HDFC securities
Click. Invest. Grow.
20 YEARS

Initiating Coverage

Shalby Ltd.

23-Aug-2021

RETAIL RESEARCH

Shalby Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare Facilities	Rs. 186.3	Buy in the 185-188 band and add on dips to Rs 166-168 band	Rs. 211	Rs. 235	2 quarters

HDFC Scrip Code	SHALBYEQNR
BSE Code	540797
NSE Code	SHALBY
Bloomberg	SHALBY IN
CMP Aug 20, 2021	186.3
Equity Capital (Rs cr)	108.0
Face Value (Rs)	10
Equity Share O/S (cr)	10.8
Market Cap (Rs cr)	2012.2
Book Value (Rs)	77.3
Avg. 52 Wk Volumes	634010
52 Week High	214.4
52 Week Low	72.0

Share holding Pattern % (June 2021)	
Promoters	74.1
Institutions	3.7
Non Institutions	22.2
Total	100.0

Retail Research Risk Rating:

	Blue*	

*** Refer at the end for explanation on Risk Ratings**

Fundamental Research Analyst
Hemanshu Parmar
hemanshu.parmar@hdfcsec.com

Our Take:

Shalby Ltd is one of the leading multi-specialty chains of hospitals in India, having a bed capacity of 2012 beds. Shalby has a strong presence in western and central India with 11 operational hospitals and has a network of 50+ outpatient clinics across 15 states in India and abroad to increase accessibility to quality healthcare. It has been a pioneer in the field of joint replacements in India, it is also one of the leading providers of quality and affordable healthcare services. Shalby's leadership position in the arthroplasty speciality (joint replacement) segment along with its increased diversification into cardiology, oncology, bariatrics and other non-arthroplasty segments have improved its brand equity.

Shalby Ltd has plans to set up new hospitals through a calibrated expansion strategy. It is pursuing an asset light model of expansion through franchise route for orthopaedics and for joint replacement to expand its pan-India presence. It is expanding its geographical presence by adding new OPD centres across India. It is also investing in the state-of-the-art technology and equipment notably in the cardiac and spine areas to provide best possible services and is focusing on digitalization including revamping the website and launching a very interactive Shalby app to serve the patients. Shalby under the leadership of Dr. Vikram Shah and the management team have demonstrated a strong operational track record of more than two decades in the healthcare industry.

Valuation & Recommendation:

Introduction of franchise model, better occupancies and new service offerings (home care & Shalby Care cards) are the key triggers for the company. Recent Implant facility acquisition will enable Shalby to procure quality implants at a competitive price for captive consumption. Potential to market these products in US and Asia would be significant growth driver. The division's growth will be further augmented by simultaneous accelerated growth of the franchisee model in India. Rapid ageing, greater life expectancy, lack of exercise and altered lifestyles are driving incidences of osteoarthritis (degenerative joint disease) among Indians. Knee replacement surgery in India has been growing in double digits over the years. The company is likely to benefit from this trend due its strong market position and established brand name, especially in this segment. **We believe the base case fair value of the stock is Rs 211 (31.5x FY23E EPS, 17.0x FY23E EV/EBITDA) and the bull case fair value of the stock is Rs 235 (35.2x FY23E EPS, 19.0x FY23E EV/EBITDA) over the next two quarters.**

Investors can buy the stock in the band of 185-188 band (28.0x FY23E EPS, 15.1x FY23E EV/EBITDA) and add on dips to 166-168 band (25.0x FY23E EPS, 13.5x FY23E EV/EBITDA). At LTP of Rs 186.3, the stock is trading at 28.0x FY23E EPS, 15.1x FY23E EV/EBITDA.

Financial Summary (Consolidated):

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	192.4	38.4	400.5	145.0	32.6	462.3	486.9	430.9	684.2	737.6
EBITDA	38.3	-4.8	-891.1	31.0	23.6	82.4	81.7	86.4	123.2	136.4
Depreciation	9.0	9.0	0.2	9.4	-4.1	33.2	36.0	36.8	38.1	39.7
Other Income	2.5	2.3	8.9	2.1	17.5	9.3	17.4	9.1	6.8	7.4
Interest Cost	1.0	1.2	-15.7	0.8	30.9	8.1	6.4	3.6	5.0	6.5
Tax	10.6	-4.0	-367.0	13.2	-19.7	18.7	29.1	12.7	23.0	25.6
PAT	20.2	-8.7	-332.1	9.8	106.7	31.7	27.6	42.4	63.9	72.1
Adjusted PAT	20.2	-8.7	-332.1	9.8	106.1	31.7	27.6	42.4	63.9	72.1
EPS (Rs)	1.9	-0.8	-332.1	0.9	106.1	2.9	2.6	3.9	5.9	6.7
RoE-%						4.1	3.5	5.2	7.4	7.9
P/E (x)						63.6	73.1	47.5	31.5	27.9
EV/EBITDA (x)						25.2	25.2	23.1	16.6	15.3

(Source: Company, HDFC sec)

Q1FY22 Result Review:

Shalby Ltd reported strong revenue of Rs 192.4cr, up 400.5%/32.6% YoY/QoQ. Revenue growth was mainly due to covid impact which accounted for ~55% of the topline (~Rs 100cr) as against 7% in the previous quarter. The recently acquired implant business started its operations on May 14, and it added revenue of USD $595,000 which is ~Rs 4.5 crores at a gross profit margin close to 50%. The company reported healthy EBITDA margin of 19.9% as against 21.4% in the previous quarter. EBITDA for the quarter was Rs 38.3cr compared to Rs 30.9cr in the last quarter and a loss of Rs 2.5cr in the same quarter last year. Delay in elective surgeries (arthroplasty) and EBITDA loss from Shalby Advanced Technologies (Rs 3.8cr) impacted overall margins at consolidated level. It reported PAT of Rs 20.2cr against Rs 9.8cr in previous quarter and loss of Rs 8.7cr in Q1FY21.

Surgery count declined to 2,813 from 5,472 in Q4FY21 as majority of the hospital facilities were converted to treat Covid-19 patients. In-patient count increased sequentially (due to covid), up 14.6% QoQ to 9934. The elective surgeries which were postponed amidst the second wave are expected to recover in the coming quarters. Day-care patient count was at 5108 (-12.4% QoQ) and Out-patient count remained flat QoQ at 103371. Operational bed count increased to 1,224 from 1,200 in Q4FY21. Shalby reported ARPOB of Rs 27,779 compared to Rs 33,225, pulled down due to higher number covid treatments. Due to higher covid patients (~50%), its ALOS increased 6.1 days as against 5 days in Q4FY21. Bed occupancy also increased to 59.1% as compared to 40.1% in Q4FY21.

Shalby added two franchise partnership for Udaipur and Rajkot, which are expected to commence operations in Q2FY22 and Q4FY22 respectively. Franchisee model which was put on hold due to covid, has now gathered stream; and the management is more likely to focus on metro and state capital cities as a part of its calibrated asset-light expansion. Its homecare service offerings received positive response especially from COVID-19 patients; serving around 4300 patients, it delivered a topline of Rs 1.6cr during the quarter. The company will continue to strengthen homecare services by expanding its presence into key geographies. With respect to its international implant business, Shalby reported revenue of Rs 4.5cr in one and half month of its operations in Q1FY22. The management is positive that its implant business will be earnings accretive by the end of FY23.

Triggers:

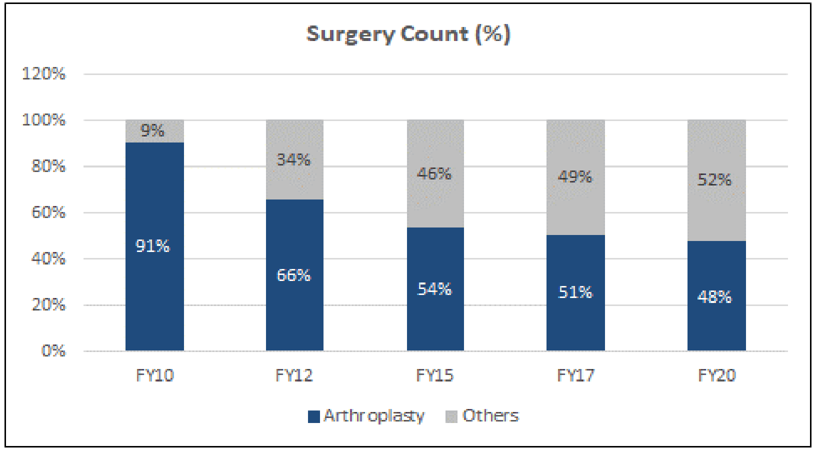
Leader in Arthroplasty (joint replacement surgery):

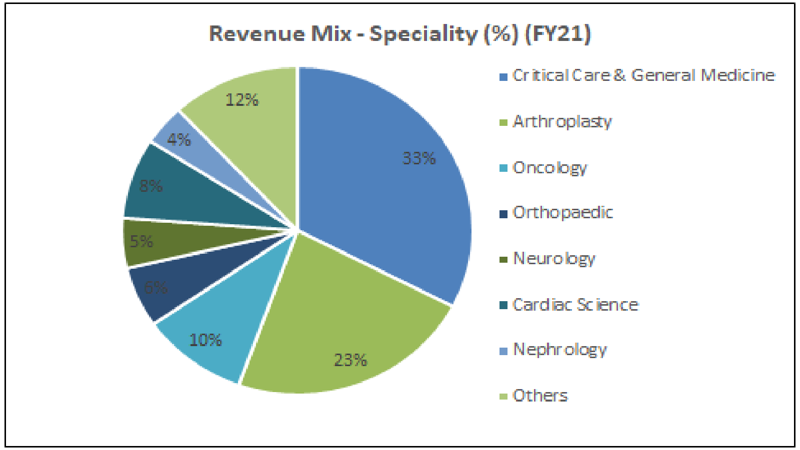
Shalby is a leader in joint replacement surgery in India with 15% market share in India (highest among private hospitals). It is the top player worldwide for knee replacement surgery. Its leadership position is on the back of Dr Vikram Shah’s expertise in the area. The arthroplasty segment has remained the key revenue driver (~45%/23% of revenue in FY20/FY21) and yielding high margins. Rapid ageing, greater life expectancy, lack of exercise and altered lifestyles are driving incidences of osteoarthritis (degenerative joint disease) among Indians. Knee replacement surgery in India has been growing in double digits over the years. The company is likely to benefit from this trend due its strong market position and established brand equity, especially in this segment. The company is capitalizing on this niche segment and coming up with a franchise model for orthopedics and joint replacement to expand its pan-India presence. Recent acquisition of implant manufacturing facility in the US would create significant synergies as Shalby is one of the largest consumers of implants. This business will enable Shalby to procure quality implants at a competitive price for captive consumption and the division’s growth will be further augmented by simultaneous accelerated growth of the franchisee model in India.

Shalby Ltd.

Increased diversification into non-arthroplasty segments:

Arthroplasty remains Shalby's key strength contributing ~45% of topline (in FY20). Over the years, the company has broadened its capabilities beyond its niche segment - arthroplasty procedures (knee and hip replacements) and expanded to other specialties. The company has forayed into tertiary and quaternary specialties such as Cardiology, Neurology, Oncology, Bariatrics, Liver and Renal transplants. Revenue share of arthroplasty segment has reduced from ~65% in FY15 to ~45% in FY20 and 23% in FY21. Leveraging its brand equity in orthopedic surgery, and building its presence as a multi-specialty chain across its area of operations will help improve its overall occupancy levels. Shalby has been reaching out to top doctors in the cities and have added visiting doctor model to its existing full-time doctors. The company continues to gain traction within Oncology and Neurology, Cardiac Science and Critical Care by forging tie-up with leading specialty doctors. It is also enhancing focus on quaternary treatments like organ transplants for liver, heart, lungs and kidney. The company is also exploring homecare segment for service diversification. All these are expected to create opportunities for organic growth. Further the recent implant business would add to diversification of revenue (~12-15% of topline in FY23).

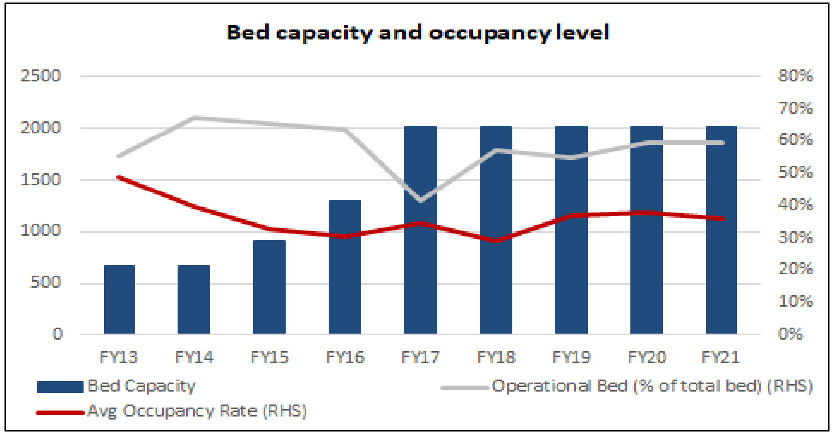


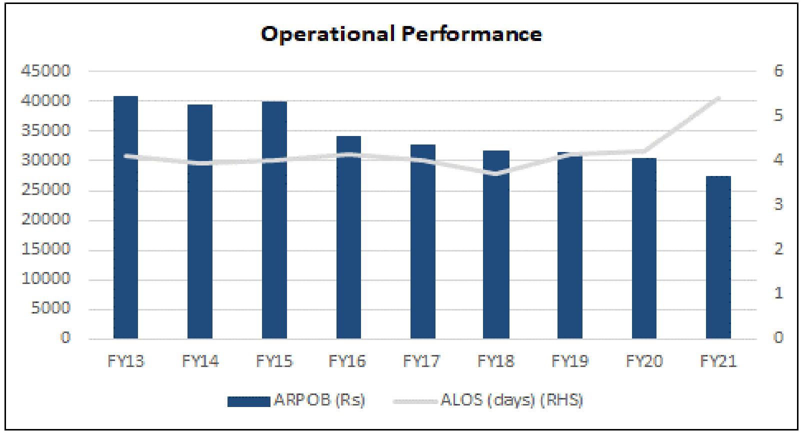


(Source: Company, HDFC sec)

Increase in occupancy levels and ARPOB to drive revenue growth:

Shalby has total bed capacity of 2012 bed of which only 1200 beds (~60%) are operational. The company has recorded subdued average occupancy levels ~30-38% in the last five years. This low occupancy is rate is mainly due to younger maturity of hospital portfolio. Improving maturity mix profile and recognition of its brand during covid times would be instrumental in improving its overall occupancy rate. Adding visiting doctor model to existing full-time doctors would improve its reach and its overall occupancy levels. On the back of higher focus on non-Arthroplasty specialty; mature hospitals' occupancy is expected to improve due to relatively higher ALOS. **Shalby has a lot of beds (~40% of bed capacity) that can be operationalized in a short period of time at a low capital cost. Once the occupancy levels of the hospitals reach 70-80%, these beds can be operationalized which would further drive topline growth at minimal incremental capex of Rs 15-20cr.** Despite having lower occupancy rates compared to its peers, it has been able to maintain strong EBITDA margins of 18-20% over last few years. A combination of various initiatives such as prudent utilization of real estate, customized building construction, intelligent use of floor space and optimizing procurement costs has resulted in significant cost savings. Its cost-conscious efforts around centralized procurement and clinician management strategy (lower commission payout) have supported healthy margin levels. As Shalby moved away from its core specialty – Arthroplasty - to diversify to other specialties; its ARPOB has been gradually falling (from Rs 34173 in FY16 to Rs 30457 in FY20). However, further dilution in ARPOB is not expected going forward.





(Source: Company, HDFC sec)

Operating leverage & new hospitals to drive next leg of EBITDA expansion:

Hospitals with maturity of <5 years account for ~46.8% of the total bed capacity and contribute over 41% of revenue in FY21. This young portfolio of hospitals has relatively lower ARPOB and EBITDA compared to its matured units. We have seen gradual improvement in its EBITDAR margins and occupancy level in FY21. Higher occupancy rate and higher ARPOB in the young portfolio would be a key lever for topline and bottomline growth. Also, these newer hospitals have lesser mix of Arthroplasty and other specialties as they are more focused on secondary care. Improving surgery/specialty mix would support margin expansion going forward. Two new units having bed capacity of 288 beds are in pipeline (Mumbai & Nashik – operational by FY24 & FY23 end respectively). Hospital Units – Vapi, Jabalpur – which were secondary care units at the time of acquisition, are lagging compared to other units in terms of occupancy, EBITDA and ARPOB. To improve the performance, Shalby have been attracting top specialists; and perhaps on the back of their credentials and frequent visits, these units could see a turnaround. Although the capital employed in these two units were low, improvement in occupancy and ARPOB would support its margins.

Maturity Profile Analysis - FY20	Bed Capacity	Operational Beds	Occupancy	Revenue Share	EBITDA	ARPOB (Rs)	IP Count	OP Count	Surgery Count
6 Years+ (SG , Krishna , Vapi , Vijay)	613	437	37%	47%	31.3%	39,158	17,119	1,27,191	9,724
4-6 Years (Jabalpur, Indore)	488	330	41%	21%	12.4%	21,193	13,033	85,972	4,246
2-4 Years (Jaipur , Surat , Naroda)	766	324	42%	28%	16.4%	28,630	30,838	92,503	5,117
<2 Years (Mohali)	145	73	25%	4%	-26.3%	35,505	1,768	19,930	748
	2012	**1200**	**38%**		**19.8%**	**30,457**	**62,758**	**3,25,596**	**19,835**

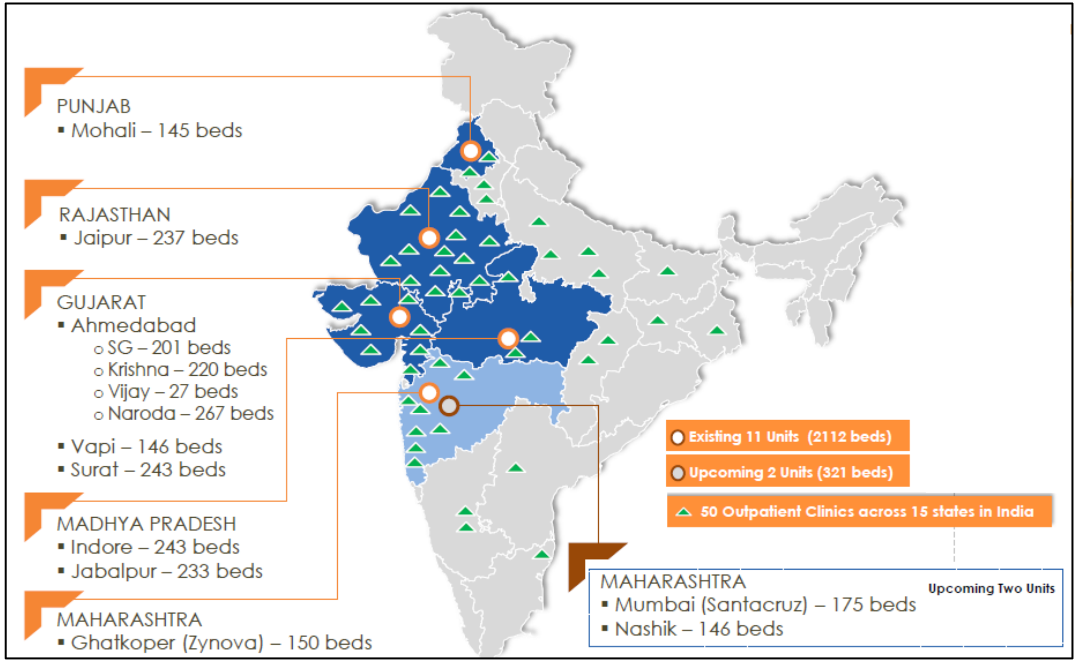
(Source: Company, HDFC sec)

Asset light model expansion plan:

Shalby Ltd is implementing franchise model to increase its pan-India presence. It has adopted two models - Franchise Owned Franchise Operated (FOFO) & Franchise Owned Shalby Operated (FOSO). Percentage of revenue share ranges from 5-10% (Shalby in FOFO, franchisee in FOSO) depending on the town, working capital required to operate the franchise and the investment made by both parties. Leveraging on its expertise and brand name, the focus of this asset-light route would be on orthropaedics and joint replacement. Franchise hospitals will be located in key catchment areas and will have around 50 beds. Capital expenditure will be incurred by the franchisee which would be operated under the brand name of Shalby and they would enter into revenue sharing agreement. It will replicate the clinical excellence it has developed over time and train the doctors and the support staff. Moreover, the key raw material required in Arthroplasty surgery will be supplied by Shalby thereby maintaining quality. Shalby's only focus will be to deliver quality service to the patients. Though its wide reach of out-patient clinics across India, Shalby is able to develop a hub and spoke model in which out-patient clinics supports as a feeder as well as provides convenience to the patients for post-operative care. The rollout of franchisee model was put on hold due to pandemic, and now Shalby is optimistic to penetrate deeper into Tier I and Tier II cities. It added two franchise partnership for Udaipur and Rajkot, which are expected to commence operations in Q2FY22 and Q4FY22, respectively. Its next phase of expansion will be focused on Metro cities followed by state capital cities. Asset-light model of expansion would improve its RoCE and would help scale this niche segment.

Name	Commencement Yr	No of Beds	Type of Arrangement	Occupancy	Revenue Contribution
SG Highway (Ahmedabad)	2007	201	Lease - Fixed Rent	34%	24%
Vijay (Ahmedabad)	1994	27	Freehold	45%	1%
Krishna (Ahmedabad)	2012	220	Freehold	35%	11%
Naroda	2017	267	Lease - Revenue Share	55%	11%
Surat	2017	243	Freehold	49%	11%
Vapi	2012	146	Freehold	24%	1%
Indore	2012	243	Freehold	44%	15%
Jabalpur	2015	233	Lease - Revenue Share	19%	6%
Mohali	2017	145	Freehold	31%	5%
Jaipur	2017	237	Freehold	45%	14%
Zynova (Mumbai)	2017	50	O&M Model	-	-

(Data: FY21, Source: Company, HDFC sec)



(Source: Company, HDFC sec)

Implant acquisition – key growth trigger:

Shalby recently did acquisition of implant assets from implant facility Consensus Orthopaedics (Consensus), headquartered in California. Consensus designs and manufactures orthopedic implants and instruments with sales predominantly in North America. Key customers include hospitals, surgeons and wholesale distributors. It has a long-standing track record of innovation and completed over 160,000 joint replacement procedures with zero recalls in the company's history. The acquired assets primarily comprise of inventory (includes knee systems, mobile bearing knee systems, hip systems and revision knee systems) and plant & equipment. Shalby paid USD 11.45mn for the implant facility, funded by USD 3.35mn in cash and USD 8.45mn in bank borrowings. In 2018, it recorded sales of US$ 15 million, whereas in 2019 they did roughly US$ 11 million in sales. In the covid year (2020), its sales were impact but it managed to record a topline of US$

7.5 million. Currently the sales are in U.S, and Shalby is pursuing to get the required approvals for selling the products in India. It will start selling its products in Indian market and also for captive consumption within Shalby after required regulatory approvals are received, which could take around 6 months.

Shalby being the leader in joint replacement market consumes (10,000+) implants in a year and this acquisition has enabled Shalby to procure quality implants at a competitive price for its own consumption in India. It will further allow Shalby to diversify from its core hospital healthcare services business into related and high growth implant product offerings. As the facility and the implants are all USFDA approved, securing approvals for sales in other countries will not be challenging.

It appointed Mr. Sushobhan Dasgupta as Vice Chairman and Global President of Shalby Limited and Mr. Daniel Hayes as the Chief Executive Officer of Shalby Advanced Technologies. Both Mr. Dasgupta and Mr. Hayes have an extensive international experience of leading implant businesses and they will be instrumental in driving the strategy and financial performance of US implant business over the coming years. Their efforts currently are focused towards rebuilding systems and operations, having members of the new executive team, reengineering brand & logos, upgrading IT infrastructure in the US, and more importantly reigniting to relationships with its existing customers and forging new customer relations. Also, this implant facility would not entail any major capex in near future as it is currently operating at 15% capacity (in 2020). The acquired facility has a capacity of 25000 joints which would be enough for captive consumption and is exiting sales in US over next two-three years. The division’s growth will be further augmented by simultaneous accelerated growth of the franchisee model in India and the management expects that this transaction will be EBITDA neutral by FY23-end.

Enhancing patient servicing through ‘Shalby Care Card’ and ‘Shalby Homecare’:

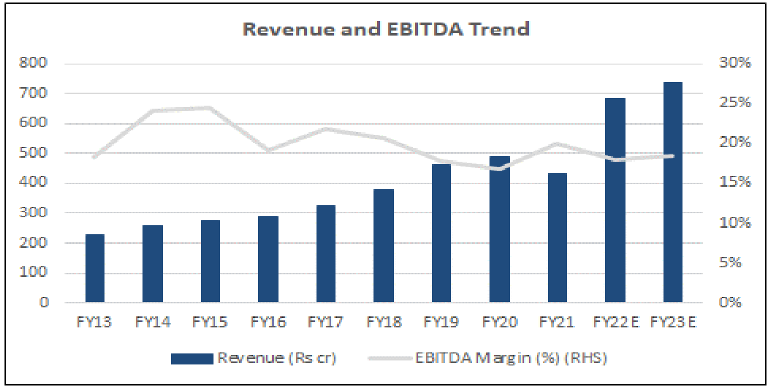
Shalby recently came up with innovative product – Shalby Care Card which has membership fees of Rs 2500/- and Rs 5000/-. Introduction of the card care would be beneficial to large number of patients, especially senior citizens who do not have insurance because of the insurance company age limitations and cost component. This provision is intended to offer them affordable treatment with discounted service rates and increase its occupancy & improve current customer stickiness at the same time. Shalby Homecare is yet another service introduced to bring quality multispecialty healthcare specialty at the doorsteps of the patients. Specialized services are offered in Tier-2/3 cities which remain deprived of quality services due to lack of infrastructure and expertise. It registered homecare revenue of Rs 3.4cr in FY20. Shalby is coming up with numerous technological upgradations such as Online Video Consultation, Electronic Medical Record rollout, Robotic Process Automation, Digital Prescription & Services Management solution that helps hospital digitize patient data. It is also investing in the state-of-the-art technology and equipment notably in the cardiac and spine areas to provide best possible services and is focusing on digitalization including revamping the website and launching an interactive Shalby app to serve its patients betters

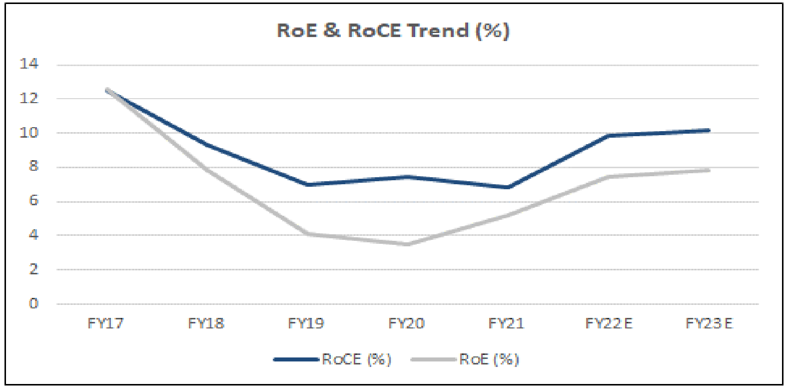
Strong brand value and experienced management team:

Shalby is promoted by renowned joint replacement specialist, Dr. Vikram Shah, who has over 25 years of medical experience in the UK, USA and India. Its overall operations are also supported by its senior management with an average experience of more than 10 years in healthcare services in India and abroad. Recent addition to the management team - Mr. Sushobhan Dasgupta as Vice Chairman and Global President of Shalby Limited and Mr. Daniel Hayes as the CEO of Shalby Advanced Technologies – both have an extensive international experience of leading implant businesses and they will be instrumental in driving the strategy and financial performance of US implant business over the coming years. Mr. Dasgupta's last role was at Johnson and Johnson, where he was leading the orthopaedic businesses for the entire Asia Pacific region. Mr. Daniel Hayes, CEO of Shalby Advanced Technologies, was the former CEO and founder of Consensus Orthopaedics. Mr. Hayes has more than 15+ years of orthopaedic medical devices business. Strong management bench-strength can help turnaround the International Implant business. Shalby has created brand equity for itself as a trusted and preferred name in the healthcare sector, with special reference to orthopaedic surgery. The brand name was earned based on its modern technologies, best-in-class infrastructure, quality healthcare services and successful surgeries performed on patients of all age groups and across diversified locations.

Healthy balance sheet supported by revenue growth and improvement in margins:

Shalby reported decent revenue growth of 7.5% CAGR over FY17-21. Young portfolio of hospitals and recent covid impacted its topline growth. EBITDA margins were impressively due to its operational efficiency and cost optimization efforts. Despite having low occupancy level compared to its peers; it managed to record health margins in 18-21%. Also, despite continuous expansion in the past decade, the company has remained debt free owing to its asset light model approach and healthy cash flow generation from legacy hospitals in Ahmedabad owing to brand stickiness. We expect Shalby to clock revenue growth of 30.8% CAGR over FY21-23E on the back of increase in in-patient volumes and its new implant business. Improvement in occupancy levels with operating leverage coming into play, we expect PAT to grow at CAGR of 30.4% over FY21-23E. The management focus on franchise model for expansion would improve its RoCE to 10.2% in FY23E.



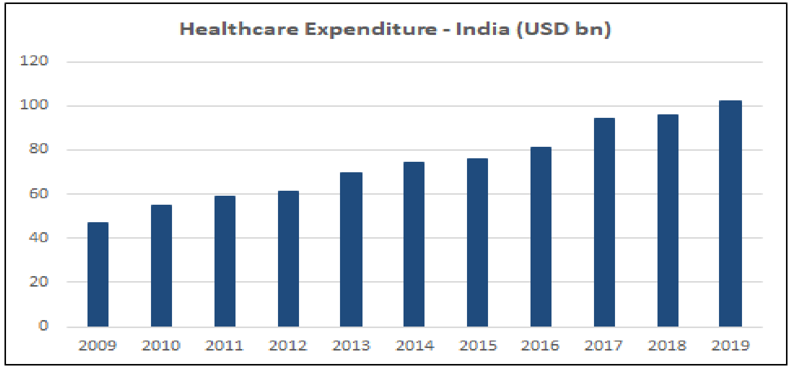


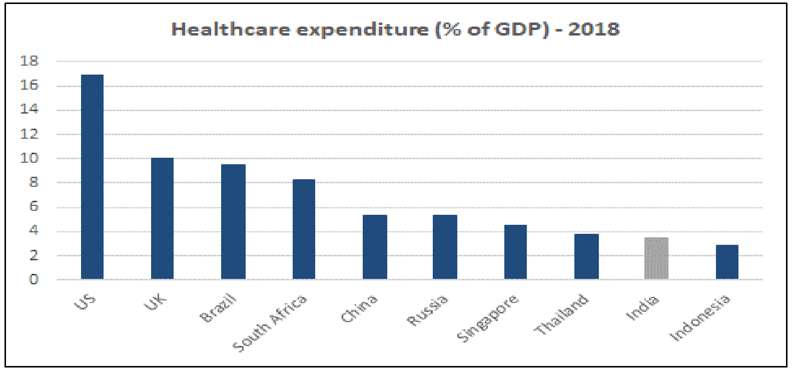
(Source: Company, HDFC sec)

Industry Insights & Triggers:

Hospitals in India has long runway to growth with lower number of doctors/bed relative to total population, healthcare spends as percentage of GDP to the global averages. The hospital industry in India stood at $62 billion in 2017 and is expected to increase at a 16-17% CAGR to reach a size of $133 billion by 2023. This indicates that there is tremendous scope for enhancing healthcare services penetration in India and ample opportunity for the development of the healthcare industry as a whole. The demand outlook for healthcare services is positive in the long-run, due to growing awareness of healthcare issues, under-served nature of the sector, better affordability through increasing per capita income, and widening medical insurance coverage. India offers affordable healthcare treatment to many developing countries encouraging inbound medical tourism. Treatment for major surgeries in India costs approximately 1/5th of developed countries. A rare combination of world-class hospitals, equipped with best-in-class technology, skilled medical professionals, low treatment costs, and process improvements like e-medical visa, have made India a preferred destination for medical tourism.

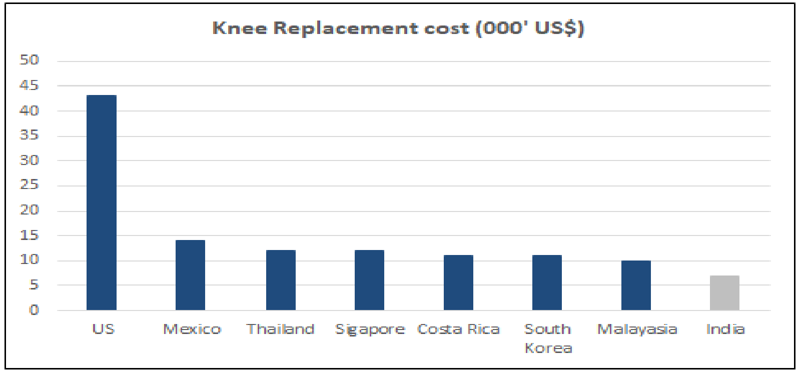
India's huge demand-supply gap, rising health insurance penetration, high out-of-pocket spends, increase in medical tourism provide compelling growth prospects for the industry. The adoption of asset-light models of expansion, enhanced focus on retail formats – pharmacy, diagnostics and digital initiatives – are expanding avenues of growth while keeping the balance sheet light. Private players remain the key growth contributors, given that the government spending remains low at ~1.5% of GDP.

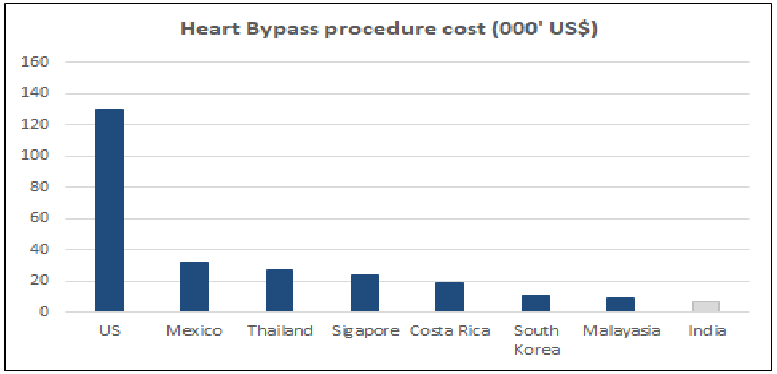




(Source: World Bank, HDFC sec)

Orthopaedics: Rapid ageing, greater life expectancy, lack of exercise and altered lifestyles are driving incidences of osteoarthritis (degenerative joint disease) among Indians. About 22%-39% of Indians get affected by osteoarthritis. They are 15 times more prone to get arthritis than the Western population. This has accelerated the demand for joint replacement surgeries, arthroscopy as well as paediatric orthopaedics. Knee replacement surgery in India has been growing in double digits over the years. The growing number of orthopaedic patients of all ages and the rising number of surgeries are estimated to boost the knee replacement market in India.





(Source: Company, Jefferies, HDFC sec)

Concerns:

- **High dependence on flagship hospital, SG Highway:** SG Highway derived 33% of the total revenue and 57% of the total operating profit from SG Highway in FY20. Revenue contribution in FY21 stood at 24%. Although its share has been gradually decreasing over the past three years due to increased contribution of the newly commissioned hospitals, it still continues to remain significant. Focus on franchise model for expansion and recent acquisition of implant facility would aid in diversifying its revenue.

- **Historically low occupancy levels & low return ratio:** Shalby recorded subdued average occupancy levels ~30-38% in the last five years. This low occupancy is rate is mainly due to younger maturity of hospital portfolio. Much of the portfolio expansion was carried out in last four years. But some of mature units – Vapi and Jabalpur – continue to see very low occupancy levels. The management has taken some steps to improve the performance; turnaround of these units would be key monitorable. Also, there is risk of not achieving industry level occupancy rates in new hospitals. Shalby's RoE and RoCE for FY21 were 5.2% and 6.8% respectively. These are low due to low sales to Fixed Assets ratio (which is a function of low occupancy) and minimal leverage.

- **Adverse price regulations by government:** The National Pharmaceutical Pricing Authority (NPPA) imposed a ceiling price on coronary stents in Feb'17 and extended it to knee implants later in the year, which impacted the business profitability of all hospitals. While hospitals responded by adjusting their package prices to mitigate the impact, such headwind could recur if price caps are extended to cover other consumables, diagnostic tests, etc.

- **Limited profitability in implant business in India:** In implant business, India is not a target market given the price ceiling (peak sales price of USD 520 vs. USD ~4500 in the US market on an average). Hence, Shalby Advance Technologies will have to concentrate on geographies outside India to drive higher sales and profitability.

- **Execution risk for its Implant facility:** Inability to turnaround the implant assets will significantly impact the revenue and earnings growth. Delay in obtaining clearances and regulatory intervention in orthopaedics remain a key risk.

- **Risk of attrition of key doctors:** Risk of losing patient and successful doctors to competing hospitals still remains, Shalby mitigates it to some extent by entering into long-term consultancy contracts with a few key doctors. In the last few years, the attrition of key doctors has remained within acceptable levels.

- **Recruitment and retaining of medical talent:** This is one of the key hurdle faced by the industry that limits growth. Given the scarcity of quality resources, recruiting and retaining medical talent is a key challenge, especially with the competition also hunting for similar resources.

- **Keyman Risk:** Dr Vikram Shah remains a key pull behind Shalby's Arthroplasty practice especially in SG Highway Hospital in Ahmedabad and hence there is significant Keyman risk involved.

Company Profile:

Shalby Ltd is one of the leading multi-specialty chains of hospitals in India, having a bed capacity of 2012 beds (upcoming 288 beds). Shalby has a strong presence in western and central India with 11 operational hospitals in Ahmedabad, Vapi, Surat, Jaipur, Indore, Jabalpur, Mohali and Mumbai. The company also has a network of 50+ outpatient clinics across 15 states in India and abroad, which act as a separate medium to tap new patients. Internationally also, it has established a strong presence in Africa, Bangladesh and Cambodia with multiple out-patient clinics extending expert healthcare and wellness services to these countries.

Shalby Ltd is leader in Arthroplasty in India (market share of 15% in private hospitals), with strong brand recall. Over the years, the company has broadened its capabilities beyond its niche segment - arthroplasty procedures (knee and hip replacements) and expanded to other specialities. The company has forayed into tertiary and quaternary specialties such as Cardiology, Neurology, Oncology, Bariatrics, Liver and Renal transplants. Shalby is also focussed on home care business where healthcare services are provided to patients at their homes. Shalby Ltd has plans to set up new hospitals through a calibrated expansion strategy. It is pursuing an asset light model of expansion through franchise route for orthopaedics and for joint replacement to expand its pan-India presence.

The company registered a blended ARPOB of Rs 27,400 in FY21 (vs 30,457 in FY20) and ALOS of 5.24 days. Out of the total bed capacity of 2012, operational bed count was 428 in FY21. The existing revenue mix between arthroplasty and other specialties is at ~45:55 (FY20). Recent Implant facility acquisition will enable Shalby to procure quality implants at a competitive price for a captive consumption and the division's growth will be further augmented by simultaneous accelerated growth of the franchisee model in India.

Shalby Ltd.

Peer Comparison (Consolidated):

	Mcap (Rs cr)	Sales				EBITDA Margin (%)				PAT			
		FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Shalby	**2012**	**487**	**431**	**684**	**738**	**16.8**	**20.1**	**18.0**	**18.5**	**27.6**	**42.4**	**63.9**	**72.1**
Narayana Hrudayalaya	10297	3128	2582	3684	4254	13.5	7.1	17.8	19.2	119	-14	282	364
Fortis Healthcare	20958	4632	4030	5514	6223	13.2	10.0	16.9	17.2	58	-110	362	477

	RoCE (%)				P/E				EV/EBITDA			
	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Shalby	**7.5**	**6.8**	**9.9**	**10.2**	**73.1**	**47.5**	**31.5**	**27.9**	**25.2**	**23.1**	**16.6**	**15.3**
Narayana Hrudayalaya	10.9	3.6	17.5	17.8	91.6	negative	36.5	28.3	26.1	59.8	16.7	13.3
Fortis Healthcare	4.4	2.0	9.0	10.3	360.5	negative	57.8	44.0	36.5	54.3	23.1	19.7

(Source: Company, HDFC sec)

Shalby Ltd.

Financials (Consolidated):

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**462.3**	**486.9**	**430.9**	**684.2**	**737.6**
Growth (%)	**22.3**	**5.3**	**-11.5**	**58.8**	**7.8**
Operating Expenses	379.9	405.1	344.5	561.0	601.1
EBITDA	**82.4**	**81.7**	**86.4**	**123.2**	**136.4**
Growth (%)	**5.6**	**-0.8**	**5.7**	**42.5**	**10.8**
EBITDA Margin (%)	**17.8**	**16.8**	**20.1**	**18.0**	**18.5**
Depreciation	33.2	36.0	36.8	38.1	39.7
EBIT	**49.2**	**45.7**	**49.6**	**85.1**	**96.8**
Other Income	9.3	17.4	9.1	6.8	7.4
Interest expenses	8.1	6.4	3.6	5.0	6.5
PBT	**50.4**	**56.7**	**55.0**	**86.9**	**97.6**
Tax	18.7	29.1	12.7	23.0	25.6
RPAT	31.7	27.6	42.4	63.9	72.1
APAT	**31.7**	**27.6**	**42.4**	**63.9**	**72.1**
Growth (%)	**-19.5**	**-12.9**	**53.7**	**50.8**	**12.8**
EPS	2.9	2.6	3.9	5.9	6.7

Balance Sheet

As at March (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	108.0	108.0	108.0	108.0	108.0
Reserves	671.8	691.2	726.7	779.8	837.8
Shareholders' Funds	**779.8**	**799.2**	**834.7**	**887.8**	**945.8**
Minority's Interest	0.1	0.1	0.0	0.0	0.0
Long Term Debt	56.9	48.7	35.5	100.5	95.5
Net Deferred Taxes	-2.0	17.8	22.8	22.8	22.8
Long Term Prov & Others	14.0	17.7	21.9	30.3	31.2
Total Source of Funds	**848.7**	**883.4**	**914.9**	**1041.4**	**1095.3**
APPLICATION OF FUNDS					
Net Block & Goodwill	693.5	675.9	663.1	690.0	705.3
CWIP	1.7	3.0	4.0	4.0	79.0
Other Non-Current Assets	44.6	54.0	58.4	79.5	85.7
Total Non-Current Assets	**739.8**	**732.9**	**725.5**	**773.5**	**870.0**
Current Investments	10.8	27.9	15.5	15.5	15.5
Inventories	12.8	15.2	23.1	66.9	72.3
Trade Receivables	81.4	94.9	87.8	131.2	143.5
Cash & Equivalents	25.4	28.7	83.6	98.2	63.3
Other Current Assets	67.0	67.0	61.2	75.0	80.8
Total Current Assets	**197.3**	**233.7**	**271.2**	**386.8**	**375.5**
Short-Term Borrowings	0.0	0.0	0.0	0.0	20.0
Trade Payables	56.3	60.2	57.6	82.5	90.9
Other Current Liab & Prov	32.1	23.1	24.2	36.4	39.2
Total Current Liabilities	**88.4**	**83.3**	**81.8**	**118.9**	**150.2**
Net Current Assets	108.9	150.5	189.4	267.9	225.3
Total Application of Funds	**848.7**	**883.4**	**914.9**	**1041.4**	**1095.3**

Shalby Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	50.4	56.7	55.0	86.9	97.6
Non-operating & EO items	1.0	-0.9	-6.4	-13.5	-5.5
Interest Expenses	1.5	1.2	3.6	5.0	6.5
Depreciation	33.2	36.0	36.8	38.1	39.7
Working Capital Change	-33.3	-17.6	4.0	-63.0	-12.0
Tax Paid	-9.4	-20.2	-12.7	-23.0	-25.6
OPERATING CASH FLOW (a)	**43.4**	**55.4**	**80.4**	**30.4**	**100.7**
Capex	-31.3	-19.8	-25.0	-65.0	-130.0
Free Cash Flow	12.1	35.6	55.4	-34.6	-29.3
Investments	-11.5	-16.0	12.4	0.0	0.0
Non-operating income	44.2	5.1	-18.3	0.0	0.0
INVESTING CASH FLOW (b)	**1.4**	**-30.7**	**-30.9**	**-65.0**	**-130.0**
Debt Issuance / (Repaid)	-42.9	-8.6	-13.2	65.0	15.0
Interest Expenses	-8.3	-6.4	-3.6	-5.0	-6.5
FCFE	-39.1	20.6	38.6	25.4	-20.9
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	0.0	-6.5	-10.8	-10.8	-14.0
Others	-0.1	0.0	8.1	0.0	0.0
FINANCING CASH FLOW (c)	**-51.3**	**-21.5**	**-19.5**	**49.2**	**-5.6**
NET CASH FLOW (a+b+c)	**-6.5**	**3.2**	**30.0**	**14.6**	**-34.9**

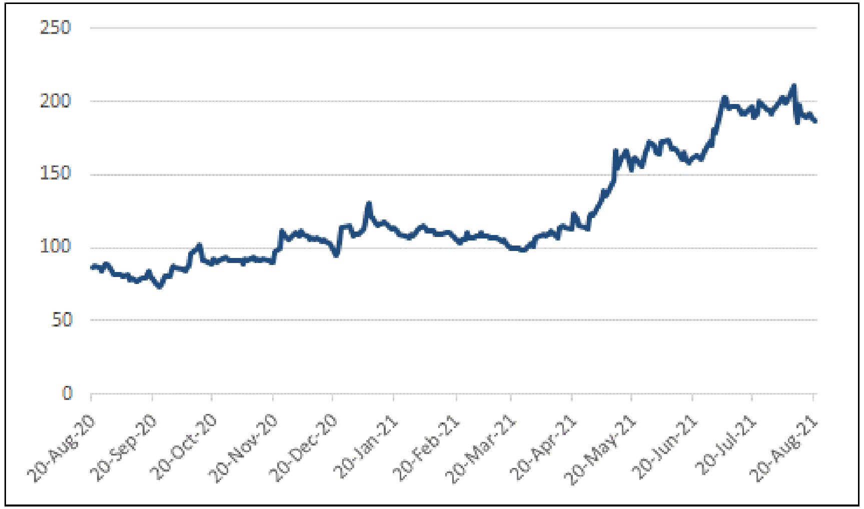
Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
PROFITABILITY RATIOS (%)					
EBITDA Margin	17.8	16.8	20.1	18.0	18.5
EBIT Margin	12.7	13.0	13.6	13.4	14.1
APAT Margin	6.9	5.7	9.8	9.3	9.8
RoE	4.1	3.5	5.2	7.4	7.9
RoCE	7.0	7.5	6.8	9.9	10.2
SOLVENCY RATIOS					
Debt/EBITDA (x)	0.7	0.6	0.4	0.8	0.8
D/E (x)	0.1	0.1	0.0	0.1	0.1
PER SHARE DATA (Rs)					
EPS	2.9	2.6	3.9	5.9	6.7
CEPS	6.0	5.9	7.3	9.4	10.3
Dividend	0.5	0.5	1.0	1.0	1.3
BVPS	72.2	74.0	77.3	82.2	87.6
TURNOVER RATIOS					
Debtor days	52.2	66.1	77.4	58.4	68.0
Inventory days	9.8	10.5	16.2	24.0	34.4
Creditors days	41.6	43.6	49.9	37.4	42.9
VALUATION					
P/E (x)	63.6	73.1	47.5	31.5	27.9
P/BV (x)	2.6	2.5	2.4	2.3	2.1
EV/EBITDA (x)	25.2	25.2	23.1	16.6	15.3
EV/Revenues (x)	4.5	4.2	4.6	3.0	2.8
Dividend Yield (%)	0.3	0.3	0.5	0.5	0.7
Dividend Payout (%)	17.1	19.6	25.5	16.9	19.5

(Source: Company, HDFC sec)

Shalby Ltd.

One Year Price Chart



(Source: Company, HDFC sec)

HDFCSec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I**, Hemanshu Parmar, (ACA),** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
Research Analyst or his relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.
Any holding in stock – No
HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193