Shalby Limited

Issue Snapshot:

Issue Open: Dec 05 – Dec 07, 2017

Price Band: Rs. 245 – 248

Issue Size: *20,354,839 Equity Shares (Including Fresh issue of *19,354,839 eq sh + Offer for sale of 1,000,000 eq sh - which includes Employee reservation of upto 121,000 eq sh)

Offer Size: Rs.498.69 crs – 504.80 crs

QIB	Upto	50% eq sh
Retail	atleast	35% eq sh
Non Institutional	atleast	15% eq sh

Face Value: Rs 10

Book value: Rs 32.59 (June 30, 2017)

Bid size: - 60 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 88.65 cr
Post issue Equity:	Rs 108.00 cr*

Listing: BSE & NSE

Book Running Lead Manager: Edelweiss Financial Services Limited, IDFC Bank Limited, IIFL Holdings Limited

Registrar to issue: Karvy Computershare Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	97.86	79.40
Public & Others	2.14	20.60
Total	**100.0**	**100.0**

Source for this Note: RHP
* = Assuming issue subscribed at the higher band

Background & Operations:

Shalby Limited (SL) is one of the leading multi-specialty chain of hospitals in India. Its hospitals are tertiary care hospitals, few of which also offer quaternary healthcare services to patients in various areas of specialisation such as orthopaedics, complex joint replacements, cardiology, neurology, oncology, and renal transplantations. It provides inpatient and outpatient healthcare services through 11 operational hospitals with an aggregate bed capacity of 2,012 beds. As on June 30, 2017, it had nine operational hospitals with an aggregate operational bed count of 841 beds. SL had a 15% market share of all joint replacement surgeries conducted by private corporate hospitals in India in 2016. It also provides outpatient services through 47 Outpatient Clinics and has ten shared surgery centres within third party hospitals, which call "Shalby Arthroplasty Centre of Excellence" ("SACE"), where it offers orthopaedic healthcare services including surgeries. Since March 2007, it has conducted an aggregate of 92,100 surgeries, and provided healthcare services to an aggregate of 1,025,533 patients, consisting 133,652 inpatients and 891,881 outpatients.

SL has a domestic and overseas outreach through a network of hospitals in India, and Outpatient Clinics and SACE located in India, Africa, and the Middle East. Having strong presence in western and central India and focus on Tier-I and Tier- II cities, its hospitals operates across five states, Its Outpatient Clinics operates across 37 cities in 12 states in India, and its SACE are present in seven cities in six states in India. Its international footprint consists five Outpatient Clinics and one SACE in Africa, and two SACE in the UAE. SL is expanding its footprint in western and central India with hospitals being set up in Nashik and Vadodara.

Apart from a focus on orthopaedics, its hospitals provide advanced levels of care across various specialties such as neurology, cardiac care, critical care, oncology, and nephrology. It has been its endeavour to ensure that patients are offered quality healthcare services. To this end, its hospitals are equipped with modern medical equipment required to provide multispecialty healthcare services and employ practices and policies to ensure quality of the healthcare services offered. SL operates and expand 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 to offer orthopaedic healthcare services under SACE; and
- Providing orthopaedic healthcare services through Outpatient Clinics that are either independently operated by SL, or operated by it within third party premises on a revenue sharing basis.

Objects of Issue:

The Offer comprises a Fresh Issue by SL and an Offer for Sale.

The Offer for Sale

SL will not receive any proceeds from the Offer for Sale. All the expenses in relation to the Offer other than listing fees (which will be borne by the Company), shall be shared between the Company and the Selling Shareholder in accordance with applicable laws.

The Fresh Issue

The Net Proceeds from the Fresh Issue are proposed to be utilised towards the following objects:

- Repayment or prepayment in full, or in part of certain loans availed by the Company
- Purchase of medical equipment for existing, recently set up and upcoming hospitals
- Purchase of interiors, furniture, and allied infrastructure for upcoming hospitals; and
- General corporate purposes.

Requirements of Funds

Particulars	Amount
Repayment or prepayment in full or in part of certain loans availed by the company	3000.0
Purchase of medical equipment for existing, recently set up and upcoming hospitals(1)	635.8
Purchase of interiors, furniture, and allied infrastructure for upcoming hospitals	111.84
General corporate purposes(2)	*
Net Proceeds	*

The key highlights of financial and operating metrics on a consolidated basis from Fiscal 2013 to Fiscal 2017, and for the three months period ended June 30, 2017, are set out in the table below:

Particulars	Three months period ended June 30, 2017	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2014	Fiscal 2013
Total bed capacity	2,012.0	2,012.0	1,295.0	907.0	674.0	674.0
Number of operational beds	841.0	781.0	823.0	593.0	455.0	373.0
Revenue (in Rs million)	906.0	3,328.6	2,925.6	2,776.3	2,616.8	2,298.3
EBITDA margin (%)	28.9	22.2	19.1	24.5	24.2	18.5
Bed occupancy rate (%)	33.8	34.5	31.8	41.0	39.6	49.0
ARPOB (in Rs)	36,720.0	33,032.0	34,173.0	39,904.0	39,349.0	40,838.0
ALOS	3.9	4.0	4.1	4.0	4.0	4.1
Average RoCE (%)	3.7	11.1	13.1	21.2	35.3	24.8
Inpatient volume	6,258.0	24,704.0	20,528.0	17,147.0	16,609.0	15,348.0
Outpatient volume	47,956.0	166,519.0	152,921.0	128,821.0	125,981.0	110,919.0

ALOS = Average length of stay, calculated by dividing the total number of occupied bed days by the total number of admissions
ARPOB = Average revenue per occupied bed, calculated by dividing the total revenue from operations by the total number of bed occupancy days

Competitive Strengths

Leadership in orthopaedics and strong capabilities in other specialties*:* SL reputation and clinical capabilities in the field of orthopaedics, along with its continuing expansion across other healthcare specialties position it favourably to benefit from the increasing demand in India for quality healthcare services. Having performed approximately 54,105 joint replacements since 2007, SL has been a market leader in the area of joint replacement surgeries. It provides its patients with a wide range of orthopaedic services and to this end, it lays emphasis on providing end to end services to its patients with preoperative, operative, and postoperative care. Through 47 Outpatient Clinics, it offers orthopaedic consultation services to its patients, and through its chain of 11 operational hospitals and ten SACE, it undertake orthopaedic surgeries and procedures. SL's chain of multi-specialty hospitals provides advanced levels of care in various specialties. To ensure that it is able to provide multi-specialty healthcare services, its hospitals has been equipped with modern medical equipment, which, *inter alia*, include linac systems which are used for cancer diagnosis and treatment, holmium lasers, which are used to perform endoscopic lithotripsy, thulium lasers, which are used to perform soft tissue surgeries, and intra-operative neuro monitoring systems which are used to monitor neural structures while performing ENT procedures. SL's leadership in the field of orthopaedics helps in offering its other healthcare services to geriatric patients. Joint replacements are typically required at an advanced age, and many of its elderly patients who require treatment for one or more age related ailments such as cardiovascular diseases, diabetes, etc.

Integrated and scalable business model enhancing patient reach: SL has an integrated and scalable business model enabling it to provide comprehensive healthcare solutions through a network of multi-specialty hospitals, Outpatient Clinics, and SACE.

Multi-specialty Hospitals: From four hospitals in April 2012, SL has grown to 11 operational hospitals which offer inpatient and outpatient healthcare services, with an aggregate bed capacity of 2,012 beds. As on June 30, 2017, it had nine operational hospitals with an aggregate operational bed count of 841 beds. Its expansion has been achieved through a combination of greenfield or brownfield projects, strategic acquisitions, and operation and management ("O&M") arrangements.

Outpatient Clinics and SACE: Through Outpatient Clinics that are operated by SL either independently, or within third party premises, it offers orthopaedic consultation services. Through its SACE, it offers orthopaedic consultation services and undertake orthopaedic and spine surgeries. Through wide network of Outpatient Clinics and SACE, SL has witnessed a steady increase inpatient footfall, with patients travelling from various parts of the country and overseas to avail intensive diagnosis and treatment at its hospitals. Its Outpatient Clinics and SACE has also been instrumental in setting up its presence overseas. Its international footprint consists five Outpatient Clinics spread across Ethiopia, Kenya, Tanzania, and Uganda, and one SACE in Kenya in Africa, and two SACE in Ras al-Khaimah and Dubai in the UAE.

Shalby Homecare: Through Shalby Homecare, SL has been able to extend expert healthcare services at a patient's doorstep, so as to facilitate a speedy and comfortable recovery from diseases and other medical conditions from the comfort of one's home. Shalby Homecare services are offered through its hospitals located in Ahmedabad, Indore, Jabalpur, Jaipur, Mohali, Naroda, Surat, and Vapi. Under Shalby Homecare, it offers a wide range of services which *inter alia*, include attendant services, nursing services, physiotherapy services, pathology services, and home deputation of medical officers.

Shalby Academy: SL commenced the operations of Shalby Academy in Fiscal 2016. Through Shalby Academy, it offers various educational programmes. These programmes include diploma in orthopaedics, fellowship in critical care, and courses offered by the Paramedical Council of Gujarat. Shalby Academy is functional at its hospitals located in Ahmedabad, Jabalpur, and Indore. In Fiscal 2017 and the three months period ended June 30, 2017, Shalby Academy catered to 48 and 155 students, respectively.

Experienced player with longstanding presence and brand recall*:* SL has an established presence and strong brand recall in Gujarat, and an emerging presence in western and central India. Its brand equity and operational experience in its core markets provides with the platform to further expand its presence and operations in select locations across the country. On account of SL's brand equity, its hospitals has also seen a consistent growth in inpatient and outpatient volumes. Similarly, while Shalby Jabalpur, commissioned in March 2015, serviced 106 inpatients and 312 outpatients during the first quarter of its operations ending March 2015, for the quarter ended June 30, 2017, Shalby Jabalpur serviced 1,126 inpatients and 7,386 outpatients. SL is one of the most active healthcare players in international medical tourism, has catered to over 35,000 international patients since 2007. It has been successful in being a trusted healthcare service provider to its patients. In Fiscal 2017 and for the three months period ended June 30, 2017, the number of revision cases (being patients approaching it after undergoing treatment at other hospitals) referred to it was 36 and 7, respectively. Since 2004, it has also handled a number of complex surgeries and procedures. its brand equity and longstanding presence are as a result of its efforts to preserve and sustain quality human life through facilitation of speedy recovery and indigenization of medical technology.

Track record of operating and financial performance and growth*:* SL's track record of consistent growth in revenue and profitability is one of its key competitive strengths. Its growth in revenue and profitability can be credited to its strong operational efficiency, which it achieves by streamlining its clinical and administrative functions, continually introducing process innovations, and ensuring that it maintains economies of scale. SL incurs lower capital expenses by making optimal use of the available built-up area in its hospitals. Its clinical and administrative functions are streamlined by staffing its hospitals with teams of qualified and experienced doctors, who are available to use their expertise and specialties across regions. As on June 30, 2017, it had 163 surgeons practicing across disciplines. On account of the number of surgeons engaged by it, SL is capable of undertaking a higher number of surgeries each day, thereby enhancing its focus on being a surgery oriented multi-specialty healthcare service provider. Unlike most other specialties, orthopaedic surgeries and procedures are usually planned in advance. This provides SL with the ability to organize such surgeries and procedures, and utilize its manpower resource in a cost and time effective manner.

Ability to attract quality doctors, nurses, paramedical, and other staff: As at June 30, 2017, SL employed 2,049 employees and engaged 319 professional consultants, which comprised 294 doctors who are full-time consultants and 25 doctors who are part-time consultants. Its staff strength also comprises 699 nurses and 1,350 paramedical, corporate and support staff and pharmacists. Since a majority of its doctors are engaged full time by it, its doctors are generally available on-call, round the clock, and are able to fulfil patient needs and requirements, while also effectively addressing emergencies. In respect of employees engaged full time by the company its compensation structure comprises providing its employees with a fixed monthly salary, performance based compensation and an annual pay-out of bonus. SL continually train its doctors, nurses, and paramedical staff and educate them on key developments, protocols and practices in their respective areas of practice. This initiative has benefited SL by ensuring that its staff are kept abreast with global developments concerning the healthcare sector, and that they are aware of the innovations introduced in the medical industry. In addition, doctors are also provided specialised training by the heads of various departments. Its doctors and consultants are experienced professionals within their respective specialties and this gives ample leverage to handle highly complex and critical cases. SL's reputation for clinical excellence, amiable work culture, professional ethics, and competitive compensation packages has all enabled to successfully attract talented doctors, nurses, paramedical staff, and other corporate staff members.

Experienced and qualified professional management team with strong execution track record*:* SL is well guided, and continue to be led by a strong, highly qualified, experienced, and reliable management team. To ensure that it is led by a right mix of professionals from various fields, its corporate setup has been appropriately balanced to include healthcare and other management professionals. With over 25 years of professional medical experience, Dr Vikram Shah has consulted across various geographies including the United Kingdom and India. Dr Vikram Shah has been credited by Ethicon India for his involvement in the development of the OS Needle, which has been successful in simplifying soft tissue procedures, thereby reducing the risk of infection and diminishing high rates of failure that once existed while undertaking orthopaedic surgeries. The rich experience of its management team, coupled with their industry experience and business acumen has contributed in it making effective strategy related decisions.

Business Strategy:

Strengthen hospital presence in western and central India, and continue expanding into new geographies*:* SL aims to continue to be one of the leading healthcare service providers in India by expanding its network of hospitals owned and operated by it through greenfield projects and brownfield projects, strategic acquisitions, and O&M arrangements with third party healthcare service providers. Towards this, it intends to strengthen its hospital presence in western and central India, and establish hospitals in new geographies. It is currently in the process of setting up hospitals for a total bed capacity of 263 beds in Nashik and Vadodara. Further, it also intends to expand its hospitals to northern India, eastern India, and north eastern India. As part of its expansion strategies, it also intends on expanding its existing hospitals. By expanding SL's chain of hospitals, it will be able to provide a greater range of healthcare services to a larger population base.

Continue to enhance outreach programmes*:* SL aims to enhance its outreach programmes by establishing its Outpatient Clinics and SACE in various Tier I Cities, Tier II Cities, and Tier III Cities. This apart, it also intends on establishing additional Outpatient Clinics and SACE in various cities across India where it's Outpatient Clinics and SACE currently cater to patients. As a part of its international expansion plans, SL intends to set up Outpatient Clinics and SACE in certain SAARC countries. As a part of its outreach initiatives, it intends on engaging the services of additional established medical practitioners who will be able to consistently grow its patient base, whilst diversifying its strength in multiple specialties of healthcare. SL intends to continue to expand its presence by establishing Outpatient Clinics and SACE in order to optimise the use of its capital, while facilitating the growth of its portfolio and brand through partnerships and greenfield projects.

Continue to strengthen healthcare services across other specialties*:* SL expansion strategies are centred on establishing hospitals which focus on offering quality healthcare services across a spectrum of specialties such as neurology, nephrology, cardiac care, critical care, and oncology. It intends to continue to strengthen its capabilities in specialties other than orthopaedics. To this end, and together with its strategy to expand its hospitals to new geographies, it intends to strengthen its specialties by setting up multi-specialty hospitals which focus on specialties other than orthopaedics. Further, for the purposes of strengthening focus on other specialties, it intends to equip its hospitals with an additional range of diverse healthcare equipment. In addition to Shalby Indore, SL intents to equip its recently set up hospitals, Shalby Jaipur and Shalby Naroda with equipment to provide radiation therapy for the treatment of cancer. Further, in line with its strategy to further strengthen its capabilities in non-orthopaedic specialties, it offers advance post-graduate diplomas in a range of disciplines including non-invasive cardiology, dialysis management, oncology, and sports medicine through Shalby Academy. In Fiscal 2017 and the three months period ended June 30, 2017, Shalby Academy catered to 48 and 155 students respectively. It also intends to offer courses in newer disciplines and specialties through Shalby Academy.

Implement initiatives to improve operational efficiencies*:* Improving operating efficiencies and profitability is critical to SL's growth. It intends to focus on the following key areas to improve its clinical and administrative operating efficiencies and profitability:

- SL aims to improve daily ARPOB by enhancing focus on high growth care areas such as oncology, nephrology, and hepatology.
- Intends to lower the costs of consumption by centralising procurement function. To this end, SL intends on implementing various measures to improve operational efficiencies, including undertaking measures to reduce consumption of disposable items and avoid wastage. Further, it also intend to minimise costs and leverage economies of scale by standardizing the type of medical consumables used at its hospitals, optimizing procurement costs, and consolidating suppliers by establishing and adopting strict guidelines for medical procedures across its hospitals.
- Intends to continue to minimise ALOS at hospitals.
- Intends to maximise operational efficiency by achieving greater integration and by implementing a stronger supply chain management.
- Intend to obtain NABH accreditations for all operational and upcoming hospitals.
- In addition, SL also intend on obtaining certifications under the IT Act, through which it can offer its services to public service undertakings, thereby increasing target group.
- Improve occupancy rates and the utilisation of key equipment and operating theatres,

Continue to grow ancillary businesses*:* Apart from offering multi-specialty tertiary and quaternary healthcare services, SL also provides home-based healthcare services under Shalby Homecare. Shalby Homecare services are being offered through its hospitals located in Ahmedabad, Indore, Jabalpur, Jaipur, Mohali, Naroda, Surat, and Vapi. In the future, it intend to offer the Shalby Homecare services through all its existing and upcoming hospitals.

Industry:

Demographic, Macroeconomic and Healthcare Overview of India
Burgeoning population of India

The population of India is expected to grow at a compound annual growth rate (CAGR) of nearly 1.0 % between 2014 and 2020. Growing at this rate, India is expected to be home to 1.35 billion people by 2020.

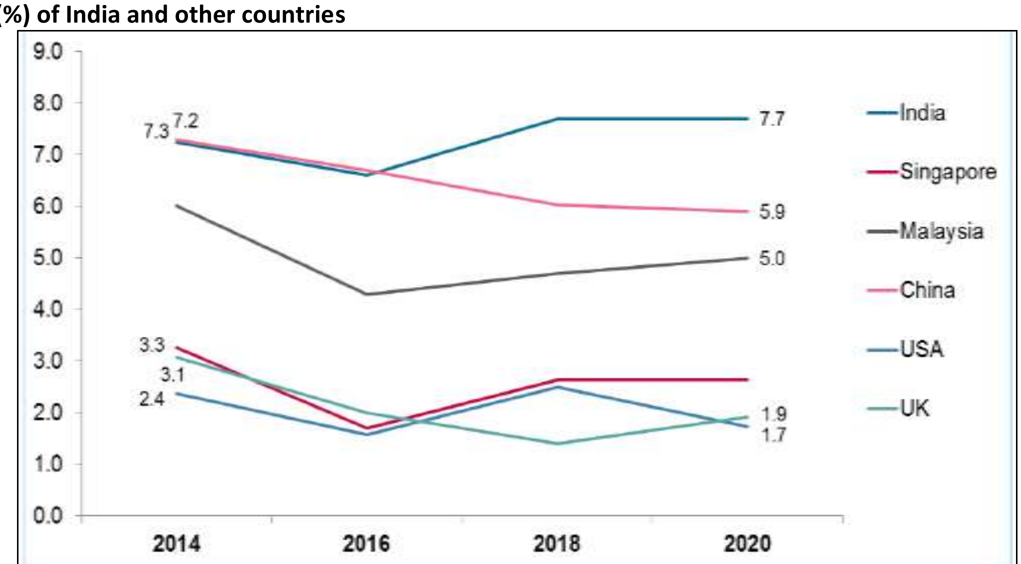
Source: National Commission on Population, Frost & Sullivan analysis

The fact that higher numbers of individuals are attaining old age in future trends (12% of the total population above 54 years of age in 2014 to 14% of the total population in 2020), there is an increasing burden on the healthcare resources as this segment of population is predisposed to various chronic diseases like diabetes, heart diseases, degenerative diseases, neurological disorders and cancer. The burgeoning population of India could pose a serious challenge to healthcare access for all, thereby reemphasizing the need for development of healthcare infrastructure in India.

GDP growth of India

India is the third largest economy of Asia and is one of the fastest growing economies across the globe. India grew at a robust pace of 7.2% in 2014 along with China at 7.3% and is expected to grow at 7.7% 2018 onwards, higher than other economies.

Figure 3: GDP growth (%) of India and other countries



Source: International Monetary Fund Estimates, 2017

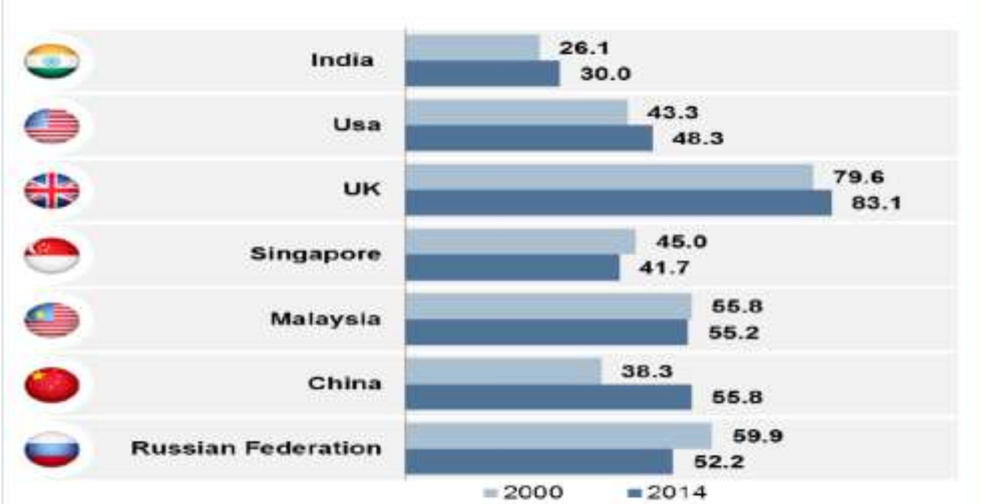
According to the IMF, the Indian economy is poised to be one of the top 5 economies by 2020 following a robust GDP growth supported by a strong industry base, a growing population, and other socio-demographic factors. With steady economic growth, the per capita income of the population is rising and so is the economic stability of the burgeoning middle class population.

Healthcare expenditure and out-of-pocket expenditure

The healthcare industry in India is growing at a fast pace and is expected to grow further with the government's increased interest. Though, India's total healthcare expenditure (as a percent of GDP) increased from 4.3% in 2000 to 4.7% in 2014, is currently lower than other South Asian countries like Singapore and China.

The public healthcare expenditure of India accounts to only 30% of total healthcare expenditure in 2014, considerably lower than other countries, thus leading to higher out-of- pocket spend on healthcare. This massive shortfall in public healthcare in India is filled up by private healthcare providers.

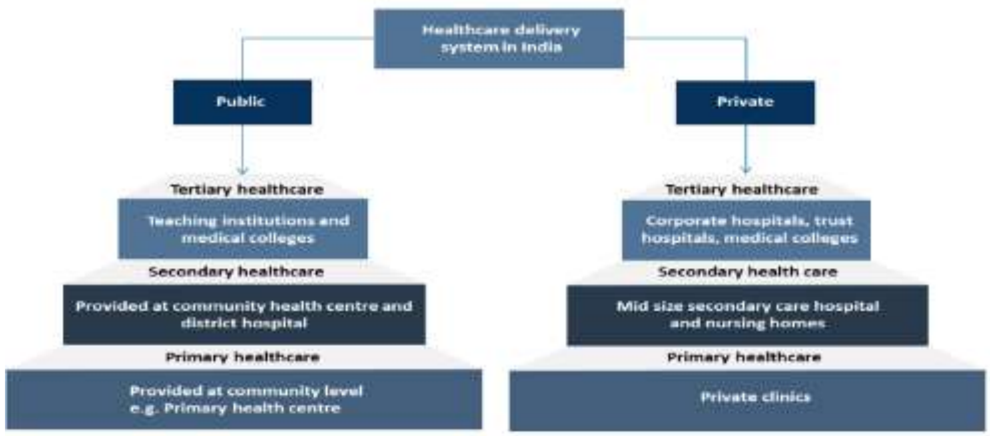
India's public healthcare expenditure (% of total healthcare expenditure) vs global



With growing penetration of insurance, out-of-pocket spend in India reduced considerably from 67.9% in year 2000 to 62.4% in 2014, compared to other Asian countries like Singapore and Malaysia, which have an increasing trend of out-of-pocket expenditure, However, the out-of-pocket spend on healthcare in India is still much higher than the other developed economies.

Structure of Healthcare Delivery in India

The healthcare delivery system in India is classified as follows:



Source: Frost & Sullivan analysis

1. **Primary care facilities**: Providing basic level of healthcare services, primary healthcare facilities serves as a first point of contact between individuals and the health system chain providing outpatient consultation, routine health screening, birth control programs, emergencies, immunization and vaccinations.

Primary care in India is generally delivered by single physician outpatient clinics and dispensaries providing basic medical and preventive healthcare facilities. Since the medical infrastructure at the primary facilities is limited with no ICU beds or operation theatre; these act as referral centres to secondary and tertiary healthcare centres for treatment of chronic ailments and other complex diseases.

2. **Secondary care facilities**: Bridging the gap between primary and tertiary healthcare services, secondary care facilities are the second tier of health system. They act as the key healthcare facility for patients who are referred for further diagnosis and treatment of complex conditions from primary care facility.

3. **Tertiary care facilities**: The third level of healthcare system specializes in consultative care, specialised intensive care, advanced diagnostics support, and availability of specialised medical personal. The tertiary care facilities provide a wide range of specialties like cardiothoracic surgery, neurosurgery, nephrology, surgical oncology, neonatology, orthopedics, endocrinology, plastic and cosmetic surgery, organ transplants and nuclear medicine etc.

The government tertiary care facilities usually work on referrals from primary and secondary medical facilities while the hospitals in private sector get direct patients. These hospitals may have over 200 hospitals beds (20-30% of which are dedicated for critical care).

There are basically two types of tertiary care facilities:

a. Single specialty tertiary care hospitals: These hospitals focus on a single specialty providing end to end diagnostic and therapeutic treatment for select specialty such as cardiac sciences, oncology etc.

b. Multi-specialty tertiary care hospitals: These hospitals provide multispecialty care under one roof and treat complex high risk cases along with multi-level trauma.

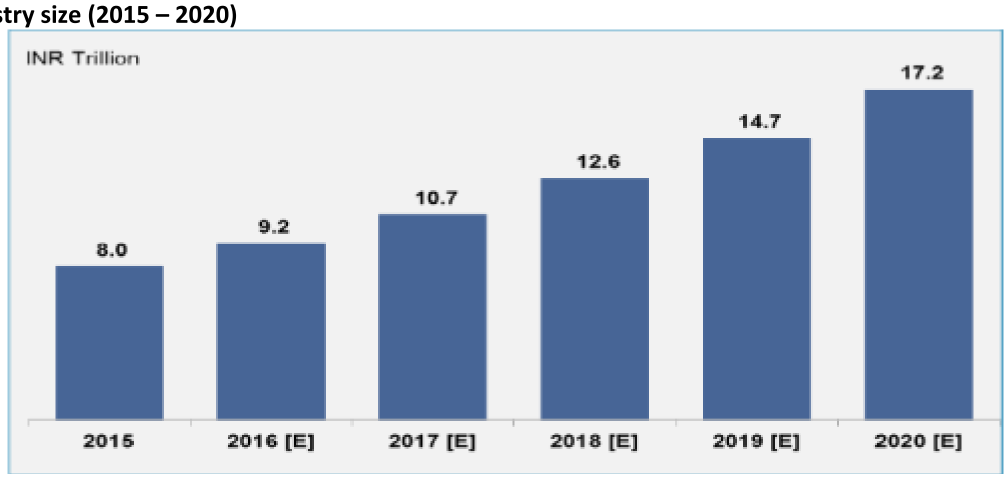
4. **Quaternary care facilities**: An advanced facility offering services which are similar to tertiary care hospitals along with providing a high-end infrastructure for treatment/ diagnosis and may also offer research facilities. These hospitals focus on high-end procedures and complex cases such as cardiothoracic surgeries, complex neurosurgeries, robotic surgeries, organ transplants, oncology etc.

Classification of the Healthcare Industry

Overall market size

The Indian healthcare industry was estimated to be INR 9.2 trillion in 2016; grew at a CAGR of 14-15% over the last five years (2011 to 2015). The healthcare industry is expected to grow at a CAGR of 15-16% during 2015-20 and expected to reach INR 17.2 trillion in 2020.

Indian healthcare industry size (2015 – 2020)

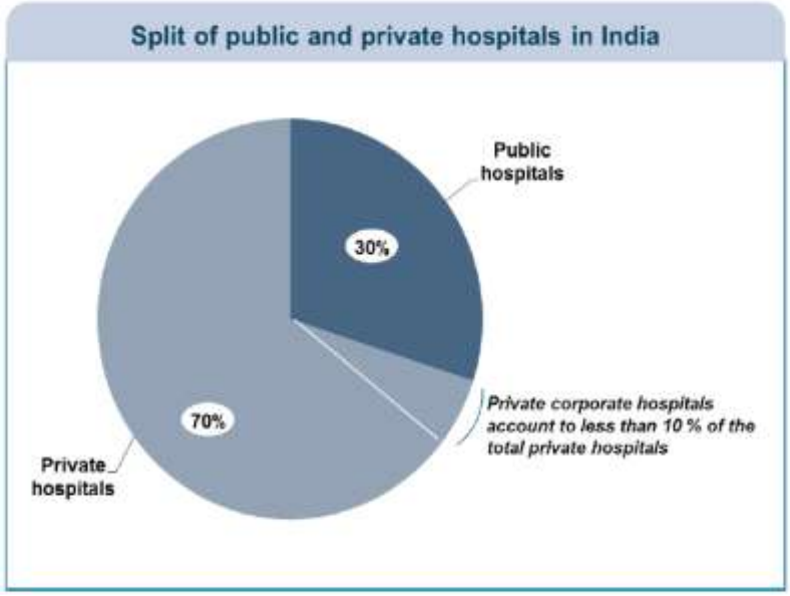


The Indian healthcare industry has five key functional segments i.e. healthcare delivery, pharmaceutical industry, diagnostics industry, healthcare insurance industry and medical devices industry: healthcare delivery (hospitals) is the largest contributing segment.

Classification of healthcare industry in India

Source: Frost & Sullivan analysis

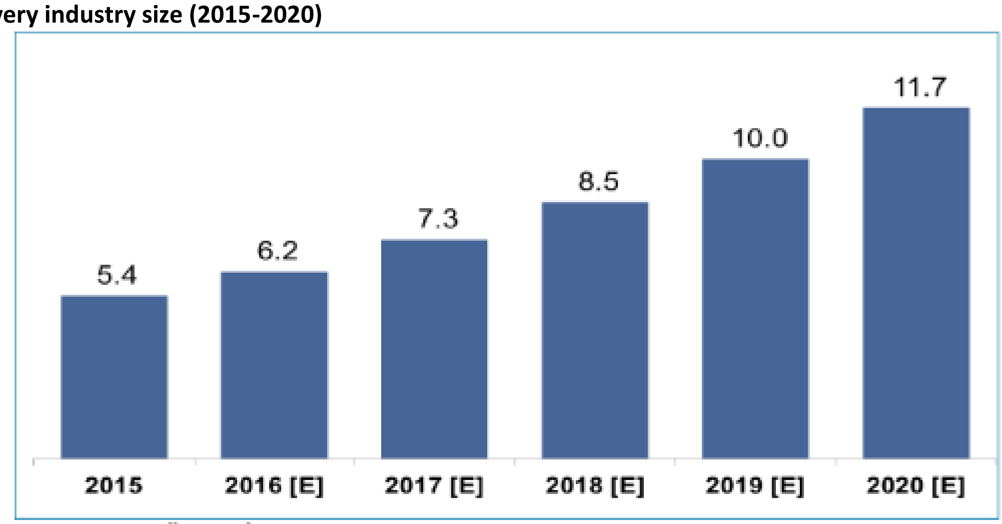
Split of public and private hospitals in India



Indian healthcare delivery industry

The healthcare delivery segment accounts for a major share of the Indian healthcare industry, contributing nearly 68% to the total healthcare industry, an estimated value of INR 6.2 trillion in 2016. One of the fast growing, the healthcare delivery segment grew at a CAGR of 14-15% between 2011 and 2015; is expected to grow at a higher CAGR of 15-16% between 2016 and 2020 to reach INR 11.7 trillion by 2020.

Indian healthcare delivery industry size (2015-2020)



Source: Frost & Sullivan analysis

The volumes from inpatient admissions contribute ~80% of value to the healthcare delivery while remaining ~20% is contributed by the outpatient volumes (which includes doctor consultation, day-care surgeries and diagnostics; and excludes pharmaceuticals purchased). Driven largely by private players, healthcare delivery services in India are restricted majorly to metro and tier I cities, leading to a disproportionate distribution of services in rural and urban areas. There lies immense scope for penetration of hospitals in India, thus presenting ample opportunity for development of healthcare industry.

GROWTH DRIVERS OF INDIAN HEALTHCARE INDUSTRY

Indian healthcare sector has been growing rapidly and has emerged as one of the largest sectors in terms of size and number of people employed. The key growth drivers of Indian healthcare industry are: Deficient healthcare infrastructure and lack of healthcare workforce

Healthcare Infrastructure

The Indian healthcare sector is facing a massive scarcity of both infrastructure and skilled workforce. In the present day scenario, per capita infrastructure availability is poor as compared to global standards.

In terms of healthcare infrastructure, India lags behind other countries. China, despite being one of the most populous countries of the world, features well on the hospital bed density with 3.8 beds per 1,000 populations compared to India with 0.7 hospitals beds per 1,000 populations, much lower than WHO recommendation of 3.5 beds per 1,000 people and global average of 2.7 beds per 1,000 populations. To achieve the global average of 2.7 beds per 1,000 populations, an additional 2.7 million beds need to be added in India by 2020. This figure escalates to 3.8 million beds to achieve the WHO norm of 3.5 beds per 1,000 populations, denoting the need of radical reforms in the industry to deal with the challenge.

New initiatives by the Government including adding 17 new All India Institute of Medical Sciences (AIIMS), and 20 cancer institutes, plans to increase public health expenditure to 2.5% of GDP from existing 1.4%, and various benefits like tax holidays, easy route for foreign direct investment, emphasizing the need of greater participation of private healthcare players will accelerate the growth of healthcare sector. The phenomenon of rapid growth of the private health sector has resulted in a large share of health infrastructure being provided by private players. Despite the rapid growth of private healthcare players in India offering quality healthcare, the bed density of private hospital beds per 1,000 populations is only 0.4 hospital beds per 1,000 in 2016.

Considering the high dependency on private healthcare and low public healthcare expenditure, the current private healthcare infrastructure would fall insufficient to meet the need to growing healthcare demands of India's population. At the national level, there is a huge imbalance in terms of availability and utilization of hospital beds. In metropolitan and tier I cities, the density of hospital beds is higher providing better access to healthcare to the larger masses, while in tier II and III cities the hospitals bed density is relatively lower.

States like Gujarat, Madhya Pradesh, Punjab and Rajasthan have a higher number of hospital beds per 1,000 populations compared to the national average of 0.7 beds but lower than the global average of 2.7 beds per 1,000 populations, clearly indicating a higher burden on the system and the need for more hospital beds.

Healthcare Manpower

India faces an acute deficit of trained and skilled healthcare workforce. The situation seems grim considering the fact that a high proportion of workforce is inactive and not involved in the formal healthcare system, thereby putting additional pressure on formal healthcare practitioners. In 2011, physician density in India, estimated at 0.74 physicians per 1,000 people was lower than the global average of 1.39 and also lower than other South Asian countries like Singapore (1.75) and China (1.49).

Nearly 70% of the total doctors are concentrated in urban India, serving nearly 33% of the total population. Further, the availability of skilled and trained doctors in urban regions is majorly in the metros and tier I cities, leaving the tier II and tier III cities and rural areas deprived of quality medical services. In a swift move to cater to the situation, the Government has identified a few medical colleges in India with minimum capacity of 200 beds to be upgraded to medical colleges, thus adding nearly 10,000 M.B.B.S. seats in the country in the coming years. A recent move by the GoI in reducing the land requirement to set up a medical college from 10 acres to 60,000 sq. m. in a city with population of 1 million will further enhance the supply of healthcare manpower in India.

Increasing population and life expectancy

Considering the fast growing population at a CAGR of nearly 1.0%, India would be home to nearly 1.35 billion people by 2020. Further, a larger share of this growing population will comprise the elderly, leading to a rising share of population with chronic non- communicable diseases requiring better medical services. Managing these chronic patients with varying level of disabilities is bound to increase the financial demand on healthcare system.

Currently dealing with the challenge of low bed density of 0.7 beds per 1,000 people against the WHO guideline of 3.5 beds per 1,000 people and global average of 2.7 beds in 2011, it would be challenging for India to meet its rising healthcare demand of the population with its existing healthcare infrastructure.

Increasing urbanization and healthcare awareness

Based on analysis by the World Bank, the level of urbanization in India has risen from 31% in 2011 to 33% in 2015 and is expected to be 36% by 2020. Growing urbanization offers many benefits to the population; at the same time gives rise to problems which form a barrier to balanced and inclusive development.

Among the selected states, Gujarat has a higher ratio of urban population compared to the neighbouring states, except Maharashtra. Gujarat being one of the most industrially developed states has seen a large migration of rural population to urban regions with a growth of 6% in the urban population from 2001-2011.

Growing prevalence of lifestyle disease

India is facing a growing burden of Non-Communicable Diseases (NCD), largely caused by sedentary life styles, rise in pollution levels, global warming, and other factors. There has been a gradual transition in disease patterns, with NCDs emerging as a major killer, responsible for 60% of deaths in the country.

Rising income levels and affordability of healthcare

In the country with an out-of-pocket spend on healthcare as high as 62%, growing disposable income has made healthcare affordable. The disposable income of Indian population grew from INR 16,695 in 2000 to 82,000 in 2015 and is expected to reach INR 139,258 by 2020 growing at a CAGR of 11% from 2015 to 2020. A rising middle class with growing income levels has a higher awareness of health related services and demands better healthcare services and good infrastructure. This shift in the demand pattern has opened avenues for penetration of private corporate players delivering high quality healthcare services with sophisticated infrastructure and a high level of clinical excellence.

Growth in health insurance coverage

In 2014, India had only 288 million people covered under any kind of health insurance. This accounted for nearly 25% of the total population, out of which nearly 90% are covered under government schemes like Central Government Health Scheme (CGHS), Employment State Insurance Scheme (ESIS), Rashtriya Swasthya Bima Yojana (RSBY), Aarogyasri Schemes and other group schemes and only 10% were covered by individual insurance.The health insurance premium in India has grown at a CAGR of 16% much higher than the growth of health insurance penetration. Though, individual insurance comprises merely 10% of the total health insurance holders in India, it occupies a major share of 46% in the health insurance premium segment in 2014.There is immense scope for growth of the healthcare delivery industry given the current low penetration of health insurance. The fact that health insurance premium has grown at a CAGR of ~16% between 2011 and 2014, indicates a bright scenario for the healthcare insurance industry. Individual insurance has seen tremendous growth, contributing 44% of the total premium and registering the highest CAGR of 21.4% between 2011 and 2014.

Emergence of medical tourism

In Asia, India is one of the major medical tourism destinations attracting patients from across the world, mainly from developing and underdeveloped countries lacking advanced medical facilities and sophisticated infrastructure. Majority of the medical tourists in India are from the neighbouring countries of Bangladesh and Afghanistan accounting for 65% of the total arrivals. This is followed by patients from Africa, the Gulf Cooperation Council (GCC) and Commonwealth of Independent States (CIS).

In recent years, the availability of a vast pool of skilled and trained medical professional, increased government intervention to support healthcare industry, increased penetration of corporate hospitals, improved healthcare infrastructure, growing technical expertise and the rich cultural heritage of India has been a boon to Indian medical tourism industry and helped India to make a mark on the global healthcare industry

Government policies driving healthcare

In order to promote the penetration and availability of healthcare, the Government is also taking certain measures for the collective benefit of the industry and the people. The NITI Aayog (National Institute for Transforming India) has been working on reforms in the public health system to increase the outsourcing of primary healthcare to private doctors and promoting competition between government and private hospitals at the secondary level. The private sector will also benefit from the provisions of the IT act that enables financial institutions to provide long-term capital to hospitals with 100 or more beds. There is also a push for Public Private Partnerships (PPP), providing a big boost to private sector players. In addition to the developments in urban areas, the Government is supporting the establishment of hospitals in rural areas by extending tax holidays.

Increasing private equity, venture capital funds and regulations pertaining to investment in the sector

FDI equity inflow in the health sector has increased significantly in last five years and stands at INR 142 billion as of 2014. In this sector drugs and pharmaceutical industry saw the highest flow of FDI till 2014 with a slight slump in 2015, followed by hospitals. FDI in hospitals saw an exponential increase in 2013 with year-on-year increase of 180% to reach ~INR 40 billion.

Licenses and Statutory obligations

The Indian healthcare delivery sector is governed by an extensive list of 72 licenses and statutory obligations, in addition to other requirements. These licenses and obligations pertain to various operational aspects regarding facility infrastructure, use of drugs and other chemicals, human resources, and other financial and legal aspects. Almost all of these regulations have been well founded and established for several years, and their applicability varies for different types of healthcare delivery setups. While most secondary and tertiary healthcare facilities comply with these licenses, numerous facilities fail to do so. Recently, several healthcare facilities have opted for NABH accreditation, which requires stringent and compulsory compliance with all licenses and statutory obligations. As the improvement requires a lot of capital infusion, the government hospitals often lag behind, thereby creating immense opportunity for private players. Firstly, private hospitals have the opportunity to diligently acquire NABH accreditation and solidify their image and better capabilities to serve the public. Secondly, as CGHS and ESI require a minimum requirement of NABH accreditation for empanelment, private hospitals can also capitalize on the opportunity to serve patients with government insurance coverage. As the Indian patients and families are becoming more cognizant and conscious of high healthcare standards and quality, all hospitals are going for NABH accreditation. Hence, full compliance with the licenses and statutory obligations, by the way NABH accreditation, has become a mark of high quality healthcare delivery.

Key Speciality and State-wise Healthcare Overview:

Overview of orthopedic diseases in India:

Globally, the prevalence and burden from musculoskeletal conditions is high, the same is well reflected in India as well. India has been facing exceptionally high disease burden of injury, neoplastic, degenerative and metabolic conditions and musculoskeletal disorders.

Among musculoskeletal disorders, osteoarthritis has a high prevalence of 28.7% for the total population, and is higher for females at 31.6% compared to males with 28.1%. Mostly affecting the joints and more often leading to disability of knees and hips in the elderly population, osteoarthritis is expected to become a major disorder in India. Having serious impact on the elderly population and often resulting in the need of joint replacement surgeries; the 30-50 years-group that leads a sedentary lifestyle, lacks exercise, and has nutritional deficiencies is also being affected by osteoarthritis. Specifically, the prevalence of osteoarthritis is at 19.2% for population under 50 years, increasing drastically to 30.7% for population aged between 50 and 59, 39.7% for population aged between 60 and 69, and 54.1% for population over 70 years of age.

Rheumatoid Arthritis is prevalent in 0.7% of the total Indian population, and is more common in females than in men. Gout has a prevalence of 0.12% in India, which is higher than the global prevalence of 0.08%. Gout is another orthopedic disorder that has a higher prevalence in higher age groups, especially in men over 50 years of age. Finally, Low Back Pain has become highly prevalent in India now due to lifestyle changes, and its prevalence is found to be as low as 6.2% and as high as 9.2%.

India's population is undergoing a demographic shift and gradually adding more numbers to its elderly segment. With a growing elderly population highly susceptible to degenerative disorders and growing incidence of such diseases in the younger population (30-50 years), lack of healthcare infrastructure to cater to rising demand of orthopaedics related treatments is a major challenge. In India, nearly 23% of the population falls in the age group of 45 years and above in 2015, the population group accounting for nearly 95% of joint replacement surgeries. Though the share of population in the age group of 45 years and above is lower in India as compared to the other countries, the large population base of India results in a much higher population in the age group category. However, penetration of joint replacement surgeries is lower than the other countries.

Number of relevant specialists available in the country:

To serve orthopaedic patients in India, over 10,000 orthopaedic surgeons are registered with the Indian Orthopaedic Association (IOA); another estimated 10,000 orthopaedic surgeons are not registered with the IOA. Hence, the ratio of orthopaedic surgeons to total population of India is around 1 per 66,300 people. Of all the orthopaedic surgeons in the country, only 20 to 25% are estimated to practice joint replacement surgeries, and nearly two-thirds of those surgeons are concentrated in metropolitans and tier I cities. As a result, there are only 1.4 to 1.9 joint replacement surgeons per 100,000 populations above 45 years age in India. This is an extremely skewed ratio considering the large requirement of joint replacement surgeries in India.

Overview of cancer market in India:

Cancer cases have been rising at an alarming rate in India: among the leading causes of deaths accounting for 7% of the total deaths. In 2016, India had 4-5 million patients suffering from cancer, with nearly 1.45 million new cases per year. According to the ICMR, India is expected to have more than 1.7 million new cases of cancer per year and 0.9 million deaths due to cancer by 2020. Over the past decade, there has been significant rise in the incidence of breast cancer among female population. Among male population, although tobacco related cancer still is the major killer, there has been a rise in the incidence of gastrointestinal cancers.

In order to address the growing demand of cancer treatment, India needs significant addition to the infrastructure. At present, 45-55% of the existing 397 facilities are concentrated in metros, further leading to an imbalance in the treatment delivery across India. Among these 397 facilities only 50-60% provides comprehensive cancer care (surgical, medical and radiation care) under one roof, while rest offer limited services only. Considering, the current imbalance in the distribution of cancer care facilities, there are opportunities for penetration in tier I and II cities.

Overview of cardiovascular disease ("CVD") market in India:
In India, CVD is the largest cause of mortality accounting to (26%) of the total deaths caused by non-communicable diseases. Overall, cardiovascular disease accounted for around 1.5 million deaths in India in 2012 which is expected to rise to 2.6 million per year by 2020, with nearly half of these deaths likely to occur in young and middle age individuals between 30-69 years of age which is a bigger cause of national concern.

Major gains can be made through increased intervention of private healthcare players and public health measures. Currently, Indians experience CVD deaths at least a decade earlier than other countries with established market economies (EME). It is estimated that 52% of CVD deaths occur below the age of 70 years as compared to 23% EME, resulting in a profound adverse impact on the economy as well. According to National Interventional Council, India performed nearly 375,000 angioplasties and 475,000 angiographies in 2015 across 614 healthcare facilities delivering cardiac care. In 2015, there has been a rise of 42% in the number of angioplasties performed compared to 2014 and growth of more than 200% since 2011 with nearly 120,000 angioplasties.

There is an acute shortage of cardiologists in India. As per the membership of cardiology society of India (CSI), there were only 3,588 qualified cardiologists and 1,200 qualified cardiac surgeons in 2014. This accounts for 2.8 cardiologists per million populations against a minimum of 50 cardiologists per million supported in Europe. Due to the shortage of cardiologists, currently general physicians are being actively used to treat heart ailments. Moreover, at present, 70-80% of the existing facilities are concentrated in metros, further widening the gap in delivery of care. With the increasing focus of the Government on the PPP, private players have enough opportunities to further increase their penetration across India

Healthcare overview and potential in Gujarat and selected states:
Compared to other states, death rate and infant mortality rate (IMR) in Gujarat are very high and given the current status, there is a need to strengthen infant care and develop better infrastructure for elderly care. The neighboring states of Madhya Pradesh and Rajasthan face a situation that is of greater concern due to relatively higher IMR; stringent actions are needed in order to improve health status. In the current scenario, private sector healthcare players have ample opportunities to penetrate with new hospitals and scale up the existing centres while supporting the healthcare system.

The states of Gujarat, Madhya Pradesh, Rajasthan and Maharashtra present underlying opportunities of expansion of healthcare services. As a quick solution, state governments are now actively taking the PPP route to extend the healthcare access to the masses opening better avenues for private healthcare players.

There is a wide gap in the availability of hospital beds in Gujarat, Madhya Pradesh and Rajasthan when compared to the global average of 2.7 beds per 1,000 populations. The overall availability of private hospital beds is much lower and also concentrated in the metro cities of these states, resulting in a higher burden on the private corporate hospitals in metro cities. There is also an outward movement of patients to other nearby states and metro cities for tertiary and quaternary care healthcare services.

Key Concerns

A significant portion of revenue is currently generated from two hospitals SG Shalby and Krishna Shalby: A significant portion of SL's revenue is currently generated from two hospitals, SG Shalby and Krishna Shalby, both of which are located in Ahmedabad. For the three months period ended June 30, 2017 and Fiscal 2017, SG Shalby and Krishna Shalby together contributed to 68.28% and 77.01% of its total revenue. Further, a substantial portion of its revenue is derived from the hospitals that it operates in the state of Gujarat. SL recently set up two new hospitals in Gujarat, namely, Shalby Naroda and Shalby Surat in March, 2017 which commenced providing inpatient services from July, 2017 and August, 2017, respectively out of the 11 operational hospitals, six operational hospitals are located in Gujarat. Due to this concentration of its revenue in the state of Gujarat, and dependence on SG Shalby and Krishna Shalby, a number of factors could cause material fluctuations or decline in revenue, and could reduce operating margins, as a result of which there could be a material adverse impact on the business, prospects, financial condition and results of operations

Dependent on one field of specialty for a substantial portion of revenue, i.e. orthopaedics: SL is led by Dr Vikram Shah, an orthopaedic surgeon with more than 25 years of professional experience. Having performed approximately 54,105 joint replacements since 2007, the Company has been a market leader in the area of joint replacement surgeries. While all its hospitals provide multi-speciality services, it derives a substantial portion of its revenue from its orthopaedic services. Its financial conditions and results of operations are dependent on the revenue from orthopaedics. Due to SL's dependence on the field of orthopaedics, a number of factors could cause material fluctuations or decline in its revenue. A decline in revenue from orthopaedics could materially and adversely impact the business, prospects, financial condition and results of operations.

SL has not executed definitive agreements in respect of some of Outpatient Clinics with third parties*:* For the purposes of operating some of SL's Outpatient Clinics, it has not executed definitive agreements with third parties. In the absence of executed agreements, the rights and obligations governing it and such third parties, including payment terms, remain ambiguous. Accordingly, in the event of any dispute between SL and the concerned third party, its ability to exercise rights and enforce any obligations arising against such third party, or ascribe any liability therefrom may be severely impeded. As at June 30, 2017, SL has not incurred any capital expenditure in operating these Outpatient Clinics. In the event where it do not execute definitive agreements in respect of its Outpatient Clinics with third parties, it face the risk of losing future revenues that could be generated by these Outpatient Clinics. While SL has started operating Zynova Shalby from January, 2017, pursuant to the Zynova Shalby MoU, it is yet to execute an O&M agreement, setting out in detail the terms envisaged in the Zynova Shalby MoU which relate to the manner in which Zynova Shalby shall be operated and managed. There can be no assurance that SL will be able to continue to manage and operate Zynova Shalby on the terms and conditions set out in the Zynova Shalby MoU, and this may result in an adverse impact on its revenue, profits, and financial conditions.

Revenue is primarily dependent on inpatient treatments, which could decline due to a variety of factors: SL's inpatient admissions and treatment contribute significantly to its revenue, compared to its outpatient consultative care. In the event there is a decline in the number of inpatients serviced by SL, its financial condition and results of operations will materially stand impacted. This apart, in markets where it has an established presence, if its patients choose to avail inpatient healthcare services from its competitors, instead of availing such healthcare services from it, its growth in revenue could stand materially impaired.

Operate some of the facilities under arrangements with third parties such as O&M agreements and lease agreements*:* Some of SL's multispecialty hospitals are operated out of premises over which it has no ownership rights. It has entered into arrangements with third parties, to operate these facilities, either on a lease basis or on an O&M basis. Further, its SACE operate at third party hospitals and offer orthopaedic services to their patients on the basis of agreements executed by it with such third party hospitals. Ability to operate out of these facilities going forward is dependent on the continued validity of these arrangements. Its counterparties may seek to unilaterally terminate these arrangements, regardless of the validity of such agreements. In such an event, SL may need to take legal action against such termination, and seek to continue to operate out of these facilities. Such actions may not be successful, or legal remedies may not be obtained in a timely fashion. Any action by a counterparty to terminate the arrangement entered into with it may therefore materially impact its business, prospects, financial condition, and results of operations.

Significantly dependent on one of the Promoters, Dr Vikram Shah: The growth of SL's business and legacy has been, and is significantly dependent on one of its Promoters, Dr Vikram Shah, who is an orthopaedic surgeon with over 25 years of professional experience across various geographies. Apart from its reliance on Dr Vikram Shah for his expertise in the medical profession, SL is also significantly dependent on him for setting its strategic direction and managing business affairs. Accordingly, if Dr Vikram Shah is unable, or unwilling to be associated with SL, its business and prospects could be severely impaired, and it would be difficult for SL to find a suitable replacement. This apart, Dr Vikram Shah's disassociation from the brand "Shalby" could have an adverse impact on its future performance and results of operations.

Discontinuation of association by doctors and other healthcare professionals with hospitals for any reason, and inability to retain may adversely affect the business and results of operations*:* SL operates in an industry which is dependent on the availability of quality human resources, particularly doctors and other healthcare professionals. Its ability to attract and retain doctors and other healthcare professionals depends on, among other things, the commercial terms of service or employment that it offers them, the reputation of its hospitals and the exposure to technology and research opportunities offered by it. There can be no assurance that SL will be successful in controlling an increase in market trends of professional fees or salaries, as applicable, paid to doctors and other healthcare professionals. Further, an increase in the pay packages offered by SL to its doctors and other healthcare professionals would lead to a reduction in profitability. On the other hand, if SL is unable to offer doctors or other healthcare professionals competitive fees, salaries and perquisites, its relationship with them may deteriorate and consequently, it may be unable to retain them. SL may not be able to recruit suitable personnel to replace such doctors and medical staff in time, or at all. This may negatively impact its ability to provide quality care to its patients resulting in a drop in the number of new patients registered, and existent patients returning to avail healthcare services. As a result, SL's business and results of operations could be materially and adversely affected. There can be no assurance that skilled manpower will continue to be available in sufficient numbers and at wages suitable to its requirement.

Change in government policies that relate to patients covered by government schemes could impact revenue from operations: SL provides medical services under various government schemes. Resultantly, if the applicable tariffs specified in the agreements with government payers or the extent of coverage or limits is reduced, or if the reimbursement policies are changed in the agreements with the government payers, or if the government payers terminate their agreements with it, the number of new patient registrations may decline and its revenue and profitability could be adversely affected. Further, some of SL's hospitals may, in the future, be required to provide free or subsidised medical services and consumables to patients belonging to economically disadvantaged sections of the society, and certain other classes of patients. This may materially and adversely impact financial condition, cash flows, and results of operations

Face competition from other hospitals and healthcare facilities: SL competes with other hospitals, clinics and dispensaries of varying sizes with the ability to perform different kinds of services, some or all of which it may or may not be able to offer. Its competitors also include healthcare facilities owned or managed by government agencies and trusts, which may be able to obtain financing or make expenditure on more favourable terms than private healthcare facilities such as SL. Its ability to compete in a given market is driven significantly by the extent and depth of diagnosis and procedural capabilities of its competitors and the complexities involved. SL is constantly required to evaluate and increase its competitive position in each of its markets, including meeting industry standards with regard to compensation of doctors and paramedical staff and offering its patients competitive rates for diagnosis, treatment and procedures. Some of SL's competitors may be more established and may have greater financial resources, personnel and other resources than it. Further, SL's competitors may plan to expand their healthcare networks, which may exert further pricing and recruiting pressures on it. If SL is unable to compete effectively with its competitors, its business and results of operations could be materially and adversely affected.

If SL is unable to keep abreast with technological changes, new equipment and service introductions, changes in patients' needs and evolving industry standards, its business and financial condition may be adversely affected: SL's business is characterised by periodic technological changes, new equipment and service introductions, technology enhancements, changes in patients' needs and evolving industry standards. New equipment and services based on new or improved technologies or new industry standards can render existing equipment and services obsolete. To effectively serve its patients, SL has to continually enhance and develop its equipment and technologies on a timely basis to satisfy the increasingly sophisticated requirements of the medical professionals providing healthcare services at its hospitals. Additionally, a number of medical equipment SL uses as part of its business has limited life span, and may become obsolete, including by reason of advancement of technology. It may be required to continually service its existing equipment and replace them whenever required, with new equipment. Replacement of medical equipment may be costly, and may involve significant capital expenditure, requiring that it plan for, and fund such expenditure in advance. Its cash flows and general financial condition may constrain SL from replacing its medical equipment as and when appropriate. Any constraints on its ability to replace and upgrade medical equipment may result in inability to offer services that involve the use of such equipment, thus adversely affecting its revenue.

SL has in the past ceased operations at certain facilities and / or decommissioned beds out of certain facilities and may continue to do so: SL is continually impacted by economic and social factors in each of the locations it operates from. Its management decisions are influenced significantly by its current financial condition, expectations of future growth, relationship with its partners and its perception of opportunities, together with associated risks and costs. The foregoing factors may not enable SL to implement growth strategies as it would expect to. Its strategies may also change over a period of time, including having to exit certain markets, based on its experience with implementation and other market factors. Changes in strategies may require additional capital expenditure or writing-off investments already made. Constraints around implementation of growth strategies and investments that do not meet its expectations could adversely affect its business, financial condition, results of operations and prospects.

Third parties from whose hospitals SL operates its SACE may not be compliant with applicable laws relating to government approvals and licences, and may not have good and valid freehold or leasehold rights to their respective properties*:* SL operates its SACE out of hospitals which are owned, managed and operated by third parties. Its revenue generation from SACE in such hospitals is also dependent on patients visiting such hospitals. It do not exercise any oversight or control over the running or management of such hospitals or the doctors or paramedical staff employed in the hospitals. SL is not in a position to monitor compliance by these hospitals with applicable laws, including obtaining and renewing regulatory approvals and licences. Any failure by the respective hospitals to obtain and renew regulatory approvals and licences on a timely basis may potentially result in adverse action being taken against such hospitals, including potentially, cessation of operations from such hospitals. Further, while establishing a SACE in a third party premise, SL do not conduct a title due diligence to verify if the third parties hold valid freehold or leasehold rights over the properties. Any adverse claims as to title or possession with respect to these facilities may potentially result in SL's inability to continue to operate out of them.

SL may suffer reputational harm from the activities or omissions of hospitals managed by its partner hospitals under O&M arrangements: Three of SL's hospitals were being operated under its asset-light O&M arrangement on a revenue sharing basis. As a part of expansion strategies, SL intends to strengthen its hospital presence in western and central India through a combination of various strategies including O&M arrangements with third party healthcare service providers. While it continues to expand its footprint by collaborating with third party healthcare service providers, any reputational harm suffered by such third parties may directly impact SL and its ability to generate revenue from such hospitals, including a decline in its patient footfall.

Exposed to risks associated with clinical trials it undertakes: SL undertake clinical trials for a number of pharmaceutical companies. Clinical trials involve the testing of new drugs and biologics on human volunteers. This testing carries risks of liability for personal injury, sickness or death of patients resulting from their participation in the study. These risks include, among other things, unforeseen adverse side effects, improper application or administration of a new drug or biologic, and professional malpractice. In addition, regulatory agencies may introduce new, stricter regulations that prevent or restrict clinical trials. The clinical studies may also be the focus of negative attention from special interest groups that oppose clinical trials on ethical grounds. SL could be held liable for errors or omissions in connection with the services it performs or for the general risks associated with its clinical trials including, but not limited to, adverse reactions to the administration of drugs. SL do not monitor compliance by its sponsoring pharmaceutical companies with regulatory requirements applicable to them. It has not obtained any insurance coverage against risks associated with conducting clinical trials. If SL is required to pay damages or bear the costs of defending any claim outside the scope of, or in excess of, the contractual indemnification provided by its clients, its business and results of operations may be adversely impacted.

Indebtedness and the conditions and restrictions imposed by SL's financing arrangements may limit ability to grow business and adversely impact its business*:* As at October 31, 2017, on a consolidated basis, SL had outstanding secured borrowings aggregating to Rs. 3,339.62 million. All borrowings availed by it has been utilised for purposes authorised under the Memorandum of Association, and for such purposes for which the borrowings were advanced to it. Many of its financing agreements include various conditions and covenants that require SL to obtain consents from lenders prior to carrying out certain activities and entering into certain transactions such as altering the Memorandum and Articles of Association, effecting any change in its capital structure and issuing any fresh capital. SL is dependent on financing facilities to run its business, and may continually require debt funding for expansion and capital expenditure. SL is required, on a continual basis to service these loans, including interest owed on the loans. In the event it fails to service its debt obligations in a timely manner, it run the risk of its creditors repossessing its assets hypothecated or mortgaged to them towards recovery of monies due from SL. If its lenders take any enforcement action with respect to its assets, SL may not be able to utilise such assets. Its financial condition and revenue may therefore be adversely affected as a result of any such action.

If SL fails to achieve favourable pricing on medical equipment, drugs and consumables or are unable to pass on any cost increases to its patients, its profitability could be materially and adversely affected*:* SL's profitability is subject to the cost of medical equipment, drugs and consumables. The complex nature of certain treatments, such as joint replacement surgeries, liver and kidney transplantations, and medical procedures it performs, requires it to invest in technologically sophisticated equipment. Such equipment is generally very expensive and forms a major component of its annual capital expenditure. Its profitability is affected by its ability to achieve favourable pricing on medical equipment, drugs and consumables from vendors as well as other vendor financing received with respect to its medical equipment in the normal course of business. As vendor negotiations are continuous and reflect the on-going competitive environment, the variability in timing and amount of incremental vendor discounts and rebates can affect SL's profitability. Further, such increased costs may negatively impact SL's ability to deliver quality care to its patients at competitive prices, or at all. If SL is unable to adopt alternative means to deliver value to its patients, its revenue and profitability may be materially and adversely affected. Further, SL may be unable to anticipate and react to the increase in the cost of medical equipment, drugs or consumables in future, or may be unable to pass on such cost increases to its payers, which could materially and adversely affect the profitability.

Rely on third party suppliers and manufacturers for equipment, reagents and drugs: Hospitals require large quantities of medicines, drugs and equipment to treat patients. These will need to be procured across various locations on a regular basis and at certain quantities to be able to meet expected patient demand. This makes SL's business heavily dependent on drug and equipment manufacturers, who deal with hospitals through an array of intermediaries, such as distributors and stockists. SL do not have long term contracts for the procurement of drugs, reagents, and equipment. It source its equipment, reagents and drugs from third party suppliers under various arrangements on the basis of various purchase orders issued by it from time to time. Further, ability to obtain drugs or reagents of sufficient quantities is limited by manufacturers' production, and the demand for drugs and reagents in the market generally. Any failure to procure such equipment, reagents or drugs on a timely basis, or at all, from such third parties and on commercially suitable terms, could affect SL's ability to provide services. In addition, manufacturers may discontinue or recall equipment, reagents or drugs used by it, which could adversely affect its ability to provide services, and therefore, could adversely affect business and results of operations.

As SL continue to expand footprint internationally, SL remain subject to a variety of risks relating to volatile economies, political instability, foreign currencies, and local laws: Currently, SL's international footprint consists of five Outpatient Clinics and one SACE spread across Ethiopia, Kenya, Tanzania, and Uganda in Africa, and two SACE in Ras al-Khaimah and Dubai in the UAE. The economies of African countries are extremely diverse and include some of the world's fastest and slowest growing economies. Their variances in gross domestic product place a heavy burden on SL, requiring it to have a strong appetite for risk while considering its expansion strategies into certain African nations. Its international operations also expose it to different local political and business risks and challenges. As it continue to expand its presence into underpenetrated countries, it may be faced with periodic political issues which could result in currency risks, or the risk that is required to include local ownership or management in its businesses.

SL and certain doctors employed with the Company are involved in, and may in the future, be involved in certain medical negligence cases, and the claims of the complainants in such cases may exceed the professional indemnity insurance cover availed by the Company*:* SL is exposed to the risk of alleged malpractice claims and regulatory actions arising out of medical services provided by it, including medical services provided to SL through Shalby Homecare. It rely on its doctors and other healthcare staff to make proper clinical decisions regarding the diagnosis and treatment of its patients at its hospitals and through Shalby Homecare. However, SL do not have direct control over the clinical activities of its doctors and other healthcare staff, as their diagnoses and treatments of patients are subject to their professional judgement, and in most cases, must be performed on a real-time basis. Any incorrect clinical decisions or actions on the part of its doctors and other healthcare staff or any failure by it to properly manage their clinical activities may result in unsatisfactory treatment outcomes, patient injuries or possible patient death. Additionally, SL's clinical trials may also be the focus of negative publicity from special interest groups that oppose clinical trials on ethical grounds. In addition, the reputational consequences of any claims may materially and adversely affect its business, reputation and operations. Regardless of their validity, negative publicity arising from such claims may tarnish its professional standing and market reputation and / or that of the physicians and other healthcare staff involved, and may adversely affect the number of new patients registered and treated and the amount of revenue generated by it. Moreover, if any such claims succeed, SL may become liable for the damages and other financial consequences, which may materially and adversely affect its financial condition and results of operations.

Because of the risks typically associated with the operation of medical care facilities, patients may contract serious communicable infections or diseases at its facilities: SL's operations involve treatment of patients with a variety of infectious diseases. Despite the exercise of abundant caution by it, previously healthy or uninfected people may contract serious communicable diseases in connection with their stay or visit at its facilities. This could result in significant claims for damages against SL and, as a result of reports and press coverage, loss of reputation. In addition to claims for damages, any of these events may lead directly to limitations on the activities of its hospitals as a result of quarantines, closing of parts of the hospitals at times for sterilisation, regulatory restrictions on, or the withdrawal of, permits and authorisations, and it may indirectly result, through a loss of reputation, in reduced utilisation of its hospitals. Any of these factors could have a material adverse effect on its reputation and business.

If SL is unable to increase hospital occupancy rates and reduce ALOS, it may not be able to generate adequate returns on capital expenditure: SL has invested and continue to invest a significant amount of capital expenditure in expanding bed capacity and opening new hospitals. Its current expansion plan involves the setting up of two new hospitals, namely, Shalby Nashik and Shalby Vadodara, and expansion of one existing hospital, namely Zynova Shalby, in India. It intends to focus on improving occupancy rates throughout its hospital network. Improving occupancy rates at its hospitals is highly dependent on brand recognition, wider acceptance in the communities in which it operates, SL's ability to attract and retain well-known and respected doctors, its ability to develop practices and its ability to compete effectively with other hospitals and clinics. If SL fails to improve its occupancy rates, but continue to incur significant expenditure in the future, this could materially adversely affect SL's operating efficiencies and its profitability.

SL is involved in certain legal proceedings, any adverse developments related to which could materially and adversely affect the business, reputation and cash flow*:* There are outstanding legal proceedings against and initiated by SL, certain Subsidiaries, its Promoters, Directors, and certain Group Entities, which are pending at different levels of adjudication before various courts, tribunals and other authorities. Such proceedings could divert management time and attention and consume financial resources in their defence or prosecution. The amounts claimed in these proceedings have been disclosed to the extent ascertainable and quantifiable and include amounts claimed jointly and severally from the Company, its Subsidiaries and other parties. Any unfavourable decision in connection with such proceedings, individually or in the aggregate, could adversely affect SL's reputation, business, financial condition and results of operations. Further, an adverse judgment in any of these proceedings, individually or in the aggregate could adversely affect its business, reputation and cash flows.

Dependent on obtaining and maintaining certain governmental and regulatory licences and it has not obtained certain approvals, registrations and licences with respect to its operations in certain facilities including hospitals and domestic Outpatient Clinics, and certain approvals for which it has made applications in the past, has been rejected: SL operates in a heavily regulated environment and are required to periodically obtain a number of approvals and licences from governmental and regulatory authorities. Such approvals and licences may or may not be granted or renewed by the relevant governmental or regulatory authorities. There is no assurance that such approvals and licences will be granted or renewed in a timely manner. Failure to obtain or renew such approvals and licences in a timely manner can prevent SL from operating the relevant facilities or from operating certain equipment which requires SL to obtain the relevant approval or licence. It may, as a result, be compelled to cease using such equipment, or cease operations altogether from such facilities, until such time that the approval or licence applied for has been granted. Its failure therefore to obtain or maintain licences and approvals on a timely basis may adversely affect its business, financial condition, results of operations, cash flows and prospects.

Failure to comply with laws and regulations applicable to business and the industry in which SL operate, could result in prosecution, including imprisonment and fines or incur costs that could have a material adverse effect on its ability to run business: The healthcare industry in India is subject to various laws, rules, regulations, and procedures. Given its line of business and current geographical presence, SL is subject to various and extensive local laws, rules, regulations, and procedures. These include laws which govern the stocking and distribution of drugs, the minimum standards for clinical facilities and services provided by healthcare establishments, laws which govern the transplantation of human organs for therapeutic purposes, as well as laws which regulate the control and use of atomic energy in healthcare establishments. Similarly, the healthcare industry in India is heavily regulated by numerous environmental legislations. Under extant environmental laws, SL is required to obtain registrations from the relevant State Pollution Control Board to be able to discharge pollutants in the air and water, and handle and dispose hazardous and bio-medical wastes. It is also required to take a number of precautionary measures and follow prescribed practices in this regard. Its failure to comply with these laws could result in being prosecuted, including SL's directors and officers responsible for compliance being subjected to imprisonment and fines. It may also be liable for damage caused to the environment. Any such action could adversely affect business and financial condition.

SL has entered into, and will continue to enter into, related party transactions*:* SL has various transactions with related parties, including its Promoters, Group Entities and Directors. These related party transactions include, among others, sale of pharmacy products and consumables, implants and other consumables. Any transactions SL has entered into or may enter into in the future with a related party could result in conflicts of interests that are detrimental to it. SL will continue to enter into related party transactions in the future, in the normal course of business, which may adversely affect its business, financial condition, results of operations, cash flows and prospects.

Lack of health insurance in India may affect the business, cash flows and results of operations: Penetration of health insurance providers in India is very low. In the absence of health insurance, procedures and diagnostics involving significant costs may not be affordable to a number of patients. Such patients may choose not to undergo such procedures, despite being in need of them, or may choose to undergo similar procedures from hospitals which are less costly. Consequently, higher out-of-pocket expenses related to healthcare in India may make healthcare unaffordable for lower income households. Due to the lack of viable health insurance policies in India, demand for SL's medical services may not increase as expected. As a result, it may not be able to provide medical services and may not benefit from the revenue it may expect to realise from such services.

SL may not be able to protect its brand name and trademarks: SL's name and trademarks support its business. Its reputation and brand are associated with the "Shalby" name, and that this association has contributed towards the success of its business. SL's trademarks and other proprietary rights has significant value and are important to identifying and differentiating its healthcare services from those of its competitors and creating and sustaining demand for its healthcare services. Unauthorized use of brand name or logo by third parties could adversely affect SL's reputation, which could in turn adversely affect its business, financial condition and results of operations. Intellectual property rights and its ability to enforce them may be unavailable or limited in some circumstances. Loss of intellectual property may significantly affect its media and advertising activities, and loss of equity for the "Shalby" brand, thus adversely affecting its business, revenue and prospects.

Any downtime for maintenance and repair of medical equipment could lead to business interruptions that could be expensive and harmful to reputation and to the business: SL's equipment, including operation theatres, require constant maintenance, including cleaning, sanitising and overhaul. Maintenance work on most equipment can be performed only by the manufacturer or a designated service provider and involves significant downtime to complete maintenance. At times, maintenance of some equipment cannot be performed at its hospitals, and may have to be moved to the location of the manufacturer or service provider, adding to the downtime. SL's equipment is subject to normal wear and tear and will be in need of repairs from time to time. Some repairs may be routine in nature, involving lower downtime, and some repairs may require replacement of parts of the equipment, which may be time consuming. During such times, SL may not be able to put the equipment to use. It may, as a result, suffer losses by reason of not being able to use such equipment.

SL may not be able to effectively manage growth, which may materially and adversely affect the business, financial conditions and results of operations: SL's management adopts and implements business strategies taking into account a number of macro and micro economic considerations, including SL's current financial condition and expected levels of growth over the medium to long term. It routinely expand into and enter new markets within India, by either setting up new hospitals on its own, or entering into lease or revenue share arrangements with existing hospitals. SL's entry into a given market is dictated by a host of factors and its perception of the potential the market may offer. SL may make significant investment decisions on the basis of the above. The existence of undisclosed liabilities or historic non-compliance may, depending on their nature and materiality, impact the acquired business, including resulting in claims, damages, loss, and interruption to business. In such an event, regardless of any contractual rights against counterparties that ther Company may have, SL may have to bear the consequences of such undisclosed liabilities or historic non-compliance, and be entangled in disputes over an indefinite period of time to enforce its rights. Such events may materially affect SL and the acquired business' financial condition, revenue, and profitability.

SL's insurance coverage may not adequately protect against certain operating hazards and this may have an adverse effect on business: SL's existing insurance may not be sufficient to cover all damages, whether foreseeable or not. It has not provided indemnity insurance for its doctors and there is no certainty that it will be able to adequately satisfy all claims arising from medical negligence or malpractice. Additionally, although pursuant to the terms of the medical consultancy contracts with SL's doctors, such doctors are required to obtain professional indemnity insurance, some of its specialist physicians do not maintain such insurance. As a result, any successful claims against SL in excess of the insurance coverage may adversely affect its business, reputation, financial condition, results of operations, cash flows and prospects. The rising costs of insurance premiums could have a material adverse effect on its financial position and results of operations.

Profit & Loss — Rs in million

Particulars	Q1FY18	FY17	FY16	FY15
Revenue from Operations	892.3	3253.9	2904.1	2754.2
Other Income	13.7	74.8	21.5	22.1
Total Income	906.0	3328.6	2925.6	2776.3
Total Expenditure	634.8	2530.2	2349.1	2079.3
Purchases of traded goods	17.3	58.3	44.0	43.7
Operative expenses	459.5	1823.5	1783.7	1670.6
Change in inventories	-3.5	-4.8	0.6	0.8
Employee benefits expense	90.9	392.6	289.2	198.4
Administrative and other expenses	70.6	260.6	231.6	165.7
PBIDT	271.2	798.4	576.4	696.9
Interest	40.7	97.9	103.9	54.2
PBDT	230.5	700.5	472.6	642.7
Depreciation	44.5	168.0	113.3	212.4
PBT	186.0	532.5	359.2	430.3
Tax (incl. DT & FBT)	41.2	-83.3	-4.0	184.8
Tax	39.0	119.2	84.0	100.0
MAT credit entitlement	0.0	-410.0	0.0	0.0
Deferred Tax	2.3	207.5	-88.0	84.8
Reported Profit After Tax before Minority Interest	144.8	615.7	363.2	245.5
Add: Share in (Profit) / Loss of Minority Interest	-0.8	9.9	12.6	11.8
Adj. Profit	143.9	625.6	375.8	257.3
EPS (Rs.)	1.62	7.2	4.3	7.3
Equity	886.6	874.1	878.9	353.7
Face Value	10.0	10.0	10.0	10.0
OPM (%)	28.9	22.2	19.1	24.5
PATM (%)	16.1	19.2	12.9	9.3

Balance Sheet: — Rs in million

Particulars	Q1FY18	FY17	FY16	FY15
Equity & Liabilities				
Shareholders Funds	**2889.0**	**2659.8**	**2050.2**	**1684.3**
Share Capital	886.6	874.1	878.9	353.7
Share application money pending allotment	0.0	2.7	0.0	0.0
Reserves and surplus	2002.5	1782.9	1171.4	1330.5
Minority Interest	0.6	0.6	3.7	23.3
Deferred Government subsidy	93.0	94.4	0.0	0.0
Non-Current Liabilities	**2787.0**	**3118.2**	**2068.2**	**902.0**
Long-term borrowings	2519.2	2854.0	2010.7	737.3
Deferred tax liabilities	230.6	228.3	20.8	111.7
Other non current liabilities	25.4	20.7	27.7	47.5
Long-term provisions	11.9	15.2	9.0	5.6
Current Liabilities	**2007.5**	**1308.8**	**917.0**	**903.8**
Short-term borrowings	590.2	260.7	93.2	75.2
Trade payables	444.7	389.8	467.8	614.2
Other current liabilities	965.5	650.9	354.3	213.9
Short term provisions	7.2	7.5	1.7	0.5
Total Equity & Liabilities	**7777.1**	**7181.8**	**5039.1**	**3513.4**

Assets				
Fixed Assets	**6858.2**	**6305.2**	**4397.6**	**2887.2**
Tangilbe Assets	3,429.83	3200.5	3177.8	1585.6
Intangible assets	1.4	1.7	3.6	3.4
Capital work in progress	2504.4	2214.4	821.9	907.1
Intangible assets under development	2.3	2.3	0.1	0.1
Non-current investments	1.1	1.1	1.1	1.1
Goodwill on consolidation	11.3	11.3	11.3	161.7
Long-term loans and advances	899.1	870.9	379.9	225.0
Other non-current assets	8.8	3.0	1.8	3.3
Current Assets	**918.8**	**876.6**	**641.6**	**626.2**
Inventories	152.0	76.5	74.9	58.2
Trade receivables	384.0	379.6	314.3	215.5
Cash and bank balances	134.6	158.7	160.7	310.0
Short-term loans and advances	96.5	123.8	62.2	12.9
Other current assets	151.7	138.0	29.5	29.6
Total Assets	**7777.1**	**7181.8**	**5039.1**	**3513.4**

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