“Shalby Limited
Q2 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Shalby Q2 FY2020 results conference call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Param Desai from Elara Securities Private Limited. Thank you and over to you Sir!

Param Desai: Thank you Lizaan. Good afternoon to all the participants in the Shalby Limited Q2 FY2020 earnings call hosted by Elara Securities. Today, we have with us from Shalby Management, Mr. Shanay Shah, Director, Dr. Nishita Shukla, Chief Operating Officer, Mr. Prahlad Inani, the Chief Financial Officer. I will hand over the call to Mr. Shanay for the opening remarks. Over to you Mr. Shanay!

Shanay Shah: Good afternoon everybody. This is Shanay. I am the Director (Designated) –International Business and heading Investor Relations at Shalby hospitals. On behalf of Shalby Hospitals, I welcome you all to the earning call of Q2 FY2020. I hope all of you had the opportunity to go through our quarterly results as well as the investor presentation. I am happy to inform all the shareholders of Shalby Hospitals that your company has been recognized with Company of the Year Award in the category of healthcare by SAP and Zee Business on October 11, 2019 by the Revenue Minister of Gujarat, Shri Kaushik Bhai Patel.

Now, let me take you through some key highlights of the quarter. Q2 of FY2020 proved to be a decent quarter for us on all the operational and financial parameters. On operational front corresponding to Q2 of the previous fiscal year, we witnessed an 11% growth in our inpatient count and our outpatient count grew by 8%. Our daycare patient count grew 34% and our surgery count for the quarter grew 2%. On the financial front corresponding to the Q2 of the previous fiscal year, our total revenues Q2 FY2020 grew 5% at 127 Crores.

Our EBITDA grew 20% at 30.1 Crores. Our EBITDA margin has grown 300 basis points from 21% to 24% on a year-on-year basis. Our profit before tax increased to 19.9 Crores and this is a robust growth of over 36% year-on-year. Our profit after tax for Q2 FY2020 grew to 12.9 Crores that signifies over a 250% year-on-year growth. If you compare the half year performance FY2020 versus FY2019, revenue grew 9%, EBITDA grew by 17% and PAT grew by 130%. The PAT margin grew from 7% to 14% in H1 FY2020 compared to H1 FY2019.

I am also very happy to say that Shalby Hospitals has reached a landmark number of 33000 plus patient footfalls per month. This is the result of our continuous focus on increasing our business efficiency and patient centric approach. Now, I would like our CFO, Mr. Prahlad Inani to take you through the numbers in detail. Thank you.

Prahlad Inani: Thank you, Shanay. Good afternoon everybody. I would like to say that his quarter was really good and I would like to state the numbers here. Few of the number I will be repeating, which Shanay just told. In Q2 FY2020, company achieved total revenue of 1278.8 million compared to 1216 million in corresponding quarter for the previous financial year. This is a 5% on year-on-year basis. EBITDA for the quarter grew by 301.3 million compared to 250.6 million in the corresponding previous financial year and which imply a growth of 20% on year-on-year basis.

We were able to maintain strong EBITDA margin this quarter also and that is 23.6% compared to FY2020 to last year 20.6% for quarter corresponding with previous financial year. Profit before tax for the quarter stood at 199.3 million compared to 147.04 million for the corresponding quarter of the previous financial year. We achieved a strong growth of 36% on year-on-year basis. Profit after tax for the current quarter stood at 128.97 million compared to 36.88 million for the quarter corresponding to the previous financial year. PAT margin stood at 10% compared to 3% for the corresponding quarter of the previous financial year.

With respect to ARPOB, the company clocked on 29399 for this quarter compared to 29244 in the Q2 last year preceding quarter with the growth of around 1% in this. Occupancy grew by 5% in Q2 FY2020 with 473 occupied beds compared to 452 occupied beds in Q2 FY2019. Also for the quarter also stood at 4.28 days compared to 3.91 days of Q2 FY2019 and 4.24 days in Q1 FY2020.

I would like to mention here that we have changed the ALOS calculation from Q1 FY2020 as we now exclude our daycare patient count from IP count for the same. This was done for the better reflection of average length of parameter. Now, I would like to tell some detail about our maturity profile. In maturity profile, we have made four buckets, one is 6-year plus bucket and another one 4-6 years bucket and the other one is 2-4 years bucket and the last one is less than 2 year.

Our 6 years plus matured hospital, which included SG, Krishna, Vijay and Vapi, contributed nearly 49% of the total revenue and EBITDA margin for the same bucket hospital stood at 25%. For the quarter within this bucket of 6-years plus, IP count was at 3993, daycare count was at 900, OP count for the bucket was at 33427 and surgery count stood at 2709, so this was really a good performance for us on all the operational parameters. We were able to clock an ARPOB of 36540 for our 6 years plus bucket.

Now coming to 4-6 years matured hospital that Indore and Jabalpur; that has contributed 21% of the total revenue and EBITDA margin for this bucket stood are around 13%, IP count for the 406 years bucket was 2952, daycare count was at 556, OP count was at 22608 and surgery count stood at 104. For 4-6 years bucket our ARPOB was Rs.20066. With respect to our 2-4 years bucket, which include Jaipur, Surat, and Naroda that have contributed 27% to our total revenue and EBITDA margin for the bucket stood around 13.5%.

IP count for the said bucket stood at 3277, daycare count stood at 5209 while OP count stood at 21371 and surgery count stood at 1082, which got us an ARPOB for the bucket at Rs.29721.

Now coming to the last bucket that is less than 2 years in which we are having just Mohali unit. Mohali unit contributed 4% to our total revenue and EBITDA margins for the bucket stood negative 16%, IP count for the Mohali unit stood at 460, daycare count 452, OP count stood at 5781 and surgery count at 150 and we got an ARPOB of 31479.

So, from the numbers perspective that is all and I would love to have questions from your side.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Runjhun Jain from Nirmal Bang. Please go ahead.

Runjhun Jain: Thank you for the opportunity and congratulations for the management team for good set of numbers. Sir, two, three questions, I have observed the EBITDA margins have come down in two to four years bracket in maturity, so any reason specific for this because the decline is little steep?

Shanay Shah: So, what has happened this time is our part of the subcontinent especially in Rajasthan, Madhya Pradesh and Gujarat, there were very heavy rains and for a very stretched period, so what happened a lot the surgeries got postponed into October, so that was one of the reasons why the number of surgery is flat from last year this quarter and a dip from Q1 this year, so it is basically most of the planned surgeries got postponed.

Runjhun Jain: Sir, you are going to say the plans have been deferred to this quarter, so we can see the reflection in Q3 now?

Shanay Shah: We can see it in Q3, yes, that is correct. You can see in Q3 and Q4 now.

Runjhun Jain: Sir, there is one more thing in ARPOB, for the quarter if I see the 29400 approximately, which has come down on Q-o-Q, though it is flat o Y-on-Y basis, my question is despite that we have seen on an overall basis the EBITDA margins improvement at the company level, so what is it, which has changed during this quarter and is it sustainable?

Shanay Shah: See, what is the change really if you look at the numbers you will see that the biggest change has come in on two sides, one is of course the fact that our materials and consumables has come down and it has come down to about 3 Crores odd the consumable cost and this is to do the continuous effort that we have been putting when it comes purchase as well as the specialty mix because the consumables as a part of revenue is different for every specialty and every procedure, so that is two of the reasons and of course third one it that the fees to doctors and consultants have come down by about 1.5 Crores to 2 Crores and the reason for this is that a lot of the surgeons they complete two to three years, we move them to a fee for service basis where basically they end up going away from a fixed fee to basically a portion of the revenues that they generate after two to three years, so the second part explains that the difference of balance 2 Crores.

Runjhun Jain: Out of these of three components, specialty mix is something which is volatile and can move on and change going forward, but the materials and consumables, it is likely to continue the benefit of what we are seeing and even the fees to doctor and it has nothing to do with the deferred surgeries right?

Shanay Shah: Yes, what happens is that we do a lot different kind of procedures, the quarter in which our regular revenue is very high what happens is that the doctor cost to fee is much less comparatively because the radiation machine has a very heavy capex cost, but if you look at the doctors payout as a percentage to revenue is usually in higher single digits.

Runjhun Jain: But, this is more or less benefit what we are seeing in this quarter is sustainable?

Shanay Shah: Yes, we feel that it is sustainable; however, I would like to say that is subject to the specialty mix, so if we happen to do more, to replace this cost might go up also the cost of consumables.

Runjhun Jain: Sir, last point is what is the capex plan for next two to three years?

Shanay Shah: So, the capex plans, we have two upcoming facilities, we have the Asha Parekh Hospital coming up in Mumbai, so we see that it will be operational basically after two years and the Nashik Hospital again will be operational probably in the next 6-9 months from now, so the way we see the capex is basically, we do not see any new capex in this year; however, we see that we spend about 40 Crores odd in the next fiscal and balance of about 100 Crores in the fiscal after that.

Runjhun Jain: From the two to four years of maturity bracket hospitals, when they are moving to the bracket of four to six years?

Shanay Shah: In the next one year they will move.

Runjhun Jain: The margins why four to six years hospitals have less margins than the two to four years, we have seen in Q1 also?

Shanay Shah: What we have to see is basically the specialty mix. If we see the specialty mix you will see that basically the revenue in 2-4 year units if you see the difference is that a lot of high procedures are done in 2-4 year units that is the knee and hip replacement if you see as a portion to the total revenue it is much higher than the 4-6 years units, so there is a very high value add in the 2-4 year units compared to the 4-6 year units.

Nishita Shukla: There are lot of doctors who were recruited for specialty once like in one or two years there are sustainable numbers and then we start having specialty doctors like two or three in one specialty, so that is how the business will share between them, so like up to years also now 2-4 years units we are recruiting some doctors, so high end doctors.

Runjhun Jain: My question is why the margins are lower in 4-6 years, just because we have more specialized doctors in more specialty revenue that is why?

Shanay Shah: Whatever COO is saying that the 2-4 year units we usually have two doctors for specialty, in the 4-6 years unit there is a possibility that because of the workload you might have an extra doctor that is the third doctor per specialty and that will increase your doctor cost and then it will reduce your margins.

Runjhun Jain: But the difference is quite a bit and we have only two hospitals till now?

Shanay Shah: The other reason I mentioned to you saying that a lot of high end work, if you see the arthroplasty work that we are doing in the 2-4 years units it is much higher than the 4-6 years units, so you will see that basically about 9% is arthroplasty in 2-6 year and 4% the arthroplasty in 4-6 years, so that is the reason, the third reason is also to do with the PAT that the other reason is that in 4-6 year units there are two units, one is Indore and one is Jabalpur, so Jabalpur has much lower SOC at 22% 25% lower SOC that is schedule of charges compared to Indore, Jaipur, Surat and Ahmedabad, so basically you cannot charge what you are charging in a Tier 1 city and a Tier 2, Tier 3 city.

Runjhun Jain: Just the conformation is that arthroplasty has better margins than the non-ortho?

Shanay Shah: Yes.

Runjhun Jain: Sure. Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Ranbir Singh from IDBI Capital. Please go ahead.

Ranbir Singh: Thanks for taking my question. My question relates to your matured hospital six years old, here I see the occupancy has been 31%, so despite this I think two hospitals are more than 10 years old, so occupancy rate is not increased there, so what might be the reason, they presume that at least this would have been higher than 50% through this year?

Shanay Shah: If we look at the numbers in the six years plus units, we saw a OP count of 33,400 compared to 29,400 in the previous quarter last year, so basically we have seen 10% increase over there, in terms of the surgery count again we have seen a 7% to 8%, so we have seen an increase across OP as well as the numbers of surgeries that we are doing, we have again seen an increase of about 5% when it comes to the daycare count that we have been doing. The reason why you see that the occupancy number a kind of probably stagnant is because we would have added the number of operational beds in this particular units and the second thing is of course there are units like Vijay and Vapi, where we have the capacity of over 150 beds in total the occupancy is very low in these units, so if you look at the top unit that we have across the six plus years units you will that it is over and above about 55% to 60%.

Ranbir Singh: Sir, going forward can you see this increasing in the corporate in the next three year, where you see the occupancy going to?

Shanay Shah: We are not able to give you a kind of trend, but yes, we will see that number increase also.

Ranbir Singh: Similarly on second bucket that is four to six years what I presume that in Tier 2 cities because the fixed income is lower all parameters?

Shanay Shah: We cannot hear you properly.

Ranbir Singh: For the second bucket four to six years, what I presume that because in Tier 2 our fee structure is lower though most of the parameters look lower, so going forward wanted to understand because the orthopedic surgery has been lower, going forward we see this proportion increasing or we will continue with non-ortho type of services there?

Shanay Shah: See, we do not really focus on any specialty, we want to project ourselves as a multispecialty hospital and we work on all the top five to seven specialties in term of marketing, etc., so hence you see that basically at a group level our arthroplasty contribution has come to about 40% odd now in terms of the numbers essentially we want to maintain our leadership position in arthroplasty as well as grow in some of newer areas like Oncology and Urology, etc.

Ranbir Singh: That is it from my side. I will be in queue.

Moderator: Thank you. The next question is from the line of Dharmik Prajapati an Individual Investor. Please go ahead.

Dharmik Prajapati: Good afternoon, Sir. My question is related to the margins, so first question is, can we understand that Gujarat based hospital has a higher margin than the other state hospital just because Vikram Shah's operates in Gujarat and specifically Ahmedabad state?

Shanay Shah: Well, I do not think that would be the right way to look at it. The way to look at it is, in generally, what happens is that the arthroplasty numbers that we see we started back in 1994 in Ahmedabad and we have a 25-year track record in Ahmedabad, the other towns where we are present we are two to three years old over there, if you see the other numbers also, the other numbers is of other specialties is also doing much better in Ahmedabad because of the time we have been present in Ahmedabad. If we talk about arthroplasty business, out of the total pie of 100 if we say that 40 to 45 is arthroplasty, I would want to say that about 15% to 20% would be the contribution of Dr. Shah when it comes to arthroplasty procedure in terms of the number of surgery he does, so the balance surgeries are done by about 50 odd plus orthopedic surgeons who are present Ahmedabad as well as the some of the hospitals that we have, so I mean if you take 15% to 20% of about 40% odd you are talking about 8% to 10% contribution of him that directly in a total revenue.

Dharmik Prajapati: And the next question is, what the company is taking steps to improve the margins of other hospitals?

Shanay Shah: The way we look at it is, we need to have the right set of doctors on board, which we do at all the different units and the way we see it is that most of the hospitals take three and half to four years to operationally breakeven and if you look at our units we have been able to do that between one to two years across all our units, so I think we need to acknowledge that fact and we have been able to do this because we have been able to attract right set of doctor as well as do the right kind of marketing to let people know and after that at the end of the day, we have to provide the right kind of service to the patient and have the right kind of clinical and quality parameters so we have repeat patient who end up coming back to us, so I think it is basically all of this that has to work together for you.

Dharmik Prajapati: Fine, one more thing, what will be the operative to surgery ratio?

Shanay Shah: I think the OPD to IPD ratio it will be 1:4 and the surgery to OPD ratio, I would say would be 1:20.

Dharmik Prajapati: 1:20?

Shanay Shah: Yes.

Dharmik Prajapati: What is the current debt equity ratio of the company?

Prahlad Inani: So, we are net zero debt company right now and that is what are not choosing our working capital and other things, we are cash surplus, so basically net, net we are in zero debt.

Dharmik Prajapati: As you told the hospital takes around one and half to two years for breakeven, so when can we expect Mohali hospital like to achieve a breakeven?

Prahlad Inani: I presume next year certainly that will be breaking even.

Dharmik Prajapati: FY2020 right, this current year?

Prahlad Inani: In FY2021 may be in Q1 or Q2.

Dharmik Prajapati: All the best.

Moderator: Thank you. The next question is from the line of Saravanan Viswanathan from Unify Capital. Please go ahead.

S Viswanathan: Good afternoon. Thanks for taking my question. So, at what level of occupancy would we achieve respectably ROE for say something like 15% plus ROE?

Shanay Shah: Sorry, what is your question?

S Viswanathan: The return on equity, when would we achieve 15% plus return on equity?

Shanay Shah: Usually we see that happening around sixth to seventh year of operations.

S Viswanathan: So, we have hospitals even six years plus hospitals we have and then we have hospitals between two years to six years?

Shanay Shah: Yes.

S Viswanathan: As we understand next two years couple of more hospitals would get added and beyond that are we working any expansion plans at this juncture?

Shanay Shah: See our six plus years units are already throwing high the double-digit ROCEs and ROEs over 15%, it will be around 25% to 30% in terms of ROCEs and ROEs, so that the kind of numbers that we have for our internal expectations; however, having said that if you talk about the newer units of course we have Asha Parekh Hospital that will come in about two to two and half years and as I said earlier the hospital in Nashik will be operational in the next six to nine months, so basically we have two upcoming projects, of course we do get one to two proposals every week, but honestly we are in very early stages to speak about anything at this point of time.

S Viswanathan: So, for the company as a whole when do you expect to get to 15% plus ROE that is 2022 or 2023 or 2024, do you have any specific target?

Shanay Shah: We have internal targets, but as a company's policy we are not giving any kind of guidance, I am saying that we do have internal targets and our internal budgets, but I am saying that as a company we are not guidance for this.

S Viswanathan: No ROE guidance and as regards to Ayushman Bharat schemes, how are the payment cycle from the government or the local authorities?

Nishita Shukla: For the government schemes, the payment cycle are 45 days, but we do not receive money before more than 90 days, they have unified the scheme, but usually the trend is like 80 to 90 days.

S Viswanathan: But, at least by 90 days we are able to get the payment?

Nishita Shukla: Yes, at least for MA Yojana we get it, but Ayushman is still delayed above 90 or something.

S Viswanathan: So, we have a local state scheme called MA Yojana in Gujarat, I mean 50% of the schemes do come from MA Yojana and MA Yojana ends up paying as a unique between 45 and 60 days?

Nishita Shukla: So, in Gujarat actually MA Yojana and Ayushman are together, so we can put an average of 90 days, but it is only at other units that Ayushman is there, the payment is delayed more than 90 days.

S Viswanathan: What is proportion of Ayushman business in non-Gujarat territory?

Shanay Shah: I will say the total business across the group would be between 2% to 3% and if you talk about the particular units out of Gujarat would be under 5%.

S Viswanathan: Do we have the choice to refuse Ayushman business or we do not?

Shanay Shah: We do, we have the choice.

S Viswanathan: You see this kind of common business capping around 5% to 10%?

Shanay Shah: The thing is that we consciously work on the self-pay patients as well as the insurance patients, so basically our marketing efforts go into that and from the margin of costing perspective at times it make sense to take up some of these schemes, so to that extent we will be taking up the schemes.

S Viswanathan: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Kunal Shah from Carnelian Capital. Please go ahead.

Kunal Shah: Just continuing the question of this government schemes that we have, I just wanted to understand out receivables of 1044 million as on as on September 30, 2019, what proportion would be do we receive from these schemes if you could tell?

Shanay Shah: From which schemes are you talking about?

Kunal Shah: The two government schemes Ayushman scheme and MA scheme?

Shanay Shah: Basically, this money that is seen in the trade receivable is not only the money that is outstanding, it is also money that is not yet outstanding, so if you look at it, I think now it is about 30 Crores to 40 Crores would be MA and essentially the balance would be from some of the center schemes like CGHS, ESIC, and railway, etc.

Kunal Shah: Historically, have you seen any write offs because of any disputes with these schemes?

Shanay Shah: Yes, we have seen some, but basically they are very, very small, it is not even half a percent to the revenue annually.

Kunal Shah: Fair enough. I just wanted to understand previous you have touch based upon this line items, but I just wanted to understand what are the plans to increase the arthroplasty business when it comes to hospitals in the range of four to six years and two to four years, more predominantly from the point of view of you how do we see the EBITDA margins for the hospitals out of Gujarat?

Shanay Shah: For the orthopedics that you know we control about 15% of India's volume when it comes to organized sector and we have been able to maintain this leadership positions since the last 20 years and while Indian orthopedics continues to grow at 10% to 15% annually, now since last six years we have been conducting an annual conference across our different hospitals called Ortho Trend, we will be inviting these doctors and we have about 400 to 500 doctors who come in and attend this program, it is a two-day program will usually happens in Q2 of every fiscal and we talk about the different kind of cases that have been done, we do live surgery between 10 and 15 live surgeries we do in front of them, the show is also live telecasted across all the different countries, so anyone can logon and watch this online. These kind of branding activities really help patient referrals as well as attracting good doctors on board, so we will be able to attract the good set of doctors across on our hospitals and then the idea is kind of doing activities with the local population by conducting health docs, Cams, etc., and essentially, which helps you really drive the business, so what happens is you need to give it time and essentially we do see that these numbers will go up going forward like if you ask me especially the four to six years units since you mentioned we hold have about 60% to 70% market share in Madhya Pradesh because essentially what has happened is when we enter that market the number of procedures that used to happen over there that takes the three times the number now and it is because we have expanded the market over there as well, so essentially it has to be looked at from that context as well.

Kunal Shah: Fair enough. Thanks.

Moderator: Thank you. The next question is from the line of Ashish Thakkar from Motilal Oswal AMC. Please go ahead.

Ashish Thakkar: Thanks for the opportunity. Could you help us understand the maturity profile of the company in terms of the number of beds or what kind of growth are we looking at it?

Shanay Shah: If you look at the maturity profile, we have about 594 beds, so close to 600 beds in the six years plus units, close to 475 beds in the four to six years units, about 750 beds in two to four years and about 150 beds in the less than two years units so the total tally goes a little over to 2000 beds.

Ashish Thakkar: In your calculation what kind of margins are we doing in this bucket?

Shanay Shah: The margins are basically in the six plus years units we will do 35%, in four to six years we are doing 13%, in two to four years we are doing about 13.5%, and the less than two years units we are negative at 16%.

Ashish Thakkar: Fair enough and next question, since you have also spelled out the capex numbers, so any kind of asset models that you are looking at in terms whether they would be like management contract kind of programs that will helpful?

Shanay Shah: If you look at some of our units, I think two of our units where we are already operating three of our units it is like asset light model where we have a revenue share with the real estate owner. In fact even the upcoming two units both of them that is Mumbai and Nashik, both are asset light models where we will be doing a revenue share in the hospital owner, so we believe that capital allocation is very intelligent when it comes to having an asset light model, so we keep perusing opportunities like these.

Ashish Thakkar: Any interest M&A plans that you have in your minds?

Shanay Shah: To be honest, we do not have any plans as of now, we have enough capacity to grow internally, so today if we say that we have 1200 operational beds then the capacity is 2000 beds whereas 40% to 45% capacity to grow within the existing capacity for us to increase the number of beds that we have and on top of that we will be adding close to 350 beds when it comes to Nashik and Asha Parekh in Mumbai put together.

Ashish Thakkar: So, that will be hovering about 2000 number, right?

Shanay Shah: That is correct.

Ashish Thakkar: Thanks and last question is on the government's intention to bring the medical devices under the drugs and cosmetics act, so how do you see this regulation panning out in terms of the current profitability of the hospital sector in general?

Shanay Shah: Essentially, the way we look at it is that even we have heard about the news doing rounds and ideally the hospitals, I think the way the government looks at it is that the hospital should focus on charging on services that they are providing rather than making money on the medical devices, so basically we continue to focus on providing the services and charging for that rather than looking at margins in the medical devices space.

Ashish Thakkar: Sir, any timelines that you feel these policies might be out?

Shanay Shah: We are not aware of the same.

Ashish Thakkar: No issues and thank you and all the best.

Moderator: Thank you. The next question is from the line of Vikas Sarda from NT Asset. Please go ahead.

Vikas Sarda: Good evening. Could you breakup your revenue, the split between inpatient and outpatient, how does it look like?

Shanay Shah: We do not have it on hand. What we can do is we can e-mail it to you once this call is over.

Vikas Sarda: Secondly, when we look at the patient volume for inpatient versus the surgery count, there is big divergence in the growth of the two, how should one look at that?

Shanay Shah: As I said earlier the way to look at it is that we have seen a large inpatient, there are is a growth of 11% odd; however, these are basically medical patients who basically had no choice, but to come to the hospital, but when you see that the surgery count has remained flat, it really means that these are basically planned operations and planned procedures and this part of the subcontinent had very heavy rains and they chose to really postpone the procedures.

Vikas Sarda: How would you define the daycare patients?

Shanay Shah: The daycare patients, I will just move back to the surgery count once, basically you see a dip from Q1 FY2020 to Q2 FY2020 and the dip is also because there used to be a scheme for joint replacements in Gujarat that they have reduced the cost, so that give of about 100 odd surgeries is also because of that, so essentially when I say the number of surgeries of flat is basically from Q2 FY2019 to Q2 FY2020 and when I talk about the daycare procedure, yes, we have seen uptake of about 34% from last year; however, from the first quarter, we have seen a 6% kind of growth. It is a healthy growth we usually see and another things that is happening is that a lot of procedure that are getting converted into daycare procedures so this is the one change that we see on a regular basis, apart from that Oncology, essentially has most of the daycare patients where we will see a huge growth, so within Oncology, you have two areas, you have radiation and you have chemotherapy, so in both these areas we have seen significant growth from last year and which is why you see a growth of 34% and the remaining component is dialysis, so basically this is the third division, where we have seen an uptake when it comes to the daycare patient counts.

Vikas Sarda: So, daycare patients are not typically for surgery you mean to say?

Shanay Shah: No, there could be for surgery, but majority of them are these three and when we talk about the split, I think you asked a question regarding the split between IP and OP revenue, I will say about 13% is the OP revenue and 87% would be the IP revenue.

Vikas Sarda: Got it and if I could just squeeze in one more question, how do you look at the revenue growth for this quarter at 5%, besides this deferral of surgeries any other reason that you can think, which might have impacted your growth?

Shanay Shah: Apart from this there is no reason because basically there were two to three storms that were hitting Gujarat also at one point of time and the news in the media also bloated the whole thing out of proportion and basically it is to do with these things apart from that the way we see things and I say this because the total number of OP patient as well as the IP patient has gone up and which is the proof of the pudding lines essentially it is only the surgery area where things are flat compared to last year.

Vikas Sarda: You were answering that there are some kind of a change in the insurance is it for Gujarat?

Shanay Shah: No, it is only to do with joint replacements and basically Q2 FY2019 and Q2 FY2020 basically an apple-to-apple comparison.

Vikas Sarda: In the Q1, there were some kind of promotion or incentive is it?

Shanay Shah: Yes.

Vikas Sarda: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Rikesh Parekh from Barclays. Please go ahead.

Rikesh Parekh: Thanks for the opportunity. Sir, can you just throw some light on the approach status for Asha Parekh Hospital?

Shanay Shah: Yes, essentially we are waiting for the fire approval over there apart from that we have received all the approvals, after which we will be demolishing the building and we will be staring the Greenfield project, so since you know that we had extended rains this time, I think essentially the construction of the building would have been possible up till now, so now I think as soon as we get the fire approval, we will get the permission for the demolition of the building and to start construction of the Greenfield project, we feel about we will take about 24 months to 30 months to put up the building and equipments.

Rikesh Parekh: So, basically our capex will start from first quarter of the next financial year for this or we will come in post our construction of the building?

Shanay Shah: It could come in Q4 of FY2020 or by Q1 of FY2021, it could start from there; however, in the initial first 18 months you know the cost of making the buildings basically it is much lesser compared to the later half when you really spend on the higher end equipment because that comes towards the end.

Rikesh Parekh: So, that means we will be remain debt free till that time whether larger part of the capex once it comes in as such?

Shanay Shah: Yes.

Rikesh Parekh: My second question was relating to our occupancy, can you have some occupancy ratio including the daycare plus operational combined as such?

Shanay Shah: There are hospitals that are not providing occupancy numbers at all, but we thought that it might give a good perspective on where we are in terms of the numbers we can do, so in the current given capacity that we have created with a very nominal additional capital expenditure we can grow about two and half to three times in the given capacity in terms of topline.

Rikesh Parekh: No, I understand because I was coming from was that we have a total bed capacity of 2000 and average occupancy of bed is 473, so if we take it, it is a very low on the overall operational and even operational better 1200, which is a 60% of our total bed capacity, so I just want to understand wherever actually utilization levels are happening if we combine both the occupied bed plus daycare?

Shanay Shah: You can assume, we do not have the number right now, but you can assume that the room occupancy would be about 10% to 15% more than the occupancy that you see on the presentation.

Rikesh Parekh: Where do we see when we can get over the non-operational bed into operational bed at what level as such because even in six year plus we have been seeing that there have been non-operational beds as such, so when can we see those becoming operational beds?

Shanay Shah: As we see the numbers pick up, as we see a requirement for it, we will be adding the capacity and converting the bed capacity into operational beds and we have been doing that in some of the hospitals where we see a requirement for that, so we are working hard, we are doing our marketing activities well, we are having the right kind of doctors on board and then we are just hoping for the best.

Rikesh Parekh: Thanks and just last question, if I can squeeze in, the ARPOB sequentially quarter have been dip, any particular reason for that?

Shanay Shah: See, ARPOB has come down also because as I said there were a 1000 odd surgeries that were done under the local scheme because of which the ARPOB was slightly on the higher side because as we all know that the placement of the shorter stay and higher revenue having said that as I said an apple to apple to comparison would be really Q2 FY2019 with Q2 FY2020, so if you see that you will see the number at around the same level.

Rikesh Parekh: Thanks and all the best for future.

Moderator: Thank you. The next question is from the line of Ranbir Singh from IDBI Capital. Please go ahead.

Ranbir Singh: Thanks for the follow up. Can you update on Ghatkopar Hospital we are likely to expand our bed from 50 to 150, so what is the status there?

Shanay Shah: The Ghatkopar Hospital is on our management contract and we will start operations there from Q1 FY2021; however, having said that basically on a management contracts, so unlike all the other hospitals that we currently have and two upcoming hospitals, the Ghatkopar Hospital, we do not have any capex of ours involved nor do we have any working capital involvement in the hospital, so it is going to be a pure revenue share where we will be giving them expertise as well as consultancy from our head office.

Ranbir Singh: So, when we will start booking revenue from expanded?

Shanay Shah: Sorry.

Ranbir Singh: When we will start booking revenue from that expanded capacity there?

Shanay Shah: Again, the booking of revenues will be only the tune of our share in the company, which is lower share comparatively because of course we do not have any capex or opex involved in that hospital; however, having said that if you ask to me when the hospital will be operational, we feel that by Q1 FY2021, the hospital should be operational.

Ranbir Singh: Secondly, you mentioned like in this quarter few doctors moved from payroll to fee based services, so is it a common practice there or that was the only standalone stands from this quarter only?

Nishita Shukla: Yes, it is a common practice because in two to three years we just give initial fixed salary to them to set down and settle down their practice by two to three years they have already done a good amount of surgery, seen good amount of patients and they are already crossing their fix, for them it is a trend of shifting them on people's service structure with our percentage rates in that way out.

Ranbir Singh: So, currently what portion of cost is on fee based doctors and on payroll?

Shanay Shah: We do not have that number, but we can basically offline we can provide it?

Ranbir Singh: One more that on OPD side like in present and off present revenue that you have not have, but can you give some broad idea about EBITDA margin there, how is margin profile in OPD basically for daycare?

Shanay Shah: Margin profile in?

Ranbir Singh: OPD.

Shanay Shah: I think the way to look at it is the hospital as a whole because there are areas where the hospital would be making money, there would be areas where the hospitals would be making losses, so in OPD probably there is a chance that you might be losing money, but basically what happens is that the patient gets converted into ICD where you end up making money, so I think for the healthcare business should be looked at as a whole.

Ranbir Singh: Fine, all the best. Thank you.

Moderator: Thank you. The next question is from the line of Dharmik Prajapati an Individual Investor. Please go ahead.

Dharmik Prajapati: My question is related to Ayushman Bharat scheme, as we know that you operate on a very thin margin over there, so are we making profits from the Ayushman business because we are getting late payments like our payments are for more than 90 days, are we making profits there or we are in breakeven or we are in negative side?

Shanay Shah: There are procedures where you are making money from the marginal costing perspective, of course, yes, we have to admit the fact, when compared to our schedule of charges the rates that we get from Ayushman Bharat are very low until and unless the payment is very much delayed and also having said that when basically the doctors when they are in a new hospital what happens is to get their hand dirty also we need to take this procedure, in the beginning any hospital has comparatively less work, so essentially they get to perform a lot of procedures because of some of these states schemes as well as the central schemes.

Nishita Shukla: Slowly, we itself do costing and all and we just certain case where we get from off the margins, so we also start avoiding the case where we are going negative.

Dharmik Prajapati: Next question is, trade receivables is of 104 Crores against Q2 revenue of 125 Crores, so how much credit period is company offering and to whom are we offering, can you please bifurcate that part?

Shanay Shah: Usually what happens is the self-pay patients pay us at the hospital during discharge; however, having said that we have the TPA insurance patient PF is really between 30 and 40 days and then you have some of these state and central government schemes who pay you between 45 days onwards, so basically there are companies who pay you by 180 days, some by 90 days, some by 50 days, so it is a complete breakup depending on the scheme. Having said that what you have assured is that the money will come.

Dharmik Prajapati: And what about the profit margin then?

Shanay Shah: The profit margin also again it really depends on the scheme because if you ask me for a cardiac procedure, it might be a different number, for replacement it might be a different numbers, so there is no universal number, but you can say that usually they are 40% lower than your regular schedule of charges.

Dharmik Prajapati: What was the highest offering to which segment can you say like insurance, the receivables are from insurance side is more or from government side is more?

Shanay Shah: Basically, if you me it would be higher amount would be from the government schemes, about three-fourth would be from government, about one-fourth might be from the TPA and insurance.

Dharmik Prajapati: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Param Desai for his closing comments.

Param Desai: Thank you all participants. Shanay, any closing remarks?

Shanay Shah: I think it was good have a lot of different kind of questions coming in and the way we see things we are very positive when it comes to the outlook of the company for the next two quarters as well as the next year. I think all investors know we are consolidating at this point of time and essentially the operating leverage will kick-in in the next two to three years going forward.

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