

CMP: ₹ 250

Target: ₹ 320(28%)

Target Period: 12 months

BUY

April 3, 2024

Focused approach, long-drawn strategy to the fore...

About the stock: Shalby is a multi-specialty hospitals chain that manages 16 hospital assets across India (10 owned multispecialty hospitals and 6 franchisee hospitals). Total bed capacity- 2362.

- Specialty wise revenue breakup as on Q3FY24: Arthroplasty: 38%, Critical care & General medicine: 13%, Cardiac science: 9%, Orthopaedic: 7%, Oncology: 10%, Neurology: 6%, Nephrology: 5%, Others: 12%
- Shalby is also into Implants business (knee and hip implants) via its US based subsidiary Consensus with sales in US, India, Japan among others.
- The company has introduced asset-light franchisee model (SOCE) to expand hospitals business into newer geographies using Shalby expertise.

Investment Rationale:

- Mixed Q3FY24 with muted revenue growth but improved margins- Revenues grew ~7% YoY to ₹ 216 crore, as ~12% growth in the hospitals business was undone by 6% de-growth in implants business. Hospitals grew 12% YoY to ₹ 194.5 crore, driven by 3% ARPOB growth (₹ 37342), ~4% improvement in occupancies and ~15% In-patient growth among others. Consolidated EBITDA grew ~24% to ₹ 42.3 crore and EBITDA margins stood at 19.6%.
- Calibrated expansion plans with franchisee focus and asset selection – Shalby recently acquired Gurugram based Sanar International Hospital (P K Healthcare Pvt Ltd.) for a consideration of ₹ 102 crore. The hospital generates around 70% business from international markets catering to more than 60 countries. The company is committed to expand its Shalby Centre for Orthopaedic Excellence (SOCE), which is an asset light franchisee model across India. It has already established six such models across India and expects to add 40 such models over the next 4-5 years.
- Implants business on the curve, shaping well- After a promising start in FY23, the implants business faced certain headwinds in FY24 which seems transitory. The company has firm plans to expand this business beyond US and India and to improve the profitability gradually from hereon.

Rating and Target price

- We assign BUY rating based on 1) strong arthroplasty legacy and diversification into other super-specialties 2) asset light model via franchisee drive, 3) expansion of implants business into newer geographies besides stronger India and US traction, 4) significant valuation discount vis-à-vis other Pan-India players which is likely to converge on the back of improved performances and calibrated capex.
- Our SOTP valuation of ₹ 320 is based on 13x FY26E hospitals EBITDA and 2x FY26E Consensus Sales.

Key Financial Summary

Key Financials (Rs crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23E-26E)
Revenues	486.9	430.9	698.9	804.9	18.2%	923.8	1061.3	1200.6	14.3%
EBITDA	81.7	86.4	119.9	137.4	18.9%	184.3	216.0	257.2	23.2%
EBITDA margins (%)	16.8	20.1	17.2	17.1		20.0	20.4	21.4	
Net Profit	27.6	42.4	54.0	68.3	35.3%	89.8	111.8	139.8	26.9%
EPS (Rs)	2.6	3.9	5.4	6.3		8.3	10.4	13.0	
PE (x)	97.9	63.7	49.9	39.5		30.0	24.1	19.3	
EV to EBITDA (x)	32.9	30.6	22.7	19.5		14.4	12.3	10.3	
RoCE (%)	7.2	6.5	8.4	9.9		11.6	13.6	16.0	
ROE (%)	3.5	5.1	6.7	7.4		9.0	10.3	11.6	

Source: Company, ICICI Direct Research



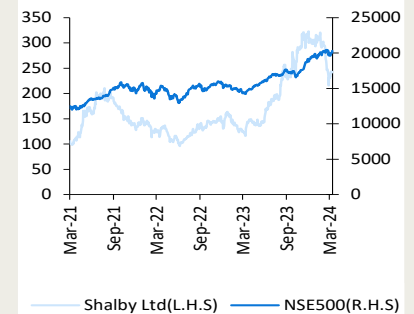
Particulars

Particular	Amount
Market Capitalisation	Rs 2700 crore
Debt (FY23)	Rs 142 crore
Cash (FY23)	Rs 12 crore
EV	Rs 2830 crore
52 week H/L	340/135
Equity capital	Rs 108 crore
Face value	Rs 10

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	74.0	74.0	74.1	74.1
FIIIs	3.9	4.0	4.1	4.6
DIIIs	0.0	0.0	0.0	0.0
Others	22.1	22.0	21.8	21.3

Price Chart



Key risks

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

Research Analyst

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Exhibit 1: Quarterly Summary

(Rs crore)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Total Operating Inc	131.8	145.0	192.4	181.6	162.4	162.6	201.7	201.8	202.5	199.0	235.5	238.0	216.0	6.7	-9.2
Raw Material Expe	11.9	7.9	13.3	3.4	0.3	23.8	16.8	14.4	16.4	11.9	18.5	13.3	15.0	-8.1	12.7
% of Revenue	9.1	5.5	6.9	1.9	0.2	14.6	8.3	7.1	8.1	6.0	7.9	5.6	7.0	-112 bps	135 bps
Gross Profit	119.9	137.1	179.0	178.2	162.1	138.8	184.9	187.4	186.1	187.1	217.0	224.7	201.0	8.0	-10.5
Gross Profit Margin	90.9	94.5	93.1	98.1	99.8	85.4	91.7	92.9	91.9	94.0	92.1	94.4	93.0	112 bps	-135 bps
Employee Expense	16.5	17.4	25.0	29.5	31.0	32.9	32.3	33.7	36.6	41.7	39.2	38.6	37.8	3.1	-2.1
% of Revenue	12.5	12.0	13.0	16.2	19.1	20.2	16.0	16.7	18.1	20.9	16.6	16.2	17.5	-61 bps	128 bps
Other Expenditure	72.6	88.7	115.8	119.3	102.8	81.9	112.5	116.6	115.5	119.8	135.5	133.4	120.9	4.7	-9.3
% of Revenue	55.1	61.2	60.2	65.7	63.3	50.4	55.8	57.8	57.1	60.2	57.6	56.0	56.0	-109 bps	-7 bps
Total Expenditure	101.0	114.0	154.1	152.2	134.2	138.6	161.6	164.7	168.5	173.3	193.3	185.3	173.7	3.1	-6.2
% of Revenue	76.7	78.6	80.1	83.8	82.6	85.2	80.1	81.6	83.2	87.1	82.1	77.8	80.4	-281 bps	256 bps
EBITDA	30.8	31.0	38.3	29.4	28.2	24.0	40.1	37.1	34.0	25.7	42.2	52.7	42.3	24.6	-19.7
EBITDA Margin (%)	23.3	21.4	19.9	16.2	17.4	14.8	19.9	18.4	16.8	12.9	17.9	22.2	19.6	281 bps	-256 bps
Other Income	2.3	2.1	2.5	2.8	2.8	4.3	4.0	5.3	4.0	9.2	4.5	5.4	4.5	11.8	-16.1
Interest	0.9	0.8	1.0	1.6	1.6	1.7	1.8	1.8	2.7	2.8	2.8	3.2	3.6	36.6	14.6
Depreciation	9.3	9.4	9.0	11.5	11.3	11.2	11.6	11.9	11.8	12.8	11.9	12.3	12.4	5.1	0.8
PBT	22.9	23.0	30.8	19.2	18.2	15.4	30.6	28.7	23.5	19.2	32.1	42.6	30.8	30.8	-27.7
Total Tax	6.0	13.2	10.6	8.4	0.9	5.3	10.5	10.3	8.3	5.3	12.2	15.1	11.8	43.1	-21.5
Tax rate (%)	26.4	57.5	34.5	44.0	4.7	34.2	34.4	35.9	35.1	27.6	37.9	35.3	38.4		
PAT	16.8	9.8	20.2	10.8	12.9	10.2	20.1	18.4	15.3	13.9	19.9	27.6	19.0	24.2	-31.1
PAT Margin (%)	12.8	6.8	10.5	5.9	8.0	6.3	10.0	9.1	7.6	7.0	8.5	11.6	8.8		
EPS (Rs)	1.6	0.9	1.9	1.0	1.2	0.9	1.9	1.7	1.4	1.3	1.8	2.6	1.8		
No. of shares	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8		

Source: Company, ICICI Direct Research

Exhibit 2: SoTP Valuation

Particulars	FY26E (Rs cr)	Valuation Matrix	Multiple (x)	EV (Rs cr)
Hospitals	249.0	EV/EBITDA	13.0	3,237
Shalby Consensus	114.3	EV/Sales	2.0	229
EV				3,466
Net Debt FY26E (Rs cr)				9.2
Minority Interest				-0.1
Targeted MCap Rs cr)				3,457
No of shares (cr)				10.8
Per Share Value (Rs)				320
cmp				250.0
up/Down				28%

Source: Company, ICICI Direct Research

Financial Tables

Exhibit 3: Profit and loss statement		₹ crore			
Year-end March	FY23	FY24E	FY25E	FY26E	
Total Operating Income	804.9	923.8	1,061.3	1,200.6	
Growth (%)	15.2	14.8	14.9	13.1	
Raw Material Expenses	59.4	64.4	79.6	90.0	
Gross Profit	745.5	859.3	981.7	1,110.5	
Gross Profit Margins (%)	92.6	93.0	92.5	92.5	
Employee Expenses	143.6	156.5	184.2	205.3	
Other Expenditure	464.5	518.5	581.5	648.0	
Total Operating Expenditure	667.5	739.4	845.3	943.4	
EBITDA	137.4	184.3	216.0	257.2	
Growth (%)	14.6	34.2	17.2	19.0	
Interest	9.1	13.2	10.7	8.2	
Depreciation	48.1	49.0	51.5	53.9	
Other Income	22.5	19.3	22.2	25.1	
PBT before Exceptional Items	102.7	141.4	176.0	220.1	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	102.7	141.4	176.0	220.1	
Total Tax	34.4	51.6	64.2	80.3	
PAT before MI	68.3	89.8	111.8	139.8	
PAT	68.3	89.8	111.8	139.8	
Growth (%)	26.6	31.4	24.5	25.1	
EPS (Adjusted)	6.3	8.3	10.4	13.0	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement		₹ crore			
Year-end March	FY23	FY24E	FY25E	FY26E	
Profit/(Loss) after taxation	73.6	89.9	111.9	139.9	
Add: Depreciation & Amortization	38.8	49.0	51.5	53.9	
Net Increase in Current Assets	-63.4	80.6	-31.4	-32.9	
Net Increase in Current Liabilities	17.6	21.2	17.5	19.6	
Others	1.1	13.2	10.7	0.0	
Net cash flow from Operating activities	67.7	254.0	160.2	180.5	
(Purchase)/Sale of Investments	-119.2	25.0	25.0	25.0	
(Purchase)/Sale of Fixed Assets	-17.7	-180.0	-130.0	-130.0	
Others	75.8	-5.0	-5.7	-6.4	
Net cash flow from Investing activities	-61.1	-160.0	-110.7	-111.4	
Proceeds from issues of Equity Shares	-7.5	0.0	0.0	0.0	
Proceeds/(Repayment) of/ from Loan	-13.3	125.0	-50.0	-50.0	
(Payment) of Dividend and Dividend Tax	-10.8	-18.0	-22.4	-28.0	
Others	-18.4	-13.2	-10.7	0.0	
Net cash flow from Financing activities	-50.1	93.8	-83.1	-78.0	
Net Cash Flow	-43.4	187.8	-33.6	-8.8	
Cash and Cash Equivalent at the beginning	55.6	12.1	199.9	166.3	
Cash	12.2	199.9	166.3	157.5	
Free Cash Flow	50.0	74.0	30.2	50.5	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet		₹ crore			
Year-end March	FY23	FY24E	FY25E	FY26E	
Equity Capital	107.3	107.3	107.3	107.3	
Reserve and Surplus	820.4	892.3	981.8	1,093.8	
Total Shareholders funds	927.7	999.6	1,089.2	1,201.1	
Total Debt	141.7	266.7	216.7	166.7	
Deferred Tax Liability	43.4	44.3	45.2	46.1	
Minority Interest	-0.1	-0.1	-0.1	-0.1	
Other Non Current Liabilities	48.5	49.5	50.5	51.5	
Source of Funds	1,161.2	1,360.0	1,401.4	1,465.2	
Gross Block - Fixed Assets	910.6	1,010.6	1,060.6	1,110.6	
Accumulated Depreciation	235.6	284.6	336.1	390.0	
Net Block	675.0	726.0	724.5	720.6	
Capital WIP	10.5	90.5	170.5	250.5	
Goodwill	10.2	10.2	10.2	10.2	
Fixed Assets	695.7	826.7	905.2	981.3	
Investments	145.7	120.7	95.7	70.7	
Other non-Current Assets	41.7	45.8	50.4	55.4	
Deferred Tax Assets	26.7	29.4	32.4	35.6	
Inventory	185.4	70.6	65.4	74.0	
Debtors	106.4	139.2	174.5	197.4	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	67.5	68.8	70.2	71.6	
Cash	12.1	199.9	166.3	157.5	
Total Current Assets	371.3	478.5	476.4	500.5	
Creditors	87.9	105.9	119.9	135.7	
Provisions	1.5	1.6	1.8	1.9	
Other Current Liabilities	30.6	33.6	37.0	40.7	
Total Current Liabilities	119.9	141.1	158.7	178.3	
Net Current Assets	251.4	337.4	317.7	322.2	
Application of Funds	1,161.2	1,360.0	1,401.4	1,465.2	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios		Per share data (Rs)			
Reported EPS	6.3	8.3	10.4	13.0	
Cash EPS	9.5	11.2	13.1	15.4	
BV per share	85.9	92.6	100.8	111.2	
Cash per Share	1.1	18.5	15.4	14.6	
Dividend per share	1.3	1.7	2.1	2.6	
Operating Ratios (%)					
Gross Profit Margins	92.6	93.0	92.5	92.5	
EBITDA margins	17.1	20.0	20.4	21.4	
PAT Margins	8.5	9.7	10.5	11.7	
Asset Turnover	0.9	0.9	1.0	1.1	
EBITDA conversion Rate	49.3	137.8	74.2	70.2	
Return Ratios (%)					
RoE	7.4	9.0	10.3	11.6	
RoCE	9.9	11.6	13.6	16.0	
RoIC	9.2	14.7	17.6	21.4	
Valuation Ratios (x)					
P/E	39.5	30.0	24.1	19.3	
EV / EBITDA	19.5	14.4	12.3	10.3	
EV / Net Sales	3.3	2.9	2.5	2.2	
Market Cap / Sales	3.4	2.9	2.5	2.2	
Price to Book Value	2.9	2.7	2.5	2.2	
Solvency Ratios					
Debt / EBITDA	1.0	1.4	1.0	0.6	
Debt / Equity	0.2	0.3	0.2	0.1	
Current Ratio	3.0	2.0	2.0	2.8	
Quick Ratio	1.4	1.5	1.5	2.4	
Inventory days	1,140	400	300	300	
Debtor days	48	55	60	60	
Creditor days	540	600	550	550	

Source: Company, ICICI Direct Research

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