

March 04, 2025

Shalby Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long Term-Fund Based - CC/OD /others	40.00	68.00	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Long Term-Fund Based - Term Loan	9.86	3.65	[ICRA]A+ (Stable); reaffirmed
Long Term-Non-fund based – stand by letter of credit	321.48	402.35	[ICRA]A+ (Stable); reaffirmed; assigned for enhanced amount
Long Term – Unallocated limits	50.00	60.00	[ICRA]A+ (Stable); reaffirmed; assigned for enhanced amount
Total	421.34	534.00	

*Instrument details are provided in Annexure I

Rationale

The rating continues to factor 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 in Gujarat, Rajasthan, Madhya Pradesh and new territories such as Jharkhand, and Uttar Pradesh, among others, by using the asset-light franchisee approach of establishing Shalby Orthopaedic Centre of Excellence (SOCE). Further, the rating considers Shalby's leadership position in the arthroplasty speciality segment as well as its diversification in nephrology, urology, cardiology, oncology, and other non-arthroplasty segments. ICRA also positively factors in the increase in the footfall of international patients with the acquisition of Sanar Hospital and expects the same to start contributing to the company's profits from FY2026. ICRA also continues to derive comfort from the operational metrics of Shalby's existing hospital, aided by positive long-term demand outlook for healthcare services in India amid increasing affordability (by virtue of increasing per capita income), widening medical insurance coverage and under-penetration of healthcare services. ICRA also notes Shalby's endeavour to diversify its consolidated operations by scaling up its implant division, which is expected to witness a 50% YoY growth in its top line in FY2025. However, continued losses and high debt-backed inventory levels remain a concern.

Shalby witnessed a healthy YoY revenue (consolidated) growth of ~20% in 9M FY2025 and ~16% in FY2024. During the same period, Shalby's standalone existing hospital revenues (excluding Sanar Hospital) improved by ~7% on a YoY basis to Rs. 665.5 crore from Rs. 623.4 crore in 9M FY2024. While revenues grew, the consolidated Operating Profit Margin (OPM) declined to 13.6% in 9M FY2025 from 20% in 9M FY2024. The pressure on profitability is largely on the back of lower occupancy levels, particularly in Sanar, deferment of surgeries in Q2 FY2025 due to floods in Rajasthan and Gujarat, low returns from the implant business and certain one-off expenses in Q3 FY2025. Provisioning for slow moving inventory for the implant business also resulted in margin contraction to a certain extent.

The rating, however, remains constrained by the growing, though moderate, occupancy level of the company (~47.5% in 9M FY2025), which has been further exacerbated by the low occupancy level at the Sanar Hospital, which is currently operating at average occupancy rate (AOR) of ~25%. The rating is also constrained by the low return on capital employed (RoCE) of ~8.5% in FY2024 at a consolidated level on account of expansion of hospitals as well as the impact of acquisition 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. Nonetheless, the contribution of other hospitals has been increasing gradually, supported by healthy growth of other hospitals. ICRA also notes that the company has a new hospital 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. Besides, its inventories continue to be funded by working capital borrowings, which resulted in increased consolidated debt levels. In FY2024, SAT witnessed significant revenue decline and profit contraction at the operating level. In the current fiscal, while revenue has grown, the company is yet to generate meaningful returns. Further, the inventory levels which are entirely funded through working capital debt, continue to remain elevated. ICRA notes the current high inventory holding (~Rs. 214 crore, as on December 31, 2024) as SAT is planning to launch new products in Q4 FY2025 and FY2026, in addition to the inventory pile-up in the growth phase of its operations. Going forward, timely liquidation of inventory along with remediation of supply chain issues in addition to the ramp-up and profitability of the implants business will be monitored.

The debt levels increased significantly in FY2024 to fund the acquisition of the Sanar Hospital and its asset holding entity, Healers Hospital Private Limited (HHPL). This coupled with the increasing working capital requirement to fund the inventory requirements in the implant business has resulted in moderation in debt metrics, as characterised by Total Debt/OPBDITA of 3 times as on September 30, 2024 against 2.1 times as on March 31, 2024. The interest coverage and Debt Service Coverage Ratio (DSCR) have also been adversely impacted during the period. Going forward, the company has capex plans in terms of investment in radiation equipment, towards a greenfield project in Mumbai and planned bed expansion in Sanar. While the term debt for radiation equipment has already been tied up, rest of the investments are expected to be funded through internal accruals and available liquidity. With the expected improvement in profitability of the hospital business in FY2026 and reduction in losses/turnaround of the implants business over the near-to-medium term, ICRA expects the company's debt metrics to improve.

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 grow over the years. The company's brand equity is also boosted by numerous doctors, who are trained at Shalby on a regular basis.

Strong market position in the Indian arthroplasty hospital segment – Shalby remains the largest specialist joint replacement provider in the world, with 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.

Rising diversification towards non-arthroplasty segments; increased international exposure with acquisition of Sanar Hospital – Over the past few years, the share of non-arthroplasty segments in Shalby's total revenue has been increasing steadily, contributing ~65% to the total revenue in Q3 FY2025. Among the non-arthroplasty segments, nephrology, urology, oncology and cardiac procedures have been the largest revenue contributors, followed by critical care and general medicine.

Further, with the acquisition of Sanar, the company's international exposure is expected to improve as there is a high influx of international patients in Sanar.

Credit challenges

Overall moderate occupancy levels – The overall occupancy levels for Shalby remained moderate at ~47.5% in 9M FY2025, in line with the historic trends. While the occupancy levels have fluctuated in the range of 45-50%, the number of beds occupied has increased in the current fiscal. The number of occupied beds has gradually picked up in the current fiscal due to continued demand for elective surgeries. Despite the low overall occupancy levels, the company's operating income is supported by healthy ARPOB levels, which improved to Rs. 42,704 in Q3 FY2025 from Rs. 37,517 in FY2024. The ARPOB growth has been consistent every quarter owing to better case and specialty mix and improving payor mix (with improvement in revenues from cash and insurance patients). 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. That said, the contribution of other hospitals to revenues and operating profit is improving with a 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, growth stage of operations when the company is also launching several new products and therefore stocking its inventory. The requirement and support of instruments required to perform a surgery further contributes to the elevated inventory levels. ICRA notes the current high inventory holding (~Rs. 214 crore, as on December 31, 2024) at SAT, following the company's plans to launch new products in Q4 FY2025 and FY2026, in addition to the high inventory levels owing to consistent fresh launches as the company continues to be in a growing phase. While part of the funding requirements of SAT has been met by its ultimate parent company, it has also availed significant 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.

Also, with the increasing debt levels, the debt metrics have deteriorated as characterized by the ratio of Total debt/Operating profit of 3 times as on September 30th 2024 from 2.1 times as on March 31st 2024. The interest coverage and Debt Service Coverage Ratio (DSCR) have also been adversely impacted during the period. Going forward, the company has capex plans in terms of investment in radiation equipment, towards a greenfield project in Mumbai and planned bed expansion in Sanar. While the term debt for radiation equipment has already been tied up, rest of the investments are expected to be funded through internal accruals and available liquidity. With the expected improvement in profitability of the hospital business in FY2026 and reduction in losses/turnaround of the implants business over the near-to-medium term, ICRA expects the company's debt metrics to improve.

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) during FY2015-FY2016, while new hospitals were set up in Naroda (outskirts of Ahmedabad, Gujarat), Surat (Gujarat) and Jaipur in FY2017, which became operational in FY2018. Further, the company has 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 four SOCEs in Ahmedabad (Gujarat), Lucknow (Uttar Pradesh), Gwalior (Madhya Pradesh) and Ranchi (Jharkhand). Currently, Shalby is in the process of setting up a greenfield hospital in Mumbai, which is expected to commence operations from FY2028. 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.

Besides, in the current fiscal, Sanar Hospital is generating losses at the operating level because of low occupancy rate of 25% and dent in the surgery volumes owing to churn in doctors. Once the occupancy improves and onboarding of new doctors stabilises, Sanar is expected to generate sequentially better margins owing to higher footfalls from international patients. That said, ability to scale up Sanar's occupancy and generate profitability remains critical for Shalby's hospital operations.

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 the 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 services 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: Adequate

Shalby's liquidity position remains adequate, supported by free cash balances and liquid investment of ~Rs. 148 crore as on December 31st, 2024. The liquidity is further supported by unutilised, fund-based working capital facilities of ~Rs. 78 crore, at a standalone hospital level, the average utilisation of which has remained almost nil in the past 12 months. Going forward, the company is expected to generate sufficient cash flow from operations to meet its scheduled repayments, which stood at ~Rs. 39 crore and Rs. 46 crore in FY2025 and FY2026, respectively. 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. Further, the capex is expected to be funded through internal accruals, going forward, with the exception of planned investment in radiation equipment, for which the funding has already been tied up.

Rating sensitivities

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

Negative factors – Pressure on the company's ratings could arise if total debt/ OPBDITA metrics is over 2.3 times on a sustained basis or if there is any significant time or cost overrun in the under-construction hospitals, or delay in turnaround of new 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. The impact of such events on the company's business and credit profiles and liquidity position would be monitored on a case-to-case basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology 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, 2024, the company had eight direct subsidiaries, and two step-down subsidiaries, details of which 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 in Ahmedabad in 1994. Shalby currently operates a chain of multi-specialty healthcare facilities with over 2,350 bed capacity. Shalby has a strong presence in western and central India with 11 operational multi-specialty hospitals in Ahmedabad, Vapi (Gujarat), Surat (Gujarat), Jaipur, Indore (Madhya Pradesh), Jabalpur (Madhya Pradesh), Mohali (Punjab), Gurgaon 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 operates 23 clinics in East African countries, Iraq, Dubai, Oman, Bangladesh, and Nepal. Its operations initially focused on arthroplasty procedures (knee and hip replacements), following which the company expanded to include other specialities such as oncology, bariatrics, cardiology, neurosurgery, etc., over the last few years. The company acquired a hospital named 'Sanar International' in Q4 FY2024 where the majority of the footfall is derived from international patients and is currently operational as 'Shalby Sanar Hospital'.

Further, in FY2021, Shalby acquired a company in the US to manufacture high quality USFDA approved implants. This was an attempt towards backward integration in orthopaedics with in-house capacity and to become a vertically integrated in-house manufacturing facility. As of now, SAT has presence across the US, Japan, India and Indonesia.

Key financial indicators (audited/Provisional)

Shalby (Consolidated)	FY2023	FY2024	9MFY2025*
Operating income	806.7	935.3	822.1
PAT	67.7	83.5	14.1
OPBDIT/OI	17.4%	19.3%	13.6%
PAT/OI	8.4%	8.9%	1.7%
Total outside liabilities/Tangible net worth (times)	0.4	0.6	-
Total debt/OPBDIT (times)	1.3	2.1	-
Interest coverage (times)	13.3	10.2	-

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

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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Mar 04, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund Based - CC/OD/others	Long term	68.00	[ICRA]A+ (Stable)	21-Mar-2024	[ICRA]A+ (Stable)	22-Dec-2022	[ICRA]A+ (Stable)	16-Sep-2021	[ICRA]A+ (Stable)
				30-Jan-2024	[ICRA]A+ (Stable)	-	-	28-Oct-2021	[ICRA]A+ (Stable)
				09-Jan-2024	[ICRA]A+ (Stable)	-	-	-	-
Fund Based - Term Loan	Long term	3.65	[ICRA]A+ (Stable)	21-Mar-2024	[ICRA]A+ (Stable)	22-Dec-2022	[ICRA]A+ (Stable)	16-Sep-2021	[ICRA]A+ (Stable)
				30-Jan-2024	[ICRA]A+ (Stable)	-	-	28-Oct-2021	[ICRA]A+ (Stable)
				09-Jan-2024	[ICRA]A+ (Stable)	-	-	-	-
Non-fund Based – SBLC	Long term	402.35	[ICRA]A+ (Stable)	21-Mar-2024	[ICRA]A+ (Stable)	22-Dec-2022	[ICRA]A+ (Stable)	16-Sep-2021	[ICRA]A+ (Stable)
				30-Jan-2024	[ICRA]A+ (Stable)	-	-	28-Oct-2021	[ICRA]A+ (Stable)
				09-Jan-2024	[ICRA]A+ (Stable)	-	-	-	-
Unallocated Limit	Long term	60.00	[ICRA]A+ (Stable)	21-Mar-2024	[ICRA]A+ (Stable)	22-Dec-2022	[ICRA]A+ (Stable)	16-Sep-2021	[ICRA]A+ (Stable)
				30-Jan-2024	[ICRA]A+ (Stable)	-	-	28-Oct-2021	[ICRA]A+ (Stable)
				09-Jan-2024	[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
Long Term-Non-fund based – Sstand by letter of credit	Very Simple
Long Term – 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 rates	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Fund Based - CC/OD/others	NA	NA	NA	68.00	[ICRA]A+ (Stable)
NA	Fund Based - Term Loan	FY2018	NA	FY2025	3.65	[ICRA]A+ (Stable)
NA	Non-fund Based – SBLC	NA	NA	NA	402.35	[ICRA]A+ (Stable)
NA	Unallocated Limit	NA	NA	NA	60.00	[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
Shalby MedTech Limited (SMTL)	100.00%	Full Consolidation
Shalby Advance Technologies Inc. – Step down subsidiary of Shalby; Subsidiary of SMTL	100.00%	Full Consolidation
Shalby Global Technologies Pte Ltd - Step down subsidiary of Shalby; Subsidiary of SMTL	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
PK Healthcare Private Limited (Shalby Sanar International Hospital)	87.26%	Full Consolidation
Healers Hospital Private Limited	100.00%	Full Consolidation
Griffin Mediquip LLP	95.00%	Full Consolidation
Ningen Lifecare Private Limited – Step down Subsidiary of Shalby; Subsidiary of PK Healthcare Private Limited	100.00%	Full Consolidation
Shalby Advance Technologies (India) Private Limited – Step down Subsidiary of Shalby; Subsidiary of Shalby Advance Technologies Inc	100.00%	Full Consolidation

Source: Company

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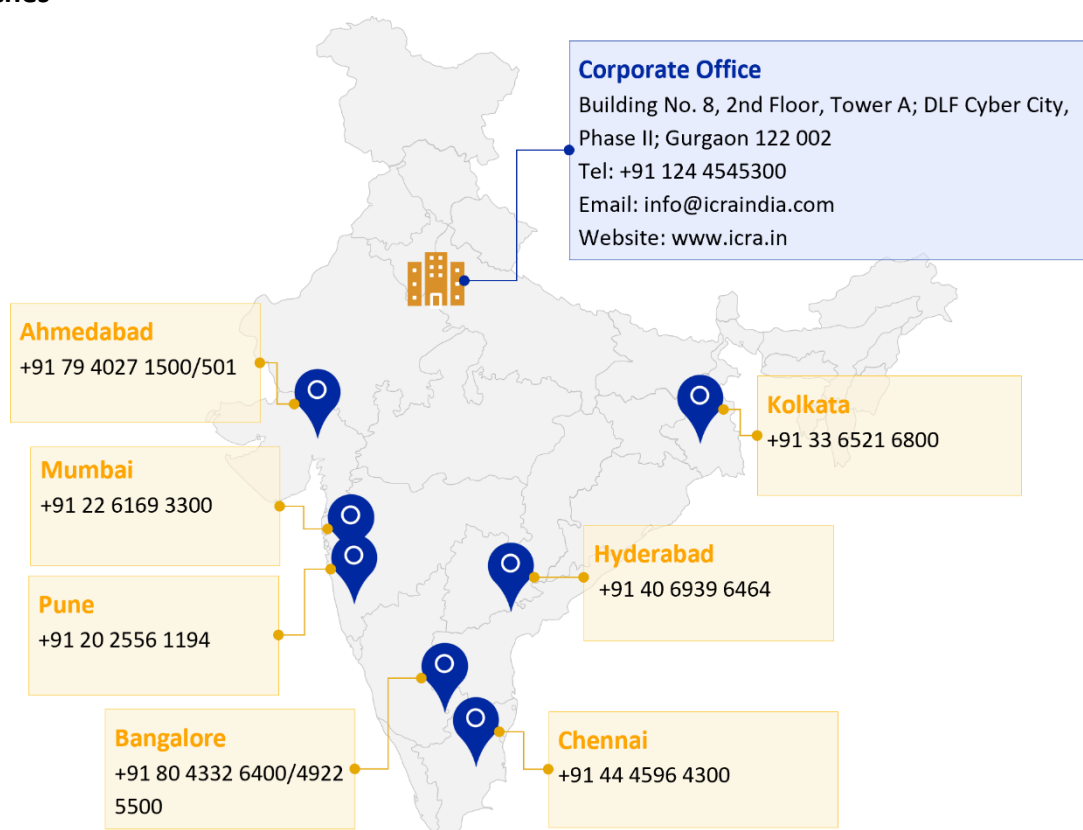
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