

May 24, 2022

## Q4FY22 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	773		773	
Sales (Rs. m)	39,611	44,259	39,807	44,479
% Chng.	(0.5)	(0.5)		
EBITDA (Rs. m)	7,633	8,975	7,657	8,972
% Chng.	(0.3)	-		
EPS (Rs.)	20.2	24.6	21.5	27.2
% Chng.	(5.6)	(9.6)		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	25,823	37,013	39,611	44,259
EBITDA (Rs. m)	1,821	6,535	7,633	8,975
Margin (%)	7.1	17.7	19.3	20.3
PAT (Rs. m)	(143)	3,421	4,136	5,020
EPS (Rs.)	(0.7)	16.7	20.2	24.6
Gr. (%)	(112.0)	(2,493.5)	20.9	21.4
DPS (Rs.)	-	-	1.2	1.2
Yield (%)	-	-	0.2	0.2
RoE (%)	(1.3)	26.2	24.6	23.7
RoCE (%)	(0.1)	25.6	23.8	23.6
EV/Sales (x)	5.2	3.6	3.5	3.1
EV/EBITDA (x)	73.3	20.4	18.0	15.1
PE (x)	(905.9)	37.8	31.3	25.8
P/BV (x)	11.6	8.7	6.9	5.5

### Key Data

NARY.BO | NARH IN

52-W High / Low	Rs.777 / Rs.426
Sensex / Nifty	54,289 / 16,215
Market Cap	Rs.129bn/ \$ 1,670m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.134.14m

### Shareholding Pattern (%)

Promoter's	63.85
Foreign	10.64
Domestic Institution	14.46
Public & Others	11.05
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(10.3)	10.9	45.2
Relative	(5.5)	19.8	35.2

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## In line quarter; Stepping up investments in India business

### Quick Pointers:

- Another quarter of strong Cayman profitability
- Rs10bn of capex likely in FY23 towards Cayman new facility, greenfield expansion at Raipur & Kolkata, new acquisitions

**NARH have announced aggressive capex plan across India and Cayman operations over next 2-3 years. This enhances growth visibility beyond FY24 however in near term it may increase debt and impact return ratios. We maintain our estimates and 'Buy' rating with TP of Rs773/share, based on 20x FY24E EV/EBITDA for India business and 16x EV/EBITDA for Cayman hospitals. At CMP, stock is trading at 15.7x EV/EBITDA (adj for IND AS) and 26x P/E on FY24E. With strong performance at Cayman, steady pick up in mature India hospitals and ramp-up at new hospitals, we expect EBITDA CAGR of 18% over FY22-24E. Despite capex intensity going up, RoE/RoCE will remain healthy at 24% by FY24E.**

- In line EBITDA aided by Cayman:** NARH reported Q4FY22 pre IND AS EBITDA of Rs 1.64bn. Adjusted for one offs - St Lucia (Rs132n) and Jammu unit (Rs54mn), EBITDA came in at 1.4bn (up 13% YoY; down 10% QoQ), in line with our estimate. Cayman reported strong profitability with EBITDA growth of 46% to Rs790m while India business (adj for Jammu) reported 20% QoQ decline in EBITDA to Rs800mn. Losses from new hospitals came in higher at Rs82mn (up 71% QoQ). Jammu unit turned into positive EBITDA of Rs 54mn due to change in accounting treatment.
- Revenue grew by +12% YoY (down 2% QoQ) to Rs9.4bn. ARPOB (average revenue per occupied bed) for India business improved by 11% YoY (+4% QoQ) to Rs. 33,425 per day. International business contributed 4% to the total India revenues vs 6% in Q3. Cayman reported \$24.4mn (flat QoQ) revenues in Q4. Net debt marginally increased by Rs.283mn to Rs2.4bn.
- Key con-call takeaways:** (1) Expansion strategy and capex - a) Mgmt indicated the focus to remain on existing regions for the next 4-5 years especially in Bangalore and Kolkata., b) NARH guided capex of Rs. 10bn for FY23 (includes Cayman capex guidance of \$50mn), greenfield expansion in Kolkata & Raipur, brownfield expansion in Bangalore. c) Mgmt guided to invest in international markets especially in Caribbean islands and evaluating new opportunities in North American region. d) Continue to explore bolt on acquisitions (2) Mgmt stated Gurgaon hospital to take couple of months for break-even, Mumbai hospital to take more time given that the concentration is only on child care. (3) Jammu hospital to continue to be treated as breakeven and cash flows will be reinvested. (4) Tax rate was higher on account of repatriation of dividend income from Cayman. (4) Current ARPOB is sustainable in nature (5) Occupancy was in the range of 52-55% for FY22. (6) A sequential drop in the contribution of Cardiac procedures to 34.3% in Q4FY22 and 30.7% for FY22. 7) Flagship hospitals reported EBITDAR of 27% in Q4FY22 and 23% for FY22.

**Exhibit 1: Q4FY22 Result Overview (Rs mn) – In line EBITDA**

(Rs m)	4QFY22	4QFY21	YoY gr. (%)	3QFY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
<b>Net Sales</b>	<b>9,407</b>	<b>8,378</b>	<b>12.3</b>	<b>9,596</b>	<b>(2.0)</b>	<b>37,013</b>	<b>25,823</b>	<b>43.3</b>
COGS	2,199	2,069	6.3	2,364	(7.0)	9,092	6,779	34.1
<i>% of Net Sales</i>	<i>23.4</i>	<i>24.7</i>		<i>24.6</i>		<i>24.6</i>	<i>26.2</i>	
Employee Cost	1,961	1,696	15.6	1,925	1.9	7,685	6,268	22.6
<i>% of Net Sales</i>	<i>20.8</i>	<i>20.2</i>		<i>20.1</i>		<i>20.8</i>	<i>24.3</i>	
Other Expenses	3,497	3,198	9.3	3,558	(1.7)	13,701	10,956	25.1
<i>% of Net Sales</i>	<i>37.2</i>	<i>38.2</i>		<i>37.1</i>		<i>37.0</i>	<i>42.4</i>	
Total	7,656	6,964	9.9	7,846	(2.4)	30,478	24,002	27.0
<b>EBITDA</b>	<b>1,751</b>	<b>1,414</b>	<b>23.8</b>	<b>1,750</b>	<b>0.1</b>	<b>6,535</b>	<b>1,821</b>	<b>258.9</b>
<i>Margins (%)</i>	<i>18.6</i>	<i>16.9</i>		<i>18.2</i>		<i>17.7</i>	<i>7.1</i>	
Other Income	98	85	14.4	69	42.2	346	282	22.7
Interest	163	182	(10.8)	163	(0.2)	663	760	(12.7)
Depreciation	468	445	5.1	461	1.4	1,835	1,835	(0.0)
<b>PBT</b>	<b>1,218</b>	<b>872</b>	<b>39.7</b>	<b>1,195</b>	<b>2.0</b>	<b>4,383</b>	<b>(492)</b>	<b>(990.3)</b>
Tax	503	172	191.6	196	156.0	877	(418)	(309.9)
<i>Tax rate %</i>	<i>41.3</i>	<i>19.8</i>		<i>16.4</i>		<i>20.0</i>	<i>84.8</i>	
<b>PAT</b>	<b>715</b>	<b>700</b>	<b>2.2</b>	<b>998</b>	<b>(28.3)</b>	<b>3,506</b>	<b>(75)</b>	<b>(4,789.0)</b>
Share in (loss)/profit of associate	(26)	(19)		(23)		(87)	(68)	
Minority Interest	-	-		-		-	(0)	
<b>Reported PAT</b>	<b>690</b>	<b>681</b>	<b>1.3</b>	<b>975</b>	<b>(29.3)</b>	<b>3,419</b>	<b>(142)</b>	<b>NA</b>

Source: Company, PL

**Exhibit 2: Break-up of Revenues**

Break up of revenues	4QFY22	4QFY21	YoY gr. (%)	3QFY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
Cayman	1,813	1,376	31.8	1,879	(3.5)	6,965	5,092	36.8
<i>% of Net Sales</i>	<i>19.5</i>	<i>16.4</i>		<i>19.6</i>		<i>19.0</i>	<i>19.7</i>	
India	7,462	7,002	6.6	7,717	(3.3)	29,632	20,732	42.9
<i>% of Net Sales</i>	<i>80.5</i>	<i>83.6</i>		<i>80.4</i>		<i>81.0</i>	<i>80.3</i>	
<b>Total Sales</b>	<b>9,275</b>	<b>8,378</b>	<b>10.7</b>	<b>9,596</b>	<b>(3.3)</b>	<b>36,597</b>	<b>25,823</b>	<b>41.7</b>

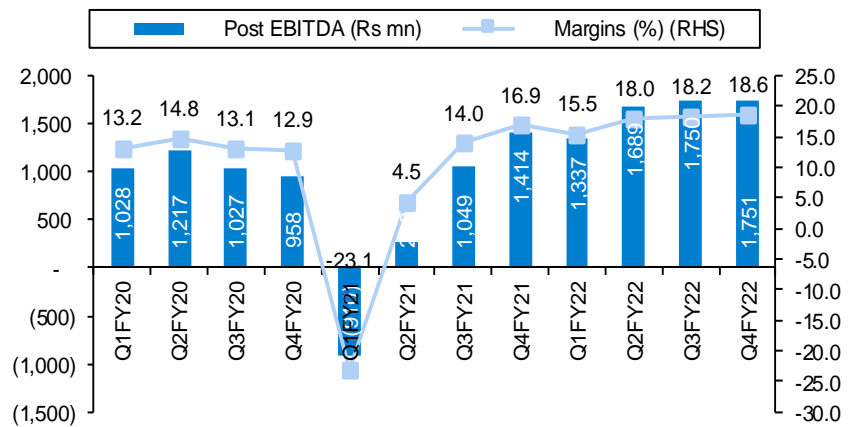
Source: Company, PL

**Exhibit 3: Hospital wise (India) break up**

Maturity-wise (Q4FY22)	Existing	New
No. of hospitals	16	3
% of Hospital operating beds	88%	12%
% of Hospital operating revenues	87%	13%
YoY revenue growth (%)	5%	22%
ARPOB (INR mn)	12	16
EBITDAR margin (%)	22%	-8%

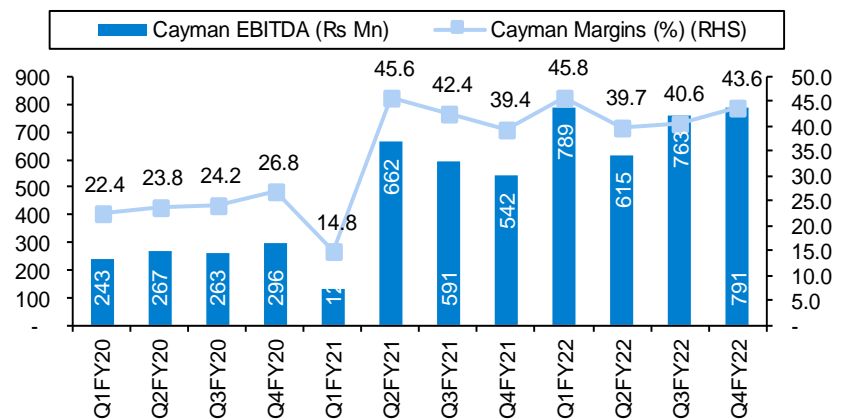
Source: Company, PL

**Exhibit 4: Margin expansion led by Cayman, St Lucia and Jammu unit**



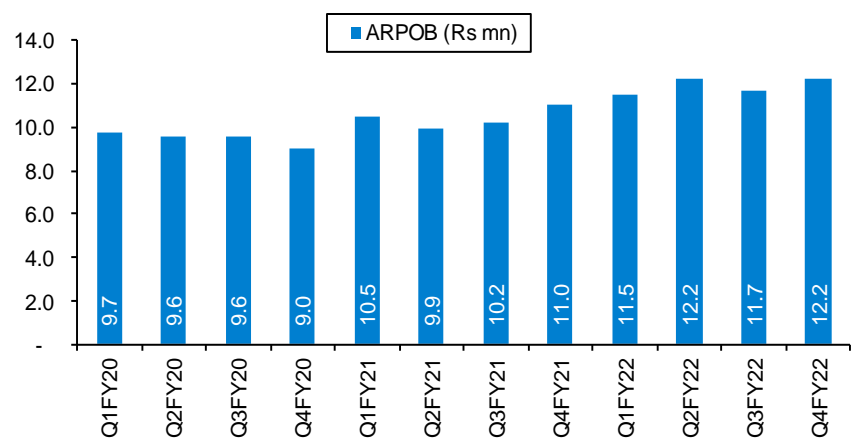
Source: Company, PL

**Exhibit 5: Another quarter of strong Cayman profitability**



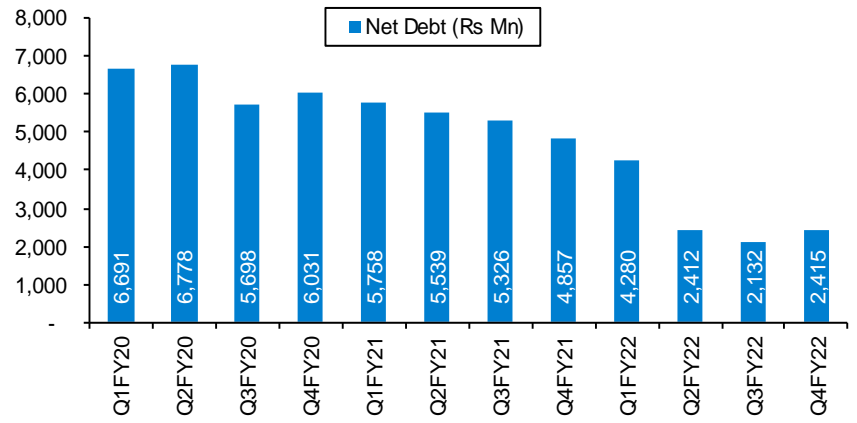
Source: Company, PL

**Exhibit 6: Current ARPOB is sustainable**



Source: Company, PL

Exhibit 7: Net debt increased marginally



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>25,823</b>	<b>37,013</b>	<b>39,611</b>	<b>44,259</b>
YoY gr. (%)	(17.4)	43.3	7.0	11.7
Cost of Goods Sold	6,779	9,092	9,507	10,622
Gross Profit	19,045	27,921	30,105	33,637
Margin (%)	73.8	75.4	76.0	76.0
Employee Cost	6,272	7,685	8,837	10,163
Other Expenses	10,952	13,701	13,634	14,499
<b>EBITDA</b>	<b>1,821</b>	<b>6,535</b>	<b>7,633</b>	<b>8,975</b>
YoY gr. (%)	(56.9)	258.9	16.8	17.6
Margin (%)	7.1	17.7	19.3	20.3
Depreciation and Amortization	1,835	1,835	1,963	2,101
<b>EBIT</b>	<b>(14)</b>	<b>4,700</b>	<b>5,670</b>	<b>6,875</b>
Margin (%)	(0.1)	12.7	14.3	15.5
Net Interest	760	663	750	800
Other Income	282	346	300	250
<b>Profit Before Tax</b>	<b>(492)</b>	<b>4,383</b>	<b>5,220</b>	<b>6,325</b>
Margin (%)	(1.9)	11.8	13.2	14.3
Total Tax	(418)	877	1,044	1,265
Effective tax rate (%)	84.9	20.0	20.0	20.0
<b>Profit after tax</b>	<b>(75)</b>	<b>3,506</b>	<b>4,176</b>	<b>5,060</b>
Minority interest	-	-	-	-
Share Profit from Associate	(68)	(85)	(40)	(40)
<b>Adjusted PAT</b>	<b>(143)</b>	<b>3,421</b>	<b>4,136</b>	<b>5,020</b>
YoY gr. (%)	(112.0)	(2,493.5)	20.9	21.4
Margin (%)	(0.6)	9.2	10.4	11.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(143)</b>	<b>3,421</b>	<b>4,136</b>	<b>5,020</b>
YoY gr. (%)	(112.0)	(2,493.5)	20.9	21.4
Margin (%)	(0.6)	9.2	10.4	11.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(143)	3,421	4,136	5,020
<b>Equity Shares O/s (m)</b>	<b>204</b>	<b>204</b>	<b>204</b>	<b>204</b>
<b>EPS (Rs)</b>	<b>(0.7)</b>	<b>16.7</b>	<b>20.2</b>	<b>24.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>29,386</b>	<b>31,410</b>	<b>41,410</b>	<b>46,410</b>
Tangibles	27,384	29,722	39,722	44,722
Intangibles	2,002	1,689	1,689	1,689
<b>Acc: Dep / Amortization</b>	<b>10,358</b>	<b>12,193</b>	<b>14,156</b>	<b>16,257</b>
Tangibles	10,358	12,193	14,156	16,257
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>19,028</b>	<b>19,217</b>	<b>27,254</b>	<b>30,153</b>
Tangibles	17,026	17,529	25,565	28,465
Intangibles	2,002	1,689	1,689	1,689
Capital Work In Progress	199	669	669	669
Goodwill	581	581	581	581
Non-Current Investments	1,203	1,324	1,324	1,324
Net Deferred tax assets	(112)	(496)	(496)	(496)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	478	594	1,085	1,213
Trade receivables	2,785	4,369	4,341	4,850
Cash & Bank Balance	1,321	1,722	608	1,109
Other Current Assets	2,086	2,807	3,256	3,638
<b>Total Assets</b>	<b>27,700</b>	<b>31,297</b>	<b>39,132</b>	<b>43,551</b>
<b>Equity</b>				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	9,159	12,843	16,742	21,524
<b>Total Networkth</b>	<b>11,203</b>	<b>14,886</b>	<b>18,785</b>	<b>23,568</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	5,253	5,449	8,449	7,449
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,103	4,490	5,426	6,063
Other current liabilities	4,927	4,169	4,169	4,169
<b>Total Equity &amp; Liabilities</b>	<b>27,700</b>	<b>31,297</b>	<b>39,132</b>	<b>43,551</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	(492)	4,383	5,220	6,325
Add. Depreciation	1,835	1,835	1,963	2,101
Add. Interest	760	663	750	800
Less Financial Other Income	282	346	300	250
Add. Other	383	121	(40)	(40)
Op. profit before WC changes	2,486	7,002	7,893	9,185
Net Changes-WC	(78)	(1,275)	24	(382)
Direct tax	418	(877)	(1,044)	(1,265)
<b>Net cash from Op. activities</b>	<b>2,826</b>	<b>4,850</b>	<b>6,873</b>	<b>7,538</b>
Capital expenditures	(898)	(2,808)	(10,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	342	140	-	-
<b>Net Cash from Inv. activities</b>	<b>(556)</b>	<b>(2,668)</b>	<b>(10,000)</b>	<b>(5,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,920)	195	3,000	(1,000)
Dividend paid	-	-	(237)	(237)
Interest paid	(760)	(663)	(750)	(800)
Others	583	(1,313)	-	-
<b>Net cash from Fin. activities</b>	<b>(2,097)</b>	<b>(1,781)</b>	<b>2,013</b>	<b>(2,037)</b>
<b>Net change in cash</b>	<b>173</b>	<b>401</b>	<b>(1,114)</b>	<b>501</b>
Free Cash Flow	1,927	2,042	(3,127)	2,538

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Net Revenue</b>	<b>8,598</b>	<b>9,403</b>	<b>9,596</b>	<b>9,407</b>
YoY gr. (%)	118.5	56.5	27.9	12.3
Raw Material Expenses	2,154	2,375	2,364	2,199
Gross Profit	6,444	7,028	7,233	7,208
Margin (%)	74.9	74.7	75.4	76.6
<b>EBITDA</b>	<b>1,337</b>	<b>1,689</b>	<b>1,750</b>	<b>1,751</b>
YoY gr. (%)	(246.9)	531.1	66.8	23.8
Margin (%)	15.5	18.0	18.2	18.6
Depreciation / Depletion	447	459	461	468
<b>EBIT</b>	<b>890</b>	<b>1,230</b>	<b>1,289</b>	<b>1,283</b>
Margin (%)	10.3	13.1	13.4	13.6
Net Interest	171	167	163	163
Other Income	67	121	69	98
<b>Profit before Tax</b>	<b>786</b>	<b>1,185</b>	<b>1,195</b>	<b>1,218</b>
Margin (%)	9.1	12.6	12.4	13.0
Total Tax	9	168	196	503
Effective tax rate (%)	1.1	14.2	16.4	41.3
<b>Profit after Tax</b>	<b>777</b>	<b>1,016</b>	<b>998</b>	<b>715</b>
Minority interest	-	-	-	-
Share Profit from Associates	(15)	(23)	(23)	(26)
<b>Adjusted PAT</b>	<b>762</b>	<b>993</b>	<b>975</b>	<b>690</b>
YoY gr. (%)	(163.6)	(3,004.6)	138.7	1.3
Margin (%)	8.9	10.6	10.2	7.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>762</b>	<b>993</b>	<b>975</b>	<b>690</b>
YoY gr. (%)	(163.6)	(3,004.6)	138.7	1.3
Margin (%)	8.9	10.6	10.2	7.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>762</b>	<b>993</b>	<b>975</b>	<b>690</b>
Avg. Shares O/s (m)	204	204	204	204
<b>EPS (Rs)</b>	<b>3.7</b>	<b>4.9</b>	<b>4.8</b>	<b>3.4</b>

Source: Company Data, PL Research

**Key Financial Metrics**

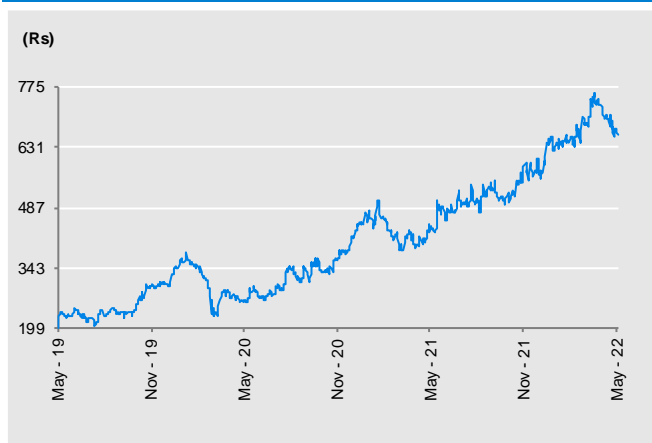
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	(0.7)	16.7	20.2	24.6
CEPS	8.3	25.7	29.8	34.8
BVPS	54.8	72.8	91.9	115.3
FCF	9.4	10.0	(15.3)	12.4
DPS	-	-	1.2	1.2
<b>Return Ratio(%)</b>				
RoCE	(0.1)	25.6	23.8	23.6
ROIC	(0.1)	15.9	14.7	16.2
RoE	(1.3)	26.2	24.6	23.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.4	0.3	0.4	0.3
Net Working Capital (Days)	(12)	5	-	-
<b>Valuation(x)</b>				
PER	(905.9)	37.8	31.3	25.8
P/B	11.6	8.7	6.9	5.5
P/CEPS	76.5	24.6	21.2	18.2
EV/EBITDA	73.3	20.4	18.0	15.1
EV/Sales	5.2	3.6	3.5	3.1
Dividend Yield (%)	-	-	0.2	0.2

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
Flagship hospitals	8,500	13,725	15,377	16,204
Other mature hospitals	8,016	9,464	10,492	11,531
Cayman Island	5,118	6,965	6,900	8,883
New hospitals	2,420	3,510	4,347	5,023
Others	1,035	1,382	1,495	1,619

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	BUY	773	733
2	03-Mar-22	BUY	774	668

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,772	4,537
2	Aster DM Healthcare	BUY	234	193
3	Aurobindo Pharma	Accumulate	759	699
4	Cipla	BUY	1,085	926
5	Divi's Laboratories	Accumulate	4,750	4,448
6	Dr. Reddy's Laboratories	BUY	4,900	3,929
7	Eris Lifesciences	BUY	850	670
8	Fortis Healthcare	BUY	362	271
9	Glenmark Pharmaceuticals	Accumulate	550	477
10	HealthCare Global Enterprises	BUY	316	292
11	Indoco Remedies	BUY	430	350
12	Ipca Laboratories	BUY	1,180	1,002
13	Krishna Institute of Medical Sciences	BUY	1,638	1,262
14	Lupin	Hold	600	635
15	Max Healthcare Institute	BUY	427	355
16	Narayana Hrudayalaya	BUY	773	733
17	Sun Pharmaceutical Industries	BUY	1,050	931
18	Torrent Pharmaceuticals	BUY	3,560	2,753
19	Zydus Lifesciences	BUY	450	357

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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