EQUITY RESEARCH

Pick of the Week

Date: Mar 02, 2020

PCG RESEARCH

Narayana Hrudayalaya

Key Highlights

- Strong brand equity in Healthcare space
- Ramp up of new hospitals would drive growth momentum
- Cayman Islands (HCCI) performance continues to improve
- Higher Occupancy and Case mix to drive margins
- Return ratios set to improve over FY19-22E
- Estimate 11% revenue and 62% PAT cagr over FY19-22E

INDUSTRY

Healthcare

ADD ON DIPS TO

Rs. 305 – 332.15

CMP

Rs. 332.15

SEQUENTIAL TARGETS

Rs. 378 - 435 RED FLAG Rs. 272

RECOMMENDATION

Buy at CMP and add on declines

TIME HORIZON

4 quarters

HDFC Scrip Code	NARHRU
BSE Code	539551
NSE Code	NH
Bloomberg	NARH: IN
CMP Feb 28, 2020	332.15
Equity Capital (cr)	204.4
Face Value (Rs)	10
Eq- Share O/S (cr)	20.44
Market Cap (Rs cr)	6787
Book Value (Rs)	58
Avg.52 Wk Volume	378185
52 Week High	389
52 Week Low	181.4
Red Flag Price Level	272
PCG Risk Rating *	Yellow

Shareholding Pattern % (Dec 31, 2019)	
Promoters	63.85
Institutions	32.20
Non Institutions	3.95
Total	100.00

FUNDAMENTAL ANALYST

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Company Profile:

Narayana Hrudayalaya (NH) is promoted by renowned cardiac surgeon Dr Devi Prasad Shetty in 2000. It was started as a predominant cardiac care hospitals group initially. Gradually, it also diversified into other specialties although cardiac still remains a mainstream specialty followed by renal (kidney care). NH operates a chain of 21 hospitals, 6 heart centres and 19 primary care facilities in India and 1 hospital in Cayman Islands. As on Dec-19, NH has around 5770 operational beds and the capacity of up to 6579 beds. The company has a presence across 18 locations in India and also 1 multispecialty hospital in Cayman Islands. The Cayman Island Hospital is JV between NH and Ascension Health in which NH had ~29% Stake, however consequently company acquired the balance stake and now has full control over HCCI. NH provides specialty treatment in cardiology and cardiac surgery, cancer care, neurology and neurosurgery, orthopaedics, nephrology and urology, and gastroenterology. As of Dec-19, NH has around 17200 employees, which includes ~3700 doctors. Region wise, southern (mainly Karnataka) and eastern (mainly Kolkata) regions together account for 80% of the operating revenues (FY19). NH is a pan-India multispecialty hospital chain that is recognized as an affordable healthcare provider to the low and middle income patient population. Two of NH's hospitals have JCI (Joint Commission International) accreditation while 14 are recognized by the NABH (National Accreditation Board for Hospitals and Healthcare Providers).

Investment Rationale:

- **Strong Brand Equity in Healthcare space**
- **Run by renowned surgeon and Padma Bhushan - Dr. Devi Prasad Shetty**
- **Ramp up of new hospitals to drive growth momentum**
- **Cayman Islands (HCCI) performance to boost momentum further**
- **Higher occupancy and case mix to drive margins**
- **Return ratios set to improve over FY19-22E**
- **Estimate 11% revenue and 62% PAT cagr over FY19-22E**

View and valuation:

NH has recorded 20% revenue and 23% EBITDA cagr over FY15-19. Company's margin has seen expansion of 90bps over the same period. EBITDA growth was slower on the back of loss from newer hospitals. Consistent improvement in occupancy across all segments coupled with substantial seasonality impact propelled revenue growth and margins in 9M FY20. The new hospitals (SRCC – South Mumbai, Gurugram, Dharamshila) continue to see a reduction in losses as the ramp-up in these assets is slowly but surely improving. Overall, we estimate NH to register 11% revenue growth along with 500bps margin expansion to 15% in FY22E. Strong revenues coupled with robust margin expansion would drive 26% EBITDA CAGR over FY19-22E, as new hospitals gain maturity, profitability will improve too. We expect 62% PAT cagr over the same period on the back of higher margins, lower finance costs and tax rate. We believe in the long term prospects of the company on the back of asset-right model and affordability philosophy. We recommend Buy on Narayana Hrudayalaya (NH) at CMP of Rs 332 and add on dips to Rs 305 with Sequential targets of Rs 378 and Rs 435 over the next 4 quarters. Based upon 15.3x FY22E EV/EBITDA, we arrive to TP of Rs 435.

HDFC securities

Key Highlights

- NH operates a chain of 21 hospitals, 6 heart centres and 19 primary care facilities in India and 1 hospital in Cayman Islands with around 5770 operational beds and the capacity of up to 6579 beds.
- NH derives around 46% revenues from Bengaluru and South Cluster. Eastern cluster revenues contribution stood at 34%. Western and Northern cluster revenues contribution stood at 14% and 6% respectively.
- The new hospitals (SRCC, Gurugram, Dharamshila) continue to see a reduction in losses as these assets have seen healthy ramp up in utilisations. These hospitals will turn EBITDA breakeven mostly by the end of FY21. Furthermore, management reiterated a significant moderation in capex in the medium term.
- Consistent improvement in occupancy across all segments coupled with seasonality impact propelled revenue growth and margins in 9M FY20.
- We believe in the long term prospects of the company on the back of asset-right model and affordability philosophy. Based upon 15.3x FY22E EV/EBITDA, we arrive to TP of Rs 435.

Investment Rationale:

Focus on large, flagship facilities augurs well

We believe that NH has almost done with the large part of its capex, mature hospitals contributing meaningfully to margins while new hospitals are making losses. We see significant improvement in margins and RoCE as the four hospitals in the Bleed phase move into the Ramp Up phase. Also, there are no new hospitals that are likely to be commissioned in the medium term.

We believe that to focus on flagship hospitals in large cities, as opposed to continued expansion in Tier 2/3 cities, as a step in the right direction for NH. NH's large, flagship hospitals have continued growing profitability even years after commissioning and we expect this trend to continue.

Large part of NH's capital employed relates to its recently commissioned hospitals in India (South Mumbai (SRCC), Gurugram and Dharmshila - currently loss making) and the Cayman Islands facility (still at 30-32% occupancy) that have significant headroom to grow. We believe that as loss making hospitals gain maturity, higher occupancy and case mix would drive EBITDA and therefore RoE/RoCE. We expect RoCE to improve from c7.5% in FY19 to 16% in FY22E.

Ability to attract high quality doctors

NH's strong reputation for clinical excellence and ethical practice combined with competitive compensation packages helps it attract quality doctors and medical staff from both India and overseas (Indian nationals returning home). The access to high quality medical talent has contributed mainly to NH's healthcare model's success.

Poised for long-term growth

The Indian private healthcare space is a secular growth story, given scarce public sector healthcare investments, growing life expectancies, and increasing disease burden. NH is amongst the most scalable models in the private healthcare space with its proven success in providing large-scale, high-quality tertiary care at affordable prices. Given 26% EBITDA and 62% PAT CAGR estimated over FY19-22E, valuations at 11.8x FY22E EV/EBITDA are compelling vs. listed Indian peers.

NH is best placed to surprise positively on earnings and RoCE trajectory. It has three new hospitals in big cities that could turn profitable over the next two years while other large hospitals are already well-established and contributing to growth and profitability. With no new hospitals to be commissioned, we believe return ratios to improve substantially from current levels.

Cluster wise break-up

Karnataka cluster – The cluster comprises of six hospitals including four in Bengaluru and a hospital each in Mysore, Bellary and Shimoga totaling to ~2100 operational beds. The company also manages six heart centres totaling to around 300 operating beds. Four out of the six hospitals in this region are in Bengaluru. This includes two of its three flagship hospitals (NICS and MSMC) leading to the higher margins and ARPOBs in this region compared to the rest of the network.

Eastern cluster – It comprises of eight hospitals including hospitals in the greater Kolkata area encompassing Howrah, Barasat and the Eastern Metropolitan Bypass, a multispecialty hospital in Jamshedpur, Jharkhand, a super speciality hospital in Guwahati, Assam and a hospital in Durgapur, West Bengal totalling 1800 operational beds. The company also manages a heart centre in Durgapur, West Bengal, totalling 49 operational beds. The company's third flagship hospital (RTIICS, Kolkata) is in this region and enjoys healthy EBITDA margin. It has two other small units in Kolkata (RNN and RTSC) which are more in the nature of day care centers. NH has acquired two hospitals in the city (MMRHL and Barasat) that are ramping up in terms of occupancy and profitability. On the other hand, it has two hospitals in Jamshedpur and Guwahati that continue to see low occupancy and margins several years post commissioning, largely on account of lower affordability and issues with doctor availability in these locations.

Western and northern clusters - NH has four hospitals in the region. Two of these (Jaipur and Raipur) are profitable, albeit well below corporate average, with EBITDA margins in the c.8-10% range. On the other hand, its hospital in Ahmedabad is yet to achieve breakeven despite being commissioned around seven years back – the management attributes this to unfavorable location and high cost of recruiting doctors in the city. The fourth hospital (SRCC, Mumbai) is relatively new (commissioned in 2017) and is expected to break even in FY21. The clusters comprise of ~1550 operational beds.

All three of NH's hospitals in this region are currently loss making but likely to improve going forward. The hospital at Gurugram is the latest one in the network (commissioned in 2018) while it has an acquired hospital in Dharamshila, Delhi that was poorly run before the company acquired it in 2017. The management expects these hospitals to break even in FY20/21. It also has a hospital in Jammu that could take two to three years to achieve EBITDA break-even but this does not adversely impact NH's financials since the Shrine board (PPP partner) funds the losses, as per the arrangement.

Health City Cayman Islands (HCCI) - NH had set up a multi-speciality hospital in Cayman Islands by entering into an agreement with the Government of Cayman Islands on April 7, 2010. Health City Cayman Islands (HCCI) is a joint venture between NHL and Ascension Health Ventures LLC, a US based trust. This 106 bedded hospital got commissioned in April 2014 and earned JCI, US accreditation in May, 2015 (JCI is the international arm of The Joint Commission, the leading health care accreditor in the US).

NH had initially entered into the JV with 28.6% stake in the hospital and then bought back the rest of the 71.4% stake from Ascension Health for cash consideration of US$ 32mn in 2017 (implied EV of US$ 70mn). Now, it is the step down subsidiary of Narayana Health. HCCI primarily targets North American patients (Cayman Islands is 430 miles south of Miami, near Caribbean islands) and provides high-quality, affordable health care. The Cayman Island Hospital is NH's only hospital outside India and is the largest in the Caribbean region. In FY18, EBITDA margin was at 14% for HCCI. For FY19, HCCI revenues grew strongly and came in at US$ 54.5mn with EBITDA at US$ 9.5mn (EBITDA margin at 17.4%). For FY19, the hospital was running at ~32% occupancy rate. In 9M FY20, HCCI reported revenues of US$ 47mn with EBITDA of US$ 11mn (23.5% margin).

SRCC Children's hospital - Mumbai

NH commissioned its 207 capacity bed SRCC Children's Hospital at Haji Ali Park, Mahalaxmi in Mumbai on April, 2017. This hospital is designed to be a premier super speciality, tertiary care "children only" hospital in the region. NH has set up this hospital through the asset light model with limited capex investments. NH already operates one of the World's largest paediatric care unit at its flagship Narayana Institute of Cardiac Sciences facility in Bengaluru and is seeking to leverage its expertise in paediatric care through this Mumbai unit. The hospital has all the paediatric super specialities under one roof including Paediatric Cardiology, Paediatric Cardio Vascular Surgery, Paediatric Neurology, Paediatric Neuro Surgery and Paediatric Haemato Oncology amongst others. The hospital also has a complete rehabilitation program which intends to take care of allied patient care services like paediatric physiotherapy, psychometric analysis, behavioural counselling amongst others.

The management indicated that Mumbai hospital will take another 4-6 quarters for EBITDA break even as NH is looking to commercialise additional beds at the hospitals. As a result of which there will be additional cost on account of which the breakeven will take some to achieve. Overall the management also indicated that the general cost of operating the Mumbai hospitals in on the higher side which is resulting into some losses for the company. It however indicated that as the losses are expected to come down in the coming quarters. The losses are also relatively higher as capacity pickup is slow. Further the management highlighted that the ARPOB is expected to increase led by start of the speciality services.

Gurugram Hospital and Dharamshila (Delhi NCR) Hospital

Narayana Hrudayalaya (NH) agreed to acquire New Rise Healthcare Private Limited (NRHPL) from Panacea Biotec and PanEra Biotec Private Limited. According to the agreement's terms, NH acquired 100% of the equity and preference shares of NRHPL for cash of Rs 180cr. NRHPL is a multi-speciality hospital with 230 beds, located in the south western NCR. This hospital has enabled NH to expand in the NCR and complement to its acquisition of the East Delhi hospital (Dharamshila Narayana Super speciality – 300 operational beds), which has been upgraded to a multi-speciality tertiary care unit from the oncology-focused unit. Buoyed by the initial traction, company has initiated the oncology programme in the unit. Hiring for the same has impacted profitability in the current quarter but the programme is expected to pay strongly in coming quarters. Given that NCR and Gurugram is a fairly competitive market, it will be a stiff test for NH management in terms of its ability to successfully scale it up. International patients account for a significant component of the patient flow in Gurugram.

Dharamshila is a 300 beds super specialty hospital in East Delhi, commissioned in April 2017. This was an old cancer hospital, which NH has now converted to a tertiary care multispecialty hospital. NH has signed a 25-year agreement with Dharamshila Cancer Foundation and Research Centre.

Cayman Island (HCCI) - Maintains the growth momentum

HCCI reported revenue growth of 22% yoy to US$ 54.5mn and EBITDA growth of 58% yoy to US$ 9.5mn in FY19 (margins at 17.4% vs. 13.5% in FY18 and 7.6% in FY17). Occupied bed count remained flat sequentially at 36 (total capacity 106 beds). The management indicated that the occupancy is likely increase further going forward, considering the hospital is only at ~30% occupancy currently. Doctors will start visiting the patients of the nearby islands as well. NH is also coming up with Radiation oncology and oncology surgery which will boost more higher-end procedures. This can be easily funded from internal accruals, Management believes this unit can significantly drive footfalls due to a significant discrepancy in the cost of treatment in this therapy between US and them.

Management is also looking at tie ups targeting different geographies like Bahamas, Trinidad the effects of which should be visible in the next one year. Other than this, it is also expanding and providing comprehensive cancer care with a broader service offerings over the next 12-18 months. The results of these measures should be visible in the post 18 months. Overall as per the management all these measures will results into higher occupancy in the coming few quarters.

Key Highlights

- NH is converting the hospital into a multi-speciality hospital from its current positioning as an oncology focused hospital. NH has also started the Cardiac services in the hospital. Since a lot of new services are started in the hospital there is a lot of upfront cost involved and the improve ment will be visible in the next 2-3 quarters.

- Notably, Dharamshila hospital has swung from positive to negative EBITDAR over the last few quarters as the management has stepped up investments in the hospital. We anticipate that the hospital should re-attain break-even levels by FY20 end as the new specialities begin to stabilize.

- The losses from the new hospitals for FY19 stood at Rs 70cr vs. Rs 40.5cr in FY18. As new centres get maturity (usually 18-24 months), margin profile for the company would boost up in the coming years.

- The management has been indicating that the both the NCR hospitals at Dharamshila and Gurugram and SRCC at South Mumbai are witnessing good pick-up, while the losses may continue for some more time even though they will keep reducing progressively.

- NH has been focusing on growing its non-Cardiology business and especially on Oncology. The management furthe r indicated that Oncology will be the core to this growth followed with Gastro and although the Cardiac segment contribution will fall in the overall segment it will continue to grow in value terms.

- International patients now account of 11% of revenues and this segment is expected to increase steadily going forward with increased presence in the metro regions.

- Among new hospitals, the management expects Dharamshila to break-even by Q1 FY21 (has already reached EBITDAR level breakeven). Mumbai Hospital (SRCC) and Gurugram hospitals losses to reduce gradually and likely to swing in positive EBITDA by the end of FY21/early FY22.

- Going forward, the management has a variety of growth levers to increase ARPOB led by increasing throughput i.e. more day-care procedures; focus on high yielding procedures; international patients at Bangalore, Mumbai and Delhi hospitals. Q4FY20 to be better than Q2/Q3FY20 due to spill over effect from seasonality.

- Total debt at Rs 676 crore; net debt at Rs 570 crore (~US$ 49 million is foreign currency denominated). Capex in 9M FY20 stood at around Rs 100 crore. Guided for maintenance capex in the range of Rs 100-125 crore and additional ~Rs 180-200 crore capex for a brown field expansion. The company will not venture into new territories but will expand in existing hospitals.

Healthcare sector outlook

Indian healthcare market is expected to post 23% CAGR over FY15-20E and reach US$ 280bn by 2021. Medical tourism to contribute 15-20% to hospital revenue by FY21 up from 5-10% in FY18. India's per capita income is expected to register a growth of 11% over FY16-21. Deaths due to NCDs are expected to be 74% of total deaths in 2030 compared with 60% in 2012. India's disease profile has shifted towards chronic diseases (cardiovascular, diabetes and cancer). Deaths due to Non-Communicable Diseases (NCD) is over 60% now and are expected to increase further.

Favourable macroeconomic factors

Ever since the government opened up healthcare to the private sector in the 1980s, India has seen exponential growth in corporate hospitals. These hospitals also received government support in the nature of tax and other breaks. Conducive policies for encouraging FDI, tax benefits, favourable government policies coupled with promising growth prospects have helped the industry fulfil the capital requirements via scores of private equity and venture capital deals. Demand-supply mismatch with a combination of macroeconomic factors, including changing demographics, increasing affluence of the Indian population, greater health awareness, rising incomes, changes in the disease profile (towards lifestyle-related ailments) and rising penetration of health insurance are likely to lead to an increase in demand for quality healthcare services. Apart from this, increasing trend of medical tourism for low cost of surgery and critical care in India are expected to be a key growth driver for healthcare delivery in India.

Medical tourism - another key driver for the sector

Growing medical tourism concept is also one of the drivers for the industry as India provides better healthcare services at much lower rates compared to other developed countries. The government's steps such as visa on arrival and medical visa have made the modalities of admitting foreign patients a lot easier. Over the years, India has grown to become a top notch destination for medical value travel because it scores high over a range of factors that determine the overall quality of care. Indian medical tourism industry is US$ 3bn having posted 15-20% CAGR in the past 5-7 years and is expected to clock 25-30% CAGR over the next 5 years. From quality of therapy, range of procedural and treatment options, infrastructure and skilled manpower to perform any medical procedure. This is especially for costly and delicate surgeries like bypass, kidney and liver transplant, hip replacement, dental services, cosmetic surgery and bariatric surgery. Indian hospitals are offering standard services at comparatively low costs. Statistics reveal that treatment of major surgeries in India costs ~20% of that in developed countries.

Strong Brand Equity and robust growth prospects; recommend buy with TP of Rs 435

Post a phase of weak operational performance due to challenges arising from sluggish growth in existing hospitals combined with losses in newly commissioned hospitals, NH has registered remarkable recovery over last 4 quarters. There is strong improvement in revenue momentum and profitability across existing hospitals while the losses in new hospitals have begun to stabilize. Strong profitability pick-up in Cayman unit is adding to the momentum. NH reported strong performance in 9M FY20 with revenues grew 13.8% yoy to Rs 2385cr and PAT surged to Rs 107cr as compared to Rs 22cr on the back of robust margin expansion and we believe this to accelerate further, slowly and steadily. Given its low-cost model and scale-up in new hospitals, we believe it is well positioned to benefit from growing demand. With its focus on affordable healthcare, NH is a differentiated model in the Indian healthcare space and is one of the most scalable business models in India. A shift in management focus from adding beds to enhancing efficiency of the current network to drive profitability is another positive. We estimate 11% CAGR in revenues, 26% in EBITDA and 62% in PAT over FY19-22e, valuations at FY22E 11.8x EV/EBITDA seems attractive.

Some of the key factors responsible for growing interest in the hospitals space are: 1) High capex cycle of private hospitals after the 2008-18 capex cycle, 2) shifting focus towards assets light model for most hospital players, 3) improving financial matrix, 4) government's endeavour to bring private players on board and affordable healthcare schemes like Ayushman Bharat, 5) India's emergence as the destination for medical tourism.

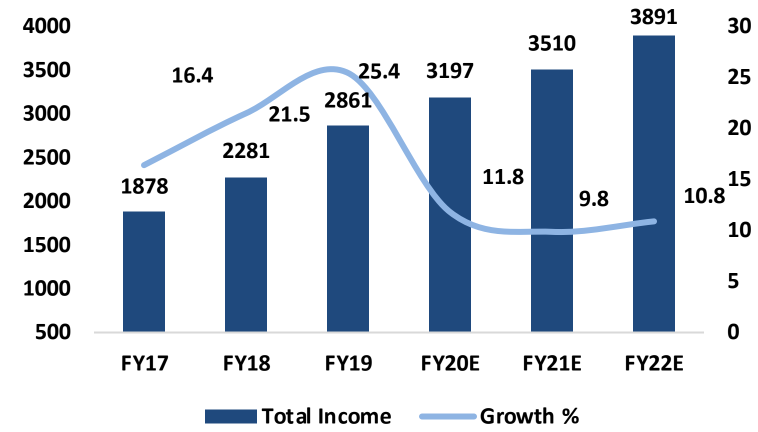
Price control over cardiac stents have impacted margins severely (~150-200bps in FY19) and the impact on Narayana (NH) was much higher than the industry peers due to its higher concentration in the cardiac care. However, the company has started recovering losses on this account with re-alignment in the pricing of other components such as services. The recovery was evident in 9M FY20 numbers where the heart centers reported strong margin improvement.

NH has recorded 20% revenue and 23% EBITDA cagr over FY15-19. Company's margin has seen expansion of 90bps over the same period. EBITDA growth was slower on the back of EBITDA loss from newer hospitals. Overall, we see NH to see 11% revenue growth along with 500bps margin expansion to 15% in FY20. Strong revenues coupled with robust margin expansion would drive 26% EBITDA CAGR over FY19-22E, as new hospitals gain maturity, profitability will improve too. We expect 62% PAT cagr over the same period on the back of higher margins and lower tax rate. We recommend Buy on Narayana Hrudayalaya (NH) at CMP of Rs 332 and add on dips to Rs 305 with Sequential targets of Rs 378 and Rs 435 over the next 4 quarters. Based upon 15.3x FY22E EV/EBITDA, we arrive to TP of Rs 435.

Key risks

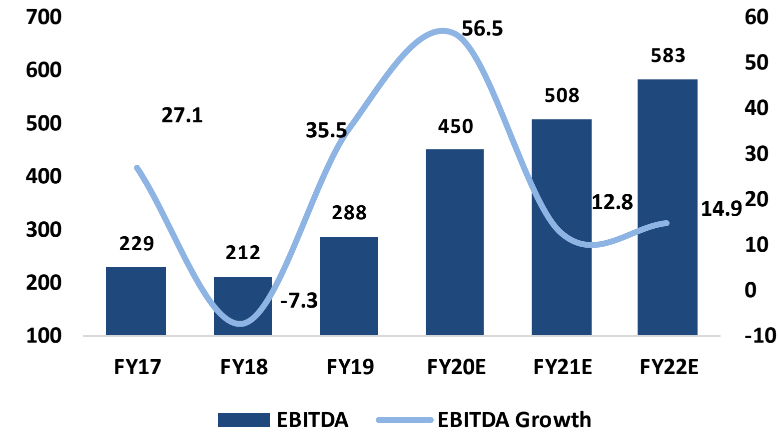
a) Any adverse government policy intervention, viz. price caps, participation in govt. schemes etc.; b) execution hiccups leading to slower than expected ramp up in new hospitals; and c) return to a capex cycle. d) Company has a fixed-cost intensive business, with high operating leverage. Inability to scale up occupancy and realizations could depress capital efficiency e) Execution is a key risk – delays in setting up hospital projects.

Estimate 11% revenues CAGR over FY19-22E



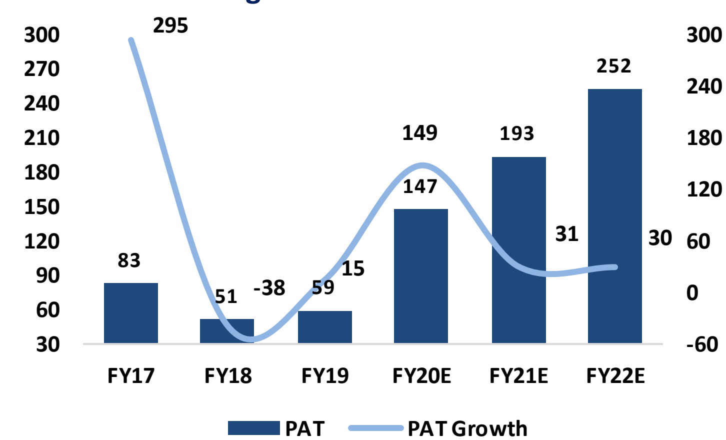
Source: Company, HDFC sec Research

EBITDA Trend over FY19-22E



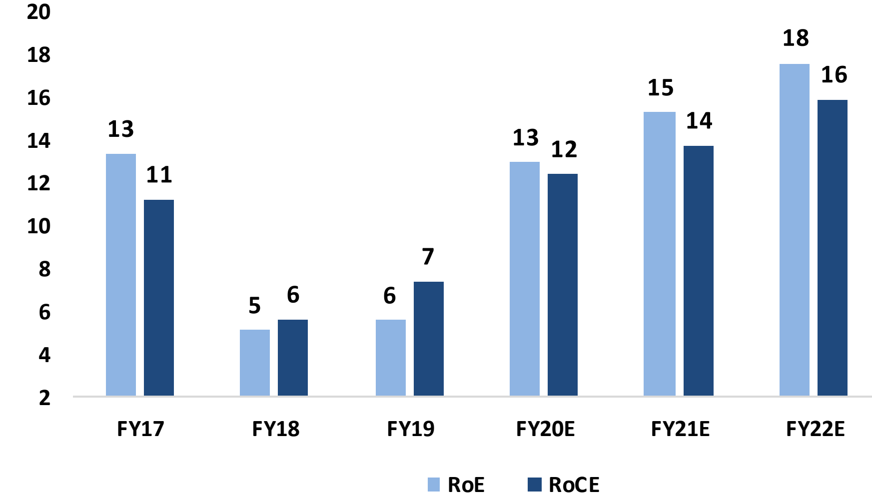
Source: Company, HDFC sec Research

PAT to see 62% cagr over FY19-22E



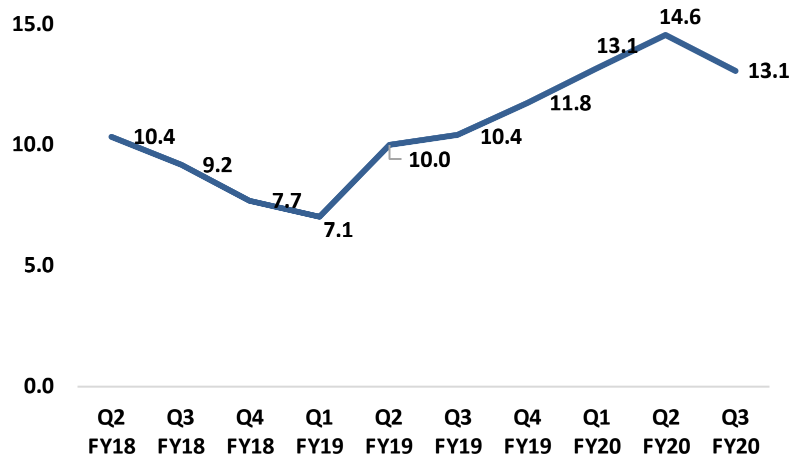
Source: Company, HDFC sec Research

Return Ratios set to see sharp improvement



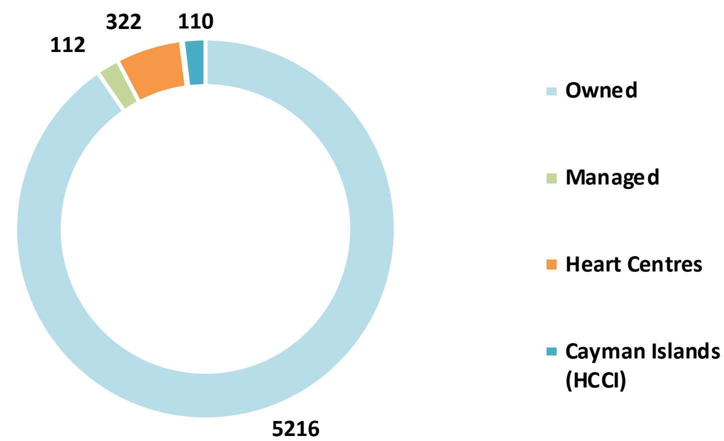
Source: Company, HDFC sec Research

Quarterly EBITDA Margin Trend



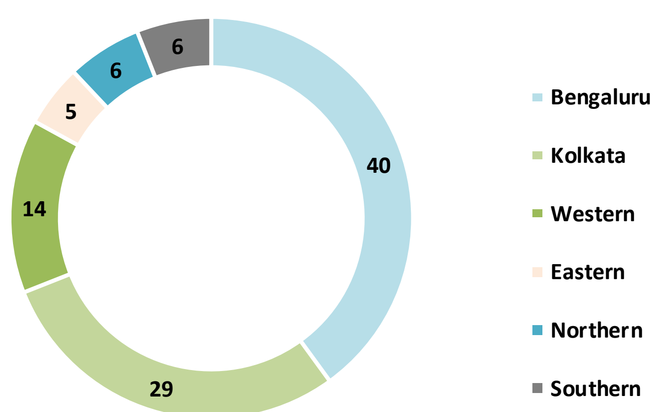
Source: Company, HDFC sec Research

Operational Beds Split (#)



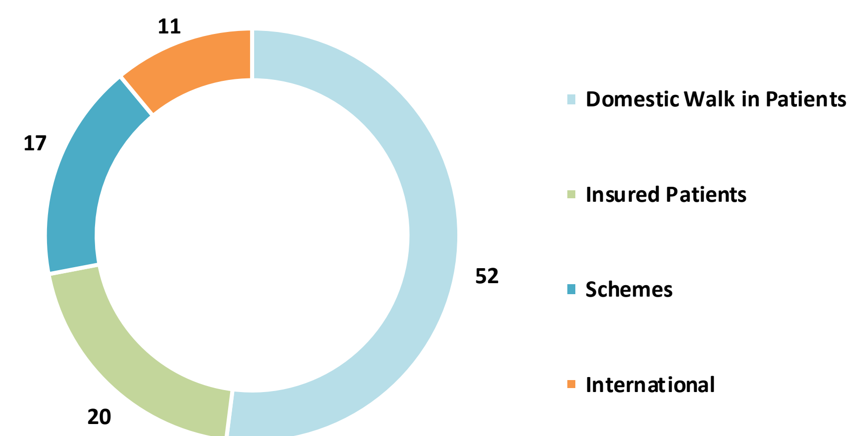
Source: Company, HDFC sec Research

Cluster wise revenues split (%)



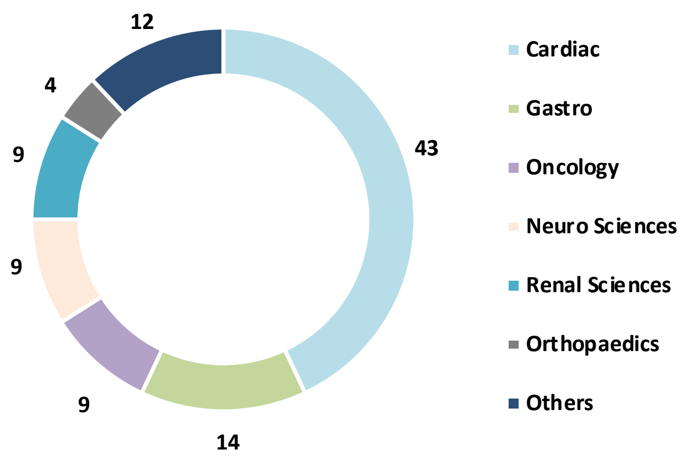
Source: Company, HDFC sec Research

Patients Split (%)



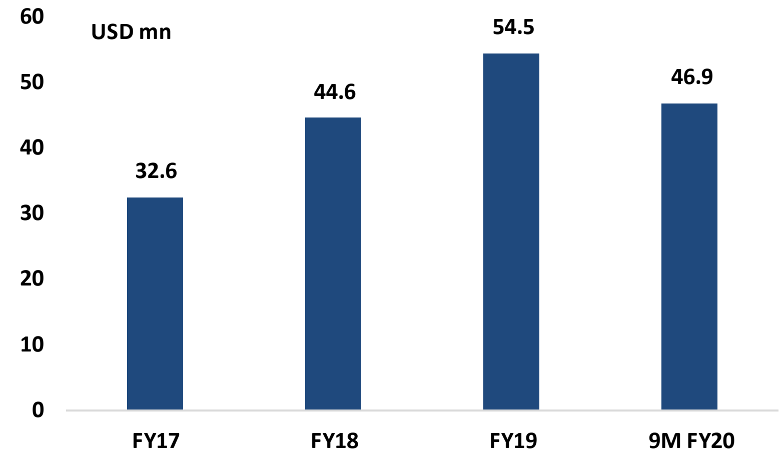
Source: Company, HDFC sec Research

NH: Therapeutic Split (%)



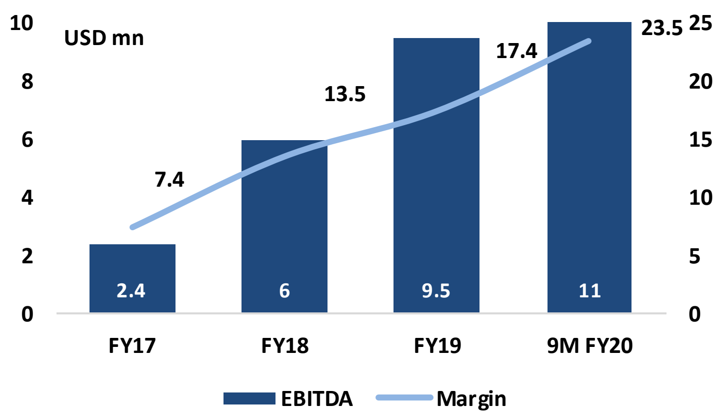
Source: Company, HDFC sec Research

HCCI: Revenues Trend



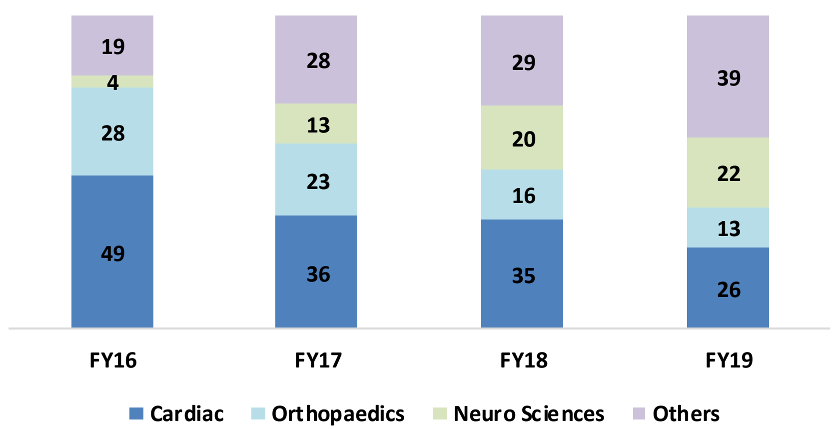
Source: Company, HDFC sec Research

HCCI: EBITDA and EBITDA Margin



Source: Company, HDFC sec Research

HCCI: Therapy Mix (%)



Source: Company, HDFC sec Research

Income Statement (Consolidated)

(Rs Cr)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	**2281**	**2861**	**3197**	**3510**	**3891**
Growth (%)	21.5	25.4	11.8	9.8	10.8
Operating Expenses	2069	2573	2747	3003	3308
EBITDA	**212**	**289**	**450**	**508**	**583**
Growth (%)	**-7.3**	**35.5**	**56.5**	**12.8**	**14.9**
EBITDA Margin (%)	**9.3**	**10.0**	**14.1**	**14.5**	**15.0**
Depreciation	100	137	178	195	206
EBIT	**112**	**150**	**272**	**312**	**377**
Other Income	**19**	**17**	**19**	**20**	**23**
Interest expenses	47	71	83	69	60
PBT	**80**	**93**	**205**	**258**	**337**
Tax	29	34	57	65	85
RPAT	**51**	**59**	**147**	**193**	**252**
Growth (%)	-38.1	15.4	148.8	31.2	30.4
EPS	2.5	2.9	7.2	9.5	12.3

Source: Company, HDFC sec Research

Balance Sheet (Consolidated)

As at March	FY18	FY19	FY20E	FY21E	FY22E
SOURCE OF FUNDS					
Share Capital	**204.4**	**204.4**	**204.36**	**204.4**	**204.4**
Reserves	831	877	988	1133	1324
Shareholders' Funds	**1036**	**1081**	**1192**	**1337**	**1528**
Long Term Debt	696	725	667	580	479
Net Deferred Taxes	40	48	47	49	50
Long Term Provisions & Others	253	272	288	306	317
Total Source of Funds	**2024**	**2127**	**2194**	**2272**	**2374**
APPLICATION OF FUNDS					
Net Block & Intangibles	1809	1808	1861	1792	1721
Goodwill	66	66	66	66	66
Deferred Tax Assets (net)	40	69	57	49	40
Long Term Loans & Advances	130	142	149	157	170
Total Non Current Assets	**2045**	**2085**	**2132**	**2064**	**1997**
Current Investments	0	0	8	19	28
Inventories	84	83	96	111	120
Trade Receivables	279	266	327	349	384
Cash & Equivalents	35	101	79	211	350
Other Current Assets	73	74	88	100	122
Total Current Assets	**479**	**527**	**603**	**796**	**1014**
Short-Term Borrowings	38	12	17	22	29
Trade Payables	305	334	366	389	429
Other Current Liab & Provisions	144	139	150	159	172
Short-Term Provisions	24	27	32	35	39
Total Current Liabilities	**500**	**486**	**541**	**588**	**636**
Net Current Assets	-21	42	61	208	377
Total Application of Funds	**2024**	**2127**	**2194**	**2272**	**2374**

Source: Company, HDFC sec Research

Cash Flow Statement (Consolidated)

(Rs Cr)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	80	93	205	258	337
Non-operating & EO items	-19	-17	-19	-20	-23
Interest Expenses	47	71	83	69	60
Depreciation	100	137	178	195	206
Working Capital Change	12	17	-42	-21	-14
Tax Paid	-29	-34	-57	-65	-85
OPERATING CASH FLOW (a)	**191**	**268**	**347**	**417**	**481**
Capex	-762	-138	-230	-120	-150
Free Cash Flow	-571	131	117	297	331
Investments	33	-42	6	0	-4
Non-operating income	19	17	19	20	23
INVESTING CASH FLOW (b)	**-710**	**-163**	**-206**	**-101**	**-132**
Debt Issuance / (Repaid)	628	57	-43	-67	-89
Interest Expenses	-47	-71	-83	-69	-60
FCFE	10	116	-9	161	182
Share Capital Issuance	0	0	0	0	0
Dividend	0	-24	-37	-48	-61
FINANCING CASH FLOW (c)	**581**	**-39**	**-163**	**-184**	**-210**
NET CASH FLOW (a+b+c)	**62**	**66**	**-22**	**132**	**139**

Source: Company, HDFC sec Research

Key Ratios

(Rs Cr)	FY18	FY19	FY20E	FY21E	FY22E
EBITDA Margin	9.3	10.0	14.1	14.5	15.0
EBIT Margin	4.9	5.2	8.5	8.9	9.7
APAT Margin	2.2	2.1	4.6	5.5	6.5
RoE	5.1	5.6	13.0	15.3	17.6
RoCE	5.6	7.4	12.4	13.7	15.9
Solvency Ratio					
Net Debt/EBITDA (x)	3.3	2.2	1.3	0.7	0.2
D/E	0.7	0.7	0.6	0.5	0.3
Net D/E	0.7	0.6	0.5	0.3	0.1
PER SHARE DATA					
EPS	2.5	2.9	7.2	9.5	12.3
CEPS	7.4	9.6	15.9	19.0	22.4
BV	51	53	58	65	75
Dividend	0	1.0	1.5	2.0	2.5
Turnover Ratios (days)					
Debtor days	45	34	37	36	36
Inventory days	11	11	11	12	11
Creditors days	72	65	67	66	66
VALUATION					
P/E	131.1	113.6	45.6	34.8	26.7
P/BV	6.5	6.2	5.6	5.0	4.4
EV/EBITDA	32.3	23.8	15.2	13.5	11.8
EV / Revenues	3.0	2.4	2.1	2.0	1.8
Dividend Payout	0	34.5	20.8	21.1	20.3

Source: Company, HDFC sec Research

Ratings Chart

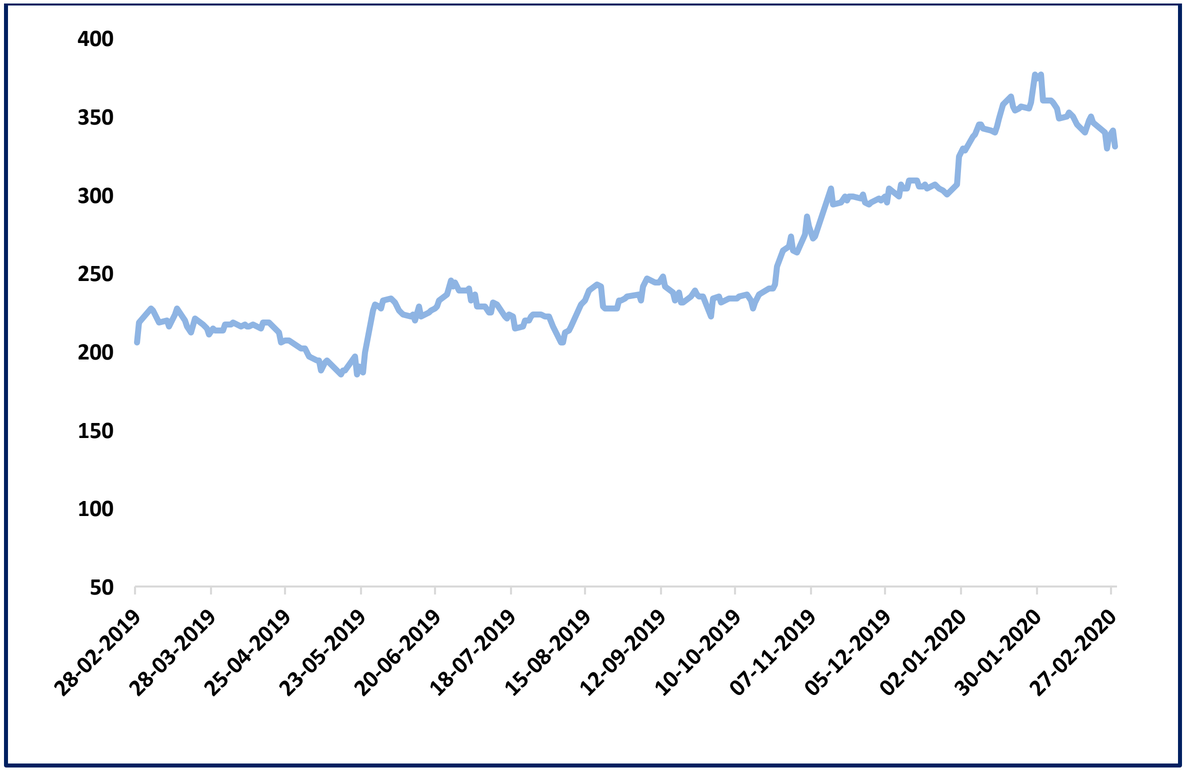
R E T U R N	HIGH			
	MEDIUM			
	LOW			
		LOW	MEDIUM	HIGH
		RISK		

Ratings Explanation:

RATING	Risk - Return	BEAR CASE	BASE CASE	BULL CASE
BLUE	LOW RISK - LOW RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 20% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 15% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 15%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 20% OR MORE
YELLOW	MEDIUM RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 35% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 20% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 35% OR MORE
RED	HIGH RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 50% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 30% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 50% OR MORE

Explanation of Red-flag Price level: **If stock prices starts sustaining below red-flag level, the premise of the investment needs to be reviewed. Risk averse investors should exit the stock and preserve capital. The downside of following red-flag level is that if the price decline turns out to be temporary and if it recovers subsequently, one won't be able to participate in the gains.**

Price Chart



Rating Definition:

Buy: Stock is expected to gain by 10% or more in the next 1 Year.

Sell: Stock is expected to decline by 10% or more in the next 1 Year.

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