

CMP: ₹ 266

Target: ₹ 320(20%)

Target Period: 12 months

April 8, 2024

BUY



Focused approach, long-drawn strategy to the fore...

About the stock: Shalby is a multi-specialty hospitals chain that manages 16 hospital assets across India (10 owned multispecialty hospitals and 6 franchisee hospitals). Total bed capacity- 2362.

- Specialty wise revenue breakup as on Q3FY24: Arthroplasty: 38%, Critical care & General medicine: 13%, Cardiac science: 9%, Orthopaedic: 7%, Oncology: 10%, Neurology: 6%, Nephrology: 5%, Others: 12%
- Shalby is also into Implants business (knee and hip implants) via its US based subsidiary Consensus with sales in US, India, Japan among others.
- The company has introduced asset-light franchisee model (SOCE) to expand hospitals business into newer geographies using Shalby expertise.

Investment Rationale:

- Mixed Q3FY24 with muted revenue growth but improved margins- Revenues grew ~7% YoY to ₹ 216 crore, as ~12% growth in the hospitals business was undone by 6% de-growth in implants business. Hospitals grew 12% YoY to ₹ 194.5 crore, driven by 3% ARPOB growth (₹ 37342), ~4% improvement in occupancies and ~15% In-patient growth among others. Consolidated EBITDA grew ~24% to ₹ 42.3 crore and EBITDA margins stood at 19.6%.
- 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- After a promising start in FY23, the implants business faced certain headwinds in FY24 which seems transitory. The company has firm plans to expand this business beyond US and India and to improve the profitability gradually from hereon.

Rating and Target price

- We assign BUY rating based on 1) strong arthroplasty legacy and diversification into other super-specialties 2) asset light model via franchisee drive, 3) expansion of implants business into newer geographies besides stronger India and US traction, 4) significant valuation discount vis-à-vis other Pan-India players which is likely to converge on the back of improved performances and calibrated capex.
- Our SOTP valuation of ₹ 320 is based on 13x FY26E hospitals EBITDA and 2x FY26E Consensus Sales.

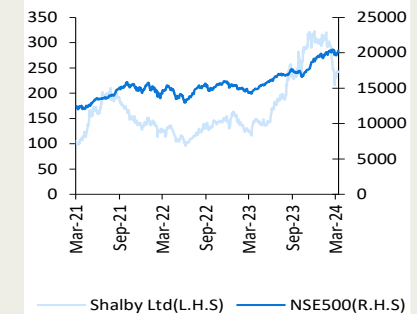
Particulars

Particular	Amount
Market Capitalisation	Rs 2873 crore
Debt (FY23)	Rs 142 crore
Cash (FY23)	Rs 12 crore
EV	Rs 3003 crore
52 week H/L	340/135
Equity capital	Rs 108 crore
Face value	Rs 10

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	74.0	74.0	74.1	74.1
FIIIs	3.9	4.0	4.1	4.6
DIIIs	0.0	0.0	0.0	0.0
Others	22.1	22.0	21.8	21.3

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

Key Financial Summary

Key Financials (Rs crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23E-26E)
Revenues	486.9	430.9	698.9	804.9	18.2%	923.8	1061.3	1200.6	14.3%
EBITDA	81.7	86.4	119.9	137.4	18.9%	184.3	216.0	257.2	23.2%
EBITDA margins (%)	16.8	20.1	17.2	17.1		20.0	20.4	21.4	
Net Profit	27.6	42.4	54.0	68.3	35.3%	89.8	111.8	139.8	26.9%
EPS (Rs)	2.6	3.9	5.4	6.3		8.3	10.4	13.0	
PE (x)	104.1	67.8	53.1	42.0		31.9	25.7	20.5	
EV to EBITDA (x)	35.1	32.6	24.1	20.8		15.3	13.1	10.9	
RoCE (%)	7.2	6.5	8.4	9.9		11.6	13.6	16.0	
ROE (%)	3.5	5.1	6.7	7.4		9.0	10.3	11.6	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com



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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. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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