

Shalby Limited

May 02, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	322.46 [Rupees Three Hundred Twenty Two crore and Forty Six lakh only]	CARE BBB+; ISSUER NOT COOPERATING (Triple B Plus; ISSUER NOT COOPERATING)	Issuer not cooperating; Revised from CARE A- (Single A Minus); on the basis of best available Information

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Shalby Limited (Shalby) to monitor the rating(s) vide e-mail communications/ letters dated February 07, 2017, February 28, 2017, March 03, 2017, March 06, 2017, March 18, 2017 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings except the annual account for the year ended March 31, 2016 and provisional result for 9MFY17. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Shalby's bank facilities will now be denoted as **CARE BBB+; ISSUER NOT COOPERATING**.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The revision in rating assigned to the bank facilities of Shalby takes into account lower than envisaged profitability and cash accruals during FY16 (refer to the period April 1 to March 31) coupled with high debt level due to ongoing expansion projects leading to deterioration in capital structure and debt coverage indicators.

The ratings, however, continues to derive strength from its established operations as a multi-specialty hospital with significant patronage for its joint replacement surgeries under the orthopedic segment. The rating also derives strength from Shalby's promoter, Dr. Vikram Shah, who is an eminent joint replacement surgeon across the globe, well qualified professional management and positive long-term outlook for the healthcare sector in India.

The above ratings strengths, however, partly offset by ongoing debt-funded capital expenditure plans with associated scalability risk and revenue concentration from the orthopedic segment. The rating also factors in challenges pertaining to attracting and retaining quality doctors and medical professionals in the fragmented and competitive healthcare industry. Timely achievement of break-even of recently completed debt funded expansion projects and subsequent growth in total operating income with improvement in profitability would be the key rating sensitivities. Moreover, any further significantly large size and predominantly debt funded expansion/acquisition undertaken by the company which can adversely impact its leverage and debt coverage indicators shall also be a key rating sensitivity.

Detailed description of the key rating drivers

At the time of last rating in April 12, 2016 the following rating strengths and weaknesses were considered. Further, updates are provided based on the best available information.

Key Rating Strengths

Experienced and eminent promoter along with professional management: Dr Vikram Shah, the Chairman and Management Director, is an eminent orthopaedic surgeon with vast experience in joint replacement surgeries. Dr Darshini Shah, wife of Dr Vikram Shah, has passed her BDS from Gujarat University and is a member of The International Congress of Oral Implantologists (ICOI), USA. The operations of Shalby are also supported by well-qualified and experienced management personnel. Shalby has full time CEO and COO who have vast experience in diversified fields.

Established operations as a multi-specialty hospital along with commissioning of new hospitals at various locations:

Shalby has more than one decade of experience in managing multi-specialty hospitals which is fully equipped with state-

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

of-the-art facilities. It offers round the clock medical facilities across almost twenty therapeutic segments. Its hospitals have adequate number of full-time medical practitioners. Shalby has an established brand name in the healthcare sector in Gujarat. Moreover, over past two years during FY16 and FY17, Shalby also commissioned new hospitals at Jabalpur, Indore, Mohali, Jaipur and Naroda in Ahmedabad. Further, hospitals at Surat and Nashik are expected to commission shortly.

Strong market position in orthopedic segment; albeit high revenue concentration: Shalby has a strong presence in the orthopedic segment. The availability of latest infrastructure coupled with new innovative techniques for Total Knee Replacements (TKR) and Total Hip Replacements (THR) has enabled Shalby to enjoy a good name in orthopedic segment. Apart from the patients across India, the hospital also attracts a sizable numbers of patients from countries like US, UK and Kenya especially for orthopedic segment. Shalby has a full-time corporate development team and clinics across Africa which helps in attracting patients to India for surgery. The major contribution to Shalby's total revenue was from the orthopedic segment which indicates high revenue concentration.

Positive long-term outlook for the healthcare sector in India: Hospital and Health services industry is the largest component of the Indian health care sector. The growth drivers of health care sector are rise in per capita spending on healthcare, changing demography, transition in disease profiles, increase in health insurance penetration and fast growing medical tourism market.

Key Rating Weaknesses

Lower than envisaged profitability and cash accruals during FY16: On a consolidated basis, the total operating income of shalby grew merely 5% during FY16 along with decline in PBILDT margin by over 500 bps largely due significant increase in employee cost. Moreover, the PAT margin too declined in line with PBILDT margin along with increase in interest cost on the back of drawal of term loans for ongoing capex. The decline in profitability has also led to decline in Gross Cash Accruals (GCA) during FY16 over FY15. Further, the profitability and GCA have remained lower than envisaged for FY16.

High debt level on the back of recently completed debt funded projects with scalability risk associated with it: Over past 2-3 years ended FY17, Shalby spent heavily in setting up multi-specialty hospitals at various locations. These hospital projects were funded majorly through debt. Due to drawal of term debt for ongoing projects, the leverage of the company deteriorated marked by an overall gearing ratio of 1.08 times as on March 31, 2016. However, it continued to remain moderate on the back of healthy net worth base. However, timely achievement of break-even of recently completed debt funded expansion projects and subsequent growth in total operating income with improvement in profitability would be crucial going forward.

Challenges of attracting and retaining quality doctors and medical professionals: Success of a new hospital project or expansion of existing facilities requires availability of adequate trained doctors and medical personnel. Due to the scarcity of trained medical persons, including doctors, owing to intense competition in the healthcare sector, it becomes relatively difficult to attract and retain a skilled pool of medical personnel. Further, the ability of the company to retain its current medical fraternity would be a key differentiator.

Analytical approach: Consolidated

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology - Service Sector Companies](#)

About the Company

Incorporated in August 2004, Shalby was promoted by Dr Vikram Shah and his wife, Dr Darshini Shah. Shalby has an established brand name in the healthcare sector of Ahmedabad, Gujarat. It operates a National Accreditation Board for Hospitals & Healthcare Products (NABH) accredited multi-specialty tertiary care hospital namely "Shalby Hospital" at

Ahmedabad. Shalby also owns and operates hospitals at Vapi and Goa through its subsidiaries and has 66 OPD clinics at various locations across India and 15 clinics across Africa. Shalby has total 1120 beds (including beds under subsidiaries) as on November 30, 2016. Shalby is one of the renowned healthcare service providers for orthopedics, mainly joint replacements and dental implants. Further, Shalby has supportive departments like Pathology, Microbiology, Radiology and Physiotherapy.

As per the audited result for FY16, on a consolidated basis Shalby reported a PAT of Rs.26 crore on a total operating income of Rs.292 crore as against a PAT of Rs.35 crore on a total operating income of Rs.277 crore in FY15 (A). Further as per provisional result for 9MFY17, Shalby earned a total operating income of Rs.246 crore and PAT of Rs.45 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	NA	NA	2026	322.46	CARE BBB+; ISSUER NOT COOPERATING

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	322.46	CARE BBB+; ISSUER NOT COOPERATING	-	1)CARE A- (12-Apr-16)	1)CARE A- (07-Apr-15)	-

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