

SHALBY LIMITED

IPO Note

(Avoid)

Analyst:

Vaibhav Joshi

Rohit Rai

1 December 2017

IPO details

Key Data	
Issue Opens	5-Dec-17
Issue Closes	7-Dec-17
Equity Shares Offered (in mn.)	20.40
QIB	Up to 50%
NIB	Min 35%
Retail	Min 15%
Face Value (₹)	10
Price Band (₹)	245-248
Max. Issue Size (₹ mn)	5,048
Lot Size (Eq. Shares)	60 and multiple thereof

Valuation	@ ₹245 per share	@ ₹248 per share
Market Cap (₹ mn)	26,520	26,786
Net Debt (₹ mn)	2,975	2,975
Enterprise Value (₹ mn)	29,495	29,761
EV/ Sales	9.1	9.1
EV/ EBITDA	36.9	37.3
P/B	10.0	10.1
P/E (FY18 Annualized)	45.8	46.3

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	86.8	97.9%	85.8	79.4%
Public	0.9	1.0%	0.9	0.8%
Other	1.0	1.2%	1.0	0.9%
Offer for Sale			1.0	0.9%
Fresh Issue			19.4	17.9%
Total	88.7	100.00%	108.0	100.0%

Objects of the offer

- Repayment or prepayment in full, or in part of certain loans availed by the Company
- Purchase of medical equipment for existing, recently set up and upcoming hospitals
- Purchase of interiors, furniture, and allied infrastructure for upcoming hospitals

Recommendation

The multispecialty hospital offers healthcare services across orthopedics, neurology, cardiac care, critical care, oncology and nephrology. It has strong presence in Western and Central India in 12 states. It has tripled the bed capacity to 2012 through FY13-17. Stable Average Revenue Per Operational Bed (ARPOB) and increasing number of operational beds has been impressive so far. In terms of financial performance, ~16% annualized FY18 PAT Margin and RONW of 20%+ is at the upper side among the peers. However, revenue uncertainty from Orthopedics segment which contributes ~65% of the business after the recent price cap by the government on knee replacement surgeries is a big concern over the business prospects. In the view of that, asking price of 45.8x average earnings is at the upper side among multispecialty hospitals especially. **Therefore, being cautious, expecting limited upside, we recommend to AVOID the issue.**

Largest exchange for trading electricity products in India

- ❑ Shalby Ltd. was originally incorporated as Shalby Hospital Private Limited on August 30, 2004 at Ahmedabad, Gujarat, India. Shalby is one of the leading multi-specialty chain of hospitals in India. It offers tertiary care hospitals, few of which also offer quaternary healthcare services to patients in various areas of specialisation such as orthopaedics, complex joint replacements, cardiology, neurology, oncology, and renal transplantations. It also provides inpatient and outpatient healthcare services through eight fully operational hospitals, having an aggregate operational bed count of 781 beds, as on March 31, 2017. Apart from a focus on orthopaedics, its hospitals provide advanced levels of care across various specialties such as neurology, cardiac care, critical care, oncology, and nephrology.
- ❑ Shalby has 11 hospitals, inclusive of eight fully operational and three hospitals which were recently set up, has an aggregate bed capacity of 2,012 beds, as on March 31, 2017. It has a 15% market share of all joint replacement surgeries conducted by private corporate hospitals in India in 2016.
- ❑ Shalby also provides outpatient services through 68 Outpatient Clinics and have eight shared surgery centres within third party hospitals, which it calls "Shalby Arthroplasty Centre of Excellence" ("**SACE**"), where it offers orthopaedic healthcare services including surgeries. Since March 2007, it has conducted an aggregate of 92,100 surgeries, and provided healthcare services to an aggregate of 1,025,533 patients, consisting 133,652 inpatients and 891,881 outpatients.
- ❑ Shalby has domestic and overseas outreach through a network of hospitals in India, and Outpatient Clinics and SACE located in India, Africa, and the Middle East. Having strong presence in western and central India and focus on Tier – I and Tier – II cities, its hospitals operate across five states. Outpatient Clinics operate across 53 cities in 16 states in India, and SACE are present in five cities in four states in India. Its international footprint consists six Outpatient Clinics and one SACE in Africa, and two SACE in the UAE. It is expanding footprint in western and central India with hospitals being set up in Nashik and Vadodara.
- ❑ The multispecialty hospital offers healthcare services across orthopedics, neurology, cardiac care, critical care, oncology and nephrology. It has strong presence in Western and Central India in 12 states. It has tripled the bed capacity to 2012 through FY13-17. Stable Average Revenue Per Operational Bed (ARPOB) and increasing number of operational beds has been impressive so far. In terms of financial performance, ~16% annualized FY18 PAT Margin and RONW of 20%+ is at the upper side among the peers.
- ❑ However, revenue uncertainty from Orthopedics segment which contributes ~65% of the business after the recent price cap by the government on knee replacement surgeries is a big concern over the business prospects. In the view of that, asking price of 45.8x average earnings is at the upper side among multispecialty hospitals especially. **Therefore, being cautious, expecting limited upside, we recommend to AVOID the issue.**

Source: Red Herring Prospectus, Destimoney research

Strengths

- ❑ **Leadership in orthopaedics and strong capabilities in other specialties:** Having performed approximately 50,175 joint replacements since 2007, Shalby has been a market leader in the area of joint replacement surgeries. Its chain of multi-specialty hospitals provide advanced levels of care in various specialties. Since Fiscal 2012, it has experienced a steady growth in providing orthopaedic and non-orthopaedic healthcare services to patients. Orthopaedic services and Non-orthopaedic services has grown at a CAGR of 6.67% and 24.24% respectively from fiscal 2013 to fiscal 2017.
- ❑ **Integrated and scalable business model enhancing our patient reach:** It has an integrated and scalable business model enabling it to provide comprehensive healthcare solutions through a network of multi-specialty hospitals, Outpatient Clinics, and SACE. From four hospitals in April 2012, it has grown to eight operational hospitals and three hospitals which were recently set up have an aggregate bed capacity of 2,012 beds.
- ❑ **Experienced player with longstanding presence and brand recall :** Although the Company was incorporated in the year 2004, healthcare services under the brand “Shalby” had commenced as early as the year 1994. Vijay Shalby was set up under the aegis of Group Entity, Shalby Orthopaedic Hospital and Research Centre in the year 1994. From 2004, the operation of Vijay Shalby has been undertaken by the Company. Its strong brand equity is evident from the consistent growth in its inpatient and outpatient base from 15,348 and 110,919 respectively, during Fiscal 2013 to 24,704 and 166,519 during Fiscal 2017, with a CAGR of 12.63 % and 10.69 %, respectively.
- ❑ **Track record of operating and financial performance and growth:** Its track record of consistent growth in revenue and profitability is one of key competitive strengths. Its growth in revenue and profitability can be credited to its strong operational efficiency, which it achieves by streamlining its clinical and administrative functions, continually introducing process innovations, and ensuring that it maintains economies of scale.
- ❑ **Ability to attract quality doctors, nurses, paramedical, and other staff :** As at June 30, 2017, we employed 2,049 employees and engaged 319 professional consultants, which comprised 294 doctors who are full-time consultants and 25 doctors who are part-time consultants. Its staff strength also comprises 458 nurses and 1,141 paramedical, corporate and support staff and pharmacists. Since a majority of its doctors are engaged full time, doctors are generally available on-call, round the clock, and are able to fulfill patient needs and requirements, while also effectively addressing emergencies.
- ❑ **Experienced and qualified professional management team with strong execution track record :** Shalby’s Chairman and Managing Director, Dr Vikram Shah is a veteran and specializes in the field of orthopaedics. With over 25 years of professional medical experience, Dr Vikram Shah has consulted across various geographies including the United Kingdom and India. Dr Vikram Shah has been credited by Ethicon India for his involvement in the development of the OS Needle, which has been successful in simplifying soft tissue procedures, thereby reducing the risk of infection and diminishing high rates of failure that once existed while undertaking orthopaedic surgeries.

Source: Red Herring Prospectus, Destimoney research

Future road ahead

- ❑ **Strengthen hospital presence in western and central India, and continue expanding into new geographies:** Shalby aims to continue to be one of the leading healthcare service providers in India by expanding its network of hospitals owned and operated by it through greenfield projects and brownfield projects, strategic acquisitions, and O&M arrangements with third party healthcare service providers. In March 2017, it has set up three new hospitals, Shalby Jaipur, Shalby Naroda, and Shalby Surat, which had an aggregate bed capacity of 747 beds. It is currently in the process of setting up hospitals for a total bed capacity of 263 beds in Nashik and Vadodara.
- ❑ **Continue to enhance our outreach programmes:** Shalby aims to enhance its outreach programmes by establishing Outpatient Clinics and SACE in various Tier I Cities, Tier II Cities, and Tier III Cities. It also intend on establishing additional Outpatient Clinics and SACE in various cities across India where its Outpatient Clinics and SACE currently cater to patients. This apart, its asset-light Outpatient Clinics and SACE afford it the opportunity to assess a market prior to setting up a full-fledged hospital. By referring patients to its hospitals for further diagnosis and treatment, its Outpatient Clinics and SACE have also been instrumental in building brand recognition, and increasing patient footfall in its hospitals.
- ❑ **Continue to strengthen healthcare services across other specialties:** Its expansion strategies are centred on establishing hospitals which focus on offering quality healthcare services across a spectrum of specialties such as neurology, nephrology, cardiac care, critical care, and oncology. Further, for the purposes of strengthening focus on other specialties, it intends to equip its hospitals with an additional range of diverse healthcare equipment. These include equipment which are used for cancer diagnosis and treatment, equipment which use nephelometric technology to manage a variety of diseases such as cardiovascular diseases, and liver transplant equipment and instruments.
- ❑ **Implement initiatives to improve operational efficiencies:** Aims to improve its daily Average revenue per occupied bed (**ARPOB**) by enhancing focus on high growth care areas such as oncology, nephrology, and hepatology. It intends to continue to minimise Average length of stay (**ALOS**) at its hospitals. It intends to maximise its operational efficiency by achieving greater integration and by implementing a stronger supply chain management.
- ❑ **Continue to grow our ancillary businesses:** Apart from offering multi-specialty tertiary and quaternary healthcare services, it also provides home-based healthcare services under Shalby Homecare. It has been engaged in providing home-based healthcare services since Fiscal 2015. In Fiscal 2016 and the nine months period ended December 31, 2016, Shalby Homecare catered to 2,566 and 4,413 patients, respectively. Shalby Homecare services are being offered through its hospitals located in Ahmedabad, Indore, Jabalpur, Mohali, and Vapi. In the future, it intends to offer the Shalby Homecare services through all its existing and upcoming hospitals.

Source: Red Herring Prospectus, Destimoney research

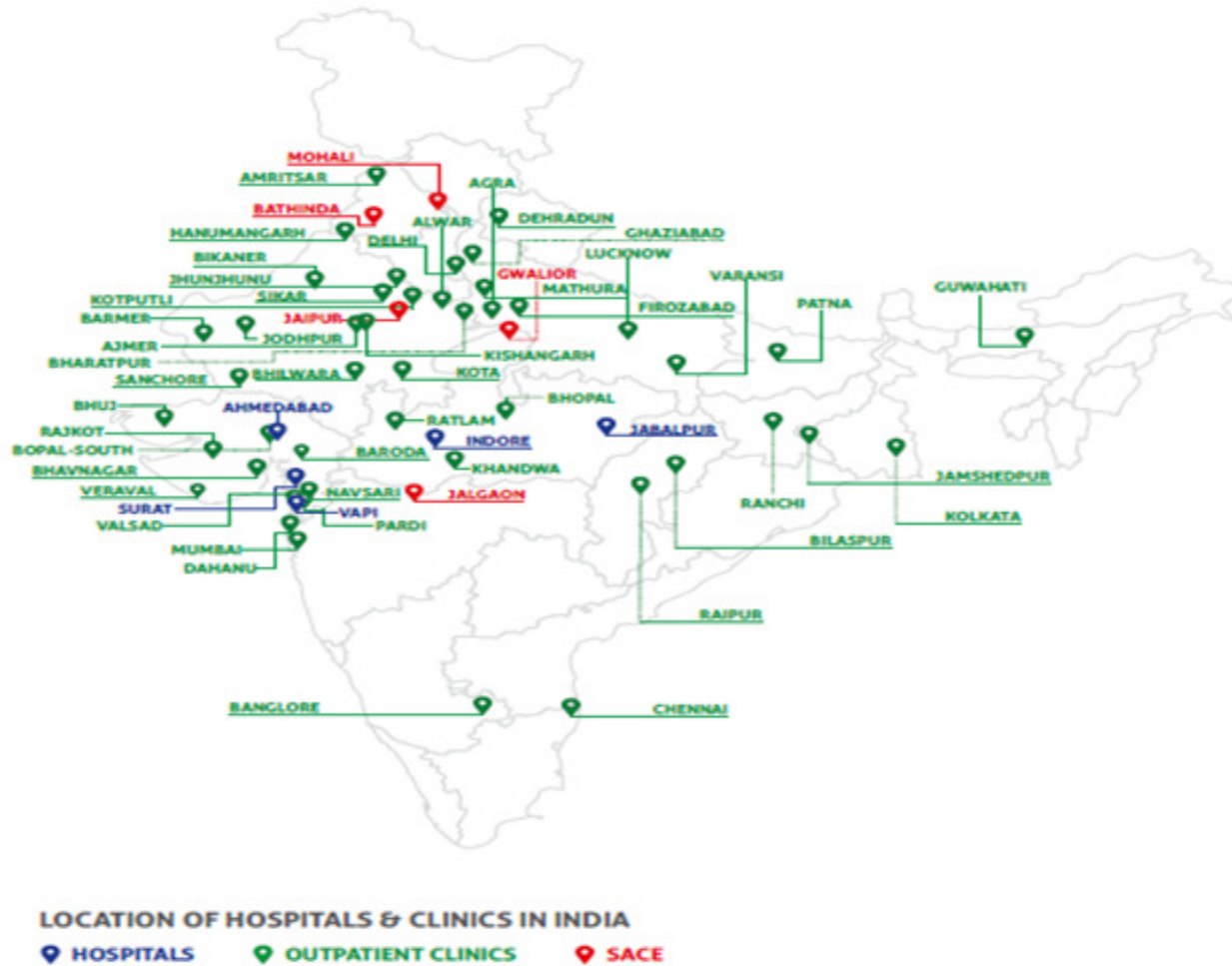
Details of existing operational hospitals and recently set up hospitals

Hospital	Location	Date of commencement
Vijay Shalby	Ahmedabad	March, 1994
SG Shalby	Ahmedabad	March, 2007
Shalby Vapi	Vapi	April, 2012
Krishna Shalby	Ahmedabad	October, 2012
Shalby Jabalpur	Jabalpur	March, 2015
Zynova Shalby	Mumbai	January, 2017
Shalby Indore	Indore	August, 2015
Shalby Silver Oaks	Mohali	September, 2015
Shalby Jaipur*	Jaipur	March, 2017
Shalby Naroda*	Ahmedabad	March, 2017
Shalby Surat*	Surat	March, 2017

*Currently providing only outpatient consultative healthcare services through this hospital.

Source: Red Herring Prospectus, Destimoney research

Shalby Outpatient reach



Source: Red Herring Prospectus, Destimoney research

Peer Comparison

Comparison of Shalby Limited and other key private hospitals in Gujarat

Hospital	Est. year in Gujarat	No. of Hospitals in Gujarat	Bed capacity	Type of Services
Shalby Limited	1994	06	1104	Multispecialty
Sterling Hospitals	2001	04	862	Multispecialty
Apollo Hospitals	2003	01	234	Multispecialty
Care Institute of Medical Science (CIMS)	2009	01	300	Multispecialty
Narayana Multispecialty Hospital	2012	01	300	Multispecialty
Zydus Hospitals	2012	02	710	Multispecialty

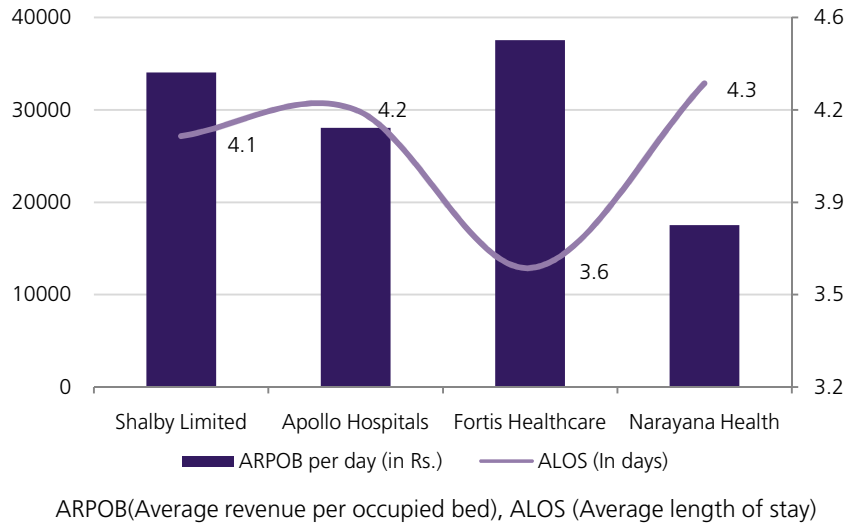
Financial Indicators

Metric	Shalby Limited	Apollo Hospitals	Fortis Healthcare	Narayana Health	Other regional players
ARPOB per day (in INR)*	34034	28036	37534	2-Jan-48	20,000-28,000
EBITDA Margin (%)	0.19	0.21	-	0-Jan-00	12-18%
EBITDA Growth (2010-15)	0.2	0.2	-	0.26	12-15%
ALOS	4.1 days	4.2 days	3.6 days	4.3 days	4-5 days

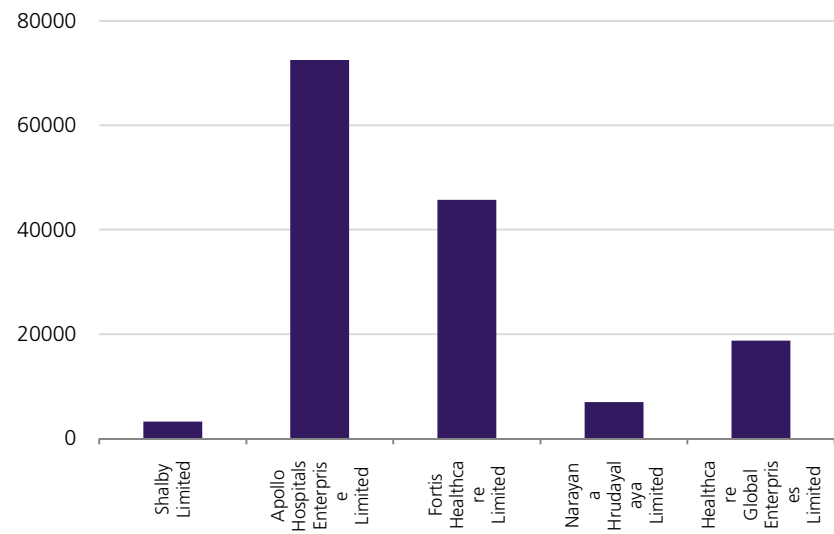
Source: Red Herring Prospectus, Destimoney research

Peer Comparison

ARPOB & ALOS



Revenue comparison



Peers financials

Name of the company	Revenue FY17 in ₹mn	Operating Profit	PAT	PAT Margin	EBITDA Margin	ROE (%)	ROCE (%)	P/E
Shalby Limited	3,253.87	723.64	625.63	18.80	21.74	23.54	10.73	8.1
Apollo Hospitals Enterprise Limited	72549.06	7510.77	887.27	1.22	6.02	2.54	6.74	71.48
Fortis Healthcare Limited	45737.15	5188.88	-67.71	-0.15	6.45	-0.15	4.43	14.89
Narayana Hrudayalaya Limited	7001.11	1146.66	230.43	3.29	8.26	5.38	7.22	72.84
Healthcare Global Enterprises Limited	18781.65	2521.16	909.07	4.84	9.10	9.89	14.77	111.12

Source: Red Herring Prospectus, Destimoney research

Consolidated Summary Financials

Income Statement

₹ mn	June'FY17	FY17	FY16	FY15	FY14
Total Income	892	3,254	2,904	2,747	2,576
Operating Expense	635	2,530	2,349	2,079	1,962
EBIDTA	257	724	555	668	613
Depreciation	44	168	113	212	110
Other Income	14	75	22	29	41
Finance Costs	41	98	104	54	23
PBT	186	532	359	430	521
Tax	41	(83)	(4)	185	144
PAT(Before extraordinary items)	145	616	363	246	377
Share of Loss of Associates	-	-	-	-	-
Minority Interest	(1)	10	13	12	13
Net Profit	144	626	376	257	390

₹ mn	June'FY17	FY17	FY16	FY15	FY14
EBIDTA Margin	28.4%	21.7%	19.0%	24.1%	23.4%
Net Margin	15.9%	18.8%	12.8%	9.3%	14.9%
ROE	5.0%	23.5%	18.3%	15.3%	27.7%
ROCE	3.9%	10.7%	11.2%	18.6%	30.9%

Balance Sheet

₹ mn	June' FY17	FY17	FY16	FY15	FY14
Liabilities					
Share capital	887	874	879	354	354
Reserves and surplus	2,002	1,783	1,171	1,331	1,055
Minority interest	1	1	4	23	25
Share application money pending allotment	-	3	-	-	-
Deferred government subsidy	93	94	-	-	-
Long-Term Borrowings	2,519	2,854	2,011	737	228
Deferred tax liabilities(Net)	231	228	21	112	27
Other non current liabilities	25	21	28	47	71
Long term provisions	12	15	9	6	4
Short term borrowings	590	261	93	75	77
Trade payables	445	390	468	614	205
Other current liabilities	966	651	354	214	121
Short term provisions	7	7	2	1	1
Total Liabilities	7,777	7,182	5,039	3,513	2,168
Assets					
Net Block	3,430	3,201	3,178	1,586	1,201
Intangible assets	1	2	4	3	6
Capital work in progress	2,504	2,214	822	907	51
Intangible Assets Under Development	2	2	0	0	0
Goodwill on Consolidation	11	11	11	162	96
Long term loans and advances	899	871	380	225	176
Non- Current Investment	1	1	1	1	1
Other Non- Current Asset	9	3	2	3	6
Inventories	152	76	75	58	65
Trade receivables	384	380	314	215	151
Cash & bank balances	135	159	161	310	119
Short-term loans and advances	97	124	62	13	275
Other Current Assets	152	138	29	30	23
Total Assets	7,777	7,182	5,039	3,513	2,168

Source: Red Herring Prospectus, Destimoney research

Key Risks

- ❑ A significant portion of its revenue is currently generated from two hospitals SG Shalby and Krishna Shalby. Further, a majority of its hospitals are located in the state of Gujarat. Any material impact on the revenue from these hospitals will impact its business, prospects, financial condition and results of operations significantly.
- ❑ Shalby is dependent on one field of specialty for a substantial portion of its revenue, i.e. orthopaedics. Any material impact on its earnings from orthopaedics will impact its financial condition and results of operations significantly.
- ❑ Shalby's O&M partner, SMJH Trust, has not perfected its leasehold rights upon the land on which Shalby Jabalpur has been constructed. Accordingly, its rights arising out of its O&M arrangement with SMJH Trust in respect of Shalby Jabalpur may be impaired, thus adversely affecting its revenue, profits, and financial conditions.
- ❑ Shalby has not executed definitive agreements in respect of some of its Outpatient Clinics with third parties. Further, Zynova Shalby is presently being operated under a memorandum of understanding, and a detailed agreement is proposed to be executed upon completion of 24 months from the date of commencement of its management and operation of Zynova Shalby.
- ❑ Shalby's revenue is primarily dependent on inpatient treatments, which could decline due to a variety of factors . In Fiscal 2016, while its inpatients contributed to 87.76% and 88.85%, respectively, of its revenue, its outpatients contributed 6.56% and 5.24%, respectively.
- ❑ Shalby operates some of its facilities under arrangements with third parties such as O&M agreements and lease agreements. Further, its SACE operate at third party hospitals and offer orthopaedic services on the basis of agreements with such third party hospitals. Counterparties may unilaterally terminate these arrangements and may require it to cease doing business out of such facilities, or may refuse to renew such agreements on expiry. Any such action by the counterparties may adversely affect its revenue and financial condition.

Source: Red Herring Prospectus, Destimoney research

Destimoney Securities Private Limited

Plot No. A356/357, Road No.26,Wagle Industrial Estate, Thane (West), Maharashtra - 400 604.

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