

Narayana Hrudayalaya

New Cayman unit faring well; maintaining a Buy

Lagging the consensus and in line with ARe, Narayana Hrudayalaya's Q3 results were decent, revenue/EBITDA/PAT rising 14%/10%/3% y/y. Highlights: a) Cayman reported Rs2.8bn/Rs1.2bn revenue/EBITDA, up 14/2% y/y. b) India hospitals' EBITDA was a healthy Rs2bn, up 14% y/y c) India occupancy was 58%. Management iterated its capex plan for the next 3-4 four years; further, it would focus on de-bottlenecking and a better bed mix. In the medium term, the company intends to add ~1,450 beds through greenfield expansions across Bengaluru, Kolkata and Raipur.

EBITDA exceeds ARe but falls short of consensus. Q3 EBITDA was Rs3bn, up 10% y/y, flat q/q, (ARe: Rs2.8bn); adjusted for NHIC losses it was up 12% y/y. Losses in insurance and clinics were Rs144m (Rs138m in Q2). The 9M FY25 loss was Rs402m. Overall margin was 22.5%, down ~70bps y/y. The India business, adjusted for insurance and clinics, reported Rs1.92bn EBITDA, up 15% y/y. Cayman reported \$15.5m EBITDA, up 6% y/y, 37% q/q, with a 44% OPM.

ARPP up 14% y/y. The India business ARPP grew 8% y/y to Rs133,000/day for in-patients, Rs44,000 for out-patients, aided by a better payor mix and lower ALOS. IP volumes rose 4% y/y, OP volumes, 3% y/y, showcasing decent growth despite a sharp drop in international patient volumes. Net debt came at Rs2.8bn.

Outlook. The greater maturity mix in hospitals, steady performance of its flagship hospitals in India and better profitability at new hospitals (SRCC, Gurugram, Dharamshala) solidified the company's position. Management iterated its capex plans and commitment to growing output in the next 3-4 years via de-bottlenecking and a better bed mix. Ahead, the company intends to add ~1,435 beds (greenfield and brownfield) in Bengaluru, Kolkata and Raipur. However, operationalising the new hospitals, which would account for most of the growth, could pose a risk to margins. We expect 14/21/21% revenue/EBITDA/PAT CAGRs over FY25-27.

Valuation. We maintain our Buy recommendation on the stock with an unchanged TP of Rs1,550 based on 12x EV/EBITDA multiple to the Cayman business and 21x EV/EBITDA to the domestic business. **Risks:** Delay in executing projects, price control, dip in international business due to global challenges.

| Key financials (YE Mar) | FY23 | FY24 | FY25e | FY26e | FY27e |
|-------------------------|--------|--------|--------|--------|--------|
| Sales (Rs m) | 45,248 | 50,182 | 56,048 | 61,325 | 72,511 |
| Net profit (Rs m) | 6,062 | 7,893 | 7,940 | 9,485 | 11,623 |
| EPS (Rs) | 29.7 | 38.6 | 38.9 | 46.4 | 56.9 |
| P/E (x) | 45.3 | 34.8 | 34.6 | 29.0 | 23.6 |
| EV / EBITDA (x) | 28.6 | 24.0 | 22.2 | 19.6 | 16.1 |
| P/BV (x) | 12.9 | 9.5 | 7.6 | 6.1 | 4.9 |
| RoE (%) | 33.5 | 31.5 | 24.4 | 23.4 | 23.1 |
| RoCE (%) | 26.9 | 23.6 | 18.9 | 19.2 | 19.3 |
| Dividend yield (%) | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| Net debt / equity (x) | 0.1 | 0.1 | 0.1 | 0.0 | -0.1 |

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price (12-mth): Rs.1,550

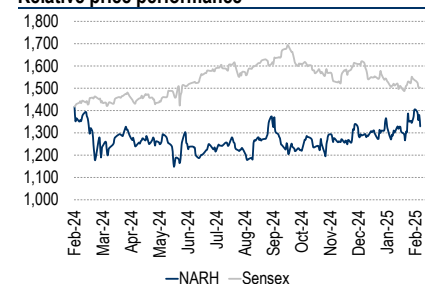
Share Price: Rs 1,369

| Key data | NARH IN / NARY.BO |
|--------------------|----------------------|
| 52-week high / low | Rs1,418 / 1,088 |
| Sensex / Nifty | 75939 / 22933 |
| 3-m average volume | \$4.5m |
| Market cap | Rs.279bn / \$3219.7m |
| Shares outstanding | 204m |

| Shareholding pattern (%) | Dec'24 | Sep'24 | Jun'24 |
|--------------------------|--------|--------|--------|
| Promoters | 63.9 | 63.9 | 63.9 |
| - of which, Pledged | 0.0 | 0.0 | 0.0 |
| Free float | 36.2 | 36.2 | 36.2 |
| - Foreign institutions | 9.5 | 9.7 | 10.0 |
| - Domestic institutions | 8.7 | 7.9 | 8.2 |
| - Public | 17.4 | 17.9 | 17.3 |

| Estimates revision (%) | FY25e | FY26e | FY27e |
|------------------------|-------|-------|-------|
| Sales | 0.4 | 1.0 | 0.8 |
| EBITDA | 0.7 | 1.2 | 0.8 |
| PAT | 0.9 | 1.6 | 1.0 |

Relative price performance



Source: Bloomberg

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Research Analyst

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Research Associate

Quick Glance – Financial and Valuations (consolidated)

Fig 1 – Income statement (Rs m)

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|-------------------------------|--------------|---------------|---------------|---------------|---------------|
| Revenues | 45,248 | 50,182 | 56,048 | 61,325 | 72,511 |
| Growth (%) | 22.2 | 10.9 | 11.7 | 9.4 | 18.2 |
| Raw material | 10,012 | 10,739 | 12,330 | 13,491 | 15,952 |
| Employee & other expens. | 25,578 | 27,920 | 31,106 | 33,729 | 39,881 |
| EBITDA | 9,658 | 11,524 | 12,611 | 14,105 | 16,678 |
| EBITDA margins (%) | 21.3 | 23.0 | 22.5 | 23.0 | 23.0 |
| - Depreciation | 2,100 | 2,421 | 2,475 | 2,742 | 3,092 |
| Other income | 654 | 752 | 940 | 1,006 | 1,066 |
| Interest expense | 695 | 969 | 1,400 | 1,500 | 1,200 |
| PBT | 7,518 | 8,885 | 9,676 | 10,869 | 13,452 |
| Effective tax rates (%) | 19 | 11 | 13 | 15 | 20 |
| + Associates / (Minorities) | 1 | 4 | 4 | 5 | 6 |
| Adj. income | 6,062 | 7,893 | 7,940 | 9,485 | 11,623 |
| Extraord. items (loss)/profit | - | - | - | - | - |
| Reported PAT | 6,062 | 7,893 | 7,940 | 9,485 | 11,623 |
| WANS | 204 | 204 | 204 | 204 | 204 |
| FDEPS (Rs) | 29.7 | 38.6 | 38.9 | 46.4 | 56.9 |

Fig 2 – Balance sheet (Rs m)

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Share capital | 2,044 | 2,044 | 2,044 | 2,044 | 2,044 |
| Net worth | 21,314 | 28,837 | 36,164 | 44,934 | 55,739 |
| Debt | 7,622 | 14,437 | 13,437 | 12,437 | 11,437 |
| Minority interest | 10 | 14 | 18 | 24 | 30 |
| Deferred tax liability / (asset) | 814 | 417 | 417 | 417 | 417 |
| Capital employed | 29,761 | 43,705 | 50,037 | 57,812 | 67,624 |
| Net tangible assets | 20,534 | 24,003 | 31,528 | 37,786 | 41,695 |
| CWIP (tang. and intang.) | 5,422 | 7,650 | 7,650 | 7,650 | 7,650 |
| Investments (strategic) | 2,519 | 8,442 | 49 | 54 | 59 |
| Investments (financial) | - | - | - | - | - |
| Current assets (excl. C&CE) | 9,292 | 11,934 | 14,622 | 15,384 | 16,999 |
| Cash | 3,799 | 4,165 | 8,536 | 10,710 | 17,091 |
| Current Liabilities | 11,804 | 12,487 | 12,347 | 13,772 | 15,869 |
| Working capital | -2,513 | -553 | 2,275 | 1,612 | 1,130 |
| Capital deployed | 29,761 | 43,705 | 50,037 | 57,812 | 67,624 |

Fig 3 – Cashflow statement (Rs m)

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|---------------------------------|---------|---------|--------|--------|--------|
| PBT | 7,518 | 8,885 | 9,132 | 11,165 | 14,537 |
| + Non-cash items | 2,795 | 3,390 | 3,875 | 4,242 | 4,292 |
| Oper. profit before WC changes | 10,313 | 12,276 | 13,007 | 15,406 | 18,829 |
| - Incr./ (decr.) in WC | 127 | 155 | 2,828 | -663 | -482 |
| Others incl. taxes | -661 | 713 | 1,187 | 1,675 | 2,907 |
| Operating cash-flow | 10,846 | 11,408 | 8,992 | 14,394 | 16,404 |
| - Capex (tangible + intangible) | 12,942 | 9,675 | 10,000 | 9,000 | 7,000 |
| Free cash-flow | -2,096 | 1,733 | -1,008 | 5,394 | 9,404 |
| Acquisitions | - | - | - | - | - |
| - Div. (incl. buyback & taxes) | 932 | 1,236 | 2,013 | 2,215 | 2,017 |
| + Equity raised | - | - | - | - | - |
| + Debt raised | 2,174 | 3,682 | -1,000 | -1,000 | -1,000 |
| - Fin. investments | -1,201 | 4,904 | -9,332 | -1,001 | -1,061 |
| - Misc. items (CFI and CFF) | (1,730) | (2,439) | - | - | - |
| Net cash-flow | 2,077 | 1,713 | 5,311 | 3,180 | 7,447 |

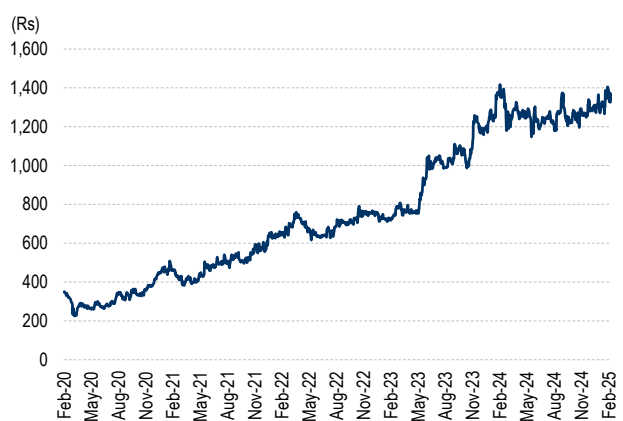
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

| Year-end: Mar | FY23 | FY24 | FY25e | FY26e | FY27e |
|-----------------------|------|------|-------|-------|-------|
| P/E (x) | 45.3 | 34.8 | 34.6 | 29.0 | 23.6 |
| EV / EBITDA (x) | 28.6 | 24.0 | 22.2 | 19.6 | 16.1 |
| EV / Sales (x) | 6.1 | 5.5 | 5.0 | 4.5 | 3.7 |
| P/B (x) | 12.9 | 9.5 | 7.6 | 6.1 | 4.9 |
| RoE (%) | 33.5 | 31.5 | 24.4 | 23.4 | 23.1 |
| RoCE (%) - after tax | 26.9 | 23.6 | 18.9 | 19.2 | 19.3 |
| RoIC (%) - after tax | 33.5 | 31.5 | 24.4 | 23.4 | 23.1 |
| DPS (Rs) | 2.5 | 3.0 | 3.0 | 3.5 | 4.0 |
| Dividend yield (%) | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| Dividend payout (%) | 8.4 | 7.8 | 7.7 | 7.5 | 7.0 |
| Net debt / equity (x) | 0.1 | 0.1 | 0.1 | 0.0 | -0.1 |
| Receivables (days) | 35 | 31 | 36 | 43 | 41 |
| Inventory (days) | 24 | 31 | 34 | 33 | 32 |
| Payables (days) | 194 | 207 | 164 | 144 | 138 |
| CFO : PAT (%) | 179 | 145 | 113 | 152 | 141 |

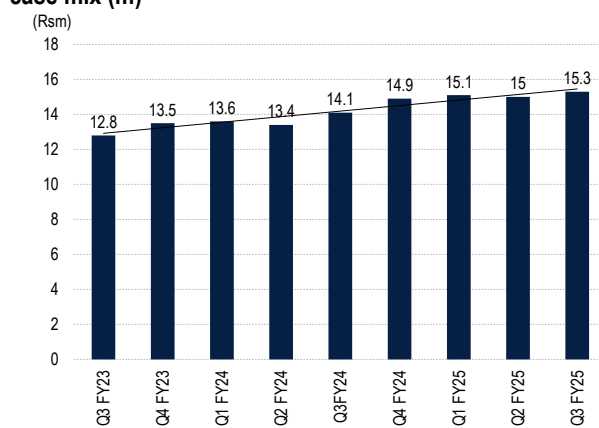
Source: Company, Anand Rathi Research

Fig 5 – Price movement



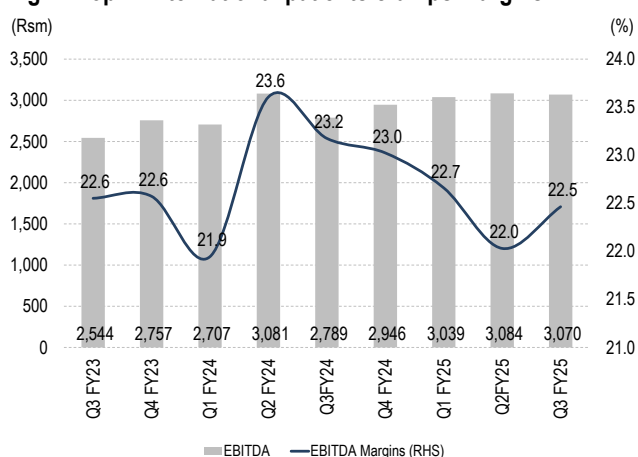
Source: Bloomberg

Fig 6 – Strong ARPOB growth (India business), from a better case mix (m)



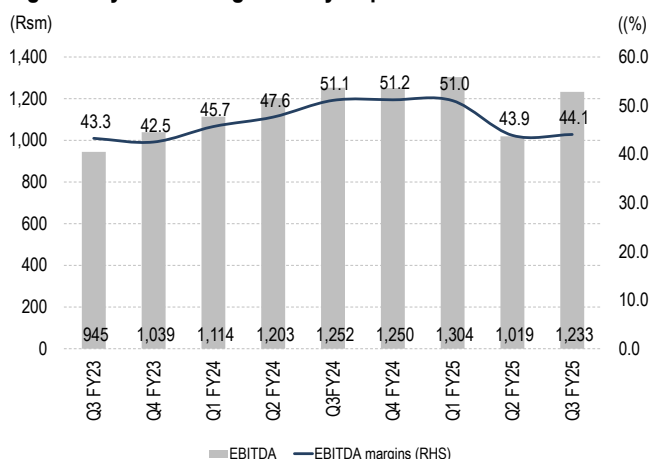
Source: Company

Fig 7 Drop in international patients cramps margins



Source: Company, Anand Rathi Research

Fig 8 – Cayman's margins likely to persist



Source: Company, Anand Rathi Research

Fig 9 – Quarterly trend

| (Rs m) | Q3 FY25 | Q3 FY24 | Y/Y (%) | Q2 FY25 | Q/Q (%) | 9M FY25 | 9M FY24 | Y/Y (%) |
|---------------------------------------|---------------|---------------|-------------|---------------|--------------|---------------|---------------|--------------|
| Revenues | 13,667 | 12,036 | 13.5 | 14,000 | (2.4) | 41,076 | 37,423 | 9.8 |
| Raw material | 2,763 | 2,442 | 13.2 | 3,002 | (8.0) | 8,648 | 8,004 | 8.0 |
| Staff costs | 2,773 | 2,542 | 9.1 | 2,821 | (1.7) | 8,357 | 7,549 | 10.7 |
| Others | 5,061 | 4,262 | 18.7 | 5,093 | (0.6) | 14,879 | 13,292 | 11.9 |
| Total expenditure | 10,597 | 9,247 | 14.6 | 10,916 | (2.9) | 31,883 | 28,846 | 10.5 |
| EBITDA | 3,070 | 2,789 | 10.1 | 3,084 | (0.5) | 9,193 | 8,577 | 7.2 |
| Depreciation | 700 | 632 | 10.7 | 651 | 7.4 | 1,968 | 1,773 | 10.9 |
| EBIT | 2,370 | 2,158 | 9.9 | 2,433 | (2.6) | 7,225 | 6,804 | 6.2 |
| Less: Interest expense | 366 | 251 | 46.0 | 351 | 4.2 | 1,057 | 689 | 53.5 |
| Add: Other income | 184 | 179 | 2.7 | 236 | (22.2) | 655 | 514 | 27.4 |
| Profit before tax | 2,188 | 2,086 | 4.9 | 2,318 | (5.6) | 6,823 | 6,629 | 2.9 |
| Less: Provision for tax | 258 | 205 | 25.8 | 330 | (21.9) | 889 | 641 | 38.8 |
| Less: Minority interest | 1 | 1 | | 2 | | 4 | 3 | |
| Adjusted profit | 1,931 | 1,881 | 2.6 | 1,988 | (2.9) | 5,933 | 5,988 | (0.9) |
| Add: Exceptional items | 0 | 0 | NA | 0 | NA | 0 | 0 | NA |
| Reported profit | 1,929 | 1,880 | 2.6 | 1,986 | (2.9) | 5,929 | 5,986 | (0.9) |
| No. of Diluted shares outstanding (m) | 204 | 204 | | 204 | | 204 | 204 | |
| Adjusted diluted EPS | 9.4 | 9.2 | 2.6 | 9.7 | (2.9) | 29.0 | 29.3 | (0.9) |

As % of net revenues

| | | | | | |
|----------------|------|------|------|------|------|
| Raw material | 20.2 | 20.3 | 21.4 | 21.1 | 21.4 |
| Staff expenses | 20.3 | 21.1 | 20.1 | 20.3 | 20.2 |
| Other expenses | 37.0 | 35.4 | 36.4 | 36.2 | 35.5 |
| EBITDA | 22.5 | 23.2 | 22.0 | 22.4 | 22.9 |
| Net profit | 14.1 | 15.6 | 14.2 | 14.4 | 16.0 |

Source: Company

Valuation

Fig 10 – Change in estimates

| (Rs m) | FY25e | | | FY26e | | | FY27e | | |
|--------------------|--------|--------|----------|--------|--------|----------|--------|--------|----------|
| | Old | New | % Change | Old | New | % Change | Old | New | % Change |
| Revenue | 55,808 | 56,048 | 0.4 | 60,715 | 61,325 | 1.0 | 71,959 | 72,511 | 0.8 |
| EBITDA | 11,983 | 12,067 | 0.7 | 14,229 | 14,401 | 1.2 | 17,622 | 17,763 | 0.8 |
| EBITDA margins (%) | 21.5 | 21.5 | 5.8 | 23.4 | 23.5 | 4.7 | 24.5 | 24.5 | 0.7 |
| PAT | 7,867 | 7,940 | 0.9 | 9,339 | 9,485 | 1.6 | 11,511 | 11,623 | 1.0 |
| EPS | 38.5 | 38.9 | 0.9 | 45.7 | 46.4 | 1.6 | 56.3 | 56.9 | 1.0 |

Source: Anand Rathi Research

The greater maturity mix in hospitals, steady performance of its flagship hospitals in India and better profitability of new hospitals (SRCC, Gurugram, Dharamshala) have solidified the company's position. Management iterated its capex plans and commitment to growing output over the next 3-4 years via debottlenecking and a better bed mix. Ahead, it intends to add ~1,435 beds (greenfield, brownfield) in Bengaluru, Kolkata and Raipur. However, operationalising new hospitals, which would account for most of its growth, could pose a risk to margins.

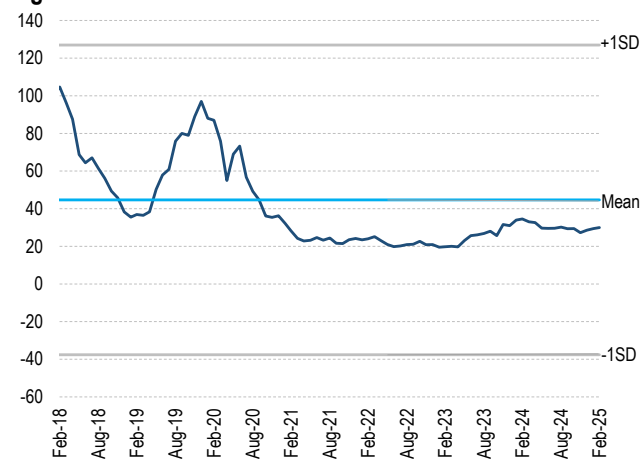
We broadly maintain our estimates for FY25/26/27. We expect 14/21/21% revenue/EBITDA/PAT CAGRs over FY25-27. We retain our Buy recommendation on the stock with an unchanged TP of Rs1,550 based on 12x EV/EBITDA multiple to the Cayman business and 21x EV/EBITDA to the domestic business.

Fig 11 – Valuation

| Valuation | FY27e |
|--|----------------|
| Cayman EBITDA | 4,914 |
| Target EV / EBITDA multiple (Cayman) (x) | 12 |
| Cayman EV | 58,968 |
| India EBITDA | 12,269 |
| Target EV / EBITDA multiple (excl. Cayman) (x) | 21 |
| India EV | 252,734 |
| EBITDA pre-INDAS | 17,183 |
| Enterprise value | 311,702 |
| Total enterprise value (A) | 311,702 |
| Less debt | -5,653 |
| Derived market cap | 317,355 |
| No of shares (m) | 204 |
| Target price (Rs) | 1,550 |
| CMP (Rs) | 1,345 |
| Upside (%) | 15 |

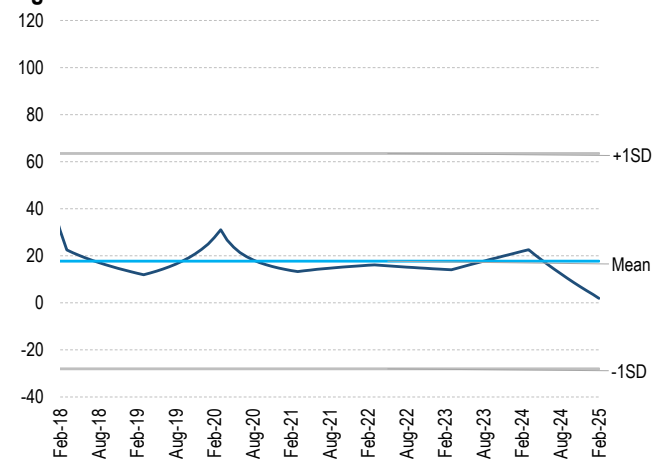
Source: Bloomberg, Anand Rathi Research

Fig 12 - PE chart



Source: Bloomberg, Anand Rathi Research

Fig 13 - PE chart on the short-term mean



Source: Bloomberg, Anand Rathi Research

Risks

- Delay in executing projects; challenges in expanding to adjacent territories
- A slower rate of beds added and inability to retain talent
- Regulatory risks: price control, margin caps, mandatory bed allocation, etc.

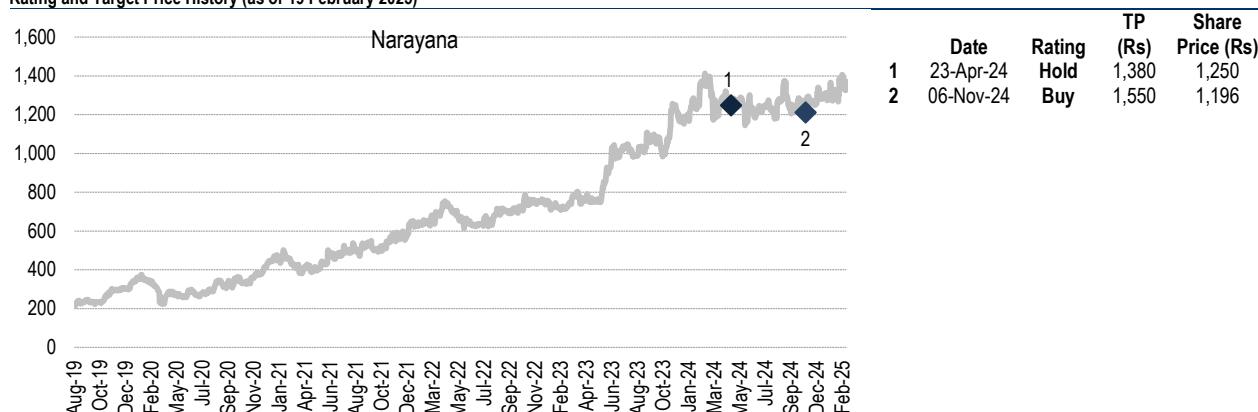
Appendix

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