



SHALBY LIMITED

BSE: 540797 | NSE : SHALBY

Date: 22nd Oct 2021 | CMP = 160

Contents

1. Snapshot
2. Investing the Warren Buffet way
3. Shalby – Making Healthcare better for Everyone
4. Diversified Services Offered
5. Shalby Hospitals; Shalby Healthcare
6. Shalby Academy; Shalby Franchise Operations
7. Expansion – Unlocking health in new geographies
8. Acquired Implant Assets from Consensus Orthopedics
9. Financial and Business Analysis
10. Balance Sheet Analysis
11. Cash Flow Analysis
12. Hospital Beds and ARPOB Statistics
13. Q1FY22 Performance Update
14. Peer Comparison
15. Investment Thesis
16. Triggers for >2x EBITDA Expansion
17. Young Portfolio - Increase in Occupancies (%)
18. Capacity & Occupancy
19. ARPOB & EBITDA
20. Dedicated management and leadership
21. Risk & Concerns
22. Facts and Figures
23. Future Outlook
24. Statutory Disclosure



- **Total Weightage % in Portfolio = 6% (CMP = 160)**
- **Two Phase Buying Strategy = Buy 3% between Rs 160-165 & remaining 3% between Rs 130-150.**
- **Price Target = Around Rs 300+ in next 12 months, Rs 600+ in next 3 years & Rs 1000 in next 5 years. Expect 35-45% CAGR Return.**
- Shalby Hospitals was established by Dr Vikram I. Shah in 1994 in Ahmedabad, Gujarat, operates a chain of multispecialty hospitals across India, holding an aggregate bed capacity of over 2000 hospital beds.
- With the aim to deliver all-inclusive affordable healthcare services under one roof, they have strengthened their presence across tertiary and quaternary specialities such as Cardiology, Neurology, Oncology, Bariatrics, Liver and Renal transplants.

Market Cap: INR 1739 Cr.		Current Price: INR 160	52 weeks H/L: 214/86.2
ROE: 5.19%		Stock P/E: 25.9	Dividend Yield: 0.58%
ROCE: 6.83%		Debt to Equity: 0.05	Current Ratio: 3.49
Face Value: 10		Promoter Holding: 74.1%	Pledged Percentage: 0%
Sales Growth (3Y): 4.46%		Profit Growth (3Y): 2.49%	Price to Book : 2.17

Source: Screener.in, As on October 22nd, 2021

Investing the Warren Buffett way

Human beings always have a natural tendency to follow the crowd, but when it comes to share market investing, following the crowd can more often result in ending up with losses. Why do you need to copy the mediocrity of the masses when you can replicate the success of one of the world's greatest investors? This is how you can invest.

- 1) Look at quality businesses; not just the stocks
- 2) Are you willing to own a stock for 10 years? If no, then don't own it even for 10 minutes
- 3) Check thousands of stocks and look for very high bargains
- 4) Get professionals to do the financial planning
- 5) Scrutinize how well management is using the resources
- 6) Always stay away from "the hot stocks"
- 7) Consider the fact of how much money you will make?

Warren Buffett wrote in a report "Unless we see a very high probability of at least 10% pre-tax returns, we will sit on the sidelines." Get rid of the weeds and water the flowers — not the other way around.

People have this tendency of loss-aversion. That is when the share price has fallen down by 50%, they choose to wait. They convince themselves and others by saying "It will definitely come back". Also, people will rush to book profit when their shares go up just by 10%. In effect investors tend to keep the loss-making shares with themselves and they offload their profitable shares. While actually it needs to be the other way around.

Our latest recommendation is one such company named **Shalby Limited** which is globally renowned for its Joint Replacement Centre with over one lakh twenty-five thousand joint replacements performed to date. A public limited company established in 1994, they have a dedicated team of healthcare professionals who are committed to delivering patient-centric care. Its presence in India includes 11 multi-speciality hospitals and a strong network of outpatient clinics.

Source: Company Disclosures

Shalby – “Making healthcare better for everyone”

“We are working towards making healthcare better for everyone. We are unlocking a healthier and happier India.” – Shalby

Core Values

Excellence

They work with an intent to achieve excellence in whatever they do.

Learning

They learn & raise the standards set previously by continuously learning and evolving.

Integrity

They always try to do the right thing even when no one is watching.

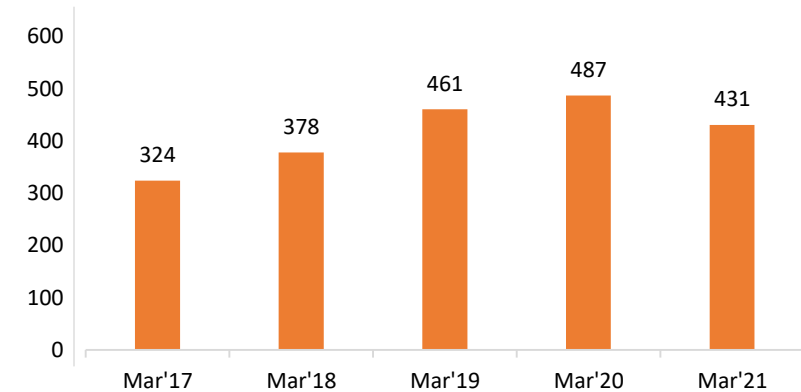
Empathy

They do everything possible for their patient’s well being, safety and concern.

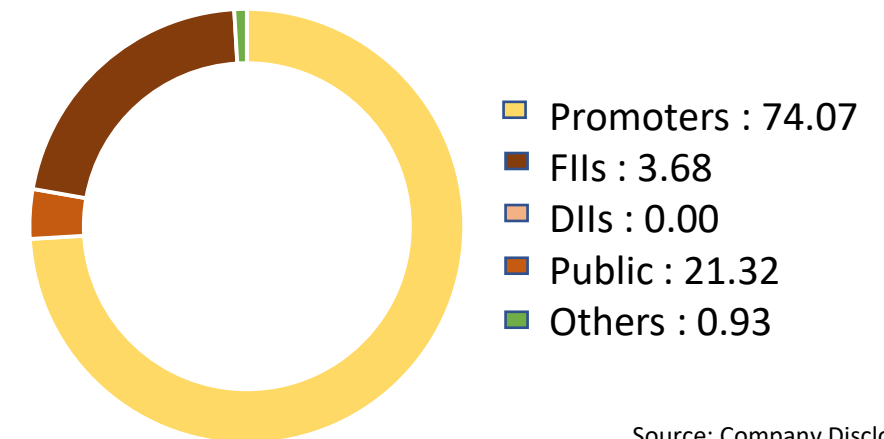
Teamwork

They work together for one objective - patient satisfaction irrespective of different teams.

Sales Growth(in crores)



Shareholding Pattern



Source: Company Disclosures

Diversified Services Offered

Shalby Hospitals

Shalby is globally renowned for its Joint Replacement Centre. With the aim to deliver all-inclusive healthcare services under one roof, they have strengthened their presence across tertiary and quaternary specialties such as Cardiology, Neurology, Oncology, Bariatrics, Liver and Renal transplants. Their dedicated team of healthcare professionals is committed to delivering patient-centric care.

Shalby Academy

Shalby Academy, the educational arm, aims at continually improving the quality of healthcare delivery in India by providing subsidized courses and free practical training to healthcare professionals. Their aim is to groom the best industry talent and build a competent workforce for supporting the healthcare industry.

Shalby Homecare

Many patients face challenges in visiting or staying at hospitals. Further, patients often have unique needs, which are best served by providing home healthcare services. Responding to these preferences and underpinned by their patient-focused approach, Shalby provides homecare services to help patients be in better control of their health.

Shalby Franchise Operations

Apart from expansion through the greenfield, brownfield and acquisition format, Shalby is now also growing their operations through the asset-light franchise model. Leveraging their brand equity and expertise, the franchise model will enable them to penetrate faster across pan-India with **FOSO(Franchise Owned Shalby Operated)** and **FOFO(Franchise Owned Franchise Operated)**

Source: Company Disclosures

A. Shalby Hospitals

Shalby Orthopaedics

Shalby Hospitals is one of the largest and a world-renowned tertiary centre for Orthopaedics, including all types of joint replacement surgeries, trauma, revisions, scopy, deformity, spine & paediatric and onco-orthopaedics.

Number of Patients in FY21 - 5405

Department of Critical Care and General Medicines

General medicine and critical care have become increasingly important, especially in the light of the COVID-19 pandemic. Treating COVID and non-Covid patients with a team of expert doctors and high-tech intensive & critical care unit by offering world-class non-surgical lines of treatment for a wide range of diseases.

Department of Neurosciences

Their neurologists and neurosurgeons are committed to treating a wide range of neurological disorders and complex tumours with advanced medical equipment and microsurgery.

Number of Patients in FY21 - 1036

Department of Cardiac Sciences

Shalby Hospitals is dedicated to provide world-class cardiac care at an affordable cost through their expertise in Cardiology, Cardiothoracic Vascular Surgery and Cardiac Rehabilitation.

Number of Patients in FY21 - 3343

27
Years of Experience

2.1mn
Patients Treated Till Date

11
Multi-speciality Hospitals

500+
Doctors

50
Outpatient Clinics

Shalby Cancer & Research Institute

Cancer refers to a large group of diseases that can affect any part of the body. They aim to provide latest research-based care to cancer patients through renowned oncologists, oncosurgeons and radiation oncologists using state-of-the-art equipment.

Number of Patients in FY21 - 9753

Department of Renal Sciences

Shalby is committed to delivering exceptional patient care by an expert team of doctors using sophisticated technology with the aim to always provide world-class nephrology and urology prevention, diagnosis and treatment services.

Number of Patients in FY21 - 12742

Department of G.I., Hepatobiliary and Bariatric Surgery, Liver Disease and Liver Transplant

The company aims at exceeding patient expectations with the help of specialized doctors and latest technology providing expert treatment.

Number of Patients in FY21 - 1794

Department of Dental Cosmetic & Implantology

For more than 24 years, Shalby Hospitals has been focused on treatments related to dental cosmetics and dental implantology, treating a wide variety of periodontal diseases using modern technology to achieve positive patient outcomes.

Number of Patients in FY21 - 2249

15% market share of joint replacement surgeries in India, highest among private 50 healthcare players

B. Shalby Homecare

The healthcare dynamics in India all point towards a high need for affordable medical services at home. Staying in sync with evolving patient needs, Shalby focuses on improving the availability and affordability of quality healthcare services. Their overarching purpose is to reshape the patient experience.

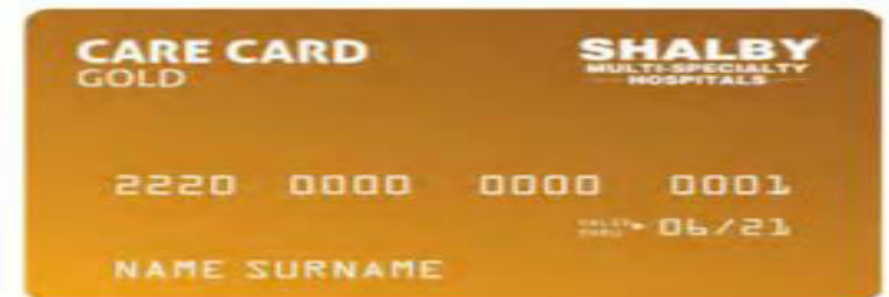
During the year, there was a huge demand for COVID-19 virtual healthcare services as the country witnessed a high number of mild and asymptomatic COVID-19 cases that could be treated at home. Shalby swiftly addressed this need by introducing COVID-19 care package and diagnostic services.

- ✓ Started video consultancy services to monitor the patient's progress and recovery and offer them consultancy services at their convenience.
- ✓ An android as well as an iOS app has been rolled out for online consultations.

Shalby Homecare Services



Introduced **Shalby Care Card** which makes available quality healthcare services at discounted rates. While easing the burden on the customer's wallet, the Shalby Card also benefits our Hospital Group as it drives customer stickiness and increases new in-patient and out-patient count. Further, this innovative offering has emerged as a constructive mechanism to promote health awareness with its complementary health check-up feature.



Complimentary health check-up
Out-patient services discount for consultations and diagnostics
Out-patient pharmacy discount
In-patient services discount
Super-speciality surgery discount*

**available only for Gold Care Card*

Source: Company Disclosures

Shalby Academy, the educational arm, aims at continually improving the quality of healthcare delivery in India by providing subsidized courses and free practical training to healthcare professionals. They associate with National Council of Paramedical, Delhi and other leading healthcare educational institutions to hone the skills and capabilities of their internal employees and external students.

Company's aim is to groom the best industry talent and build a competent workforce for supporting the healthcare industry.

They are soon planning to launch healthcare dedicated MBA program and another program on healthcare operations partnering with universities in addition to their earlier courses programs with them as a true commitment to develop a much more organized and skilled workforce in this sector.

Setting up a training and educational institute



During the year, they have offered internship program to around 1,000 students in diverse fields including physiotherapy, radiology, clinical research, nutrition, pharmacy, among others.

Tie-ups in FY 2020-21:

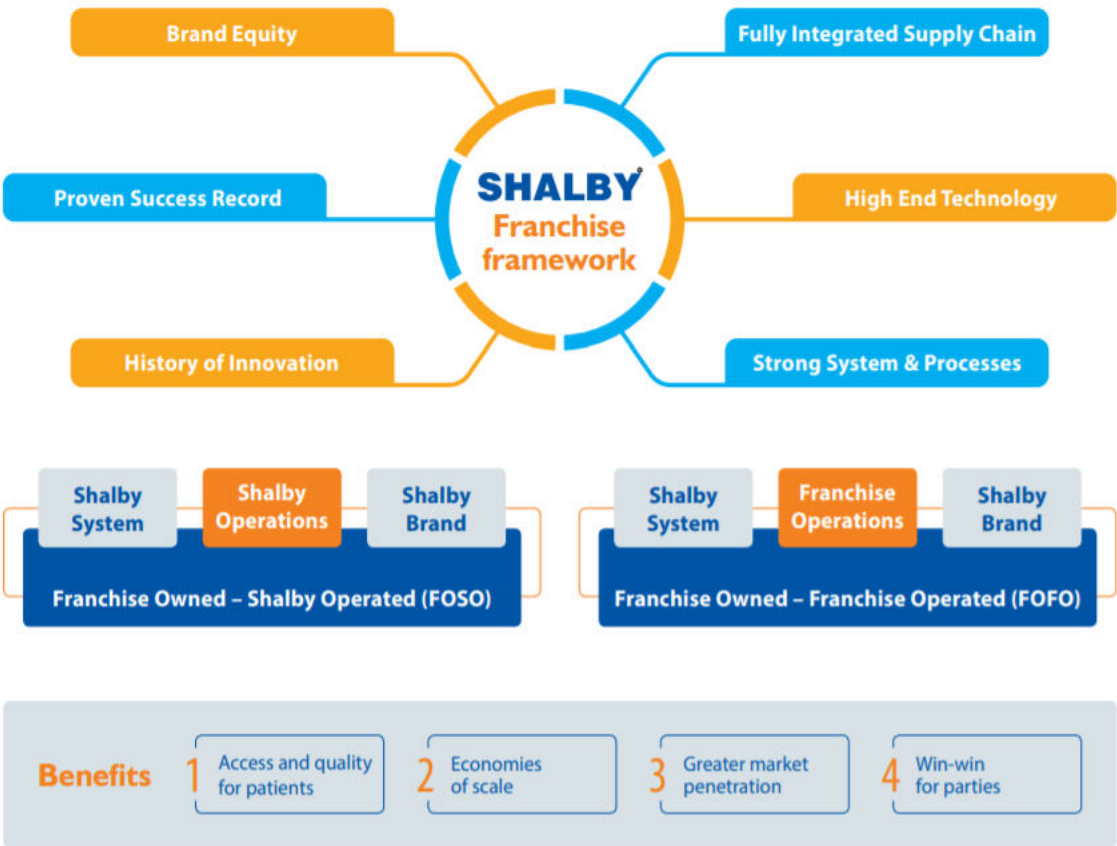
Shalby Academy & IIHMR University, Jaipur - This alliance will jointly conduct various programs in healthcare management and best hospital management practices and techniques for healthcare professionals.

Shalby Academy & INDUS University, Ahmedabad - During the year, they entered into an agreement with INDUS University for running courses in Clinical Research. A Memorandum of Understanding (MoU) has been signed in this regard between the two organizations. This academia-industry collaboration is the first-of-its-kind in Gujarat.

Source: Company Disclosures

D. Shalby Franchise Operations

The franchise model not only reduces the cost to source lands, construct buildings, but also reduces the hassles and project timelines, thus helping Shalby speed up its expansion plan across the country.



Franchise Owned Shalby Operated	Franchise Owned Franchise Operated
<ul style="list-style-type: none">▶ Franchisee responsible for setting up the franchise as per Shalby defined criteria▶ Shalby is responsible for running operations and management of the franchise▶ Shalby to bear the responsibility for collecting the revenue▶ Shalby to provide the necessary operating capital as per the defined budget	<ul style="list-style-type: none">▶ Franchisee responsible for establishing the hospital as per Shalby defined criteria▶ Franchisee to run the operations according to Shalby protocols▶ Franchisee to bear the responsibility for collecting the revenue▶ Franchisee to undergo mandatory training at Shalby to get familiar with the Shalby way of working▶ A fixed revenue sharing model



Source: Company Disclosures

Expansion : Unlocking Health in New Geographies

Inspired by their aim to unlock a healthier, happier India, Shalby remains focused on expanding their presence to newer geographies and making quality treatment easily accessible.

Shalby is strategically growing its presence in the western, central, north-western parts of India as they have built a strong brand recall in these geographies. Currently, they have two expansion projects underway – Nashik Hospital at Nashik in Maharashtra, and Asha Parekh Hospital at Mumbai in Maharashtra. Both hospitals will be run on a revenue-sharing model. Investments in these hospitals are being made in a stage-wise manner, enabling them to finance the capex through internal accruals. **As and when they commence operations, they remain confident that their high brand recall will enable them to ramp up their occupancy levels faster than other players in the industry.**

Nashik Hospital, Nashik



Development type: Brownfield project

Bed capacity: 146

Operating and management term: 30 years

Estimated cost: ₹31 crore

Operational year: FY 2023

Asha Parekh Hospital, Mumbai



Development type: Greenfield project

Bed capacity: 175

Operating and management term: 30+30 years

Estimated cost: ₹160 crore

Operational year: FY 2024

Source: Company Disclosures

Acquired implant assets from Consensus Orthopedics

Shalby acquired selected implant assets from Consensus Orthopedics, a company headquartered in El Dorado Hills, Sacramento, California, for a cash consideration of USD 11.45 million. The implant business has been operationalized from 14th May, 2021 under the guidance of Mr. Sushobhan Dasgupta (Vice Chairman and Global President) and Mr. Daniel Hayes (CEO).

The assets were acquired by Shalby Advanced Technologies Inc, a wholly-owned subsidiary of Mars Medical Devices Limited which in turn is a wholly-owned subsidiary of Shalby Limited. **The acquisition is fully in line with their stated strategy to grow their orthopaedic business. It will enable them to procure quality implants at a competitive price for internal use.**

Strategic Rationale Behind the Acquisition

- ✓ Internationally experienced management team appointed to lead Shalby's implant business
- ✓ Enables Shalby to procure quality implants at a competitive price for its own consumption in India
- ✓ Build on the existing asset platform to enhance implant sales across the US and international markets
- ✓ Facilitates diversification of Shalby's business and revenue mix
- ✓ Business fundamentals fully aligned with growth of franchise model in India
- ✓ The transaction is expected to be earnings accretive in FY 2023

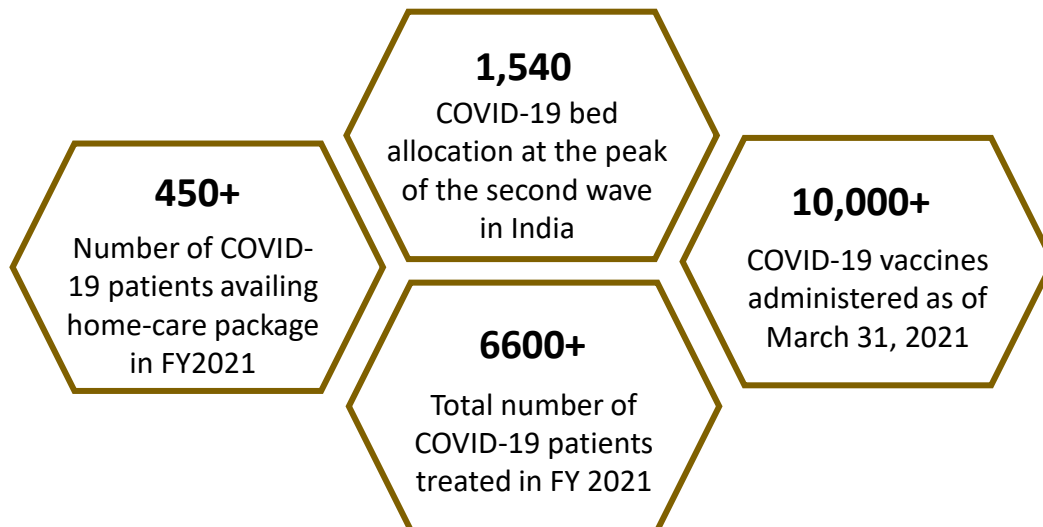
Source: Company Disclosures

COVID-19 Business Response

Shalby stands committed with the Government and society in the fight against Covid-19. In collaboration with the Government, the Company took several initiatives to effectively manage the crisis.

Operating in the healthcare space, Shalby felt a responsibility from the earliest days of the pandemic and were committed to playing a meaningful role in protecting lives. Across their hospitals, they progressively increased the allocation of Covid-19 beds, and their dedicated team of doctors and support staff worked round the clock.

The extraordinary challenges posed by COVID-19 demanded an extraordinary response. At Shalby, they stepped up to the occasion, opening their doors and hearts to treat among the highest number of COVID-19 patients in Ahmedabad city as well as in the state of Gujarat.



They have played a pivotal role to support the communities and patients in their battle against the COVID-19 pandemic. There is a common saying, the greater the adversity, the greater the opportunities. The pandemic provided them the opportunity to highlight 27 years of their service to mankind as well as communicate the success stories of millions of people.

The COVID-19 pandemic created large-scale disruptions to hospital services. The resiliency demonstrated by our team during these challenging times enabled us to rebound strongly during the second half of the year.

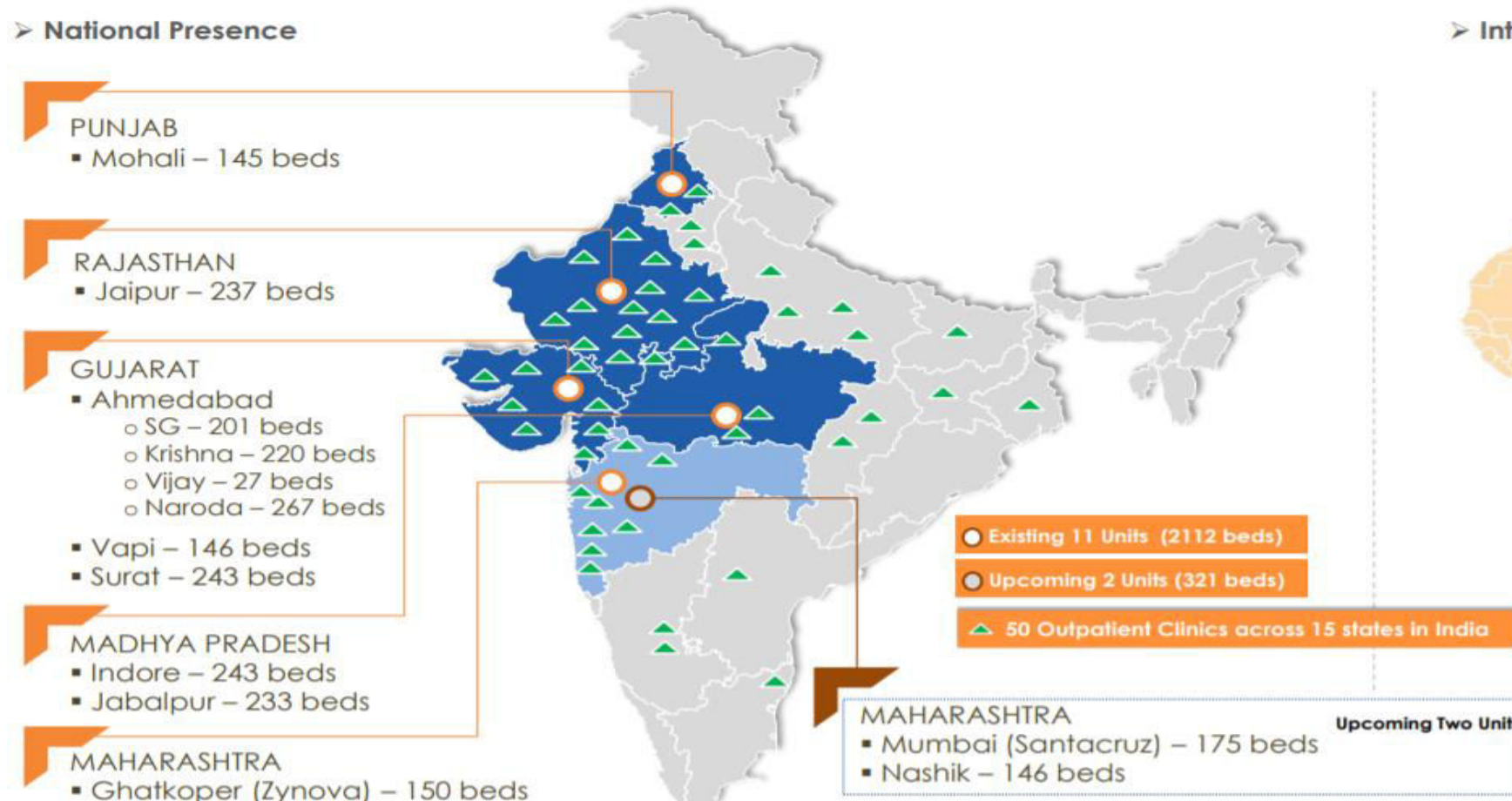
In the third quarter, Shalby recorded the highest ever revenues and EBITDA in their corporate history due to Covid-19 service.

Source: Company Disclosures

Shalby's Regional Presence

Shalby has developed strong brand recognition in its core markets and is well positioned for further expansion.

> National Presence



> International Presence (in Africa)



Source: Company Disclosures

Sustainability Initiatives by Shalby

Value creation for all our stakeholders through sustainable business practices, is at the core of Shalby.

➤ **Energy Conservation**

Lighting automation and use of LEDS to conserve electricity

➤ **Waste Management**

Every year we produce around 4,800 Kg of organic fertilizers from our composting process

➤ **Vaccination Programs**

Covid-19 vaccination across units with plans to conduct vaccination programs in rural areas

➤ **Shalby Centre Of Excellence For Learning & Simulation**

Focus on healthcare skilling and up-skilling, offering courses to students & Healthcare workers for achieving sustainable employment and quality Healthcare deliverance

➤ **CSR Projects**

CSR initiatives support underprivileged section of society lacking access to quality healthcare needs. Focus is on preventive healthcare, treatments, blood donation and vaccination drives and employment opportunities in healthcare



Source: Company Disclosures

Pillars of Shalby



Professionalism

Our medical team comprises highly skilled and qualified individuals from diverse specialities. The team upholds the highest standards of corporate governance and ethical values to maintain our reputation in the healthcare industry. With a pragmatic and patient-focussed approach, our team strives to provide quality and effective healthcare solutions to patients.

1



Efficient Services

We have carved a strong reputation for ourselves by providing comprehensive solutions and adhering to the highest standards of corporate governance. Our internal controls and processes are thoroughly reviewed at regular intervals and improved upon. Judicious maintenance of equipment and clinical audits for our patients are regularly conducted to further improve our services. Our Code of Ethics is updated every year and observed by all our administrative members.

2



Robust Governance

Timely and efficient services are extremely important in the healthcare industry. Our robust internal controls ensure that our patients are provided quality and efficient treatment and care.

3



Source: Company Disclosures

Financial & Business Analysis

	FY18	FY19	FY20	FY21	Q1FY22
Total Revenue (INR Cr.)	378	461	487	431	192
Operating Profit (INR Cr.)	79	82	83	87	38
Operating Profit Margins (%)	21%	18%	17%	20%	20%
Net Profit (INR Cr.)	39	32	28	42	20
Net Profit Margins (%)	10.32%	6.94%	5.75%	9.75%	10.42%

- ❑ The company's **PAT is high in Q1 FY22** because of the increase in Covid-19 patients leading to rise in Covid related business.
- ❑ Due to the **low overall occupancy** and the decline in elective surgeries, the company's operating income declined to 430.9 Cr in FY21 as compared to 486.9 Cr in FY20.
- ❑ Operating EBITDA margins were slightly lower compared to Q4 FY21 primarily due to this Shalby Advanced Technologies access which began operations from May 14th 2021.
- ❑ **EBITDA loss from Shalby Advanced Technologies was Rs.38 million**, which impacted the margin at the consolidated level.
- ❑ As Q1 FY21 was adversely impacted by COVID-19, the company's total revenue grew by 27% QoQ basis and 348% YoY basis primarily driven by increase in COVID-19 patients as COVID-19 business contributed 55% to the revenue as compared to 7% in the previous quarter.
- ❑ EBITDA margins were 24.4% as compared to 24% in Q4FY21, primarily due to better revenue growth and various cost optimization initiatives that have been implemented by the company.
- ❑ Shalby has **two new hospitals at Mumbai and Nashik (Maharashtra) under construction**. The company faced certain delays in getting the regulatory approvals for these hospitals and the same are now expected to become operational over FY2023-FY2024.

Source: Company Disclosures

Balance Sheet Analysis

	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021
Share Capital +	87	108	108	108	108
Reserves	164	643	672	691	727
Borrowings	328	114	71	62	44
Other Liabilities +	99	96	89	105	118
Total Liabilities	679	961	939	967	997
Fixed Assets +	323	650	692	672	660
CWIP	221	47	3	6	8
Investments	0	0	11	28	16
Other Assets -	134	264	233	260	314
Inventories	8	12	13	15	23
Trade receivables	34	51	81	95	88
Cash Equivalents	16	116	75	29	84
Loans n Advances	91	49	34	67	61
Other asset items	-13	37	30	54	58
Total Assets	679	961	939	967	997

- ❑ Shalby raised 480 Cr through its Initial Public Offering in December 2017 which increased the Reserves and Share Capital, used 300 Cr of the proceeds to repay/prepay the outstanding term loans reducing the Borrowings to 114 Cr in FY18. Further, scheduled repayments over the years and nil utilisation of working capital facilities have resulted in lower debt levels to 44 Cr in FY21.
- ❑ The IPO gave the large cash balance of 116 Cr in FY18 and made the net debt of the company nil as of March 2018.
- ❑ The Company added 3 new hospitals in FY18 as its aggressive expansion strategy which has increased the Fixed Assets to 650 Cr.

Source: Company Disclosures

Cash Flow Analysis

- ❑ In FY21, there is a significant increase in Operating Activity. This increase is due to increase in Working Capital changes primarily driven by increase in Receivables and decrease in Payables.
- ❑ The Investing Activity is high on account of aggressive expansions done by Shalby in FY17 and FY18.
- ❑ The Company launched its IPO in December 2017 resulting in an increase in Financing Activity in FY18.
- ❑ The Net Cash Flow of the company is negative in FY19 due to extremely low Investing Activity and is negative in FY21 due to an increase in Investing Activity on account of Fixed Assets sold and purchased.

	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021
Cash from Operating Activity -	60	14	43	55	84
Profit from operations	77	87	86	94	93
Receivables	-5	-22	-42	-19	8
Inventory	-0	-4	-1	-2	-5
Payables	-8	8	18	9	-3
Loans Advances	-2	6	0	0	0
Other WC items	10	-48	-8	-6	1
Working capital changes	-6	-61	-33	-18	1
Direct taxes	-11	-13	-9	-20	-9
Cash from Investing Activity -	-153	-236	1	-31	-57
Fixed assets purchased	-158.12	-138.36	-31.49	-19.77	-26.56
Fixed assets sold	0.00	0.00	0.15	208.28	28.05
Investments purchased	0.00	0.00	-11.48	-224.32	-15.52
Interest received	1.80	1.98	9.31	5.15	4.93
Acquisition of companies	0.00	0.00	0.00	0.00	-1.05
Other investing items	3.02	-99.76	34.91	-0.02	-46.81
Cash from Financing Activity -	96	222	-51	-22	-29
Proceeds from shares	0.38	488.45	0.00	0.00	0.00
Proceeds from borrowings	0.00	0.00	0.00	0.72	0.00
Repayment of borrowings	0.00	0.00	-42.86	-9.33	-20.18
Interest paid fin	-4.83	-8.32	-8.33	-6.38	-3.77
Dividends paid	0.00	0.00	0.00	-6.51	-5.40
Share application money	0.27	0.00	0.00	0.00	0.00
Other financing items	99.82	-257.91	-0.06	0.00	0.00
Net Cash Flow	3	0	-6	3	-2

Source: Company Disclosures

Hospital Beds and ARPOB Statistics

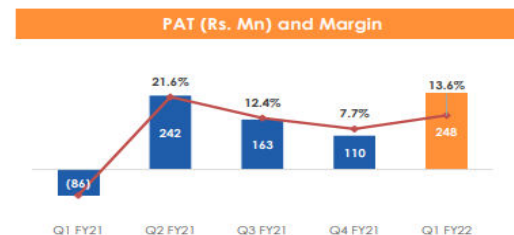
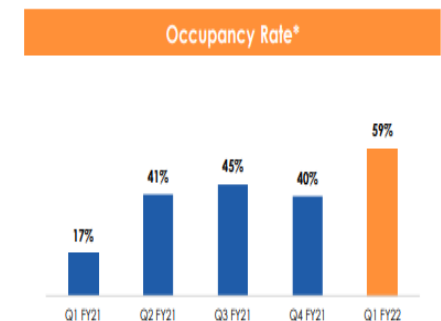
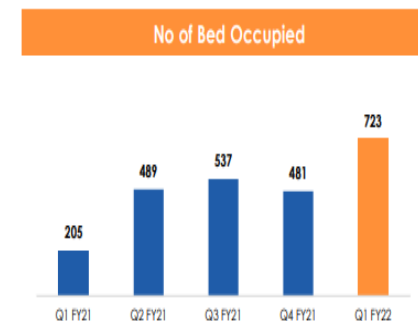
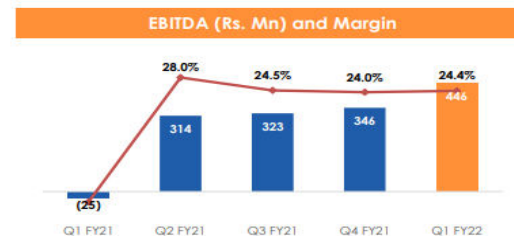
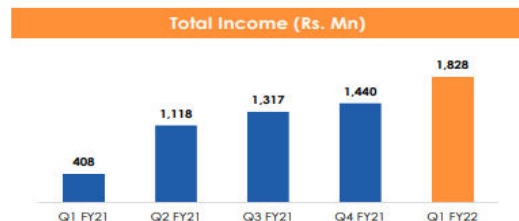
- ❑ In Q1 FY22 the total number of operational beds were 1224 with 723 beds occupied representing an occupancy level of 59% as compared to 40% in Q4 FY21 with an average occupancy of 480 beds. The company has given 20% to 25% higher numbers compared to Q4 and with no COVID patients. So, essentially, they are on track and they believe that **Q4 is the right reflection that they are putting as a benchmark for the company to go forward for the next two to three quarters at least.**
- ❑ ARPOB stood at Rs.27779 compared to Rs.33225 in Q4 FY21, an expected decline as the surgery count was reduced and the number of COVID-19 patients had increased. For the non-COVID work, Shalby had ARPOB of Rs.30000 and for COVID work they had ARPOB Rs.25000. The blended average is almost Rs.27800. In Q3 FY2021 the Company had recorded ARPOB of around 25000 and they have almost increased that by 8% to 10% in this particular quarter that was backed by higher number of operations and higher number of non-COVID work that they did.



Source: Company Disclosures

Q1FY22 Performance Update

Particulars (in Rs. Million)	Q1 FY22	Q1 FY21	Y-o-Y Growth	Q4 FY21	Q-o-Q Growth
Revenue from Operations	1,801	384	369.4%	1,417	27.1%
Other Income	27	24	9.4%	23	16.6%
Total Income	1,828	408	347.9%	1,440	27.0%
Expenses					
COGS	1,052	272	287.3%	815	29.1%
% of Revenue	58%	71%		58%	
Employee Benefit Expenses	201	88	129.1%	168	19.9%
% of Revenue	11%	23%		12%	
Other expenses	129	74	74.8%	111	15.7%
% of Revenue	7%	19%		8%	
Total Operating Expenses	1,382	433	219.0%	1,094	26.3%
% of Revenue	77%	113%		77%	
EBITDA	446	(25)	-	346	28.9%
EBITDA Margins %	24.4%	(6.2)%		24.0%	
Depreciation and Amortisation	86	89	(3.5)%	94	(8.0)%
Finance Cost	7	12	(40.3)%	8	(6.1)%
PBT	353	(126)	-	245	44.1%
Total tax	104	(40)	-	134	(22.5)%
Effective Tax Rate %	29.5%	31.5%		54.9%	
PAT	248	(86)	-	110	125.2%
PAT Margins %	13.6%	(21.2)%		7.7%	



Source: Company Disclosures

Q1FY22 Performance Update (Contd.)

Delivered highest ever quarterly EBITDA and Net Profit of Rs. 45 Crore and 25 Crore respectively

In Patient Count (Nos.)

9,934

3,664 in Q1 FY21

Surgeries Count

2,813

843 in Q1 FY21

Beds Occupied (Nos.)

723

205 in Q1 FY21

Avg. Occupancy Rate

59.1%

17.1% in Q1 FY21*

ARPOB (Rs.)

27,779

Rs. 21,850 in Q1 FY21

ALOS (Days)

6.10

5.10 in Q1 FY21

Total Income

Rs. 1,828 mn

Q1 FY21 Rs. 408 mn

Operating EBITDA

Rs. 446 mn

Q1 FY21 Rs. (25) mn

PBT

Rs. 353 mn

Q1 FY21 Rs. (126) mn

Net Profit

Rs. 248 mn

Q1 FY21 Rs. (86) mn

Shalby continues to deliver strong growth on a sequential basis
EBITDA of Rs. 45 crore, up 1.3x and EPS of Rs. 2.30 up by 2.3x over previous quarter

- During the quarter, there was a rise in Covid-19 patients due to the second wave of the pandemic and Shalby treated over **5,350** Covid-19 patients as compared to **776** in Q4 FY21
- Surgery count declined to **2,813** from 5,472 in Q4 FY21 as majority of the hospital facilities were converted to treat Covid-19 patients in line with government directives
- Operational bed count increased to **1,224** from **1,200** in Q4 FY21
- Bed occupancy increased to **59.1%** as compared to 40.1% in Q4 FY21
- Total income of Rs. **1,828 million**, an increase of 27.0% on q-o-q and 347.9% on y-o-y. Revenue increase is primarily driven rise in Covid-19 patients
- EBITDA of Rs. **446 million**, an increase of 28.9% q-o-q
- EBITDA margins of **24.4%** in Q1 FY22 as compared to 24.0% in Q4 FY21
- Net profit Rs. **248 million** with margins of **13.6%** as compared to 7.7% in Q4 FY21

59% Bed Occupancy

2800+ Surgeries count in Q1FY22

100000+ Patients* served in Q1FY22

5350+ COVID Patients treated in Q1FY22

100000+ Total COVID Inoculation in Q1FY22

Source: Company Disclosures

Sweetly Positioned

Particulars	Premium Multi-Specialty (Metro)	Value Tertiary care (Metro)	Tertiary Care (Tier I)	Secondary care (Tier I and below)
ARPOB (Rs)	42,000	28,000	26,000	16,000
EBITDA per OBD (Rs)	7500	4,500	5,000	2,500
EBITDA %	18%	16%	19%	16%
CAPEX per bed (Rs cr)	1.1	0.7	0.6	0.4
Peak ROCE (%)	14.9%	14.1%	18.3%	13.7%

Please note – Above analysis assume is base on Industry study of listed and unlisted players is captioned segments.



Shalby is aptly positioned as a non-metro focused Tertiary care play

- Tertiary Care hospitals have highly specialized staff and technical equipment expertise to deal with complex treatments and procedures, which a secondary care hospital may not be able to do so.
- Multi-specialty Hospital, has all the different branches of Medicine and Surgery under one roof.
- We have bifurcated the listed peers on our analysis of % beds in Metro area, Key Specialization, ARPOB and Capex per bed.
- Tertiary Care hospitals in non-metro areas are sweetly positioned in terms of lower operating costs and lower Capex per operating bed, which helps them earn much better ROCEs and faster breakeven.
- Further, focus on a particular specialty like **Arthroplasty for Shalby or Oncology for HCG** can be a source of higher ARPOBs with lower operating costs.
- Further, positioning in Tier-I cities can help target patient pools from catchment areas which are underserved for a particular specialty.
- In our view, **Shalby is aptly positioned given its non-metro – Arthroplasty focused** offering which helps it to operate at much lower costs and lower Capex per operating bed.

Source: Industry Research, MNCL Research

Peer Comparison

Details on operational beds over the years; Shalby has had the highest increase

Hospital	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Increase %
Shalby	414	421	690	731	1,050	1,052	1,164	1,164	190%
Apollo	5,774	6,321	6,724	6,940	7,176	7,246	7,491	8,300	44%
Fortis	3,419	3,636	3,475	3,414	3,531	3,486	3,470	3,652	7%
Max	1,472	1,680	2,272	2,330	2,378	2,376	2,376	3,233	120%
Narayana	3,946	4,702	4,782	4,921	5,644	5,785	5,747	5,859	48%
HCG	829	993	1,061	1,364	1,569	1,872	1,963	2,071	150%
Aster DM	1,335	1,772	1,976	2,653	2,744	3,092	3,438	3,438	158%

Source: Company, MNCL Research. Please note – For Shalby, Zynova Beds are not considered in this computations as it is under O&M model.

Higher ARPOBs (In INR) considering Non-Metro Presence; Reducing ARPOBs on account of newer hospitals

Hospital	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Shalby	41,864	41,625	34,779	33,279	31,380	30,738	29,116
Apollo	26,288	27,526	29,458	32,083	33,646	35,897	38,807
Fortis	30,685	34,521	37,432	39,726	40,822	41,370	43,443
Max	NA	37,447	35,485	40,021	41,278	41,733	46,358
Narayana	15,252	16,533	17,453	21,040	20,748	22,750	25,573
HCG	25,184	24,705	27,165	27,461	29,971	30,620	32,400
Aster DM	NA	14,460	18,765	21,282	24,811	26,492	28,926

Source: Company, MNCL Research

Highest increase in operational beds amongst peers

- Shalby increased its bed capacities from 1,295 beds in FY17 to 1,962 beds in FY18 as it added 5 new hospitals to its portfolio.
- Despite the aggressive expansion, Shalby remains almost net debt free.

Curious case of reducing ARPOBs

- Shalby's ARPOBs have reduced from Rs41,864 in FY14 to Rs29,0 in FY20.
- This is led by almost 2x increase in operational beds with the newer hospitals having less Arthroplasty contribution.

Peer Comparison (Contd.)

Details on operational beds occupancy (In %)

Hospital	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Shalby	41%	43%	33%	37%	32%	39%	39%
Apollo	71%	68%	63%	64%	66%	68%	68%
Fortis	73%	70%	72%	75%	70%	67%	68%
Max	74%	74%	71%	72%	73%	74%	73%
Narayana	48%	51%	54%	51%	53%	53%	52%
HCG	54%	54%	51%	47%	45%	44%	45%

Source: Company, MNCL Research

Lower occupancy on account of newer assets:

- Shalby's occupancy is lower vs. peers largely on account of recent increase in the new bed capacity.
- Focus on newer specialty and maturing hospitals occupancy will increase from current base

Details on Average Length of Stay ('ALOS'); Lower ALOS on account of Arthroplasty focus

Hospital	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Shalby	NA	NA	NA	4.00	3.70	4.15	4.22
Apollo	4.54	4.43	4.17	4.06	3.99	3.99	3.86
Fortis	3.80	3.64	3.56	3.56	3.48	3.39	3.24
Max	3.50	3.40	3.26	3.25	3.14	3.40	4.20
Narayana	4.87	4.45	4.32	4.00	4.20	3.90	3.50
HCG	3.15	3.07	2.93	2.86	2.39	2.25	2.27

Source: Company, MNCL Research

Lower ALOS vs. peers

- With 45% of revenues being contributed by Arthroplasty, the blended ALOS for Shalby is lower.
- With focus to increase share from other specialties, ALOS should increase on higher penetration.

Peer Comparison (Contd.)

EBITDA margin profile of listed peers; Shalby has consistently maintained superior margins (%)

Hospital	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Shalby	24.20%	24.50%	19.10%	22.20%	20.70%	17.60%	16.90%
Apollo	15.30%	14.20%	11.10%	10.00%	9.60%	11.10%	11.50%
Fortis	1.30%	3.30%	4.90%	7.70%	6.00%	5.00%	13.20%
Max	NA	10.10%	10.20%	11.60%	8.50%	8.40%	15.00%
Narayana	11.00%	11.10%	10.80%	12.20%	9.30%	10.10%	13.50%
HCG	8.50%	14.70%	14.50%	15.00%	14.30%	12.80%	16.60%

Source: Company, MNCL Research

Superior margin profile

- Shalby's relentless focus on cost efficiency has led to superior EBITDA margins even with lower occupancy levels
- Higher occupancy from non mature units to be a trigger for further EBITDA expansion.

Details on Capex / BED (x); One of the lowest in the Industry

Hospital	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Shalby	0.3	0.3	0.4	0.3	0.5	0.4	0.5
Apollo	0.7	0.7	0.7	0.9	0.9	1.0	1.1
Fortis	1.4	1.3	1.0	1.6	1.5	2.6	2.3
Max	NA	0.9	1.0	1.0	1.0	1.1	1.2
Narayana	0.2	0.3	0.3	0.3	0.5	0.5	0.5
HCG	0.8	0.5	0.6	0.6	0.6	0.6	0.7

Source: Company, MNCL Research

Efficient capital allocator

- Shalby's Capex per bed is one of the lowest in Industry on account of optimized usage of area and having an asset light model.
- Higher margins and lower Capex spends has resulted into higher ROCEs.

Peer Comparison (Contd.)

Peer comparison of valuations

Particulars	CMP	Mcap	PAT (FY23E)	PE _x (FY23E)	EV (FY23E)	EV /EBITDA (FY23E)	EV/Operational BED (FY23E)
Shalby	195	2,106	118	17.8	2,213	11.9	1.9
Avg Peers		21,149	541	56.5	21,994	17.1	4.7
Apollo Hospitals	4,025	58,008	1,070	54.2	58,840	24.7	7.1
Max Healthcare	297	28,655	825	34.7	27,925	21.2	8.6
Fortis Healthcare	250	18,927	464	40.8	20,652	18.8	5.7
Narayana Hrudayalaya	489	10,014	299	33.5	10,236	15.5	1.7
Aster DM	164	8,157	567	14.4	10,885	6.7	3.2
Healthcare Global	254	3,134	19	161.5	3,428	13.5	1.7

Source: Company, MINCL Research

- **Shalby available at a discount to peers:** On all the valuation metrics is PEx, EV/EBITDAx and EV per operational beds, Shalby trades at a discount to peers. Further, Net cash position, Rich ARPOBS and Margin profile and earnings expansion potential makes Shalby worthy of better multiples.

Key Triggers for Re-rating

- **Management Bench strength:** With Mr Shushobhan Dasgupta appointed as the Vice Chairman and Global President of Shalby, the management bench strength has been further strengthened. Mr Dasgupta was the Vice President at Johnson & Johnson Medical Asia Pacific thus bringing rich expertise in Implants business which is the new growth area for Shalby.
- **Implants Business:** With backward integrating into Implants manufacturing provides significant synergies to Shalby. Further, potential to market the products in US and Asia - pacific can be a significant growth driver.
- **Hospital Earnings growth:** Growth drivers are in place for Shalby to increase its current EBITDA base by 2x on the back of maturity of new hospitals. Medium term earnings growth can be another re-rating trigger for Shalby.

Investment Thesis

- ❑ Shalby Ltd ('Shalby') leader in Arthroplasty in India (market share of 15%), remains an under researched and under owned Investment Idea.
- ❑ Its best-in-class EBITDA margins even with lower occupancy and lower Capex/bed is a testimony of its cost and capital efficient operations.
- ❑ It remains almost net debt free even with the recent increase in its bed capacity by more than 55% and an implant facility acquisition.
- ❑ **The newer hospitals (33% of operating beds) to lead EBITDA expansion on account of increased occupancies and asset maturity.**
- ❑ Recent Implant facility acquisition provides massive synergies to Shalby with **estimated annual savings of INR >11cr.** Strong management bench-strength can help turnaround the International Implant business.
- ❑ The **new portfolio accounting for 33% of operating beds however contribute 15% to total EBITDA.** It means there is huge scope of both capacity utilization & EBITA expansion.
- ❑ With increasing occupancy and maturity of these assets, **new hospitals to be the biggest driver of EBITDA expansion.**

Profit and Loss Account

Y/E March (Rs Crs)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	462	487	431	730	884
% growth	22%	5%	-11%	15%	14%
Cost of Medicines and Consumables	40	53	34	58	44
% of sales	9%	11%	8%	8%	5%
Hospital Ops Expenses	240	241	215	350	415
% of sales	52%	49%	50%	48%	47%
Personnel	65	66	57	80	97
% of sales	14%	13%	13%	11%	11%
EBITDA	83	83	86	124	186
EBITDA Margin (%)	18%	17%	20%	17%	21%
Depreciation	33	36	37	41	42
EBIT	50	47	49	84	144
Interest Expenses	9	7	4	2	2
PBT From Operations	41	39	46	82	142
Other Income	9	17	9	13	13
PBT	50	57	55	95	155
Exceptionals	-	-	-	-	-
PBT after Exceptional	50	57	55	95	155
Tax-Total	18.7	29.1	12.7	22.8	37.3
Effective Tax Rate (%)	37%	51%	23%	24%	24%
Reported PAT	32	28	42	72	118
Extraord. items -Adj.	-	-	-	-	-
Adjusted PAT	32	28	42	72	118
PAT Margin	7%	6%	10%	10%	13%
% Growth	7%	6%	10%	10%	13%

Source: Company, MNCL Research

- ❑ 2.5x Sales target in next 3-5 years by management
- ❑ > 2x EBITDA expansion to be led by efficient operations and operating leverage from maturing hospitals
- ❑ Implant acquisition at excellent value brings massive synergies for Shalby
- ❑ Expect massive earnings growth during next 2-3 years

Source: Company Disclosures

Triggers for >2x EBITDA expansion

Triggers for >2x EBITDA expansion



Source: MNCL Research

Operating leverage with new hospitals to drive next leg of EBITDA expansion

- The **young portfolio accounting for ~33% of operating beds** however contribute **15% to total hospital EBITDA**. This young portfolio of hospital currently does Hospital level EBITDA of ~10%.
- With increasing occupancy and maturity of these assets, we believe these new hospitals to be the biggest driver of EBITDA expansion for Shalby.
- Further, **leveraging on its Arthroplasty expertise in newer geographies** should lead to higher ARPOB and margin profile for the recently acquired assets.

Leader in Arthroplasty

- Shalby **accounts for ~15% of Arthroplasty surgeries in India**; making it the leader in the segment. This specialization leads to much better ARPOB and margin profile.
- **Recent acquisition of Implant manufacturing facility** in the US provides massive synergies to Shalby in terms of sourcing and also enter into the lucrative implants business in the international markets.

Efficient operations a key differentiator; led to higher EBITDA at lower overall occupancy

- Shalby operates on a **cost effective basis** on account of initiatives around procurement of medical consumables, Clinician management strategy and lower overheads.
- Further **Capex per bed for Shalby has been lowest** vs like to like peer on account of optimization of overall square footage.

Operating leverage kicker from Young Portfolio

Details on Hospital Assets

Hospital	Bed Capacity	Operational Beds	Utilization %	Occupancy %	ARPOB (INR)	EBITDA Margins
SG (2007)	201	163	81%	50%	52,396	35.6%
Vijay (1994)	27	27	100%	11%	19,401	35.6%
Matured Hospitals	228	190	83%	45%	51,225	35.6%

Krishna (2012)	220	157	71%	37%	27,843	25.9%
Vapi (2012)	146	90	62%	20%	10,222	10.9%
Indore (2012)	243	163	67%	46%	22,635	14.7%
Jabalpur (2015)	233	167	72%	36%	31,517	11.9%
Maturing Hospitals	842	577	69%	36%	21,385	17.2%

Naroda (2017)	267	89	33%	55%	21,382	23.20%
Surat (2017)	243	110	45%	39%	30,359	10.90%
Mohali (2017)	145	73	50%	25%	27,121	-26.30%
Jaipur (2017)	237	125	53%	36%	31,517	11.90%
Zynova (2017)	50	36	72%	NA	NA	NA
Young Hospitals	942	433	46%	39%	27,481	9.93%

Matured Hospitals

Asset age >10 Years.

Characterized by higher occupancy, higher EBITDA margins and higher ARPOB, **matured assets contribute to ~16% of operating beds but ~56% EBITDA contribution (FY20).**

Maturing Hospitals

Asset age 5-10 years

Since most of these assets (ex Jabalpur) are acquired, the overall ARPOB / EBITDA is lower than the overall numbers. **Maturing hospitals are 48% of operating beds, but 28% to total EBITDA**

Young Hospitals

Asset Age < 5 years

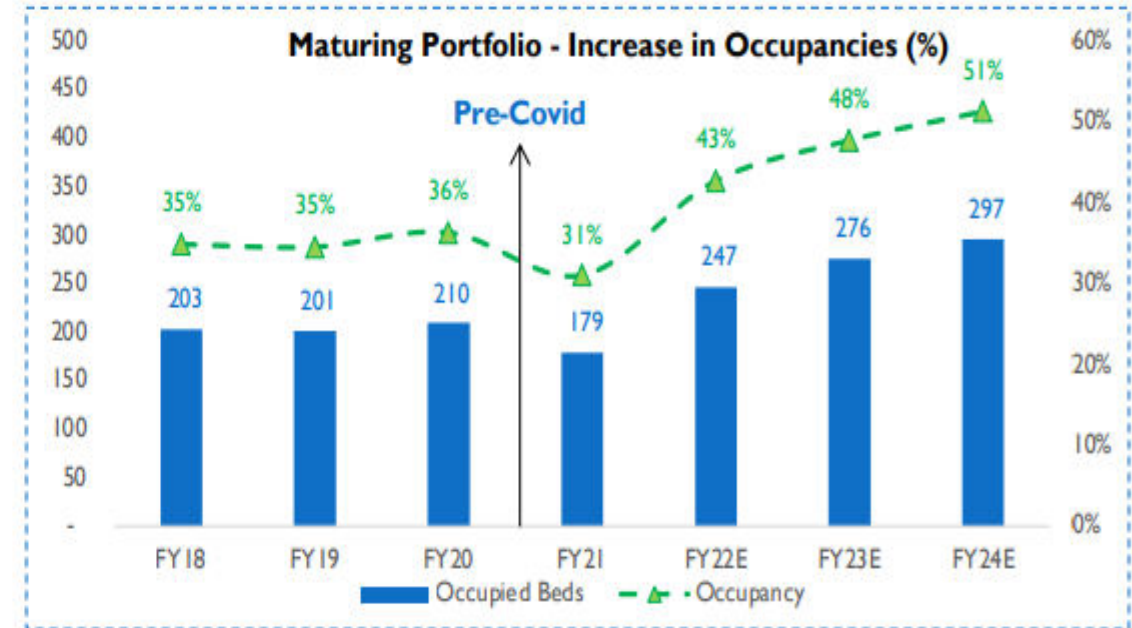
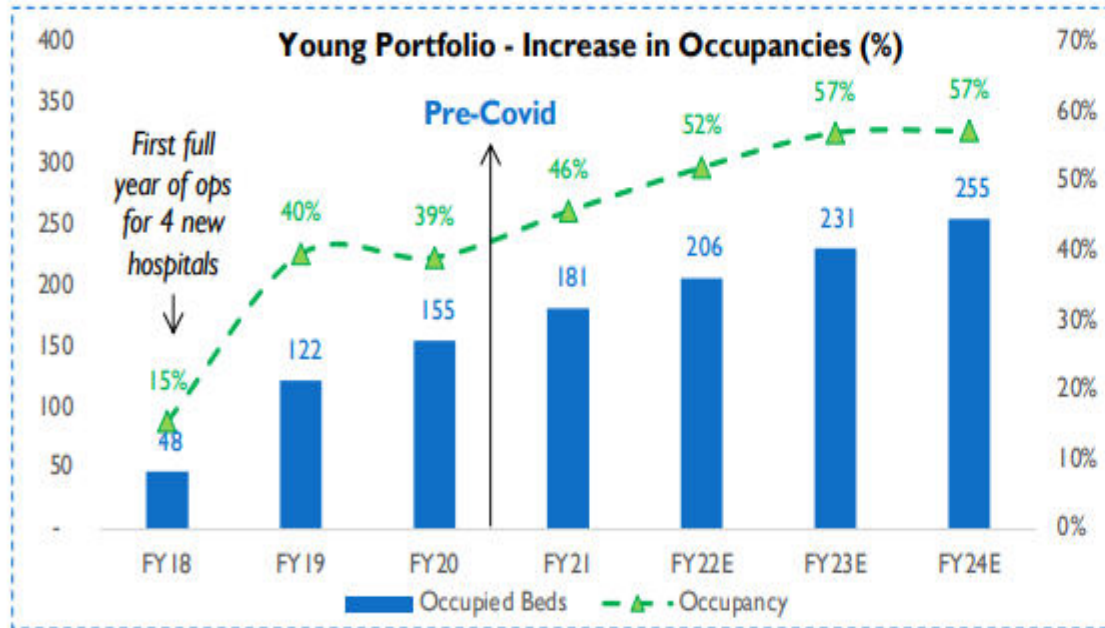
Characterised by lower utilization and lower profitability, **33% of the operating bed capacity falls** under this category with EBITDA margins (FY20) of **~9.93%** due to the higher opex.

Young Portfolio	FY18	FY20	FY24E
Bed Capacity	892	892	892
Operational Beds	309	397	397
Capacity Utilization (%)	35%	45%	45%
Occupancy (%)	15%	39%	67%
ARPOB (INR)	32,188	27,481	29,714
Hospital Revenues (INR Crs)	55	156	288
Hospital EBITDA (INR Crs)	6	15	70
Hospital EBITDA (%)	11%	10%	24%

Operating leverage kicker from Young Portfolio – Key trigger

- Shalby increased its bed capacities from **1,265 beds in FY17 to 2,012 beds in FY18** as it added 5 new hospitals to its portfolio.
- This young portfolio accounts for **~33% of operating beds however contribute 15% to total EBITDA.**
- These hospitals have lower occupancy vs. mature hospitals; hence the New Hospital EBITDA margins are ~10% (ex corporate expenses).
- We strongly believe that Shalby can increase its young hospitals avg. occupied beds from **155 beds in FY20 to 265 beds in FY24E**, which potentially leads to EBITDA margin expansion for the young portfolio. We have assumed the utilization levels to remain at ~45% of the bed capacity.

Young Portfolio - Increase in Occupancies (%)



Key levers of higher occupancies in Young Portfolio

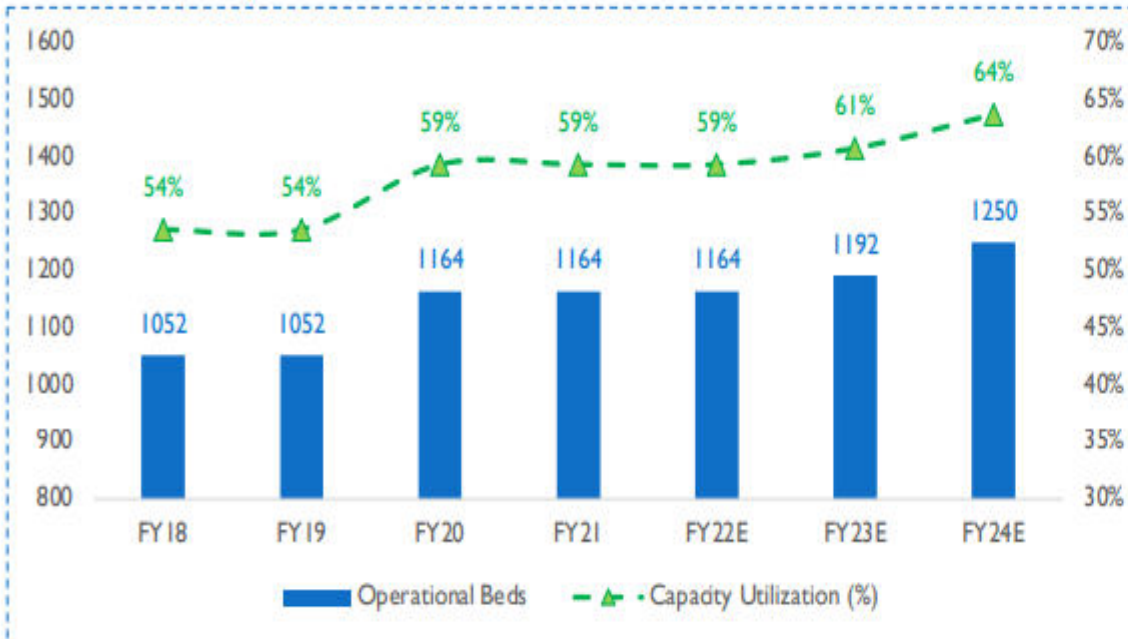
- **Age of assets < 4 years:** All the assets added post 2017 are reasonable newer thus operating at much lower occupancies which would improve as they hit their maturity.
- **Penetration of Specialties:** Higher penetration of key specialty remain a key to increasing the overall ALOS. Attracting underserved patient pool for these specialties remain the key.

Key levers of higher occupancies in Maturing Portfolio

- **Pivot from Secondary care to Tertiary care:** Hospitals including Vapi, Indore and Jabalpur have been secondary care units when acquired. Improving specialty care focus to improve occupancies here.
- Reason on why Occupancy growth in Young Portfolio > Maturing portfolio: **Utilization % in young portfolio is 45% vs 69% for Maturing portfolio.** Hence absolute increase in young portfolio's occupied beds would happen on a lower base.

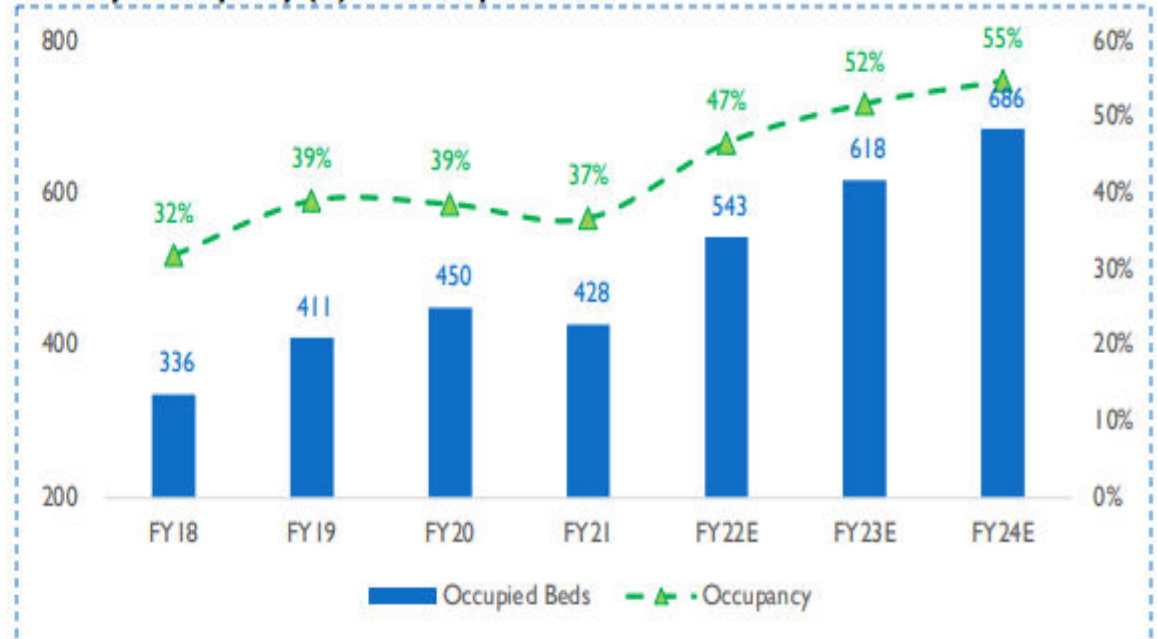
Capacity & Occupancy

Shalby's capacity utilization (%) and operational beds



Source: Company, MNCL Research

Shalby's occupancy (%) and occupied Beds



Source: Company, MNCL Research

Capacity & occupancy

- Operational beds as well as capacities have increased significantly post FY17 on account of addition of 5 new hospitals. These account for 33% of operational bed capacity. We believe that these hospitals are at the cusp of turnaround and would help in improving the overall occupancy levels.
- Further, pertinent to note that the existing mature hospitals are also expected to improve their occupancy on account of higher focus on other non-Arthroplasty specialty which should boost the ALOS and consequently improve the occupancy.

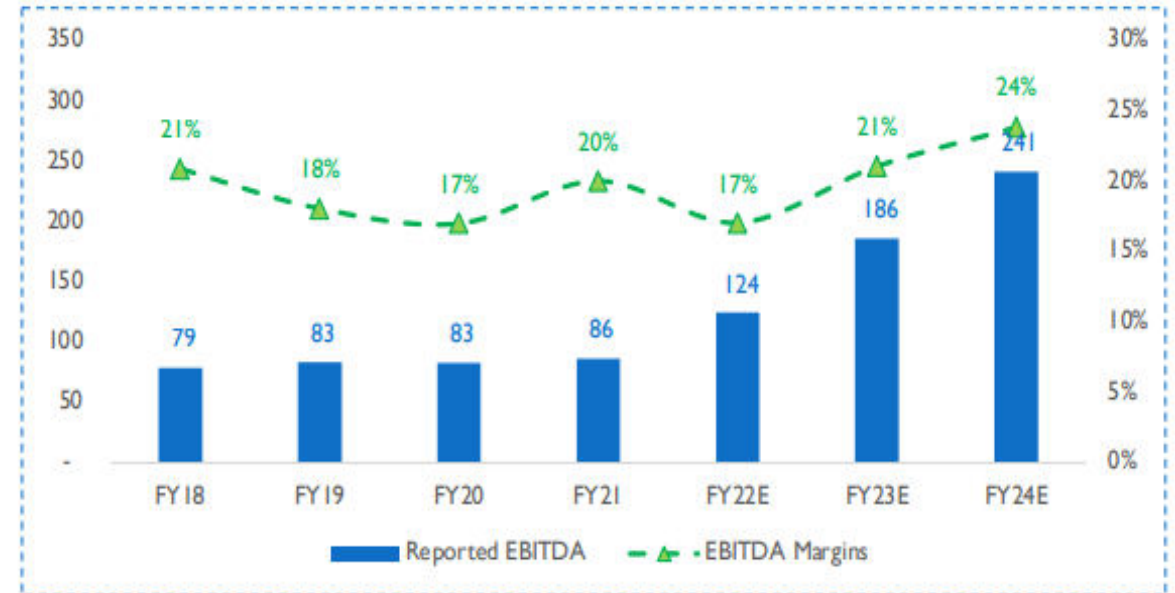
ARPOB & EBITDA

Shalby's ARPOB and growth (%)



Source: Company, MNCL Research

Shalby's EBITDA and Margins (%)



Source: Company, MNCL Research

ARPOB & EBITDA

- ARPOB has been continually on the decline on account of acquisition / addition of new hospitals in FY17. The hospitals which were acquired were largely secondary care focused, and thus, the ARPOB of these assets were starkly lower than Shalby's matured units.
- Further, the newer hospitals which were ramping up on the back of Arthroplasty were impacted on account of Covid related disruptions.
- Shalby has been able to sustain industry beating EBITDA margins on the back of focus on cost optimised operations and focus on lucrative specialties. The growth in EBITDA over next 3 years will be led by maturity of young hospital portfolio and contribution from Implant business.

Dedicated Management and Leadership

The Board of Directors (“the Board”) is at the core of the Company’s Corporate Governance practices and oversees how management serves and protects the long-term interests of its stakeholders. Their Board comprises mix of Executive, Non-Executive and Independent Directors, which inherently validates the transparency and fairness of the Board. The Board meets every quarter to review the quarterly performance.



“We, at Shalby Hospitals, strive to provide quality healthcare to the people across the globe by inventing, adapting and imbibing world’s best technologies and innovations. ‘Catering total health care under one roof at most affordable costs’ has been our motto, which has helped us establish a chain of multispecialty hospitals and vibrant OPD centers across India and the world. Shalby Hospitals today enjoys a place of pride in the Medical Tourism map of India and continues the mission of providing comprehensive health solutions.”



Dr. Vikram Shah
Chairman and Managing Director



Mr. Sushobhan Dasgupta
Vice-Chairman & Global President

Source: Company Disclosures

Risks & Concerns

❑ Inability to ramp-up occupancies in new hospitals : **Impact High**

- ❑ Bulk of the EBITDA expansion in our projections are contributed from the new hospital portfolio
- ❑ Inability to turnaround these assets will significantly impact the earnings growth and overall re-rating potential of the company

❑ Keyman Risk – Arthroplasty & Dr Vikram Shah : **Impact High**

- ❑ Dr Vikram Shah remains a key pull behind Shalby's Arthroplasty practice especially in SG Highway Hospital in Ahmedabad and hence there is significant Keyman Risk involved
- ❑ Further, Arthroplasty penetration into non-Gujarat Hospitals remain a key trigger for overall increase in ARPOBs and EBITDA profile of these units.

❑ New Capex : **Impact Medium to High**

- ❑ Given the occupancy levels and lower utilization of the maturing hospitals; Adding new Hospitals without sufficiently maturing the existing ones would be RoE dilutive

Facts and Figures

- ❑ Shalby is **globally renowned for its Joint Replacement Centre** with over one lakh twenty-five thousand joint replacements performed to date.
- ❑ It's presence in India includes 11 multi-speciality hospitals and a strong network of outpatient clinics.
- ❑ Shalby is a **market leader in arthroplasty procedure**. It has **~15% market share of all joint replacement surgeries** conducted by organized private corporate hospitals in India
- ❑ Shalby has a **debt free balance sheet**, a unique feature among hospital chains, which are on expansion mode
- ❑ **Shalby acquired selected implant assets from Consensus Orthopedics**, a company headquartered in El Dorado Hills, Sacramento, California, **for a cash consideration of USD 11.45 million**.
- ❑ Shalby has **two new hospitals at Mumbai and Nashik (Maharashtra) under construction**. The company faced certain delays in getting the regulatory approvals for these hospitals and the same are now expected to become operational over FY2023-FY2024.
- ❑ Apart from expansion through the greenfield, brownfield and acquisition format, **they are now also growing their operations through the asset light franchise model**.
- ❑ The Company has **added two franchise partnerships in Udaipur and Rajkot**. Udaipur is expected to commence operations in current quarter(Q1 FY22) and Rajkot is expected to commence operations from Q4 full year 2022. Udaipur is FOFO model and a Rajkot would be a FOSO model.

Source: Company Disclosures

Facts and Figures (Contd.)

- ❑ Underpinned by their proven leadership in the field of orthopaedics, they are **setting up Shalby Orthopaedics Centres of Excellence** to capture the massive opportunities in this space.
- ❑ They are now **in the process of developing a playbook for Shalby advance technologies**, a strategic growth plan document that will help them to align on what to, where to and how to achieve over the next one year to five years.
- ❑ They have soon **planned to launch healthcare dedicated MBA program** and another program on healthcare operations partnering with universities in addition to their earlier programs.
- ❑ Delivered **highest ever quarterly EBITDA and Net Profit** of Rs. 45 Crore and 25 Crore respectively in Q1 FY2022
- ❑ Shalby continues to deliver strong growth on a sequential basis EBITDA of Rs. 45 crore, up 1.3x and EPS of Rs. 2.30 up by 2.3x over previous quarter
- ❑ During the quarter, there was a rise in Covid-19 patients due to the second wave of the pandemic and Shalby treated over 5,350 Covid-19 patients as compared to 776 in Q4 FY21
- ❑ Surgery count declined to 2,813 from 5,472 in Q4 FY21 as majority of the hospital facilities were converted to treat Covid-19 patients in line with government directives
- ❑ Total income of Rs. 1,828 million, an increase of 27.0% on q-o-q and 347.9% on yo-y. **Revenue increase is primarily driven rise in Covid-19 patients**
- ❑ The management has set an inspirational **target to achieve 2.5x sales in the next three to five years** on the back of introduction of franchise model, better occupancies and new service offerings (home care & Shalby Care cards)
- ❑ Growth drivers are in place for Shalby to **increase its current EBITDA base by 2x**. Best in class EBITDA margins & low Capex/bed is a testimony of its cost and capital-efficiency.

Source: Company Disclosures

- ❑ Going forward three to five years down the line the Company believes that at least **15% to 20% of the company's EBITDA can be generated through the franchisee model (FOFO & FOSO).**
- ❑ From the first 1.5 months of Implant Assets from Consensus Orthopedics, Shalby has recorded sales of 4.5 Cr which has mainly come out of the existing inventory. Since now the production has started in full flow, the Company expects Q3 and Q4 results to be coming up with the fresh stocks that are being produced. **Over the period of this year full year (FY22), the Company can be ending up with 45 - 50 Cr of sales.** Next year with the full year 2023 they can reach breakeven or earn credit as well.
- ❑ If the Company operates at 100% capacity, it can bill 25000 implants and that is what they are aiming on. The capex investments for Shalby Advanced Technologies over next some years will be minimal and is expected to be EBITDA neutral by FY23.
- ❑ Shalby expects 20 Cr of investment in Nashik and about 160 Cr of investments in Mumbai. Any of this investment won't be happening in the current year i.e., FY22, most of it will start happening from FY23 and FY24.
- ❑ The maintenance capex for the company on an average is about 1.5 Cr monthly which is close to about 18 Cr to 20 Cr a year. Shalby has spent close to 9 Cr plus in Q1FY22 and essentially 5 Cr of that would be normalized. Another 4 – 4.5 Cr has gone into buying equipment such as the ventilators, BIPAP machines, additional beds that were required. Thus, the Company will not overshoot the budget for this year.
- ❑ The number of day care patients in Q4 was around 6000 patients and the number of surgeries Shalby did was also around 6000 patients. The rough outpatient number would be between 100000 patients to 110000 patients and the number of inpatients would be between 8000 patients to 10000 patients in the next few quarters if Q4 FY21 figures are considered as benchmarks.
- ❑ The company has around 1225 beds which are operational currently but the bed capacity of the group is 2000 plus beds. **Since most of the capital investment has already been made, Shalby can scale up to 2000 beds** with an additional required capex of around 10 - 12 Cr i.e., almost 3 - 4 lakhs a bed going forward.

Statutory Disclosure

SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, the analyst have no position in the stock covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
3. The research analyst does not have any material conflict of interest at the time of publication of the research report.
4. The research analyst has not received any compensation from the subject company in the past twelve months.
5. The research analyst or its associates has not managed or co-managed public offering of securities, has not received any compensation for investment banking or merchant banking or brokerage services nor received any third party compensation. The subject company was not a client during twelve months preceding the date of distribution of the research report.
6. The research analyst has not served as an officer, director or employee of the subject company.
7. The research analyst or research entity has not been engaged in market making activity for the subject company.
8. The research analyst or research entity or its associates or relatives does not have actual/beneficial ownership of one per cent or more in the securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.
9. The analyst does not own more than 1% equity in the said company.

Source: Company Disclosures