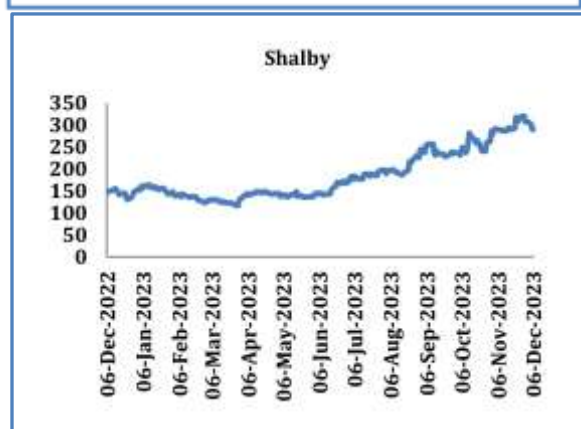


December 07, 2023

**SHALBY LTD.**

Industry	Hospital & Healthcare Services
No. of Shares (Crore)	10.80
Face value (Rs.)	10.00
Mkt. Cap (Rs. Crore)	3,144.70
Price (06/12/2023)	291.15
Book Value (Rs)	89.30
P/BV	3.26
BSE Code	540797
NSE Code	SHALBY
Bloomberg	SHALBY IN
Reuters	SHAY.BO
Avg. Weekly Volume (NSE)	5,37,835
52 W H/L (Rs)	327 / 114.35
<b>Shareholding Pattern</b>	<b>%</b>
Promoters	74.12
Institutions	4.11
Non- Institutions	21.77
<b>Total</b>	<b>100.00</b>

(As on Sep 30, 2023)

**RECOMMENDATION**
**BUY**

**Company Background**

Shalby Ltd (Shalby) was established in the year 1994 at Ahmedabad and over the period of time has gone to establish itself as one of India's leading multispecialty hospital with a pan India presence. It is renowned across the globe for its orthopedics and joint replacement surgery.

**Investment Rationale**

➤ Shalby continues to maintain a global leadership in joint replacements and has been able to retain its leadership position in the Arthroplasty segment (Arthroplasty is a surgical procedure to restore the function of a joint) with a 15% overall market share by volume.

➤ As a part of a de-risking initiative, Shalby is now going for strategic diversifications in the field of Cardiac Science, Oncology, Neuro-science, Critical Care, General Medicine and Transplants.

➤ Shalby's chain of hospitals has become an important destination for medical tourism where a large number of foreign patients come to India for quality and affordable treatment.

➤ Shalby is focusing on asset light models for further growth by engaging with partners on a franchisee basis. The average bed occupancy ratio across all its hospital chains is between 45%-50% which eliminates the need to undertake any major capex of its own. A sustainable capex business model run by Shalby has enabled it to become a preferred O&M (Operations & Maintenance) partner on a revenue sharing basis.

➤ Backward integration-oriented knee and hip implant manufacturing business under Shalby Advanced Technologies, Inc in California, USA has made steady progress since last year by virtue of which revenues in this segment has grown 3x to Rs 94 Cr in FY23.

➤ Shalby's efforts in transforming itself into a vertically integrated player in Orthopedics by venturing into manufacturing of Knee & Hip implants and building an ecosystem for Orthopedics in the domestic market has started showing good visibility which is expected to pay off in the long term.

➤ Revenues have grown at a 10 years CAGR of 14% from Rs 225 Cr in FY13 to Rs 805 Cr in FY23. Profits during the same period have witnessed a 10 Year CAGR growth of 16% from Rs 15 Cr in FY13 to Rs 68 Cr in FY23. Shalby is Net Cash Positive of Rs 70 Cr at the end of September 2023.

➤ A huge opportunity awaits healthcare sector over the next 5-10 years in India. The low doctors/nurse to patient ratio and the lack of good healthcare infrastructure specially in Tier-2 and 3 cities opens immense opportunities for Shalby to expand its presence in nearby markets and state capitals while growing its existing hospital units.

**Recommendation**

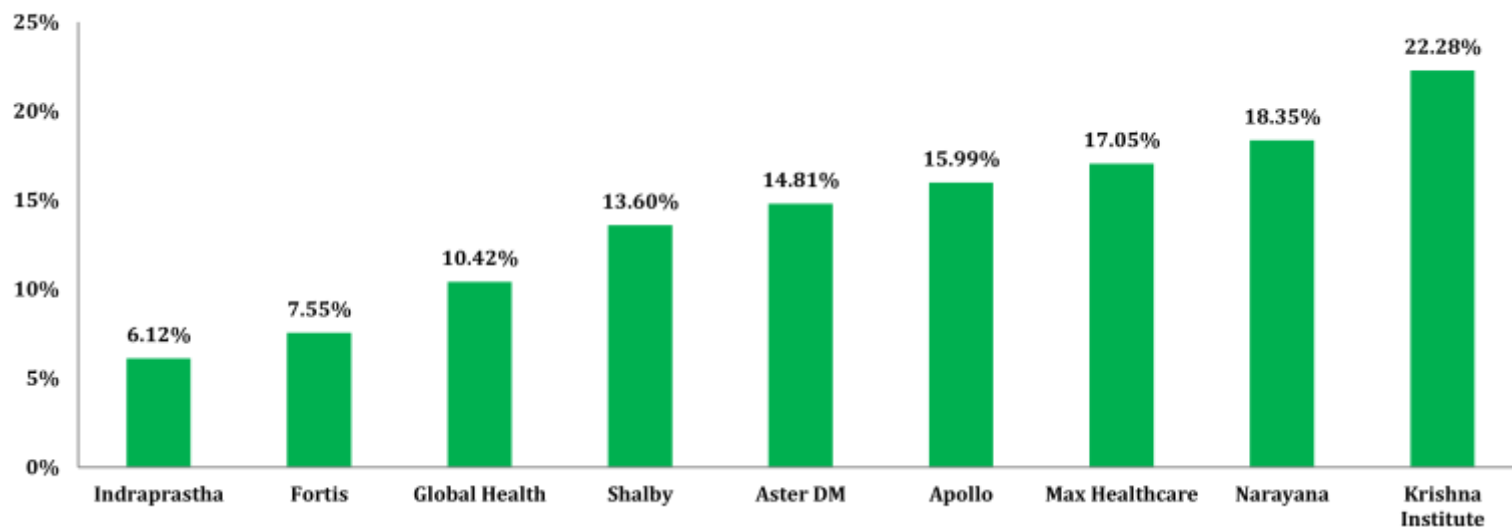
Shalby Ltd is the leader in arthroplasty procedure in India with a 15% market share and holds the distinction of conducting 1,50,000 joint replacement surgeries since its inception. Foraying into the hip implants business adds another feather to its cap. Adoption of an asset-light model has enabled it to keep its balance sheet clean while at the same time scout for suitable growth opportunities through franchisees. We would recommend a BUY with a target price of Rs 376 in the next 9-12 months thus implying a rise of 29% from the current levels.

Particulars (In Rs. Crs)	Q2FY24	Q2FY23	Var%	H1FY24	H1FY23	Var%
Net Sales	237.98	201.80	17.93	473.47	403.48	17.35
PBIDT (Excluding OI)	52.72	37.08	42.18	95.85	77.13	24.27
Net Profit	27.58	18.40	49.89	48.40	38.50	25.71
PBIDTM% (Excluding OI)	22.15	18.37	20.58	20.24	19.12	5.86
PATM%	11.59	9.12	27.08	10.22	9.54	7.13
Equity	107.31	107.31	-	107.31	107.31	-
EPS (Rs.)	2.57	1.72	49.42	4.51	3.59	25.63

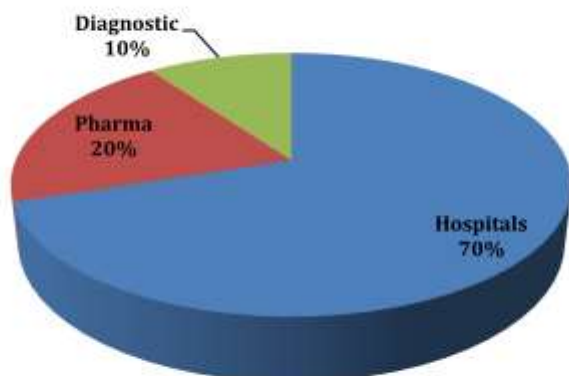
\*Source: Company, Ace Equity, AUM Research

## Industry Overview

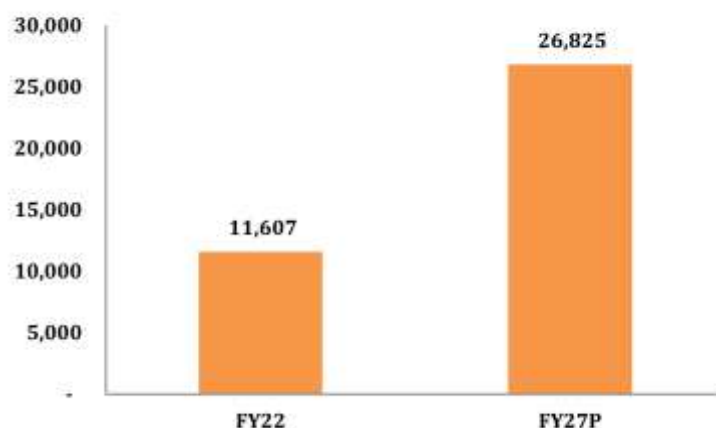
10 Year CAGR Revenue Growth Of Top Hospitals



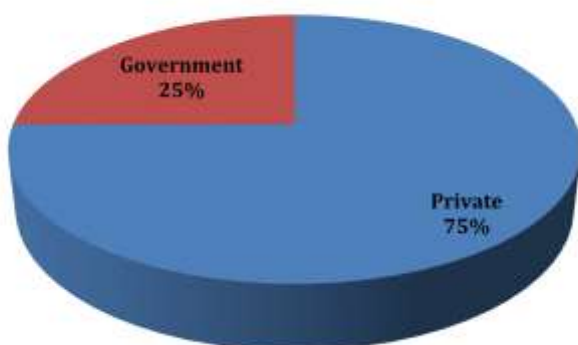
Segment Wise Market Share In India's Healthcare Sector



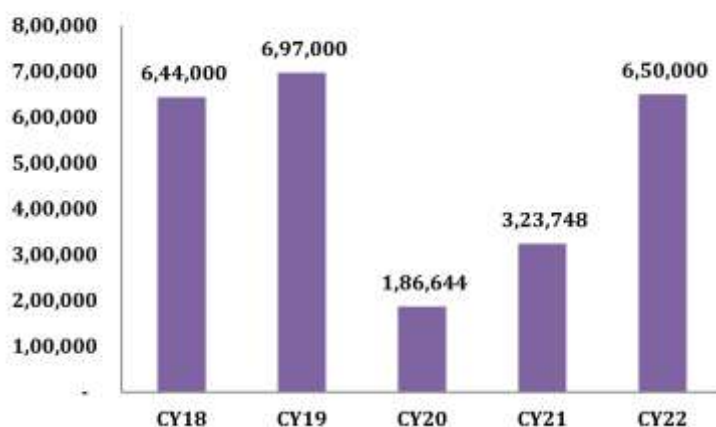
Value Of Indian Private Hospitals In INR Bn



Share Of Private Vs Government Hospital



No. Of Medical Tourist Arrivals In India

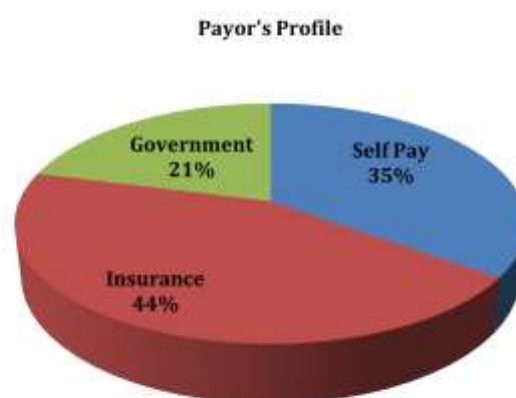


\*Source: Ace Equity, Businesswire, Tourism Ministry, AUM Research

## Company Overview

### Background

Shalby Hospitals is one of the largest chains of multispecialty hospitals and tertiary care centers in the country today. It was established by Dr. Vikram I Shah back in 1994 as a Joint Replacement Center. Over the years, Shalby Hospitals has grown to become a chain of 11 multispecialty hospitals, offering treatment in over 35+ medical disciplines, an aggregate capacity of over 2,062 beds with more than 500 doctors under its fold. At present, it operates under three main verticals, namely, hospital business, Shalby Orthopedics Centre of Excellence (SOCE) franchise and implant business.



**Expansion Plan: Mumbai 175 beds, Nashik 146 Beds and Rajkot 25 bed SOCE (FOSO)**

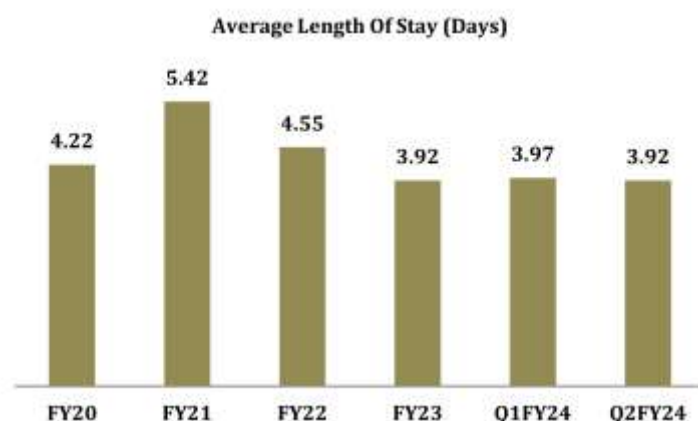
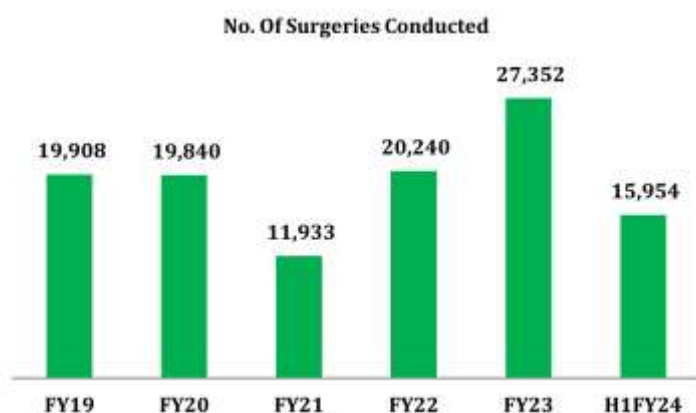
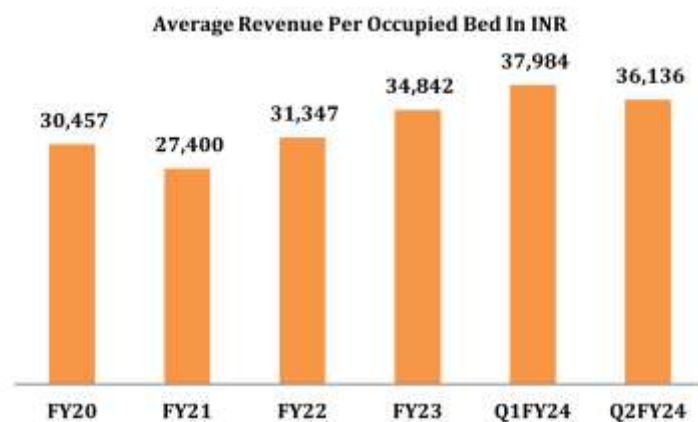
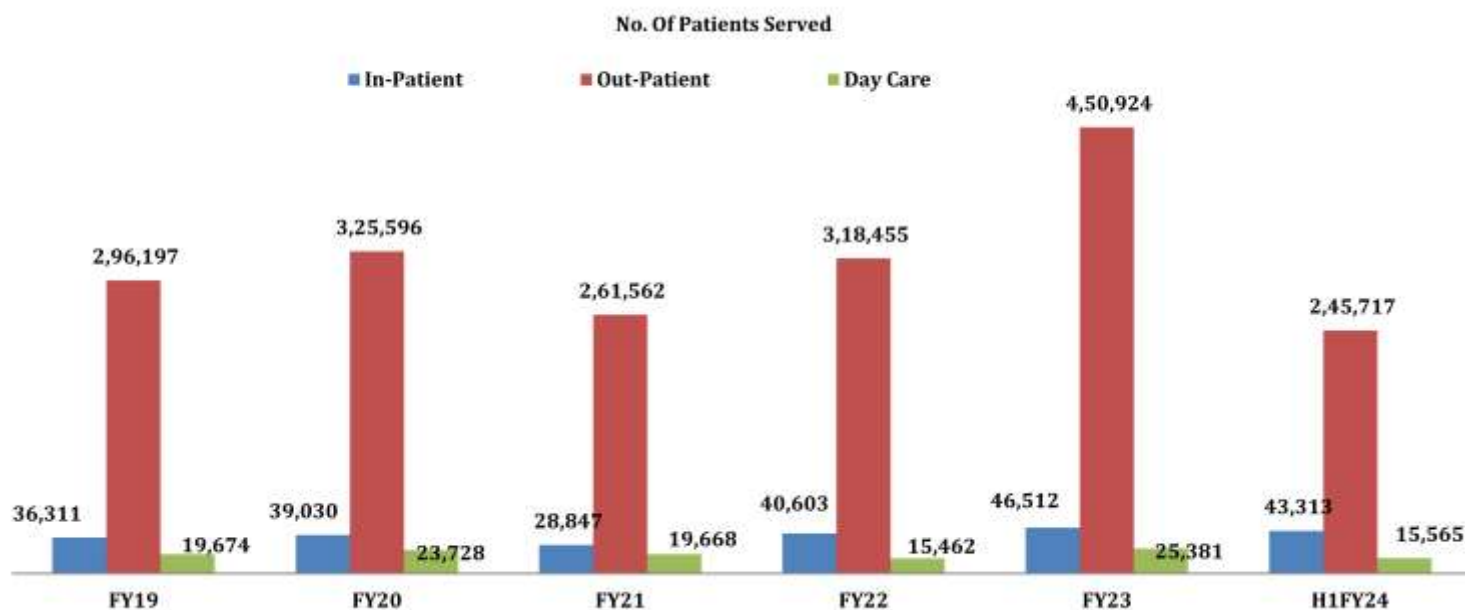
\*Source: Company, Ace Equity, AUM Research

**Owned Hospitals:-** Vapi Shalby, Indore Shalby, Jaipur Shalby, Krishna Shalby, Mohali Shalby, Naroda Shalby, Jabalpur Shalby, Surat Shalby.

**Franchisee Hospital:-** Vijay Shalby, Lucknow Shalby, Zynova Shalby (Mumbai), Udaipur Shalby, Gwalior Shalby, Ranchi Shalby.

**No. Of Beds:-** Owned Hospitals 1935 beds and Franchisee owned 297 beds.

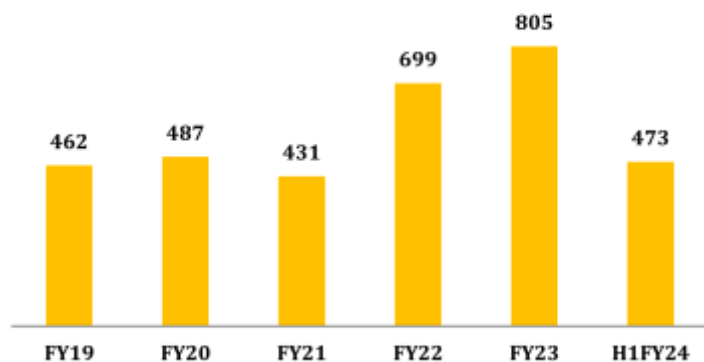
## Operational Highlights



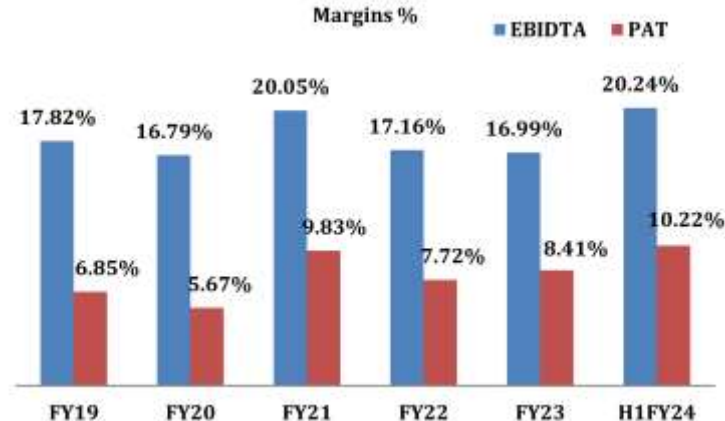


## Financial Highlights

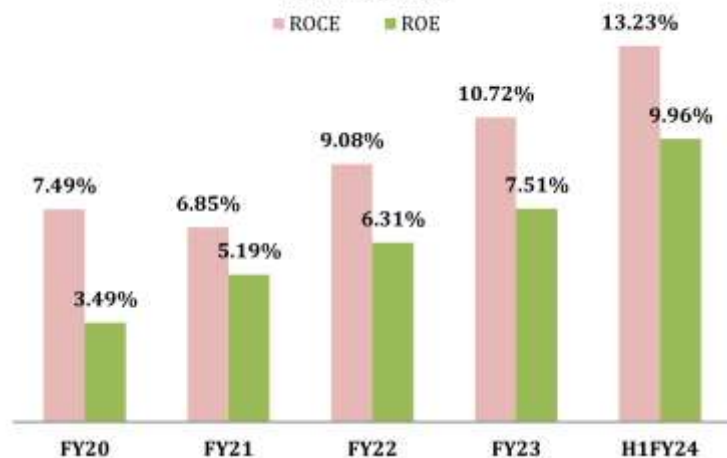
Revenue In INR Cr



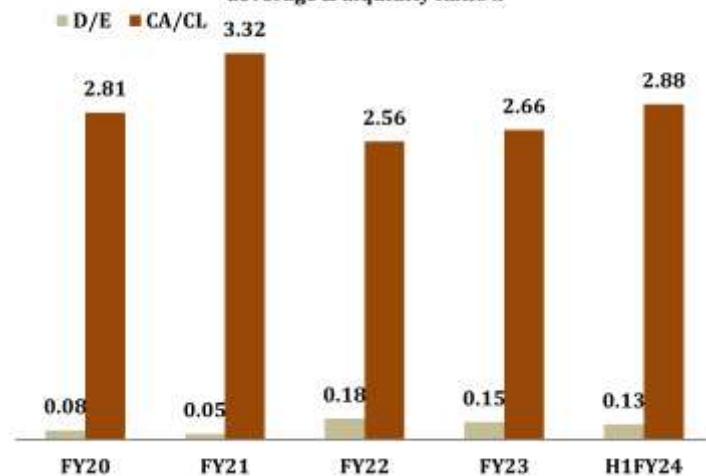
Margins %



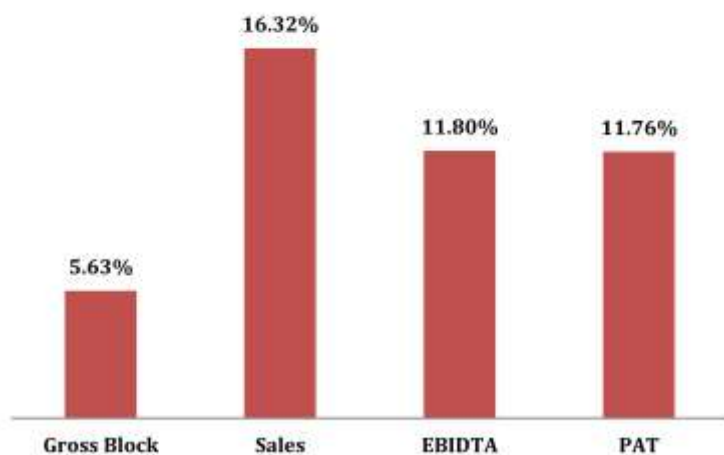
Return Ratios %



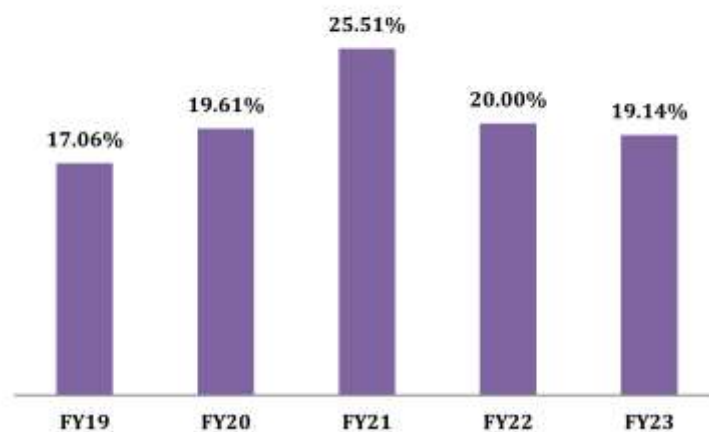
Leverage & Liquidity Ratio x



5 Years CAGR Increase %



Dividend Payout Ratio %



Source: Company, Ace Equity, AUM Research

## **Rationale For Investment**

### **Positive outlook for the hospital sector as a whole**

- **Double digit growth over the last 10 years:-** All the major hospitals across the country have exhibited a CAGR growth of 14%-15%, thus indicating the increasing penetration of healthcare facilities all over India.
- **Improvement in operating matrix:-** Improvement in operating parameters, an optimal leverage level, continued cost optimization coupled with digitization efforts are expected to aid in the growth of the hospital industry in future. Most of the large hospitals have reported a ROCE of 6% in FY21 to 18% in FY22 and finally 16% in FY23. The Average Revenue Per Occupied Bed has grown at a CAGR of 8% from FY17-23. H1FY24 reported a YoY growth of 10%.
- **Thrust on the healthcare sector:-** Rising incidence of non-communicable life style diseases, growing per capita spend on healthcare, an increase in awareness coupled with increasing number of health insurance policies and finally the growth in medical tourism is expected to aid in the growth of the hospital industry as a whole.
- **Growth in medical tourism:-** India is well on its path to achieve landmark success in the field of medical tourism. Increased policy support and better connectivity is expected to increase the scope of medical tourism beyond large cities to Tier-2 and Tier-3 towns which have the state-of-the-art medical infrastructure and facilities.
- **Treatment of osteoarthritis to gain prominence:-** Rapid ageing, greater life expectancy, lack of exercise as well as altered lifestyles are driving the incidence of osteoarthritis among Indians. Osteoarthritis is the most frequent joint disease with a prevalence of 30% in India.

### **Leadership in joint replacement and diversification into other medical diagnostics to aid in future growth**

- **Leader in joint replacement surgeries:-** Shalby has achieved a strong brand recall in Gujarat, especially in joint replacement surgeries. Among other unique aspects associated with the company, the most prominent could be the '0 technique' procedure, which reduced surgical time from 150 minutes to 25 minutes and a patient's hospital stay from 15 to three day. It is a market leader in arthroplasty procedure with a 15% market share of all joint replacement surgeries by organized private corporate hospitals. Shalby has the distinction of conducting 1,50,000 joint replacement surgeries since its inception.
- **Diversification into other medical procedures:-** Diversification of arthroplasty and orthopaedics with cardiac science, oncology and neuro-science is expected to support organic growth opportunities.
- **Foraying into the implants business:-** Shalby, a vertically integrated leader in Orthopedics has ventured into manufacturing Knee & Hip implants through its step-down subsidiary in the US- Shalby Advanced Technologies, Inc. to manufacture US FDA approved implants to sell across the US and international markets. This is expected to enable Shalby to procure high quality implants for its own consumption in India as well. The company expects this business to reach USD 100 Mn in 4-5 years' time.

### **Adoption of Asset-light models**

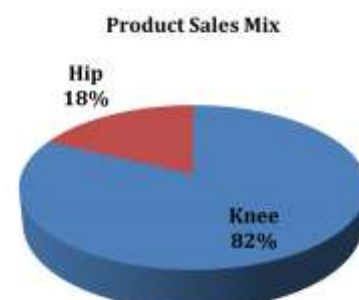
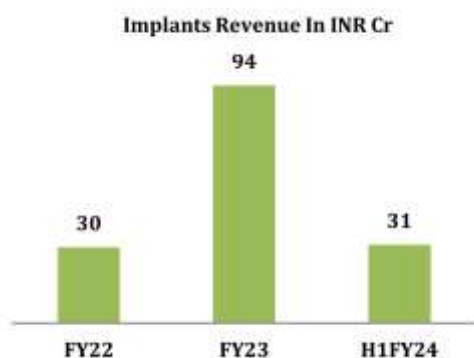
- **Healthy balance sheet:-** Adoption of an asset-light model has enabled it to maintain a clean balance sheet. It has a Net Cash Balance of Rs 70 Cr at the end of September 2023. Over the last 10 Financial Years, it has generated a positive EBIDTA and PAT throughout. A healthy financial profile is expected to enable Shalby to expand its footprints in the western, northern and eastern part of India.
- **Exploring into new territories:-** Shalby is in the process of exploring new territories with high catchment areas by offering the best orthopedics solutions through its expert orthopedic team. Through adoption of asset-light model, it is in the process of working towards taking over franchise operations under its brand name and penetrating deeper into Tier 2 & Tier 3 cities. Apart from its existing FOSO (Franchise Owned Shalby Operated) and FOSM (Franchise Owned Shalby Managed) business models in Ahmedabad, Lucknow, Udaipur and Gwalior, it has recently operationalized a Shalby managed SOCE franchise unit in Ranchi comprising of a 60 bed capacity. An upcoming SOCE unit at Rajkot is expected to be commencing operations by end of FY24. Recently, it executed the amendment agreement for the construction of a new hospital building at Santacruz, Mumbai for a 175 beds hospital.
- **Preference for franchise model:-** Shalby maintains a strict criteria in choosing its partners to preserve its brand name and identity. Nowadays, many private hospitals who find themselves limited in financial strength and expertise sign definitive agreements with renowned brands to grow. It helps them offer high-quality, standardized care their patients. This helps to attract and retain customers when they feel that they will be provided with quality service. A hospital franchise owner is also able to have access to a wide range of resources and support from the franchisor (Shalby).

### Improvement in operating margins

- **Scope for improvement in Bed Occupancy Ratio:-** Out of a total of approximately 2,000 beds, 1935 beds are positioned at its own hospitals. The occupancy ratio is at an average of around 54%, though it differs from region to region. Given its leadership position in the arthroplasty segment and its diversification into Eastern and Southern regions through a franchise model, the bed occupancy ratio is expected to reach around 60%-70% in the near term which shall automatically increase the EBIDTA margins from the current level of around 20%.
- **A franchise model ensures 90% of the revenue flow to the bottom line:-** Apart from incurring a bare minimum of operating expenses in its franchisees, the maximum revenue flows down the bottom line, thus improving its overall performance.

### Focus on the implants business

- **Selection of the right vendor:-** Recently, the implants business of Shalby was unable to supply the products to the hospitals at the right moment due to supply side issues arising from the vendors who supply the raw materials to build the product. This led to some loss of key customers in the US region. Shalby has taken a concise decision to not only change the vendor who now gives a shorter lead time but also supplies the materials at 30% less from its previous procurement prices.
- **Supplies to Indonesia commences:-** In February 2023, Shalby had received approval from the Indonesian health ministry for the sale of knee implants, hip systems, knee and hip instruments in the country. Its subsidiary Shalby Global Technologies Pte Ltd, Singapore (SGT), was given the authorization to import the said implants and medical devices from the United States and sell them in Indonesia. The supplies to this region has commenced from Q3FY24.
- **Looking to make a mark in the Japanese and South Korean markets:-** Shalby had acquired a company in Japan which previously was unable to keep its supply commitments. It is now in the process of renegotiating its commitments to the existing customers with the correct pricing of the products and seems confident of an improvement in business mix soon. Shalby also aims to leverage this experience in the South Korean markets also.
- **Implants business to provide massive synergies:-** The implant business is expected to enable Shalby to diversify core hospital healthcare services business into related and high growth implant product offerings. *For e.g TUKSpalsty, which is a new type of Partial Knee Replacement Surgery was done for the first time in at Shalby Hospitals Surat. This is a revolutionary knee replacement procedure and has distinct advantages over the traditional partial knee replacement.*



Source: Company, Ace Equity, AUM Research

### A leading player in medical tourism in the global scenario

- **A well-entrenched player in global medical tourism:-** Shalby has grown its footprints in global medical tourism in the last 20 years. It has been conducting operations in the OPD (Out Patient Department) space in Africa and is now planning for an OPD in Dubai, Muscat and other SAARC regions as well. Apart from conducting medical camps in the African regions, Shalby has been active in Bangladesh, Nepal and Sri Lanka from where it is getting business proposals from prospective partners.
- **India a preferred destination:-** India is the most preferred country for medical tourism due to its low-cost yet high-quality medical treatment in world class facilities. For example, a hip replacement surgery in the United States can cost upwards of \$40,000, while the same surgery in India can cost as little as \$10,000. Other reasons include minimum waiting period, premium hospitality services, easy air connectivity and more.

## Financials

Consolidated Quarterly Results (Value in Rs. Crs)						
Particulars	Q2FY24	Q2FY23	Var%	H1FY24	H1FY23	Var%
Net Sales & Other Operating Income	237.98	201.80	17.93	473.47	403.48	17.35
Total Expenditure	185.26	164.72	12.47	377.62	326.35	15.71
PBIDT (Excl OI)	52.72	37.08	42.18	95.85	77.13	24.27
Other Income	5.38	5.31	1.32	9.92	9.30	6.67
Operating Profit	58.10	42.38	37.09	105.77	86.43	22.38
Interest	3.17	1.79	77.09	5.92	3.63	63.09
PBDT	54.93	40.59	35.33	99.84	82.80	20.58
Depreciation	12.30	11.90	3.36	24.24	23.48	3.24
PBT	42.63	28.69	48.59	75.60	59.32	27.44
Tax	15.06	10.29	46.36	27.21	20.81	30.75
Net Profit	27.58	18.40	49.89	48.40	38.50	25.71
Minority Interest	-	0.01	-	0.01	0.01	-
Consolidated Net Profit	27.58	18.41	49.81	48.41	38.52	25.67
Equity	107.31	107.31	-	107.31	107.31	-
EPS (Rs.)	2.57	1.72	49.42	4.51	3.59	25.63

Consolidated Income Statement (Value in Rs. Crs)			
Particulars	FY23	FY22	FY21
Net sales	804.92	698.95	430.90
Total Expenditure	666.75	577.38	343.57
Operating Profit (Excl OI)	138.18	121.56	87.33
Other Income	22.52	12.42	9.06
Operating Profit	160.70	133.99	96.39
Interest	10.56	7.53	4.54
PBDT	150.13	126.45	91.85
Depreciation	48.09	42.87	36.80
Profit Before Tax & Exceptional Items	102.04	83.58	55.06
Exceptional Items	-	-4.44	-
Profit Before Tax	102.04	79.15	55.06
Provision for Tax	34.37	25.18	12.69
Net Profit	67.68	53.97	42.36
Minority Interest	0.02	0.15	0.04
Consolidated Net Profit	67.70	54.13	42.40
EPS (Rs.)	6.31	5.01	3.93

\*Source: Company, Ace Equity, AUM Research



Consolidated Balance Sheet (Value in Rs. Crs)			
Particulars	FY23	FY22	FY21
<b>EQUITY AND LIABILITIES</b>			
Share Capital	107.31	108.01	108.01
Share Warrants & Outstandings	0.82	0.00	0.00
Total Reserves	819.56	768.32	726.65
<b>Shareholder's Funds</b>	<b>927.69</b>	<b>876.33</b>	<b>834.66</b>
Minority Interest	-0.07	-0.14	0.02
Secured Loans	67.42	87.39	35.50
Unsecured Loans	-	-	-
Deferred Tax Assets / Liabilities	43.44	30.56	22.79
Other Long Term Liabilities	45.91	24.11	19.80
Long Term Provisions	112.70	91.54	71.96
<b>Total Non-Current Liabilities</b>	<b>269.47</b>	<b>233.61</b>	<b>150.04</b>
Trade Payables	87.92	70.73	57.60
Other Current Liabilities	55.91	57.14	23.58
Short Term Borrowings	49.10	43.49	-
Short Term Provisions	1.45	1.09	0.57
<b>Total Current Liabilities</b>	<b>194.38</b>	<b>172.46</b>	<b>81.75</b>
<b>Total Liabilities</b>	<b>1,391.47</b>	<b>1,282.25</b>	<b>1,066.47</b>
<b>ASSETS</b>			
Gross Block	909.83	860.19	804.16
Less: Accumulated Depreciation	224.67	184.79	144.60
<b>Net Block</b>	<b>685.17</b>	<b>675.40</b>	<b>659.56</b>
Capital Work in Progress	6.16	4.51	3.99
Intangible Assets Under Development	4.38	1.25	3.53
Non Current Investments	-	-	0.11
Long Term Loans & Advances	175.98	148.21	120.55
Other Non Current Assets	2.53	4.01	7.61
<b>Total Non-Current Assets</b>	<b>874.22</b>	<b>833.38</b>	<b>795.34</b>
Currents Investments	145.72	24.70	15.52
Inventories	185.41	121.12	23.05
Sundry Debtors	106.36	100.99	94.69
Cash and Bank	12.29	110.56	83.59
Other Current Assets	5.46	14.55	17.59
Short Term Loans and Advances	62.02	70.34	36.68
<b>Total Current Assets</b>	<b>517.25</b>	<b>442.26</b>	<b>271.12</b>
Net Current Assets (Including Current Investments)	322.87	269.81	189.37
Total Current Assets Excluding Current Investments	371.53	417.56	255.60
<b>Total Assets</b>	<b>1,391.47</b>	<b>1,282.25</b>	<b>1,066.47</b>

\*Source: Company, Ace Equity, AUM Research

December 07, 2023

**Aum Capital RESEARCH DESK**

Rajesh Agarwal	Head of Research	033-4057 21221	<a href="mailto:rajesh.agarwal@aumcap.com">rajesh.agarwal@aumcap.com</a>
Pinaki Banerjee	Manager- Research	033-405721221	<a href="mailto:pinaki.banerjee@aumcap.com">pinaki.banerjee@aumcap.com</a>
Shashank Khandelwal	Executive – Research	033-40572121	<a href="mailto:shashank.khandelwal@aumcap.com">shashank.khandelwal@aumcap.com</a>

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AUM Capital Market Private Limited

Registered Office: 226/1, AJC Bose Road, Trinity, 3<sup>rd</sup> Floor, Unit No.3G, Kolkata – 700020;

Phone: +91(33) 40572121; Fax: +91(33) 24760191

Website: [www.aumcap.com](http://www.aumcap.com); Email: [aumresearch@aumcap.com](mailto:aumresearch@aumcap.com)

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