

"Shalby Limited Q2 FY2019 Earnings Conference Call"

October 29, 2018







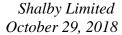
ANALYST: Mr. PARAM DESAI – ELARA SECURITIES LIMITED

MANAGEMENT: 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 Mr. Shanay Shah, CFA – Director International

BUSINESS AND INVESTOR RELATIONS



SHALBY MULTI-SPECIALTY HOSPITALS

Moderator:

Ladies and gentlemen good day and welcome to the Shalby Limited Q2 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 Aman. Good afternoon and very warm welcome to all the participants on the Shalby Limited Q2 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 Business and Investor Relations with us on the call. So I will hand the call to Dr. Shah. Over to you Sir!

Dr. Vikram Shah:

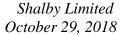
Good afternoon everyone. I would just keep it little short. Q2 has been really very good and nearly 34% growth year-on-year on last year's quarter we have achieved. Our new four units have started doing very well. The last unit, which was not functioning, in which the work was going on that is Mohali, in this quarter it has become fully operational. Another good news is that three newer units Jaipur, Naroda and Surat has remained EBITDA positive in this quarter as well and this is within first year of operation so it is very good news.

Mr. Prahlad Inani, our CFO will take you through the financials in a short while. As far as operational matrix is concerned in Q2 our IP count stood at 14,761 and OP count stood at 76,794 and total number of surgeries at Group level was nearly 4900. Our occupancy grew 42%, which is very good, and with same quarter average occupancy in last year was 318 beds, this year it is 452 beds and average length of stay has also come down in this quarter.

Our two of the units have got now NABH preliminary level of accreditation. More number of units are now doing rare surgeries like Jaipur unit did a surgery on an 11-year-old girl with an ovarian mass of more than 12 kg. Jaipur unit also performed a very rare cardiac surgery on the case of Dextrocardia and Situs Inverus. So lot of good work is happening. Our Ahmedabad units are doing good, as usual and Jabalpur, Indore are also doing better than last year. Those details will be given by Inani Ji. Over to Mr. Inani please!

Prahlad Inani:

Good afternoon everybody. As mentioned by our CMD Sir, this quarter our revenue has grown phenomenally. Our revenue from operation for the quarter stood at 119.39 Crores compared to Rs.89.37 Crores in Q2 last year and with the growth of 34%.





This was the operational revenue which I explained, total revenue for the quarter stood 121 Crores compared to 90.9 Crores in Q2 for FY2018 with the growth of 34%. Our EBITDA for the quarter stood at 25 Crores up from 24.5 Crores last year's Q2 with the growth of 2%.

EBITDA margin for the quarter stood around 21%. Our margin has marginally decreased in this quarter due to two reasons: one is our doctor cost has increased because of the new doctor joining in our newer units and the second one is that in this particular quarter we have witnessed a kind of epidemic thing like swine flu and dengue and other things resulting into high number of non-surgical procedures.

Profit before tax for the quarter stood at 14.7 Crores as compared to 14.9 Crores in Q2 FY2018, which was down by 1.3%. This was mainly on account of depreciation, which has increased by 65% on account of newer units getting operationalized.

With respect to our PAT, for the quarter it stood at 3.68 Crores as compared to 14.9 Crores this decrease was mainly due to result in deferred tax liability creation.

Now I would like to explain about the maturity wise bucketing the data.

I would just say that four plus years of matured hospital i.e. SG, Krishna, Vijay and Vapi contributed 50% to the total revenue. IP count for the said bucket stood at 4,851 while OP count stood at 29,474 and surgery count stood at 2,506.

Coming to our two to four years matured hospital i.e. Indore and Jabalpur that has contributed 23% of the total revenue. IP count for the said bucket stood at 3,843 while OP count stood at 24,573 and surgery count stood at 1,098.

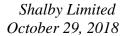
Now I would like to just get your attention on less than two years of hospitals i.e. Jaipur, Surat, Naroda and Mohali, those contributed 27% to the total revenue. IP count for the said bucket stood at 6,067 while OP count stood at 22,747 and surgery count stood 1,293.

Now we are open for the questions and answers with respect to financials and operations.

Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Rohan Dalal from B&K Securities. Please go ahead.

Thanks for taking my question. We have been seeing this pretty good sequential uptick and annualized uptick in revenues but what I wanted to understand was what is the management's outlook on generating good amount of asset on realizations have been following so I am just wondering what is the stable state realization that we can look at that would be sustainable in the near term at least?

Moderator:





My guess is that we have been trying to shift from specialties and move into a small size pack model? So I just wanted to understand because we have already got the surgery on account of about 24% so I just wanted to understand about the realizations so if you could throw some color on that?

Shanay Shah: Rohan, are you talking about the capacity utilization?

Rohan Dalal: No I am talking about mainly realization because capacity utilization seems to be picking up but

realizations are continuously been falling so I wanted to understand what is the stable state realization

that we can look at?

Shanay Shah: You are talking about the average revenue per occupied bed?

Rohan Dalal: Yes.

Shanay Shah: Rohan if you look at the average revenue per occupied bed of last year and if you look at the average

revenue per occupied bed of this year, you will see that the difference is about 2% to 3% and it is not very big. As we always speak as the specialty mix changes, the average revenue per occupied bed will go up or down. It will also depend a lot on the new hospitals because you see now that a bigger contribution of revenue has been coming in from some of the newer hospitals so that the pricing dynamics in those other towns and cities might be very different from some of the other areas, which have contributed much higher in terms of the revenue. I think these two things will matter most as the ARPOB goes up and down and the third thing is of course the high end procedures that we are focusing on so we talk about liver transplant, kidney transplant and we are doing much higher number

in the immediately preceding current quarter and these are helping the ARPOB realization to go

higher.

Rohan Dalal: So I mean which specialties really contributing to the dilution low in general are there any specialties

or it is just completely diversification?

Shanay Shah: I would like to tell you that you know in fact, it really depends on individual hospitals. So if you look

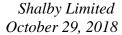
at Indore, in Indore we have oncology contributing heavily, if you look at Jaipur again we have oncology contributing heavily, in Jabalpur cardiac is contributing very heavily, in Ahmedabad again we are very dominant in terms of orthopedics, even in Surat orthopedics has picked up very well. So depending on different hospitals and the different set of doctors that we have the leading specialty is

different.

Rohan Dalal: Fair enough. I also was just coming to my second question was regarding the EBITDA breakup, so

wanted to know if you could throw some light on what is the EBITDA breakup between the

maturities and what is the reinvestments that we are going to do operationally that is regarding maybe





doctors or new equipment in Mohali and the new hospitals how much dilution should we expect in EBITDA going forward?

Shanay Shah:

First of all I would like to share that the EBITDA has gone up compared to the last year I mean compared to the quarter last year we have done very well, the only thing is that the number of doctors, which we have added and even after adding these doctors our EBITDA had grown so if you look at our increase in the cost of doctors and increase in the cost of employees compared to the quarter last year it has been very high because of the new four facilities that have come up and despite that we have grown our EBITDA so the stage at which these hospitals are, it's just about one year, I think you know we are doing a very, very good job. If you ask me about the EBITDA percentage across the different clusters, I would say that the four plus years hospital have contributed over 30%, two years have contributed more than 13% and the hospitals, which are less than two years old have contributed a little over 8%.

Rohan Dalal:

That is great. Just one last question if you could just indulge me on the balance sheet, we are seeing a little cash movement from bank balances over the other non-current assets, so I was just wondering usually that is a line item that is reserved for usually advances to subsidiaries of any sort it can be, so I just wanted to know what is the fluctuation there that we might not be seeing in the standalone?

Prahlad Inani:

Actually, this is the change because of re-classification of Fixed Deposits from current asset to non-current assets. The amount of Fixed Deposits have not changed but just has been reclassified based on the maturity and shown as the other financial assets under the head of non-current assets.

Rohan Dalal:

So it is been reclassified from bank balances last year to other financial assets this year?

Prahlad Inani:

Yes, correct.

Rohan Dalal:

Thank you so much.

Moderator:

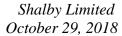
Thank you. The next question is from the line of Krishna Prasad from Franklin Templeton. Please go ahead.

Krishna Prasad:

Thanks for taking my question. Sir if I look at the current quarter's press release, I see that there has been some restatement to your FY2018 numbers and is there any specific reasons for that I mean both the second quarter as well as full year numbers and may be even the first quarter you have restated a little bit, what is driving this?

Prahlad Inani:

As you are aware that we are adopting the Ind-AS for the first time and in the process of adoption of Ind-AS, entries in the current year having impact over last financial year is given effect accordingly. For better understanding, some sort of concession discounts etc., related to previous year but





accounted in the current year, is now getting effect in the previous year itself and we are restating where it is affecting the financials of last year. The profit reconciliation is already available in the financials declared by us for the quarter.

Krishna Prasad: The net off that number seems to be that your profit after tax has moved down from 44 Crores to 40.8

Crores that is what is the impact of Ind-AS implementation for FY2018?

Prahlad Inani: Correct, last year.

Krishna Prasad: The second question is, are you providing any guidance that an EBITDA guidance for FY2019 now

that things are stabilizing?

Shanay Shah: Honestly we are not providing any guidance but the way we look at it is that we are at a capacity

utilization of about 25% so we see that there is a three-fold, four- fold growth opportunity in the current capacity that we have built and historical growth rates do suggest that we have grown at higher double-digit throughout last 11 years, if you look at the presentation we have put all these

numbers over there.

Krishna Prasad: Are there any initial thought on the Ayushman Bharat I mean what is been your initial reading of this

program?

Shanay Shah: From the Ayushman Bharat perspective, if you look at the first cut the rates are pretty low. Having

said that we are okay to work at the rates where at least we cover our marginal cost. We need little more clarity in terms of the terms and conditions and the payments from the government and once we have clarity on these as well as the rates it will give us lot of confidence to see how we can work this

out.

Krishna Prasad: Okay, got it. Good luck. Thank you.

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

ahead.

Ashish Takkar: Thanks for the opportunity. Sir with regards to the earlier participant question on the Ayushman

Bharat is it some kind of compulsion of binding from the government to make a compulsory

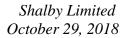
participation?

Shanay Shah: No, there is no compulsion from the government. It is an optional thing. As we said once we get

clarity on payment terms and other clarifications required we will take a call how to move forward.

Ashish Takkar: Okay, that is helpful. Sir you also said that you know on matured hospitals we are doing now 30%

plus EBITDA margins so in today's conditions where the compliance cost is increasing, the





maintenance cost is increasing do you feel that the two to four year kind of bucket that we have

should also clock around 30% plus EBITDA margins?

Shanay Shah: Every hospital goes through a lifecycle and these hospitals are still around two to three years old. For

them to get to a higher EBITDA percentage, it will take one or two years more. Having said that whether it can clock 30% or not, well we have always said that you know at Indore we will be able to do 25% on a sustainable basis and in Jabalpur we will be able to do over 20% on a sustainable basis.

Ashish Takkar: Okay and that is primarily because of the radiation units?

Shanay Shah: Indore is because of radiation, it is also because of lot of other high end work that we are doing there

we will be doing liver transplants, kidney transplants, IVF, etc. over there. So the high end work that

can happen in Indore is much more than Jabalpur.

Ashish Takkar: Sir we have observed that you know over the last few years like our net block has also doubled from

300-odd Crores to 650 Crores now so in what timeframe you feel that the ROCEs for our company

would be like around mid-single digit sort of or mid-teens kind of?

Shanay Shah: If you look at last ten to twelve years of our company the ROCE for the first time has gone to single-

digit. If you look at the average, we have consistently been over 15%-20%. As you know that 70% - 80% of the capacity is still not mature and they are still young units, it will take some time before we go to those levels that were historically achieved but having said that from here on we see these

ROCE numbers going up consistently.

Ashish Takkar: This is helpful. Thanks for the answers. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss. Please go

ahead.

Pragya Vishwakarma: Can you please help me with revenue contribution for your hospitals, which are in the range of two to

four years and less than two years for second quarter 2018?

Shanay Shah: For the sake of everybody on the call, I will give you all the percentages. Four plus years have

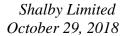
contributed 50%, two to four years have contributed 23% and less than two years have contributed

27%.

Pragya Vishwakarma: Actually I got this number from your presentation but I wanted it for the same time period last year

for second quarter 2018?

Shanay Shah: Last year the contribution was 52% this is Q1 so you wanted for last year this quarter?





Pragya Vishwakarma: Yes.

Shanay Shah: Okay, last year this quarter this number was 66% for the four plus year units. For two to four years it

was 23% and less than two years it was 10% so what I would like to share is that these numbers have significantly gone in favour of the two to four year old units and the units, which are less than two

years so which is a good sign.

Pragya Vishwakarma: Okay and also if you can share the occupancy in all the buckets for this quarter and for same time

period last year?

Shanay Shah: Occupancy for this quarter for the four plus units has been over 46%, for two to four years it has been

43% and for less than two years it has been 38%.

Pragya Vishwakarma: My next question is on EBITDA margins so my line had some issues. I am not sure whether you have

already answered it. It might be repetitive so pardon me for that, so if we see Jabalpur and Indore also EBITDA margins have not picked up in last three quarters any particular reason that we are still doing

somewhere between 11% and 13% in these properties?

Shanay Shah: If you look at Indore and Jabalpur quarter-on-quarter and even year-on-year we have shown a growth

in terms of topline. It has grown and even the EBITDA percentages have grown and in fact we have

done above 13% of EBITDA in this quarter and this number has gone up even from last quarter.

Pragya Vishwakarma: Okay but when do we see a significant jump because these properties are around may be three years

old or so, so when do you see that significant jump coming in these two properties?

Shanay Shah: See neither Jabalpur nor Indore are three years old yet. Having said that usually the industry standards

suggest that the hospital usually operationally break evens at three years, so looking at that we have already kind of reached the EBITDA percentage of 13% so I think we are doing a good job. The team is working hard and of course we are trying to achieve much higher EBITDA levels and growth in

terms of topline in the coming quarters.

Pragya Vishwakarma: When you give your estimate of 25% and 20% so what is the time period and where we will be

inching closer to these numbers?

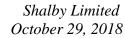
Shanay Shah: Usually this happens at maturity. Usually at around five years we can say that you know the numbers

of 20% and 25% can be achieved at Jabalpur and Indore respectively.

Pragya Vishwakarma: So did you face similar challenge in these geographies as well like you faced in Gujarat during this

quarter in terms of any kind of epidemics?

Shanay Shah: Sorry come again I did not get your question?





Pragya Vishwakarma: I was saying like in Gujarat you had issues of Dengue and other probably epidemics, did you face

similar challenges in these geographies as well or these were like normal time period?

Shanay Shah: Well the thing is see Gujarat was of course affected the most, we had very high number of medical

patients for not only Dengue but Chikungunya, swine flu etc., so basically of course in Indore and

Jabalpu, I mean probably the extend was not as high but there were a lot of medical issues.

Pragya Vishwakarma: My last question is related to the balance sheet so we see your other financial assets have really gone

up when compared to March 2018 closing numbers so any particular reason for that?

Prahlad Inani: Basically the FD has been reclassified into the other financial assets.

Pragya Vishwakarma: Any other reclassification apart from this in balance sheet?

Prahlad Inani: No that is the only reclassification in the financial assets.

Pragya Vishwakarma: Thank you. That is from my side. I will join back the queue.

Moderator: The next question is from the line of Aditya Agarwal from Indgrowth Capital. Please go ahead.

Aditya Agarwal: I have got two questions, one is if you could take us through the tax expenses for the quarter in a bit

more detail and secondly any capex plans for the next quarters I understand maintenance capex of about 10 Crores, which you shared last quarter would be there any other incremental capex that you

see?

Prahlad Inani: With respect to deferred tax, I would like to say that carry forward losses is adjusted against current

year's profits and resulting into decrease in deferred tax assets and ultimately increase in deferred tax liability and that is why you are seeing in the current deferred tax some increments here. My MAT credit entitlement is overall 5.60 Crores for this first half and in Q2 it is 2 Crores is the MAT credit

entitlement.

Aditya Agarwal: Sir about the capex?

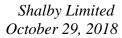
Prahlad Inani: Basically, regular / maintance capex incurred is very low and we do not foresee a requirement of

significant amount for the same.

Aditya Agarwal: Thanks.

Shanay Shah: What you wanted to know is 70%-80% of the units are new and thus the maintenance capex

requirement for the company as a percentage of the gross block is very less.





Aditya Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Sir just couple of questions. One is for the matured hospitals bucket there has been a decline in

surgery count so any particular reason for that?

Shanay Shah: If we look at the IP count during the same period has gone up. So as we mentioned earlier during the

call, the uptick of medical cases because of the epidemics over here and because of that the hospitals used to remain full at one point of time is also one reason why the surgery count has been affected. But fortunately if I talk about the last month i.e. the month of October, we feel that it has reduced and

now we are back on track when it comes to the surgery count.

Atul Mehra: Secondly Sir for the two to four years hospitals bucket so any reason why arthroplasty is not

contributing as much as the other bucket in terms of mix?

Shanay Shah: The arthroplasty count as a percentage of?

Atul Mehra: Of the overall business for the two to four year maturity profile hospitals, so it is 17%?

Shanay Shah: You are right. Arthroplasty contribution to the revenue as a percentage is not as much as what we

would want ideally but having said that we are working on it and we are expecting the numbers to go

up in the subsequent quarters.

Atul Mehra: Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Umang Shah from Edelweiss. Please go ahead.

Umang Shah: Sir good afternoon. I just had a one quick question please correct me if I am wrong because it is just a

rough calculation but when I look at ARPOB for greater than four years of our hospital that has gone down by 7% any specific reason for that probably decrease and your non-ARPOB prices or

something like that?

Shanay Shah: As we mentioned earlier the number of medical cases that we have done this time are very high

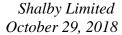
because of the epidemics and that has significantly brought the ARPOB lower but we have still done a decent job in terms of not letting it shrink below a certain level so it has shrunk around 5% to 7%

for this quarter.

Umang Shah: Sir one more question, so when I look at less than two years of hospitals that is Jaipur, Mohali, Surat

and Naroda in that surgery count has almost tripled over last year so have we started some different

surgery over there or is it only legacy business that is bringing this growth?



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Shanay Shah:

Last year this quarter the units were probably two to three months old, so today as we talk the units are almost around one year old. In the initial period the growth is always faster. Having said that our job as a hospital administrator is to do the right set of doctor recruitment, which is what we have been working on. I am happy to share with you that across all our hospitals we have hired the best possible talent and we have all the talent in place now and we have almost 85%-90% of the doctors there, which are recruited so we will be seeing a much better kind of growth over the next few quarters. Another thing that happens is when the hospital is new it takes around six months to one year for people to know about the hospital. Now you know what happens is after a year, year and a half people of the city, people in the vicinity they do know about the hospital and for the initial first few years the topline growth and the number of surgeries and all of that in general is very high and the way we look at it is you know for us what we believe is the reputation of the hospital is most important and that is really judged by the number of emergency patients you get in the year and that number for us fortunately has been going up significantly in some of the newer units and that the talk about the good work that our doctors are doing at several units.

Umang Shah:

Okay and just one last question. So we have seen our employee expenses growing by close to 60% this quarter year-on-year what is our threshold limit that are looking at our employee expenses we do not really try to keep a level over there or a bracket over there?

Prahlad Inani:

This employee expenses, which you are seeing 65%, plus growth it is because of the two reason basically. The first thing is that the employees and doctors which we have recruited at the early stage of our new units, for the initial couple of months were capitalized. The second one is that we already recruited doctors with respect to our newer specialty as mentioned by Shanay i.e the liver transplant, cardiology and oncology and other specialty. That is why basically the expenditure increased. Precisely the question, which you have asked, is what should be the percentage of the employee cost to the total revenue. I would like to say that the doctor's cost to the percentage of total revenue should be nearly 30% to 32% particularly with respect to the high ended specialty. Also along with the cost of other operational staff and including other expenditures it should be around 45% of total revenue.

Umang Shah:

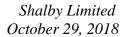
Thank you so much.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for the closing comments. Thank you and over to you!

Shanay Shah:

Thank you everyone for the patient hearing and I hope we have answered all your questions and we are already doing well in this coming quarter and we are very positive on the next subsequent few quarters. Thank you all for attending the call and thanks to Elara for organizing it. Thank you so much.





Moderator:

Thank you very much. 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.