

Growth trajectory firm amid some hiccups on the profitability front...

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 Q1FY25: Arthroplasty / Orthopaedic: 49%, Critical care & General medicine: 8%, Cardiac science: 9%, Oncology: 10%, Neurology: 5%, Nephrology: 5%, Others: 13%
- Shalby registered a blended ARPOB of ₹ 43,365 and ALOS of 3.7 days (without day care procedures) in Q1FY25.
- 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:

- Q1FY25- Revenues growth strong but Sanar acquisition impacts margins – Revenues grew ~18% YoY to ₹ 279 crore, driven by both Hospitals and Implant segments. Hospitals grew ~16% YoY to ₹ 254 crore, driven by 14% ARPOB growth (₹ 43365). Implants (Shalby Consensus) sales grew ~53% YoY to ₹ 25 crore with contributions from the US and India at 44% and 56% respectively. EBITDA growth was comparatively muted at ~7% YoY to ₹ 45 crore and EBITDA margins declined 172 bps to ~16%. Lower EBITDA growth was attributable to higher RM and other expenses. Hospitals margins stood at ~18% while Implant business reported loss at EBITDA.

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- the company is transitioning sales mix more towards retail customers (in the US), enhancing operational capacity and efficiency, expanding product pipeline through extensive R&D efforts and significantly reducing procurement costs by sourcing from more than one vendor.

Rating and Target price

- Our SOTP valuation of ₹ 350 is based on 14xFY26E hospitals EBITDA and 2x FY26E Consensus Sales.



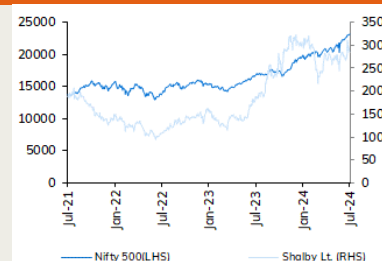
Particulars

Particular	Amount
Market Capitalisation	₹ 3078 crore
Debt (FY24)	₹ 314 crore
Cash (FY24)	₹ 27 crore
EV	₹ 3365 crore
52 week H/L	340/178
Equity capital	Rs 108 crore
Face value	₹ 10

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	74.1	74.1	74.1	74.3
FIIIs	4.1	4.6	4.9	5.4
DIIIs	0.0	0.0	0.0	0.1
Others	21.8	21.3	21.0	20.3

Price Chart



Key risks

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

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Shubh Mehta
shubh.mehta@icicisecurities.com

Key Financial Summary

Key Financials (Rs 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	18.2%	933.8	1092.6	1236.9	15.4%
EBITDA	81.7	86.4	119.9	137.4	18.9%	176.1	207.1	263.7	24.3%
EBITDA margins (%)	16.8	20.1	17.2	17.1		18.9	19.0	21.3	
Net Profit	27.6	42.4	54.0	68.3	35.3%	82.5	72.5	116.7	19.5%
EPS (Rs)	2.6	3.9	5.4	6.3		7.6	6.7	10.8	
PE (x)	104.1	67.8	53.1	42.0		34.8	39.6	24.6	
EV to EBITDA (x)	35.1	32.6	24.1	20.8		17.5	14.3	11.2	
RoCE (%)	7.2	6.5	8.4	9.9		10.2	12.7	16.4	
ROE (%)	3.5	5.1	6.7	7.4		8.3	6.9	10.1	

Exhibit 1: Quarterly Summary

(₹ crore)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Total Operating Income	192.4	181.6	162.4	162.6	201.7	201.8	202.5	199.0	235.5	238.0	216.0	244.2	278.9	18.4	14.2
Raw Material Expenses	13.3	3.4	0.3	23.8	16.8	14.4	16.4	11.9	18.5	13.3	15.0	16.7	24.7	33.4	47.9
% of Revenue	6.9	1.9	0.2	14.6	8.3	7.1	8.1	6.0	7.9	5.6	7.0	6.8	8.9	100 bps	202 bps
Gross Profit	179.0	178.2	162.1	138.8	184.9	187.4	186.1	187.1	217.0	224.7	201.0	227.5	254.2	17.2	11.7
Gross Profit Margin (%)	93.1	98.1	99.8	85.4	91.7	92.9	91.9	94.0	92.1	94.4	93.0	93.2	91.1	-100 bps	-202 bps
Employee Expenses	25.0	29.5	31.0	32.9	32.3	33.7	36.6	41.7	39.2	38.6	37.8	39.9	44.9	14.4	12.3
% of Revenue	13.0	16.2	19.1	20.2	16.0	16.7	18.1	20.9	16.6	16.2	17.5	16.3	16.1	-56 bps	-27 bps
Other Expenditure	115.8	119.3	102.8	81.9	112.5	116.6	115.5	119.8	135.5	133.4	120.9	148.7	164.1	21.1	10.3
% of Revenue	60.2	65.7	63.3	50.4	55.8	57.8	57.1	60.2	57.6	56.0	56.0	60.9	58.9	129 bps	-205 bps
Total Expenditure	154.1	152.2	134.2	138.6	161.6	164.7	168.5	173.3	193.3	185.3	173.7	205.4	233.7	20.9	13.8
% of Revenue	80.1	83.8	82.6	85.2	80.1	81.6	83.2	87.1	82.1	77.8	80.4	84.1	83.8	172 bps	-30 bps
EBITDA	38.3	29.4	28.2	24.0	40.1	37.1	34.0	25.7	42.2	52.7	42.3	38.9	45.2	7.0	16.3
EBITDA Margin (%)	19.9	16.2	17.4	14.8	19.9	18.4	16.8	12.9	17.9	22.2	19.6	15.9	16.2	-172 bps	30 bps
Other Income	2.5	2.8	2.8	4.3	4.0	5.3	4.0	9.2	4.5	5.4	4.5	5.0	9.7	113.9	94.4
Interest	1.0	1.6	1.6	1.7	1.8	1.8	2.7	2.8	2.8	3.2	3.6	6.5	8.1	195.0	25.5
Depreciation	9.0	11.5	11.3	11.2	11.6	11.9	11.8	12.8	11.9	12.3	12.4	15.6	16.4	37.1	5.0
PBT	30.8	19.2	18.2	15.4	30.6	28.7	23.5	19.2	32.1	42.6	30.8	21.8	30.4	-5.2	39.6
Total Tax	10.6	8.4	0.9	5.3	10.5	10.3	8.3	5.3	12.2	15.1	11.8	5.7	15.7	29.0	173.0
Tax rate (%)	34.5	44.0	4.7	34.2	34.4	35.9	35.1	27.6	37.9	35.3	38.4	26.4	51.5		
PAT	20.2	10.8	12.9	10.2	20.1	18.4	15.3	13.9	19.9	27.6	19.0	16.1	14.7	-26.0	-8.1
PAT Margin (%)	10.5	5.9	8.0	6.3	10.0	9.1	7.6	7.0	8.5	11.6	8.8	6.6	5.3		
EPS (Rs)	1.9	1.0	1.2	0.9	1.9	1.7	1.4	1.3	1.8	2.6	1.8	1.5	1.4		

Source: Company, ICICI Direct Research

Exhibit 2: Quarterly Summary

Particulars	FY26E (Rs cr)	Valuation Matrix	Multiple (x)	EV (Rs cr)
Hospitals	256.6	EV/EBITDA	14.0	3,593
Shalby Consensus	127.0	EV/Sales	2.0	254
EV				3,846
Net Debt FY26E (Rs cr)				101.2
Minority Interest				8.2
Targeted MCap Rs cr)				3,737
No of shares (cr)				10.8
Per Share Value (Rs)				350
CMP				285.0
up/Down				23%

Source: ICICI Direct Research

Q1FY25 Conference call highlights

- Shalby's Delhi hospital would be catering to 70% of International Patients.
- Management will now shift its focus beyond Joint replacement to cancer, Onco-Surgery, Onco Medicine, and radiotherapy machines. Company plans to invest in radiotherapy machines.

Implant Business

- US accounted for 44% Business while India stood at 56%
- Transitioning the product mix to retail
- Company has received additional orders from Indonesian Market.
- Guided for Double digit Growth
- Company is looking to end the year at a cost of 50% to 80% reduction across portfolio by improving efficiencies.
- Planning to have a multi-vendor system with higher capacity, contributing to a sales forecast.
- Looking to add more SKUs

Overall Business-

- Capex for the acquisition of Sanar concluded.
- Sanar is presently operating at 25% occupancy level and company expects it to increase gradually in coming quarter.
- Prime focus remains on utilizing company's expertise and excellence in orthopedics with the goal of establishing more than 40 franchisees across India in the next four to five years.
- The company expects margins to remain higher in the future compared to other hospitals.
- The company has taken a ₹100 crore loan for the Sanar acquisition, which is contributing to the increase in finance costs on the standalone entity.
- Price revisions typically fall in the range of 6% to 8% per year.

Financial Tables

Exhibit 5: Profit and loss statement		₹ crore			
Year-end March	FY23	FY24	FY25E	FY26E	
Total Operating Income	804.9	933.8	1,092.6	1,236.9	
Growth (%)	15.2	16.0	17.0	13.2	
Raw Material Expenses	59.4	63.6	85.7	94.9	
Gross Profit	745.5	870.2	1,006.9	1,142.0	
Gross Profit Margins (%)	92.6	93.2	92.2	92.3	
Employee Expenses	143.6	155.4	185.6	211.5	
Other Expenditure	464.5	538.6	614.2	666.8	
Total Operating Expenditure	667.5	757.6	885.6	973.3	
EBITDA	137.4	176.1	207.1	263.7	
Growth (%)	14.6	28.2	17.6	27.3	
Interest	9.1	16.0	32.5	26.3	
Depreciation	48.1	52.2	65.5	68.1	
Other Income	22.5	19.4	38.0	43.0	
PBT before Exceptional Items	102.7	127.3	147.1	212.2	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	102.7	127.3	147.1	212.2	
Total Tax	34.4	44.8	74.6	95.5	
PAT before MI	68.3	82.5	72.5	116.7	
PAT	68.3	82.5	72.5	116.7	
Growth (%)	26.6	20.8	-12.2	61.0	
EPS (Adjusted)	6.3	7.6	6.7	10.8	

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	72.6	116.8	
Add: Depreciation & Amortization	38.8	52.2	65.5	68.1	
Net Increase in Current Assets	-63.4	-91.3	128.5	-32.6	
Net Increase in Current Liabilities	17.6	-48.6	5.2	20.0	
Others	1.1	-0.8	32.5	0.0	
Net cash flow from Operating activities	67.7	19.6	304.2	172.3	
(Purchase)/Sale of Investments	-119.2	73.7	25.0	25.0	
(Purchase)/Sale of Fixed Assets	-17.7	-45.2	-130.0	-130.0	
Others	75.8	9.5	-5.0	-5.7	
Net cash flow from Investing activities	-61.1	38.1	-110.0	-110.7	
Proceeds from issues of Equity Shares	-7.5	0.0	0.0	0.0	
Proceeds/(Repayment) of/from Loan	-13.3	89.7	-50.0	-50.0	
(Payment) of Dividend and Dividend Tax	-10.8	-8.9	-14.5	-23.4	
Others	-18.4	-231.5	-32.5	0.0	
Net cash flow from Financing activities	-50.1	-150.7	-97.0	-73.4	
Net Cash Flow	-43.4	-93.0	97.2	-11.7	
Cash and Cash Equivalent at the beginning	55.6	120.1	27.2	124.4	
Cash	12.2	27.1	124.4	112.7	
Free Cash Flow	50.0	-25.6	174.2	42.3	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet		₹ crore			
Year-end March	FY23	FY24	FY25E	FY26E	
Equity Capital	107.3	107.4	107.4	107.4	
Reserve and Surplus	820.4	893.0	951.0	1,044.5	
Total Shareholders funds	927.7	1,000.4	1,058.4	1,151.9	
Total Debt	141.7	314.0	264.0	214.0	
Deferred Tax Liability	43.4	35.0	35.7	36.4	
Minority Interest	-0.1	7.4	7.8	8.2	
Other Non Current Liabilities	48.5	65.5	66.8	68.1	
Source of Funds	1,161.2	1,422.2	1,432.7	1,478.6	
Gross Block - Fixed Assets	910.6	1,197.2	1,247.2	1,297.2	
Accumulated Depreciation	235.6	287.8	353.3	421.4	
Net Block	675.0	909.3	893.9	875.7	
Capital WIP	10.5	15.4	95.4	175.4	
Goodwill	10.2	56.9	56.9	56.9	
Fixed Assets	695.7	981.6	1,046.1	1,108.0	
Investments	145.7	80.6	55.6	30.6	
Other non-Current Assets	41.7	55.6	61.2	67.3	
Deferred Tax Assets	26.7	18.1	19.9	21.8	
Inventory	185.4	235.2	70.5	78.0	
Debtors	106.4	144.6	179.6	203.3	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	67.5	64.6	65.8	67.2	
Cash	12.1	27.2	124.4	112.7	
Total Current Assets	371.3	471.6	440.4	461.3	
Creditors	87.9	129.6	129.2	143.0	
Provisions	1.5	3.2	3.5	3.9	
Other Current Liabilities	30.6	52.5	57.7	63.5	
Total Current Liabilities	119.9	185.3	190.5	210.5	
Net Current Assets	251.4	286.3	249.9	250.8	
Application of Funds	1,161.2	1,422.2	1,432.7	1,478.6	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios		FY23				FY24				FY25E				FY26E			
Year-end March	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	
Per share data (Rs)																	
Reported EPS	6.3	7.6	6.7	10.8													
Cash EPS	9.5	11.3	11.4	15.0													
BV per share	85.9	92.6	98.0	106.7													
Cash per Share	1.1	2.5	11.5	10.4													
Dividend per share	1.3	1.2	1.3	2.2													
Operating Ratios (%)																	
Gross Profit Margins	92.6	93.2	92.2	92.3													
EBITDA margins	17.1	18.9	19.0	21.3													
PAT Margins	8.5	8.8	6.6	9.4													
Asset Turnover	0.9	0.8	0.9	1.0													
EBITDA conversion Rate	49.3	11.1	146.9	65.4													
Return Ratios (%)																	
RoE	7.4	8.3	6.9	10.1													
RoCE	9.9	10.2	12.7	16.4													
RoIC	9.2	9.7	12.4	17.2													
Valuation Ratios (x)																	
P/E	42.0	34.8	39.6	24.6													
EV / EBITDA	20.8	17.5	14.3	11.2													
EV / Net Sales	3.5	3.3	2.7	2.4													
Market Cap / Sales	3.6	3.1	2.6	2.3													
Price to Book Value	3.1	2.9	2.7	2.5													
Solvency Ratios																	
Debt / EBITDA	1.0	1.8	1.3	0.8													
Debt / Equity	0.2	0.3	0.2	0.2													
Current Ratio	3.0	2.4	1.7	2.2													
Quick Ratio	1.4	1.1	1.3	1.8													
Inventory days	1,140	1,351	300	300													
Debtor days	48	57	60	60													
Creditor days	540	744	550	550													

Source: Company, ICICI Direct Research

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Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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