

Retail Equity Research (South India Focus)

Narayana Hrudayalaya Ltd

Healthcare Services

BSE CODE : 539551

NSE CODE: NH

BLOOMBERG CODE: NARH:IN

SENSEX : 52,276

Accumulate

12 Months Investment Period

Rating as per Small Cap

CMP Rs.482 TARGET Rs. 561 RETURN 16% ↑

(Closing: 08-06-21)

KEY CHANGES:
TARGET ↑

RATING ↓

EARNINGS ↑

Strong growth across segments..

Narayana Hrudayalaya Ltd (NH) is a chain of multi-specialty hospitals operating in India and the Cayman Islands.

- NH revenues in Q4FY21 grew by 12.8% YoY to Rs.838cr with strong recovery in the Indian business and continued momentum in Cayman Islands.
- The Q4FY21 operating profit recorded a 47.3% YoY growth to Rs.141cr as the hospitals started performing higher volumes of elective procedures.
- Health City Cayman Island's expansion is expected to be completed in the next 24 months with niche offerings such as fully fledged oncology services.
- We expect a revenue CAGR of 24% over FY21-FY23E on the back of eased travel restrictions, HCCI expansion and a strong liquidity profile.
- We feel that the current valuations have adequately factored in the positive triggers for NH.
- Hence we downgrade our rating from "Buy" to "Accumulate" based on 20x FY23E EV/EBITDA with a target price of Rs.561.

Healthy performance amidst tough environment

NH returned to profitability in Q4FY21 with the consolidated revenues growing by 12.8% to Rs.838cr and EBITDA growing by 47.3% YoY to Rs.141cr. As fresh covid cases declined in India for most of the last quarter, the operating revenue grew sequentially by 15% on QoQ and 9.5% on YoY basis as the hospitals started performing higher volumes of elective procedures. Average revenues per operating beds (ARPOB) reported an all-time high of Rs.1.1cr (11% YoY). Despite severe challenges in the year gone by, the company was able to further fortify their balance sheet by maintaining a strong liquidity profile with consolidated bank balance and liquid investments of Rs.250cr against consolidated gross borrowings of Rs.617cr which is down by Rs.100cr in the year gone by.

Mature facilities recorded growth

Flagship facilities grew 10% in March as compared to pre-covid revenues despite a muted recovery in international patient volumes.. As elective surgeries picked up, cardiac science's contribution picked up to the normal levels of 35% of total operating revenue in Q4FY21. This was also supported by increasing the size of Oncology blocks across the metro hospitals. Excluding the 3 new hospitals, the other mature hospitals continued the growth trajectory and registered a 14.5% YoY growth in operating revenues and over 40% YoY EBITDA in the quarter.

Cayman Island expansion to get commissioned in 24 months

The hospital in Cayman Islands continued to deliver strong and consistent performance with revenues growing by 18% in FY21 to US\$69m (~Rs.500cr). The expansion of Health City Cayman Islands (HCCI) will get commissioned in the next 24 months with niche offerings such as fully-fledged oncology services which will be a strong lever for future growth. Ease in international travel restrictions will also contribute to the growth momentum.

Outlook and valuation

Despite severe challenges in the year gone by, Narayana Hrudayalaya posted strong numbers in Q4FY21 owing to higher volumes of elective procedures and increased number of oncology blocks across the metros. The company's leadership position in the Cayman Islands along with niche offerings such as full-fledged oncology services will be a strong lever for future growth. However, we feel that the current valuations have adequately factored in the positive triggers for NH. Hence we downgrade our rating from "Buy" to "Accumulate" based on 20x FY23E EV/EBITDA with a target price of Rs.561.

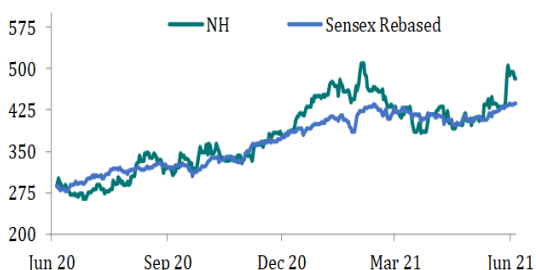
Company Data

Market Cap (Rs cr)	Rs.10,095
Enterprise Value (Rs cr)	Rs.10,232
Outstanding Shares (cr)	20.4
Free Float	33%
Dividend Yield	0.2%
52 week high (Rs)	Rs.566
52 week low (Rs)	Rs.251
6m average volume (cr)	0.02
Beta	0.5
Face value (Rs)	10

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	63.9	63.9	63.9
FPI's	8.5	9.0	11
MFs/Institutions	21.8	21.8	20.3
Public	5.8	5.3	4.8
Total	100.0	100.0	100.0

Price Performance	3 month	6 month	1 year
Absolute Return	15.5%	25.0%	68.5%
Absolute Sensex	1.9%	13.6%	52.3%
Relative Return*	13.5%	11.5%	16.2%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	2,582	3,455	3,939
Growth (%)	-17.4	33.8	14.0
EBITDA	182	536	607
EBITDA Margin(%)	7.1	15.5	15.4
PAT Adj.	-14	205	249
Growth (%)	-110.8	-	21.0
Adj.EPS	-1	10	12
Growth (%)	-110.8	-	21.0
P/E	-718.5	49.1	40.1
P/B	8.3	7.0	5.9
EV/EBITDA	57.4	19.8	17.1
ROE (%)	-1.2%	16.8	17.3
D/E	0.5	0.5	0.3

Quarterly Financials (Consolidated)

(Rs cr)	Q4FY21	Q4FY20	YoY Growth (%)	Q3FY21	QoQ Growth (%)	FY21	FY20	YoY Growth (%)
Sales	838	743	12.8	750	11.6	2,582	3,128	(17.4)
EBITDA	141	96	47.3	105	34.7	182	423	(57)
EBITDA margins %	16.9	12.9	390bps	14.0	280bps	7.1%	13.5%	-640bps
Depreciation	44	55	-20	46	-4.3	184	186	(1.0)
EBIT	97	41	136.6	59	65.5%	-1.1	238	(100.5)
Interest	18	21	-14.2	18.5	-2.7%	76	85	-11
Other Income	9	7	28.5	5	80%	28.1	23.7	18.5
Exceptional Items	-	-10.8	-	-	-	-	-10.8	-
PBT	88	16.2	443	46	91.3%	-49	165	(129.6)
Tax	17.2	3.5	391	0.7	-	-42	42.2	(200)
Share of profit from Associate	(1.9)	(0.8)	-	(2.8)	-	(6.8)	(3.4)	-
Reported PAT	68	12	457	41	65.8	-14	120	(112)
Adjustments	-	-	-	-	-	-	-10.8	-
Adj PAT	68	12	457	41	-	-14	131	(110)
No. of Shares	20.4	20.4	-	20.4	-	20.4	20.4	-
Adj EPS (Rs)	3.3	0.6	457	2.0	66	-0.7	6.4	(111)

Change in Estimates

Year / Rs Cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	3,270	3,645	3,455	3,939	5.5%	8.0%
EBITDA	458	529	536	607	17.0%	15.5%
Margins (%)	14.0	14.5	15.5	15.5	150bps	100bps
Adj. PAT	160	231	205	249	28.1%	9.0%
EPS	8	11	10	12	25%	9.0%

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	2,861	3,128	2,582	3,455	3,939
% change	25	9	-17	34	14
EBITDA	288	423	182	536	607
% change	36	47	-57	194	13
Depreciation	150	186	184	226	250
EBIT	138	238	-1	310	357
Interest	71	85	76	74	69
Other Income	17	24	28	35	39
PBT	83	165	-49	270	327
% change	-2	99	-130	-652	21
Tax	34	42	-42	65	79
Tax Rate (%)	41.2	25.5	27.0	24.0	24.0
Reported PAT	47	120	-14	205	249
Adj.*	1	-11	0	0	0
Adj. PAT	46	130	-14	205	249
% change	-9	181	-111	-1564	21
No. of shares (cr)	20	20	20	20	20
Adj EPS (Rs)	2	6	-1	10	12
% change	-9	181	-111	-1564	21
DPS (Rs)	0	1	0	1	1

BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	101	115	132	92	165
Account Receivable	266	262	279	331	378
Inventories	83	60	48	61	68
Other Cur. Assets	74	71	93	85	97
Investments	42	50	41	52	59
Gross Fixed Assets	2,341	2,471	2,574	2,824	3,124
Net Fixed Assets	1712	1725	1644	1668	1718
CWIP	36	12	18	20	20
Intangible Assets	163	216	239	254	269
Def. Tax (Net)	4	2	2	2	2
Other Assets	159	380	277	415	473
Total Assets	2,636	2,890	2,769	2,978	3,247
Current Liabilities	472	556	651	520	579
Provisions	42	53	55	37	41
Debt Funds	737	629	525	612	538
Other Liabilities	304	516	417	483	513
Equity Capital	204	204	204	204	204
Reserves & Surplus	877	932	916	1,121	1,371
Shareholder's Fund	1,081	1,136	1,120	1,326	1,575
Total Liabilities	2,636	2,890	2,769	2,978	3,247
BVPS	50	53	53	64	77

CASH FLOW

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	233	347	135	496	581
Non-cash adj.	26	33	-42	65	79
Changes in W.C	8	49	0	-219	-10
C.F. Operation	315	443	309	212	492
Capital exp.	-150	-114	0	-257	-305
Change in inv.	0	-68	0	-148	-68
C.F - Investment	-161	-189	-113	-405	-373
Issue of equity	0	0	0	0	0
Issue/repay debt	28	-108	0	87	-74
Dividends paid	0	-49	0	0	0
Other finance.CF	-55	-90	0	66	30
C.F - Finance	-27	-247	-198	153	-44
Chg. in cash	126	8	-2	-40	75
Closing cash	101	115	132	92	165

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	10.1	13.5	7.1	15.5	15.5
EBIT margin (%)	4.8	7.6	0.0	9.0	9.2
Net profit mgn.(%)	1.6	4.2	-0.5	5.9	6.4
ROE (%)	4.4	11.8	-1.2	16.8	17.3
ROCE (%)	6.5	10.6	-0.1	12.6	13.5
W.C & Liquidity					
Receivables (days)	35	31	38	32	33
Inventory (days)	11	8	8	6	6
Payables (days)	49	49	59	55	49
Current ratio (x)	1.2	1.0	0.9	1.2	1.3
Quick ratio (x)	0.8	0.7	0.6	0.8	0.9
Turnover & Leverage					
Gross asset T.O (x)	1.2	1.3	1.0	1.2	1.3
Total asset T.O (x)	1.1	1.1	0.9	1.2	1.2
Int. covge. ratio (x)	1.9	2.8	0.0	4.2	5.2
Adj. debt/equity (x)	0.7	0.6	0.5	0.5	0.3
Valuation					
EV/Sales (x)	3.7	3.4	4.1	3.1	2.7
EV/EBITDA (x)	37.2	25.0	57.4	19.8	17.1
P/E (x)	217.0	77.2	-718.5	49.1	40.1
P/BV (x)	8.6	8.2	8.3	7.0	5.9

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
26 th January 2021	Buy	517
8 th June 2021	Accumulate	561

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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