

January 24, 2023

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The Listing Department
National Stock Exchange of India Ltd

Scrip Code : SHALBY

Through : <https://neaps.nseindia.com/NEWLISTINGCORP/>

Corporate Service Department
BSE Limited

Scrip Code: 540797

Through : <http://listing.bseindia.com>

Sub.: Transcript of Earning Conference Call held on January 19, 2023 for quarter ended December 31, 2022.

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

Dear Sir/Madam,

With reference to our letter dated January 11, 2023 and pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith transcript of Earning Conference Call held on January 19, 2023 wherein Unaudited Financial Results for Q3 FY 2022-23 were discussed. The said transcript is being made available in the Investors Section of our website.

We request to take the same on your records.

Thanking You,

Yours faithfully,
For **Shalby Limited**

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

Encl.: Conference Call Transcript

SHALBY LIMITED

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“Shalby Limited
Q3 FY '23 Earnings Conference Call”
January 19, 2023



MANAGEMENT: DR. VIKRAM SHAH, CHAIRMAN AND MANAGING
DIRECTOR – SHALBY LIMITED
MR. SUSHOBHAN DASGUPTA – VICE CHAIRMAN AND
GLOBAL PRESIDENT – SHALBY LIMITED
MR. SHANAY SHAH- PRESIDENT- SHALBY LIMITED
MR. PARAG AGARAWAL – CHIEF BUSINESS OFFICER –
SHALBY LIMITED
DR. NISHITA SHUKLA- CHIEF OPERATING OFFICER
MR. VENKAT PARASURAMAN – CHIEF FINANCIAL
OFFICER – SHALBY LIMITED
MR. PUNEET MAHESHWARI – AGM, STRATEGY &
INVESTOR RELATIONS – SHALBY LIMITED

MODERATOR: MR. ABDULKADER PURANWALA – ELARA SECURITIES
PRIVATE LIMITED

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Moderator: Ladies and gentlemen, good day, and welcome to the Shalby Q3 FY '23 Earnings Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abdulkader Puranwala from Elara Securities Private Limited. Thank you, and over to you, sir.

Abdulkader Puranwala: Thank you, operator. Good afternoon, everyone, and we welcome all the participants to the Shalby Limited Q3 FY '23 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, and followed by that we will have a discussion on financial performance by Mr. Venkat Parasuraman, Chief Financial Officer. With that we'll open the floor for Q&A for all the participants.

And I will now hand over the call to Mr. Puneet Maheshwari for important disclosures and disclaimers regarding any forward-looking statements that will be made in today's call. Over to you, Puneet.

Puneet Maheshwari: Thanks, Abdul. Good afternoon, 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 No. 36 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 very good afternoon, everyone, and a warm welcome to all on our Shalby Limited's third quarter and nine months full year 2023 earnings call. All of us at Shalby sincerely hope that you, your families and your friends stay happy, safe and healthy in this New Year 2023.

I would first like to take a moment to introduce Mr. Parag Agarawal, who has joined our Shalby Group as Chief Business Officer in November 2022. Parag is an alumnus of IIM Ahmedabad and IIT BHU and brings with him over 20 years of rich strategic experience across various industries and functions. Prior to Shalby, he was heading up the sales and servicing vertical at IndiaMART as Senior Vice President and took the company public. And prior to IndiaMART, he worked at senior leadership positions at various companies.

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We are delighted to have such an experienced and successful professional like Parag on board at Shalby. At Shalby, Parag will be spearheading our high-potential, high-growth SOCE franchise verticals and many other new strategic opportunities that we at Shalby are looking forward to.

Now on to our quarterly achievements. Our hospital business continued to show consistent performance in all key operational and financial parameters in the last quarter. On a year-on-year basis, delivering high double-digit growth in the key metrics of inpatient counts, which includes day care and surgery counts, growing 15% and 19%, respectively. Hospital revenue and EBITDA also grew by 17% and 23.5% in third quarter on a year-on-year basis. Such excellent performances are a result of the continuous all-round efforts taken by Shalby through various business development initiatives throughout the country, thereby improving our occupied beds to 544 beds in this quarter 3 from 513 beds in the same quarter of last year.

Multi-specialty hospitals provide immense confidence to patients when they operate several critical and complicated clinical procedures with continued success. At Shalby, we continued to show clinical excellence by performing critical surgeries across many of our units. For examples, I can cite here our six kidney transplant at SG and Indore unit of Shalby and the successful replacement of a badly damaged mitral valve and tricuspid valve in a senior citizen patient at Shalby Naroda.

I'm happy to communicate that we have conducted more than 270 healthcare camps and provided 105 healthcare talks across various locations and consulted more than 14,000 patients in this quarter. It is very encouraging for us at Shalby to see numerous words of praise and positive testimonials flowing in every day from both our national and international patients on how we are making a positive impact in the lives. I'm also very glad to share that Google, through its arm YouTube has partnered with Shalby to create credible video contents on various health conditions as a part of health care education and awareness programs.

I'm also very excited about our growing home care services, which grew by 42% year-on-year with revenues of INR 2.65 crores and patient count of over 7,000 in quarter 3. Additionally, our international revenue grew by more than 50% year-on-year with revenue of INR 2.5 crores, where a majority of the patients came from East African countries in the last quarter. We are actively seeking out for more associations in African and UAE markets to accelerate our growth further. Shalby also takes immense pride in nurturing young talent through Shalby Academy with more than 1,900 students registered in the various healthcare programs during nine months of 2023. We also felt satisfied providing various job offers to these students across our hospitals.

Our knee and hip implant manufacturing business under Shalby Advanced Technologies or SAT or SAT, as we call it, in California, US, has made some steady progress during the last quarter and nine months of full year '23, clocking revenues of INR 23 crores in the last quarter, of which sales in the US and India contributed 60% and 40%, respectively. Our revenues of over INR 73 crores at the end of nine months positions us well to finish the year around INR 100 crores sales

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with positive EBITDA as per our commitment given at the beginning of the year. Our US sales customer mix from retail and wholesale remained at 60% and 40%, respectively, in quarter 3, full year '23, which helps us in getting better profitability mix.

With all the efforts to improve implant production, we are happy to announce that we are now producing average 4,500 components per month from the 3,000 components that we produced during the first quarter of this year and versus 2,100 components per month same time last year, and we are very soon expected to reach 5,000-plus components production per month soon. We have strengthened our senior leadership team in the US by onboarding two very senior talent in the last quarter. Mr. Garrett Kiesle has joined us as President and Chief Operating Officer from Smith & Nephew; and Dr. Japheth Noah has joined us as Vice President for Quality Assurance and Regulatory Affairs. Both of them are highly successful and experienced leaders, and we expect them to bolster our leadership drive for accelerated profitable growth.

We successfully navigated through our ISO 13485 audit for Shalby Advanced Technologies in November 2022. And I'm glad to announce that we received the certification and had, yesterday itself, a proud testament to the high standards of quality we've hold ourselves accountable to. We are receiving very positive responses from the consumption of our Shalby Consensus implants from our surgeons at our Shalby hospitals. And I'm very glad to mention that we have now launched such high-quality knee and hip implants to other surgeons and hospital groups in India as per our plan and initial response have been supremely encouraging.

We will soon be receiving register and approvals to launch our implant production in Indonesia, Argentina and Colombia in this quarter. With all these key strategies, our team is extremely committed on flawless execution of such strategies with the right people and leadership in place. Shalby is very well poised to further improve occupancies and continue to deliver double-digit growth in the hospital business with sustainable profits and to hit the coveted milestone of INR 100 crores sales and the EBITDA positive in our implant business in this fiscal year. All this, in turn, will help create sustainable value for all stakeholders at Shalby Limited.

Now let me hand over to Parag to discuss our SOCE quarterly performance. Over to you, Parag.

Parag Agarawal:

Thank you so much, Sushobhan, for your kind introduction and sharing quarterly developments on hospital and implant business. A very good afternoon, everyone. Let me discuss our quarterly developments for SOCE vertical. Our endeavor to expand our Shalby footprint through the asset-light model strategy is continuing at full speed. I'm happy to inform that our Lucknow SOCE unit has been fully operationalized from November 2022, and Gwalior SOCE unit will be entirely operationalized soon. Let me tell you, Lucknow is under Shalby operated, and Gwalior should be under Shalby managed model. I'm also glad to inform that we have signed an MOU with Aurangabad under SOCE franchisee. We are in continuous process of taking over all operations in our brand name with whom we have signed MOU.

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We are optimistic to see the good development come to fulfillment in the coming quarters of this financial year. Moreover our focus remains on capitalizing our expertise and excellence in orthopedics. We have 50 Shalby franchise hospitals across India within the next three years.

Now I would like to hand over to Mr. Venkat, CFO of Shalby Limited to discuss Shalby's quarterly performance in more detail.

Venkat Parasuraman:

Thank you, Parag. Good afternoon, everyone. I'll now take the opportunity to walk you through the financial performance of the company for the third quarter of FY '23. First I'll be running you through the standalone performance of the hospital chain and then I'll be coming to the consolidated financial performance. On a standalone basis, the revenues for Shalby grew by 17% year-on-year to INR 179 crores. EBITDA grew by 23% to INR 39 crores. PBT grew by 33% to INR 29 crores and PAT grew by 52% to INR 19 crores. The ARPOB and ALOS were recorded at INR 38,491 and 3.7 days respectively, in Q3 FY '23 vis-a-vis INR 32,049 and 4.02 days in the same quarter previous year.

Our core specialties such as arthroplasty, oncology, cardiac surgery, orthopedic critical care and general medicine contributed 85% of the revenues in Q3 FY '23. We continue to maintain ROCE at 16% to 17% as on December '22 from our hospital business. At the group level, on a year-on-year basis, the revenue grew by 25% to INR 207 crores. EBITDA grew by 23% to INR 38 crores. PAT grew by 19% to INR 15.4 crores. Please note, all my references for the previous year PBT and EBITDA are prior to an extraordinary expense towards the disposal of Indore land of INR 4.44 crores and the PAT is after the said item.

Coming to the US implant business, the monthly revenues have reached the \$1 million mark in the current quarter. The entity is near breakeven in Q3 '23. We achieved a revenue of INR 22.8 crores in Q3 against INR 9 crores in Q3 '22. We earned an EBITDA of negative INR 30 lakhs in the current quarter, same was a positive EBITDA of INR 28 lakhs in the same quarter previous year. With significant ramping up of operations, we are expecting a strong turnaround by the end of FY '23. We have closed the year with a net cash balance of INR 150 crores on a standalone basis and INR 38 crores on a group level.

Thank you very much. We are now open to any questions which you may have.

Moderator:

The first question is from the line of Dhananjay Jain from Brescon.

Dhananjay Jain:

Sir, I wanted to ask regarding the capacity we have of the -- we currently have across 1,200 beds, and we can go till 2,000 beds more. So how are we planning to upgrade this capacity? How are we trying to achieve that utilization of increase in the bed capacity? How we will optimize the assets which we have built in now? Because how I understand the -- our primary service is orthopedic, which requires very less time compared to other kind of surgeries, say cardiac or oncology, where average length of stay is around five to 10 days, whereas we have around two to three days in which we can complete the surgery. That is my first question.

Another question is, sir, Shalby as a brand is recognized by name of Dr. Vikram sir. So how are we trying -- how we will build the local doctors because it's a micro market where name of each doctor will matter? So how we will build those local hospitals, which we are acquiring and name building for those hospitals? Another one is various competition market their services using robotics for the orthopedics. In long term, how we will counter that because that is one more thing. These are my two questions.

Sushobhan Dasgupta:

With regards to your first question, we are clocking occupancies in the months ranging between 500 to 700 beds. And this is the nighttime occupancy that we show you. So the daytime occupancy is often 15% higher than that. Now for this kind of occupancy level, we have 1,260 beds operational as we talk, which is sufficient to kind of handle this kind of patient flow and also a 15% to 20% growth at any point of time.

We have always maintained that the bed capacity of the group is in excess of 2,000 beds. And as and when the occupancy goes up, which it has grown at 18% to 20% over the last five years, we will continue to add the beds. So about two years ago, we had about 1,000 beds operational. Today we have 1,260 beds. So as and when the occupancy ramps-up, which it is growing, as I said, at 18% to 20%, we will be operationalizing the other beds.

The good part is that we do not need to add a lot of capital expenditure to operationalize the bed from 1,260 to 2,000. The estimated budget to kind of get there is close to INR 15 crores, which is a very small amount in terms of the capital expenditure required. So that is the answer to your first one.

With regards to your second one, we have come a long way because, of course, this company is founded and promoted by Dr. Shah and he is the Head for the Orthopedic Department. Having said that, as we talk today, about 35% to 40% of the work we are doing is orthopedics, the balance comes in from other specialty where other super-specialist doctors have a role to play.

The other part is that within the orthopedic space, his direct contribution in terms of the surgeries that he does is about 15% to 20% of the 35% to 40%. So it would be about 10% to 15% would be his direct contribution, which means that this occupancy of 550 to 700 beds that we talk about, about, say, 10% to 15% of the beds would be occupied through his patients and the balance would be coming in from all the other specialist doctors at all the locations.

You also will appreciate that we are geographically quite spread out across five states that we talk. And Dr. Shah cannot be everywhere. So we have very good doctors across all specialties, including orthopedics, in all these locations. And all of these orthopedic surgeons, which perform knee and hip replacements and other orthopedic surgeries, are trained under him for several years before they actually perform these surgeries across all our units.

The third one, I think you asked about is with regards to robotics. That's a good one. And we have, in fact, said that Dr. Shah has said it multiple times in the past as well, that whenever a surgery is done and the cut is large enough for the naked eye to kind of see and perform the

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surgery, basically, at that point of time, you do not require a robot to do the surgery. So in fact, we have him today in the call, and he'll be happy to kind of take you through that question.

Vikram Shah:

Dhananjay, this is Dr. Vikram Shah. Robotics are there in orthopedics since last 20 years. It started as a navigation and generation 1, 2, 3, 4, 5, these are 5th generation. And most of the leading surgeons of the world have thrown it out of the operation theater. I will tell you the reason. Computer or a robot can work in a given set of rules. If you feed the rules, it will work fine. Anything outside rule, it doesn't work.

I will tell you why you have Boeing and Airbus flying at 32,000 feet. They are hundreds of crores rupees plane and those planes have computer and robot sitting there, which is flying the plane at 32,000. But taking off from the ground and coming to the ground, two pilots are required so that they can bring down the plane safely. The reason is number of variables are lot when you are taking off or you are coming down on the ground. At 32,000 feet, there are no variables. So computer can work nicely and it can fly the plane.

Other thing is, in a game of chess, there are 8x8 boxes and then king, queen, rook, they have set rules to play. In this game, computer will defeat human being because it is fixed game. As far as knee replacement or hip replacement are concerned, there are no – there is no fixed game, no two knee are same.

Your same patient right and left knee are separate. So people do come to me, all these multinational, big companies, they want to put it free at my place because of my volume of work, because we are biggest in the whole world, not in India. They want to put free at my place, I'm not letting them put because I'm doing service to another 10,000 orthopedic surgeons. If I put it here free, they have to buy it. I'm doing social service by not letting them put these machines free in my operation theater.

And what these company guys come and tell us that this is a great market into. I had been telling them that if you cannot sell your surgery, if you cannot sell your skill, this machine cannot save you. Thank you.

Dhananjay Jain:

So my question was actually on the -- so one is, we are specialist I'm aware about this space. But patients they get biased very easily or they get influenced very easily with these marketing techniques and this ends up hitting our business. So how are we educating the market? That is one question. Apart from this, two other questions which I have is one regarding, we are having this franchise model. Now we are planning to open around 50 hospitals in three to five years. So what will be the split of those hospitals in terms of, say, managed and what will be the Shalby operated percentage where operated would be -- we will be sharing of the revenue. So in terms of the split of those 50 and what is the potential in terms of number like to say INR 300 crores, INR 400 crores, INR 500 crores?

I recollect you had guided earlier, in earlier calls, it would be around INR 600 crores, approximate 700 crores, so.?

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- Vikram I. Shah:** I will first answer your robot related question and then rest of the questions will be answered by the management because I don't look after general management. As far as the robot is concerned, I'm reiterating again that no machine can market hospital. Those hospital CEOs and COOs who believe that this machine we are bringing of INR 10 crores, and that will save over next year, that is their big mistake. If that machine is useful, perfectly fine. If it is going to make any difference in the result, perfectly fine. Otherwise, in orthopedic surgery, robots have no place to work at all, neither marketing, nor surgery, both. And rest management will answer you.
- Sushobhan Dasgupta:** So we are also joined by Mr. Parag Agarawal, who head the SOCE business. So he'll take the next question.
- Parag Agarawal:** So to your question that how will the spread be between the Shalby operated and Shalby managed over the next three years as we develop? I think it's a bit premature to give an exact or a guidance on what will be the percentage here. Our endeavor is that when we enter a market, we look at the size of the market, the franchisee we are tying up with and accordingly develop that particular model. So far we have, for the four units, we have operational, it's a 50-50 split. And as we develop and as we learn with this business, things will become a little more clear in terms of what will be the actual spread between the two.
- Moderator:** The next question is from the line of H. C. Daga from Daga Associates.
- H. C. Daga:** Just in a nutshell, I would like to know that what is your reason for the next three years, if you can just give us some guidance on, about the revenue and the EBITDA growth and the numbers, if it is possible?
- Management:** So as such, we are not giving any guidance. But, see, the hospital business, we expect it to grow at 20% for the next three years from the current level. And for the implant business, I think Mr. Dasgupta will be happy to share what is the vision for the company. And I think for the SOCE business, again, that is a huge potential. It's a third vertical where we are expecting the business to grow in a big way. As you know that we have expected, we see more than 50 operational franchisees over the next five years. However, it is very early to comment on what numbers we'll be projecting for that. So as and when we see more hospitals operational, we'll be able to give a much better guidance. But I think for the implant business, Mr. Dasgupta will be happy to share it. Over to you, sir.
- Sushobhan Dasgupta:** Yes. Thank you, Shanay, and thank you, Mr. Daga for the question. Just to give you a context of where we are on the implant business. When we took over the implant, we acquired the assets of Consensus Orthopedics that was in May 2021. The first thing that we did, we looked at the situation and on that basis, we developed a five-year plan, not a three-year plan, a five-year plan. Obviously when we do the five-year plan, we broke it down by years.
- So when we looked at the five-year plan, we looked at where we are in terms of our market share, where we are in terms of our current products, what could be a future product pipeline, what could be -- where is the presence in geography in the US and outside the US? All this put

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together, when we looked at it, we said that we can do this business and grow this business to \$100 million in five years' time. So our first plan from a revenue perspective, to your question, we want to make it a \$100 million company in 5 years' time.

And then we broke it up by revenue. So our plan was to make it a \$12 million to \$13 million at the end of this fiscal year, which is INR 100 crores, as I said earlier, and we are well in that area of INR 100 crores. We also wanted to make it profitable. And if you understand the orthopedic implant business, it involves a lot of inventory, a lot of capital expenditure and a lot of, I would say, resilience in patients to make this happen. But in 22 months' time, we are pretty certain that we would be EBITDA positive when we end this fiscal year. So that means we are getting into a profitable situation. And we would be very healthily profitable when we do that \$100 million business.

The other aspect that we looked at is how we could be able to use the manufacturing capacity and the potential that we have. When we took over the plant, it was manufacturing only 300 to 400 parts per month. So earlier this year, it was manufacturing a 1,000 to 1,200. As I said, the last quarter of the same quarter of last year, it was INR 2,100. We have doubled it. We are doing 4,500. And while we are doing this, again, when we produce more, our costs get distributed, so the cost of manufacturing comes down. And when the cost of manufacturing comes down, we can sell not only in the US, up-to many parts of the world and make healthy profits. So that was the third way. And the last way to your question is obviously comes product and people. And we looked at where our product pipeline is today. We had deficiency in certain product lines.

We have been able to plug mostly, but not all. So we have launched our Unicodylar Knee, which according to Dr. Shah, he's done close to 1,50,000 implants, the highest in the world. And if a person like him can say that this, is one of the best Unicodylar Knee that he has seen and used, I am very confident that it will take the world by storm.

We have done limited market release with our designer surgeon in the US, and we expect to launch it full-fledged from the end of this quarter. And then we would be spreading it to, across to the world. And then the last one is we're also in the verge, within the next two quarters, launching a very new knee. And that will also give us a lot of impetus over.

And finally, as we said, is people, we are ensuring that we have the best leadership team in place. So we have done a churn in leadership. We waited for some time, looked at the situation. And today, we have a very competent leader, as I said, Garrett Kiesle, whom we got from Smith & Nephew. We have a fantastic quality and regulatory person.

We have an outstanding supply chain person, these are some of the basic tenets of running the orthopedic business successfully. So we are very well poised, Mr. Daga, to your question of beating \$100 million in five years' time from a revenue perspective and becoming a very-very profitable company Shalby.

Moderator:

The next question is from the line of Ruchita Ghadge from iWealth

Ruchita Ghadge: So my question was on the implant business. So sir, if you could give a break, if you can give a break-up of the variable and the fixed cost for this business?

Sushobhan Dasgupta: So it's difficult to really comment on the break-up of the variable cost and the fixed cost, but I'll leave it to Venkat to be able to give you but before that let me give you some parameters. So when you look at the fixed cost, fixed cost is anything that is getting distributed outside of what is happening in the shop floor. Variable costs are basically costs, which is inside the shop floor, which includes a lot of consumables, as well as the employees that come in and do the shop.

The good news that I can tell you is that, we have been able to reduce and bring down our fixed and variable cost by a whopping 35% over this period, over the same quarter. So quarter 3 of last year, whatever the fixed and variable costs were, we've been able to bring down a whopping 35%. And then the other cost that is big for us is raw materials, right? I mean the raw material there is a significant reduction in cost, close to 50% of reduction has been made in raw material procurement costs.

So that you can understand and that is really helping us to reduce our cost of goods sold, and that could help us to get into the positive EBITDA and later become positive after tax as well. Venkat, would you like to add the fixed and variable component to the question that, she asked.

Venkat Parasuraman: So, the variable cost is difficult to ascertain but if you want to give an indication of the variable costs, the contribution level for the implant business in US is in the range of 40% to 45%. And then we have fixed cost in the range of \$4.5 a month. So that is indicative...!

Sushobhan Dasgupta: But she's asking for the percentage.

Venkat Parasuraman: So I think what is important to note here is really that we have been able to bring the cost down per component very, very significantly. So we've been able to bring it down in the range of 35% to 50% of what it was. And we are on the right trajectory. And as Mr. Dasgupta mentioned, the moment we achieve the scale of 5,000 components a month, we will be very well in line with our projected numbers and where we want to see the company over the next 12 to 18 months. Also Dr. Shah would like to add some flavor to this.

Dr Vikram Shah: The most important part in implant business, in my opinion, is your time to market. When we took over this company, we took over 50 patents. And because we have 50 patents, we are able to turn and almost turn around this company in 20 months. And we are able to push these products in India, all over America and also in Japan. And very soon Mr. Dasgupta is going to launch it in Indonesia and Korea also.

So most important part is patents because if you don't have patents, if you don't have products, to develop these patents and have it in US FDA, it takes 3 to 5 years, the entire process. So we are 3 to 5 years ahead because we have 50 patents. That is the most important part in this. Margins of United States, margins of Japan are fabulous. Indian margins and Indonesian margins are on the lower side, but then the volume is very high.

- Ruchita Ghadge:** So how much is the fixed cost did you say?
- Sushobhan Dasgupta:** So I think what Dr. Shah suggested and I will repeat is that what is important is that three to five years is the time taken usually for a start-up company to kind of build these kind of products and kind of get them accepted by US FDA, get the plant approved and get the designs approved in all these countries. So what he's trying to say is that we basically are on a platform, where we have everything ready.
- And in fact, we received our India approvals also in Feb last year. So basically we are in the right trajectory and we have also managed, on the other side, we've managed to bring the costs down for the implants by about 35% to 50%, depending on the product. And it will further come down as the production goes up. At the moment, we are busy building an inventory that is required, which is sufficient to kind of penetrate some of these newer markets that we have planned to penetrate. I hope that answers the question.
- Ruchita Ghadge:** Still, sir, I'm a little confused about the fixed cost component because that is something that I would like to know?
- Shanay Shah:** At the moment we are not sharing all these details, specific details on the fixed cost, but maybe we can take it offline, madam.
- Ruchita Ghadge:** Sure, sir, Not a problem. And this pharmacy business, that you have with the pharmaceutical. So how much percentage does that contribute to your profit?
- Shanay Shah:** So, all our hospitals have an in-patient pharmacy and out-patient pharmacy. And all the revenues and the earnings that you see for these pharmacies are all plugged in into the hospital business.
- Ruchita Ghadge:** And sir, if I can ask another question. In the hospital business, sir, you've mentioned that 20% growth, you are expecting. So is this every year or at the end of the third year is what you're expecting from the current level?
- Shanay Shah:** See, in this year, we are looking at doing around INR 725 crores to INR 750 crores kind of revenue in the hospital business, right? What we can do in the existing capacity without adding any more beds, like I said, INR 15 crores is the capex that is required, we will be able to do about INR 1,400 crores of revenue in this existing capacity. So when I say 20%, I mean 20% year-on-year for the next four years is what we can do in the existing capacity. Beyond this, we have already announced two projects, which will be adding further revenues over and above this. So that is -- I hope that clarifies the question.
- Ruchita Ghadge:** And just one more question to what the previous participant was asking on that line. The implant business, as you said, is a \$100 million revenue business, which you have estimated in the next 5 years. So out of this, around \$12 million, you will be able to achieve in this year itself. So the remaining \$85 million, so how will that be distributed in the coming three, four years? If you can give some light on that.

Sushobhan Dasgupta: So basically what we are expecting that, as Dr. Shah alluded earlier, that when our prices in the US and Japan are much higher. So obviously when you get much more profits out of US. and Japan. But the other markets, which is India or Indonesia, some of the Southeast Asian markets, we plan to launch in some of the Middle East and Africa markets in the future, in Latin America, which we plan to do, in Argentina, Colombia and Venezuela.

So these markets, the prices are low because of several reasons, market forces or whether it's regulatory from the government. So our plan is to really look at volumes in these places. So when you look at from a revenue perspective, we expect that \$100 million, out of that \$100 million, \$60 million will come out of the US and \$40 million will be coming from the rest of the world. However, from a volume perspective, we expect more than 60% coming out from the rest of the world and 40% or less coming from the US. That's our plan. Does the answer your question?

Ruchita Ghadge: No, sir. So I would like to again speak on that. \$12 million is already achieved in the past two years, if we see. So the plan that you've said of 5 years that you'll achieve \$100 million. So only three years are remaining for it. So are you expecting 90%...

Sushobhan Dasgupta: No, Last year, when you look at \$12 million, \$12 million is a fiscal year. So from April '22 to March '23, sales will be \$12 million, okay? Now previous year, when we took over the company, it was much lower. It was around \$4 million or so from April '21 to March '22. Similarly from March '23 to April '24, we plan to double ourselves from \$12 million. So it will be, say, \$25 million or \$26 million or \$27 million, like this. So in that's way, in five years' time, that fiscal year, at five years, we will be landing at \$100 million. Does it help you?

Ruchita Ghadge: From here onward.

Sushobhan Dasgupta: Correct. It's not a progressive addition to that. It's basically every fiscal year, we will be increasing our sales so after five years, on the sixth year, we expect that the sale of that fiscal year will be \$100 million, out of which \$60 million will be contributed by the US and \$40 million will be contributed by the rest of the US and a lot of fixed products will be driven through new products, which we are coming in, in the next few quarters and in the following years as well.

Ruchita Ghadge: That is by FY '27, you're saying, right, \$100 million?

Sushobhan Dasgupta: Correct, which is April '27 to March '28, yes, that's right.

Moderator: The next question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking.

Bhavya Gandhi: Sir, I just wanted to understand about the occupancy rate because what are the levers to increase our occupancy because COVID is already over, but I don't see a very big jump because optional surgeries are -- have already started? So what are the levers to increase the occupancy in our case and where can it peak out?

Shanay Shah:

See, so I think the way to look at it is that we have three units which are already performing at the most optimum level. One is SG in Ahmedabad, one is Indore in MP and one is Jaipur in Rajasthan, right? Now if you look at some of the other units, where we have spent a lot of capital is Surat, its Krishna unit, its Jabalpur unit. And if you look at the performance of these units on a year-on-year basis they have grown between 30% to 80%, depending on the unit.

So there has been an increase in the occupancy and naturally so because these hospitals have grown really well because of the performance. We have added a lot of different doctors across the specialties, whether it is fixed doctors who are fulltime with us or whether it is variable doctors who basically come in and operate on the patient on a, for a visiting basis. So we have done really well across these units.

Yes, the good thing is that there is still potential for some of the units to do even better from here, so which is exactly what we are working on at the moment. The other thing also which has happened on a year-on-year basis is that the average length of stay has come down from 4.1 to about 3.7. So the churn for patients has been a little quicker. So if you factor that in, the occupancy should be 10% higher than what it actually shows up in the numbers. We are also joined by Dr. Nishita who is the Chief Operating Officer. So she may want to add some comments.

Dr Nishita Shukla:

I will just add that to bring in more occupancy as, to add to what Shanay Bhai told is, we would be bringing in good, high-end specialty doctors as well as we are focusing more on bringing in our international patients, increasing our international business with high-end and rare surgeries. We will be adding some super-specialty work, say, bringing in more organ transplants, doing high-end surgery, for kidney transplant, heart transplant, lung transplant and all. And we will be doing this cardiac transplant and lung transplant program at group level. So we are working on it, and that will be also going to add our occupancy.

Bhavya Gandhi:

And where can it peak out? And what is the reason of maybe that level, maybe you say peak out at 80%? And why can't it go beyond that? Just wanted to understand that.

Management:

So the reason why we can't go beyond 70% to 80% usually, is also because we show you the night time occupancy number. So what happens is that the daytime occupancy number is usually 15% to 20% higher. So most of these 15% to 20% patients get discharged by evening. And that's one of the reasons. The other reason is that most of our hospitals, they are for the tertiary and quaternary care work, and most of it is elective.

So there are a lot of reasons, which are due to the seasonal factors often there because of some people are very religious and they don't want to get operated in a certain time. So because of these reasons, there are flakes in occupancy also. And so when you average it out through the year, you get the occupancy at between 65% to 75%, which you should consider very healthy for the hospital business, especially tertiary and quaternary care hospitals.

- Bhavya Gandhi:** Fair enough. Sir, just wanted one clarification, how do we calculate ARPOB in our case because when most of them calculate total revenue divided by inpatient volume, when I was doing the maths, it's not matching our figures? So if you can just clarify on that.
- Venkat Parasuraman:** We take the total revenue digit by the number of discharges in that quarter.
- Bhavya Gandhi:** That is basically in-patient discharges?
- Venkat Parasuraman:** In-patient.
- Bhavya Gandhi:** But the number is not matching in our case.
- Venkat Parasuraman:** So, we have noted it, and we will take it offline with you, and we'll show how we do it.
- Bhavya Gandhi:** Sure, sir. One last question from my end. With respect to the SOCE model, I'm not aware about the SOCE model, previously, if you would have mentioned somewhere. But just as I understand, you are targeting around 50 contracts or the hospitals. And what is the EBITDA target and revenue targets for them?
- Parag Agrawal:** See, it's a bit early to put down a target on EBITDA and revenue. These are hospitals, they're just starting off. Right now the focus is on building a good pipeline to launch new and as well as operationalize the hospitals we have contracted so far. I think in coming quarters, we'll be able to give you a better guideline as we have moved forward and add that to the...
- Bhavya Gandhi:** Fair enough. But then how do we understand. you would have worked some math to understand the model and whether it's workable or no? So what would be that internal maths be like? So because otherwise the normal model is already generating 25% sort of EBITDA margin, which I think, is a decent margin.
- Dr Vikram Shah:** Bhavya, this is Dr. Vikram Shah. I just want to tell you reason behind this. Why we are doing this? It's important that we need to understand that why we're doing this. We came up with the first corporate hospital at SG Road in Ahmedabad in 2007. And from 2007 till now, it is about 16 years, and we have come up with 11 hospitals. And we have covered from Chandigarh to Mumbai and from Jabalpur to Ahmedabad.
- And the majority of our work had been orthopedics, 40% to 50% as Mr. Shanay said. Now lifecycle of a given patient of their surgery is almost 30 years in India. Like you know, one of our first corporate hospital of India started in Chennai and they did in 1984, 300 open heart surgeries, 100 happened in Mumbai, 100 happened in Delhi. So in India, total 500 open heart surgery happened in 1984.
- In 1994, India did 5,000. In 2004, India did 50,000. And in 2014, India did 2,00,000 open heart surgeries and 1.4 million angiography, angioplasties. So it was a 30, 40 year cycle for a cardiac related procedure. And in these 30, 40 years, it has gone from metros to Tier 1 cities, Tier 1 to

Tier 2 and Tier 2 to Tier 3 cities. Now a town like Aurangabad has 11 cath labs, Nadiad has five cath labs.

So patients are not traveling here. Every other person from Gujarat was traveling to Chennai for cardiac procedures. Today nobody is traveling anywhere. Everything is happening. So the whole plan is people were coming from Mumbai or Delhi or Kolkata to Ahmedabad to get joint replacement done. Entire Africa comes to Ahmedabad. Now the whole idea is, before they stop coming and before everything starts everywhere, we grow faster.

Now if we have an asset-light model, we are able to do it faster. We enjoy the huge brand name in an orthopedic trajectory. There are hospitals known for cardiology. There are hospitals known for cancer. Shalby is the only brand name, for orthopedics not only in India in the whole world. So we want to capitalize on that and to grow faster, we have come up with this FOSO and FOSM business model, which is to do things, which we want to do it faster in coming five to ten years, so that we are not only able to grow all over India, but South-east Asia or Africa also in the coming time.

Moderator: We have the next question from the line of Hiten Boricha from Joindre Capital.

Hiten Boricha: Sir, I have two questions, both of them are kind of clarification questions. So first question, you had mentioned, we are looking to grow our hospital business at around 20% from the current level for four years, right? So I was looking, the revenue, which we did for nine months is around INR 530-odd crores, which is almost similar to like INR 520 crores in the last nine months.

So just wanted to understand how will be the growth coming like? I didn't get the exact number where will be the growth coming for next four, five years, 20% growth because the numbers are not matching, if we want to do 20% growth for FY '23, it should be more than INR 750 crores, right?

Shanay Shah: Yes. And what's the second question?

Hiten Boricha: And the second question is on the implant business, sir. So you have mentioned, we are looking to like breakeven in this business. So I wanted to understand more clarity on this business because we are like doing the negative PBT in last three quarters itself. So how is it going to turn around in Q4 or like more understanding on this? Because you mentioned we are going to do operating breakeven in this year itself, in FY '23, right?

Sushobhan Dasgupta: Yes. So let me clarify on the implant business first. And then Shanay can take the other question for you. So when I said positive, I said basically an EBITDA positive. So EBITDA positive will be at the end of this year. So when you look at where we were from an EBITDA nine months earlier, on the same period, our EBITDA was negative INR 5 crores, around, approximately INR 5 crores. This time, at the same time, our EBITDA today is negative INR 35 lakhs or INR 34 lakhs. So where we are coming to is when I'm talking about a nine-month period. So what I'm

trying to say here is that at the end of the full year, we will be positive, zero or positive. That's the first point.

So when I become a zero or positive, in 22 months' time, which again is a record in the orthopedic industry business that it's very-very rare or you may not find a single company, which has been able to turn EBITDA positive in 22 months. We will be going to do that and then from next year onwards, the journey starts, with a lot of new products coming in and with a lot of new markets that we are getting in, we will be getting into a high single-digit EBITDA in the following year and then getting into double digit going forward That's what I was coming to from an EBITDA standpoint.

Shanay Shah:

So I think, as Mr. Dasgupta said, at EBITDA level, we are already neutral and this is something which is very novel to the implant industry because usually it takes a lot of time to operationally break-even and then make money. Coming to the hospitals business, I think if you look, go a little back, to FY '18, the year, when we got listed, we had done revenue just in excess of INR 300 crores at that point of time.

And in this year, we are going to do the hospital business, which is going to go up to about INR 700 crores plus in this year. So we have more than doubled over five years in the hospitals business. And if you take out, if you try to calculate the CAGR return, it will be in the range of 18% to 22% on an average. So when I say 20%, I mean over a four-year period, we will be going to 20%. So there could be a year where we grow at 15%, there could be a year where we grow at 25%. I'm saying the CAGR growth will be that we will be aiming to double again in the next four to five years in the hospital business. This is one and all the other areas we've already discussed. So if there's anything else that we could help you with.

Moderator:

We have the next question from Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal:

One, Shanay, to your comment on the fact that Surat, Krishna Shalby and Jabalpur are property sub-optimally utilized currently. So what would be the occupancy of this strata of hospitals? And what would be the occupancy of your optimally occupied hospitals?

Management:

We are not sharing the individual hospital numbers. But what I was trying to tell you earlier was really that on a year-on-year basis, Surat, Krishna and Jabalpur have done exceptionally well. What I was trying to say to the question that the occupancy growth has been very flat. So I was answering the question in two parts. One is that some of the units have really outperformed like the three that we mentioned.

And the second thing is that the average length of stay has come down significantly, which is why we see that the occupancy, absolute occupancy numbers are on the lower side. But if you factor in that, it would be 10% higher than what you actually see was what I was trying to say. Having said that, we consider that when the occupancy levels of the unit are between 65%, 70%, we are operating at an optimal level. And some of these other ones, which are catching up, would be between the 40% to 50% level at the moment.

Tarang Agrawal: And, if I look at the vintage of these hospitals, right, Surat, Krishna, for instance, Krishna has been around for more than ten years now, right? Jabalpur has been around for almost eight years. So any broad sense in terms of, is that, the time that you all anticipated that these times -- these assets will take to scale up? Or there's something that's changed versus the time when you really came up with these hospitals?

Shanay Shah: See, we have to look at it in a hospital specific way. So if I start talking about Krishna, Krishna is in Ahmedabad, right? We have done really well there because we acquired that unit in 2012, we got a fixed cost breakeven in 2017, in less than four years,--in less than five years we were able to fix cost breakeven on that unit. Having said that, the Ahmedabad dynamic for Shalby has to be looked at differently because we have three large units in Ahmedabad and the last one being added in 2017, which is the Naroda unit, right?

So whenever a new unit gets added in a particular geography, in the same geography, what happens is that your existing plant will get split between your existing units and the new unit. So which is why when we acquired Krishna in 2012, we saw a dip in the occupancy of SG because a lot of patients prefer to do their treatment in Krishna, those who are living close by. Similarly, Naroda is at the other end of the town. And when we started Naroda, we saw a dip in Krishna because a lot of patients prefer not to travel all the way to another unit in the same city, if they are closer to the other one. So the Krishna unit should be looked at like this and the Ahmedabad cluster should be looked at one cluster.

The other one is really Surat where, as I said, we have really outperformed. And the trend in Surat is really to kind of go to Bombay for high-end treatment. And we are changing that. And we already are seeing a lot of success in the Surat unit. We already are at very high occupancy levels there. And in probably like the next 12 months, we should be at the level of Indore or Jaipur in these units. I want to tell you that Surat is one unit, where is a town just 15%, 20% lesser populated than Ahmedabad. The GDP per capita is higher than Ahmedabad and there is no other corporate hospital in the city, right? So that is the kind of potential that Surat has.

The other one we spoke about is Jabalpur. It's a Tier 2 city. Yes, it is slightly difficult to attract top talent there because of it being Tier 2 town. But having said that, considering the odds, we have done well over there. The potential is big. It acts as a big feeder to our Indore and Ahmedabad centers. And in the future will also act as a big feeder to our Bombay unit. In general, the capital invested in that unit also is significantly less. So we have invested only about INR 25 crores to INR 30-odd crores for that 200-bed facility. So the capital employed is significantly lower than the rest of the units.

Tarang Agrawal: The last other one was for Jabalpur, right?

Shanay Shah: Yes, that's right.

Moderator: We have the next question from the line of Arpit Shah from Stallion Asset.

Arpit Shah: I'm just a bit new to your company. I have a few questions regarding the new businesses that you have incorporated. I just wanted to understand the market opportunity side and the kind of competition we have in the implants business. And where is the plant located for the implants business. What price did we pay for that acquisition? And what kind of customers we have?

Sushobhan Dasgupta: When you look at the hip and the knee business, the implant business, the size of the implant business today all over the world is around \$17 billion. So that is the size of the market. Out of that, the US. is around \$8 billion to \$9 billion and the rest is for the rest of the world. When you look at the market growth, the US. is growing at around 2% to 3%. The rest of the world, especially in Asia, is growing at double digits. It's a high, say, around 11% to 12%. In places like India it's growing at around 12%, 13% to 14%. In places in Indonesia or in Thailand, it's growing at around 7% to 8%. So our plant is located in El Dorado Hills in California, which is near Sacramento, which is the capital of California.

We acquired the assets of the company in May 2021 at \$11.45 million to be precise. And finally, to your last question, is in terms of who are our customers is they are our hip and knee implant customers. We actually, when we took over this company, it was doing business only in the US and very miniscule in Japan. So the customer base is very low. We are expanding our customer base. The great news about this company is that when we acquired, as Dr. Shah said, we acquired this company with 50 patents in hand.

Not only that, but this company has also done more than 1,10,000 hip and knees over the last 20 years, 1,10,000 knees and hips over the last 20 years with zero product recalls. So if you go to a Google search and look at most companies of orthopedic implants, including the big four, you'll see lots and lots of product recall that happened. Whereas this company, in spite of doing 1,10,000 implants over the last 20-plus years, has zero product recalls, which talks about the high quality that is going behind each implant production.

So to your question, again, is that the customers who are buying are hip and knee implant surgeons in hospitals in the US and in Japan and in India. And very soon it will be in Indonesia, in Argentina and Colombia and then to other parts of Southeast East-Asia, Korea and also in Middle East and Africa.

Arpit Shah: So what kind of working capital do we have in this kind of business where you are manufacturing and unit selling to hospitals or surgeries?

Sushobhan Dasgupta: Shanay or Venkat, would you answer that?

Shanay Shah: So with regards to the working capital requirement, basically, we need to build in inventory. So this is a low capex business, but you need working capital to service any particular knee or hip surgery. So we will have to build inventory for that. And which is why we have kind of, put a capital, working capital outlay of between \$5 million to \$8 million for the next 12 months.

- Arpit Shah:** And let's say, you're already going to be breakeven in Q4, and you're targeting high digit EBITDA margins and probably for FY '25, you're targeting double-digit EBITDA margins. So what kind of ROCEs you're looking in this business?
- Sushobhan Dasgupta:** So I think the ROCE would be around 13% to 14%, if I'm not mistaken, over the few years. But we do not really have a solid number to be able to share with you at which year we will be getting those numbers. But certainly we will be having a double-digit ROCE over the next few years.
- Shanay Shah:** Yes. And to add to that, at the moment, we are just EBITDA neutral. So we are not adding any ROCE. But going forward, as Mr. Dasgupta said, we will see an uptrend of how the ROCE will go up. And at 20% to 25% EBITDA margins, we will be definitely having ROCE of around 20%-odd, at that level.
- Arpit Shah:** So broadly, you said you require \$5 million to \$8 million of working capital. We have reached a stage of \$12 million annualized sales around it. So we broadly need working capital of, let's say, six to eight months. And you want to touch \$100 million by 2027. So by 2025, we should be around \$35 million, \$40 million, which would require working capital of, let's say, \$20 million, \$25 million, and you're targeting 20% to 25% EBITDA margin, that will give you \$10 million. So broadly you'll be targeting around 30%, 40% ROCE in FY '25, '26 in this business?
- Management:** Yes. We'll be targeting ROCEs of over 20% in the five-year period. Having said that, it's very important to note that at the end of five years, we will not be stagnant. We'll be looking at further avenues of growth for the implant business.
- Sushobhan Dasgupta:** Correct.
- Shanay Shah:** And so further working capital will be invested in for newer geographies, and that will temporarily that part of the business where the capital is employed and it is not giving the return, there the ROCEs will be lower. So we'll have to look at it where, in which segments we are already mature, in which segments we're semi-mature and in which segments we have just invested. So we will have to split it into three buckets.
- Sushobhan Dasgupta:** Yes, you cannot do a straight-line projections, as Shanay right pointed out both by geographies, we're entering developing markets. We are looking at different other opportunities, including shoulder implants going forward. So these are very different things that we're talking about. It's all laid out in the strategic plan. So I don't think you can expect then go into a straight line projection of ROCE.
- Shanay Shah:** To add to that, again, if you look at it, we're targeting 8x the sales in six years from now, which can be kind of translated into 25%, 30% CAGR growth. Now if you're growing at this level, we constantly need working capital.
- Moderator:** Sir, we request you to rejoin the queue if you have any further questions.

- Arpit Shah:** I just finished one part of the question, I have the second part of the question, please. Just coming to the SOCE part of the business, I just wanted to understand the unit economics over here because you have two different models. One is a managed and one is a franchised model. So what unit economics are present in this kind of business? Who actually owns the hospital? And what kind of roles Shalby has in that? And what revenues or profits you make from this SOCE business? What reinvestments we are doing over there?
- Parag Agrawal:** So, in the two models, the Shalby managed model, as we have outlined in the presentation as well, it is the capex and the opex is from the franchisee. We help the franchisee run the business. We promote the business. We along with our expertise in the hospital, in orthopedics as a specialty, and we get a management fee for all the services. In the Shalby operated model, we run the hospital, it's a capex-light model. And the opex is us, the marketing is us, and we recognize the revenue and the cost as well. And that's where we give our franchisee a share of our revenue, it's largely revenue share or a lease model, which we follow there.
- Sushobhan Dasgupta:** I'll just add to that. So if you look at a 20-bed facility in general, and if you look at orthopedics if you expect a 60% to 70% occupancy there, and you're doing knee and hip replacement, high-end tertiary care work, you are able to do INR 8 crores to INR 10 crores at the highest level in these facilities. So if it's a revenue share that we have to take in terms of franchisee owned Shalby managed, then it will be a share between 3% to 8%, right? And at the same time, on the other hand, if we are operating the hospital, if it's a franchisee owned Shalby operated model, then in that case the entire revenue will come into our books, and we will be sharing between 3% and 8% with the partner.
- Moderator:** The next question is from the line of Rikesh Parikh Rockstud Capital LLP.
- Rikesh Parikh:** Sir, just two questions. One is on our hospital margin side. If I look at the EBITDA margin for our less than 10 year hospitals, which is around 15%. So that has not been improving, if I look at last two or three quarters. So any specific reason over there? Or where do we feel going forward from here onwards?
- Shanay Shah:** No. as I said, some of these units are doing exceptionally well, like Surat, Krishna, if you look at it on a year-to-year basis, these have done exceptionally well. And we want to continue to see that uptrend in order to increase the revenues. And as Dr. Nishita earlier mentioned that we are working on organ transplantations. We are working on high-end surgeries. We are working on international medical tourism. These will be the factors, which will be generating higher EBITDA margins going forward.
- Rikesh Parikh:** The second question, sir, on our Nashik and Mumbai. Any update on that expansion?
- Management:** Yes. So with regards to Nashik, we are basically relying on the partner there. They are building the hospital for us. And then they will be, once the warm shell is ready, they will be giving it to us and then we will be putting in the medical equipments and starting the operations of the hospital. Unfortunately the handover of the hospital has not yet happened from them to us. And

hence we are unable to start the operations at this moment, we are told it will be happening between six to 12 months. So this is where we are on the Nashik project.

On the Mumbai project, the trustee, it's a trust which basically is governed under the Bombay Public Trust Act. So essentially there we are waiting for certain regulatory permissions before they can hand over the premises to us. So it is again at their end. And once they hand over the premises to us, we will be getting the right permission from the Bombay Municipal Corporation and starting the project.

- Rikesh Parikh:** Any tentative dates, let's say, Nashik, so now will be like FY '24, we'll be starting?
- Shanay Shah:** So I'll tell you that the moment the handover is done to us, within three to six months, we will be starting the project. And even in Mumbai, the moment the handover is done to us, between 24 to 30 months from then on, we'll be able to start the project.
- Moderator:** We have the next question from Nidhi Babaria from Envision Capital.
- Nidhi Babaria:** Just wanted to ask, what would be our capital allocation strategy for next two to three years?
- Shanay Shah:** Capital allocation strategy, is that, sorry?
- Nidhi Babaria:** Yes.
- Shanay Shah:** Yes. So as I said, we have earmarked between \$5 million to \$8 million for the implant business in terms of the working capital. And beyond that, we will be investing in the Nashik project. The Nashik project and the Mumbai projects, both put together, are going to cost us anywhere between INR 190 crores to INR 200 crores. So that is going to be another capital investment. The capital investment in the franchisee business is slightly on the lower side. So depending on the franchisees and depending on how many are FOSOs, and FOSMs, depending on that, we have earmarked another INR 30 crores to INR 40 crores for that. But as such, all of these investments will be taken care of by internal accruals because we will be generating more than INR 200 crores of EBITDA in the hospital business next year.
- Nidhi Babaria:** And sir, what would be our peers for this implant business? And what would be the realization of contracts with the clients in US because, again, US is a fairly new market for us, though we have acquired the company over there. But still like how do we plan to go ahead with this entire implanting?
- Sushobhan Dasgupta:** I did not understand the question. Shanay, did you get the question?
- Shanay Shah:** Yes. So I think what they're asking is basically the market dynamics in terms of the peers and the competitive landscape.
- Sushobhan Dasgupta:** Okay. Yes. So thank you for the question. When we look at the market, whether it's worldwide or whether it's the US, especially in the US, the market is dominated by four big players; three

big players and one medium-sized player. It's Stryker, Johnson & Jansen and Zimmer Biomet are the three large players and then you have Smith & Nephew as the fourth largest player. And the rest, you have medium-sized players, and then you have very small sized players like us. So today, if you understand, so if we have close to \$10 million in the US and the total market size of the US is \$8 billion, you can say how small we are from a market perspective.

But I have said this, the great news about it is that we have very swift mover advantage. First of all, the way we are looking at is we may use this word called ankle biters. So we are like companies who are the ankle biters because of the supply chain issues that has happened in orthopedics and because of the scale of these larger companies, a lot of our customers that we see, whether it's the US or outside the US, are disenchanted with the service of many of these very-very big players or even the medium or to smaller-sized players. Our opportunity lies there.

As we try and get back many of the customers who used to use Consensus earlier, who got lost because the company was not doing well over the last four, five years before we bought -- acquired assets. We are trying to get back to those customers. We are also trying to get to new customers by providing some of the very new products that we have as well as the legacy that we carry of 110,000 implants were used over the last 30 years without a single product recall.

If you look at orthopedics, it's all about the trust and relationship that the customer has on the orthopedic company, and it starts with the implant. So we are great with our implants, our product quality is super, we have the testimonials to prove that. And then we will be getting it to our service as well as new products that are coming in. And that gives us the confidence that within the very-very competitive landscape, we'll be able to cash our \$100 million that we are planning over the next five years.

Nidhi Babaria: So sir, when we say that we would go to \$100 million. First of all, US would grow in a very low single-digit growth, the industry is growing at roughly around 2% to 3% and rest of the world is 13%. And if you are one of the smallest player in US area, then do we say that we are going to capture someone's market share? Or is it going to be the new product launches that is going to help us to reach our target In US, specifically in US division?

Sushobhan Dasgupta: Yes. The product launches as well as the existing products will help us capture market share. So just to give you an example. In the previous nine months versus this nine months, US has more than doubled its sales. So it's 114% growth over US sales. So nine months of previous full year versus nine months of this full year, our US sales has grown by 114%. But the market has not grown by 114%. The market in the US is growing by 2% or 3% to 4%. So obviously we're structured in market shares by bringing in new customers through offering our new products and the best quality service that we have.

Moderator: We have the next question from Mr. Harshit Toshniwal from BU Research.

Harshit Toshniwal: One question that's on the implant business itself. So can you let me know that -- so we invested INR 100 crore, around \$11 million in the business. What is the total capacity of implant, which

we currently have? And because what I want to understand that from moving from INR 100 crores turnover to, say, INR 800 crores turnover, is there going to be a new capacity addition, which we'll have to do beyond the INR 100 crores of fixed capex, which we have invested in buying the business? That's the first question. And yes, and I'll just ask the second part after this one.

Sushobhan Dasgupta:

Yes. So it's a great question. So as you rightly said, today, we are -- one of the things that obviously under Dr. Shah's direction, we are working, is that how we reach and maximize our production, as stable and growing, right? So how do we beat assets at the most? Right now we are at 5,000 components per month, 7,000 to 8,000 plus 5,000 parts per month we are manufacturing today. So it's around $12 \times 5 = 60,000$ units per year projection, we came to 60,000 units, components per year. So we believe that the total capacity right at this moment, with the current situation that we have, is around 80,000 to 85,000. So we are at 60,000.

We will be at 80,000, 85,000, we'll be maximizing capacity. It's like, again, the occupancy, but you cannot do 100% capacity utilization, right? You need some machines idle to ensure that sometimes if we get breakdown and so on. So that's where we are learning. So where will we get the rest. So we are looking at several partners and vendors. So we are looking at different manufacturing bases where we would be able to outsource some of the production going forward.

As you can understand, as I said, if I have to do \$100 million of sales in five years to six years' time, the total implant volumes that could be needed would be around close to 50,000 to 60,000 implants. So 50,000 to 60,000 implants means there are four parts in an implant. So you multiply it by 4, that's close to 200,000 parts that we have to manufacture per year. To manufacture 200,000 parts per year after five years, obviously there has to be expansion.

The expansion will be not only expanding our plant here because we have 10,000 square feet more space in the plant itself lying idle. We are looking at how we could use that 10,000 square feet, which is lying idle today, where we can bring in machinery. And when we bring in machinery, our next part would be and this is still in the planning process. We still don't have a concrete plan, but we will get machinery built in, which is automated machinery which will be able to take care of the plant. That will increase our in-house capacity. Then we will be outsourcing it to several of our partners who would be certified by us.

And later on, we have with Dr. Shah, has a vision, we all have a vision of manufacturing some parts within India. So we will begin manufacturing in India, make in India as aligned to the vision of the government going forward. When we do it, we do not know. So we are looking at how the system goes. We're going step-by-step. We're reaching 5,000. We get into 8,500 when we get into some of the other areas that I talked about; outsourcing, expanding our plant and then getting into India. So we have some great footprints going forward.

Harshit Toshniwal:

And the second part, this question itself, actually. So right now we should assume that we have sufficient capacity in-house already bought with that INR 100 crores of capex for somewhere

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around 80,000, 85,000, 90,000 of parts. And over time, obviously, then we'll have to either invest more in the business or partners, which would maybe have slightly lower margins, but that's the expansion part, which comes into question two, three years. So that is well understood, sir.

And the second part, which is related to this question, we are having requirements of investments in the India hospital business of around INR 190 crores, INR 200 crores over the next three, four years. For this acquisition, also for this business of implant also, we would need working capital continuously. And at the same time, expansion after two, three years will also require more capex beyond just that INR 100 crores, which you have invested today. So how should we think of priority with respect to these investments? Because if I try to compare it with my annual cash flows, do you think that we'll be needing a lot of leverage from this point of time? Or how should we look at that mix?

Sushobhan Dasgupta: So the way we see it is that, as you correctly mentioned, INR 200 crores will be required in the hospital business over the next three to four years. Also we have earmarked some of the funds for the potential SOCEs that will come up. And of course, the working capital requirements, which will be required for building the implant business. So as such, we are very confident that all of this will be serviced by our internal accruals, and we will not have to borrow at least for the next two years.

Harshit Toshniwal: The reason I'm asking because that internal generation from our end is roughly around INR 70 crores, INR 80 crores of free cash flow per year. And so around INR 100 crores to INR 120 crores of free cash flow per year. And we'll be requiring around INR 400 crores to INR 500 crores of investments in the next two, three years.

Sushobhan Dasgupta: Yes. So I think what will happen is that this INR 100 crores and INR 130 crores kind of free cash flow that you're talking about will grow at 20% every year, as I mentioned, because the hospital business is expected to grow at that level, right? So to that extent, you will have kitty of X number of crores because you'll do the math. And then, of course, there will be a capital outlay for the implant business at a certain level. And for the hospital business, it will be on a nonrecurring basis because it will just be the INR 200 crores, which needs to be invested in the two assets. And the SOCE business, I already give you an indication of what kind of funds will be required there. So we feel that the internal accruals will be more than sufficient for this level of growth.

Harshit Toshniwal: One last question. I think on this INR 200 crores of incremental capex on Nasik and Mumbai I mean, do you already have a 2,000 beds capacity.

Sushobhan Dasgupta: Your voice is cracking. Can you please come again?

Harshit Toshniwal: I'm saying that on the hospital business, sir, so we have an implant business, which is a much faster-growing business where the priority is much more important than maybe the expansion of 2 hospitals. And I'm saying this because we right now operate at, say, around 500, 700 beds or a 1,200 bed capacity. We have capacity up to 2,000 beds. So is it need to be -- I agree that land

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and approvals have been taken for Mumbai hospital and for the Nashik Hospital and the other one. But I mean how certain we should be with respect to forecasting the two hospital additions?

Sushobhan Dasgupta: So are you asking me whether at what point of time these hospitals will be functional or I'm not able to get the question?

Harshit Toshniwal: Yes. So that incremental capex of INR 400 crores to commission those two hospitals, I'm asking that, does it make sense to delay that at this point of time or do you think that should run parallel to all the other expansion plans?

Sushobhan Dasgupta: No, absolutely. If it has to happen, it should happen yesterday and not tomorrow, if you ask me. And that is because we are very comfortable with the net equity of 1:1. And we are, at the moment, a net cash company. So we are more than happy to take up these projects as soon as possible.

Moderator: The next question is from the line of Gunit Singh from CCIPL.

Gunit Singh: I think most of my questions have been answered, so I'll skip it for now.

Moderator: As there are no further questions, I now hand the conference over to the management for the closing comments. Over to you, sir.

Puneet Maheshwari: Thank you very much. On behalf of the entire Shalby management team, I would like to thank everyone for your great participation. Looking forward to connect on one-to-one basis to discuss more in detail. Thanks a lot.

Management: Thank you, everybody.

Moderator: Thank you very much. On behalf of Elara Securities Private Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.