

October 25, 2022

Shalby/SE/2022-23/66

The Listing Department
National Stock Exchange of India Ltd
Mumbai 400 051.

Scrip Code : SHALBY

Through : <https://digitalexchange.nseindia.com>

Corporate Service Department
BSE Limited
Mumbai 400 001.

Scrip Code: 540797

Through : <http://listing.bseindia.com>

Sub.: Transcript of Investors conference call held on October 20, 2022 for quarter ended September 30, 2022

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/2022-23/56 dated October 15, 2022 and pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith investors transcript of conference call held on October 20, 2022 wherein Unaudited Financial Results for Q2 FY 2022-23 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**

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

Encl.: Concall Transcript

SHALBY LIMITED

Regd. Office: Opp. Karnavati Club, S. G. Road, Ahmedabad - 380 015, Gujarat, India.
Tel: 079 40203000 | Fax: 079 40203109 | info.sg@shalby.org | www.shalby.org
CIN: L85110GJ2004PLC044667



“Shalby Limited
Q2 FY '23 Earnings Conference Call”
October 20, 2022



MANAGEMENT: **DR. VIKRAM SHAH, CHAIRMAN AND MANAGING DIRECTOR**
MR. SUSHOBHAN DASGUPTA – VICE CHAIRMAN AND GLOBAL PRESIDENT – SHALBY LIMITED
MR. SHANAY SHAH – PRESIDENT - SHALBY LIMITED
MR. VENKAT PARASURAMAN – CHIEF FINANCIAL OFFICER – SHALBY LIMITED
DR. NISHITA SHUKLA – CHIEF OPERATING OFFICER – SHALBY LIMITED
MR. BABU THOMAS, CHIEF HUMAN RESOURCES OFFICER - SHALBY LIMITED
MR. PUNEET MAHESHWARI – SHALBY LIMITED

MODERATOR: **MS. TINA DSOUZA – ELARA SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Shalby Q2 FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Puneet Maheshwari from Shalby. Thank you, and over to you, sir.

Puneet Maheshwari: Thank you. Good afternoon, everyone, and we welcome all the participants to Shalby Limited Q2 FY 2023 Earnings Call. Today, we have with us all the senior management representative from Shalby Limited. We will start with the opening remarks from Mr. Sushobhan Dasgupta, Vice Chairman and Global President; followed by a discussion on financial performance by Mr. Venkat Parasuraman, Chief Financial Officer. After that, we will open the floor for Q&A for all participants.

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 uncertainty. Kindly refer to Slide No. 38 of the investor presentation for a detailed disclaimer.

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 afternoon, everyone. A warm welcome to all on our Shalby Second Quarter Full Year 2023 Earnings Call. Let me first say I'm glad to inform that Mr. Vijay Kedia, a prominent and veteran investor has joined our Shalby Limited Board as a Non-Executive or Non-Independent Director. He's a very popular name in the investment community and has inspired many youth investors through the large viewership on his YouTube channel. We warmly welcome Mr. Kedia on Board at Shalby.

Now on to our property developments. Our hospital business continued to show consistent performance in all key operational and financial parameters in the last quarter on a year-on-year basis. Delivering higher double-digit growth in both metrics of inpatient counts and surgery counts. The said performance is a result of the continuous all longed efforts taken by Shalby through various business development initiatives throughout the country, thereby improving our occupancy levels to almost 50% from 43% in the same quarter of last year.

As stated on our previous calls, our topmost priority continues to be accelerating our occupancy levels at each of our hospitals with each passing quarter and hence, we follow a robust process of closely monitoring their performances at unit levels across KPIs and immediately take required steps to drive further occupancy across our units.

With the COVID situation easing out last quarter versus the past, we saw a moderation in COVID-related vaccinations in our hospitals to the tune of 14,900 booster doses in the last quarter. I would like to reiterate that our excellent hospital infrastructure, our ever smiling and caring paramedics, and our supremely efficient doctors are always ready to cope up with any COVID or similar unfortunate crisis that might arise in the future.

We are also committed to standing firm besides our patients and provide high-quality healthcare services. I'm happy to communicate that we have conducted more than 270 healthcare camps and provided 21 healthcare talks across various locations and consulted more than 8,300 patients in this quarter. It was very encouraging for us at Shalby to see numerous words of praise and positive testimonials showing in every day from both our national and international patients on how we are making a positive impact in their lives.

Shalby continued to show its clinical excellence by performing critical surgeries across units. And a few examples to be cited here are the very successful knee replacement on both legs of the heaviest ever patient of 165 kilos, who came here from Sudan. Three Kidney and one liver transplants were done at SG unit and the critical cardiac procedure with liver failure was done at Shalby Indore. All these quality healthcare services that have been provided by Shalby helped to boost our confidence in strengthening our position as a truly multispecialty hospital serving thousands of patients.

I'm also excited about our growing Shalby Homecare services, which grew by 27% year-on-year with revenues of INR 2.25 crores and patient count of over 6,800 in the last quarter. Our international revenue also grew by three times year-on-year with revenues of INR 2.1crores where a majority of patients came from East African countries in the last quarter. We are looking at deepening and expanding our association in many more African and UAE countries to accelerate our growth further.

Shalby also takes pride in nurturing young healthcare talent through our Shalby Academy. During the last quarter, more than 1,000 students have registered in our various healthcare programs. We also offer jobs to 13 paramedical students for our academy across our hospitals.

Our endeavor to expand our Shalby footprint through the asset-light model strategy is continuing at full speed. We recently signed an MOU in Jammu under our multi-specialty Shalby Operated Model. It's a 100-bed hospital operating since last five-six years, and now Shalby will take over its operations to run the hospital under the Shalby brand.

We have started working on the handover process and expect to complete this by end of this quarter. For our dedicated orthopedic franchise model named Shalby Orthopedic Center of Excellence or SOCE, we have made a soft launch at our Shalby Lucknow franchise hospital on October 11 and expect to start new procedures by next month.

We are also closely working with the hospitals with whom we have signed MOU so far on taking over all the operations under our branding, and we are optimistic to see the good developments come to fruition in the coming quarters of this financial year. Our focus remains on capitalizing on our core expertise and excellence in orthopedics to have 50 Shalby franchisee hospitals across India in another three years' time.

Our knee and hip implant manufacturing business on the Shalby Advance Technologies, Inc. in California US, made some steady progress during the last quarter. Locking revenues of INR 24.1 crores, of which sales in the US and India contributed around 60% and 40%, respectively. We are placing considerable efforts to modify our customer mix in the US to improve profitability and have now reached the ratio of 61% to 39% sales between retail and wholesale, respectively. and we soon expect to hit the \$1 million monthly sales consistently with new surgeons, hospitals and distributors coming on Board in the US.

Our new product called Tahoe Unicompartmental Knee System, or TUKS as we call in short, that was launched in the US in the first quarter has seen good acceptance among several segments in the US. We continue to hire and train shop floor personnel to support the acceleration and manufacture and implant components in our plant to 5,000 pieces a month, and currently, we are at 65-slot people organization in the US.

Now it has been more than a quarter that we have been continuing Shalby Consensus implants in our own hospitals in India, and we continue to receive a very positive response from our Shalby surgeon users. Our plan is to launch Shalby Consensus implants pan-India for other surgeons and hospital groups and in sync with our launch goals for the third and fourth quarter of this financial year. Additionally, we have zeroed down on the regulatory and distributor partner in Indonesia. All required documentation have been submitted to the Ministry of Health there. We are very hopeful to introduce our products in Indonesia sometime in January of 2023.

In summary, for our Implant business, we stand focused on acquiring new customers, surgeons, hospitals and channel partners through new product introductions from regular field meetings in the US and India, shift our US sales to a predominantly retail customer mix from wholesale, continue to increase our operations capacity and thereby bring in better efficiencies, add new products in our pipeline backed with clinical and research activities, substantially bring down our procurement and manufacturing costs. And last but not the least, groom the right talent and build strong leadership.

With all key strategies in place, our team is extremely committed on flawless execution of these strategies. Shalby is very well poised to further improve occupancies and deliver double-digit growth in the hospital business with sustainable profitability, deepen and increase our Shalby footprint by adding several orthopedic units under the SOCE umbrella and to hit the coveted milestone of INR 100 crores sales and be EBITDA positive in our Implant business in the fiscal year. All in turn, I'm confident will help create sustainable value for all stakeholders at Shalby.

Now is the turn of Venkat, CFO of Shalby Limited, to discuss Shalby's performance in more detail in the quarter. Over to you, Venkat. Thank you.

Venkat Parasuraman:

Thank you, Sushobhan. Good afternoon, everyone. Now I'll walk you through the financial performance for the company for the second quarter of FY '23. First, I'll be running through the stand-alone hospital performance and then I'll be adding on the consolidated performance for the Group.

In Q2 FY '23, our normalized revenue excluding COVID vaccination revenues were INR 1,824 million, up 14% on a year-on-year basis. The EBITDA increased to INR 427 million, up 27%, EBITDA margins continue to stand out in the industry at 22%, making our continued commitment of 20%-plus margins. The profit before tax stood at INR 325 million, up 34% and net profits of INR 218 million, a strong increase of 41% on a year-on-year basis. I'm also pleased to inform all of you that this quarter, all our units were EBITDA positive this quarter.

Turning to some operational numbers. We had OP count up 19% on a year-on-year basis to 12,600-plus, OP count up 8% year-on-year basis to 115,000-plus, surgery counts went up 10% to 610-plus and the occupancy was almost at 49%. Our ARPOB and ALOS for this quarter were at INR 33,430 and 3.9 days, respectively. In Q2 FY'22, compared to INR 33,977 and 4.02 days in the same quarter previous year. Our core specialty such as arthroplasty, oncology, cardiac centers, orthopedic, critical care and general medicine and urology contributed 83% of the revenues, respectively in Q2 FY '23.

Another great development this quarter. We have received the subvention of interest and electricity duties till FY 2022 to the tune of INR 52 million. And we are happy to inform all of you that we continue to maintain a very healthy ROE of 17% as at September 2023 from our Hospital business.

Now I'd like to speak a bit on our franchising business. We at this point of time understand the huge market, which is unmet by world class ortho care. We intend to reach this segment through our franchising model. We target small to mid-sized hospitals with the range of 40 to 100 beds in select geography, purely focusing on ortho care. Of course, if we come across opportunities in multi-specialties like we did in Jammu as informed by Mr. Sushobhan, we also look at them very eagerly. The main intention is to achieve returns of a regular hospital with a substantially lower capital allocation.

Now, I'll now speak about the consolidated financial performance of the company. In Q2 FY '23, we reported consolidated revenues of INR 2.07 billion, an increase of 12% year-on-year. The EBITDA was at INR 424 million, an increase of 31%. Adjusted net profit was at INR 223 million a strong increase of 56% on a year-on-year basis. Our implant business under specialty had INR 241 million revenue in the second quarter of FY '23 with a negative EBITDA margin of 2%, it's a significant ramping up of operations, we are expecting a strong turnaround by the

end of FY '23. We have closed with a net cash balance of INR 1.2 million on a stand-alone level and INR 561 million at a group level.

Now adding on to Mr. Sushobhan, I'd like to speak a bit on the Implant business. You all know we started off with 300 components in May 2021, and we have been consistently clocking 3,000-plus components on a month-on-month basis this year. Now for every implant we sell, we need to maintain at least 8 to 10 variants of these sales. In such a scenario, our inventory at any point of time would need to be almost 6 months of revenue.

To address this, we are working very closely with very reliable supply chain partners to ensure that no possible adversity affect us, that margins also remain protected at all times. We are happy to inform that Shalby consensus implants plants have received extremely good feedback from some of the top surgeons in India. India continues to augment the US demand for the implant, and we expect this to continue over time. However, the dependence is expect to diminish in time as we expand to new geographies in the very near future, as Mr. Sushobhan has detailed.

And lastly, with the induction of Mr. Vijay Kedia, we had to assume growth, we would like to draw significant insights from his experience and expertise as Shalby grows to new heights. I thank all of you for your time, and I'm open to any questions you have now. Thank you.

Moderator:

Thank you, very much. We will now begin for the question-and-answer-session. Anyone who wishes to ask a question, may please press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets, while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants, you may press star and one to ask a question. The first question is from the line of Harshit Toshniwal from BottomsUp Research. Please go ahead.

Harshit Toshniwal:

So sir, the first question is on the franchisee business part, right? So I'm just trying to figure out the size of revenues and profit with those 50 centers over a long period of time, we can have that. So for example, in FY '23, you said that around 8 to 9 franchise centers. And if I take a 50-bed center and INR 50 crores of annual revenue from every center. So I wanted to understand the economics that what would be a broad revenue sharing agreement with payers and what could be the overall profitability per center, But shall I ask it now or should I ask it one-by-one?

Sushobhan Dasgupta:

No, I think we got your question and Shanay Shah, who's the President of the company, and I try and answer most of these questions. The financial part, we will request Mr. Venkat to chip in, but I'll start and then Shanay can chip in.

If you look at the model, the franchisee SOCE model as we are talking, we have two different models. One is the Franchise Owned Franchise Operated and the other one is a Franchise Owned Shalby Managed or FOSM, as we're calling it now. If you look at these two models, sorry, one is the Franchise Owned Shalby Managed and the one is Franchise Owned Shalby Operated. Why

we are saying Shalby, franchise or Shalby managed? We have changed the name from FOFO, which is Franchise Owned Franchise Operated, to Franchise Owned Shalby Managed, and the reason we changed it, is basically we wanted a much better management control from our side. While in the FOSM, we have lesser share of the revenue.

So for example, if you look at say, FOSM model, which was previously called the FOFO model, the franchisee owner has the larger share of the revenue, and we get a smaller share of the revenue. The reason being is, in that case, the franchisee owner is spending everything, including the land, the building, the working capital and everything. Whereas we look at the Franchise Owned Shalby Operated model, where the franchisee owner gets a single-digit revenue, but we get a much larger revenue because we are investing in the operations as well as some of the equipments and instruments that are happening.

Now going forward, if you look at, from a ratio perspective, our objective is to get as much possible of the 50 franchisee models into the Franchise Owned Shalby Operated model, which means that the revenue share that will be coming out of the 50 would be a majority coming to us and less to be franchisees. So, if you look at the current franchisees that we are operating, the better one is the FOFO model, which is a Franchisee Owned Franchise Operated, but some of the other ones that we are talking about, which is the Rajkot, which we have signed, the Lucknow, which we have the soft launch, the Gwalior which is coming up. These are all Franchise Owned Shalby Operated model, where the revenues are coming up more. Maybe Shanay, would you like to add more?

Shanay Shah:

No, I think you covered it all. But I think Venkat can talk a little bit about how the commercials will work.

Venkat Parasuraman:

So basically, the idea is that as Sushobhan also pointed out that there are two models. One is the Franchise Owned Franchise Operated and one is the Franchise Owned Shalby Operated model. The FOFO model will be sharing a revenue, where we give out a revenue of around 3% to 5% of the revenue share to our partners. And in the Franchisee Owned Shalby Operated model, we'll be taking around -- so basically, if the Franchisee Owned Shalby Managed, we'll be taking between 5% to 7%, and the Franchisee Owned Shalby Operated we'll be sharing between 3% to 8%.

Harshit Toshniwal:

Just try to, again, repeat what I understood here. So one is Franchisee Owned and Franchise Operated and the other one is Franchisee Owned, but it is managed by Shalby. So if my understanding is correct that if it's FOFO, then we just lend them in and everything else is done by the franchisee. So we should get much higher share of revenue versus in a Franchise Owned Shalby operated one, where we are doing the operation, so we get a product -- in either of the cases, we don't want to invest in that equipment and the infra, so which was the whole SOCE concept.

Shanay Shah: I'll be very quick. Thanks for that question. So, Franchisee Owned Shalby operated, the income statement will belong to Shalby. So, all the revenues will be booked in Shalby's books, and there will be a single-digit revenue share to the partner. In the case of Franchisee Owned Shalby Managed, the income statement will belong to the franchisee, the working capital will belong to the franchisee, and there will be a revenue share of a single-digit down to Shalby in that case.

Harshit Toshniwal: Okay, Understood. Got it. And so -- and maybe I'll just connect with you separately also for the economic part of it, but I had a few other questions. One is regarding the Mumbai hospitals. So I think we have again delayed that slightly from even one of the hospitals, we have delayed operationalization to FY '24. And even otherwise, when I look at the advance for example, of around INR 30 crores. which we have trade which impact rooms hospital. It has been there for last four-five years. I want to understand what is the update on the Asha Parekh hospitals.

Shanay Shah: Yes, I think I understood the question. I think there's something wrong with your line. But yes, the Mumbai project has been delayed, about 2.5 years to 3 years have been delayed because of COVID because the Charity Commissioners office, etcetera, we were not getting the access. Since the last couple of months, we are just finalizing an addendum that needs to be signed between the trustees of the trust and us. There have been a few delays from their end, but we are confident of signing the addendum in the next couple of weeks, after which we will be applying for the Charity Commissioners permission and post that, we will be breaking down the existing unit and making a greenfield project over there. So, it will take about 2 years to 3 years from now for that facility to be operational.

Harshit Toshniwal: And one last question from my side. This is regarding the transplant business, right? So you said that this year, it will be at a scale of INR 100 crores revenue and probably INR 5,000 per month of production. Now, if I look at that INR 1,20,000 potential capacity, that means around 10,000 per month of production. So which would be, say, a maximum revenue potential of INR 200 crores from the existing businesses. Now, for the INR 100 crores top-line, you said that we would be there at a breakeven EBITDA. I want to understand that for INR 200 crores, what would be the overall EBITDA margin expectation we can have for this business, maybe in '24, '25?

And second, I think the pace at which we are going and the demand is growing, beyond that INR 120,000 of annual capacity, how do we look at this business?

Shanay Shah: Okay. That's a great question. So, let me take it one-by-one. There are three questions to it. So, the question No. 1 is when you look at the INR 100 crores and you looked at the 5,000 components a month. When you look at 5,000 components, one component makes 1/4th of the total implant, so if you see, first of all, this is an implant. I'm sorry, I had to correct you. So when you say an implant, a knee or a hip comprises of 4 components, okay? So, if you're doing 5,000 components a month, this means some 1,250 constructs or 1,250 hips and knees put together, we can manufacture. We are going towards that. Right now, today, we are at 3,000 components a month. We expect to reach to 5,000 components a month. The capacity at the current level

would be around 10,000 components a month. So, when you look at it, it all depends on the mix. So today, when we sell a knee or a hip in the US, we sell it at an average of \$2,500. When we sell it in India, we get it for the knee, we get an average -- can you hear me okay?

Harshit Toshniwal: Yes. I just wanted to confirm, when you say \$2,500 that is for the set of four components? Correct?

Shanay Shah: Correct. Set of 4. That's right. Again, there's a different mix between a wholesaler and a retailer. If you heard me earlier, I said that our retail mix has now gone to 60% and our wholesale is on 40%. We earn more money when we sell it to the retailer and we earn a little less money when we sell to wholesalers. So when you look at the strategies, you will realize our strategy is to get more retail and less wholesale, so our mix in retail and wholesale, we want to strengthen it so that we get more earnings out of the US business. But coming to the US and India, as I said, we are at a 60:40 ratio this quarter, but overall, if I look at the total business that we are envisaging for this full year of INR 100 crores. We expect around INR 75 crores to come of the US and INR 25 crores that will be coming out of India.

Now when you look at obviously, today, the ratio is a bit skewed because we have been able to supply certain materials in the US, which we had run a bit of short supply, which Venkat was alluding to earlier in terms of the supply chain. We have got those materials, we've launched a new product called Tahoe Unicompartmental Knee; the instruments were still not finalized. It just got finalized. So you will see a spurt in the US sales going forward, and this ratio of 60 versus 40 that you saw this quarter will change. You'll see more in the US from a ratio perspective, so when you see more in the US, you'll see when we talk about the EBITDA of this quarter, which is slightly negative and single digits. It will turn to positive because the more we sell in the US, we will be getting better economies of scale and we'll be getting into a profitability. So that's the answer to your first and second question.

On the third question, I do not have the figures right now in terms of we have a projection for EBITDA in year 2, year 3, year 4, year 5. And I can tell you in year 5, our plans are to reach \$100 million. \$100 million maybe in rupees terms at that point of time in 5 years, it could be INR 1,000 crores. And that will be giving us and we are planning an EBITDA between 25% to 30% at this time. That is our plan in 5 years' time. I won't be able to specifically answer to you what will be next year's projection for EBITDA because I don't have it offhand by in front of me.

Harshit Toshniwal: Got it. I understand your point. So the only thing is, for example, if we achieve that 5,000 components and INR 100 crore crores revenue, then probably by next year we might be at INR 200 crores, INR 250 crores revenue, got your point, that probably it will be difficult to project that EBITDA right now. And one last question, sir. So this is more on the role of Mr. Vijay Kedia. He is definitely one of the most mature investors India has. So wanted to understand his role is more as a guiding principle or is there any active participation other than that also?

Sushobhan Dasgupta: So first of all, if you understand Mr. Kedia, so he has been very well-known name in the investment community, as you know. And one of the things that we are looking from him, two things that we're really looking for him, obviously, his expertise on investment and his understanding of the Board Governance. So he has been in several Boards and he participates in several Boards. So his understanding of Board Governance is great. So he will bring in a very fresh thinking and a fresh perspective from the investment community into the Board.

Secondly, I think we are also -- this will help us to guide certain strategies and principles and build our brand, so that would be the second objective of him coming on Board and helping us. So overall, if you see his getting added into the Board really strengthens our Board and gives the all-around perspective and diversity into the Board proceedings going forward.

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

Girish Bakhru: Good set of numbers. So just actually going back to the implant discussion you were having. Right now, you're doing 3,000 per month, and let's say you get to 5,000 soon. Would it be possible to like demarcate how much percentage of quantity, let's say, going to US and how much is going to India?

Sushobhan Dasgupta: So as I said, if you look at the math, it would be around 75% will be going to the US and 25% will go to India. That is the plan. Having said this, you will see other countries coming in as well. So, as I said earlier, Indonesia is starting in January 2023. We are looking at some of the other Southeast Asian countries from next year's fiscal year as well. We are planning to get into UAE as well as we are almost there in terms of supplies starting sometime in December or January in Colombia and Argentina, which are the two Latin American markets. So, if you look at overall, I believe from a standpoint over the years, we will be between 65% to 70% in the US, and between 30% to 35% outside the US.

Girish Bakhru: And what's the price point you said for India?

Sushobhan Dasgupta: So, India is around \$800 for a knee. As you know, it is regulated, right? So, it's a regulated market by capped, but knees prices have been capped by the NPPA. So, that's a regulated market for India for knees. However, having said that, the hips are more dictated by the market forces and it depends what the average prices of the hip again if it's a ceramic head is around \$900 and \$950, but when you look at the US, it's around \$2,500. When you look at the Southeast Asian markets, it's almost similar to the prices that we get in India. If you look at the Latin American markets, it stands between the US markets and the India and Southeast Asian markets. We are proving into the opportunities in the UAE. I'm not in a position right now to comment what are the prices in the Middle East.

Girish Bakhru: Understood. And when you actually say that eventually, let's say, you start hitting the 10,000 number, 120,000 in a year and my understanding is that 90,000 goes to the US. Is that like, does

that leave enough quantity for other markets like or is it like you will soon be under capacity constrained to expand to other markets?

Sushobhan Dasgupta: Yes. Yes, absolutely. So if you look at this, so it's better to use it by, divide it by 4. So 120,000 divided by 4 is 30,000, right? So 30,000 joints. And as you rightly said, it's 30,000 joints. If I give 20,000 to the US, only 10,000 is given to India and rest of the other places you're talking about. Just to give you a number, which will be putting things into perspective, Shalby alone consumes around 12,000 to 14,000 implants in a year.

So, if I had to serve this only Shalby, I will be falling short and obviously, we are looking at doubling our business outside of Shalby in India as well. So as you rightly said, yes, we will be constrained on capacity in that plant. And that's the reason what we are doing, we have already reached out to several manufacturers across the world. It is too early to comment on which other places they are, but they are in Europe, they are in the US.

We have already reached out to several of the manufacturers and looking at harmonizing organizing OEM arrangement, where these plants are all ISO-9001 and ISO-13485 certified. Some of them are FDA approved. We are looking at getting an OEM to them so that we do not fall short of capacity. In fact, one of our newer brands, we are in active talks to be able to get an OEM done for them. So to your point, yes, we are having an understanding of what will that 120,000 components of 30,000 joints will do and where will it sell? And for that to happen, what is the next capacity that we need to get, and we are in active conversations to get that sorted as well.

Girish Bakhru: And currently, Shalby is not using any of the implant for captive consumption, right?

Sushobhan Dasgupta: No, It is. They have, I do not have the numbers ready in front of me. I wish Rajesh is on the call. We already have done all three components, which is the total knee, which is called the Consensus Knee System or CKS. We have done the TUKS, which is the Total Unicdylar Knee System.

And we have done the Consensus hips, which is basically the one and we have also done some Cemented Hips as well, which is a CHS system. So we had actually used 4 brands within Shalby and we use regularly. Having said this, as I said earlier, we had constraints of supply issues, and we have to balance our supplies between India and the US. And that's the reason though we wanted to supply as much as possible to India, we have to balance the demand which is the supplier. We will not see the constraint next year when we will have a lot of production.

Hopefully, our supply chains will be much more better, our inventories get properly built up, as Venkat said, Orthopedic business, especially joint implants, you have to have inventory. And for surgeon, it's using a product on the table. You have to have a minimum of plus-2 this side and plus-2 the other side of sizes from the template that he has used to determine the sizes to an extra earlier. It is -- without that the surgeon won't allow any company products to be entering

that door. So it's a very different ball game in Orthopedics, and what you need is a lot of inventory and a lot of service and manpower to be able to use it.

So to your point, Shalby have been using this. It has found very satisfactory results, Dr. Shah and his team are outstandingly happy. And that news is also spread and that's the reason we are getting a lot and lots of the demands from many of our surgeons in India to be able to get the products, and we'll have a systematic launch. We have already launched a couple of products. We are using our in-house hips and our TUKS given to some of the surgeons, but we have been very, I would say, limited in our launch. We'll be going all out in the next quarter when we have all our production supply.

Girish Bakhru: And when we discussed this before also, I think one of the point was also that using more of the consensus implants will benefit hospital margins as well. Is that a long-term driver do you think when you use more of the in-house implants versus buying them from outside vendors?

Sushobhan Dasgupta: Sorry. Can you repeat the question? There was a break in your voice...

Girish Bakhru: Sure. I was just checking whether we're buying these implants from outside vendors now then if you replace them with your in-house production, is there a significant margin in that over longer term for hospital part of the business?

Sushobhan Dasgupta: Right now, no. Because as I said, we have to get into a certain level of production capacity to get the benefit economies of scale. So, what we are doing, and that brings to an answer that I wanted to get out is basically, we are doing a lot of work in our supply chain. So, we have recruited a brilliant Director of supply chain in our company, who used to work in an automobile industry.

I mean, if you understand the automobile industry supply chain, it's extremely, extremely, I would say, ruthless that you really need 100% accurate, 200% accurate on things. So, we've gotten that person, and he's changed the face of our supply chain. He has been able to dramatically reduce a lot of our procurement costs. He has been bringing in a lot of efficiencies in the manufacturing and production, the way we work, including scheduling.

So what we are seeing now, when we are increasing that capacity from 300 to 500 to 3,000 now to 5,000, we believe there would be a large reduction in our cost of goods sold of comps. So right now, we are not getting the benefit, but in the near future, we expect to get a lot of benefit when we get our products from our own plant versus buying from outside vendors in India.

Girish Bakhru: Understood. Just going to the hospital side, two questions there. One, of course, the ARPOB had little softness. Is this because of slower surgery count or is this the normal base?

Sushobhan Dasgupta: I think it's a mix change that has happened when you look at the mix versus the prior quarter. You'll see arthroplasty generated the largest ARPOB. And right now, I think this quarter, we had

a mix change where the arthroplasty as a percentage of total surgeries were less and that's the reason you've seen less ARPOB versus the previous one. But I think I'll fall back on Shanay or Venkat to answer that.

Shanay Shah: Yes. So I think what has happened is that if you compare year-on-year, the ARPOB is flat. It is the same. So it has not changed much. Having said that, quarter-on-quarter, it has come down a little bit because of the mix of medical versus surgical cases. So this is, as you all know, this is the season of a lot of ICU patients, a lot of dengue, malaria, etcetera, for that. So what happens is that the ARPOB is typically lower for these kind of patients. So essentially, which is the reason why it has come down a little bit. Having said that, it is still very healthy at over INR 33,500 at group level.

Girish Bakhr: Yes. And Shanay, just on the bucket side segmentation that we usually do this quarter, I think there was only two buckets, 0 to 5 probably maybe have come into 5 to 10. So I just wanted to check, is that all the three hospital entities in 0 to 5 are now 5-year plus, a, and what's the, why you're seeing the occupancy increase? Is that like across the buckets? Or is it specific to some particular facilities?

Shanay Shah: Sure. So I'll start. In fact, all the hospitals now at Shalby are over 5 years, yes. One big positive for this quarter is that each and every hospital of the group has positive EBITDA margins. So, in fact, all the units, barring two, are between 15% to 37% kind of EBITDA margins that is the range. And in fact, as we see it, the occupancy has gone up significantly. So, the way I would see it is that quarter 1 of last year was affected by the pandemic and we saw only COVID patients come in largely in the hospital. So because of that, a lot of drainage of non-COVID patients had come in, in the quarter 2 of last year.

Despite that, we have seen a 14% increase on a year-on-year basis in the hospital business and a 16% increase in the occupancy level. So, these are clear signs that we are moving towards a completely new trajectory now and as we see it, we expect to continue to grow quarter-on-quarter at 5% to end this year with more than INR 800 crores of revenue in the hospital business. I'm also accompanied by Dr. Nishita Shukla, who can also add. She is the Chief Operating Officer, so she can also add on the performance of these units.

Nishita Shukla: Hello, everybody. I would just like to add that we are going very much strong with self-paying and insurance patient due to huge insurance penetration post-COVID. Definitely, our surgical branches are also doing good and ARPOB was just related to that medical patient that has reduced, but going more with self-paying and TPA patients and less government patients, as well as going in with more super specialty ward, we are going huge and promoting usually for the organ transplant program and bringing in lot of international patients by doing a lot of different types of surgeries. So this is definitely going to increase the occupancy at 53% to 54% by the end of this year.

- Girish Bakhru:** Yes. So that is just my last question that while you said INR 800 crores is very much still doable. So second half, we'll see a significant jump there.
- Management:** That's right.
- Moderator:** Thank you. The next question is from the line of Raunak Thakur from PhillipCapital. Please go ahead.
- Raunak Thakur:** Congratulations on a good set of numbers. So I had questions on about our FOFO and FOSO model, where we have sort of said that we are adding 20 to 100 beds in orthocare, while also targeting multi-specialty hospitals. So, is there any guidance or thought process behind going for multispecialty hospitals in preferred cities? You've mentioned like Delhi, Mumbai, Kolkata, the Tier 1 City, so what are we targeting there? We are targeting through FOSO/FOFO model or we are targeting some acquisitions there?
- Shanay Shah:** Yes. So there are two things here. One is with regards to multi-specialty hospitals, which we already run. So, we have said it before that we are looking at opportunities in Delhi and Kolkata for operating a multispecialty hospital. The first preference would be to do operations and management in the cities. One update for the quarter is that we have signed up an MOU in Jammu for a multispecialty model where again, we will be operating a 100-bed facility there.
- In terms of franchise, we have identified about 30 cities in India, where we would like to have franchises over the next 3 years to 5 years. That is the Chairman's vision to have 50 franchises by the end of 3 years to 5 years. Within those preferred cities, we have already signed up MOUs in, we are already operational, first of all, in Ahmedabad, Udaipur and Lucknow. We have already signed up MOUs in Kanpur, Gwalior, Rajkot as well as Jaipur and we are already in advanced stages of discussion in several cities like Ranchi, Patna, Jodhpur amongst other cities. So, even Aurangabad is another city where we are in advanced stages of talk at this point of time.
- Raunak Thakur:** And do we have some sort of guidance on our breakup for hospitals as we see all our hospitals are 5-plus years. So, what sort of occupancy levels and ARPOB we enjoy in the 5 to 10 category? On a blended level, we are having 49% occupancy and about 34,000 ARPOB so 5 to 10 category, how would that beat it out?
- Shanay Shah:** So, 5 years to 10 year category, again, is a fast-growing category where if you look at the 5 years to 10 year category today, that contributes nearly 2/3rd of the group revenues. So, this is how significantly well it has done. While having said that, I would say that the potential to, for those units to add to the EBITDA is significant because although it contributes 2/3rd to the revenue, it is at a 16% kind of blended EBITDA margin. So that blended EBITDA margin from 16%, we can get a lot of operating leverage over the next few years and that margin expansion can go up to 20%, 25% as the revenues grow.

Moderator: Thank you. The next question is from the line of Sanket from Kedia Securities. Please go ahead.

Sanket Bihani: Just wanted to ask, in one of the interviews on the media channel, Shanay Shah had mentioned about home care category growing and the plans on same. So just wanted to understand, right now, it is a miniscule portion of the overall group revenue. So how big do we see this opportunity in the next 3 years or 5 years?

Shanay Shah: Yes. On the call, I had mentioned that we had grown 27% on a year-on-year basis when it comes to home care. And this business has the potential to grow up to 5% of our total hospital revenue. So today, we are at a much lower single-digit number where we can significantly grow. There is a lot of patient loyalty associated with the home care business, because once somebody avails your services at home and you do a rounded care for them, what happens is that you get indirect benefits because those patients then come into your hospital or refer patients to your hospital for any kind of treatment.

Having said that, at the same time, we are also adding our plethora of services at every point of time. We are also looking to introduce ICU at home amongst other services. Even Dr. Shukla would like to add on the home care front, because today we are having several areas, and she'll be able to express where we are growing fast amongst the services that we offer.

Nishita Shukla: For the home care division, we are doing good with the pharmacy business as well as diagnostic business. Post-COVID, people prefer to have services at home, and they avoid coming to the hospital. They did so that is how our pharmacy business, nursing care business and physiotherapy business. Secondary to surgery, we are having a good growth in that. Other than that, we are planning to come up with some super specialty treatments at home, say, diabetic package, where we've given the full three months diabetic medicine and a consultation at home and we are thinking for dialysis at home, which will help the working class to get the dialysis done at their ease time. And we are also going for some high-end procedures, which we are into planning of packages and all where we are also getting the demand and request for that. So definitely, home care is going to do good in coming time and it is, we're definitely going to connect patients with hospitals also.

Sanket Bihani: Another question. Just wanted to understand on the medical tourism opportunity for the company, like as we have been reading in media over the last six months, India's promoting a lot of medical tourism. So are we seeing any traction on ground, especially for Shalby and how big is this opportunity?

Shanay Shah: Yes. So post-COVID, we have seen a lot of increase and influx in the international patients coming in. At any point of time, we've been treating patients from the East African pack, like Kenya, Tanzania, Uganda, as well as countries like Sudan, Middle East, etcetera, so we have been treating a lot of patients. However, having said that, it has now come back to pre-COVID levels, the volumes now, but we do expect to grow at 15%, 20% every year in the international business revenue because the potential there is huge. In fact, for the last two years, patients have

not been able to travel, so there is significant pent-up demand. So all of that is expected to flow over the next 4 quarters to 6 quarters, I would say. And Shalby is making a lot of inroads into some of the other countries as well. We are in advanced levels of discussion with several companies and doctors in Bangladesh, in Abu Dhabi, in Oman, in Africa and we are hoping that some out of these discussions will fructify and it will result in increase in patient footfall in our hospitals in India.

Moderator: Thank you. The next question is from the line of Ramachandra from A&T Investments LLC. Please go ahead.

Ramachandra: So my question is with respect to trade receivables. I noticed that it's been increased by INR 15 crores. It's almost at INR 109 crores now on 30th September. In one of the last calls, this question was raised and it was, I think, Mr. Shah who clarified that due to particular government scheme, the trade receivables at that level, and they are in the process of discontinuing that government scheme and there will be no increase in trade receivables. So, I just want to know why is that your hospital business trade receivables is increasing at this pace?

Management: So thanks for that question. Actually, of course, we have -- as Dr. Shah said, that we'll be avoiding non-viable government schemes, we are very much on that path. We have actively disengaged with a lot of the schemes which are not viable enough for us but what we are doing is we are selecting schemes, which are very promising, like one in Rajasthan, we have good schemes in Jabalpur, etcetera. So we've become very selective, and we also ensure that our internal processes and then the subsequent follow-ups with the various schemes is continued at a sustained level so that we can keep the receivables under control. But it is very imperative that as we grow and we look to increase our revenues, we have to have some level of government revenues, but at the same time, we'll be very-very selective in the kind of schemes, which we engage in.

Shanay Shah: I will also add to that, that we are very pleased to announce that in the first half of this year, we have received over INR 10 crores of subsidies from the state government. This is after constant effort of pursuing this agenda. So that has been received. And it is the constant endeavor of the management team to keep the receivables in check and in fact, we are only trying to do those schemes, where we are able to get and monetize the money and able to get it in time for the first, for several units because if you look at our hospitals, we are one of the youngest hospital groups. So, most of the hospitals are still in the early phase of growth and at that time, initially, we have to take some of these schemes. Having said that, we are gradually reducing the number of schemes that we are taking up and only working largely with the schemes where we are able to realize the money in time.

Ramachandra: Okay. Is it possible for the management to estimate time period within which you can realize -- Is it possible for the management to give some sort of guidance as to when they'll be able to realize INR 109 crores?

Shanay Shah: As the company will continue to grow, the working capital is likely to increase. Having said that, it will not increase in proportion to the revenue. So, the revenue increase will be higher as a percentage, and we will keep the receivables under check.

Ramachandra: Okay. The second question is with respect to the acquisition part, through media information, I understand that Shalby is looking to acquire hospitals in Delhi, Kolkata, right?

Management: That's right.

Ramachandra: The thing is, I just want to know, with respect to how much leverage that the management is thinking with respect to these acquisitions? I think what is that portion that company is looking at to take on the balance sheet for any of these acquisitions because if any suitable opportunity come across?

Shanay Shah: Sure. So I think the company believes that up to 2 to 3 time of annual EBITDA, we would be comfortable with that kind of debt. Having said that, even if we do these acquisitions, we will not be able to get to that level. We will be much lower than that because the company is sitting in a net cash position, as we talk right now. So, it doesn't seem like we will get to those levels in the first place.

Having said that, the first preference is really to go for operations and management rather than acquisition. So we don't want, we would rather go for an asset-light model. And the last point I would like to make is that we are already at a 17% kind of ROCE levels today. So, we have been very prudent in terms of not making any capital investment since our IPO, barring the implant business. So there's no additional CapEx in the hospital business in terms of a new facility over the last 5 years and this was done as a commitment to all the shareholders that we want to first bring the ROCE to a certain level, even before we think of making another acquisition or a capital investment.

Ramachandra: Okay. So basically the leverage could be the max level is two to three times of our annual EBITDA, is it?

Shanay Shah: That's right.

Moderator: Thank you. I request to all the participants, please restrict to one or two question per participants. If time permit, please come back in the question queue for a follow-up question. The next question is from the line of Neeraj from Prospero Tree Financial Services. Please go ahead.

Neeraj Kamtekar: What is the current EBITDA margin of Surat and Naroda Hospital?

Shanay Shah: See, we are not sharing individual hospital EBITDA margins, but I will tell you that the blended average of the 5 years to 10 year unit is 16% and there is significant margin expansion from the previous quarters.

- Neeraj Kamtekar:** Okay. So still both hospitals below 25% margin or...
- Management:** 25% margin, but both are about 15% margin.
- Neeraj Kamtekar:** Okay. So, when the hospital will match with other like Krishna Hospital margins?
- Shanay Shah:** Yes. See, as the occupancy will ramp up and the revenues will grow, we will see that the margins will expand. I would say that Jaipur and Indore are two units, which are doing exceptionally well for us at this point of time in terms of occupancies and revenues.
- Moderator:** Thank you. The next question is from the line of Ron Sen from Mad About Stocks. Please go ahead.
- Ron Sen:** My question is, we did hear about a lot of cities where we are planning to come up with the hospital franchises. Just a data point, Kerala and Tamil Nadu are the two leading states that elderly population in India. And the forecast for 2030 is like 20% of Kerala and 18% of Tamil Nadu will have elderly population. So, are we not looking at these two states, especially given arthroplasty where we are the leaders will have a more relevance in those two states?
- Management:** Yes. So I think that's a good one. From the perspective of franchise, yes. We will be exploring certain cities in the south. There are all the southern five states, the state capitals, they are basically important to us in terms of setting up of franchises. So, we will continue to explore opportunities in these areas.
- Ron Sen:** Okay. My next question, so any plans of any tie-ups or MOUs with elderly residence and a lot of these brands are coming up on a national level. Like in Pune, we have Athashri, in Delhi NCR region, we have Antara and as per the research reports, this is a huge surge that's going to hit India over the next 5 years to 10 years. So, are we exploring this route of doing any tie-ups especially with these elderly residences?
- Sushobhan Dasgupta:** Yes. We are doing tie-ups not only with these elderly residences. We're also doing a lot of health talks. We are doing, we are engaging a lot of communities, whether it is religious, whether it is commercial bodies, trade organizations. And so there is a lot of work that we do in terms of conducting these activities to kind of create awareness of the kind of work we are doing.
- Ron Sen:** Okay. I think that's about it. Thanks you so much, and wishing you all the best for the next part of the year. Thank you.
- Moderator:** Thank you. The next question is from line of Avinash, Individual Investor. Please go ahead.
- Avinash:** I have noticed that I think around INR 75 crores has been invested in the implant business in this quarter. So if the management can highlight what is the kind of deployment? Where is it utilize and what kind of assets are going to be created with that investments?

- Sushobhan Dasgupta:** Venkat, would you like to take that question?
- Venkat Parasuraman:** So, this INR 70 crores, which has been invested is essentially for the repayment of the term loan, which was earlier taken from, the working capital demand loan from the bank. So, that is what has been done right now, but of course, we are looking at possibly another \$10 million of investments from the group into that company.
- Avinash:** So the subsidiary had about INR 75 crores of investment is it?
- Shanay Shah:** No. So essentially, we had taken a loan in the US, and we had to repay that loan and essentially, that is why this funding was given in this particular quarter to repay back that loan. Having said that, the funds that are being used there, whether it is in the form of loan or whether it is in the form of a debt or equity instrument going from Shalby are actually used right now to kind of create an inventory of implants and instruments because, as we mentioned earlier in the call, at any point of time, we require six months of inventory to basically for one month of revenue. So essentially, we are building that base and which is what Mr. Sushobhan alluded to earlier that we need to get to the 5,000 component mark, and we are very confident that by the end of this year, we will be able to get to that stage.
- Avinash:** So if I were to understand that you -- there will be another kind of an investment of about INR 80 crores to INR 100 crores before the Consensus business can be self-sufficient, is that correct?
- Shanay Shah:** The INR 80 crores to INR 100 crores of investment before -- what you said, can you please repeat?
- Avinash:** Before the Consensus business can fund itself, like at what point will that business not required lot of money?
- Shanay Shah:** I think I got your question. We believe when -- Mr. Sushobhan can also add that in the next 3 months to 6 months, we believe that this business will be EBITDA breakeven on a sustainable basis, and we will be positive and in the next 12 months, we should be cash accretive also.
- Avinash:** So my question was whether the Consensus business would not require any more funds from the Shalby parent company, right? I just wanted to understand at what point will...
- Shanay Shah:** Yes, which is exactly what I'm saying, that within the next 12 months...
- Avinash:** Is it after the INR 80 crores or before the INR 80 crores?
- Shanay Shah:** I'm saying within the next 12 months, we believe that the business will be cash flow accretive, right? In the meanwhile, we may have to pump in money to basically build up that inventory and that investment will be to the tune of INR 40 crores to INR 60 crores over the next 12 months.

- Moderator:** Thank you, very much. Next question is from the line of Vidya Shankar, Individual Investor. Please go ahead.
- Vidya Shankar:** First of all, commending on the excellent performance in the first half of the year and looking forward for similar and better performances to close the financial year. My question is regarding the IPO proceeds, has that been utilized completely or is that something yet to be utilized in that? Number two, is the dividend expected anytime in the coming months? And number three, the acquisitions that we are planning, will that be a combination of cash, debt and equity or only equity or only debt? Or what is the plan for the acquisition part of hospitals and other things?
- Shanay Shah:** Thank you. So we'll take the last one first. We are a net cash company. So essentially, any potential acquisitions or investments will, first, will be using the existing cash. So that there is a scope of raising debt because we will be doing EBITDA in the range of INR 170 crores to INR 180 crores. So, the company will be comfortable to go between two to three times EBITDA levels in terms of raising debt. So, we don't believe that there is any question of raising any equity funds at this point of time.
- Secondly, yes, answering your first question that we have used the entire proceeds of the IPO. We had very clearly defined in the IPO in the DRHP the proceeds of the funds and have been all used for good purposes, including a majority part of which was to repay the existing debt of the company.
- Moderator:** The line for the participant dropped. That was the last question. I now hand the conference over to Mr. Sushobhan Dasgupta, sir, for closing comments.
- Sushobhan Dasgupta:** Yes. Thank you very much, and I hope you enjoyed this session. We have understood that we are in the right track and with all your support, we believe that we would be having a fantastic fiscal year across all our businesses and our flagship business, as we talk about, the very steady hospital business, the very growing SOCE business model and the very high opportunity implant business that we have here at Shalby. So thank you for your support, and look forward to seeing you again in the next quarter. Thank you very much.
- Moderator:** Thank you very much. On behalf of Elara Securities Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.