“Shalby Limited
Q3 FY2019 Earnings Conference Call”

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**Moderator**: Ladies and gentlemen good day and welcome to the Shalby Limited Q3 FY2019 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 Stanford. Good afternoon and very warm welcome to all the participants on the Shalby Limited Q3 FY2019 earnings call hosted by Elara Securities. Today we have with us Dr. Vikram Shah, Chairman & Managing Director, Mr. Prahlad Inani – Chief Financial Officer, Dr. Nishita Shukla, Chief Operating Officer, Mr. Babu Thomas – Chief Human Resource Officer and Mr. Shanay Shah, Director International Operations,. I will hand the call to Dr. Shah for opening remarks. Over to you Sir!

**Dr. Vikram Shah**: Good afternoon everybody. I thank you all for joining the call. I hope all of you had an opportunity to go through our results and presentations, which provides details of our operational and financial performance of the Q3 of Financial Year 2019. Traditionally third quarter is off-season quarter due to Diwali and Christmas holidays; however, the results are in line of our expectation. I am pleased to inform you that in the current quarter Mohali unit has started becoming EBITDA positive, which we started six months back, so within six to seven months, we are able to make it EBITDA breakeven.

To throw some light on our financials, our revenue for the quarter stood Rs.1151.1 million and EBITDA stood at Rs.213.3 Million. In Q3, on unit level, our IP counts stood at Rs.13,600 plus which shows a growth of 55% year-on-year where mainly due to day care cases of radiation as well as onco because our onco vertical has started growing extremely well. Our OP count has grown by 30% that is 71,000 plus and our surgery count stood at 4630 plus. Occupancy was nearly 400 average, which is a growth of 11% from 358 similar quarter last year. ALOS has come down to 2.67 days because of increase in day care cases.

I am also happy to share with you that as we are always facilitated and given different awards since last 10 years this quarter also we got two awards, one from FICCI that is Medical Value Travel Specialist Award 2018 in Orthopedics and Joint Replacement by FICCI India and Ministry of Commerce and Gujarat State has given consecutively for third year, award for Medical Tourism in Gujarat. I would also like to highlight that we have signed MoU with International SOS for medical assistance to all foreign travelers in India where we are present in Western, Central and Northwestern India.

I would also like to share that MAA Yojana and related to that Ayushman, the joint replacement rates are very good and your company is going to greatly benefited by that, as we are pioneers and leaders in joint replacement and Orthopedics.

I would handover phone to our CFO, Mr. Prahlad, and he will take you through the numbers. Thank you.

**Prahlad Inani:** Good afternoon everyone. Thank you for joining today. With respect to the revenue numbers, this quarter stood at 1151 million compared to 1013 million in Q3 last year and we had a good growth of around 14%.

Our EBITDA for the quarter stood around 213 million, slight decrease from the last quarter which is 250 million due to increase in doctors and employee cost mainly at our newer units.

Our PAT for the quarter stood at 128.9 million as compared to 104.9 million showing a growth of 22% year-on-year. PAT margin for the quarter stood at 11.2% compared to 10.4% last quarter last year financial.

Now a brief about maturity wise hospitals; our four year plus matured hospitals, which is SG, Krishna, Vijay and Vapi, they have contributed nearly 50% of the total revenue and EBITDA margin for the matured hospitals stood at 29.7% roughly 30%. IP count for the said bucket stood at 3,600 plus while OP count stood at around 27,000 and surgery count stood at around 2,500. So this was really a good growth and our four years plus matured hospital cluster that has given us ARPOB of Rs.41,629 precisely.

Our two and four years matured hospital that is Indore and Jabalpur that has contributed 22% of the total revenue and EBITDA margin for this bucket is around 6.5%. IP count for the said bucket stood at around 3,200 while OP count stood at around 21,800 and surgery count stood at 976 and the ARPOB was Rs.22,861 precisely.

Now I am coming to the new hospitals, which is less than two years hospital that is Jaipur, Surat, Naroda and Mohali, those hospitals have contributed 28% to our total revenue and EBITDA margin for the bucket stood around 8.2%. IP count for the said bucket stood around 6,700 while OP count stood at around 22,800 and surgery count stood 1,131 which got good ARPOB also that stood around Rs.27,952.

This is all from the financial side and I would love to have questions from your side for further clarification. Thank you.

**Moderator**: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ashish Thavkar from Motilal Oswal. Please go ahead.

**Ashish Thavkar:** Thanks for the opportunity. Sir over a period of next two to three years say how many of your hospitals would fall under the matured category?

**Shanay Shah:** Can you come again?

**Ashish Thavkar:** Over the period of say next two to three years considering the kind of capex that we are doing how many of your hospitals would fall under the matured category?

**Shanay Shah:** About 60%.

**Ashish Thavkar:** This is okay. This is including the new capex that might come up right?

**Shanay Shah:** Yes.

**Ashish Thavkar:** Can you guide us on where do you see the EBITDA margin trajectory over the period of next two to three years since 60% of our bucket would be falling under the matured category?

**Prahlad Inani:** I would like to address this question that our EBITDA margin in next two to three years will be ranging between 20% to 22% for sure because of our existing matured hospital will certainly be giving good EBITDA like our matured hospitals right now is giving 30% of EBITDA. I think that is fairly reasonable assumption for 20% to 22% range EBITDA that we will be getting in our two to three years' time.

**Shanay Shah**: Right now only about 500 odd beds out of the 2000 beds are under the mature category so what we expect is over the period of time as newer hospitals mature the EBITDA margins over there are likely to improve because as you see if you look at the average of all the hospitals, although we have broken even in Mohali in six months, if you look at all the six hospitals which fall under the bucket of 0 to 2 years and 2 to 4 years you will see that these EBITDA margins are single digits right now and all of them have the potential to do much higher EBITDA margins as they mature as you in the case of our matured hospitals.

**Ashish Thavkar:** This is very helpful. The next question is obviously on Ayushman Bharat you said the rates for joint and knee replacement are pretty good and you being a market leader you would benefit from it. So if I may ask at what discount are these new treatments to our existing cost?

**Dr. Nishita Shukla:** Discount in the sense you want the package rates how they are less from our self-paying ones?

**Ashish Thavkar:** Yes.

**Dr. Nishita Shukla:** It is like 10% less not more than that.

**Ashish Thavkar:** And you feel that 10% low pricing would help you in getting more volumes?

**Dr. Nishita Shukla:** Yes they are giving us a good volume because as state government have empanelled like more than 7 lakhs people into the scheme so obviously people are converting into that scheme and if they do not opt for that we lose that patient. So volume matters right?

**Ashish Thavkar:** So currently on an annual basis how many patients are you handling?

**Dr. Nishita Shukla:** Ayushman has recently started. For MAA, monthly if I can say we are like 70% of self-paying and 30% of this government scheme patients of total.

**Ashish Thavkar:** It is more like mostly everything will be under 100% will be government program?

**Dr. Nishita Shukla:** No, not 100%. We have insurance patients as well, but below poverty line, the income of the family is up to 5 lakhs they are enrolled into this schemes and if government is paying the full package so I think people opt for going for that.

**Shanay Shah**: All our hospital will not be doing scheme based works. We have identified hospitals within the group where we can take up these different schemes, state based and central government based, but there will be premium hospitals where we will not be entertaining some of these schemes, where we will continue to focus on self-pay and private insurance work.

**Ashish Thavkar:** Okay, but how quickly the government would reimburse you?

**Dr. Nishita Shukla:** In 45 days.

**Ashish Thavkar:** Okay, great. Thanks and if more questions I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Namit Arora from IndGrowth Capital. Please go ahead.

**Namit Arora:** Thanks for taking this question. Question is for the four plus year bucket, if you can please help us understand the reduction in IP count in December quarter of 2018 vis-à-vis December 2017 quarter. What might be the reasons?

**Shanay Shah:** You know, if you look at the numbers, the number has slightly gone down and that is because you know we had taken a conscious decision in between not to take up one level of scheme work in one of our hospitals in Ahmedabad and that is the reason where some of the cardiology work has been affected.

**Namit Arora:** Okay, if I can understand that the EBITDA, which was around 29.7 in the quarter gone by, the year before what, might that EBITDA have been, have you maintained profitability.

**Shanay Shah:** Basically last time in Q3 FY2018 the EBITDA margin was 28% and this time it is close to 29%.

**Namit Arora:** Sorry I meant a year ago, the December 2017 quarter please?

**Shanay Shah:** You are saying two years back?

**Namit Arora:** No last year third quarter.

**Shanay Shah:** I am talking about Q3 FY2018 it was 28% and Q3 FY2019 29%.

**Namit Arora:** Alright, just one last bit on the compensation inflation for doctors and employee respectively, for these two heads in our P&L what made inflation number be, so I understand that there is an increase in number of doctors, but is the average increase in compensation in doctor and employee level respectively?

**Prahlad Inani:** The inflation you can consider is 10% in the existing rate, I mean in the general wage structure and rest all are contributed to the new doctors.

**Namit Arora:** Understood, okay. I will come back in the queue.

**Moderator**: Thank you. The next question is from the line of Akash Jain from Ajcon Global. Please go ahead.

**Akash Jain**: Sir my question is regarding the increase in doctors expenses this quarter so what has led to the increase in expenses, is it because of increase in number of bed occupancy or is it because of increase in average length of stay?

**Dr. Nishita Shukla:** It is because of recruitment of new doctors in this quarter at our new unit. You know, less than two years unit or the mid unit we are recruiting super specialty doctors so that payout is also increasing adding to it.

**Akash Jain**: So going forward what number can we expect?

**Prahlad Inani:** Numbers with reference to?

**Akash Jain**: Increase in expenses of doctors with increase in number of hospitals, is this trend going to continue or is it going to stabilize?

**Prahlad Inani:** I suppose this quarter, i.e. in the fourth quarter we will be having this trend because of on boarding of doctors as it is very much required for our future growth plan as we have to have good number of doctors who is addressing our major specialties which we want to establish. So for the fourth quarter at least you will be seeing the same trend.

**Akash Jain**: Thank you Sir.

**Moderator**: Thank you. The next question is from the line of Bharat Kothari an investor. Please go ahead.

**Bharat Kothari**: Thank you for taking this call. I just wanted to understand how come the margins on hospitals which are greater than two years and between four years is lower than the newer hospital which are less than two years old?

**Prahlad Inani:** You are precisely correct. So if you remember our Chairman Sir just told that our unit in Naroda, we have done phenomenally good with respect to Oncology and there were many day care and radiation patients, so this quarter we have got good numbers and the margin in those day care surgeries and those procedures that we get are good. So that contributed a lot into this less than two year's numbers.

**Bharat Kothari**: I also would like to understand how much time does it take for the new units to break even usually?

**Shanay Shah**: In our experience the most recent example is Mohali where we have done the operational breakeven at around six to seven months of operations, but having said that it takes between one to two years for a unit to breakeven at operational level.

**Bharat Kothari**: Okay. Thank you so much. I will come back with more questions.

**Moderator:** Thank you. The next question is from the line of Namit Arora from IndGrowth Capital. Please go ahead.

**Namit Arora:** Can you please help us understand, tax rate and MAT benefits that have accrued in certain quarters, but what will the tax rate be for the next few quarters?

**Prahlad Inani:** We will be only paying MAT tax rates that will be applicable.

**Namit Arora:** So for the financial year FY2020 what is the tax rate that is expected?

**Prahlad Inani:** It is 21.4%, that is MAT rate will be applicable for this quarter.

**Namit Arora:** Got it.

**Prahlad Inani:** Yes.

**Namit Arora:** Just to confirm the number of doctors that are there in the company at present are around 400, what was that number a year ago? 405 I believe.

**Nishita Shukla:** 400 only.

**Moderator:** Thank you. The next question is from the line of Sharan Pillay from Allegro Capital. Please go ahead.

**Sharan Pillay:** Thank you for taking my question. I had a question, since our margins on the two to four years hospitals have been less than the less-than two year hospitals I wanted to know this was the trend that we can see going forward and is this just a one off on the Naroda Hospital?

**Prahlad Inani:** I would like to state here that two to four years hospital if you see those two hospitals are basically in Madhya Pradesh and this time this margin you are seeing low because precisely there were some effect of election and obviously Diwali. This bucket we are seriously working on that and I see an improvement in the next coming quarters in this bucket also.

**Shanay Shah**: In the immediate previous quarter, you could see double-digit margins for both these hospitals, so going forward we will see an uptick and we are already seeing a lot of positive things happening there in the current quarter.

**Sharan Pillay:** My second question is in terms of any expansion plans of having any new hospitals over the next two to three years?

**Shanay Shah**: We have one hospital on a management contract, which would be coming up in Ghatkopar in Mumbai so that hospital is likely to be operational in about eight to ten months from now and of course another development is Asha Parekh Hospital. The Asha Parekh Hospital in Mumbai in Santa Cruz is again we are getting the right permissions and required FSI for construction etc., in the next one or two months, we should be able to start demolishing the building but that project will take about two to two-and-a-half years from now for it to be operational. Another hospital is coming up in Nashik. The Nashik hospital will take another year for it to begin operations and another hospital which is an upcoming project in Baroda, is basically there are some land acquisition problems over there so we are dealing with those issues and we will be coming back to you as soon as possible for the developments on that.

**Sharan Pillay:** Thank you so much.

**Moderator**: Thank you. The next question is from the line of Akash Jain from Ajcon Global. Please go ahead.

**Akash Jain**: My question has been answered in the previous question. It was pertaining to Asha Parekh Hospital. It has been answered.

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

**Ashish Thavkar:** Sir, apart from whatever you have in your pipeline for the upcoming hospitals, any new capex you might have thought of?

**Shanay Shah**: There are lots of proposals that are coming to us and we are evaluating these proposals but to be honest there is nothing concrete to be announced at this point of time.

**Ashish Thavkar:** Would you be participating in government programs where you know government is willing to give you land where you have to bid in tenders and all those things, so would you be keen?

**Shanay Shah**: Usually we avoid looking at these proposals but if something is lucrative enough we might just be open to evaluating.

**Ashish Thavkar:** With this new program being there, Tier 1 and Tier 2 one would say lot of hospitals coming in from the private space also you feel going forward Tier 2 and Tier 3 to that extent Tier 4 regions, would be more competitive in the sense this would be totally kind of avoid markets for us?

**Shanay Shah**: These areas like you said have a huge demand supply gap, so you are right there is huge opportunity, but at the same time the problem is that it is very difficult to find highly skilled doctors over there, so you can find basic doctors, but it is very difficult to get specialists of different specialties in some of these Tier 2 and Tier 3 towns. So you have to be very careful while you select the town where you want to put up the hospital.

**Ashish Thavkar:** Okay, fair enough, that was all from my side, thanks and all the best.

**Moderator**: Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss Asset Management Company. Please go ahead.

**Pragya Vishwakarma:** Good evening Sir. Most of the questions have been answered. Briefly you discussed what led to EBITDA margin fall in Jabalpur and Indore, but can you just explain it in more detail because what I understand is we were doing upwards of maybe 10% to 11% in these properties and currently it is 6.5% for third quarter 2019 so what would be the significant reason for this huge drop in margins for these two properties?

**Shanay Shah**: As earlier mentioned by Mr. Inani there were elections in the state and what happens is, for around three to four weeks around the election there is a lot of chaos and people do not want to get admitted for planned operations due to whatsoever reason, so usually you see a dip during that time. Secondly, as these units are almost two-and-a-half to three years old, we have consciously stopped some of the schemes that we were doing earlier and that has also slightly contributed to the EBITDA downfall so having said that we are very optimistic about the current quarter and the quarters going forward.

**Pragya Vishwakarma:** Okay, so going ahead you will be catering less and less to the state schemes and other things, which you were doing in Jabalpur and Indore?

**Shanay Shah**: Yes, over there yes, but we will do it in some of the newer hospitals because at the end of the day we need to because some of the costs are already fixed in some of these newer hospitals, the doctors, the employees etc., so where you know the units are still at a very nascent stage we still be doing some of the scheme work.

**Pragya Vishwakarma:** As we speak the margins and started recovering in these two units?

**Shanay Shah**: We are unable to comment on the margins, but we are doing what we expect internally.

**Pragya Vishwakarma:** That is it from my end. Thank you.

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

**Rikesh Parikh:** I would just like to understand in terms of strategy going forward are we looking at more of a management contract done through an expansion or starting a new hospital from the scratch?

**Shanay Shah**: Honestly we prefer the asset-light model so we would like to take up as many hospitals on operations and management, and management contracts, but it really depends on what kind of opportunities come to us. So while we are talking we are also evaluating opportunities, under some states where we might end up doing a management contract with them because they are not interested in us doing the operations and management, but they do want Shalby branding and they want our corporate level expertise to help them to run the hospital. So basically depending on the opportunity we will take a call as to what kind of a deal we wanted to be, whether we want to go for a O&M, whether we want to go for a management contract or whether we want to own and run that asset.

**Rikesh Parikh:** Also, can you throw some light on the kind of the growth profiles for the momentum you have seen in four year plus and two to four year annual sub two years kind of thing in the past and we expect going forward as such in terms of number of patients or revenue as such?

**Prahlad Inani:** I would like address here the growth profile if you see our four major hospitals we are doing perfectly good, but say 10% to 20% growth is possible there at our four year matured hospital, but the hospital which we are having two to four years and less than two years we are seeing that at least 60% to 70% growth should be there, so these are the pattern you will see in next year quarter-on-quarter.

**Rikesh Parikh:** Thank you.

**Moderator**: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for the closing comments.

**Prahlad Inani:** Thank you everyone. We are very hopeful for the next quarter. We would like to state that we are the first one who just declared the results. Our interval processes have been strengthened now. And we will be leading those results and everything every quarter. Thank you all for joining the call and giving their time. Thanks.

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