SHALBY®
MULTI-SPECIALTY
HOSPITALS

August 01, 2022

Shalby/SE/2022-23/40

The Listing Department
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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 July 28, 2022 for quarter ended June 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/2022-23/35 dated July 26, 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 July 28, 2022 wherein Unaudited Financial Results for Q1 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**

SHALBY LIMITED AHMEDABAD

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

Encl.: Concall Transcript

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"Shalby Limited
Q1 FY2023 Earnings Conference Call"

July 28, 2022

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

MANAGEMENT: **MR. SUSHOBHAN DASGUPTA - VICE CHAIRMAN & 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. PUNEET MAHESHWARI– SHALBY LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2023 Earnings Conference Call of Shalby hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abdulkader Puranwala from Elara Securities Private Limited. Thank you and over to you Sir!

Abdulkader Puranwala: Thank you Steven. Good afternoon everyone and we welcome all the participants to the Shalby Limited Q1 FY2023 earnings call hosted by Elara Securities. Today, we have with us the senior management representatives from Shalby. We will start the call with the opening remarks from Mr. Sushobhan Dasgupta, Vice Chairman & Global President, and Mr. Shanay Shah, President followed by a discussion on the financial performance by Mr. Venkat Parasuraman, Chief Financial Officer. After that, we will open the floor for Q&A for all participants. I now hand over the call to Mr. Puneet Maheshwari for important disclaimers regarding any forward-looking statements that will be made in today's call. Over to you Puneet!

Puneet Maheshwari: Thanks, Abdul. Good afternoon everyone. Our earnings presentation is uploaded on the stock exchange website on 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 #40 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 and a very warm welcome to all of you on our Shalby first quarter full year 2023 earnings call. We at Shalby sincerely hope that you, your families, and your friends are staying safe and healthy.

During this call, we would refer to our results on a quarter-on-quarter comparison than a year-on-year comparison. This is because last year's same-quarter results were primarily driven by COVID footfalls hence for a like-to-like comparison, it is better to use the quarter-on-quarter lens. We are happy to communicate that in the first three months of April to June 2022 we continued to see robust recovery and surgical procedures at a record of over 7200 surgeries and our inpatient count clocked at over 11000 thereby delivering quarter-on-quarter growth rates of 30% on surgeries and 15% on inpatient count respectively, these achievements are a clear reflection of our continuous efforts in our marketing and business development initiatives taken by Shalby across the various states thereby improving our occupancy levels at just over 45% from 40% that we achieved in the previous quarter with this improved performance on occupancy our top priority will continue to remain to accelerate our outpatient and inpatient levels at each of our hospitals quarter-on-quarter from here.

Our Senior management teams are closely evaluating the performances at unit levels across critical matrices of success and taking the necessary steps to drive increased footfalls across our units. We have been hearing about quite a large number of COVID cases during the quarter but the infection rates, fortunately, have not been at that level that needed hospitalization therefore we did not see much COVID related admissions in our hospitals hence we can state that this quarters' performance is purely driven by our core specialties however this quarter saw a lot of COVID related vaccinations happening in our hospitals to the tune of around 38000 patients primarily coming in for their second and booster doses.

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 with any COVID situation that might arise in the future. At Shalby, we are always committed to standing firmly beside our patients and providing high-quality healthcare services, so it was very encouraging for us at Shalby to see numerous words of praise and positive testimonials flowing in every day from our patients on how we are making a positive impact in their lives that make us feel elated and humbled at the same time. We have added seven more OPDs at different locations across India like Ajmer, Pune, Gurgaon, Impala, Gwalior, Ranchi, and Agra, which will help to increase patient footfalls and augment our hospital business further in the coming quarters. We have also conducted several healthcare camps across various locations and consulted more than 3700 patients in this quarter.

Shalby continues to show its clinical excellence by performing critical surgeries across units and a few noteworthy examples are the six-time failed hip-replacement surgery of an international patient done successfully at our Krishna Shalby Hospital, 13 transplants of both kidney and liver at SG and Indore units, 12 revision knee replacement and one hip replacement surgery and saving the life of a very critical patient with autoimmune neurological disease and very severe commodities by a team of very efficient doctors in our Surat unit.

All these quality healthcare services that have been provided by Shalby help to boost our confidence in strengthening our position as a true multispecialty hospital serving thousands of patients across India. I am very happy to inform you that our Jaipur Hospital has now completed five years of operation. It is the biggest joint replacement center in that state and also one of the leading hospitals in cardiac treatment in Rajasthan state with state-of-the-art facilities. As an organization, it gives us immense pride that Johar Pachore, Director and

Head of our hip surgery at Shalby Hospitals played a key role in curating India's first joint implants museum opened by the Indian Society of Hip and Knee Surgeons in Ahmedabad last month. Our asset-light franchise model continues to witness encouraging responses and is evidencing a lot of interest across various stakeholders. While we are getting a lot of inquiries, we have a standard protocol and strict guidelines in place to select the right partner so as not to dilute our strong brand equity in any way.

In this quarter we have signed a MoU with a hospital under our franchise-owned Shalby-operated franchise arrangement at Lucknow, which brings us to a cumulative count of six franchises so far. Our first franchise-owned franchise-operated hospital at Udaipur has performed in line with our expectations for this quarter as well. We are doing 20 orthopedic surgeries every month at present versus an average of 10 surgeries in the previous quarter and with the business, they are growing by over 50% on a month-to-month basis. We are a receipt of several inquiries for our franchise business and expect to sign around five to six MoUs in the coming quarters. We remain on course to capitalize on our expertise and excellence in orthopedics to have over 50 Shalby franchise hospitals across India over the next three years and accelerate the process of taking over the operations in the majority of the hospitals under our brand name.

Now a quick update on our U.S implant business. During this quarter our implant business under Shalby Advanced Technologies performed very well during the first quarter of this financial year. The performance reflects our efforts in building a strong team and culture with the right mindset shifting our focus in the U.S market to get a better mix of retail customers versus wholesale customers launching new products while driving our total knee and hip sales and continuously improving our manufacturing capacity to over 60% percent. Our orthopedic implant business has recorded total revenues of $3.4 million or around Rs.26 Crores in the first quarter of 2023. It depicts the growth of 149% quarter-on-quarter including $1.5 million in sales to India and an EBITDA margin of positive 2% driven by a continuous focused approach to profitable product mix better price realization through changing customer mix and also the liquidation of some low-valued refurbished inventory.

We continue to hire and train shop floor personnel in our El Dorado factory in California for our implants business to support the acceleration and manufacturing of components in this plant and today we are a 60-plus people organization in the US. Our core leadership team is dedicated to continuously working on re-engineering the manufacturing process to bleed our assets even better, improve shop floor productivity and bring down the cost of the goods further through smarter procurement of great existing products with new variance, better design of our instrumentation to make it simpler, establish a robust end-to-end supply chain and acquire new customers, surgeons, hospitals and channel partners through new product introductions and regular field meetings in the US.

Our new product called Tahoe Unicompartmental Knee System or TUKS was launched this quarter in the US and this is expected to be a blockbuster product in the near and long term. We have also imported our Shalby consensus implants into India during the Q1 full year of 2023 for our hospital consumption and I am very pleased to inform that you the initial responses on the usage of the product have been extremely promising.

Our plan to launch our Shalby Consensus Implant pan India for other surgeons and hospital groups is on track with a lot of hospitals reaching out to us showing a high degree of positive intent to use our implants. We have started building our team on the ground by hiring highly experienced orthopedic salespeople led by a very capable assistant Vice President in India and South Asia and we expect to go for a full launch during the third and fourth quarters of this financial year in India.

We have a very experienced sales leader based in Malaysia responsible for Southeast Asia business and our discussion for regulatory and distribution partners in Indonesia is in very advanced commercial stages. We are also in active search for distribution partners in other Southeast Asian countries mainly in Vietnam, Malaysia, and Thailand, and expect to close these out soon so with a clear direction and Shalby's well-established presence in Indian healthcare infrastructure, we are supremely confident of continuing to deliver double-digit growth in our hospital business with consistent continued high profitability, increase our footprints further in India by adding many more orthopedic units under a franchisee model and surpass Rs.100 Crores and the EBITDA positive in our implant business in this fiscal year. All these in turn will drive immense value creation for all our stakeholders and Shalby Limited.

Now it is my pleasure to hand over the call to Shanay Shah, President of Shalby Limited to discuss Shalby's performance in detail during the quarter. Over to Shanay!

Shanay Shah: Thank you. Good afternoon, everyone and thank you for joining in. In our previous interactions, we have emphasized that over the next five years Shalby as a group will build on three major verticals of growth which are the hospitals business, the implant business, and the franchisee business. To focus on these strategic growth drivers, we have also strengthened our management bandwidth which will remain committed to reinforcing and growing the Shalby brand globally.

Post-COVID subsided and travel resumed post-January last quarter we continue to see a good pickup in medical tourism wherein the international revenue has grown by 47% quarter-on-quarter with the majority of the patients flying in from Kenya, Tanzania, Uganda, Sudan, UAE, Nepal, and Bangladesh among other countries. We strongly believe that medical tourism will be a growth driver in the coming years for the healthcare sector due to the India advantage as we call it, this will be further boosted by the government's thrust and support by introducing various campaigns.

I strongly believe that such initiatives will create an ecosystem that will help India to become a hub of medical tourism globally. Shalby also takes pride in nurturing young talent and imparts training in healthcare through Shalby Academy. During the year we have trained more than 445 students in various disciplines of physiotherapy, nursing, lab technicians, diabetics, nutrition, clinical, paramedics, hospital management, and pharmacy among many other courses for the academic outreach. Over 150 students have undergone our certification program on various paramedical courses in affiliation with the National Council of Paramedical and various other universities.

I am very happy to state that we have received the pending backlog of interest subvention from the Government of Gujarat amounting to Rs.4.75 Crores during Q1 FY2023 and are expecting to receive the recurring interest subsidies and electricity duty subventions regularly henceforth. Also, we, have cleared the demand dispute with regards to income tax amounting to Rs.14.36 Crores during the quarter. The liability that remains is a very meager amount and this will help augment our credit worthiness from the credit rating perspective we shall remain committed to adopting sustainable best practices at all levels of the organization keeping environment, social and governance framework in mind will ultimately grow stakeholders value. Furthermore, we are conscious of our social responsibilities as our healthcare providers trying to improve health outcomes while raising the cost-effectiveness of the therapy.

Now coming back to the performance numbers, I am very happy to report that Shalby has registered the highest ever revenue in the first quarter of FY2023 with high double-digit growth in elective surgeries. During the quarter, a total of 7211 elective surgeries were performed and which grew by 30% quarter-on-quarter compared to Q4. We saw a jump of 15% quarter-on-quarter for the inpatient count compared to Q1 of FY2023.

The occupied beds increased to 557 which were up by 12% in Q1 FY2023. The RPOB and ALOS were also recorded at Rs.35304 and 4.08 respectively, which have also done better than Q4 of last year. Our core specialty such as arthroplasty, oncology, cardiac science, orthopedics, critical care, general medicine, and urology has contributed 84% aggregate to the revenues in Q1 FY2023.

The international revenue was recorded at Rs.24 million which grew by 47% as mentioned earlier. The homecare business revenue of Rs.21.5 million grew by 13% quarter-on-quarter with a patient serve count of 5868 in Q1 FY2023 we continue to be net cash positive as a group with about Rs. 44 Crores of net cash at the group level. Our realized return on capital employed from the hospital business has increased to 17% in this quarter.

I now hand over the call to Mr. Venkat, CFO to present the company's detailed financial performance for the quarter and year.

Venkat Parasuraman: Thank you Shanay and good afternoon, everyone. I will walk you through the financial performance for the current quarter. Firstly, I will be presenting the standalone hospital performance and then follow it up with the consolidated group performance.

On a standalone basis, we saw revenues at Rs.1810 million an increase of 19%. Sans COVID we saw a sharp 30% jump in surgery from approximately 5600 surgeries in Q42022 to 7300 plus surgeries in Q1 2023. The company's EBITDA increased to Rs.428 million from Rs.328 million same as the previous quarter an increase of 32%. Our EBITDA margin continued to be standout in the industry at 24% meet our continued commitment of 20% plus margins year-on-year. Profit before tax stood at 328 million and the PAT stood at a strong 215 million, a strong 45% increase quarter-on-quarter.

Coming to the consolidated financial performance in Q1 FY2023 we recorded revenues of Rs.257 million an excellent 22% increase quarter-on-quarter. EBITDA was at Rs.440 million an increase of 56%, adjusted net profit was at Rs.249 million 116% increase from the previous quarter.

Coming to our implant business SAT recorded revenues of 262 million for the first quarter with a positive EBITDA of 4 million and a margin of 2%. With the significant ramping up of operations, we are expecting a much stronger turnaround in FY2023. We have closed the year with a net cash balance of 1255 million on a standalone basis and Rs.439 million at a group level. Thank you for your time and now I can open up the call to any other questions we have.

Moderator: Thank you very much, Sir. We will now begin the question and answer session. The first question is from the line of Dixit Doshi from Whitestone Financial Advisors Private Limited. Please go ahead.

Dixit Doshi: On page number 18 we have given the performance of different hospitals ten-year plus five to ten-year and zero to five years can you give the occupancy level of these three segments?

Sushobhan Dasgupta: Sure so the occupancy level of all the three segments is something that we have not shared in our presentation but I aggregated as 45% as it is mentioned so this is something that we can kind of share with you offline and we can make it part of the presentation from next time onwards.

Dixit Doshi: Okay but is it fair to assume that in ten years we would be having much higher occupancy and zero to five years should be lower compared to the average?

Sushobhan Dasgupta: Yes, so 10 plus years would have the highest occupancy levels followed by five to ten years and then followed by zero to five years.

Dixit Doshi: Now my second question is on the consensus business so the presentation, you have given the last five-six quarters' revenue and also the number of components manufactured so if I see so obviously this might not be the sales number maybe it is a production number but if I see the average realization it varies a lot from almost Rs.12000 to Rs.30000 so what could be we can consider as average realization and why it has changed so drastically in the current quarter?

Sushobhan Dasgupta: I will answer, the reason is obvious when you look at where the balance of sales is happening so when you look at the average realization of what we get in the U.S, it is at least three times more than what we get in India so whenever you see that your mix of sales where there is a bit of India business coming in that is where average realization drops on an average I can tell you our realization for a business in the US is close to around $2500 whereas when you look and it depends because it is a wholesale and a retail mix when you get into a retail mix realization is more when you get into a wholesale makes the realization is less and when you look at India it is almost around two and a half to three times lower so when you look at the average realization as a total it depends upon the balance of mix that is happening in the business between India versus the US.

Dixit Doshi: Okay and we have a one lakh component capacity right so currently we are running at 30%-35% utilization only?

Sushobhan Dasgupta: If you ask me we are running actually at around close to 50% utilization capacity today on an average we are producing 3000 components a month which would be around we are planning to do it by the end of this year or maybe the end of this calendar year or close to 5000 or around 5000 components a month which is around 60,000 components a month so if you look at it we will be getting at 60% at that point of time and to get to the 100,000 components we are looking at several other aspects of increasing one of the critical areas that we look at is how we can get the machines are all there it is all about the trained personnel of trained number of people of machinists coming in and getting trained it takes on an average of five to six months to train a machinist or a finisher to be able to perform to their full productivity so we are getting in machinist and product and one of the good things that is happening is we have a good sticking factor in our corporation especially people who come into the shop floor because we have very senior leaders who are working in the shop floor they have a very sticky and attractive quotient for keeping people on the job so we are pretty positive that we will be able to hit that 100000 components in the next fiscal year but right now we are aiming at 60000 as the first step which will happen pretty soon.

Dixit Doshi: Okay and once we let us say reach 80%-90% utilization in this business what kind of sustainable EBITDA margin this business can generate?

Sushobhan Dasgupta: We are looking at overall our goal of this business is to get to an EBITDA between 25% to 30% and that to happen the several factors on the EBITDA works right for example the more we produce our fixed cost gets equally distributed so the cost of goods come down so we are doing several other things one is obviously for increasing our manufacturing when we increase our manufacturing to a certain level we bring down the cost of goods or our costs spread out. Secondly, we are looking at vendors we are looking at some very, very good quality vendors at a very reasonable price and that would help us reduce our raw material cost a lot going forward and the third link is a mix of sales we are slowly ramping ourselves in the U.S and as you can understand the more we sell in the U.S the more profitable it becomes and at present we are expecting this year to be landing at 75% of U.S sales and 25% of India sales so that all these factors would help us to reach that 25% to 30% EBITDA margin that we are aiming for.

Dixit Doshi: Okay thanks and last question on our franchise business so on page number 28, we have given so I think two franchises have already started and four we have done the MOU so by when these other four will start the operation?

Sushobhan Dasgupta: Definitely by the end of this calendar year when you look at say Gwalior and Kanpur these are getting operational predicts pretty soon even Lucknow will be coming in pretty soon we already have Udaipur and Vijay and Rajkot is a Greenfield project we expected to this to be completed by the end of this fiscal year and start.

Dixit Doshi: Okay and on the same page we have given the total revenue of 10 million for Udaipur in this quarter so Udaipur is a 444 model so this 10 million is that center's revenue or our management fee?

Sushobhan Dasgupta: This 10 million would be the revenue of the unit.

Dixit Doshi: The revenue of that unit is okay and just last one question from my side so in the FOFO model we generally have a revenue share percentage and in FOFO we get a management fee percentage so what would be the broad percentage in both the models?

Sushobhan Dasgupta: So in terms of the FOFO model where kind of we share the fee to the partner, the fee ranges between 6% to 8%, and when we do a four 4-4 where we are entitled to a management fee for the partner being able to use the brand of Shalby the range there is between 3% to 5%.

Dixit Doshi: Okay thanks Sir that is from my side. Thank you.

Moderator: Thank you. The next question is from the line of Avinash Bala from Individual Investor. Please go ahead.

Avinash Bala: Thank you for taking my question I think part of my question has already been answered regarding the EBITDA of the consensus so basically what if I am given to understand is that as the company moves closer towards say 60000 pieces or 100000 pieces and the company would kind of have an EBITDA of about 25% to 30% is that correct?

Sushobhan Dasgupta: Yes what we have done is we have created a roadmap for consensus we call it now Shalby advanced technologies we have created a roadmap and when we look at the roadmap, we have seen in phases so we plan to do 100 million dollars worth of sales in five years so when we reach 100 million dollars which means and the ratio would be around 70% of the sales will come out of the U.S between 65% to 70% comes out of the U.S and the rest will come out of the rest of the world which means India Southeast Asia part of the middle east and Africa and Japan and Latin America as well so these are the five areas that we are focusing on what would happen is with that mix coming in and with 100 million dollars worth of sales we expect the EBITDA to be getting to between 25% to 30% at the concern.

Avinash Bala: And also for the realization in India you are saying that your grass margins are a third of what it is in the U.S or something like that because your cost is in the U.S, your cost is there but your realizations are much lower than what you can get in the U.S right?

Sushobhan Dasgupta: Yes so basically what happens is when you look at the prices so India especially the knee market as is a highly regulated market in terms of the price right so there has been a DPCO uh um ruling that came up in I think 2018 or 2017 which regulates the price of knees and that is the reason the prices of needs are regulated and controlled to a certain level when you look at the US that has a certain price average selling price in the marketplace, when you look at the Southeast Asian markets today it is around a couple of $100 more versus what you see in India when I go to middle east we will be generating another $200 or $300 more than what we see in the Southeast Asian market so that is the reason if you see every market has different dynamics. India will give us volumes so when I produce hundred thousand components a year and then I move into other specs as well we have also the 100000 components in the future will not help us to get to that hundred million we will need much more than the hundred thousand components so we have space we have production we have almost a ten thousand square feet of space in the plant that we currently have in El Dorado Hills which we can use which we have not used it yet we will be expanding our capacity there we will we are also looking at partnership in other places we also have plans to look at how can we give getting some manufacturing into this part of the world especially our country so all these things are applied plans in place in a strategic playbook that we have but we have all in phases and so when you talk about the end, the end game is $100 million five years with an EBITDA of 25% to 30% with the much more manufacturing components that we are going to manufacture not only in the El Dorado Hills but in some other parts that we are looking at.

Avinash Bala: Just one last question Sir I just want to know if the U.S market is not deep enough to take 100000 components because straightaway you get a $200 million topline if you are only focusing on the U.S right?

Sushobhan Dasgupta: It is a great question but what happens is it is a market which has a large number of players when you look at the US market, US is very profitable right when you have profitable what happens, the biggest our biggest players play in that play area; you have Johnson and Johnson, you have Zimmer Biomed, you are Striker, you have Smith and Nephew, they are 10000 times bigger than us right as a company so they are well entrenched in that market so what you just said is perfect if I had the wish I would have got a billion dollars from U.S alone straightaway but it takes time because converting a customer in orthopedics takes time it requires resilience it requires patience it requires a lot of chasing in terms of providing service providing the right and providing the right intent and also waiting for mistakes to happen from the other side who the surgeon is doing because an orthopedic implant is not only about just taking a medicine or a device and just putting into the body of a patient, it involves a lot of instrumentation so for implanting a hip and a knee which has four components you require close to 125 instruments on a sterile tray next to the surgeon and the surgeon has that sense of ownership on that instrumentation by using it constantly and that is the reason I am saying I wish you could have sold all the 100000 components on 100 million in the U.S and generated my maximum profits but it takes time to do it but in the meantime if it takes time I have to also ensure that my cost of goods in the corporation comes down components and if I move manufacture more and more and how will it come down by manufacturing more and more components and when I am not being able to sell everything in the U.S at the same time where do I do it I sell it in India so that I have better cash flow through managing my inventory correctly.

Avinash Bala: What would be the like the EBITDA was for us versus non-us I mean just like a kind of a ballpark kind of thing?

Sushobhan Dasgupta: Right now it is too early to comment at this moment when looking because the company is still evolving right so we are still not in a situation that we would be saying that EBITDA the for US is based on EBITDA because just the first tranche of the product has just come into India. We have not even started using their inventory lying in the hospital we are starting using it and so on similarly we have inventory lying in the U.S. We are generating building our inventory because orthopedic business is such that you need to have a minimum of six months of inventory to be on the shelf before the surgeon is comfortable to use it and this is an industrialized practice and this I do not believe it will be changing shortly so it is very difficult for me to tell you at this moment maybe in a couple of next quarterly calls I would be able to bifurcate and give you a better understanding of the differences between EBITDA in the US versus in persons in India but having said it is pretty clear because as I said your average realization of the prices are much more in the U.S versus in India, the EBITDA would certainly be much higher.

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

Girish Bakhru: Hi so just a question again on the implant business what would be the cost per component today and where are you able to reduce it to if you could get some color on that?

Sushobhan Dasgupta: Right now the cost has been reduced so whatever when we took over, we have been able to reduce the cost by almost 30%, we aim to reduce the cost by another 35% to 40% so basically when you look at our aim is to bring down the cost say to around $500 a component so when I get into a $500 as a component that gives me the scalability to be able to go further right now it is I think as I said we started with say a huge number we brought it down to 30%, we aim to get it down to another 35% to 40% to get to the $500 mark.

Girish Bakhru: Well like you said before the big component here is the machinist training so that is the main cause in the component?

Sushobhan Dasgupta: No actually the big component is the raw material cost if you look at the raw materials so you have cobalt chrome you have titanium, you have ceramic and these are the three big components that come out and with the current situation first the COVID and then the Ukraine war along with the energy prices going up so there is a lot of supply chain expertise that is needed we have a great supply chain leader who is working for us since the last six months who has been able to actually tie up a lot of our supply chain was earlier on by getting into fixed pricing that is helping us but many companies in the orthopedic industry because of the raw material things is a problem so you are coming to your question raw material is the biggest cost obviously the labor comes in definitely is a big cost especially the variable overheads in terms of the wages that comes up for every person whether it is a machinist or a finisher also you have costs in quality control we have a quality control robust process, we have labeling finishing and packaging in that factory as well. We also have sterilization done in the factory all these have required people which is a significant amount of cost so it is people and raw materials, these are the two big costs at the time.

Girish Bakhru: Right and these input costs pressures particularly on the raw materials side I mean you did say that there is a lot of supply chain expertise that is required there but, in an event, when these input prices are very high I am assuming that there would be some lag in which you can pass the customers or is there any no ability to do that?

Sushobhan Dasgupta: No it is basically what you said is right it is very difficult in this sort of a situation or stage of our business that we pass on the price to the customer, the customers are not willing and even all big companies I am in touch because I used to work for Johnson and Johnson for a long time so I get feelers of what is going on in the marketplace no company has been able to pass on the price, increases of the supply chain to the customer they are absorbing it so that what we are doing, we are doing much smarter procurement than what we used to do before we were spread thin across maybe very many vendors we have renegotiated with larger vendors closer to our plant so some of the tactics that have been taken place to ensure that we can keep our raw material costs under check.

Girish Bakhru: Right the second on the surgery count I mean this is a sharp jump of course given the recovery is happening, this surgery count jumped off 30% including franchising as well when we report it.

Shanay Shah: So I was just saying that it does not include the franchisee business, the franchisee business both put together have done about a 100 surgeries so that that is separate and then there is another 7200 which are done across the 11 hospitals so that is completely separate and the mix as we have shown is about 50% arthroplasty and the other 50% coming from the other top specialties.

Girish Bakhru: No my question actually is that if surgery count is let us say up to 30% but your revenue is up I think 16%-17% quarter-on-quarter I mean is this because the payer mix is different because payer mix also seems to be favorable how do you relate these two?

Shanay Shah: Pay mix has not changed very significantly it is the specialty mix which has changed and you see that the arthroplasty business has kind of gone up significantly and what happened is also in the quarter of January to March this year about 15 to 20 days were affected in terms of surgeries because of the omicron wave so that is the reason why the growth in the number of surgeries is a lot higher in this quarter so you see that the total revenue has grown by about 20% but the surgery count has grown by 30%

Sushobhan Dasgupta: So to your question I think it is a mix of surgeries because if you look at the realization for surgery is highest in arthroplasty and may be lower in some of the other places so when you look at the mix itself the mix will give you a clear indication of why there is that 10% differential between the volume of surgery growth versus the revenue dollar growth or the rupee growth as Shanay was saying is the mix specialty mix is the change.

Shanay Shah: If you divide it between the surgical work and the medical work, the surgical work has grown faster than the medical work in this particular quarter.

Girish Bakhru: But my understanding was that it should have increased revenue in how much higher than that I mean anyway maybe I will take that offline later. On the occupancy side any visibility if we will go to 60% or higher next year? Occupancy side like right now we are hovering around 45% number when do you see 60% is coming on average.

Shanay Shah: See so in this year we are looking at an average of between 50% to 55% kind of numbers so we can assume that in FY2024 we will be looking at a 60% level sometime early in that year so we believe that we have the potential so in this year we are projecting sales of about 800 Crores in the hospital business with a healthy 25% kind of EBITDA percentage and we believe that this number will continue to grow at 15% to 20% year-on-year and if that happens you are looking at 60% number of occupancy coming in FY2024.

Girish Bakhru: Okay that is helpful and finally on ARPOB any significant movement that one can expect there or something that 25000 odd in range?

Sushobhan Dasgupta: We have seen our ARPOB of more than 35000 in this quarter largely because arthroplasty work has been or at a record high for us we have clocked more than 3500 arthroplasty surgeries in this quarter but in the history, we have largely seen that number be between 30000 and 35000 so we believe it will continue to stabilize at that level as we continue to focus and emphasize on growing the other specialties we believe that this number might come down a little bit but it will be over 30000 that at any point in time.

Girish Bakhru: All right thank you those are my questions thank you.

Moderator: Thank you. The next question is from the line of Rikesh Parikh from Absolute Advisors. Please go ahead.

Rikesh Parikh: Thanks for the opportunity and congratulation on the good set of numbers. The question was on the consensus I want to understand almost 40% of the sales are coming from India so it was sales only to Shalby or we have been selling to other partners in India Sir?

Sushobhan Dasgupta: Right now we are selling to Shalby the reason what we decided as a phase is that we would first use Shalby because we will try and understand how is the instrumentation in the hands of the surgeon and what is the way to market the product and so on so the plan is to first use in Shalby we will be going out to the rest of the surgeons as I said in my earlier delivery that we would be launching it in Q3 of this year to the other surgeons. There is a lot of interest being shown by other surgeons to use our products and the two reasons that we are not going outside of Shalby is one is we would like to use it in Shalby and be comfortable with the product and the instruments and have good learning so that we can pass on to the customers who would be outside of Shalby that is number one and the second reason is that we would be able to then build sufficient inventory of implants and instrumentation to be able to service our customers outside because when I go out of Shalby I cannot be selective I cannot say, I can give you but doctor why I will not be able to give you I need to go full-fledge if I have to go for full-fledged. I have to serve with a lot of inventory and instrumentation which will take time to build up these are the two main reasons you would go out in this in the third quarter of this fiscal year outside of Shalby.

Rikesh Parikh: Okay and in terms of a manufacturing facility by the end of the year where do you see will end up in terms of the number of components or target to reach?

Sushobhan Dasgupta: Right now if you look at say for example from at the start of this quarter so if you do around say around 30000 we will be ending close to around 40 to 45000 components by the end of this year, 45000 means it is around close to 11000 constructs or knees or hip so every construct which is used in surgery has four components so if you see if I can produce 45000 components in this fiscal year which will yield around 11000 to 12000 constructs or 12000 surgeries for us that is our plan and next year we plan to cross over 60000 components in the next fiscal year and the following year we would be certainly touching 100000 components.

Rikesh Parikh: And when this bookkeeping question on this franchisee business research so how do we account the revenue with our first two franchisees which have been operational so we take our share as a part of sales or it is other income but we have clocked?

Venkat Parasuraman: Okay so share of the revenue forms part of the revenue it is part of the revenue not in the other income.

Rikesh Parikh: By the end of the year we will be having around eight to ten based on the pipeline around five to six operational as such so probably as the revenue from the franchisee increases our margins will stand to increase since this is directly coming from the topline to bottom right is my understanding?

Venkat Parasuraman: Absolutely.

Rikesh Parikh: Thank you that is it from my side.

Moderator: Thank you. The next question is from the line of Ron from Mad About Stocks. Please go ahead.

Ron: Congratulations on great the setup number I was listening to your media interview and it was very heartening to see that you are projecting 400 Crores per quarter in the future so just wanted to understand tentatively when do we see this quarter coming and will the EBITDA margins of around 25% be sustainable during those levels also that is my first question?

Shanay Shah: Ron so I think what I think I will clarify what I was talking I was trying to say that we have the potential in the existing capacity of hospitals to do between 350 to 400 Crores of revenue in a quarter so that is at the peak now as I earlier mentioned in this call that we are looking at a 15% to 20% kind of annual growth in the hospital business so we do believe that it will take between three to four years to get to those levels so that is the answer to your first question.

Ron: Thank you. The second question you mentioned somewhere that the plan to enter into the Kolkata and Delhi market so is there any change in strategy where earlier the focus was on tier two and tier three cities now move into the tier one cities so your thoughts on that?

Shanah Shah: See Ron I think if you look at the geography mix of Shalby right now we are largely present in tier 1 cities and state capitals so that would include Mohali would include a Jaipur, Indore, Ahmedabad, Surat so we are largely present in tier 1 cities yes we are also present in some tier 2 and 3 cities which include Jabalpur and Vapi and a couple of years back we also signed up for the Asha Parikh hospital in Mumbai which is again going to be more of a metro kind of a presence for Shalby so we are kind of agnostic to whether it is a metro or a tier one at the end of the day it has to be a good investment for the group and it has to make sense from the return on capital employed perspective so as long as we are able to look at and identify opportunities in Delhi and Calcutta whereby we are able to justify the investment to the shareholders and to the board we would be okay to do that Delhi and Calcutta Shalby has a great brand recall this is number one it drains a lot of patients from within India so for Calcutta within the northeastern states there is a huge drainage into Calcutta from the international medical tourism perspective a large part of Bangladesh in Nepal and Myanmar they all fly into Calcutta for treatment so that opens up that opportunity as well. Delhi as we know is very well connected internationally as well so that would also make a lot of sense from the perspective of Shalby because we have been pioneers in terms of medical tourism in this part of the country and we would like to leverage on these geographies as well whereby we can capitalize fully in terms of our potential.

Ron: Great can I squeeze in another question? So this home care which relatively looks like a very small part of the revenue scheme at present, later on, I guess 2 Crores but with the demography dividend changing for India and it is expected that around 19 Crores people will be there in the elderly category by 2030 so do you see this home care business of Shalby doing an exponential growth in the coming years?

Shanah Shah: Absolutely so we believe that the potential for home care is huge at the moment we are providing services like pharmacy, diagnostics, physiotherapy, nursing also doctors on call these are the different kinds of services we are providing we are largely today present in only the cities where we have our hospitals although as you said the revenue today is a small it is a little over two Crores what we are not accounting for is the direct benefit of patient loyalty and brand loyalty that comes in when something happens to the patient so if we are connected to the patient through home care what happens is that if something happens to anyone in the family they rush straight to our hospital so all of that underlying benefit is not even accounted for in that revenue that we see but yes we see home care as a big potential we are also working on how we can use technology to reach out to more people and enable this growth to be much faster over the next few years for home care.

Moderator: Sir seems like we lost the connection for the current participant a reminder to the participant's anyone who wishes to ask a question may press star and one at this time.

Ron: Thank you for the opportunity my question regarding the hospital business, three hospitals that are less than five years old have 337 operational beds which represent 37 of operating; however, their revenue contribution is only 18% and EBITDA contribution is only 3% to 4% of the total revenue. The bank management is expecting its EBITDA to reach 10% or more.

Shanay Shah: So basically as you mentioned I think we are striving to increase and ramp up these newer facilities so the three hospitals here would be Mohali, Naroda, and Surat which are zero to five years old, and revenue today is about 332 million over there and EBITDA margins are lower but as we talked to today as well the numbers have ramped up so the numbers are going up and we are working on kind of introducing newer specialties adding more doctors and creating more brand awareness in those towns to kind of increase the capacity utilization of those hospitals. Naroda and Surat are both kinds of hospitals and areas where it is a very doctor-centric market and essentially, we have been able to strike some good deals over the last few months so in the coming two to three quarters you will be able to see the results in terms of higher EBITDA margins in these hospitals.

Ron: Okay and all three hospitals are EBITDA positive?

Shanay Shah: Mohali is not EBITDA positive as we talked about today.

Ron: Okay thank you.

Moderator: There are no questions in the queue as of now Sir.

Sushobhan Dasgupta: That is okay I think we had a lot of deliberations which are great, very productive interactions.

Moderator: So over to you for closing comments.

Sushobhan Dasgupta: Thank you again for all the support and your interest in Shalby as you have heard from Shanay and me and Venkat that we have on the right track our first quarter results have been stupidest and we are on a trajectory of improving further from here we have our core flagship hospital business doing well and you have seen some of our growth areas of the franchisee, the home care as well as the U.S implant business gathering a lot of steam so we have a great value creation for the Shalby stakeholders and we wish you and thank you for all your support and we would like to come back to you again with an even improved performance in the next quarter. Thank you.

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