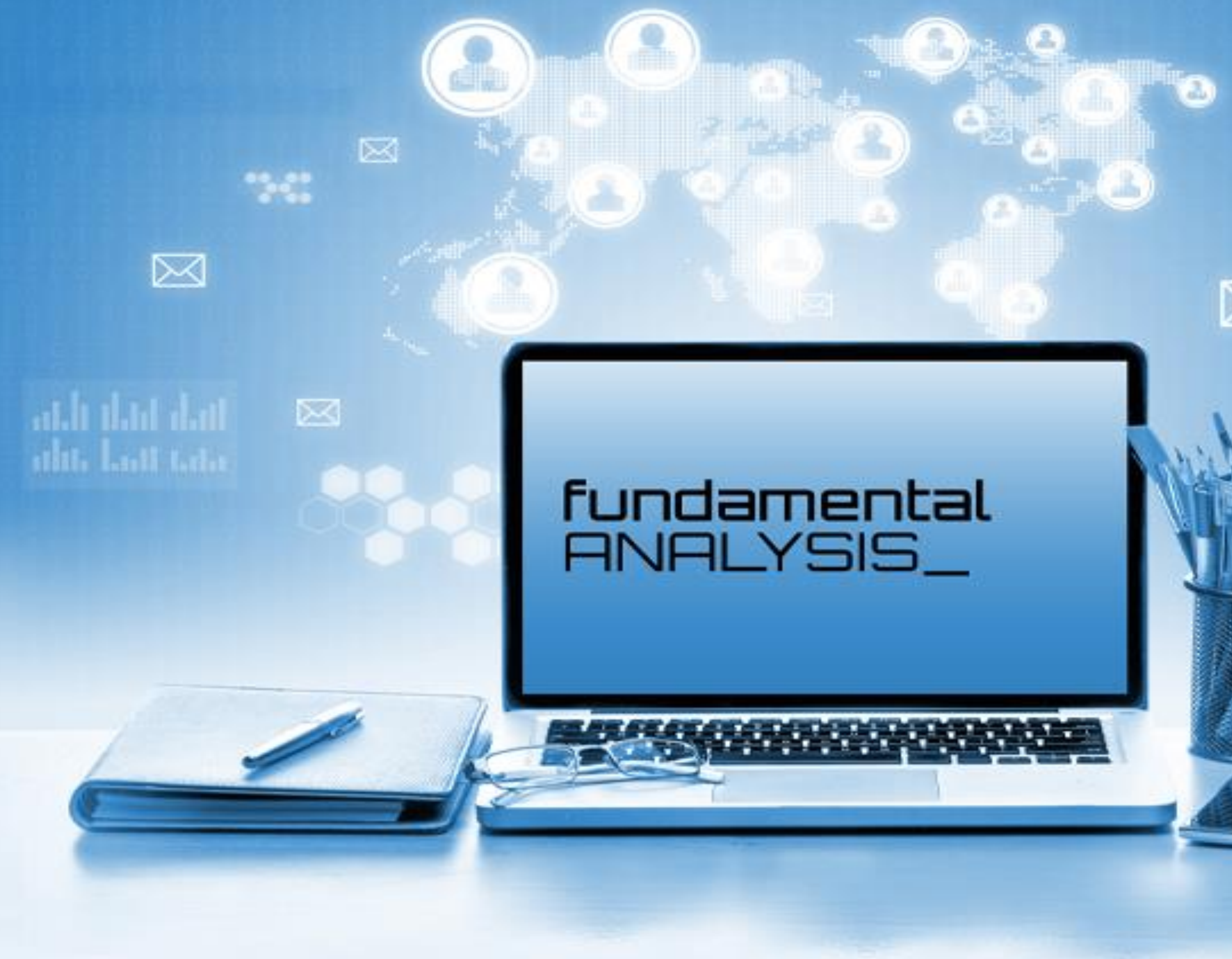
Stock Update

Narayana Hrudayalaya Ltd.

Sep 15, 2023



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Narayana Hrudayalaya Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare Facilities	Rs 1092	Buy in the band of Rs 1080-1105 & add more on dips to Rs 967-987 band	Rs 1195	Rs 1265	2-3 quarters

HDFC Scrip Code	NARHRUEQNR
BSE Code	539551
NSE Code	NH
Bloomberg	NARH IN
CMP Sep 14, 2023	1092.0
Equity Capital (Rs cr)	204.4
Face Value (Rs)	10
Equity Share O/S (cr)	20.4
Market Cap (Rs cr)	22,316
Book Value (Rs)	104.3
Avg. 52 Wk Volumes	267568
52 Week High	1105.7
52 Week Low	683.3

Share holding Pattern % (Jun 2023)	
Promoters	63.9
Institutions	23.1
Non Institutions	13.0
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Narayana Hrudayalaya Ltd (NHL) has a network of 45 healthcare facilities in India, including 18 owned/operated hospitals, 1 managed hospital, 4 heart centres and 21 primary care facilities having 6,164 bed capacity and 30+ specialities. The company has an established presence and strong brand recognition in India especially in two geographies (Bangalore and Karnataka). Strong performance of flagship units is complemented by steady improvement in new hospitals. Improving occupancy and footfalls coupled with increasing ARPOB resulted in narrowing losses in new hospitals. To cement its position in India, the company is prioritizing debottlenecking and brownfield expansion at its existing units. There would not be meaningful bed additions in the next 3 years in India. Its key priority is to add brownfield capacities at existing hospital units. Steady revenue from newer hospitals, change in payor mix, increase proportion of higher-end surgeries coupled with high bed turnover (lower ALOS) are key drivers in the near term. It is open to pursue strategic growth through greenfield facilities at core regions as well as inorganic opportunities.

Narayana owns and operates Health City Cayman Islands (HCCI), which is a 110-bed facility located in the Cayman Islands, Caribbean. The new hospital at Camana Bay is likely to improve its reach to patients both – international and local, due to close proximity to the airport and several major residential complexes. This will enable NHL to cater to local residents, who usually travel abroad for high-end medical treatment. The new facility would complement the existing setup by focusing more on day care, short stay but niche categories of oncology care while the existing facility would continue to cater to tertiary and quaternary care.

Valuation & Recommendation:

'Narayana Health' brand is strongly associated with its ability to deliver high-quality, affordable healthcare services by leveraging economies of scale, skilled doctors, and an efficient business model. Operating at lower ARPOB compared to its peers, the company has over the years implemented and followed unique cost control measures right from construction of hospital buildings to sourcing equipment and consumables. India business ARPOB growth will not come from pricing, but from increased throughput and increased quaternary care in the overall mix. NHL is working on reducing ALOS by working on efficiencies and changing the clinical pathways to improve throughput. NHL has a steady expansion plan and is committed to refurbishing its flagship facilities in Bangalore and Kolkata, which will help to improve the quality of healthcare services offered to patients. NHL recently unveiled its new logo and announced a rebranding exercise across all its healthcare facilities. It stated that the transformation encompasses its network of super-specialty hospitals, heart centres and primary care facilities, signifying Narayana Health's unwavering commitment to building a healthier India.

NHL has taken significant strides towards diversifying its portfolio by submitting an application to the Insurance Regulatory and Development Authority of India (IRDAI) for its bundled insurance plans. This strategic move aims to bridge the gap between healthcare services and insurance, bringing more comprehensive and integrated solutions to patients and healthcare customers. The group is soon expecting the approval for its insurance business, to be started by the end of the calendar year 2023. The integration of healthcare services and insurance can contribute to better health outcomes. Patients may have access to a wider range of preventive and diagnostic services, resulting in early detection and treatment of health issues.

Higher maturity mix in hospitals, steady performance of flagship hospitals in India and improving profitability of new hospitals (SRCC, Gurugram, Dharamshila) solidifies its position in India. Prioritizing debottlenecking and brownfield expansion at its existing centres and expansion in Cayman support growth going forward. Operationalising of new hospitals which would account for large part of the growth could pose risk on the margin front. We expect revenue/EBITDA/PAT to grow at CAGR of 12.3%/12.2%/6.5% over FY23-25E. **We think the base case fair value of the stock is Rs 1195 (20.8x FY25E EV/EBITDA; 35.5x FY25E EPS) and the bull case fair value is Rs 1265 (22x FY25E EV/EBITDA; 37.5x FY25E EPS) over the next two-three quarters. Investors can buy the stock in the band of Rs 1080-1105 and add more on dips to Rs 967-987 band (17.2x FY25E EV/EBITDA; 29x FY25E EPS). At CMP, the stock trades at 19x FY25E EV/EBITDA; 32.4x FY25E EPS.**

Financial Summary

Particulars (Rs cr)	Q1FY24	Q1FY23	YoY-%	Q4FY23	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Total Operating Income	1233.4	1033.4	19.4	1221.6	1.0	2,583.0	3,701.3	4,524.8	5,025.3	5,707.1
EBITDA	270.7	192.0	41.0	275.7	-1.8	182.8	653.5	965.8	1,055.3	1,215.6
PAT	184.0	110.8	66.1	173.2	6.2	-7.4	350.7	606.8	621.4	689.1
Adjusted PAT	184.0	110.6	66.4	173.1	6.2	-14.3	341.9	606.3	620.3	687.9
Diluted EPS (Rs)	9.0	5.4	66.4	8.5	6.2	-0.7	16.9	29.9	30.4	33.7
RoE-%						NA	26.2	33.5	25.7	22.8
P/E (x)						NA	65.3	36.8	36.0	32.4
EV/EBITDA (x)						125.9	35.0	23.6	21.9	19.0

(Source: Company, HDFC sec)

Q1FY24 Result Review:

Narayana Hrudayalaya Ltd posted record revenue of Rs 1233.4cr, up 19.4%/1% YoY/QoQ supported by healthy growth in Cayman and steady revenue from India business. Gross margin expanded 138bps YoY and stood at 78.5%. The company reported EBITDA of Rs 270.7cr (+41%/-1.8% YoY/QoQ) attributed to improvement in cost efficiencies and better realizations. EBITDA margins expanded 337bps YoY to 21.9% (vs 22.6% in Q4FY23). NHL reported PAT of Rs 183.9cr (+66.4%/6.2% YoY/QoQ).

India business posted revenue growth of +16.1%/1.3% YoY/QoQ to Rs 989.7cr supported by higher in-patient footfalls and better ARPOB. India business reported EBITDA margin of 18.2% as against 16.2% in the corresponding quarter previous year (vs 19.1% in Q4FY23). The company witnessed healthy growth in Bangalore and Southern Peripheral clusters and saw strong momentum in high-end Cardiac Sciences, Oncology, Gastro Sciences, Orthopedics, Image Guided Therapies during the quarter. Average revenue per occupied bed (ARPOB) per day improved 11.5%/0.7% YoY/QoQ and stood at Rs 37,260 given the price hike taken Jan'23 and better payor mix. Steady performance of flagship hospitals and improvement in ARPOB & margin in new hospital improved its overall profitability. Revenue from Cayman operations grew +31.7%/2% YoY/QoQ to US$29.9 million. Newly commissioned radiation oncology block in the Camana Bay Hospital supported topline growth. ARPOB for Cayman was up 21%/4.5% YoY/QoQ.

Concall Highlights:

- Growth drivers: Next phase of growth would come from changing payor profile of patients, increasing proportion of higher-end surgeries and efficiency in systems with high bed turnover/discharges; as there is no new capacity addition for 3.5 years. The company's focus is increased quaternary care and increased throughput. The company investing to improve throughput such as changing old MRIs, renovation work and this delivers highest RoCE.
- ARPOB: ARPOB trend has increased due to improvement in payor and case mix. ARPOB growth would mainly be driven by efficiencies and not price hikes.
- Price hikes: The company takes low single digit price hikes every year (Jan 1). It does not pass on the entire cost burden and improve its efficiencies to offset costs.
- New hospitals performance: New hospitals continue to perform in-line with company's expectations. They reported revenue of Rs 115cr and EBITDA margins of 6% in Q1FY24; there was dip to seasonality but is expected to recover. The management targets Mumbai hospital to be EBITDA positive by end of FY24. Ahmedabad facility continues to generate positive EBITDA (mid-single digit), albeit lower than the average domestic margins. NHL is prioritizing investments in flagship Bangalore, Kolkata and Cayman; new hospitals would not be a major drag on margins as its contribution is low.
- Sparsh Hospital performance: NHL acquires Sparsh Hospital in Oct'22. Revenue and margins are inline with management's expectation. EBITDA margins improved from 30% in Q4FY23 to 34% in Q1FY24 on the back of cost controls.
- Narayana Health Integrated Care: The newly launched retail health venture, Narayana Health Integrated Care (NHIC), is gaining good traction. The company has expanded its presence across six touchpoints in Bangalore. It achieved revenue of Rs 4.5cr in Q1FY24, with patient transaction numbers 29,000+. It is still in early phase and the focus is on building an integrated care program.
- Cayman expansion: The radiation oncology block (Block A) commissioned in May'23 and has seen good traction. The block required huge capex but has low operational costs as compared to other specialties. This facility has not been margin dilutive.

The commercialization of new multi-specialty hospital at Cayman (Block B) is likely to be operationalize by H1FY25 and will be margin dilutive due to high fixed costs.

- Tax: NHL was following the old tax regime till FY23. It is opted for the new tax regime from FY24. There was one-time deferred tax credit resulting to the domestic tax rate going down to 18% and lower tax in FY24. From FY25, tax rate for the India business will be at 25-26%.
- CGHS: There is no update on the second leg of price increases for CGHS patients.
- M&A: NHL continues to pursue M&A opportunities in India and abroad.

Key Triggers:

India Business – on strong footing:

NHL has a network of 45 healthcare facilities in India, including 18 owned/operated hospitals, 1 managed hospital, 4 heart centres and 21 primary care facilities having 6,054 bed capacity and 30+ specialities. The company has an established presence and strong brand recognition in India especially in two geographies (Bangalore and Karnataka). India business reported healthy revenue growth of 22.8% YoY to Rs 3642.4cr in FY23 on account strong inpatient volumes & OPD footfall and robust traction demonstrated by new units. Company's flagship hospitals in Bangalore and Kolkata saw robust recovery after pandemic which was impacted cardiac sciences-led high-end elective work and footfalls in out-station and international patients. EBITDA margin improved ~495bps YoY in FY23 to 18.3% on the back of gradual pick-up in high-end procedures/surgeries. The company rationalized its portfolio by exiting operations at ophthalmology-focused centre in Kolkata and Cardiac Care operations in Bangladesh. To cement its position in India, the company is prioritizing debottlenecking and brownfield expansion at its existing centres. It is open to pursue strategic growth through greenfield facilities at core regions as well as inorganic opportunities.

The "Narayana Health" brand is widely recognized for providing high-quality healthcare at affordable prices. Operating at lower ARPOB compared to its peers, the company has over the years implemented and followed unique cost control measures right from construction of hospital buildings to sourcing equipment and consumables. India business ARPOB growth will not come from pricing, but from increased throughput and increased quaternary care in the overall mix. Payor mix and room configuration are focused to target middle class, resulting in lower ARPOB compared to peers. Adding new service lines, improving case mix and investment in new capacity at Bangalore and Kolkata to address and upgrade the infrastructure and faster patient discharges; would lift ARPOB. NHL is working on reducing ALOS by working on efficiencies and changing the clinical pathways to improve throughput.

There would not be meaningful bed additions in the next 3 years in India. Its key priority is to add brownfield capacities at existing hospital units. The company is focused on improving the throughputs in the ICUs – investing in technology to facilitate better communication tools between doctors and nurses, ensure faster discharges, lab results, seamless appointments. Infrastructure enhancement and internal refurbishment would address patient bottlenecks (adding OTs, ICUs, lab billing). Room upgrades, equipment upgradation new service lines like adding new diagnostic therapies and plans for adding oncology units Jaipur, Ahmedabad and Mysore is also in works. Bed additions to address few specialties at existing units which already sees high occupancies would be key lever in the near term. NHL would be building specialties and capabilities across different units based on the demand and traction in specific specialities. In Bangalore, it will be adding infrastructure to the Health City and would look for expansion to the heart hospital; via partnership with land owners. For Kolkata, the company is looking to acquire land parcel and add new infrastructure close to its existing hospital. These projects would take a duration of 3-4 years; and will be operationalized in phases. Further expansion in Raipur would require securing land nearby in conjunction with the trustees. Other small hospitals in Mysore, Shimoga have enough brownfield capacity for adding departments. 'Narayana Health' brand is strongly associated with its ability to deliver high-quality, affordable healthcare services by leveraging economies of scale, skilled doctors, and an efficient business model. Steady revenue from newer hospitals, change in payor mix, increase proportion of higher-end surgeries coupled with high bed turnover (lower ALOS) are key drivers in the near term.

India - Operational Performance	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue (Rs cr)	682	764	772	757	852	910	897	977	990
EBITDAR (Rs cr)	56	100	108	94	138	182	172	187	180
EBITDAR Margin (%)	8.2%	13.1%	14.0%	12.4%	16.2%	19.9%	19.1%	19.1%	18.2%
ARPOB per day (Rs)	30,685	33,425	32,055	33,425	33,425	33,699	35,068	36,986	37,260
ALOS (days)	5.4	4.6	4.6	4.6	4.6	4.5	4.5	4.4	4.4
Discharges	3,32,900	5,26,300	5,20,200	49,000	5,72,000	6,13,400	5,81,700	5,95,000	6,14,000
ICU Occupied Beds	97,000	86,400	86,600	85,000	86,000	87,500	87,600	87,000	90,000

(Source: Company, HDFC sec)

Strong performance led by flagship Hospitals:

Narayana reported impressive performance at its flagship hospitals. Healthy revenue growth coupled with increasing ARPOB and EBITDA lifted its overall performance. The company's flagship units in Health city are running at optimum utilization. Scope for occupancy & volume expansion is limited; until a full scale capacity expansion is not undertaken which will happen in the next 2-3 years. Margin expansion in these facilities can come from improving its efficiency – reducing ALOS, change in payor profile mix, case mix. But, the next level of growth would come from capacity expansion (brownfield, greenfield). Also, reversion of international patient mix (8.5% in Q4FY23) which saw greater traction in its flagship hospitals would be important growth lever. Current its flagship hospitals mainly Bangalore and Kolkata do not have enough capacity to cater higher patient volumes; they have peaked out in ICU beds, OPD rooms. There is no scope for expansion in existing campus in Kolkata; so it has announced plans to build greenfield hospital. Expansion in other hospitals like Bangalore and Raipur would be brownfield. These hospitals will be massive health cities that have the best and latest equipment, conduct large number of training programs, and will be the sites for cutting edge clinical research. The management in latest earning call reiterated their focus on core and high performing regions such as Bangalore, Kolkata and Cayman which enhances growth visibility. NHL has a steady expansion plan and is committed to refurbishing its flagship facilities in Bangalore and Kolkata, which will help to improve the quality of healthcare services offered to patients.

Improving maturity mix; new hospitals to see improvement in near term:
Strong performance of flagship units is complemented by steady improvement in new hospitals (Dharamshila, Gurugram & SRCC (Mumbai)). Improving occupancy and footfalls coupled with increasing ARPOB resulted in narrowing losses. EBITDAR margin reduced from -15.8% in FY21 to -3.5% in FY22. These new hospitals saw improvement in performance and generated 7.3% EBITDA margin in Q3FY23. Improvement in topline and margins continued in Q4FY23 as well. Gurugram/ Dharmshila region clocked EBITDA margin of 2%/16% during Q4FY23. In FY23, Gurugram Hospital generated a revenue of ~Rs 133cr, EBITDA margin of 3%. While Dharmshila hospital clocked revenue of Rs 209cr, EBITDA margin of 14%. NHL has taken correction measures as it marked its presence in newer regions. Dharamshila which was heavily focused on oncology, saw gradual improvement in case mix as the company added new specialties. Known for its oncology treatment for two and half decades, growth in other specialities has been relatively slow. Gurugram has 223 bed capacity is relatively smaller facility compared to peers in the city. It has been underperforming as it not strategically located and didn't attract high clinical talents and consultants across various specialities. The company plans to recalibrate its approach in the market and play by its strengths; it would offer only those specialties that would best fit the market. In the western cluster, Ahmedabad has similar dynamics as Mumbai, where consultants don't get themselves empanelled to a single hospital. Even though it managed to get full time consultants and doctors from outside Ahmedabad, it did not work. Also, the payor mix was not favorable as it heavily dependent on low income patients who are under a government scheme. NHL is adding oncology unit and high-end private, semi-private rooms to improve its operational performance. The management targets Mumbai hospital to be EBITDA positive by end of FY24. Ahmedabad facility continues to generate positive EBITDA (mid-single digit).

NH's hospital usually takes 3-4 years to breakeven, and post that another 3-4 years to reach maturity. The company would be expanding the facility depending on the occupancy and demand. In Gurugram, it wants to add two more floors and in Dharamshila, it is in talks with hospital trustees to expand another wing. Bombay Children Hospital had taken relatively longer time to reach the desired profitability. The utilization level of Mumbai pediatric hospital is 65%. This hospital had been struggling from quite few years to break even due to low patient's admission. Being highly specialized around children's care and it has very different earnings profile and would take longer time to break even. Both Gurugram and Dharamshila are expected to reach sustainable margin level in next couple of quarters, while SRCC would take around a year. Measures to improve the performance in new hospitals would bear fruit in the near term and would be key lever lifting the profitability.

Cayman operations is on strong trajectory with improved operations and profitability:
Narayana owns and operates Health City Cayman Islands (HCCI), which is a 110-bed facility located in the Cayman Islands, Caribbean. HCCI continues to deliver strong and consistent performance over the last few quarters. It posted strong revenue of $109.2 million (up 18.8% YoY) with EBITDA margin 40%+ in FY23. Strong pickup in patient footfalls was on account of gaining traction from neighbouring islands. During covid related restrictions, high-net-worth Caymanian population chose treatment at HCCI for some high-end procedures, instead of travelling abroad (U.S). Although some percentage, especially insured would definitely go back to U.S as they are more comfortable of getting treated there; but the covid crisis has enhanced NHL's credibility and would retain some percentage of such HNI patients which augurs well for medium-term growth. Moreover, higher outpatient/daycare work which has higher margin improve the overall profitability.

NHL is making investments in primary care and oncology block. During FY22, it opened state-of-the-art clinic which will be integrated into the larger new campus. The group recently acquired ENT in Cayman Ltd. (EICL), a Cayman Islands resident company providing complete diagnosis and treatment of ear, nose, and throat conditions for cash consideration of US$5 mn. It is opening up pharmacies, clinics and plans to setup a diagnostic centre in the future as a part of its overall strategic to engage more patients hooked into the whole HCCI ecosystem.

Cayman Business Performance	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue (in US$ mn)	23.2	19.7	24.9	24.4	22.7	29.1	28.2	29.30	29.90
ARPOB (US$/day)	5,205	5,205	5,479	5,205	5,205	5,753	6,027	6,027	6,301
Discharges	694	594	591	578	533	545	492	627	629
Out Patients	8198	7451	6781	8239	7950	7609	7647	7116	8214

(Source: Company, HDFC sec)

The company incurred capex of Rs 198cr in FY23 and plans to spend Rs 590cr in FY24 for expansion of its Cayman operations with a new hospital in the city centre. The new hospital at Camana Bay is likely to improve HCCI's reach to patients both – international and local, due to close proximity to the airport (10-min drive) and several major residential complexes. This will enable NHL to cater to local residents, who usually travel abroad for high-end medical treatment. The new facility will include an advanced Cancer Center which will offer comprehensive oncology treatment including bone marrow transplant, CAR-T cell therapy, medical oncology, haemato oncology, surgical oncology and radiation oncology. The new facility would complement the existing set up by focusing more on day care, short stay but niche categories of oncology care while the existing facility would continue to cater to tertiary and quaternary care. The hospital will be commissioned in two phases; first phase - radiotherapy facility (Block A) commenced operations in May'23 which will fuel the revenue growth going forward. Rest of the IP rooms and ancillary businesses will be commissioned in H1FY25. On commercializing of new facility

(Block B); there would be some margin dilution due to upfront fixed costs and shifting of business from existing facility to the new facility. Given the city centric-location of the facility and focus on high-end oncology & critical care, NHL expects to break-even at a rapid pace. The management's long term EBITDA target is 40-45%.

Although management target of getting traction of the medical tourists from overseas (US, Canada) fell short of expectation. Covid restriction enhanced NHL's credibility and quality services by serving affluent local population. Medical tourists from overseas would play out over the years as it built its foundation and improves its brand name. The management is engaging with other islands and government to move their patient to their facility. Commencement of operations of new facility which has radiotherapy and Oncology would address the gaps and perhaps gain more patient footfalls. The company plans to enter into consultancy contract (asset-light projects/ arrangements) in nearby countries to understand the market better and improve its positioning. Improving credibility, capacity expansion, focus on primary and daycare coupled with likely traction from overseas medical patients makes a case for strong trajectory going ahead.

Acquisition in Bangalore to complement other specialties:

Narayana Hrudayalaya signed an agreement with Shiva and Shiva Orthopaedic Hospital to acquire its 100 beds Orthopedic and Trauma Hospital in Bengaluru (Sparsh Hosur Road unit) on slump sale basis for consideration Rs 280cr (subscribed optionally convertible debentures of Rs 80cr to be redeemed after 4 years). This unit has strong operational track record of offering orthopaedic services and generated revenue of Rs 49cr in FY22. The acquisition seems expensive given its margin profile ~20-25% (17-18x EV/EBITDA). The acquisition will add orthopaedic specialty and will supplement other specialties of its Health City operations by supporting Trauma patients for cardiac, renal, pulmonary, neuro and other multi-organ treatments thereby increasing the breadth of the multispecialty program at its flagship campus. It will only be used for orthopedics and will free up a capacity of 140 beds at NH's Bangalore Health City. The company consolidated the financials of Sparsh acquisition from Oct 1, 2022. Revenue and margins are inline with management's expectation. EBITDA margins improved from 30% in Q4FY23 to 34% in Q1FY24 on the back of cost controls. There is scope of adding 100 beds (which will be taken up gradually). Ramp-up of this facility would be a key driver in the near term.

Incorporation of Narayana Health Insurance Ltd to explore integrated care segment:

NHL has established Narayana Health Integrated Care, a new entity aimed at exploring the managed/integrated care segment. The new formed entity's main objective is to carry on health insurance business. Company has transferred all its existing clinics worth Rs 10cr through a slump sale. The company will provide primary care services in these clinics and offer remote services such as home care, online care, and long-term care plans. Eventually, it will combine this primary care with a comprehensive health insurance plans that would cover not just hospitalization expenses but also outpatient expenses. Revenue model would be subscription based as well as direct sales (medicines, lab tests, consulting fees, diagnostics). This would be capex light and would achieve breakeven relatively faster. Although

EBITDA margin would be lower compared to hospitals; the management does not expect much impact on consolidated RoCE given the small scale of operations. The company has expanded its presence across six touchpoints in Bangalore. It achieved revenue of Rs 4.5cr in Q1FY24, with patient transaction numbers 29,000+. It is still in early phase and the focus is on building an integrated care program. Success of this segment would be key monitorable.

Concerns:

Delay in project execution and challenges in expansion in adjacent territories: The company has set timelines for increasing its bed capacity and its entry in new markets. As the company believed in procurement of land and construction of building; approvals regarding the same could take time. Delay in commissioning of these projects would impact its topline growth. Also, upfront capex for additional capacity is high due to land acquisition; debt funding would be required.

High competition: The healthcare sector is competitive, as increasing healthcare providers (newer and existing hospitals, low-cost nursing homes, etc) try to establish themselves among patients. Increasing subsidies from the government and improvement in services from the government hospitals may cause attrition in patients and disrupt business sustainability. With the advancing technology and newer medical interventions, several hospitals are evolving with their services as well. Entry of other players in Cayman Island could impact revenue and operating performance over medium over for the facilities located there.

Operational Risk: Any delay in commissioning or expansion (reaching breakeven) of new facilities may impact overall growth, thus impacting overall financials. Lower occupancy level in hospitals could impact its profitability. With respect to its Cayman operations, inability to sustain patient footfalls at existing units and extended payback period for the new unit remains a key risk.

Exposed to regulatory risks inherent in the sector: Regulatory risks pertaining to restrictive pricing regulations levied by the Central and state governments could constrain the profit margins of the company. Any adverse government policy intervention, viz. price caps would impact its margins.

Discontinuation of leases: The company's operations are carried on leased hospital buildings. In the event of these leased properties are not renewed or are not renewed on favourable terms to the company, its business operations would be disrupted.

About the company:

Narayana Hrudayalaya Ltd (NHL) is a healthcare service provider that operates a chain of multi-specialty hospitals in India and in the Cayman Islands. NHL has a network of 45 healthcare facilities, including 18 owned/operated hospitals (multi-speciality and superspeciality healthcare facilities which provide tertiary care), 1 managed hospital, 3 heart centres and 21 primary care facilities (including clinics and information centres) having 6,164 bed capacity. The company has a strong track record of providing quality healthcare services at an affordable cost. NHL was founded by Dr Devi Shetty in 2000 and is headquartered in Bengaluru. NHL has a strong presence in the southern state of Karnataka and eastern India, with an emerging presence in western, northern and central India. Narayana Hrudayalaya owns and operates Health City Cayman Islands (HCCI), which is a 110-bed facility located in the Cayman Islands, Caribbean (contributes ~20% of the topline).

NHL's centres provide advanced levels of care in over 30 specialties, including Cardiology and Cardiac Surgery, Cancer Care, Neurology and Neurosurgery, Orthopaedics, Nephrology and Urology, and Gastroenterology. The business is attractively placed to create an affordable, globally-benchmarked quality-driven healthcare services model. "Narayana Health" brand is strongly associated with its ability to deliver high-quality, affordable healthcare services by leveraging economies of scale, skilled doctors, and an efficient business model. Despite lower ARPOBs (~30-35% lower than peers), its profitability and return ratios are largely in line with peers given it has followed an asset-light expansion model with a strong focus on achieving operational efficiencies through cost optimisation measures and economies of scale.

Financials

Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	**2583.0**	**3701.3**	**4524.8**	**5025.3**	**5707.1**
Growth (%)	-17.4	43.3	22.2	11.1	13.6
Operating Expenses	2400.2	3047.8	3558.9	3970.0	4491.5
EBITDA	**182.8**	**653.5**	**965.8**	**1055.3**	**1215.6**
Growth (%)	**-56.8**	**257.5**	**47.8**	**9.3**	**15.2**
EBITDA Margin (%)	**7.1**	**17.7**	**21.3**	**21.0**	**21.3**
Depreciation	183.5	183.5	210.0	260.2	303.1
EBIT	**-0.7**	**470.1**	**755.8**	**795.1**	**912.5**
Other Income	27.5	34.6	65.5	70.4	79.9
Interest expenses	76.0	66.3	69.5	93.5	114.5
PBT	**-49.2**	**438.3**	**751.8**	**772.0**	**877.9**
Tax	-41.8	87.7	145.0	150.5	188.7
RPAT	**-7.4**	**350.7**	**606.8**	**621.4**	**689.1**
APAT	**-14.3**	**341.9**	**606.3**	**620.3**	**687.9**
Growth (%)	**-112.0**	**-2492.9**	**77.3**	**2.3**	**10.9**
EPS	-0.7	16.9	29.9	30.4	33.7

Balance Sheet

As at March (Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	204.4	204.4	204.4	204.4	204.4
Reserves	915.9	1284.3	1927.0	2496.3	3122.8
Shareholders' Funds	**1120.3**	**1488.6**	**2131.4**	**2700.6**	**3327.2**
Minority's Interest	0.5	0.7	1.1	1.7	2.4
Long Term Debt	673.5	567.1	715.0	1295.0	1145.0
Net Deferred Taxes	11.2	49.6	81.4	81.4	81.4
Long Term Provisions & Others	259.5	242.9	240.4	272.7	309.7
Total Source of Funds	**2065.0**	**2348.9**	**3169.3**	**4351.4**	**4865.7**
APPLICATION OF FUNDS					
Net Block & Goodwill	1962.6	1984.1	2336.4	3226.2	3723.1
CWIP	18.3	62.7	259.2	259.2	259.2
Other Non-Current Assets	122.2	172.5	267.0	289.5	328.7
Total Non-Current Assets	**2103.1**	**2219.3**	**2862.6**	**3774.8**	**4310.9**
Current Investments	110.0	131.2	251.4	251.4	251.4
Inventories	47.8	59.4	71.6	82.6	93.8
Trade Receivables	278.5	436.9	431.5	481.9	547.3
Cash & Equivalents	132.1	172.2	379.9	701.8	621.0
Other Current Assets	96.7	109.4	159.6	165.2	187.6
Total Current Assets	**665.1**	**909.0**	**1293.9**	**1682.8**	**1701.1**
Short-Term Borrowings	152.2	156.4	169.1	244.1	214.1
Trade Payables	410.3	449.0	615.0	633.3	688.0
Other Current Liab & Provisions	140.8	174.0	203.1	228.8	244.2
Total Current Liabilities	**703.2**	**779.4**	**987.3**	**1106.3**	**1146.3**
Net Current Assets	-38.1	129.6	306.7	576.6	554.7
Total Application of Funds	**2065.0**	**2348.9**	**3169.3**	**4351.4**	**4865.7**

Cash Flow Statement

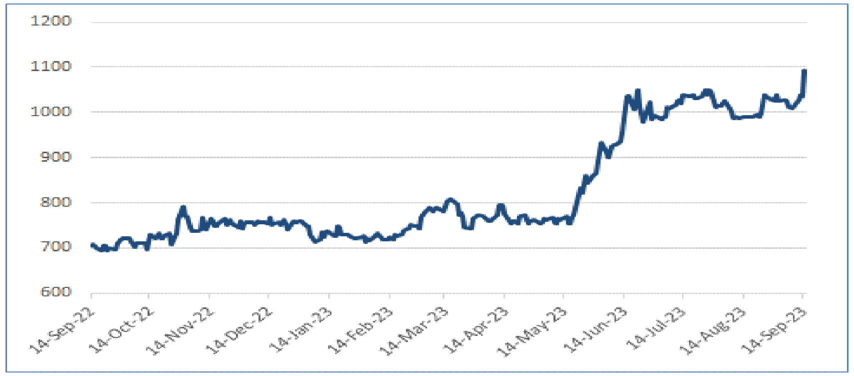
(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	-14.3	342.1	606.6	772.0	877.9
Non-operating & EO items	-37.8	119.5	194.1	-2.1	-9.1
Interest Expenses	62.9	58.4	54.3	93.5	114.5
Depreciation	183.5	183.5	210.0	260.2	303.1
Working Capital Change	56.3	-151.8	105.3	-11.6	-22.6
Tax Paid	53.6	-66.8	-85.8	-150.5	-188.7
OPERATING CASH FLOW (a)	**304.3**	**485.0**	**1,084.6**	**961.5**	**1,075.1**
Capex	-69.8	-250.2	-521.1	-1,150.0	-800.0
Free Cash Flow	234.5	234.8	563.5	-188.5	275.1
Investments	-42.0	-27.5	-400.6	0.0	0.0
Non-operating income	-1.2	10.6	-254.5	0.0	0.0
INVESTING CASH FLOW (b)	**-113.0**	**-267.1**	**-1,176.2**	**-1,150.0**	**-800.0**
Debt Issuance / (Repaid)	-150.3	-122.8	151.2	655.0	-180.0
Interest Expenses	-43.4	-36.2	-43.3	-93.5	-114.5
FCFE	40.8	75.9	671.4	373.0	-19.5
Share Capital Issuance	0.0	0.0	0.1	0.0	0.0
Dividend	0.0	0.0	-20.3	-51.1	-61.3
Others	0.0	0.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**-193.7**	**-158.9**	**87.7**	**510.4**	**-355.8**
NET CASH FLOW (a+b+c)	**-2.3**	**59.0**	**-3.9**	**321.9**	**-80.8**

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E
PROFITABILITY RATIOS (%)					
EBITDA Margin	7.1	17.7	21.3	21.0	21.3
EBIT Margin	1.0	13.6	18.1	17.2	17.4
APAT Margin	-0.6	9.2	13.4	12.3	12.1
RoE	NA	26.2	33.5	25.7	22.8
RoCE	1.4	24.3	31.4	23.9	22.2
Solvency Ratio (x)					
Debt/EBITDA	4.5	1.1	0.9	1.5	1.1
D/E	0.7	0.5	0.4	0.6	0.4
PER SHARE DATA (Rs)					
EPS	-0.7	16.7	29.7	30.4	33.7
CEPS	8.3	25.7	39.9	43.1	48.5
Dividend	0.0	1.0	2.5	2.5	3.0
BVPS	54.8	72.8	104.3	132.1	162.8
Turnover Ratios (days)					
Debtor days	38	35	35	33	33
Inventory days	8	5	5	6	6
Creditors days	55	42	43	45	42
VALUATION					
P/E (x)	NA	65.3	36.8	36.0	32.4
P/BV (x)	19.9	15.0	10.5	8.3	6.7
EV/EBITDA (x)	125.9	35.0	23.6	21.9	19.0
EV/Revenues (x)	8.9	6.2	5.0	4.6	4.0
Dividend Yield (%)	0.0	0.1	0.2	0.2	0.3
Dividend Payout (%)	0.0	6.0	8.4	8.2	8.9

(Source: Company, HDFC sec)

One Year Price Chart:



(Source: Company, HDFC sec)

HEMANSHU VIJAY PARMAR

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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