January 09, 2024

Shalby Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund-based CC/OD/Others	33.52	40.00	[ICRA]A+(Stable); Reaffirmed/ Assigned for enhanced amount
Long Term- Fund-based Term Loan	39.48	9.86	[ICRA]A+(Stable); Reaffirmed
Non-fund-based Stand by Letter of Credit	124.00	321.48	[ICRA]A+(Stable); Reaffirmed/ Assigned for enhanced amount
Unallocated Limits	31.02	50.00	[ICRA]A+(Stable); Reaffirmed/Assigned for enhanced amount
Total	**228.02**	**421.34**	

**Instrument details are provided in Annexure-I*

Rationale

The rating favourably factors in the extensive experience of Shalby Limited's (Shalby) Founder-Promoter, Dr. Vikram Shah, who along with the management team, has a demonstrated track record of more than two decades in the healthcare industry. The rating also derives comfort from the strong brand equity of Shalby in Gujarat, Rajasthan, Punjab, Maharashtra, and Madhya Pradesh, with a growing presence in Central, North and West India. The company has also leveraged its strong brand equity by expanding its footprint to new territories such as Gujarat, Rajasthan, Madhya Pradesh, Jharkhand, and Uttar Pradesh, among others, by using the asset-light franchisee approach of establishing Shalby Orthopaedic Centre of Excellence (SOCE). Further, the rating also considers Shalby's leadership position in the arthroplasty speciality segment as well as its diversification into nephrology, urology, cardiology, oncology, and other non-arthroplasty segments. ICRA also continues to take comfort from Shalby's comfortable financial risk profile, characterised by healthy profitability, comfortable capital structure and healthy coverage indicators, and the positive long-term demand outlook for healthcare services in India supported by increasing affordability by virtue of increasing per capita income, widening medical insurance coverage and under-penetration of healthcare services.

Shalby witnessed healthy revenue (consolidated) growth of 15.0% in FY2023 and 17.3% in H1 FY2024. Shalby's standalone revenues improved significantly to Rs. 711.8 crore in FY2023 from Rs. 649.6 crore in FY2022. The revenue uptick was on the back of improvement in the occupancy levels on account of increasing demand for healthcare services in addition to the company's focus on promotional activities via health camps held across 60 cities and through its digital media marketing campaigns. Further, the average revenue per occupied bed (ARPOB) levels improved on the back of increase in third-party assurance (TPA) and self-pay (SP) in key locations. Shalby's earnings profile continues to remain strong, supported by improving scale of operations and better cost management. ICRA also notes the healthy ROCE of the company's hospital business, which stood at ~23% in H1 FY2024.

The rating, however, remains constrained by the growing, though moderate, occupancy levels of the company (~45% in FY2023 and 52% in H1 FY2024). Nevertheless, ICRA notes the improvement in occupancy levels in recent quarters and expects the same to sustain, going forward. The rating is also constrained by the low return on capital employed (RoCE) (~10.4% in FY2023 at a consolidated level) on account of expansion of hospitals as well as impact of acquisition of new business of Shalby Advanced Technologies, USA (SAT), which is yet to generate meaningful profits. The risk of attrition of doctors also remains; although the risk is partly mitigated by Shalby's strong brand pull and long-term contracts with doctors. Moreover, the rating considers Shalby's reliance on its flagship hospital, SG Highway, for revenue and operating profitability; although the contribution of other hospitals has been increasing gradually, supported by healthy growth of other hospitals. ICRA also notes that the company currently has two new hospitals under construction, where timely commencement of operations and ramp up of the same will continue to remain a key monitorable.

ICRA also notes that Shalby, through its step-down subsidiary, SAT, diversified into the implants and joint manufacturing business by acquiring the assets of Consensus Orthopedics, USA, in Q1 FY2022. While the same is expected to provide diversification to revenues and supplement its in-house sourcing of implants in the long run, the acquisition was largely debt funded. In FY2023, SAT witnessed significant revenue growth and achieved breakeven at the operating level. However, the company witnessed YoY de-growth in revenues in H1 FY2024, primarily due to supply chain disruptions along with low revenues from channel filling (which supported its revenues to a certain extent in FY2023). ICRA notes the current high inventory holding (~Rs. 154 crore, as on September 30, 2023) as SAT is following the company's plans to launch new products in Q4 FY2024 and FY2025, in addition to inventory pile-up from supply chain disruptions. While part of the funding requirements of SAT have been funded by its ultimate parent company, SAT has also availed working capital debt to fund its inventory requirements. Going forward, timely liquidation of inventory along with remediation of supply chain issues in addition to ramp up and profitability of the implants business will remain key monitorables.

Key rating drivers and their description

Credit strengths

Experienced management team with strong execution track record – Shalby is a publicly listed entity, promoted by renowned joint replacement specialist, Dr. Vikram Shah, who has over 28 years of medical experience in the UK, the US and India. Its overall operations are also supported by its senior management, with an average experience of more than 12 years in healthcare services in India and abroad. Shalby enjoys strong goodwill among patients and healthcare professionals, which has helped it to grow over the years. The company's brand equity is also boosted by numerous doctors who are trained at Shalby on a regular basis.

Dominance in Indian arthroplasty segment – Shalby remains the largest specialist joint replacement provider in the world, with a total of over 1,50,000 joint replacement surgeries till date and an average of 16,000–18,000 surgeries per year. The company enjoys a strong market position in the healthcare services industry in northern, western and Central India, especially underpinned by its established position in the arthroplasty segment. Arthroplasty has remained the key revenue and profit generator for Shalby over the years. The company has a healthy market share in the segment in India.

Increase in diversification into non-arthroplasty segments – Over the past few years, the share of non-arthroplasty segments in Shalby's total revenue has been increasing steadily, contributing 59% to the total revenue in FY2023. Among the non-arthroplasty segments, nephrology, urology, oncology and cardiac procedures have been the largest revenue contributors, followed by critical care and general medicine.

Comfortable capital structure and healthy coverage indicators – Shalby's capital structure remains comfortable on a consolidated basis, despite the debt-funded acquisition of the implant business in FY2022. The acquisition was funded through a debt of $12 million and an equity of $3.05 million. At a consolidated level, the total debt (including lease liabilities) outstanding stood at Rs. 160.9 crore, as of September 2023. The company's capital structure has remained comfortable, given the improvement in net worth base and lower reliance on working capital debt on a standalone basis. The gearing remained healthy at 0.2x as on March 31, 2023, and (0.2x as on March 31, 2022). The total debt (including lease liabilities)/ OPBITDA improved to 1.3x as on March 31, 2023, and further to 0.8x as on September 30, 2023, over 1.4x as on March 31, 2022. The interest coverage indicators also remained comfortable at 13.3x in FY2023 and 16.4x in H1 FY2024 (16.6x in FY2022) on the back of healthy operating profitability. Also, given the free cash and liquid investment balances of Rs. 161.5 crore as on March 31, 2023, and Rs. 92.5 crore as on September 30, 2023, the company's net-debt position remains strong.

Credit challenges

Moderate overall occupancy levels – The overall occupancy levels for Shalby remained moderate at 45% in FY2023, in line with historic trends. The occupancy levels have gradually picked up in the current fiscal, improving to 54% in Q2 FY2023 due to continued demand for elective surgeries. That said, the occupancy at some of the mature hospitals like Krishna and Vapi, in addition to units like Naroda, currently remains low. Nonetheless, despite the low overall occupancy levels, the company's operating income is supported by healthy ARPOB levels, which improved to Rs. 34,854 in FY2023 from Rs. 31,347 in FY2022. The ARPOBs further improved to Rs. 36,136 in Q2 FY2023. Going forward, while healthy demand for elective surgeries is expected to support the overall business prospects of the company, the average occupancy levels amid the ongoing capacity expansion and addition of SOCEs will remain a key credit monitorable.

High dependence on flagship hospital, SG Highway, for revenue and profitability; although contribution from other hospitals has been increasing gradually – Historically, Shalby has derived a significant percentage of its total revenue from its flagship hospital, SG Highway. It derived 28.1% of its total revenue from the hospital in FY2023, improving from 33% in FY2020. That said, the contribution of other hospitals to revenues and operating profit is improving with healthy ramp up in revenues at some of the other units.

High working capital intensity of implants business — The working capital intensity of the implants business housed under SAT remains high owing to the high inventory holding nature of the business, in addition to the current, nascent stage of operations. ICRA notes the current high inventory holding (Rs. 154 crore, as on September 30, 2023, over Rs. 133 crore, as on March 31, 2023) at SAT, following the company's plans to launch new products in Q4 FY2024 and FY2025, in addition to inventory pile up from supply chain disruptions. While part of the funding requirements of SAT have been funded by its ultimate parent company, it has also availed working capital debt to fund its inventory requirements. Going forward, timely liquidation of inventory along with remediation of supply chain issues, in addition to ramp up and profitability of the implants business, will remain key monitorables.

Ability to profitably scale up planned expansion of hospitals remains critical — Shalby has expanded its capacity significantly by launching new hospitals at Jabalpur (Madhya Pradesh), Indore (Madhya Pradesh) and Mohali (Punjab) in FY2015–FY2016, while new hospitals were set up at Naroda (outskirts of Ahmedabad, Gujarat), Surat (Gujarat) and Jaipur in FY2017, which became operational in FY2018. Further, the company has also employed an asset-light franchisee model of growth where it sets up smaller, super speciality hospitals focused on orthopaedic services called, SOCEs. The company currently operates five SOCEs in Ahmedabad (Gujarat), Udaipur (Rajasthan), Lucknow (Uttar Pradesh), Gwalior (Madhya Pradesh) and Ranchi (Jharkhand). Currently, Shalby is in the process of setting up two new hospitals—one each in Mumbai and Nashik (Maharashtra). The hospitals are expected to commence operations from FY2027 and FY2025, respectively. While ICRA expects the company's profitability and debt metrics to remain healthy, going forward, timely commencement of these hospitals within the budgeted cost and its ability to scale up the same will remain critical.

Environment and Social Risks

Environmental considerations – The hospital sector does not face any major physical climate risk. However, hospitals need to comply with environmental laws and regulations pertaining to the handling and disposal of bio-medical specimens, wastewater, infectious and hazardous waste. The company ensures that waste disposal for its hospitals is in accordance with Government guidelines, ensuring minimum generation of radiation or infection. E-waste disposal is conducted through an authorised agent. With respect to sanitation and water conservation, the company has undertaken various measures to recycle the same and make efficient use of water. The company has also taken adequate measures to meet all Government regulations with respect to solid waste, medical waste, and water conservation to minimise any business disruption.

Social considerations – Exposure to social risks is moderate for the hospital sector. Social risks for industry players include litigation exposure and compliance with standard requirements given the importance of the service being provided. Further, regulatory interventions such as price control measures, imposition of restrictions, if any, specifically levied could impact the earnings of industry players. The company has had no major litigations with respect to the above.

Liquidity position: Strong

Shalby's liquidity position remains strong, with healthy cash flow from operations and cash, bank balance and liquid investment of Rs. 212.9 crore as on March 31, 2023, of which Rs. 51.4 crore remains encumbered. The company had unutilised, fund-based working capital facilities of ~Rs. 40 crore, as on September 30, 2023, whose average utilisation has remained almost nil in the past 12 months. Going forward, the company is expected to generate sufficient cash flows from operations to meet its scheduled repayments and capex plans over the next few years. That said, the working capital requirements for its implants business as the revenue continues to increase will remain one of the key monitorables, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if sustained increase in occupancy improves revenue and profitability, which in turn improves debt coverage indicators and strengthens the overall liquidity profile. Sustained revenue growth and operating margin improvement in the implants business will also be a key factor for a rating upgrade.

Negative factors – Negative pressure on the company's ratings could arise if the net debt/ OPBDITA metrics increases above 1.5 times on a sustained basis or if there is any significant time or cost overruns in the under-construction hospitals, or delay in turnaround of newer ventures, impacting the overall financial profile. Further, any higher-than-expected debt-funded capex or that which materially weakens the coverage indicators, will also be a negative rating trigger. Any adverse outcome of litigations/lawsuits would remain an event risk, and the impact of such events on the company's business and credit profile and liquidity position would be monitored on a case-by-case basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Shalby Limited. As on March 31, 2023, the company had eight direct subsidiaries, and two step-down subsidiaries, whose details are enlisted in Annexure-II.

About the company

Shalby is promoted by the arthroplasty specialist, Dr. Vikram Shah, who commenced hospital operations under the company with a six-bed facility at Ahmedabad in 1994. Shalby currently operates a chain of multi-speciality healthcare facilities with ~2,000+ bed capacity. Shalby has a strong presence in western and central India with 10 operational multi-speciality hospitals in Ahmedabad, Vapi (Gujarat), Surat (Gujarat), Jaipur, Indore (Madhya Pradesh), Jabalpur (Madhya Pradesh), Mohali (Punjab) and Mumbai; and 5 super speciality hospitals in Udaipur (Rajasthan), Ahmedabad, Lucknow (Uttar Pradesh), Gwalior (Madhya Pradesh and Ranchi (Jharkhand). Shalby also operates 60+ OPD centres across India. It also operates 9 clinics abroad in East African countries, Dubai, Oman, Bangladesh, and Nepal. Operations initially focused on arthroplasty procedures (knee and hip replacements), following which the company expanded into other specialities such as oncology, bariatrics, cardiology, neurosurgery, etc, over last few years.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	701.6	806.7	473.5
PAT	54.0	67.7	48.4
OPBDIT/OI	17.8%	17.4%	20.2%
PAT/OI	7.7%	8.4%	10.2%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.4
Total debt/OPBDIT (times)	1.4	1.3	0.8
Interest coverage (times)	16.6	13.3	16.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jan 09, 2023		Dec 22, 2022	Sep 16, 2021 Oct 28, 2021	July 10, 2020
1	**Fund Based - CC/OD/others**	Long Term	40.00	-	**[ICRA]A+ (Stable)**		**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**
2	**Fund Based - Term Loan**	Long Term	9.86	15.45	**[ICRA]A+ (Stable)**		**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**
3	**Non-fund Based – Stand by Letter of Credit**	Long Term	321.48	116.17	**[ICRA]A+ (Stable)**		**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-
4	**Unallocated Limit**	Long Term	50.00	-	**[ICRA]A+ (Stable)**		**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund-based CC/OD/Others	Simple
Long Term- Fund-based Term Loan	Simple
Non-fund-based Stand by Letter of Credit	Very Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based – CC/OD/others	NA	NA	NA	40.00	[ICRA]A+(Stable)
NA	Fund Based – Term Loan 1	FY2018	NA	FY2025	9.86	[ICRA]A+(Stable)
NA	Non – Fund based – Stand by Letter of Credit	NA	NA	NA	321.48	[ICRA]A+(Stable)
NA	Unallocated Limit	NA	NA	NA	50.00	[ICRA]A+(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	SL Ownership	Consolidation Approach
Shalby Kenya Limited	100.00%	Full Consolidation
Shalby International Limited	100.00%	Full Consolidation
Vrundavan Shalby Hospitals Limited	100.00%	Full Consolidation
Mars Medical Devices Limited (MMDL)	100.00%	Full Consolidation
Shalby Advance Technologies Inc. – Step down subsidiary of Shalby; Subsidiary of MMDL	100.00%	Full Consolidation
Shalby Global Technologies Pte Ltd - Step down subsidiary of Shalby; Subsidiary of MMDL	99.33%	Full Consolidation
Shalby Hospital Mumbai Private Limited	100.00%	Full Consolidation
Slaney Healthcare Private Limited	100.00%	Full Consolidation
Yogeshwar Healthcare Limited	94.68%	Full Consolidation
Griffin Mediquip LLP	95.00%	Full Consolidation

Source: Shalby Limited audited report FY2023 or latest values as applicable

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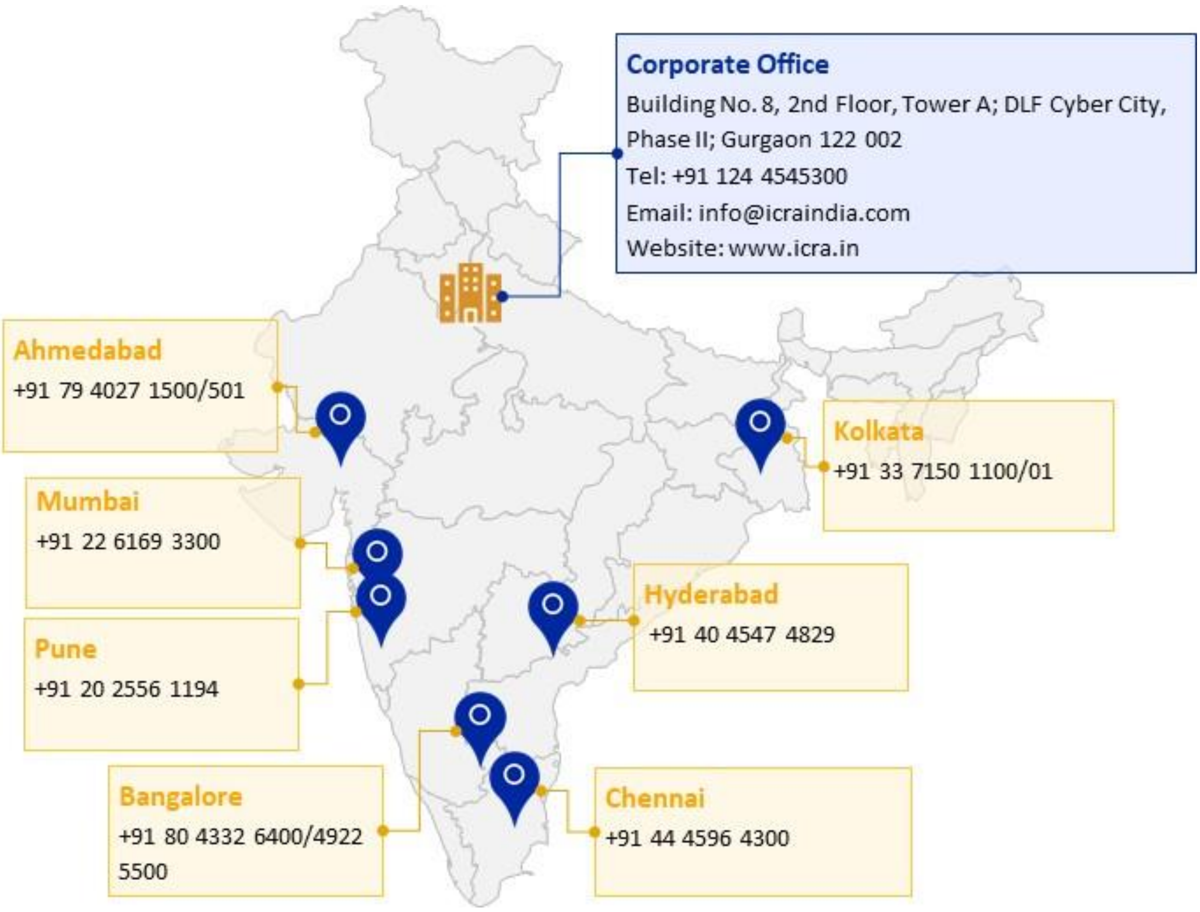

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