligent in choosing our prospective partners from various inquiries, which we receive from time to time and what we reach out in different cities. We are very particular in preserving our integrity of the brand and adhere to a very defined protocol in terms of infrastructure, services, quality while making these collections for our partners.

Looking ahead, we are very optimistic about positive developments in the upcoming quarters in this fiscal year so far as adding new units is concerned. Our primary focus remains on leveraging our expertise and excellence in orthopedics, aiming to establish over 50 franchise-hospitals across the country within the next 3 to 4 years. Now I would like to hand over to Mr. Amit, CFO, to discuss Shalby's quarterly financial performance in more detail.

Amit Pathak: Thank you, Parag. Good evening, everyone. I will walk you through the financial performance of the company for the first quarter of FY 2024. First, I will run you through the consolidated performance of the group.

Higher ever consolidated revenue of INR240 crores, grew by 15% on quarter-on-quarter basis and 17% on Y-o-Y basis. EBITDA of INR48 crores with a margin of 20% in Q1 FY '24 and grew by 37% quarter-on-quarter and 8% on Y-o-Y basis. PBT of INR33 crores with a margin of 13.7% in Q1 '24 and grew by 72% on quarter-on-quarter and 8% on Y-o-Y basis. PAT of INR21 crores, grew by 50% quarter-on-quarter and 4% on Y-o-Y basis. The group continued to maintain a very strong balance sheet with a low gearing ratio of 0.11x and closed the quarter with a net cash balance of INR81 crores at group level.

Now I will be running you through the stand-alone performance of the business. Operational side, the total surgery count grew by 25% quarter-on-quarter and 14% Y-o-Y basis to 8,183 with the inpatient and outpatient count improved by 11% and 6% quarter-on-quarter and 24% and 7% Y-o-Y in Q1 FY '24.

ARPOB and ALOS has also shown an excellent improvement at INR38,000 and 3.97, respectively, in quarter 1 FY '24 versus INR34,865 and 4.01 in the previous quarter and INR35,304 and 4.08 in the same period of the previous year.

The payer mix has largely remained the same on Y-o-Y basis and quarter-on-quarter basis. Highest ever standalone revenue of INR216 crores, grew by 18% quarter-on-quarter and 20% Y-o-Y basis. EBITDA of INR50 crores with a margin of 23% in Q1 FY '24 and grew by 36% quarter-on-quarter and 16% Y-o-Y basis.

PBT of INR40 crores with a margin of 19% in Q1 FY '24 and grew by 51% quarter-on-quarter and 22% Y-o-Y basis. PAT of INR26 crores grew by 43% on quarter-on-quarter and 22% Y-o-Y basis. At standalone level, again, a very strong balance sheet with a low gearing ratio of 0.02x and closed the quarter with a net cash balance of INR156 crores.

Standalone ROCE has improved to 20% in Q1 FY '24. Our Implant business has shown a slightly soft performance during the first quarter of FY '24 with the revenue of INR16.5 crores versus INR26.2 crores in Q1 FY '23, an EBITDA loss of INR0.35 crores versus EBITDA profit of INR0.43 crores in Q1 FY '23.

Now I can open the platform for any questions.

Moderator: First question comes from the line of Divya Daga from Vijit Global Securities Private Limited.

Divya Daga: I have a few questions. And first question is, this quarter has been soft for implant. Any specific reasons? As we were expecting higher revenue from that side.

Sushobhan Dasgupta: Thank you, Divya, for the question. This is Sushobhan. So first of all, if you see the way we have structured the implant business, according to plan, our usual quarters are usually at 25, 25, 25, 25 to make it 100. But we anticipated that this quarter will be soft and that's the reason this month v/s our plan was around 10% of the full year. So if you see, our full year is at $18 million. So we plan to grow about 50%-plus over what we do last year.

When you looked at the quarter, received informal insights from colleagues and competitors in our U.S. industry that the last quarter there was a reduction in number of elective surgery days in the U.S. versus if you compare to the same quarter of the previous year. This was due to the fact that many key surgeons availed of the vacation time this year last quarter, where they couldn't take the time last year because of backlog overflowing from earlier COVID situation, especially in the U.S. Our internal data with some of our key surgeons also correlated the same theory as we took it from other industry friends that I have in the U.S.

The other factor which played was that we did some changes in design of our new unicompartmental knee called TUKS in the instrument side and redesigned them to make simpler and more efficient as per the guidance and advice from our designer surgeon, Dr. Richard Reitman. Unfortunately, this process of design change went through numerous iterations that took up much more time than anticipated before arriving at the final design, which in turn, delayed the manufacturing and delivery of the redesigned instrument sets for TUKS from our supplier partners. Hence the full commercial launch for TUKS in the U.S. got delayed by a quarter. And now these are expected to be ready by end July and early August. So we expect our TUKS commercial sales, especially in the U.S. to pick up from August onwards.

Also, there were some orders from Argentina and Paraguay, which were delayed. We thought they will be coming this quarter, it did not happen because there has been some delay in getting regulatory approval from the country. In India, if you look at our market, our knee market, especially for Shalby, it's around 85% to 90% of the total organized implant market with knees. We had anticipated the launch of our latest new design Knee branded Ambition in the last quarter.

Unfortunately, the design and development of the specialized instruments needed specifically to implant the Ambition Knee into patients got delayed by some months by the manufacturer, because we were converting this from a disposable instrument to a reusable instrument design.

And hence, this pushback our Ambition Knee launch in the coming months. Just to give you some information on this new knee. This is the latest design Ambition Knee that's already been FDA approved in the U.S. and this is a posterior-stabilized knee, which is mainly used in countries like India, where the PS knee is almost 75% to 80% of the total knee market versus a cruciate-retaining knee, which is CR knee, which is more used in the U.S.

So this PS designed Ambition Knee is expected to be a big game changer for our India and Southeast market, which is predominantly, as I said, a PS knee market. Due to this unexpected delay in supply of the mandatory instruments required to implant a new Ambition Knee, we saw this soft performance in our business in India, and we couldn't also launch the same in Indonesia as planned earlier.

Some good news, Divya, to let you know is that our vendors have completed the joint of these instruments for Ambition and they have gone now into the manufacturing phase. And since we're confident that we'll be able to launch this blockbuster Knee especially in India in a few months from now, our outlook remains positive for the coming quarters, both for U.S. and for India and the whole U.S. business.

Under the series of blockbuster new product launches, which I'll talk later on, line towards the back end of the year, we'll see a much more heavier third and fourth quarter. And then we'll be getting into new markets, surgery volumes definitely will be getting into normal, which we see already in the U.S., and we'll win back some lost customers in the U.S.

We are very much in line to achieve that 50% top line growth for Shalby Advanced Technologies for the full year '24. Hope, I answered your question. It was long answer., but I guess I wanted to cover everything so that your answer is completely answered.

Divya Daga: Yes. Sure. So we can see that we are very confident that we will achieve our target of 50% growth in Implant segment?

Sushobhan Dasgupta: Absolutely. Without a doubt.

Divya Daga: That's great. My second question is, as you have mentioned in press release that we have got a order from Indonesia. So can I know the size of that order?

Sushobhan Dasgupta: It's around 100,000-plus. We expect to finish this year if everything goes right, between $350,000 to $0.5 million of sales in Indonesia. So the first order came at around 100,000-plus.

Divya Daga: Okay. And I have one more question that as I saw that there is a sudden growth in OPD, IPD and surgeries. So can you segregate between growth from SOCE and growth from normal hospital segment, if possible?

Sushobhan Dasgupta: I'll give it to, I think, Shanay or Dr. Nishita or Parag, whoever would like to answer this.

Parag Agarawal: So as we've already mentioned, SOCE, we have a very limited number of surgery. Out of 8,000-plus surgery what we have done in this quarter, only 154 is related to SOCE business. The last quarter, SOCEs was 107 and Q1 of FY23 was 112.

Shanay Shah: So on a year-on-year basis, there is a 40% growth in the franchisee business in terms of the number of surgeries that we have conducted. And in terms of the arthroplasty business in the hospitals, the business has grown at 25% on a year-on-year basis in terms of number of surgeries. The other good thing is that our headquarter hospital, which is on SG Highway, has done only 25% of its surgeries. The balance, 75% have come from all other units, including Surat, Indore, Jaipur and so on and so forth.

Divya Daga: Okay. I have just one last question that is as I saw that Home Care segment right now is very negligible contribution it has in revenue. But it can have a higher growth potential. So can you give me the vision you have in this segment related to this.

Shanay Shah: Yes. So the Home Care business, we look at it in two parameters. One is the number of patients served and we also look at the revenue growth. So the revenue growth has been phenomenal in this quarter. We have grown at 71% in this quarter compared to the last year same quarter. And in terms of patients served, we have grown by 30% this year. So we are happy at both the fronts. We provide a lot of services across Home Care, but predominantly, the 3 biggest services that we kind of give in the Home Care business is pharmacy, physiotherapy and diagnostic services.

Divya Daga: So how big you are seeing this opportunity in coming 3-5 years?

Shanay Shah: Yes. So we have earlier mentioned that this business can go up to 5% of our hospital top line. So at the moment, we would be anywhere between 1.5% to 2%. It has the potential to go up to 5%.

Divya Daga: Can you specify the year, in next 2 year or more?

Shanay Shah: The year in which the Home Care will go to 5% would be very difficult to assume at this point of time. But we would want it to happen over the next 2 and 3 years on a gradual basis.

Moderator: Next question comes from the line of Bhagwat from Prosperity Wealth Management Private Limited.

Bhagwat: Congrats on the good set of numbers. ARPOB for the quarter is at 38,000, could you please update about the sustainability of the same over the upcoming quarters?

Shanay Shah: Yes. So I'll start and probably Dr. Nishita or the CFO, could add. See, one is that, of course, our contribution as a specialty of arthroplasty is at about 45%, as we speak. So one of the reasons why the ARPOB is also high is because of the arthroplasty mix as we speak in last year same quarter, it was around 41%. So that is one of the biggest reasons why the ARPOB is on the higher side. The other one is we have renegotiated with multiple insurance companies across the board to go for higher rates and the schedule of charges. And we have been successful in many of these, so that is the second major reason why we have been able to achieve these higher ARPOB.

So yes, they are definitely sustainable and there is a conscious effort from the entire team to reduce the dependency on government business. So last year, same time, we were at 25% government business. This year, we're at 22% that is another factor why the ARPOBs are going higher. Also, do you like to add something?

Nishita Shukla: Yes, adding to, Mr. Shanay bhai, I would just like to tell that we have got approval for transplant at 2, 3 different units and we have already started doing kidney transplant as well as liver transplant. So that is how the ARPOB is also good as well as catering more international patients. You see Q1, we have more patients from Nepal, Bangladesh and UAE and all. And that is also helping us having more number of high-end surgeries as well as good packages and good ARPOB.

Bhagwat: So ma'am, considering all these factors, so we can assume the ARPOB would be sustainable in upcoming quarters?

Shanay Shah: Sorry, we were not able to hear you clearly.

Bhagwat: Sir, I'm saying, sir, considering all the factors that you have been mentioned, so the ARPOB can be sustainable in upcoming quarters?

Nishita Shukla: Yes.

Shanay Shah: The ARPOB is sustainable at these levels, yes. But again, they're always subject to changes in the specialty mix.

Moderator: Next question comes from the line of Anup Ramachandra from ANP.

Anup Ramachandra: You guys are doing exceedingly well in hospital business. Congratulations for that. My concern is with respect to the implant business, it's more from a strategic point of view. I know promoters have a good know-how as to how to run hospital business. But the investment in this implant business is from my perspective, it looks a bit risky though we've got a good person in Sushobhan Dasgupta to run this business. My concern is what if we don't have Sushobhan Dasgupta? Will you be able to run it as good as it is running now?

Sushobhan Dasgupta: Great question. So first of all is that your question or anything more?

Anup Ramachandra: Yes, I have a follow-up question to it. The thing is...

Sushobhan Dasgupta: Yes. Let me answer this first and then, okay, go ahead, go ahead. I'll hear you and then I'll answer.

Anup Ramachandra: Yes, the reason why I'm asking is this implant business out of many calls what I've heard, it looks like it's a capital-intensive business, and we need to build a lot of inventory and there are mainly 4 or 5 big players all over the world. And we are getting into this business where our management does not have much know-how. So this is something which is bothering us from a strategic point of view.

Sushobhan Dasgupta: Okay. Again, thank you for the question. It's a great question. So I think that's and we have not received this question earlier. So I'll be loving to try and answer this question. First of all, I know you know my background. So I have been running the Asia/Pacific Orthopedic implant business for Johnson & Johnson. And we were number 2 in Asia/Pacific, we made it number one and beat Zimmer Biomet in two years of time, since I took over. So obviously, I have that experience of running an orthopedic business. And I have run the India business, I have run the Australia business of implant as well.

Secondly, when you look at the people that we have recruited to run the business, we have the gentleman called Garrett Kiesle who is now our COO and President of Shalby Advanced Technologies based in the U.S., and he reports directly to me. He has close to 25 years of experience in orthopedics and in medical devices as well as in start-ups. His last job was in orthopedics in Smith & Nephew in senior leadership position in the U.S. So Smith & Nephew, as you know, is one of the top 4 companies in orthopedics in the world. He has also worked for Johnson & Johnson earlier. So he's taken over the business since the last 6 months, and he's doing wonderfully well, bringing in a very growth-oriented mindset and culture in the company. We also have taken in some very good, experienced people.

We have bolstered our sales team. So we recently recruited one more person in the central area in the U.S. that would help us to accelerate our growth in sales, and we are getting 1 more person, an experienced orthopedic Business Director in the West and one more in the East.

So we are bolstering our sales and marketing team in the U.S. so that our reach can be growing. And we are getting experienced people and management people who have lots and lots of experience in not only turning around businesses, but accelerating growth.

Areas that we are focusing also are India and Indonesia and Southeast Asia. And then later on, we'll get into Africa and Latin America as well. So in India, we have our ex-sales director who used to run a large part of 2 regions in India for Johnson & Johnson orthopedics hip and knee implant. He's the head of our business.

And we have close to 14 people now who have recruited from different parts in India who have all worked in orthopedic joint businesses, and they are running the show, along with me for the India business. So you can understand we have one of the strongest teams in India, like we want to have in the U.S.

In Southeast Asia, we appointed the Regional Director, who was responsible for our Indonesia and Malaysia business earlier for Johnson & Johnson Orthopedics into this role. So you'll see some magic happening in Southeast Asia pretty soon. And we are covering Latin America. So to your first question, the management of Shalby implants business, I believe, it is in a very, very good hands. You could not have a better, strong team than what we have. So we are confident that this team will be able to deliver.

Now to your follow-up question, yes, it's an investment business. But the good news is that the investments have happened upfront. We have now sufficient inventory, and we have taken some very good steps to ensure that we would be able to get into a very good profitability mode. So -- what we are saying now is we'll be getting into a mid-single-digit EBITDA margin in full year '24. And this will happen due to some very launch of very new product launches, much better supply chain situation. And very importantly, we are getting our lower cost of goods sold.

So our supply chain team in the U.S. and by the way, we have one of very, very highly regarded supply chain person and one of the very highly regarded quality and regulatory person based in the U.S. who is working for us. So supply chain team are constantly in search of partnering with many quality suppliers around the world who are ready to supply us at lower costs for guaranteed large volumes, and we are looking at large volumes consistently without interruption in supplies.

A lot of things have happened because of interruption in supplies in the past. And we have seen some very healthy savings with procurement of raw material costs, and we expect further reduction to play in the coming months. So we are in a continuously improved journey, looking at incremental manufacturing efficiencies in our plant by adding many fixtures, recycling machines, maximizing efficiency, enhancing productivity.

And finally, we have also done a lot of work in negotiating lower cost on freights, optimizing and hiring functional areas, adding head count, as I said, primarily in sales and all not only in sales, also in engineering because this business, this industry fuels new product launches and engineering and R&D plays a key role.

We already have two people, we have included two more people in engineering. We have an engineering team in India in back office under Shalby who'll be helping it. All this will accelerate our business growth, bring down our costs. We are already doing some smart negotiation in terms of operational areas in the insurance and daily running costs as well.

All this really gives us that this investment that we have made over the last 2.5 years is now coming to fruition. We'll be getting into profitability mode going forward from this year onwards. And then in the coming years, you'll see SAT profitability will soar along with business growth that we are talking about $100 million in 5 years' time. I hope I have answered your question. Again, it's a long-gone answer, but I wanted to cover everything so that I clear all your doubts in your mind.

Anup Ramachandra: Sir, the doubt is definitely not in the way in which you are running your implant business. The doubt is with respect to what if we don't have you because business should be such that it should be able to run even if we don't have Sushobhan in Shalby, right? That's the...

Sushobhan Dasgupta: I'm sorry, yes, what you are saying basically is the processes in the system. So even if we used to call in J&J, if I'm run over by a bus tomorrow, what will happen? So...

Anup Ramachandra: Yes, because what I see is in the implant business, I see hardly 4 or 5 players dominating the market all over the world.

Sushobhan Dasgupta: Yes. Correct.

Shanay Shah: Yes, I'll also add, thank you, Mr. Dasgupta, I think, and I'd like to also add a perspective here. One is, of course, the opportunity that we have in hand. I know that is not the question, but it's very important for me to address this that for any company to kind of set up implant manufacturing, get the designs approved, get a U.S. FDA is a 5- to 7-year process. We have been able to acquire it at a very, very minimal price. In fact, we have paid a fraction of the value of the assets of this company. So at the moment, we acquired it, the assets were valued at about $20 million. And this is not including the intangibles. The intangibles are valued at higher, and we paid about $11.5 million, it was a great deal. Having said that, yes, there is stable leadership that's across all levels in the system. And we have retained a lot of the senior staff that were part of the growth story over the last 25 years at the erstwhile Consensus. And yes, we have brought fresh talent and fresh mindset at California as well as what Mr. Sushobhan said, in terms of Garrett Kiesle and his entire leadership team there who have a lot of background of the implant business. So that is the way we would like to professionally run this business. I hope we answered the question.

Anup Ramachandra: So, Shanay, one more point, I think it's yes, go ahead.

Sushobhan Dasgupta: Sorry, 1 more point. I'll just put it in. And I think it's difficult to share here. I'd love to really talk to you through in terms of the strategic road map that we based. So we have created a strategic road map for 5 years, which covers every process. So be it the manufacturing, be it sales and marketing, be it engineering, be it quality.

We have a road map for 5 years, very meticulously drafted road map, which has been led by me through my experience. And that's a process map that has been completely there. So we know exactly that even if I am not there or some senior person is not there, that process will continue. And I think that's where we are giving predominance with the experience that coming in, the process rules over people in the future.

And with the investments coming in, we are creating a machinery going forward that SAT will rule. And to your point, yes, those 4 companies that rules have taken around 80%, 85% of the market share, perfectly fair. But the 15% market that we have of the total $18 billion of the hip-and-knee market in the U.S. and another around $12 billion or $13 billion worth of market outside of the U.S. is the place that we would like to play while we nibble some of the shares.

And to be honest, if you speak to many of our customers, you'll realize today that those 4 players who have dominated that share is in threat because the way they have been supplying, the way they have been catering to, even if you ask Dr. Vikram Shah and the other surgeon in Shalby, they'll be able to say the service level of the 4 big players are coming down.

And the focus is going into some other places, including robotic surgery. And that's where we feel our opportunity is to be able to nibble that share as well as take care of the 15% market, which is up for grabs. And that's where Shalby Advanced Technologies will slowly get into the picture.

Anup Ramachandra: Okay. Shanay, the real concern actually comes from the downside, what we see from if at all there is a downside in implant business. See, I'll give you one reason, there's no offense to anyone. See, I'll give you one perspective here. We've been addressing a lot of investors call so far. Can you give a reason in any of the calls that you've not done well in this quarter because doctors were on vacation? There's no way you can answer this, right? Because when you get to hear that why you've not done well in implant business because doctors were on vacation in U.S., it's quite difficult for us to comprehend.

Shanay Shah: Yes, so I think, Mr. Dasgupta will...

Sushobhan Dasgupta: I said one of the reasons. That was one of the reasons, I would say. I think I said at least 6 or 7 reasons. Basically, I think, I started with the doctors being in the holidays and in vacation. That is one of the reasons. There are several five or size reasons I talked about, which was TUKS instrumentation, the Ambition Knee that was not launched. These are some of the key reasons that highlighted because I came in first, that does not necessarily mean that predominantly that was one single reason.

There were 5 or 6 reasons behind the softness. And as I said earlier, we had anticipated. It's not that this came as a surprise to us. That is the reason if you see my business plan is in terms of quarter-by-quarter is 10%, 16%, 31% and 43%. And we have the plan in place. It's not that we were surprised by the soft performance of this quarter. We were anticipating that this will be coming because we came to know in January or February of this year that the instruments thing is getting delayed, that the designer surgeon is asking for a different simple instrumentation, which will take time to get in. It will take time to convert the disposable instruments designed into a reusable instrument design to our manufacturer vendor.

We came to know. So we accordingly, we baked in our plans. So when I look at the plan versus performance, it's not very far away from the plan versus the performance. But yes, when you look at from a year-to-year comparison and versus what the quarter-to-quarter comparison, it looks like.

Moderator: Mr. Ramachandra, we request that you return to the question queue for follow-up questions. Next question comes from the line of Heet Van from Elara Capital.

Heet Van: Congratulations for a good set of Q1 numbers. I would like to know about the capex plan for like FY '24 and '25, if you could just elaborate?

Shanay Shah: Yes. I think I can start with the operational capex and the new capex, I think Parag can kind of throw some light on that. So in the first quarter, we have done about INR4 crores of operational capex, which is largely half and half. Half is really kind of replacement capex and the other half is new capex. We expect that number to be between INR16 crores to INR20 crores in this year. In terms of new capex, Parag, will be able to throw some light.

Parag Agarawal: I think for the new capex, the new capex will go into certain SOCE launches. We've also launched like we have talked about Rajkot being made operational in the year. So somewhere in the range of INR5 crores to INR7 crores towards one unit of SOCE being operationalized on the FOSO model.

Other than that, there are new hospitals which are in anvil and the capex will go towards operationalizing those. At Nashik, which we track towards this year and early next year, operationalizing that, plus any new other units which may come through.

Heet Van: Secondly, I would like to know about the tax rate, like what is the tax rate we are like envisaging for FY '24 and like '25 as such?

Shanay Shah: Yes. So I think Mr. Amit Pathak will be happy to elaborate, but we are still falling under MAT, with a minimum alternate tax. And we pay a little over 17% in terms of cash tax. However, the books, you will see that the numbers will be different, but the cash outflow is only 17% as we speak.

Amit Pathak: Yes. Yes, Shanay. So this is correct. We are falling under the MAT, and we still have the leverage of lower taxation. And this year, we continue with a MAT.

Moderator: Next question comes from the line of Rikesh Parikh from Rockstud Capital LLP.

Rikesh Parikh: Congratulations on set of numbers, especially on improving the ROCE to 16.6% on a consolidated basis. First question is, can you just briefly update on Asha Parekh and Nashik Hospital on the expansion side?

Parag Agarawal: So yes, for the Nashik, as I just talked about, we are looking forward to operationalizing it over this year and quarter one of next year. Still what we talked about in the last call, waiting for our builder to hand over the premises that there are certain challenges, which we are working together with a builder to overcome. For Mumbai, we are still to start work. And I think over the next 3 to 4 years is where we look at operationalizing the place.

Rikesh Parikh: But have we got that site visit approval from the NGO and BMC which we are waiting for?

Parag Agarawal: Didn't get you there, please, if you could come again?

Rikesh Parikh: Have you got the approval from the Joint Commission and the BMC which we were waiting for starting of the project?

Parag Agarawal: So those approvals are still awaited. Those are applied for, but they are still awaited. So once they are done, then what we look forward to is building up the place. So yes, but things work in parallel, they are not sequential. So as we wait for those approvals, the work on the BMC approvals and other things; design, etcetera, is in place.

Rikesh Parikh: We have been able to do 23% EBITDA margin. Is it sustainable as -- basis as such?

Parag Agarawal: Moderator, we are not able to hear it clearly. Rikesh, your lines are not clear.

Rikesh Parikh: Sure. On the EBITDA side this quarter, we did 23% EBITDA margin on a stand-alone basis, so on sustainability for the full year is it sustainable at where we are looking at it going forward?

Shanay Shah: Yes. So I think if you're asking about the EBITDA margin for the hospital business, yes, it has been at 23%. And there will be a margin expansion in the coming quarters because the revenue is likely to go up. We have invested in this quarter also across building a lot of capabilities as of Nishita says regard to other specialties, right?

So that is going to happen. On a like-to-like basis, we have invested 100 basis points more in this quarter compared to last year same quarter on the marketing expenditure also on the business and promotion. So like-to-like basis, we are much better off. It's just that we have reinvested a little more, but we've been able to still manage the same EBITDA margins in the hospital.

Rikesh Parikh: And last on the SOCE side, means by the end of the year, how many SOCE we are looking at for '24?

Shanay Shah: So for FY '24, by end of the year, we are looking forward, currently, we have 4 operational. We are looking at somewhere around 8 to 9 operational units by end of the year.

Moderator: Next question comes from the line of Divya Daga from Vijit Global Securities Private Limited.

Divya Daga: I have questions related to Home Care, again. I want to know the charging model for the Home Care, how do we charge it? How is the revenue model...

Nishita Shukla: For the Home Care, if you see we have like 5, 6 different services. So it is a consultation, attendant at home, nurse at home, pharmacy and diagnostics and then an ICU set up at home. So usually, our collection and all are free charges, our drop and pickups are all free. But the charges are as per market rate and which lesser than what are the hospital rates what we charge comparative to other competitors with us.

Divya Daga: So can you give me the average of what we charge?

Shanay Shah: So what do you mean when you say average, I'm sorry?

Divya Daga: Average revenue we charge per patient in Home Care?

Shanay Shah: It really depends on the services that has been asked for. So if it's a physiotherapy service, the charges would be very different on an average per patient vis-a-vis somebody who's just ordering medicines, it will be much higher for somebody who wants a doctor on-call. So it would really depend.

Divya Daga: Okay. So can I know what geographies we are catering right now in Home Care?

Nishita Shukla: At present, it is in the places where we have a hospital so that we have backup related to all services what we are catering to the patient. And we have also started catering calls from metros, Delhi, Mumbai and all. So till from this quarter, we will be expanding, we will do our SOCE places also. Where we are coming up with our SOCE, we will be giving Home Care services to that patient also.

Divya Daga: Okay. Sir, are we expecting franchisee model in this segment as well in near future, maybe?

Nishita Shukla: No.

Moderator: Next question comes from the line of Aashka Trivedi from Kedia Securities Private Limited.

Aashka Trivedi: Yes, sir. Sir, I just wanted to understand that at the inception of the call, you stated that Ambition Knee market is going to be a game changer for India. So I just wanted to know in what context it will be a game changer?

Sushobhan Dasgupta: Yes. Thank you for the question. The reason I say it's a game changer is basically when you look at the overall market, the organized markets in India, 85% to 90% of the market will be or is knees and unicompartmental knees, total knee – unicompartmental knee. Today, if you see what we have launched in India is mainly the unicompartmental knee and our hips and our cups, we also have launched our CKS knee, but our CKS knee is more of a cruciate retaining knee.

The Indian market is more of a posterior stabilize knee or PCL sacrificing knee, as we call it. So -- because we do not have CKS knee, which is predominantly a PS or a PCL sacrificing knee at this moment so much in terms of our supplies, we expect that when Ambition comes, which is a very modern design, this would be a blockbuster in the future. And we have already been able to talk to some people on Ambition, and we are seeing a lot of responses of being Ambition coming in.

And not only we'll be giving Ambition in the current version of the product that you see that is a cobalt chrome version, we'll also be able to give the TiNbN coating. TiNbN coating is basically a coating which gives a gold color to the knee.

It's a titanium niobium nitride coating, which is basically given for patients who have chemical sensitivity. And that's what we are able to bring Ambition. And that's the reason I'm saying a Ambition will be a game changer. It will be used in Shalby Hospitals, it will be used a lot outside of Shalby Hospitals in India as well.

Aashka Trivedi: So sir, is this kind of Knee already available in India and overseas or is this for the first time at least in India, we are launching this kind of Knee?

Sushobhan Dasgupta: No Ambition Knee was a knee that was designed before we took this company. It is a very modern design knee. It was already 510(k) approved. So when we took over this company called Consensus Orthopedics, Ambition Knee was already 510(k) approved, got FDA approved. However, as I said, the instruments that were there were done for disposable instruments.

So we had to change it to the reusable instruments, get the designer surgeon involved, and it took a bit of time. So yes, the Ambition Knee has still not been manufactured. It will be manufactured in the coming months and then you'll be able to launch. So there is no way it has been launched yet as of now. So we are still in the manufacturing process of Ambition.

Aashka Trivedi: And sir, any revenue guidance annually for the Implant segment.

Sushobhan Dasgupta: So we expect a 50%-plus growth in the revenue side of things for the full year '23-'24. And we expect to scale it up to $100 million over the next 5 years' time. So we expect 55%, 45% split between U.S. and OUS. The U.S. market, the average selling price is almost 2.5x more than the OUS market, which is India and some of the Southeast Asian markets. And that's the reason when we look at the volumes, volumes will be much higher in the OUS market, including India versus the U.S. market, where we will get considerable 2.5x prices than the other markets. So to your question, the revenue guidance will be 50%-plus this year in terms of our top line and will be $100 million in 5 years' time.

Aashka Trivedi: And sir, one last question that in order to achieve $100 million of revenue, what capex we would be expecting in next 3 to 5 years in the Implant segment?

Sushobhan Dasgupta: Yes. The main capex cut will be coming in is for the instrumentation. So as you understand that every knee or a hip that is put up, we need to manufacture instrumentation. So the main capex that will be coming is for instrumentation. And obviously, there is recurring expenses that happens in the manufacturing side of things in our plant.

As I said, we have a strategy in place that we have been able to understand, how do we balance our manufacturing strategy? Everything that we are manufacturing or rather everything that we'll be producing in that $100 million business will not be manufactured in our manufacturing plant. We have been able to identify a lot of FDA-approved high-quality vendors who'll be able to supply several parts of our products to us to finally sterilize and do our quality aspects from various parts of the world.

And because we will be a substantial volume company going forward, we have been able to negotiate some excellent prices. So on the one side, we'll be able to reach our $100 million by selling large volumes, both in U.S. and outside the U.S. as well as through our balanced manufacturing strategy, we'll be able to bring in down our cost of goods in a very significant way so that we become a highly profitable company when we reached that 5 years' time period, as I said earlier.

Aashka Trivedi: That’s it from my side. Thank you so much.

Sushobhan Dasgupta: Thank you. Other questions?

Unknown Analyst: Yes. Sir, with regards to capex, I would like to know that what is the amount which you are going to incur on the Nashik and Mumbai project like?

Parag Agarawal: See, the Mumbai project at a total level will be somewhere in the range of INR150 crores to INR200 crores over the next 3- to 4-year period, where a large amount of it is going to be in equipment and something which is to be invested towards the end of the project. Nashik, given that it's a buildup area and we are getting the warm shell there, the investments will be in the range of INR50 crores to INR70 crores.

Unknown Analyst: Okay. And sir, with regards to, so are we planning to utilize it fully until FY '24 or like it will be stretched a bit?

Amit Pathak: It will stretch a bit.

Unknown Analyst: Okay. So till FY '25 year end or like H2 or H1, like what is your estimates?

Amit Pathak: Early by H1.

Unknown Analyst: And sir, with regards to beds, I would like to know that what is the type of bed addition we are going to see in the next 2 to 3 years? Like what's your plan according to?

Shanay Shah: So I think as Parag said, the bed addition will be 300-plus beds that will come in Mumbai and Nashik put together. And over and above that, there will be an expansion of beds in terms of our operational beds, which are today at 1,260, will go up to 2,000 as occupancy ramps up. And the third one will be all the potential franchisee opportunities that we are evaluating. As and when they fructify, they will add to the number of bed capacity whether operated or managed by us depending on FOFO and FOSO.

Moderator: Next question comes from the line of Bhagwat from Prosperity Wealth Management Private Limited.

Bhagwat: Sir, I would like to understand about the raw material for Implant business segment. Sir, do you source from actually the U.S., could you please tell me about some color on that?

Sushobhan Dasgupta: Yes. So basically, when you look at the raw materials, there are very different types of raw materials that come in. So for example, you get the forgings, forgings happen for titanium. So all the titanium products that come in, come through forgings and that comes from vendors, both in the U.S. as well as outside the U.S. that comes in.

For the hip side of things, the acetabular side, we get titanium products and then we manufacture within our factory, but we will also get forgings in the future from our vendors. Then when you look at the knee -- it's basically castings because it's cobalt chrome, you cannot forge so you have to cast them.

So you cast those, and that comes again from various vendors, including vendors in Germany, including vendors in the U.S. that we get in. Also, we get our instruments manufactured both in-house as well as from vendors in the U.S. as well. Plus the plastics, as you call, the vitamin E plastics comes from a very renowned company in the U.K., and they supply almost close to 90% of the entire plastics. Finally, the ceramics come from a company again in Europe and they supply close to 97% of the ceramics that is used in. So these are the raw materials that come out, cobalt, chrome, titanium, stainless steel, ceramics, as well as vitamin E polyethylene that comes out.

Moderator: Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to management for closing comments.

Sushobhan Dasgupta: Thank you very much. I think this has been a great meeting. We love the questions. And as you have seen, there has been some stupendous performance in the first quarter, especially driven by our flagship business, our Hospital business, and we have also contributed a bit from our other businesses, including the Home Care, the SOCE and our Implant business. As I said earlier, that our outlook for the future quarters look very bright, both in the Hospital business as well as in the Other segments, which have lagged behind a bit in the first quarter, which will be coming up.

So we expect that, again, that would be a fantastic performance, both at the top line as well as bottom line level going forward. So thank you for all the questions. If you have any further questions, please e-mail to us, and we'll take the endeavor to answer you and get you back. Have a great evening, ladies and gentlemen. Thank you.

Puneet Maheshwari: Thank you, everyone.

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