

Narayana Hrudayalaya (NARHRU)

₹ 197

Margins continue to improve...

- Q3FY19 results were a mixed bag with revenues and EBITDA above I-direct estimates while net profit was lower than I-direct estimates due to higher depreciation and tax rate
- Revenues grew 32.2% YoY to ₹ 732 crore (I-direct estimate: ₹ 713 crore) mainly due to consolidation of Health City Cayman Islands (Cayman) and ramp up in new hospitals
- EBITDA margins improved 136 bps YoY to 10.6% (I-direct estimate: 10.1%) mainly due to lower other expenditure. EBITDA grew 51.5% YoY to ₹ 78.0 crore (I-direct estimate: ₹ 71.8 crore)
- Net profit declined 9.7% YoY to ₹ 12.7 crore (I-direct estimates of net profit: ₹ 15.2 crore). The delta vis-a-vis EBITDA was due to higher interest cost and tax rate (46.3% vs. 42.2% in Q3FY18)

Blended model of affordable + high-quality services

The company has a legacy model based on affordability over the years. Due to strict control over costs and capital, the company was making reasonable profits. However, as it looks to scale up in other regions, where the consideration for quality has more weight than affordability, the model is likely to be modified from "affordable" to a mix of affordable + quality at premium. Cases in point are the recent acquisition of Gurugram Hospital and buying out of partner in the Cayman Islands hospital internationally where acquisition costs were optically higher.

"Asset right model", likely ARPOB improvement to improve return ratios

Under this model, the company engages with partners who invest in land and building while it takes care of medical equipment and hospital management on a revenue share basis. This is why NHL's balance sheet is one of the lightest among peers. However, the management has maintained a flexible approach in this regard. Thus, it also owns some hospitals where the opportunity is right. Due to this focus on balance sheet and likely improvement in average realisation per operating bed (ARPOB) by optimising case mix, we expect an improvement in RoCE from 6.3% to 14.7% in FY18-21E.

Further improvement in margins to be key driver in near term

Excluding Cayman, domestic hospitals have reported decent growth on the back of a ramp up in new hospitals. Overall margins have also improved mainly due to strong margins at Cayman and improvement in the profitability in the three to five year's segment hospitals. As far as Ayushman Bharat is concerned, the management is not expecting any near term major contribution from this scheme for want of clarification on many aspects. Overall, the company remains on the learning curve for ventures in western and northern India but some green shoots are visible due to better ARPOB profile. On the leverage front, the current increase in debt owing to acquisition of Gurugram and consolidation of Cayman has stretched the net debt/equity and net debt /EBITDA ratios further to 0.8x and 3.6x, respectively, in FY18. In this backdrop, improvement and sustainability of margin holds key as any further slowdown in margins could worsen the situation further in the near term. However, we remain positive on the stock as we believe the long term prospects remain intact on the back of asset-right model and affordability philosophy. We arrive at an SOTP target price of ₹ 250 by valuing the matured hospitals and Cayman Islands at 8x of FY21E EV/EBITDA and other hospitals & other businesses at 1x FY21E EV/sales.

Rating matrix	
Rating	: Buy
Target	: ₹ 250
Target Period	: 12-15 months
Potential Upside	: 27%

What's Changed?	
Target	Changed from ₹ 270 to ₹ 250
EPS FY19E	Changed from ₹ 2.3 to ₹ 2.3
EPS FY20E	Changed from ₹ 6.6 to ₹ 5.2
Rating	Unchanged

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	732.1	553.8	32.2	711.3	2.9
EBITDA	78.0	51.5	51.5	73.0	6.8
EBITDA (%)	10.6	9.3	135.8	10.3	38.8
Net Profit	12.7	14.1	-9.7	13.6	-6.2

Key Financials				
(₹ Crore)	FY18	FY19E	FY20E	FY21E
Revenues	2281.4	2824.6	3208.7	3575.0
EBITDA	212.6	280.9	364.3	446.4
Adjusted PAT	51.2	46.3	127.5	184.8
EPS (₹)	2.5	2.3	6.2	9.0

Valuation summary				
	FY18	FY19E	FY20E	FY21E
PE (x)	78.8	87.0	31.6	21.8
Target PE (x)	99.9	110.3	40.1	27.7
EV to EBITDA (x)	22.6	16.9	12.7	9.9
Price to book (x)	3.9	3.7	3.3	2.9
RoE (%)	4.9	4.3	10.5	13.3
RoCE (%)	6.3	7.6	11.9	14.7

Stock data	
Particular	Amount
Market Capitalisation	₹ 4030 crore
Debt (FY18)	₹ 752 crore
Cash (FY18)	₹ 5 crore
EV	₹ 4777 crore
52 week H/L (₹)	321/182
Equity capital	₹ 204.4 crore
Face value	₹ 10

Price performance (%)				
	1M	3M	6M	1Y
Narayana Hrudayalaya	5.3	-20.6	-22.0	-32.6
Apollo Hospitals	-0.2	10.8	33.6	14.8
Fortis Healthcare	-3.8	-4.3	-7.6	13.9

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Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	Q2FY19	YoY (%)	QoQ (%)	Comments
Revenue	732.1	713.3	553.8	711.3	32.2%	2.9%	YoY growth mainly due to consolidation of Health City Cayman Islands and ramp up in new hospitals
Raw Material Expenses	175.9	174.0	133.8	169.6	31.5%	3.7%	
Employee Expenses	158.0	145.6	106.8	155.5	48.0%	1.6%	
Other Expenditure	320.2	321.9	261.8	313.1	22.3%	2.3%	
Operating Profit (EBITDA)	78.0	71.8	51.5	73.0	51.5%	6.8%	
EBITDA (%)	10.6%	10.1%	9.3%	10.3%	136 bps	39 bps	YoY margin improvement mainly due to strong margins reported in Cayman and improvement margins in three to five years of hospitals
Interest	18.4	17.6	8.2	18.3	123.2%	0.3%	YoY increase mainly due to higher debt pertaining to consolidation of Cayman
Depreciation	34.8	34.0	23.5	34.0	48.2%	2.4%	
Other Income	3.3	3.1	3.7	3.1	-10.5%	6.5%	
PBT before EO & Forex	28.1	23.2	23.4	23.8	19.8%	18.1%	
Forex & EO	0.0	0.0	0.0	0.0	NA	NA	
PBT after Exceptional Items	28.1	23.2	23.4	23.8	19.8%	18.1%	
Tax	13.0	8.0	9.9	8.2	31.6%	58.0%	
PAT before MI	15.1	15.2	13.5	15.5	11.1%	-3.0%	
MI	0.0	0.0	0.0	0.0	-100.0%	-100.0%	
Net Profit	12.7	15.2	14.1	13.6	-9.7%	-6.2%	YoY de-growth mainly due to higher interest cost and tax rate. Miss vis-à-vis I-direct estimates due to higher-than-expected tax rate

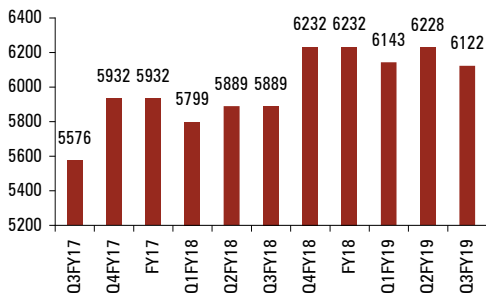
Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E		
	Old	New	% Change	Old	New	% Change
Revenue	2,827.6	2,824.6	-0.1	3,187.5	3,208.7	0.7
EBITDA	269.5	280.9	4.2	378.3	364.3	-3.7
EBITDA Margin (%)	9.5	9.9	44 bps	11.9	11.4	-55 bps
PAT	47.5	46.3	-2.5	134.8	127.5	-5.4
EPS (₹)	2.3	2.3	-1.4	6.6	6.2	-5.5

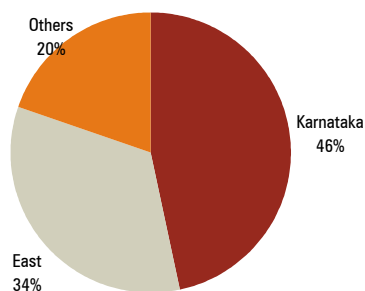
Source: Company, ICICI Direct Research

Number of operating Beds



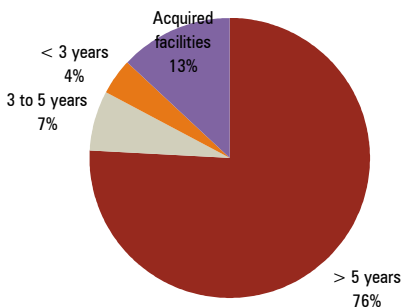
Source: Company, ICICI Direct, Research

Geography Wise Revenue Break-Up (FY18)



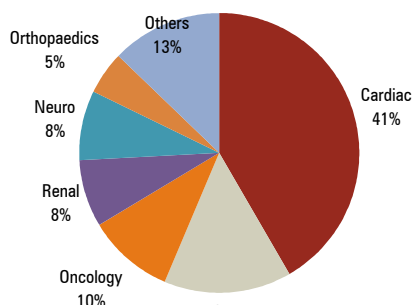
Source: Company, ICICI Direct, Research

Maturity wise Revenue Break-Up (FY18)



Source: Company, ICICI Direct, Research

Therapy wise Revenue Break (FY18)



Source: Company, ICICI Direct, Research

Company background

Narayana Hrudayalaya (NHL) was incorporated 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). NHL network comprises 24 hospitals (including three managed hospitals), seven heart centres, 19 primary care facilities (including clinics and information centres) a multi-speciality hospital in Cayman Islands by entering into agreement with the Government of Cayman Islands. The company has 6232 operational beds and the potential to reach a capacity of up to 7273 beds. Region wise, southern (mainly Karnataka) and eastern (mainly Kolkata) regions together account for 81% of the operating revenues (FY18).

Cluster wise bifurcation

Karnataka cluster – Comprises seven hospitals including four in Bengaluru and a hospital each in Mysore, Bellary and Shimoga totalling 2220 operational beds. The company also manages six heart centres totalling 322 operating beds

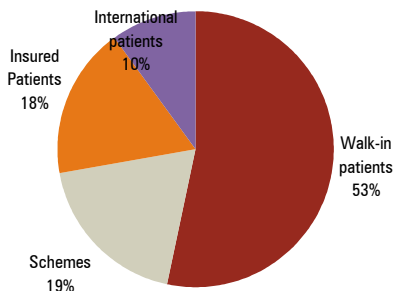
Eastern cluster - Comprises nine hospitals including hospitals in the greater Kolkata area encompassing Howrah, Barasat and the Eastern Metropolitan Bypass, a multispecialty hospital in Jamshedpur, Jharkhand, a superspeciality hospital in Guwahati, Assam and a hospital in Durgapur, West Bengal totalling 2042 operational beds. The company also manages a heart centre in Durgapur, West Bengal, totalling 49 operational beds.

Western and northern clusters - Comprises five hospitals - Jaipur (Rajasthan), Palanpur (Gujarat), Ahmedabad (Gujarat), paediatric hospital in Mumbai (Maharashtra), Raipur (Chhattisgarh), Jammu and Delhi totalling to 940 current operational beds. The company recently acquired a multispecialty hospital has commissioned in Q4FY18.

Health City Cayman Islands (HCCI) - NHL 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 was 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). NHL 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 a cash consideration of US\$32 million in 2017 (implied EV of US\$70 million for 105 beds). 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. For FY18, HCCI revenues was at US\$44.6 million with EBITDA at US\$6.0 million (EBITDA margin of 13.5%). For FY18, the hospital was running at 27% occupancy rate.

As of FY18, it has 16311 employees, which included 3491 doctors, 12820 nurses, paramedical staff and administrative personnel. Additionally, it has 469 student doctors, paramedics and administrative trainees.

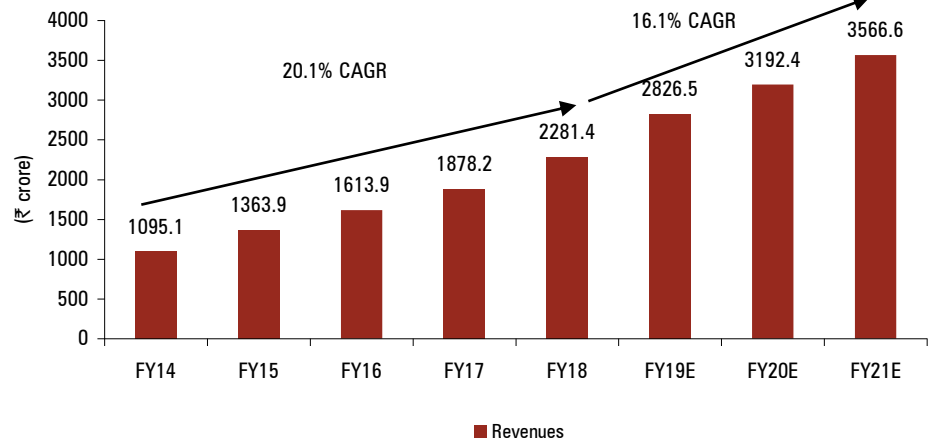
Payee-Profile (FY18)



Source: Company, ICICI Direct; Research

Revenues grew at a CAGR of 20% over FY14-18 to ₹ 2281 crore on account of 1) 11218 bps increase in occupancy rate to 61.0% followed by 2) 11.4% increase in ARPOB to ₹ 80 lakh per share and 3) 2.5% increase in operational beds to 5158 (owned/operated hospitals). However, commercialising new hospitals (Mumbai, Jammu, Delhi) as well as government regulations will impact the near term ARPOB and occupancy rate. Over FY18-21E, we expect NHL's revenues to grow 16.1% YoY to ₹ 3567 crore mainly due to an improvement in occupancy rate and ARPOB in less than five years' hospitals and Cayman.

Exhibit 1: Revenues to grow at CAGR of 16% in FY18-21E

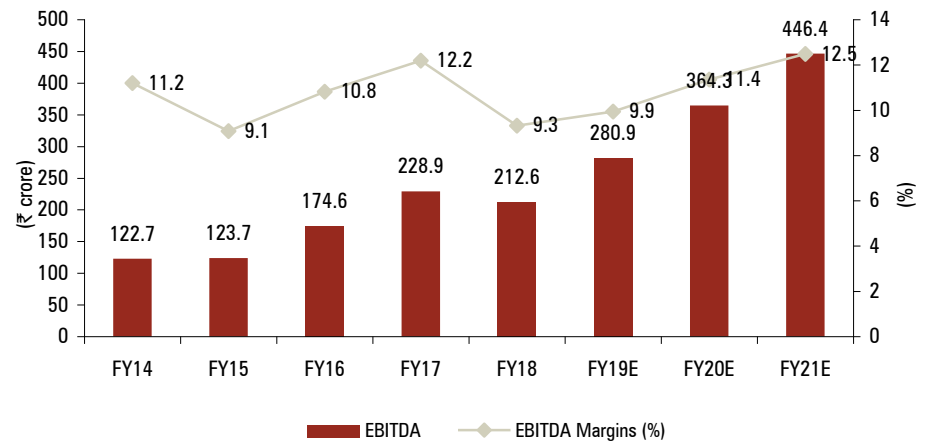


Source: Company, ICICI Direct Research

Blended model of affordable + high-quality services

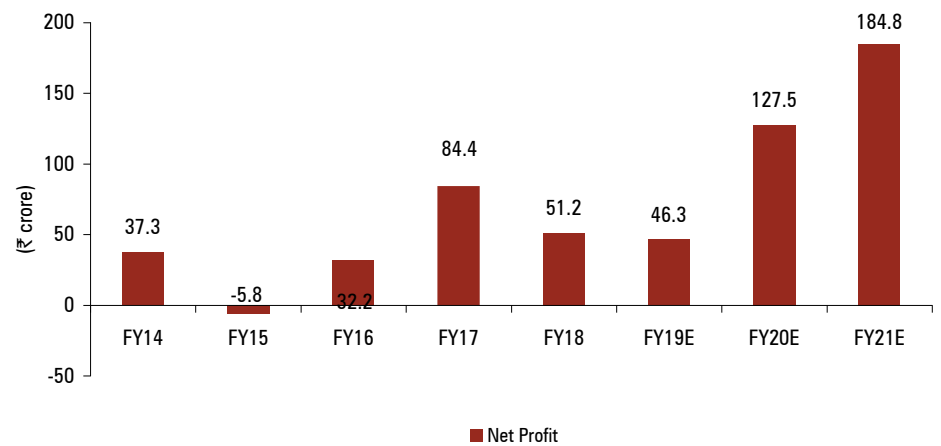
NHL has a legacy model based on affordability over the years. Due to strict control over costs and capital, the company was making reasonable profits. Also, 60-70% beds of NHL are in general wards, which is one of the highest compared to other private hospitals. Apart from this, charges of general wards are 10-15% lower than other private hospitals, mainly due to the benefit of efficient procurements, which the company passes on to patients. However, as it looks to scale up in other regions, where the consideration for quality has more weight than affordability, the model is likely to be modified from "affordable" to a mix of affordable + quality at premium. Cases in point are the recent acquisition of Gurugram Hospital and buying out of partner in the Cayman Islands hospital internationally where acquisition costs were optically higher.

Exhibit 2: EBITDA to grow at CAGR of 28% in FY18-21E



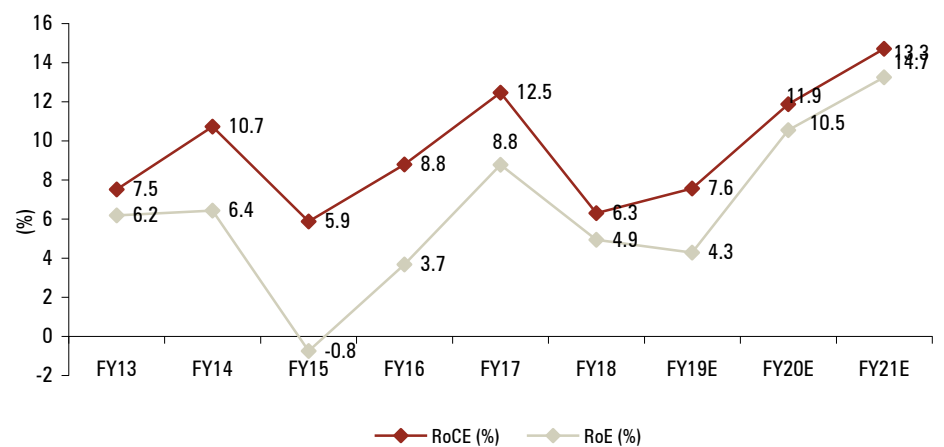
Source: Company, ICICI Direct Research

Exhibit 3: PAT to grow at CAGR of 53% in FY18-21E



Source: Company, ICICI Direct Research

Exhibit 4: Return ratios to remain strong



Source: Company, ICICI Direct Research

Exhibit 5: Narayana Hrudayalaya hospital network (ex-managed and heart centres)

Sr no	Hospital	Land
1	NICS, Bengaluru	Owned
2	MSMC, Bengaluru	Owned
3	RTIICS, Kolkata	Leased
4	Brahmananda Narayana Multispeciality Hospital, Jamshedpur	Leased
5	Narayana Multispeciality Hospital, Jaipur	Leased
6	Narayana Multispeciality Hospital, Ahmedabad	Leased
7	MMI Narayana Multispeciality Hospital, Raipur	Revenue-share
8	Narayana Multispeciality Hospital, Mysore	Leased
9	Sahyadri Narayana Multispeciality Hospital, Shimoga	Revenue-share
10	Narayana Multispeciality Hospital, Whitefield, Bengaluru	Revenue-share
11	Narayana Multispeciality Hospital, HSR Layout, Bengaluru	Revenue-share
12	Narayana Superspeciality Hospital, Guwahati	PPP
13	Rabindranath Tagore Surgical Centre, Kolkata, West Bengal	Leased
Acquired Hospitals		
14	Narayana Multispeciality Hospital, Barasat, WB	Owned
15	Narayana Multispeciality Hospital, Howrah	Owned
16	Narayana Superspeciality Hospital, Howrah	Leased
New facilities 2016 onwards		
17	Kakriyal, Jammu	PPP
18	Dharamshila Narayana Hospital	Revenue-share
19	Hospital in Gurugram (Acquired)	Owned
20	SRCC Children Hospital, Mumbai	Revenue-share

Source: Crisil Report, ICICI Direct Research, NICS=Narayana Institute of Cardiac Sciences, MSMC=Mazumdar Shaw Medical Centre, RTIICS=Rabindranath Tagore International Institute of Cardiac Sciences

Exhibit 6: Trends in standalone quarterly financials

(₹ Crore)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q2FY19	Q3FY19	YoY (%)	QoQ (%)
Total Operating Income	399.7	427.6	452.0	487.4	455.3	483.5	521.1	559.2	553.8	646.8	711.3	732.1	30.9	2.9
Raw Material Expenses	94.7	102.5	106.7	114.0	106.8	108.4	126.1	135.5	133.8	161.2	169.6	175.9	29.9	3.7
% of revenue	23.7	24.0	23.6	23.4	23.5	22.4	24.2	24.2	24.2	24.9	23.9	24.0		
Gross Profit	305.0	325.1	345.3	373.4	348.4	375.1	395.0	423.7	420.1	485.6	541.6	556.2	31.3	2.7
Gross Profit Margin (%)	76.3	76.0	76.4	76.6	76.5	77.6	75.8	75.8	75.8	75.1	76.1	76.0	19.4	-18.0
Employee Expenses	86.3	86.7	91.5	96.1	95.3	92.4	107.3	107.3	106.8	142.2	155.5	158.0	47.3	1.6
% of revenue	21.6	20.3	20.2	19.7	20.9	19.1	20.6	19.2	19.3	22.0	21.9	21.6		
Other Manufacturing Expenses	176.9	202.2	203.4	214.0	200.6	224.4	237.4	256.4	261.8	291.1	313.1	320.2	24.9	2.3
% of revenue	44.3	47.3	45.0	43.9	44.1	46.4	45.6	45.9	47.3	45.0	44.0	43.7		
Total Expenditure	357.9	391.5	401.6	424.1	402.7	425.2	470.7	499.1	502.4	594.5	638.3	654.1	31.1	2.5
% of revenue	89.5	91.5	88.9	87.0	88.5	87.9	90.3	89.3	90.7	91.9	89.7	89.4		
EBITDA	41.8	36.1	50.4	63.3	52.6	58.3	50.4	60.0	51.5	52.3	73.0	78.0	29.9	6.8
EBITDA Margins (%)	10.5	8.5	11.1	13.0	11.5	12.1	9.7	10.7	9.3	8.1	10.3	10.6	-8.6	38.8
Depreciation	19.1	21.2	19.0	19.7	20.0	21.2	21.8	28.5	23.5	26.1	34.0	34.8	22.1	2.4
Interest	5.9	6.4	5.5	5.3	5.5	5.6	10.3	7.8	8.2	20.5	18.3	18.4	137.2	0.3
Other Income	3.1	4.2	3.1	4.8	3.9	5.7	5.2	5.7	3.7	4.2	3.1	3.3	-41.9	6.5
PBT before forex & EO	19.9	12.7	29.1	43.1	30.9	37.3	23.5	29.4	23.4	10.0	23.8	28.1		
Forex & EO	-0.8	-3.1	0.0	0.0	1.3	0.0	0.0	1.2	0.0	-1.7	0.0	0.0		
PBT	20.7	15.8	29.1	43.1	29.6	37.3	23.5	28.3	23.4	11.7	23.8	28.1	-0.8	18.1
Total Tax	9.0	7.7	11.8	14.6	10.9	15.0	10.1	9.7	9.9	-0.6	8.2	13.0	34.7	58.0
Tax rate (%)	43.3	48.6	40.7	33.9	36.9	40.3	42.8	34.1	42.2	-5.2	34.6	46.3	1221.9	1169.3
PAT	11.8	8.1	17.3	28.5	18.7	22.3	13.4	18.6	13.5	12.3	15.5	15.1	-19.2	-3.0
Minority Interest	5.2	0.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	-100.0	-100.0
PAT after MI	6.6	8.1	17.3	26.5	18.7	22.3	13.5	18.6	13.5	12.3	15.5	15.1	-19.2	-3.0
EPS (₹)	0.3	0.4	0.8	1.3	0.9	1.1	0.7	0.9	0.7	0.6	0.8	0.7	-19.2	-3.0

Source: Company, ICICI Direct Research

SWOT Analysis

Strengths - Early mover in the healthcare space. Strong balance sheet despite being in a business with higher gestation period. Strong brand value - a significant aspect in this business

Weakness - Presence in the low margin pharmacy space

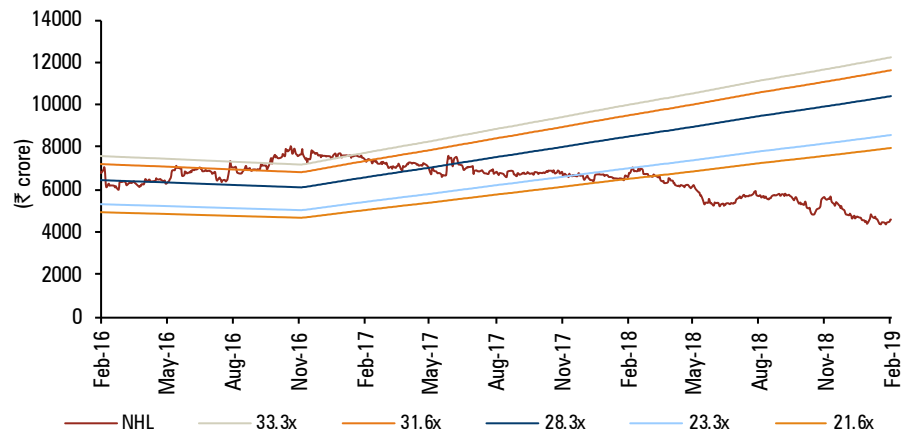
Opportunities - Under-penetrated Indian healthcare space with favourable demographics and disease pattern

Industry specific threats – Government regulations on device pricing and 2) increase in competition and 3) increase in guarantee fees to the doctors

Company specific threats - Too much capacity build-up may lead to lower capacity utilisation and the cost associated with it

Conference call Highlights

- India business registered 13.5% YoY growth
- Adjusted for the losses of the three recently commissioned facilities across Delhi NCR and Mumbai, the Indian operations registered EBITDA growth of 21% YoY resulting into an adjusted EBITDA margin of 13.5%
- Q3 ARPOB better on the back of higher quaternary care component in the case mix and higher international patients' contribution (10.6% of the sales). Scaling up of operations in relatively higher ARPOB geographies has also contributed to the ARPOB growth
- Hospitals in Ahmedabad, Guwahati and Jamshedpur have reported EBITDA of ₹4.4 crore (~5% EBITDA margins) as against losses in Q3FY18
- The management expects gradual increase in Jammu hospital revenues with transformation of patient profile from cash paying to co-pay schemes such as ECHS, CGHS etc. The EBITDA will remain zero for another two years as per the agreement under viability gap funding (VGF)

Exhibit 7: One year forward EV/EBITDA


Source: Company, ICICI Direct Research

Exhibit 8: Valuation

Particulars	Valuation Matrix	Multiple (x)	Enterprise value (₹ cr)
Hospital (Matured)	EV/EBITDA	8.0	3741.3
Cayman	EV/EBITDA	8.0	556.2
Hospital (Others)	EV/Sales	1.0	942.2
Other Business	EV/Sales	1.0	215.0
Net Debt FY20E (₹ cr)			435.1
EV (₹ cr)			5019.7
No of shares (cr)			20.4
Per Share Value (₹)			250.0

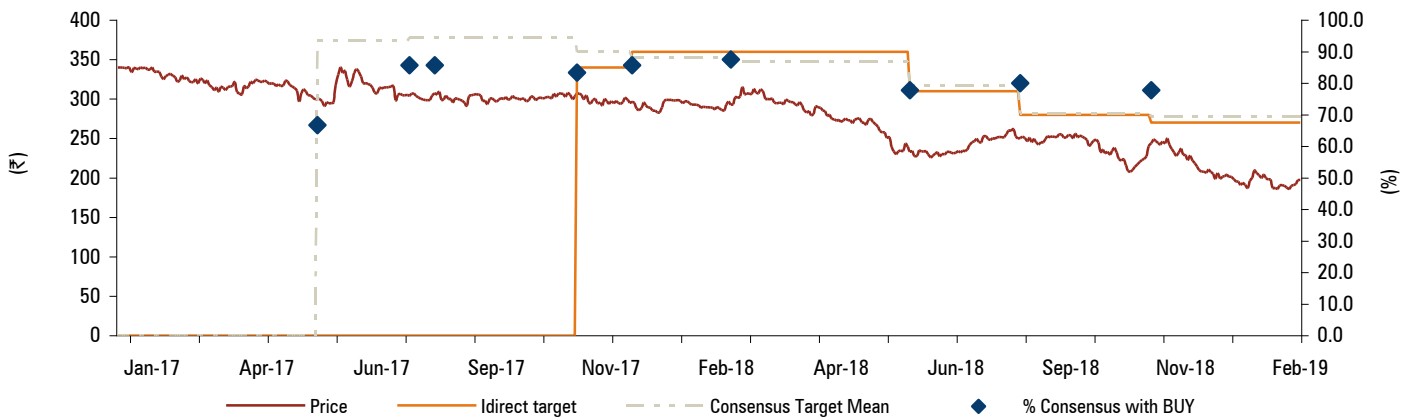
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoE (%)	RoCE (%)
FY18	2281.4	41.4%	2.5	0.6	78.8	22.6	4.9	6.3
FY19E	2824.6	23.8%	2.3	-9.4%	87.0	16.9	4.3	7.6
FY20E	3192.4	13.0%	5.1	125.7%	38.5	14.1	8.8	10.3
FY21E	3566.6	11.7%	8.4	65.1%	23.3	10.4	12.7	14.1

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICI Direct Research

Key events

Date	Event
2014	Starts operations at Health City, Cayman Islands Phase 1 with 101 operational beds
2015	Acquires two Westbank Hospitals in Howrah
2015	Multispecialty hospitals set up at Palanpur, Mahua and Bellary
2015	Establishes a full-fledged cancer centre at Mysore to provide high-quality cancer treatment at an affordable cost
2015	Forms an association with Shri Mata Vaishno Devi Shrine Board, through PPP, to build a 230 capacity bed hospital in Kakriyal, Jammu
2016	Company lists its shares on Bombay Stock Exchange and National Stock Exchange India
2017	Forays into Northern India with commissioning of super-speciality hospital in Kakriyal, Jammu
2017	Enters into agreement for healthcare services with around 300 capacity bedded Dharamshila Hospital & Research Centre
2017	Acquires near completed ~230 bedded hospital in Gurugram (NewRise Healthcare) from Panacea Biotech
2017	Forays into Mumbai to with superspeciality Children's Hospital - first of its kind in NH network
Jan-18	The company has completed buyback of 71.4% shareholding in Health City Cayman Islands (HCCI) from Ascension Health Ventures for US\$ 32.26 million. The company earlier held 28.6% stake in Health City Cayman Islands

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change
1	Shetty (Devi Prasad)	31-Dec-18	31.9	64.7m	0.0m
2	Shetty (Shakuntala)	31-Dec-18	30.7	62.1m	0.0m
3	CDC Group Plc	31-Dec-18	5.8	11.8m	0.0m
4	Ashoka Investment Holdings, Ltd.	31-Dec-18	4.0	8.2m	0.0m
5	ICICI Prudential Asset Management Co. Ltd.	30-Jun-18	2.8	5.6m	-1.5m
6	Shaw (Kiran Mazumdar)	31-Dec-18	2.3	4.7m	0.0m
7	Franklin Advisers, Inc.	31-Dec-18	2.2	4.5m	0.0m
8	CDC India Opportunities, Ltd.	31-Dec-18	2.2	4.4m	0.0m
9	First State Investments (U.K.) Ltd	31-Dec-18	1.9	3.8m	0.0m
10	Narayana Health Academy Pvt. Ltd.	31-Dec-18	1.8	3.7m	0.0m

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	63.9	63.9	63.9	65.4	65.4
Others	36.2	36.2	36.2	34.6	34.6

Recent Activity

Buys			Sells		
Investor name	Value (\$)	Shares	Investor name	Value (\$)	Shares
Mirae Asset Global Investments Co., Ltd.	0.3m	0.1m	ICICI Prudential Asset Management Co. Ltd.	-5.0m	-1.5m
State Street Global Advisors (US)	0.0m	0.0m	UTI Asset Management Co. Ltd.	-1.0m	-0.3m
			Jupiter Asset Management Ltd.	-0.2m	0.0m
			Nuveen LLC	-0.1m	0.0m
			First State Investments (U.K.) Ltd	0.0m	0.0m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement					₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Revenues	2,281.4	2,824.6	3,208.7	3,575.0	
Growth (%)	21.5	23.8	13.6	11.4	
Raw Material Expenses	556.5	679.7	782.7	872.1	
Employee Expenses	465.7	613.2	696.6	776.1	
Other Manufacturing Expenses	1,046.6	1,250.8	1,365.1	1,480.5	
Total Operating Expenditure	2,068.7	2,543.7	2,844.5	3,128.7	
EBITDA	212.6	280.9	364.3	446.4	
Growth (%)	-7.1	32.1	29.7	22.5	
Interest	46.8	70.4	61.1	51.7	
Depreciation	100.0	136.3	132.7	139.0	
Other Income	18.9	15.3	25.7	28.6	
PBT before Exceptional Items	84.8	89.4	196.2	284.2	
Less: Forex & Exceptional Items	-0.5	0.0	0.0	0.0	
PBT	85.3	89.4	196.2	284.2	
Total Tax	29.0	37.0	68.7	99.5	
PAT before MI	56.4	52.4	127.5	184.8	
Minority Interest	0.1	0.0	0.0	0.0	
PAT	51.7	46.3	127.5	184.8	
Adjusted PAT	51.2	46.3	127.5	184.8	
Growth (%)	-39.4	-9.4	175.2	44.9	
EPS	2.5	2.3	6.2	9.0	
EPS (Adjusted)	2.5	2.3	6.2	9.0	

Source: Company, ICICI Direct Research

Balance sheet					₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Equity Capital	204.4	204.4	204.4	204.4	
Reserve and Surplus	831.4	877.7	1,005.2	1,190.0	
Total Shareholders funds	1,035.7	1,082.1	1,209.6	1,394.3	
Total Debt	801.5	751.5	651.5	551.5	
Deferred Tax Liability	39.6	43.5	47.9	52.7	
Minority Interest	0.3	0.3	0.4	0.4	
Other liabilities	253.9	279.3	307.2	337.9	
Source of Funds	2,131.0	2,156.7	2,216.6	2,336.9	
Gross Block - Fixed Assets	2,323.1	2,473.1	2,623.1	2,773.1	
Accumulated Depreciation	537.4	673.7	806.4	945.4	
Net Block	1,785.7	1,799.4	1,816.7	1,827.7	
Capital WIP	35.0	35.0	35.0	35.0	
Net Fixed Assets	1,820.7	1,834.5	1,851.7	1,862.7	
Goodwill on Consolidation	66.0	66.0	66.0	66.0	
Investments	5.0	5.0	5.0	5.0	
Inventory	83.6	92.9	96.7	107.7	
Cash	35.3	38.0	65.8	151.4	
Debtors	279.0	309.8	334.1	372.2	
Loans & Advances & Other CA	81.4	89.6	98.5	108.4	
Total Current Assets	479.3	530.2	595.1	739.8	
Creditors	296.2	340.7	369.2	411.4	
Provisions & Other CL	108.4	119.2	131.1	144.2	
Total Current Liabilities	404.6	459.9	500.3	555.6	
Net Current Assets	74.7	70.3	94.7	184.2	
LT L&A, Other Assets	156.4	172.1	189.3	208.2	
Deferred Tax Assets	8.0	8.8	9.7	10.7	
Application of Funds	2,131.0	2,156.7	2,216.6	2,336.9	

Source: Company, ICICI Direct Research

Cash flow statement					₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Profit/(Loss) after taxation	46.5	46.3	127.5	184.8	
Add: Depreciation & Amortization	100.0	136.3	132.7	139.0	
Net Increase in Current Assets	-98.8	-48.2	-37.0	-59.0	
Net Increase in Current Liabilities	72.2	55.4	40.4	55.3	
Others	62.3	70.4	61.1	51.7	
CF from operating activities	182.3	260.2	324.7	371.7	
(Inc)/dec in Fixed Assets	-395.0	-150.0	-150.0	-150.0	
(Inc)/dec in Investments	-148.4	0.0	0.0	0.0	
Others	47.2	12.9	14.2	15.6	
CF from investing activities	-496.2	-137.1	-135.8	-134.4	
Inc / (Dec) in Equity Capital	0.1	0.0	0.0	0.0	
Inc / (Dec) in Debt	346.6	-50.0	-100.0	-100.0	
Dividend & Dividend Tax	0.0	0.0	0.0	0.0	
Others	-31.6	-70.4	-61.1	-51.7	
CF from financing activities	315.1	-120.4	-161.1	-151.7	
Net Cash flow	1.1	2.7	27.8	85.7	
Opening Cash	34.1	35.3	38.0	65.8	
Closing Cash	35.3	38.0	65.8	151.4	
Free Cash Flow	-212.8	110.2	174.7	221.7	
EBITDA conversion	86%	93%	89%	83%	

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	2.5	2.3	6.2	9.0
Cash EPS	2.5	2.3	6.2	9.0
BV	50.7	52.9	59.2	68.2
DPS	0.0	0.0	0.0	0.0
Cash Per Share	26.3	33.0	39.5	46.3
Operating Ratios (%)				
EBITDA margins	9.3	9.9	11.4	12.5
Net Profit margins	2.2	1.6	4.0	5.2
Cash Conversion cycle	10.6	8.0	7.0	7.0
Asset Turnover	1.0	1.2	1.2	1.3
Return Ratios (%)				
RoE	4.9	4.3	10.5	13.3
RoCE	6.3	7.6	11.9	14.7
RoIC	6.4	8.2	12.9	17.1
Valuation Ratios (x)				
P/E	78.8	87.0	31.6	21.8
EV / EBITDA	22.6	16.9	12.7	9.9
EV / Revenues	2.1	1.7	1.4	1.2
Market Cap / Revenues	1.8	1.4	1.3	1.1
Price to Book Value	3.9	3.7	3.3	2.9
Solvency Ratios				
Net Debt / Equity	0.8	0.7	0.5	0.4
Net Debt / EBITDA	3.6	2.5	1.6	0.9
Current Ratio	1.1	1.1	1.1	1.1
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
Ajanta Pharma	AJAPHA	1024	1,100	Hold	9013.1	57.4	53.0	43.1	50.5	17.8	19.3	23.8	20.3	41.3	30.0	21.6	21.7	32.3	23.0	16.4	16.8
Alembic Pharma	ALEMPHA	588	620	Hold	11075.3	21.2	21.9	30.4	27.1	27.7	26.8	19.3	21.7	25.3	18.0	19.9	17.2	21.0	18.6	21.4	16.6
Apollo Hospitals	APOHOS	1293	1,440	Buy	17989.6	15.9	8.5	26.6	48.2	81.4	152.9	48.5	26.8	6.1	6.3	9.8	13.7	6.0	3.6	10.4	16.4
Aurobindo Pharma	AURPHA	755	915	Buy	44230.2	38.8	41.6	42.6	53.1	19.5	18.1	17.7	14.2	24.4	20.0	18.0	16.7	24.2	20.7	17.8	18.4
Biocon	BIOCON	654	760	Buy	39210.0	8.5	6.2	12.8	17.3	77.1	105.3	51.1	37.8	9.4	8.1	13.1	15.4	10.5	7.2	12.8	15.0
Cadila Healthcare	CADHEA	317	415	Buy	32452.6	14.5	17.5	16.5	18.9	21.8	18.1	19.2	16.8	13.1	16.7	14.2	13.1	21.4	20.5	16.8	16.8
Cipla	CIPLA	506	510	Hold	40774.8	12.5	18.3	17.5	23.1	40.5	27.6	28.8	21.9	7.7	9.6	11.0	13.9	8.0	10.4	9.2	11.0
Divi's Lab	DIVLAB	1626	1,800	Buy	43157.2	39.9	33.3	53.5	60.5	40.7	48.8	30.4	26.9	25.3	20.0	26.4	25.2	19.8	14.9	20.2	19.3
Dr Reddy's Labs	DRREDD	2749	2,870	Hold	46431.8	78.0	57.0	107.1	128.6	35.3	48.2	25.7	21.4	7.3	6.1	9.5	11.9	10.5	7.2	12.2	13.1
Glenmark Pharma	GLEPHA	639	660	Hold	18037.6	42.2	28.5	32.9	36.8	15.1	22.4	19.5	17.4	19.5	14.6	16.0	15.2	26.5	15.6	14.9	14.5
Indoco Remedies	INDREM	180	195	Hold	1658.7	8.4	4.8	-1.8	7.4	21.5	37.3	-98.7	24.3	8.7	6.5	-0.1	8.3	11.8	6.6	-2.6	9.4
Ipca Laboratories	IPCLAB	734	845	Buy	9273.0	15.4	19.0	32.4	42.3	47.6	38.7	22.6	17.4	8.7	9.1	13.8	17.1	7.9	8.9	13.5	15.4
Jubilant Life	JUBLIF	742	905	Buy	11821.0	36.9	41.3	59.7	73.9	20.1	18.0	12.4	10.0	13.8	14.9	18.8	20.7	16.8	15.7	18.7	19.0
Lupin	LUPIN	839	870	Hold	37960.7	56.7	20.8	27.6	39.1	14.8	40.4	30.3	21.4	16.6	10.4	10.4	12.4	19.0	6.9	8.6	11.0
Narayana Hrudalaya	NARHRU	197	250	Buy	4030.0	4.1	2.5	2.3	6.6	47.8	78.8	84.8	29.9	12.5	6.3	7.1	12.0	8.8	4.9	4.4	11.1
Natco Pharma	NATPHA	681	860	Buy	12578.5	26.3	37.7	41.7	24.9	25.9	18.1	16.3	27.4	33.6	27.4	26.6	14.8	29.5	22.7	21.2	11.6
Sun Pharma	SUNPHA	413	460	Hold	99101.8	29.0	13.0	14.7	21.1	14.2	31.8	28.2	19.5	20.3	9.8	10.2	13.3	19.0	8.2	8.8	11.5
Syngene Int.	SYNINT	603	675	Buy	12062.0	14.4	15.3	16.3	17.5	40.8	38.4	35.9	33.5	16.0	15.9	16.8	16.5	20.3	17.7	16.1	14.8
Torrent Pharma	TORPHA	1836	2,175	Buy	31070.8	55.2	40.1	52.3	64.9	33.3	45.8	35.1	28.3	18.9	11.2	14.2	17.1	21.5	14.7	16.7	17.9

Source: Company, ICICI Direct Research

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