

CMP: ₹ 230

Target: ₹ 310(35%)

Target Period: 12 months

BUY

November 4, 2024

Outlook remains promising despite quarterly gyrations...

About the stock: Started by renowned orthopaedic surgeon Dr Vikram Shah, Shalby is a multi-specialty hospitals chain with expertise in joint replacement.

- Revenue-wise breakup Q2FY25: Arthroplasty / Orthopaedic: 43%, Critical care & General medicine: 12%, Cardiac science: 10%, Oncology: 10%, Neurology: 6%, Nephrology: 6%, Others: 13%
- Shalby registered a blended ARPOB of ₹ 38,779 and ALOS of 3.6 days (without day care procedures) in Q2FY25.
- Implant-focused business under the Consensus franchise is based out of US and caters to the geographies of US, India and other countries.

Investment Rationale:

- Q2FY25- Weak results impacted by subdued hospitals performance – Revenues grew ~12% YoY to ₹ 268 crore, driven by Implant segment business and acquisition of Sanar Hospital in Gurugram. However, existing hospitals sales (standalone) declined ~2% YoY to ₹ 212 crore. Implants (Shalby Consensus) sales grew ~90% YoY to ₹ 28 crore with contributions from the US and Out of US (OUS) at 30% and 70% respectively. EBITDA declined ~38% YoY to ₹ 33 crore and EBITDA margins declined 995 bps to ~12%. Lower EBITDA growth was attributable lower Hospitals sales besides higher RM and other expenses. Hospitals margins stood at ~13% while Implant business reported loss of ₹ 73 Lakh at EBITDA level. The performance was impacted by reduction in surgeries by 7%, an outcome of heavy rains and flooding in Rajasthan and Gujarat resulting in postponement of voluntary surgeries. This was despite 7% ARPOB growth.
- Calibrated expansion plans with franchisee focus and asset selection – Weak numbers during the quarter notwithstanding, Shalby is making right strides with calibrated growth based on a select big ticket expansion in metros and tier I cities and asset-light franchisee-based expansion in tier II-VI towns. It recently acquired Gurugram based Sanar International Hospital which has better payor and ARPOB profile. Under its asset-light franchisee Shalby Centre for Orthopaedic Excellence (SOCE), it has already established six such models across India and expects to add 40 such models. For Implants, the company is transitioning sales mix more towards retail customers (in the US), enhancing operational efficiency, expanding product pipeline through extensive R&D efforts and reducing procurement costs by sourcing from more than one vendor.

Rating and Target price

- Our SOTP valuation of ₹ 310 is based on 14x FY26E hospitals EBITDA and 2x FY26E Consensus Sales.

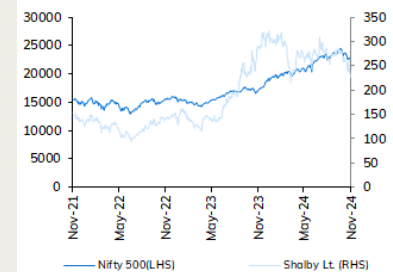
Particulars

Particular	Amount
Market Capitalisation	₹ 2484 crore
Debt (FY24)	₹ 314 crore
Cash (FY24)	₹ 27 crore
EV	₹ 2771 crore
52 week H/L	340/210
Equity capital	Rs 107.4 crore
Face value	₹ 10

Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	74.1	74.2	74.3	74.3
FIIIs	4.6	4.9	5.4	5.4
DIIIs	0.0	0.0	0.1	0.1
Others	21.3	20.9	20.3	20.3

Price Chart



Key risks

- (i) Unforeseen delay in franchisee model execution (ii) volatility in implants business profitability

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Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	3 year CAGR (FY23E-26E)
Revenues	486.9	430.9	698.9	804.9	18%	933.8	1083.9	1245.1	16%
EBITDA	81.7	86.4	119.9	137.4	19%	176.1	182.4	260.7	24%
EBITDA margins (%)	16.8	20.1	17.2	17.1		18.9	16.8	20.9	
Net Profit	27.6	42.4	54.0	68.3	35%	82.5	60.5	121.7	21%
EPS (₹)	2.6	3.9	5.4	6.3		7.6	5.6	11.3	
PE (x)	104.1	67.8	53.1	42.0		34.8	47.5	23.6	
EV to EBITDA (x)	35.1	32.6	24.1	20.8		17.5	17.5	11.6	
RoCE (%)	7.2	6.5	8.4	9.9		10.2	9.2	13.2	
ROE (%)	3.5	5.1	6.7	7.4		8.3	6.0	11.0	

Source: ICICI Direct Research

Exhibit 1: Quarterly Summary

(₹ crore)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Total Operating Income	181.6	162.4	162.6	201.7	201.8	202.5	199.0	235.5	238.0	216.0	244.2	278.9	267.5	12.4	-4.1
Raw Material Expense	3.4	0.3	23.8	16.8	14.4	16.4	11.9	18.5	13.3	15.0	16.7	24.7	26.0	95.0	5.3
% of Revenue	1.9	0.2	14.6	8.3	7.1	8.1	6.0	7.9	5.6	7.0	6.8	8.9	9.7	412 bps	86 bps
Gross Profit	178.2	162.1	138.8	184.9	187.4	186.1	187.1	217.0	224.7	201.0	227.5	254.2	241.5	7.5	-5.0
Gross Profit Margin (%)	98.1	99.8	85.4	91.7	92.9	91.9	94.0	92.1	94.4	93.0	93.2	91.1	90.3	-412 bps	-86 bps
Employee Expenses	29.5	31.0	32.9	32.3	33.7	36.6	41.7	39.2	38.6	37.8	39.9	44.9	47.1	22.2	5.0
% of Revenue	16.2	19.1	20.2	16.0	16.7	18.1	20.9	16.6	16.2	17.5	16.3	16.1	17.6	141 bps	153 bps
Other Expenditure	119.3	102.8	81.9	112.5	116.6	115.5	119.8	135.5	133.4	120.9	148.7	164.1	161.8	21.3	-1.4
% of Revenue	65.7	63.3	50.4	55.8	57.8	57.1	60.2	57.6	56.0	56.0	60.9	58.9	60.5	443 bps	162 bps
Total Expenditure	152.2	134.2	138.6	161.6	164.7	168.5	173.3	193.3	185.3	173.7	205.4	233.7	234.9	26.8	0.5
% of Revenue	83.8	82.6	85.2	80.1	81.6	83.2	87.1	82.1	77.8	80.4	84.1	83.8	87.8	995 bps	401 bps
EBITDA	29.4	28.2	24.0	40.1	37.1	34.0	25.7	42.2	52.7	42.3	38.9	45.2	32.6	-38.1	-27.8
EBITDA Margin (%)	16.2	17.4	14.8	19.9	18.4	16.8	12.9	17.9	22.2	19.6	15.9	16.2	12.2	-995 bps	-401 bps
Other Income	2.8	2.8	4.3	4.0	5.3	4.0	9.2	4.5	5.4	4.5	5.0	9.7	7.2	33.0	-26.2
Interest	1.6	1.6	1.7	1.8	1.8	2.7	2.8	2.8	3.2	3.6	6.5	8.1	9.3	192.1	14.0
Depreciation	11.5	11.3	11.2	11.6	11.9	11.8	12.8	11.9	12.3	12.4	15.6	16.4	16.8	36.9	2.9
PBT	19.2	18.2	15.4	30.6	28.7	23.5	19.2	32.1	42.6	30.8	21.8	30.4	13.7	-67.9	-54.9
Total Tax	8.4	0.9	5.3	10.5	10.3	8.3	5.3	12.2	15.1	11.8	5.7	15.7	11.3	-24.6	-27.6
Tax rate (%)	44.0	4.7	34.2	34.4	35.9	35.1	27.6	37.9	35.3	38.4	26.4	51.5	82.8		
PAT	10.8	12.9	10.2	20.1	18.4	15.3	13.9	19.9	27.6	19.0	16.1	14.7	2.4	-91.5	-84.0
PAT Margin (%)	5.9	8.0	6.3	10.0	9.1	7.6	7.0	8.5	11.6	8.8	6.6	5.3	0.9		
EPS (₹)	1.0	1.2	0.9	1.9	1.7	1.4	1.3	1.8	2.6	1.8	1.5	1.4	0.2		

Source: Company, ICICI Direct Research

Exhibit 2: Valuation Summary

Particulars	FY26E (Rs cr)	Valuation Matrix	Multiple (x)	EV (Rs cr)
Hospitals	252.1	EV/EBITDA	14.0	3,530
Shalby Consensus	154.7	EV/Sales	2.0	309
EV				3,839
Net Debt FY26E (₹ cr)				448
Minority Interest				6
Targeted MCap (₹ cr)				3,386
No of shares (cr)				11
Per Share Value (₹)				310

Source: Company, ICICI Direct Research

Q2FY25 Conference call highlights

- Heavy rainfall in Gujarat and Rajasthan led to a significant reduction in elective surgeries, especially orthopaedic ones, as patients chose to postpone procedures.
- The recent addition of Sanar Hospital expenses has added to cost pressures. Sanar currently operates at a 25% occupancy rate, with plans to increase capacity to 200 beds as occupancy improves, and gradual performance improvements are expected.
- The implant segment's 90% YoY revenue growth is due to international market expansion, including in Latin America, Russia, and Iran. The company aims to grow the implant business to a revenue target of \$100 million in the next 5 years.
- Efforts to shift from wholesale to retail sales, along with an expanding product pipeline, are expected to sustain the business's upward momentum.
- Shalby's home care business grew by 15.3% YoY, and the franchise network is projected to expand to 40 locations across India over the next 4-5 years, using an asset-light model.
- The company anticipates double-digit revenue growth in the hospital segment, with further gains in the implant division throughout Q3 and Q4 of FY25.
- Shalby aims to gradually recover pre-monsoon elective surgery volumes in Q3 and Q4 of FY25
- Management expects occupancy to reach 70% over the next 12-18 months, supported by franchise models that will increase blended occupancy without substantial capital investment.
- Company to Invest ₹250 crore for building 175 beds Asha Parekh Hospital in Santacruz, Mumbai

Financial Tables

Exhibit 5: Profit and loss statement					₹ crore
Year-end March	FY23	FY24	FY25E	FY26E	
Total Operating Income	804.9	933.8	1,083.9	1,245.1	
Growth (%)	15.2	16.0	16.1	14.9	
Raw Material Expenses	59.4	63.6	97.4	116.1	
Gross Profit	745.5	870.2	986.5	1,129.0	
Gross Profit Margins (%)	92.6	93.2	91.0	90.7	
Employee Expenses	143.6	155.4	184.4	212.9	
Other Expenditure	464.5	538.6	619.7	655.4	
Total Operating Expenditure	667.5	757.6	901.5	984.4	
EBITDA	137.4	176.1	182.4	260.7	
Growth (%)	14.6	28.2	3.5	42.9	
Interest	9.1	16.0	35.9	35.9	
Depreciation	48.1	52.2	66.9	73.5	
Other Income	22.5	19.4	31.2	35.9	
PBT before Exceptional Item:	102.7	127.3	110.8	187.2	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	102.7	127.3	110.8	187.2	
Total Tax	34.4	44.8	50.4	65.5	
PAT before MI	68.3	82.5	60.5	121.7	
PAT	68.3	82.5	60.5	121.7	
Growth (%)	26.6	20.8	-26.7	101.3	
EPS (Adjusted)	6.3	7.6	5.6	11.3	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					₹ crore
Year-end March	FY23	FY24	FY25E	FY26E	
Profit/(Loss) after taxation	73.6	108.1	60.5	121.7	
Add: Depreciation & Amortization	38.8	52.2	66.9	73.5	
Net Increase in Current Assets	-63.4	-91.3	-84.9	-61.1	
Net Increase in Current Liabilities	17.6	-48.6	5.7	62.9	
Others	1.1	-0.8	35.9	0.0	
Net cash flow from Operating activities	67.7	19.6	84.0	197.0	
(Purchase)/Sale of Investments	-119.2	73.7	-31.2	25.0	
(Purchase)/Sale of Fixed Assets	-17.7	-45.2	-130.4	-210.0	
Others	75.8	9.5	22.5	-3.2	
Net cash flow from Investing activities	-61.1	38.1	-139.0	-188.2	
Proceeds from issues of Equity Shares	-7.5	0.0	0.1	0.0	
Proceeds/(Repayment) offrom Loan	-13.3	89.7	154.7	0.0	
(Payment) of Dividend and Dividend Tax	-10.8	-8.9	-12.1	-24.3	
Others	-18.4	-231.5	-35.9	0.0	
Net cash flow from Financing activities	-50.1	-150.7	106.8	-24.3	
Net Cash Flow	-43.4	-93.0	9.6	-15.6	
Cash and Cash Equivalent at the beginnir	55.6	120.1	27.2	36.8	
Cash	12.2	27.1	36.8	21.2	
Free Cash Flow	50.0	-25.6	-46.4	-13.0	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					₹ crore
Year-end March	FY23	FY24	FY25E	FY26E	
Equity Capital	107.3	107.4	107.5	107.5	
Reserve and Surplus	820.4	893.0	899.1	996.5	
Total Shareholders funds	927.7	1,000.4	1,006.6	1,104.0	
Total Debt	141.7	314.0	468.7	468.7	
Deferred Tax Liability	43.4	35.0	49.1	50.1	
Minority Interest	-0.1	7.4	5.5	5.7	
Other Non Current Liabilities	48.5	65.5	58.8	60.0	
Source of Funds	1,161.2	1,422.2	1,588.7	1,688.5	
Gross Block - Fixed Assets	910.6	1,197.2	1,322.8	1,452.8	
Accumulated Depreciation	235.6	287.8	354.7	428.2	
Net Block	675.0	909.3	968.1	1,024.6	
Capital WIP	10.5	15.4	20.1	100.1	
Goodwill	10.2	56.9	56.9	56.9	
Fixed Assets	695.7	981.6	1,045.1	1,181.6	
Investments	145.7	80.6	111.8	86.8	
Other non-Current Assets	41.7	55.6	56.6	62.3	
Deferred Tax Assets	26.7	18.1	0.0	0.0	
Inventory	185.4	235.2	276.0	302.1	
Debtors	106.4	144.6	171.4	204.7	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	67.5	64.6	82.0	83.6	
Cash	12.1	27.2	36.8	21.2	
Total Current Assets	371.3	471.6	566.1	611.6	
Creditors	87.9	129.6	119.2	174.9	
Provisions	1.5	3.2	3.0	3.4	
Other Current Liabilities	30.6	52.5	68.7	75.6	
Total Current Liabilities	119.9	185.3	191.0	253.8	
Net Current Assets	251.4	286.3	375.1	357.8	
Application of Funds	1,161.2	1,422.2	1,588.6	1,688.4	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
Year-end March	FY23	FY24	FY25E	FY26E
Per share data (Rs)				
Reported EPS	6.3	7.6	5.6	11.3
Cash EPS	9.5	11.3	10.7	15.8
BV per share	85.9	92.6	93.2	102.2
Cash per Share	1.1	2.5	3.4	2.0
Dividend per share	1.3	1.2	1.1	2.3
Operating Ratios (%)				
Gross Profit Margins	92.6	93.2	91.0	90.7
EBITDA margins	17.1	18.9	16.8	20.9
PAT Margins	8.5	8.8	5.6	9.8
Asset Turnover	0.9	0.8	0.8	0.9
EBITDA conversion Rate	49.3	11.1	46.1	75.6
Return Ratios (%)				
RoE	7.4	8.3	6.0	11.0
RoCE	9.9	10.2	9.2	13.2
RoIC	9.2	9.7	8.1	12.6
Valuation Ratios (x)				
P/E	42.0	34.8	47.5	23.6
EV / EBITDA	20.8	17.5	17.5	12.4
EV / Net Sales	3.5	3.3	2.9	2.6
Market Cap / Sales	3.6	3.1	2.7	2.3
Price to Book Value	3.1	2.9	2.9	2.6
Solvency Ratios				
Debt / EBITDA	1.0	1.8	2.6	1.8
Debt / Equity	0.2	0.3	0.5	0.4
Current Ratio	3.0	2.4	2.8	2.4
Quick Ratio	1.4	1.1	1.3	1.2
Inventory days	1,140	1,351	1,034	950
Debtor days	48	57	58	60
Creditor days	540	744	447	550

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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