SHALBY LIMITED
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**Shalby/SE/2023-24/79** November 1, 2023

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**Sub.: Transcript of Earning Conference Call for Unaudited Financial Results for quarter ended September 30, 2023 – Reg. 30 of SEBI LODR**

**Dear Sir/Madam,**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith transcript of Post Earning Conference Call organized by Company on October 30, 2023, wherein unaudited Financial Results for quarter ended September 30, 2023 were discussed. The said transcript is also being made available in the Investors Section of our website.

We request to take the same on your records.

Thanking You,

Yours sincerely
For **Shalby Limited**

Shah Tushar Dineshchandra
Digitally signed by Shah Tushar Dineshchandra
Date: 2023.11.01 19:00:38 +05'30'

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

**Encl.:** Concall Transcript

# "Shalby Limited Q2 FY2024 Earnings Conference Call"

October 30, 2023

**ANALYST:** **MR. GAURANG SAKARE – ELARA SECURITIES PRIVATE LIMITED**

**MANAGEMENT:** **DR. VIKRAM SHAH – CHAIRMAN AND MANAGING DIRECTOR**
**MR. SUSHOBHAN DASGUPTA – VICE CHAIRMAN AND GLOBAL PRESIDENT**
**MR. SHANAY SHAH – PRESIDENT**
**DR. NISHITA SHUKLA – CHIEF OPERATING OFFICER**
**MR. PARAG AGARAWAL – CHIEF BUSINESS OFFICER**
**MR. AMIT PATHAK – CHIEF FINANCIAL OFFICER**
**MR. BABU THOMAS – CHIEF HUMAN RESOURCE OFFICER**
**MR. PUNEET MAHESHWARI – AGM INVESTOR RELATIONS AND CORP STRATEGY**

**Moderator**: Ladies and gentlemen, good day and welcome to the Q2 FY2024 Earnings Conference Call of Shalby Limited 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 touch-tone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Gaurang Sakare from Elara Securities Private Limited. Thank you and over to you, Sir.

**Gaurang Sakare**: Thank you. Good morning, everyone, and we welcome all the participants to the Shalby Limited Q2 FY2024 earnings call hosted by Elara Securities. Today, we have with us the senior management representatives from Shalby. We will start with the opening remarks from Mr. Sushobhan Dasgupta, Vice Chairman and Global President; and Mr. Parag Agarawal, Chief Business Officer followed by a discussion on financial performance by Mr. Amit Pathak, Chief Financial Officer. After that, we will open the floor for Q&A for all the participants. I will now hand over to Mr. Puneet Maheshwari, for important disclaimers regarding any forward looking statements that may be made in today's call. Over to you, Puneet.

**Puneet Maheshwari**: Thanks, Gaurang. Good morning, everyone. Our earnings presentation is uploaded on the Stock Exchange website and our company website shalby.org. We do hope you have already had the opportunity to go through the presentation. Please note that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. Kindly refer to Slide #39 of the investor presentation for a detailed disclaimer. Now, I would like to hand over the call to Mr. Sushobhan Dasgupta, Vice Chairman and Global President for his opening remarks. Thank you and over to you Sir.

**Sushobhan Dasgupta**: Thank you, Puneet and good morning, everyone. I am pleased to welcome you all to Shalby Limited Second Quarter 2024 Earnings Call. Firstly, we at Shalby would like to congratulate Dr. Vikram Shah, Founder, Chairman and Managing Director of Shalby Limited who has been awarded the very prestigious Healthcare Personality of the Year Award 2023 by FICCI for his extraordinary commitment and incredible work in the field of healthcare. This is a very well deserved recognition for Dr. Vikram Shah and Shalby Hospitals for the tireless work that he and the entire Shalby team does every minute, every hour and every day towards treating every patient with a smile. This is a stupendous achievement that makes everyone associated with Shalby, be humbled with a lot of pride and gratitude.

Now let me provide you with insights on our performance at Shalby in the second quarter of financial year 2024. We have delivered a robust quality performance in Q2. Our hospital business has delivered the highest ever EBITDA margin at 26% highest in any quarter so far since its inception driven by leveraging operating expenses with increase in self-pay and insurance patients year-on-year and quarter-on-quarter, that has resulted in higher double digit ROC at 23% on an annualized basis. Our hospital business continued its high double digit growth spree in the key metrics of inpatient counts and surgery counts growing by 22% and 14% respectively year-on-year. Hospital business revenue and EBITDA grew by 22% and 32% year-on-year respectively in Q2. The number of occupied beds increased by over 13% year-on-year in Q2 on account of increased volumes hence the occupancy levels have reached 54% in the last quarter of this year versus 49% in the last quarter of the previous year.

The payer mix has been better with higher self-pay and insurance patients in the second quarter of this year as compared to the previous quarter. At Shalby our undivided focus has been on demonstrating our clinical excellence through successful execution of many diverse critical surgeries in several of our hospital units, a few of them that I could mention here are the removal of 1.2 kg uterus along with fibroids by vaginal morcellation at Shalby, Jaipur. Successful outcome of a TAVI which is a Trans-Catheter Aortic Valve Implantation procedure performed on a very aged patient who was suffering from aortic stenosis since past four years at Shalby Indore and saving the life of a premature baby of 27 weeks with birth weight of only 800 gram having respiratory distress with the LISA technique which is a Less Invasive Surfactant Administration technique using a fine bold catheter into the trachea instead of using endotracheal tube in delivering surfactant directly into the lungs.

We also take pride in sharing that we have successfully completed over 275 plus kidney and liver transplants at our SG and Indore units till date. Our Home Care Services business continued to showcase good performance in Q2, growing by 62% year-on-year with revenues of 3.6 Crores and patient count of 7870 that grew by 15% year-on-year basis. Additionally, revenue from international business clocked 2 Crores in Q2 though remaining flat on a year-to-year basis. I am happy to mention that Shalby has grown its international presence in other new geographies like UAE, Oman, Bangladesh and Nepal through forging the right partnerships to conduct regular OPD's and healthcare camps and have plans to conduct surgeries in these locations soon. I am very hopeful that these strategic locations will help us increase our international hospital revenue significantly very shortly.

As a part of our social commitment, we continue to spread awareness about the importance of health and well-being through various social media platforms and created 120 plus healthcare videos during the last quarter. We also conducted more than 240 healthcare camps and 90 healthcare talks across all our units during the last quarter as a part of various community outreach programs. Shalby also takes pride in nurturing young talent through our Shalby Academy vertical with 610 plus students registered in various healthcare programs during the last quarter.

I am also happy to declare that our implant business has delivered positive EBITDA in quarter two, financial year 2024 because of continuous improvement that is happening through process improvements in the production shop floor. We are being able to secure much improved production or rather procurement prices from our multiple vendors and we now having a tighter control on our operational expenses. The revenue has been a bit soft at ~Rs.15 Crores in the last quarter being lower than the previous quarter and the similar quarter last year and being primarily impacted by the large unanticipated delay in a full commercial launch of our UNI Knee, which is branded as TUKS both in the US and in India, due to the delay by our external vendors in the manufacturing and supplies of a few mandatory critical instruments, without which tough since surgeries cannot be done properly.

Unfortunately, there has also been a delay in the launch of several other new products including a new total knee brand that is expected to be a blockbuster in India, Indonesia and the US as well as our TIN BIN offerings, the titanium niobium nitride offerings which is a gold-colored implants for the CKS knee and the TUX UNI Knee. Unfortunately, we have also been delayed in the US to launching our line extensions of our existing knee. That has been a constant demand from all our US surgeons due to complications in the engineering drawing conversions as well as relaunch delay of our porous coated cementless knee in the US. The supply and timelines of which have been significantly pushed backed by our two external vendors responsible for porous coating.

Our supply chain vows were compounded by further unforeseen delays in producing many complicated engineering drawings for both our implants and instruments and thus providing quality approvals to many of our third-party vendors who qualified FD auditors in the OUS countries. The contribution in sales mix from the US and India accounted for 66% of the US and 34% in India in the last quarter. Despite having large orders in the system from India and Indonesia. However, these orders should not be fulfilled due to delay in manufacturing of the specific lower cost instruments and implants which is so essential to serve the lower price markets of India and Indonesia. As part of our continued initiatives to educate our surgeons on our production procedures, in the last quarter, we have conducted 3 virtual training programs over web casts by Dr. Reitman, our designer TUKS knee surgeon who is based in Dallas, Texas where more than 30 plus surgeons participated from India, Indonesia and US, which has resulted in increased awareness and demand for TUKS.

We have also started supplying our implants to Indonesia market against the bulk order received from that market in the first quarter of financial year 2024. Our core leadership team at SAT have fully embraced the top key tactics for strong execution in the next two quarters, so as to try and close the current gap to a financial year sales target with a definitive single digit positive EBITDA. The key tactics are as follows.

Receipt of the full instrumentation of TUKS in the early third quarter of financial year 2024 would enable us to go for a full commercial launch in India, Indonesia and the US, which in turn would help us increase sales for our UNI Knee which is so badly needed.

Launching our TIN BIN or Titanium Niobium Nitride which is the gold colored CKS and TUKS in quarter three and quarter four financial year 2024 that would be used a lot in Shalby Hospitals as well as some other large centers in India along with a couple of centers in the US. That would fetch larger profits for SAT or Shalby Advanced Technologies.

Accelerating production of our lower cost implants and instruments across multiple vendors that would help dramatically improve supplies to clear back orders in our low price markets of India and Indonesia. Engaging our prospects KOLs to participate in various virtual and face-to-face training and education programs and live surgeries about designer knee hip surgeons. I am confident that this would help us tremendously in gaining new surgeons confidence and support for our products.

Growing our engineering team with addition of team members in India to accelerate the projects that are direct contributors to our growth road map at SAT. If you have understood what I have said in the previous paragraph. Our engineering and our supply chain have been the biggest bottlenecks. So, we have been proactively trying to solve this by putting up an engineering team in India to accelerate these projects.

Continue to strengthen our sales team and add more feet on the ground in the US and in India. Create a large social media presence plus initiate a participation in key conferences in all our present geographies, executing various models of surgeon engagements.

Enter into new territories which we are very close now in Malaysia, Argentina and Middle East countries by the end of financial year 2024, and

Finally, continuously focus on smart procurement and reduce day-to-day operation cost to achieve the target of being self-sustainable in due course of time.

We remain confident enough to significantly improve our implant business results through accelerating the launch of our new products, winning new accounts, adding new territories and new experienced salespeople, continuously improving operational efficiency and furthermore substantially bringing down our procurement and day-to-day operational costs to add more towards our operating profits.

With all these key strategies, relentless and ruthless execution will be the key to our success soon with having the right people and leadership in place. This in turn will contribute to the ongoing creation of sustainable value for all stakeholders at Shalby Limited. Now I hand over to Parag Agarawal to discuss our SOCE quarterly performance. Parag over to you.

**Parag Agarawal**: Thank you so much, Sushobhan, for sharing quarterly developments on hospital and the implant business. A very good morning, everyone. I am pleased to inform you that we have successfully operationalized Shalby managed SOCE franchise unit at Ranchi, this is a 60-bed capacity unit and we operationalized it in the month of August 2023 as promised in the first quarter of FY2024. Our SOCE franchise business delivered an adequate performance in quarter two FY2024. Total surgeries performed at SOCE units operated and managed by us have increased by 116% year-on-year and 31% quarter-on-quarter. Total revenue from operated and managed units has increased by 104% year-on-year and 27% quarter-on-quarter. With this, we have 5 franchisee network hospitals at Ahmedabad, Lucknow, Udaipur, Gwalior and Ranchi under Shalby operated and Shalby managed business model.

Our next SOCE unit at Rajkot is on satisfactory progress and is expected to be operationalized by end of FY2024. We have been incredibly selective in our choice of potential partners from the many inquiries we have received so far to maintain the reputation of our strong brand, we follow a clearly defined process and strict criteria when making these selections. Looking forward, we have a strong sense of optimism about seeing positive developments in the upcoming quarters of this fiscal year. Our primary focus remains on utilizing our expertise and excellence in orthopedics with the goal of establishing more than 40 Shalby franchise hospitals across India in the next three to four years.

Now I would like to hand over to Mr. Amit Pathak, CFO of Shalby Limited to discuss Shalby's quarterly financial performance in more detail. Over to you, Amit.

**Amit Pathak**: Thanks Parag. Good morning, everyone. I will walk you through the financial performance of your company for the second quarter of FY2024. First, I will run you through the consolidation performance of the group.

The highest ever consolidated revenue of 243 Crores grew by 17.5% YoY and 1.4% quarter-on-quarter basis. Highest ever consolidated EBITDA in any quarter of Rs.58 Crores with a 24% margin in Q2 FY2024 and grew at 37% YoY and 22% quarter-on-quarter basis.

PBT of Rs.42 Crores with 17.5% margin grew by 49% YoY and 29% quarter-on-quarter and PAT of 27 Crores with 11.3% margin grew by 50% YoY and 33% quarter-on-quarter. The group continued to maintain a very strong balance sheet with a low gearing ratio of 0.13x and closed quarter with a net cash balance of Rs.70 Crores at group level.

Now I will be running you through the standalone performance of the hospital business. Highest ever standalone revenue of 223 Crores grew by 22% YoY and 3.1% on a quarter-on-quarter basis. EBITDA of Rs.57.5 Crores with 26% margin in second quarter FY2024 and grew by 32% YoY basis and 15.6% quarter-on-quarter. PBT of 47 Crores with 21% margin grew by 41% YoY and 18.3% on quarter-on-quarter basis, and PAT of Rs.30 Crores with 13.6% margin grew by 39% YoY and 16% quarter-on-quarter basis.

The payer mix is better with the highest self-pay 35%, insurance is 44% in the second quarter of FY2024 as compared to the previous quarter at 33% for the self-pay and 42% for the insurance payment. ARPOB and ALOS have also shown excellent improvement at 36,136 and 3.92 respectively in quarter two FY2024 versus 33,409 and 3.90 in the same quarter of the previous year.

At standalone level, again, we continue to maintain a very strong balance sheet with the low gearing ratio at 0.02x and closed the quarter with the net cash balance of Rs.163 Crores. With that operating leverage kept in, our standalone ROC has improved to 23% in quarter two FY2024 on an annualized basis. Our implant business has delivered a positive EBITDA in current quarter due to continuous improvement in the operational efficiency and better procurement cost. The revenue is at the moderate level of Rs.14.7 Crores in quarter two FY2024 versus 16.4 Crores in quarter one FY2024.

Now we can open the floor for the Q&A.

**Moderator**: Thank you very much, Sir. We will now begin the question-and-answer session. We will take the first question from the line of Pinaki Banerjee from AUM Capital Private Limited. Please go ahead.

**Pinaki Banerjee**: Good morning sir, and thanks for the opportunity. Actually, my first question is that like you are now diversifying into other medical illness like cardiology, oncology, etc., and neurology. So, two to three years down the line, where do you see the revenue breakup and apart from the fact that you had to maintain the leadership with the arthroplasty segment?

**Shanay Shah**: See I think we continue to grow a higher double digit on both the segments, and we have been focusing on multi-specialty for last 15 years now, and 15 years ago we were 100% orthopedic and today as we speak we are about 40% arthroplasty and all the other top specialities contribute 60% to the top line. So, among them the big ones for us are cardiology, oncology, intensive care, neurology and nephrology. So, as we see the next 3-4 years, we see that the arthroplasty business has been growing at 18% to 20%. It will continue to grow at that pace and some of the other faster growing specialities will continue to kind of take a higher market share. So, we will see that orthopedics and arthroplasty will kind of settle between 30 and 40% of the top line.

**Pinaki Banerjee**: Actually, in the second quarter we find that the surgery count is seeing a month and month decline. So actually any particular reason and considering the fact that this Q3 is the season of festivity so are you expecting further decline with respective surgery.

**Shanah Shah**: Yes. I think you should look at it from a year-on-year basis. On a year-on-year basis we have grown 15%, on the surgery count and in fact the arthroplasty surgeries have grown at 18% in this period. So, it is a good performance I would say.

**Pinaki Banerjee**: Sir just last question. With this franchisee model on this FOSO and FOSM, according to which one is more better in terms of operations and in terms of revenue or profitability?

**Parag Agrawal**: In both these terms when it comes to the operations model, we recognize the top line revenue as well as the profit in our books. When it comes to the managed model, what we recognize in our books is only the revenue share we receive. But from a cost perspective our cost percentages are very low when it comes to Shalby managed model. It is a give and take because the revenue share largely 90% of the revenue share will hit the bottom line.

**Pinaki Banerjee**: Okay, Sir that is all from my end. Thanks and all the best for the future. Thank you.

**Moderator**: Thank you. We will take the next question from the line of Ca Vikash from Acorntree. Please go ahead.

**Ca Vikash:** Good morning. One thing I want to understand, previously you mentioned this franchise or whatever the hospitals is there, it is 50 in the last quarter presentations also. But in this quarter presentation you reduce this one is a 40 in the next 2, 3, 4 years. Any specific reason to drop out the 10 hospitals?

**Parag Agrawal**: No particular reason to say that there is a drop when we talked about 50 that was something which we mentioned about 2-3 years back. As we scout the market more, we look at that the next 3-4 years of 40. When we look at the cities, the potential cities and the growth in the cities we look at 40 as a more probable number. But having said that, as we progress through the next two to three years and the growth happens and the potential in the Tier 2, Tier 3 town increases, this will be an endeavor which will not stop at 40. This will continue. So, as we progress through you will see more and more coming.

**Ca Vikash:** But the Shalby's major hospital and major franchises in the western and the northern part as compared to the southern region and eastern region like any specific reason, this one is because you are more present in the Gujarat, Rajasthan and MP. But any specific reason you are not exploring the presence in the Eastern and the southern part.

**Parag Agrawal**: So we started our operations with the Ranchi was our first unit on the Shalby managed model in Eastern part in August. We will continue to explore the eastern and southern part. We must realize that before going into a particular region you need to put through a hub kind of model where you have to operationalize the unit also it is not just about getting into a city and opening up a unit, you have to look at how do you operationalize. So having a hub and spoke kind of model, let us say east will be far more in focus where we will have few more units and as we have more units, the operational efficiencies of those units will be better.

**Shanay Shah:** Also, I will add there, in fact we have been conducting our outpatient clinics in Eastern part and the Southern part since the last 15 years now. So, all the major cities have been covered by Shalby and we get for orthopedics and for arthoplasty there are patients coming from most of the major towns in the South and the East as well. So, we are a well-recognized brand nationally, internationally for orthopedics.

**Ca Vikash:** Understand, but whatever last statement is there, you create the hub and spoke model. But this Ranchi is the spoke model, right now. You have not created any kind of the hub is there in the eastern part.

**Parag Agrawal**: See, you will not be able to create a hub and spoke on day one. You start with one and then you create the entire hub. So, it is the first one in the eastern part of the country, which is Ranchi. Now Ranchi as you know Shanay talked about, we have been getting a lot of patience from Ranchi to Ahmedabad in past and that is where we expanded into Ranchi, have our franchise unit in Ranchi where we have a strong presence, strong brand recall and we have started doing well at Ranchi.

**Ca Vikash:** The last question is right now your EBITDA it is a good number is there in this quarter is a 26% due to the increase of the IPD and reduce the loss also slightly reduce the loss, is it sustainable at 26% or we are comfortable in the future 23% to 25% of the EBITDA?

**Shanay Shah**: No. So, I think it is quite sustainable because you see that the top line has grown nearly 22% for the hospital business. The EBITDA growth is nearly 30% on year-on-year basis.

So, I think based on the occupancy growth that is still possible within the current capacity. We feel that this is definitely a sustainable model and yes it has been a good performance because we have each of our hospitals, multi-specialty hospitals have shown a double digit EBITDA ranging from 12% to 40% across the multi-specialty hospitals.

**Ca Vikash:** It is a sustainable number is there in future the 25% EBITDA.

**Shanay Shah**: Absolutely because there is significant margin expansion still possible in many of the units because there is as I said a capacity to build on and operating leverage you already can see that the operating leverage is playing in.

**Ca Vikash:** Understand. Thank you very much.

**Moderator**: Thank you. We will take the next question from the line of Raj from Arjav Partners. Please go ahead.

**Raj**: Sir I have just two questions. The first question is on the margin. Given that we are operating at a low occupancy. As the occupancy improves, is there a scope for a margin improvement from here on or is it the margin will maintain?

**Shanay Shah**: No. So, I think the margin will continue to expand, and as you know there is no significant capacity addition in terms of new hospitals which is coming in. So, there is nothing to really drag the hospital EBITDA down. At the same time, we have an aggregate capacity of 2000 beds. We can do sustainably we can kind of achieve a 1300 to 1400 kind of average occupancy through the year. So, there is possibly, there is upside of almost 60% to 70% on the existing top line over the next few years and once that plays out you will definitely see this margin will expand.

**Raj**: Given that the thing will happen in the existing hospital, what should we assume as the increase in your average revenue per occupied bed over say three-year time frame in terms of annual increase?

**Shanay Shah**: Well, that I think really depends on the specialty mix and it also depends on which city is growing faster because the ARPOB is also dependent on the geography. So, you cannot kind of assume what will be the growth rate on the ARPOB. But in our case, we are definitely seeing that the ARPOB is growing between 6% to 10% on a year-on-year basis.

**Raj**: That is sort of inflation rate, we will be able to increase the occupancy of the beds plus we will get inflation rate kind of a thing on the ARPOB side. Is that a fair assumption?

**Sushobhan Dasgupta**: Yes, that is right.

**Raj**: Third thing is on the hospital which are not operated sort of operated franchisee hospitals, we are getting a management fee. What you said is largely it flows down to the bottom line after some basic expenses and with the increase of that, that will further augment our margin and this is not included in the 2000 bed we are talking of, correct?

**Sushobhan Dasgupta**: Yes, you are correct in that.

**Raj**: And, Sir, last thing on this revenue has not been good on the implant business in this quarter. How do we see that business stay over the second-half of this year and going forward next year, year after?

**Sushobhan Dasgupta**: Yes. So, as I said earlier, we still would be targeting to reach $100 million in five years' time, and we are completely committed to the mission. Having said this, as we are as I said earlier, we have been experiencing something which is very unanticipated, which is not in our hands and every company, every industry if you look at orthopedics, every company is facing the similar problems in supply chains which is very unanticipated as well as the engineering issues that have cropped up. The good thing is that we have identified these are the things that what is in our control, and what is not in our control. For example, just give you an example, we have a certain vendor which I would not like to name here was supplying giving us a lead time of six to nine months? We then had to go to another vendor in another country to be able to not only get a lead time of around four to five months, but also being able to reduce our procurement prices by at least 30%. So, these are the step-by-step things which we are doing because these were not anticipated, a vendor comes up and tells us hey you are manufacturing some of the instruments we have gone into back order which becomes a problem for us. For example, as I said the TUXS instrumentation we have around close to 120 or 125 instruments out of them six or seven instruments have just come now, and these six to seven instruments are so critical that without that you cannot do a proper surgery and we are a responsible healthcare organization. We just cannot go in and push in our products without proper instrumentation and that was the thing that have happened in this quarter, we have understood. We will be much improved in the third quarter and a fantastic fourth quarter. So, as I said earlier, we will be trying and reaching our sales target. We will be definitely meeting up our commitment of positive EBITDA at a mid-range, mid-single digit range by the end of this year and we will try and reach that sales target number because but the first two quarters has not been so good because of the supply chain and engineering. There will be a load in this quarter and the following quarter, but we will do our level best to try and reach closer to the sales target number.

**Raj**: So that would assume that demand is not a problem. The problems are more internal and more in terms of supply chain to when we talk, when we get into the third quarter, and fourth quarter you think some part of the problem is already addressed and sort of we are saying by fourth quarter it should be fine.

**Sushobhan Dasgupta**: Yes. So as I said some of these things, for example, the TUKS instruments, we are very confident will be coming in, right. So that is something that I said. Secondly, the Indonesia supplies will be going in. We are very expectant that even the Latin America supplies will be going in by December. So, the third quarter will be better. Also we expect a part of our gold coated or the, I would not use the word gold coated, it is the titanium niobium nitride oxide CKSD will be coming in, and last but not the least, there are certain instruments that we have not been able to supply to India and Indonesia which are our low price countries, so we will be able to supply them at large quantities and some of the products will also be able to come and supply to these countries. So, we are expecting that slowly we will be having if is not a jump, by learning in this business that is happening especially in the production side. The supply chain side is being unprecedented, we never had such supply chain issues for so long, but this has been something that we did not anticipate but we are very positive that the next quarter would be better than this quarter and the last quarter would be a very good quarter.

**Raj**: The business will be fine and the core hospital business side we are doing reasonably okay, I think this is good. Thanks a lot sir. Thanks for answering the questions. Have a good day.

**Moderator**: Thank you. We will take the next question from the line of Abhaya Jain an Individual Investor. Please go ahead.

**Abhaya Jain**: Good morning. My question is basically on the inventory level. So, I see the consolidated inventory is close to 205 Crores and the standalone inventory is close to 17-18 Crores. So, we have close to 188 Crores of inventory in the implant business. Am I reading that right?

**Amit Pathak:** So, inventory for the implant business for H1 is around 154 Crores versus 133 Crores at the end of the last year.

**Abhaya Jain**: So, there is an increase of 20 Crores due to this implant business? So, we are maintaining such high levels of inventory based on anticipated business going forward or will there be write offs in this inventory.

**Amit Pathak:** So, there will not be any write-offs these inventories has been the process of the sales plans versus sales in quarter three and quarter four? So that will be get liquidated and in the implant business we have to keep the higher level of inventory, but it will get slowly liquidated and it will come to the very reasonable level in the middle of the next year.

**Sushobhan Dasgupta**: So, let me answer this a bit and frame it out for you. Basically, when you look at an orthopedic implant business and if you just go across to any company which is orthopedics and I worked in Johnson & Johnson for a long time. So, I can calibrate this. Basically, the orthopedic business inventory is between 365 days to around 720 days and more. Across every company be it small, be it large and the reason being is the SKU's, the number of SKU's are so large that is very difficult to go beyond to a certain level and the orthopedic surgeons do not forgive a company if they do not supply the right product at the right time. So, if you for example if a surgeon is using say a knee, any company must provide at least the four sizes plus to this side and plus to this side for primer and PBR with left and right combinations and with different sizes of inserts and sometimes with the revision offerings as well. So, every surgeon the system says the orthopedic industry says that you must keep that inventory in order to be able to supply. Now to your point, why we are 154 Crores and why should not be at 100 Crores, or 120 Crores or 130 Crores? The reason being is, as I said, what has happened is because of the supply chain issues, we had to manufacture a lot of codes on a certain size. So, if you look at the inventory, inventory is skewed, a certain number of inventories is high in certain sizes. But a certain number of inventories on lower sizes are not there and so what is happening is we are not being able to supply a large number of products into some of these orders that we were talking about, especially in India and Indonesia. So, but as we said, as we navigate this problem of the supply chain we will be much more even and when our sales increase to that 150 Crores level that we have been planning this year, that 154 Crores inventory would looking much better. Thank you.

**Abhaya Jain**: On the supply chain issues that we had, where are we now in terms of or as we speak, where are we now in terms of those issues being resolved?

**Sushobhan Dasgupta**: Yes, we have actually resolved much more over the last two months that we have not been able to resolve in the last one month, and if you ask me, we have been able to identify at least three or four new vendors with commitment. So, this again I am sorry I am explaining it a bit detail because it is important that investors all understand what goes on the industry. So basically, what happens if I identify a vendor, it is not that tomorrow I give an order and he start the supplies it does not work that way. First, we have to qualify that vendor because we are dealing with things or products, which goes into a body of a patient. So, FDA has a certain nomenclature and standardization of approval. So, for example, if I have a supplier in Germany, I have identified a very good supplier in Germany who will be able to give me similar quality, good raw materials at 30% less price, just as an example versus what we get in the US. I must send an FDA qualified auditor to be able to audit that which takes 2 weeks. KAPAS are generated, it comes back, correction mechanisms are done and then that approval is given. Once the approval is given then we have to look at the drawings and the drawings of engineering can happen in ASCM format and ISO format it depends upon in Europe, some goes into ISO, some goes into ASCM. Now we have to convert those drawings, then send it to them. Then they make the toolings. The toolings are not manufactured by that company who makes the raw material. They give it to a subcontractor who does the toolings. Then they do the tooling, which takes a certain time, then we place the order, then they make the raw material casting. It comes to us, we do a fast particle inspection of a certain number of samples and batches and if we pass it then they start production. This is a very complicated process and that is the reason I am saying that sometimes when we get shortchanged by some vendor who has been supplying for so long for whatsoever reasons like getting into a new vendor, it takes time. But good thing is that over the last two months we have been able to identify some solid vendors, some of them are already started tooling the engineering drawings have been released, some of them have already sent some materials to us and that is the reason I am saying I am very confident that the next quarter and then the following quarter will be fantastic for us. Sorry for the long-winded answer, but I thought I would use this opportunity to really give you the flavor of what goes on in this industry.

**Abhaya Jain**: No, it helps a lot. Did we have to lose out on any customers unfortunately due to these issues?

**Sushobhan Dasgupta**: It is a great question? Yes, in the US, not in India, not in Indonesia. In the US, I would not have said we have lost them. We have got a bit of, as you call a bit of emotion associated with that. So, they have not been able to be too supportive with us over the last month or so because we have not been able to keep up to their expectation. What happens is a surgeon depends on you for a long time and then because of certain unforeseen circumstance that does not happen, then if another company comes in and as you understand in the US 90% of the business is controlled by the four large players and they are all always waiting for small players like us to make such mistakes. Having said this, the relationship has developed over several years. It is just a small glitch. We are in constant touch. The good thing that happens is that in spite of the surgeon having reduces give maybe a small one or two products to some other company. We are relentless in pursuing them to understand that give them that this is what we are going to do over the next two to three months so that we can win them back. So yes, we have lost a few numbers of implants from a few number of surgeons in the US because they have been a bit of a resentment of our supply chain situation, but we are constantly in touch with them, we are in great terms with them and we will win them back.

**Abhaya Jain**: And my one last question. Have we started supplying to the Japan market because that I understand is a high price market. So, have we started on supplying to Japan?

**Sushobhan Dasgupta**: Yes, we actually Japan had been supplied by the previous company from which we acquired. We had a distributor, and the distributor was always there. Over the last 3-4 years, the Japan business has trickled down to a miniscule because this company, previous company was not being able to supply them on time, and there was a lot of situations on products and pricing. When we took over, we rearranged with them. Unfortunately, the Japanese yen has become very weak versus the US dollar. So, what has happened is we are still negotiating with them with the pricing. Our person, we do not have anyone located in Japan, but we have a person located in Malaysia who has some knowledge about the Japanese market. He was in Korea last week. Actually, we are looking at entering into the Korea market very soon as well, which hopefully in the next investor call, I would be able to talk a bit more. Right now, it is too early to comment. But he will be going to Japan next month to be able to start the process of the business. The Japan business was very small for us. We have an enormous scope to increase it with the current distributor plus look at some other distributor going forward.

**Abhaya Jain**: Thanks a lot, Sir. Thanks a lot for answering my questions.

**Moderator**: Thank you. The next question is from the line of Heet Van from Elara Capital. Please go ahead.

**Heet Van**: Good morning, Sir, congratulations for a good set of numbers. My first question would be regarding the hospital business. Did we see any possible deferment in the surgeries in Q2 and if yes, the impact of that would be positive in the Q3 and it will offset the festive season.

**Shanay Shah**: Well, I think, if you look at the surgery growth, arthroplasty has grown 18%. So as such it has not been muted for us the quarter two numbers, yes, usually the festive season especially Diwali you see that the historical trend says that some of the elective surgeries' kind of slow down during this period. But then it is like three months. So usually you do not see it deferred to the next quarter as such. You usually see it deferred to maybe end November or December. So usually, it is going to be very similar, and you will definitely see a similar kind of growth on a year-on-year basis from quarter three of last year.

**Heet Van**: And secondly, on the implant business. So, are we going to expand our sales force like to penetrate further into the markets?

**Sushobhan Dasgupta**: Yes. So, if you look at the US currently, we do not have a marketing person and we have only three salespeople basically in the US it is a very much of a distributor model with a distributor carries a lot of relationship with the surgeons and the hospitals and then they get in our products. We are not only engaging new distributors, but we are also getting in people covering the Western region and also in the Eastern region. Today we have a person as a regional business director in the Midwest and we have a person in the Southeast. We are going to appoint a person very shortly in the Western region. We will be covering the entire big states like California and Arizona and Wyoming and some of the Colorado and some of the others and then we are appointing another person, which is shortlisting in the East, which will cover those large states of New Jersey and New York and Massachusetts and Washington and others. That is our plan for the US perspective, and we expect that would help us because we will only recruit people who have a lot of experience in that industry and will be coming over to work for us. So that will bring them a lot of relationships as well as a lot of understanding of the business. In India, we will be strengthening our team further. We already have a solid team, but unless and until we get our products, there is no point in really putting up a large number of salespeople. But we know a lot of salespeople and good quality salespeople are ready to join us. They give us feelers, so we have kept them in a warm mode. As soon as we have a large amount of supplies normalized into India, we will be able to take a lot more people both at the managerial level, at the leadership level as well as the sales rep level.

**Heet Van**: And my last question would be any update regarding Mumbai Hospital, any progressive update.

**Shanay Shah**: So the Mumbai Hospital is progressing well in terms of the charity commissioner application to happen. Certain issues there which we are resolving now, we hope to get the charity Commissioner approval soon, and I think the issues are mainly to do with the delay from the trust side. I think they have kind of consensus within the group now. So, I think we are good to go and very shortly we will be applying for the charity Commissioners application.

**Heet Van**: Thank you, Sir.

**Moderator**: Thank you. We will take the next question from the line of Divya Daga from Vijit Global Securities Private Limited. Please go ahead.

**Divya Daga**: Hello, Sir. Good morning. Congratulations for great set of numbers. In hospital segment, we have done great. But I have question related to implant segment. As you have mentioned that in Q3 we will be having a good result better than Q2 and Q4 will be much, much better.

So my question is will we be able to achieve our target of guidance you have provided in earlier previous con calls?

**Sushobhan Dasgupta**: The answer is we may not be able to reach our sales targets or business targets as we said. We were planning to grow at 50% as a target this year. We may fall short of the target because we would not be able to get that number of products through our supply chain. So, we are aiming at around close to 30% to 35% growth, which is very good growth in the current circumstances. But we had targeted a mid-level positive EBITDA which we are very certain that we will be able to deliver by the end of this year.

**Divya Daga**: And my last question is, what is the implant production this quarter?

**Sushobhan Dasgupta**: This quarter implant production, correct me if I am wrong Amit, but it is around close to 12000 parts, means around 3000 constructs of implant.

**Divya Daga**: Thank you so much, Sir.

**Moderator**: Thank you. We will take the next question from the line of Aashka Trivedi from Kedia Securities Private Limited. Please go ahead.

**Aashka Trivedi**: Thank you for the opportunity, Sir, and congratulations on the good set of numbers. My question is that currently we have significant cash on books. So, are we looking for any organic or inorganic acquisitions going forward?

**Parag Agrawal**: Yes, there are certain plans on the use of this cash on furthering growth of new hospitals or even the franchisee units, operated franchise units, which will need certain capital investments. We will keep you updated as we move forward on those.

**Shanay Shah:** I think we have shortlisted few cities especially Delhi and Calcutta where we would like to kind of we are looking for hospitals on the multispecialty side apart from all the expansion that is planned on the franchisee side and it is a conscious decision taken by the board because for the last five years we have been consolidating the existing business, the hospital business and in this quarter in the first half of this year if you annualize the ROCs we have done north of 23%, so we feel that this is an appropriate time now to look at opportunities in some of these important markets.

**Aashka Trivedi**: Any tentative amount, which you can give, which you would be spending on this plan.

**Shanay Shah**: It will all depend on the opportunity very honestly.

**Aashka Trivedi**: Okay, Sir. Thank you so much.

**Moderator**: Thank you. We will take the next question from the line of Sanket Guntaka, an individual investor. Please go ahead.

**Sanket Guntaka**: Hello, good morning. My question is somewhat related to one of our participant's question which is like any expansion in Southern region, because I feel like there is a lot of scope in southern region.

**Parag Agrawal**: On the multi-specialty hospital business, the focus will be first initially covering Delhi, Calcutta and some of the other regions. On the franchisee side, yes, we are open to looking at certain cities in the South.

**Sanket Guntaka**: So, you are only looking at metropolitan cities or any two-tier cities or you are plan.

**Parag Agrawal**: Not necessarily. So, we are looking at Delhi and Calcutta in terms of metros and some of the important cities like Lucknow and Patna etc. If we get the opportunities there, we would be looking at tier one cities, which have a huge potential and the demand supply gap as well and there of course Shalby is a well-recognized brand because if you look at our expansion it has always been very strategic, and we have gone to cities where we already have a very strong brand presence and recall.

**Sanket Guntaka**: Because as of my knowledge what I see in Southern region there are many two-tier cities which has no multi-specialty hospitals but there are a lot of hospitals, big hospitals I can say but they are doing well in business. That is where my point, so I just thought of asking that.

**Shanay Shah**: Fair point. Thank you.

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

**Vishal**: Hi. Good morning and congratulations on the good set of numbers. While I appreciate your effort on expanding on the international OPD's, could you just throw some light on the strategy you have in place for medical tourism per se?

**Shanah Shah**: Yes, we have been doing medical tourism and we have been very active in this part of the world and we started about 20 years ago and in fact as we speak today we are conducting medical OPD's not only in Africa, but we have also now started medical OPD's in the Middle East. We had basically OPD planned in Dubai. So now we are going to be continuing that OPD in Dubai. We are also in advanced talks with somebody in Muscat. On the other hand of-course we are a household name in East Africa at the same time we have been actively participating in medical camps across West African region as well. So that is another area of growth for Shalby in the future and besides that even in the SAARC region we have been very active in Bangladesh and Nepal and of course we have been conducting medical camps and OPD's there which we will continue to do. So, at the same time we are getting approached by hospitals and partners, potential partners in Sri Lanka etc., so there is a lot of action going on, on the medical tourism piece.

**Vishal**: Thanks a lot that helps. Thank you. Good day.

**Moderator**: Thank you. The next question is from the line of Heet Van from Elara Capital. Please go ahead.

**Heet Van**: Sir, just to continue with regards to your organic expansion, inorganic expansion. So are we including international geographies too in that or only India specific?

**Parag Agrawal**: Well, I think from the investment perspective, we will be looking at India at the same time we are looking at potential partnerships in terms of operations in many other countries especially we are keen to kind of set up a franchise where which is very asset light in nature maybe in Nairobi. So that is something that is on the cards for us immediately, but from the point of view of real estate investment whether it is a land, building, medical equipment, we prefer to do it in India.

**Heet Van**: Okay. Thank you, Sir.

**Moderator**: Thank you. We will take the next question from the line of Sampath Nayak from Tiger Assets. Please go ahead.

**Sampath Naik**: Thank you, Sir. Thanks for the opportunity. My question is like this year we will be not able to meet 50% sales target that we have checked out, but what would be the sales expectation maybe for FY2025 and FY2026 if you can give a ballpark number?

**Sushobhan Dasgupta**: Yes. So, as I said, we will continue to chase our $100 million target that we had committed in the next five years as we said. So, our plan is when we put up our sales target for the next year we would cover this deficit of the sales target that we would not be able to reach this year and that dollar amount or that rupees crore amount will be added to the next year's target. So that we are in line with that $100 million that we committed for five years. As I said the demand is there. It is just a question of the supply chain not being able to be put up to that expectation. So as we have said that we have developed the strategy and the tactic to be able to create a much improved supply chain situation over the quarters and we expect the full fiscal year of next year would be much, much better in terms of supply chain and with the demand growing up exponentially, we believe that we will be able to cover the deficit, whatever be it small amount this year into the next year's budget.

**Sampath Naik**: I joined in a bit late. So, on the consolidate level, what is the EBITDA margin we are targeting.

**Shanay Shah:** On the consolidated level, I think we should look at the EBITDA percentage at both the businesses separately. So that is because the implant business is currently in the growth phase, so we will see a flat EBITDA for this year, but on the hospital side you will see EBITDA margin of 25% for the hospitals business.

**Sampath Naik**: Okay, Sir. Thank you and all the best.

**Moderator**: Thank you. The next question is from the line of Sanika Khemani from Sapphire Capital. Please go ahead.

**Sanika Khemani**: Actually, my question was you have given a target of 850 Crores kind of revenue on the hospital front this year. So, are we still on track for that and what kind of growth are we looking at, at the hospital segment going forward?

**Shanay Shah**: Well, we will definitely do, we will cross that target is what it looks like currently based on the existing first half results. So, we are looking at 900 Crores on the hospitals business and the kind of growth that has been seen in the first half of this year. We feel that we should be able to continue with that growth because as I said earlier, there is significant capacity available for growth in the existing setup without much Capex. So, we will continue to grow at this level for the next three to four years.

**Sanika Khemani**: Okay. Thank you, Sir.

**Moderator**: Thank you. The next question is from the line of Karan Gupta from Varanium Capital. Please go ahead.

**Karan Gupta**: Good morning. So, my question is related to the business model we have. Which model is more profitable for us as our competitor, if we just say in the pediatric segment we have child care hospitals, so which is in their model, which is asset light model. We are also asset light model, but much is going how much is going to the franchise now.

**Puneet Maheshwari**: Karan based on what you have asked that which model under the SOC that the FOSO and FOSM which looks more profitable that is what we could hear and I think we can answer.

**Parag Agrawal:** So, Karan on which is the more profitable model. As I said earlier when it comes to FOSM I get the revenue share which most of it, 90% of it is in my bottom line. So, one may say that, that is more profitable. In the FOSO model, I get the top line revenue because that is why I own the Opex and the EBITDA or PAT hits my bottom line. So, it is a give and take on which will be a more profitable model depending upon the city we choose whether it is a FOSO or a FOSM city which we want to operate. For me, both the models present equal opportunity to grow and to increase my presence in the market.

**Karan Gupta**: So, to increase the presence in the market, you can first go with the FOSO, where your revenue share will be high, right?

**Parag Agrawal:** My reported top line will be better in our FOSO model.

**Karan Gupta**: Out of the hub and spoke model, what you are doing with the hub and the spoke model because these openings you are setting up in overseas market as well. This is for outpatient and your hub kind of the specialty hospitals, right?

**Parag Agrawal**: So the OPD's have nothing to do with the hub and spoke, the OPD happen across various cities in India and international markets which are there to draw patients to the existing hospitals in different places. Now OPD's hub and enclose by districts as well as other districts for Chennai talked about we have several OPD's happening in Eastern part and the Southern part of the country as well as we are now focusing on fixed OPD's in international markets also. When it comes to hub and spoke it is not just about having the hub is not just a multi-specialty necessarily when I speak about hub and spoke, it is about operationalizing, how do I create a hallow effect with a group of hospitals in a particular region and I am able to operationalize it better. It is not just about opening a hospital. I have to even on a Shalby managed model I have to manage and make that hospital successful. So how do I place my people who are responsible for making it successful? That is where the hub and spoke comes into play. So, our larger city will play, so I have a hospital in Lucknow now when I look at East UP and I have more hospitals in East UP, the hospital in Lucknow will end up playing my hub or the other hospitals and it has talked about it more from an operationalizing and operational efficiency point of view.

**Moderator**: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Puneet Maheshwari, Investor Relations & Corporate Strategy for closing comments. Over to you, Sir.

**Puneet Maheshwari**: Thanks. I would like to thank each one of you for your great participation. It was a wonderful earnings call and I would also like to take the opportunity to thank the management of Shalby. Looking forward to connecting later on. Thanks everyone.

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