



"Shalby Limited
Q4 FY2019 Earnings Conference Call"

May 31, 2019



ANALYST: MR. PARAM DESAI – ELARA SECURITIES LIMITED

MANAGEMENT: MR. SHANAY SHAH – DIRECTOR - SHALBY LIMITED
DR. NISHITA SHUKLA - CHIEF OPERATING OFFICER - SHALBY LIMITED
MR. PRAHLAD INANI - CHIEF FINANCIAL OFFICER - SHALBY LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Shalby Limited Q4 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. I now hand the conference over to Mr. Param Desai from Elara Securities Private Limited. Thank you and over to you!

Param Desai: Thank you Zaid. Good afternoon to all the participants on the Shalby Limited Q4 FY2019 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 – Chief Financial Officer and Management team. I will hand over the call to Mr. Shanay for the opening remarks. Over to you Shanay!

Shanay Shah: Hi good afternoon everyone. 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 quarter and full year ended March 31, 2019. So let me first take you through some of the key highlights for the Q4 and FY2019.

Fiscal 2019 as a whole was positive for our company. Quarter ended March 31, 2019 witnessed 53% growth in the inpatient count at 15316 whereas outpatient count grew 20% at 77140. Surgery count for the quarter stood at 4893 compared to 4802 surgeries done during the same period last year. Full year FY2019 demonstrated 70% growth in the inpatient count at 55985 whereas the outpatient count grew by 33% at 296197. Surgery count for

the full year FY2019 stood at 19908 compared to 17554 surgeries done during FY2018 demonstrating a growth in excess of 13%.

Our total revenues for the quarter ended March 31, 2019 stood at Rs.115 Crores witnessing a growth of 4% over Q4 fiscal 2018. For the full year FY2019, our total revenue stood at Rs.470 Crores demonstrating a growth of in excess of 19% over fiscal 2018. Our EBITDA for the quarter ended March 31, 2019 stood at Rs.17 Crores whereas for the full year FY2019, it was Rs.90.9 Crores. So if you look at the total EBITDA margin that we had is one of the highest in the industry and considering the fact that only 25% to 30% of our hospitals are mature at this point of time, we have healthy EBITDA margins and we do expect margin expansion in the current year on going year as well as years to come. I will now hand over the call to Mr. Prahlad Inani, our CFO and he will take you through the numbers in detail. Thank you.

Prahlad Inani:

Thank you Shanay. Good afternoon to everybody. I will just highlight few more figures and numbers of the company. The company achieved revenue for the quarter ended March 31, 2019 of Rs.1154 million compared to Rs.1110 million in corresponding quarter of the previous financial year thereby reporting around 3.9% growth on year-on-year basis. On a yearly basis and for the full year FY2019, total revenue stood at Rs.4709 million compared to Rs.3942 million for FY2018 registering a growth of 19.4% for the year as mentioned by Shanay. EBITDA for Q4 FY2019 stood at Rs.170 million compared to Rs.172 million in the corresponding quarter of the previous year. For the full year FY2019 EBITDA stood at Rs.909 million compared to Rs.931 million in the corresponding last year a little bit on lower side here. If we look at the EBITDA margin it stood at 14.7% for the current quarter compared to

15.5% of the quarter corresponding to the previous financial year. For full year EBITDA margin is stood at 19.3% compared to last year 23.6%. At the PAT level, PAT for the current quarter stood at Rs.34 million compared to Rs.183 million for the quarter corresponding to the Q4 of the previous financial year, PAT margin stood at 4.5% compared to 16.5% for the quarter corresponding to the previous financial year.

In absolute numbers, PAT stood at Rs.321 million for the full year FY2019 compared to Rs.440 million for FY2018, PAT margin for FY2019 stood at 6.8% for FY2019 compared to 11.2% of FY2018. The company reported ARPOB of 30760 for the quarter ended March 31, 2019 compared to 30624 in corresponding quarter of the previous financial year. For the full year FY2019, ARPOB stood at Rs.31235 against Rs.31564 for FY2018. Our occupancy grew by 5.3% in Q4 FY2019 with 417 occupied beds compared to 396 occupied beds in Q4 FY2018. For full year FY2019 occupancy grew by 23% with 413 occupied beds compared to 335 occupied beds in FY2018. With respect to our ALOS, average length of stay for the quarter is stood 2.45 days compared to 3.66 days in corresponding quarter of the previous financial year and this change is a result of increased in daycare procedure as well as operational excellence as a continuous process.

For FY2019 ALOS was at 2.69 days compared to 3.72 days. I would like to just address the result as a maturity profile wise also. For the quarter ended March 31, 2019, we are having three buckets of maturity profile as you are aware, one is our four years plus and another is our two to four years plus hospital and third one is the new hospital. So I am just referring here that our four years plus matured hospital, which includes our hospital at SG, Krishna, Vijay and Vapi have contributed nearly 51% of the total revenue and EBITDA margin for the matured hospital stood at 27%. IP

count for the said bucket stood at 4005 while OP count is stood at around 29507 and the surgery count stood at 2807. Matured hospital cluster has reported ARPOB of Rs.40966. Now the second bucket of our two and four years matured hospital, which is Indore and Jabalpur, has contributed 20% of the total revenue and EBITDA margin for the bucket stood at around 4%. IP count for the said bucket stood to 3085 while OP count stood to 22736 and surgery count stood at 937 with an ARPOB of Rs.20460.

Now I am coming to the new hospitals, which is less than two-year hospital that is Jaipur, Surat, Naroda and Mohali, those hospitals have contributed 29% to our total revenue and EBITDA margin for the bucket stood around 1% to 2%. IP count for the said bucket is stood around 8226 while OP count stood at around 24897 and surgery count stood at 1149, ARPOB for this bucket stood at around Rs.27171. Lastly for the full year FY2019, I would like to state here that our four years of matured hospital, which already stated that contributed nearly 51% of the total revenue and EBITDA margin for the matured hospital stood at 30%, IP count for the said bucket, for the full year stood at 17019 while OP count stood at 115093, surgery count stood at 10792 and ARPOB for the matured hospital is 42107. Our two to four years matured hospital has contributed 22% of the total revenue and EBITDA margin for this bucket is around 9%. IP count for the said bucket stood at 13640 while OP count stood 91021 and surgery count stood at 4193 and the ARPOB was 20735. Now less than two years hospital have contributed around 27% to our total revenue and EBITDA margin for the bucket stood around 7%. IP count for the said bucket stood at around 25326 while OP count stood at 90083, surgery count stood at 4923 and the ARPOB Rs.29127. To conclude I will say that the core of our business operation is well poised to deliver quality healthcare to all section of the

society and we do remains confident in our ability to create value for the stakeholders. I would like to just open this call for the questions and answers, please.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Jason Thomas from Monarch Net worth Capital. Please go ahead.

Jason Thomas: Thanks for taking my question. My first question would be the debtors in the balance sheet has seen considerable increase from around Rs.50 Crores to Rs.80 Crores around, could you tell me what is the reason for that?

Prahlad Inani: Okay I would like to address this question here, the debtors from Rs.50 Crores to Rs.20 Crores, which is there because if you see the four hospital, new hospital is between one to two years' category where our NTPA is signed, our government business increase and the growth in this bucket has contributed outstanding more and that is why the debtors are more here.

Jason Thomas: Okay and Sir my next question would be if you compare the annual figures as a percentage of revenue fees to doctors and consultants as well as employee cost have shown a significant increase, so could you tell me what is the reason for that?

Prahlad Inani: To be honest as I said earlier that 25% - 30% of our assets at this point of time are matured and the balance are in the growth phase at this point of time so it is important that as the unit ramps up, we invest in the right set of people in terms of medical professionals as well as employees. So that is the reason why you are seeing a higher number as a percentage to revenues for these both; however, having said that as I said earlier during

the call, the margin expansion is likely to take place in this year wherein you will see these two costs as a percentage to revenue come down.

Jason Thomas: Okay and Sir last question would be how much of capex has been done in FY2019 and what do you envisage for FY2020?

Prahlad Inani: So coming back to the capex side, we have spent almost Rs.15 Crores to Rs.16 Crores this year and for FY2019-2020 we have allocated Rs.27 Crores for the capex. So this year particularly our capex was within our budget and we spent the similar thing which was an early task.

Shanay Shah: I would like to add to that this Rs.15 Crores for maintenance capex from our side.

Jason Thomas: Okay maintenance capex and for the next year as you said Rs.27 Crores?

Prahlad Inani: Yes.

Prahlad Inani: But then when we talk about the next year numbers this is including the other capex so it is not only the maintenance capex.

Jason Thomas: Okay so that would mean your hospitals coming in Mumbai, two hospitals in Nashik one as well I mean does that include...?

Prahlad Inani: So basically we would like to say that this cost would be roughly split into half, half will be maintenance capex and the other half will go for our project in Mumbai.

Jason Thomas: Okay so that will be Rs.27 Crores right?

Prahlad Inani: Yes.

- Jason Thomas:** Okay, thanks. That is all from my side.
- Moderator:** Thank you very much. The next question is from the line of Varun Karva from PwC. Please go ahead.
- Varun Karva:** Thanks for taking the call. FY2018 had around 8000 plus joint replacement surgeries across the group, what is that number for FY2019 and of the total number what contribution came in from the SG Highway?
- Shanay Shah:** We have done 8760 surgeries in FY2019 out of which roughly 40% would have been done in SG Highway.
- Varun Karva:** Okay thanks.
- Moderator:** Thank you. The next question is from the line of Aarti Rao from Elara Capital. Please go ahead.
- Aarti Rao:** I would like to ask there is drop in the EBITDA Q-o-Q margins also in all buckets of maturity on hospital down Q-o-Q basis. So what would be the reason for that?
- Prahlad Inani:** So as we said earlier during the call, this is mainly to do with our investments in terms of medical professionals. So we have added a lot of doctors for different specialties into some of our matured as well as some of our new hospitals and we have also kind of added a lot of manpower because as the units ramp up we need to manage with more staffs so it is basically recruitment of employees as well.
- Aarti Rao:** Okay and so do we expect that to be remaining in the next few quarters. So how do we expect the margins to shape up?

- Prahlad Inani:** As I said earlier we are going to be seeing a margin expansion in the quarters to come.
- Aarti Rao:** Okay. Also Sir my next question is your occupancy most of the network is below optimum level. So do we plan to kind of participate excessively in schemes like Ayushman Bharat? Also is the pricing different from self-pay patients?
- Dr. Nishita Shukla:** Yes the pricing was very low from patients, but we have like taken Ayushman Bharat or enrolled into it for our Gujarat unit because Gujarat Ayushman is giving us rate of Gujarat state MA Yojana scheme okay so they are better than Ayushman and that is how MA Yojana schemes are applicable in Ayushman in Gujarat so only Gujarat hospitals we have enrolled under Ayushman because otherwise Ayushman is too less and it is not affordable at all.
- Aarti Rao:** Okay apart from the pipeline we have any expansion plans for the next three to five years?
- Shanay Shah:** So apart from as we have already mentioned we are coming up with the hospital in Mumbai and there is another hospital in Nashik so apart from this we do not have anything else in the pipeline as of now.
- Aarti Rao:** Okay. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Jagannathan T from Centrum Broking. Please go ahead.
- Jagannathan T:** Thanks for giving this opportunity. If you look at slightly from the last three years point of view revenue growth and EBITDA are keeping a good ROE

and ROCE are slipping into single digit numbers, I joined the call five minutes late sorry if it was covered before so any thoughts on that and I understand it around the same time it will happen and you must forgot the proceeds, but going forward any roadmap how to take the ROE and ROC back into double-digit?

Shanay Shah: I think we are very much conscious of that and the main reason for the ROC and ROCE to dip the fact that we have invested a lot in the new hospitals so roughly 6 out of 9 hospitals I would say out of the 10 hospitals are hospitals, which are less than four years old and here we are going to be seeing a lot of margin expansion going forward as well as we are going to see a lot of revenue growth so as we see that happening in the next two to three years we will be definitely seeing the ROCEs and ROEs come back to historical level.

Jagannathan T: Okay so any more new hospital as you just mentioned Mumbai you are expecting in so what is the new roadmap in terms of new hospitals?

Shanay Shah: So basically we will continue to grow as you know we are a debt free company at this point of time so we have the leverage to grow, so we will be looking at opportunities on a case to case basis, as you know there is a lot of consolidation happening in the industry so there will be a lot of opportunities we will take that opportunity depending on the synergies that we can bring to the table. Having said that our focus is clear we would like to go to area where you know the demand supply gap is quite significant, the availability of doctors is not very difficult. So are most of the state capitals in the central, western and the northwestern area.

Jagannanthan T: Okay is it fair to assume ROE and ROCE have bottomed out even in factoring in the future expansion plan?

Shanay Shah: That is correct.

Jagannanthan T: Okay you are confident and they have bottomed out at around the current level 4% ROE?

Shanay Shah: That is correct.

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

Ashish Thakkar: Thanks for the opportunity. Sir apart from the upcoming hospitals in Ghatkopar, Nashik and like in Baroda any other places or locations you would have shortlisted?

Shanay Shah: As I said we will be looking at these opportunities on a case-to-case basis so we are coming up with the hospitals in Santa Cruz in Mumbai right, Nashik in one hospital that we are coming up with, Ghatkopar is the management contract kind of model beyond that we are looking at different opportunities so in some of the state capitals as I said and as and when we get to a stage where we are about to close it and the things are signed I think we will come back to you and keep you posted of the same.

Ashish Thakkar: Okay thank you and that is helpful and apart from the Gujarat hospital any other state or location you feel you can subscribe to Ayushman Bharat?

Dr. Nishita Shukla: It is not because only the Gujarat state is merged with Ayushman and we are getting the same right of Gujarat state government margin, other states fall into direct Ayushman central rates so it is not while because of

packages and the rates are too less to give services to the patients in the same rates.

Ashish Thakkar: So to that extent would your volumes had got impacted considering that in other locations there might be some Ayushman Bharat?

Dr. Nishita Shukla: No because we are into other states suppose you tell CGHS or ECHS there is no much change in the occupancy and it is not impacted us.

Shanay Shah: So we are doing some of the other states schemes also some were example in Rajasthan we are doing the Bhamashah scheme over there, she just said we are doing a lot of the central government schemes, also we are doing some of the central government corporate schemes, so we are having all these schemes that is how we feel that from the marginal costing perspective it is making sense that rates makes sense to us, we do take it up as an opportunity at this point of time as we have not reached a significant level of occupancy in some of the new units.

Ashish Thakkar: Okay thanks and last question from my side, for the Gujarat hospital where you have Ayushman Bharat in which treatment would have seen the highest ramp up only because of this Ayushman Bharat program?

Dr. Nishita Shukla: So cardiology is on higher side and cardiology onco and joint replacement.

Ashish Thakkar: Okay fair enough. That is it from my side. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Jagannathan T from Centrum Broking. Please go ahead.

Jagannathan T: While answering the previous question you said that you are looking for consolidation opportunity so does that mean you are looking for any

acquisition opportunities also besides organic expansion that you are planning?

Shanay Shah: As I said we will be looking at these opportunities on a case-to-case basis so if it makes sense and if it falls within our strategy then we will look at it that we will not do any kind of opportunistic buy, we will look at the strategy and then if something fits into the strategy we will look at it.

Jagannathan T: Okay as of now nothing is right which you are pursuing or which is under consideration right?

Shanay Shah: Not at all.

Jagannathan T: And promoter holding is 79% so at some point you will have to dilute it to 75% right?

Shanay Shah: Yes kind of SEBI has directed us that we have to bring the promoter holding down to 75% by December 2020.

Jagannathan T: Okay you have one-and-a-half years to go?

Shanay Shah: Yes.

Jagannathan T: Okay. Sure. Got it.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to the management for closing remarks. Over to you!

Prahlad Inani: Thank you everyone and joining the call here. We are really very happy to announce that this year we have proposed dividend also, which was already put for approval in the board meeting and the intimation for the

same has been given to SEBI and another thing is we would like to say that the coming quarter and quarter-on-quarter are really becoming promising so that is we are really doing well and in Q1 we hope that Q1 is also going good for us so this is another thing and to conclude the same thing that our business operations are well poised and we are growing. EBITDA margin will also be great and that is improving and over to you Shanay!

Shanay Shah: Thank you everyone so we continue our efforts to ramp up all these new facilities that we have. As we have mentioned in the earlier calls, we are focusing a lot on the surgical procedures rather than the medicine patients, we are focused on orthopedics, cardiology, oncology, neurology, gastro as well as general surgery as some of our top specialties and we are also undergoing IT transformation at this point of time where we are introducing a new HIS, which will be operational mostly by the end of October and we are also introducing SAP, which will be fully functional from April 1, 2020 that is it from my side. Thank you very much.

Moderator: Thank you very much members of management. Ladies and gentlemen on behalf of Elara Securities that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.