



Shalby Hospitals Ltd. - IPO Note

Issue Details	
Issue Opens	5 th December, 2017
Issue Type	7 th December, 2017
Offer Price (at higher band)	248
Pre-issue Shares outstanding (cr)	8.86
Shares offered in IPO (cr)	2.03
Shares offered for sale	0.10
Fresh issue	1.93
Nos. of shares post issue (cr)	10.9
IPO size (Rs.cr)	503.5
Promoter Holding pre-IPO	97.8%
Promoter Holding post-IPO	78.6%
FY17 PAT (Adj.)	62.6
TTM P/E at Upper Band	35X

About the Company:

Established in 2004, Shalby Ltd. (SHL) is multi-specialty chain of hospitals in India with network of 11 operational hospitals with aggregate capacity of 2,012 beds. Shalby's flagship hospitals, SG Shalby and Krishna Shalby, form ~80% of company's revenues. In 2016, Company had 15% market share of all joint replacement surgeries conducted by private corporate hospitals. Orthopaedic services contributed to ~70% of company's revenues while other 30% came from various multi-specialty services like cardiology, neurology, oncology, and renal transplantations. Company also has overseas reach with Outpatient clinics and Arthroplasty Centres (SACE) in African countries.

Shalby operates and expands its business through a combination of the following models:

- Owning and operating Multi-Specialty Hospitals;
- Operating and managing Hospitals on a Revenue Sharing Basis, by adopting an asset-light model;
- Associating with Third-Party Hospitals on a Revenue Sharing and/or professional fee basis.
- Providing Orthopedic Healthcare Services through Outpatient Clinics

Operating metrics of key Hospitals:

Particulars	SG Shalby	Krishna Shalby	Shalby Jabalpur	Shalby Indore	Shalby Vapi	Shalby Jaipur
Date of commencement	Mar, 2007	Oct, 2012	Mar, 2015	Aug, 2015	Apr, 2012	Mar, 2017
Bed Capacity	201	220	233	243	146	237
Operational Beds	174	150	138	155	70	60
Occupancy Rate (%)	50.3	36.8	30.8	26.8	26.5	16.4
ARPOB per day	53,643	36,180	20,769	29,421	12,382	46,131

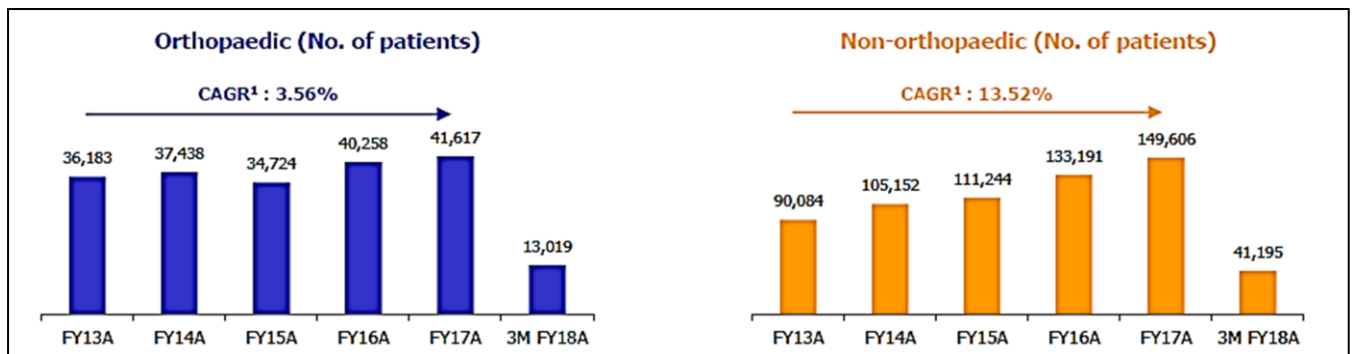
Objects of the issue:

- Offer for Sale: Proceeds from the OFS will go to the selling shareholders and company will not get any money from it.
- Fresh Issue: Company aims to raise Rs. 480 crore by issuing fresh equity and the proceeds will be utilized for following purpose:
 - Repayment of loans
 - Purchase of medical equipment
 - Purchase of interiors, furniture, and allied infrastructure for upcoming hospitals and,
 - General corporate purposes



Core strength and growth driver for the company:

- Strengthen hospital presence in western and central India, and continue expanding into new geographies
Company has successfully expanded beyond its home territory of Gujarat and have commenced operations in Jabalpur, Indore, Mohali and Jaipur. Company’s focus is now on ramping up operations in these hospitals some of which have been established in last 2-3 years itself. Therefore, the capacity utilization and margins of these hospitals are significantly lower than the matured ones. As these beds get matured, they will start contributing disproportionately to the profitability of the company.
- Company to continue to enhance its outreach programmes
SHL aims to enhance its outreach programmes by establishing outpatient clinics and SACE in various Tier I, Tier II and Tier III Cities. Intend to set up Outpatient Clinics and SACE in certain SAARC countries as a part of their international expansion plans.
- To strengthen healthcare services across other specialties
While orthopaedics will continue to be a key focus area, the Company intends to set up multi-specialty hospitals which focus on specialties other than orthopaedics. In 2014, the Company established Shalby Jabalpur as a multi-specialty hospital where cardiology contributes significantly to revenue. Currently, Shalby Indore provides advanced radiation therapy for the treatment of cancer. Copany’s non-orthopaedic volume has grown at 13.5% CAGR over last 4 years.



- Implement initiatives to improve operational efficiencies
Company aims to improve daily ARPOB by enhancing its focus on high growth care areas. It would also continue to reduce average stay of the patients which will improve their churn and consequentially its ARPOB.. Company intends to lower the costs of consumption by centralising the Company’s procurement function.

Risks and Concerns

- Cap on knee-cap surgery devices
The Govt. of India in August 2017 capped prices of Cobalt-chromium implants used in 80% of total knee replacement surgeries at Rs. 54,720. Hospitals used to sell these devices anywhere between Rs. 90,000-110,000. Shalby sells these at ~Rs. 85,000. Knee-cap replacement forms material portion of company’s revenues.
- Regulatory changes
Orthopaedics services form ~70% of company’s revenues so any regulatory changes capping prices of such surgeries or devices would impact company’s business.
- Attrition of doctors/ medical professionals:
Discontinuation of association by doctors and other healthcare professionals with company’s hospitals and their inability to retain them may adversely affect their business and results of operations.
- There hasn’t been tax outgo for the company in FY17 and FY18 because of Tax credits. Going ahead, payment of taxes will gnaw significant portion of company’s profits.



Valuation and Recommendation

- At upper price band of Rs. 248, Shalby Ltd. is valued at FY18E P/E of 35X and EV/EBITDA 26X which is slightly in premium compared to Apollo Hospitals and Fortis Healthcare. We believe that the valuations are expensive given regulatory and competitive risks in the industry.
- We believe that the stock is fully valued and one can AVOID the issue at offer price.

Financial Summary

Statement of Profit & Loss:

Shalby Ltd- Profit And Loss [INR-Crore]				
DESCRIPTION	FY15	FY16	FY17	9MFY18
Operating Income (Net)	275.4	290.4	325.4	240.6
Cost of Medicines and Consumables	4.5	4.5	5.4	3.4
Employee Cost	19.8	28.9	39.3	29.0
Hospital Operating Expenses	166.4	177.7	180.7	135.4
General and Administration Expenses	17.2	23.8	27.3	11.8
Total Expenditure	207.9	234.9	252.6	179.6
EBITDA (Ex OI)	67.6	55.6	72.8	61.0
EBITDA Margin	24.5%	19.1%	22.4%	25.4%
Depreciation	21.2	11.3	16.8	12.1
EBIT	46.3	44.2	56.0	48.9
Other Income	2.2	2.2	7.5	5.2
Interest	5.5	10.5	10.2	7.7
PBT	43.0	35.9	53.2	46.4
Provision for Tax	18.5	-0.4	-8.3	-0.6
Profit After Tax	24.6	36.3	61.6	47.0
Minority Interest	0.7	0.6	-0.5	-0.1
Consolidated Net Profit	25.3	36.9	61.1	46.9
Earnings Per Share	7.4	4.3	7.2	5.3

Cash Flow Statement

Shalby Ltd - Cash Flow - [INR-Crore]			
DESCRIPTION	FY15	FY16	FY17
Profit Before Tax	43.00	35.90	53.20
Adjustment	25.70	16.90	23.70
Changes In working Capital	66.00	-38.10	2.80
Cash Flow after changes in Working Capital	134.70	14.70	79.80
Tax Paid	-11.40	-10.10	-10.60
Cash From Operating Activities	123.20	4.60	69.20
Cash Flow from Investing Activities	-62.30	-98.00	-156.20
Cash from Financing Activities	-39.00	74.90	89.90
Net Cash Inflow / Outflow	21.90	-18.50	2.80
Opening Cash & Cash Equivalents	5.50	27.50	8.90
Closing Cash & Cash Equivalent	27.50	8.90	11.70



Balance Sheet

Shalby Ltd. Balance Sheet - [INR-Crore]			
DESCRIPTION	Mar-15	Mar-16	Mar-17
Share Capital	35.4	87.9	87.7
Total Reserves	133.1	117.1	178.3
Shareholder's Funds	168.4	205.0	266.0
Minority Interest	2.3	0.4	0.1
Long-Term Borrowings	73.7	201.1	285.4
Other Long Term Liabilities	4.7	2.8	11.5
Long Term Provisions	0.6	0.9	1.5
Total Non-Current Liabilities	90.2	206.8	321.3
Trade Payables	61.4	46.8	39.0
Other Current Liabilities	21.4	35.6	65.8
Short Term Borrowings	7.5	9.3	26.1
Short Term Provisions	0.1	0.2	0.7
Total Current Liabilities	90.4	91.7	130.9
Total Liabilities	351.3	503.9	718.2
ASSETS			
Net Block	175.1	319.3	321.4
Capital Work in Progress	90.7	82.2	221.4
Other Non Current Assets	22.9	38.3	87.5
Total Non-Current Assets	288.7	439.8	630.5
Inventories	5.8	7.5	7.6
Sundry Debtors	21.5	31.4	38.0
Cash and Bank	31.0	16.1	15.9
Other Current Assets	4.3	9.2	26.2
Total Current Assets	62.6	64.2	87.7
Total Assets	351.3	503.9	718.2

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