

Narayana Hrudayala

REDUCE

CMP Rs291

Target Rs265

Downside 8.5%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ Narayana clocked largely in line quarter as guided in the April update and subsequent Q4 call. ✓ While EBITDA loss was expected given that April revenue run rate was just 35% of pre COVID level (with pick up in May and June), management remains cautious on revival due to high degree of uncertainty. ✓ Costs cuts, like in pharma, would be visible but no permanent savings feasible; as revenues rebound, so will costs.
Our View	<ul style="list-style-type: none"> ✓ With no visibility on resumption of international flights and uncertainty on domestic rebound in elective surgeries, FY21 will be a wash-out year as expected ✓ Strong recovery built in FY22 and raise our FY22 estimates (+9%) on faster recovery assumption
Valuation	<ul style="list-style-type: none"> ✓ Retain Reduce mostly due to lack of comfort on valuation as we reckon hospital players should trade at a discount to branded pharma companies especially those with sizable India revenues.
Risk to our call	<ul style="list-style-type: none"> ✓ Faster than estimated domestic hospitals growth of 27% in FY22 which would pose upside risks to our EPS forecast

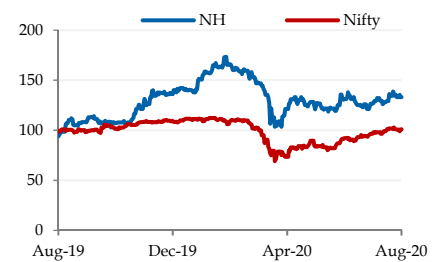
Exhibit 1: Result table

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Revenues	3,935	7,430	(47.0)	7,774	(49.4)
RM + inventory changes	(1,105)	(1,788)	(38.2)	(1,903)	(41.9)
Staff	(1,529)	(1,680)	(9.0)	(1,632)	(6.3)
Doctor fees	(1,032)	(1,520)	(32.1)	(1,551)	(33.5)
Other expenses	(1,179)	(1,484)	(20.6)	(1,660)	(29.0)
OPM (%)	(23.1)	12.9	-	13.2	-
Depreciation	(464)	(551)	(15.9)	(414)	11.9
Interest	(197)	(208)	(5.0)	(222)	(11.0)
Other income	47	70	(33.9)	48	(3.7)
Tax	337	(36)	-	(130)	-
Associate share	(10)	(5)		(7)	40.1
Exceptional		(109)			
PAT	(1,198)	120	-	303	-

Stock data (as on Aug 05, 2020)

Nifty	11,102
52 Week h/l (Rs)	389 / 200
Market cap (Rs/USD mn)	59316 / 791
Outstanding Shares (mn)	204
6m Avg t/o (Rs mn):	101
Div yield (%):	0.3
Bloomberg code:	NARH IN
NSE code:	NH

Stock performance



	1M	3M	1Y
Absolute return	5.3%	10.2%	42.3%

Shareholding pattern (As of Jun'20 end)

Promoter	63.9%
FII+DII	29.2%
Others	6.9%

Δ in earnings estimates

	FY21e	FY22e
EPS (New)	1.0	10.3
EPS (Old)	1.1	9.4
% change	-	8.5%

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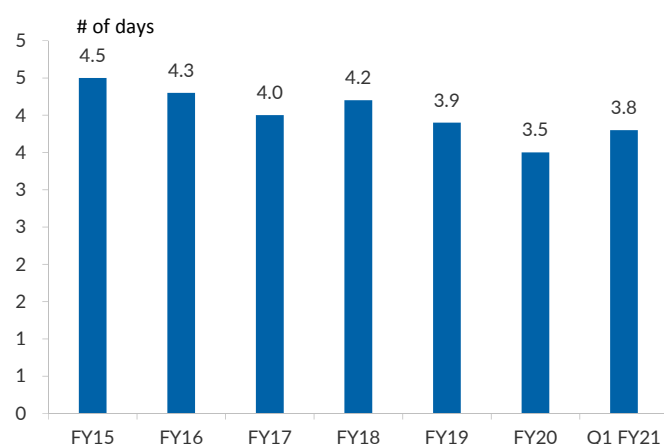
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CON-CALL HIGHLIGHTS

- ✓ Worst may be behind but no clarity on revival hence remain cautious
- ✓ Moment revenues revive, costs will come back and no major savings seen though non-patient centric functions can be consolidated
- ✓ June revenues back to 70% of pre COVID business, almost double that of April
- ✓ Have achieved EBIDTA breakeven at the consolidated level in June; if June trend persists then will achieve EBIDTA break even in Q2
- ✓ Cayman EBIDTA will increase after pick up in vols once border reopens and case mix improves
- ✓ No clarity on movement of people along India Bangla border
- ✓ Gurugram hospital had 1/3rd patients from international patients which is closed and hence impacted
- ✓ Did 15% of teleconsultation through in-house software and digital has opened up new markets in Central India for consultation
- ✓ Hinterland units have lower prevalence of COVID than metros hence did better as patients flow not as restricted
- ✓ If pick up better than July, then can expect a better Q2; Bangalore and Kolkata in the midst of peak infection but Mumbai and Delhi are past theirs and will perform better
- ✓ Lot of smaller hospitals have shut down; see lots of M&A action
- ✓ 8-10% of discharges are COVID patients

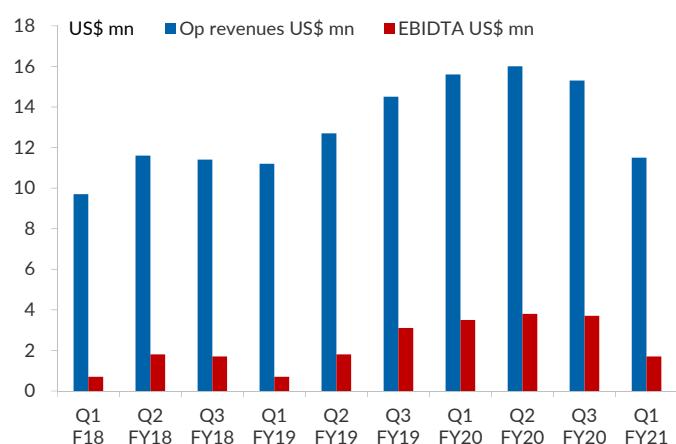
CHARTS

Exhibit 2: Avg length of stay increased from FY20 level



Source: Company, YES Sec – Research

Exhibit 3: Cayman Hospital – Trend in Revs/EBIDTA



Source: Company, YES Sec – Research

Exhibit 4: Financial summary

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	22,809	28,609	31,278	27,511	34,359
yoy growth (%)	21.4	25.4	9.3	-12.0	24.9
OPM (%)	9.3	10.1	13.5	10.1	15.7
Reported PAT	514	593	1,190	206	2,104
yoy growth (%)	(38.1)	15.5	100.8	(82.7)	921.9
EPS (Rs)	2.5	2.9	5.8	1.0	10.3
P/E (x)	113.8	98.6	49.1	283.9	27.8
P/BV (x)	5.6	5.4	5.1	5.2	4.4
EV/EBITDA (x)	31.8	23.4	16.0	24.1	12.0
Debt/Equity (x)	0.9	0.9	1.0	1.0	0.8
ROE (%)	5.6	5.8	12.0	2.1	17.4
ROCE (%)	6.6	8.0	11.7	5.4	15.4

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