

August 12, 2022

## Q1FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	810		773	
Sales (Rs. m)	41,724	45,919	39,611	44,259
% Chng.	5.3	3.8		
EBITDA (Rs. m)	8,189	9,494	7,633	8,975
% Chng.	7.3	5.8		
EPS (Rs.)	22.4	26.6	20.2	24.6
% Chng.	10.8	8.3		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	25,823	37,013	41,724	45,919
EBITDA (Rs. m)	1,821	6,535	8,189	9,494
Margin (%)	7.1	17.7	19.6	20.7
PAT (Rs. m)	(143)	3,421	4,581	5,435
EPS (Rs.)	(0.7)	16.7	22.4	26.6
Gr. (%)	(112.0)	(2,493.5)	33.9	18.6
DPS (Rs.)	-	-	1.2	1.2
Yield (%)	-	-	0.2	0.2
RoE (%)	(1.3)	26.2	26.9	24.9
RoCE (%)	(0.1)	25.6	25.9	24.8
EV/Sales (x)	5.6	3.9	3.5	3.2
EV/EBITDA (x)	79.2	22.0	18.0	15.3
PE (x)	(981.0)	41.0	30.6	25.8
P/BV (x)	12.5	9.4	7.3	5.7

### Key Data

NARY.BO | NARH IN

52-W High / Low	Rs.777 / Rs.466
Sensex / Nifty	59,333 / 17,659
Market Cap	Rs.140bn/ \$ 1,761m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.116.54m

### Shareholding Pattern (%)

Promoter's	63.85
Foreign	10.03
Domestic Institution	14.11
Public & Others	12.01
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	7.6	6.1	34.5
Relative	(1.4)	4.0	23.6

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## Strong quarter aided by India business

### Quick Pointers:

- Strong beat despite miss in Cayman operations.
- Capex of Rs10bn on track for FY23.

**NARH reported highest ever profitability in Q1 from its India biz which is sustainable. We see decline in Cayman profitability as blip and should recover from Q2. Our FY23E and FY24E EBITDA stands increased by 7% and 6%. NARH continues with 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 a 'Buy' rating with TP of Rs. 810/share (earlier Rs773/share), based on 20x FY24E EV/EBITDA for India business and 16x EV/EBITDA for Cayman hospitals. At CMP, stock is trading at 16x EV/EBITDA (adj for IND AS) and 26x P/E on FY24E. We expect EBITDA CAGR of 21% over FY22-24E. Despite capex intensity going up, RoE/ RoCE will remain healthy at ~25% by FY24E.**

- EBITDA above estimates; aided by India biz:** NARH reported pre IND AS EBITDA of Rs 1.8bn, above our estimates. Adjusted for St Lucia income/ loss EBITDA was up 54% YoY and 29% QoQ. Cayman reported weak profitability with EBITDA de-growth of 20% YoY and 20% QoQ to Rs631m while India reported highest ever EBITDA of Rs1.3bn up 54% QoQ. Jammu unit reported EBITDA of Rs31mn vs Rs57mn in Q4.
- Revenue grew by 20% YoY (10% QoQ) to Rs10.3bn. ARPOB for India business was flat QoQ to Rs. 33,425 per day. International business contributed 6% to the total India revenues vs 4% in Q4. Discharges were higher 35% YoY for India biz. Cayman reported \$22.7mn (down 7% QoQ) revenues in Q1FY23. Discharges were lower 23% YoY for Cayman biz. Reported PAT of Rs1.1bn (up 45% YoY) vs our estimate of Rs800mn. Net debt sharply declined by Rs.1.58bn to Rs. 829mn after factoring cash sitting in Cayman.
- Key con-call takeaways:** (1) Plan of capital outlay for India and Cayman remains on track to tune of Rs10bn in FY23 however running slightly behind schedule. Spend Rs1.1bn in Q1 (2) From FY23 onwards, Jaipur hospital will be the part of Northern group and Raipur hospital will be the part of Eastern Peripheral (3) Three new hospitals across NCR and Mumbai contributed revenue of Rs.1.05bn and positive EBITDA margin of 6.5% in Q1. Mumbai unit currently enjoys occupancy of +65%. (4) **Cayman-** revenues and profitability was impacted in Q1 due to COVID restrictions and delaying to get visas in terms of getting key talent onboard. Exepect normalization from Q2 onwards. Radiation oncology will be commercialized from Q4FY23 end (5) Combination of high end tertiary and clinical work driving higher ARPOB and margins with lower ALOS. Guided ALOS reduction to 4.1from current levels of 4.6 in next 6-8 quarters. This would be achieved through implementing digital initiatives, upgrading machines in Bangalore, Howrah and Jaipur units. (6) Currently, NH is exploring and evaluating inorganic opportunities in key markets like in Bangalore.

**Exhibit 1: Q1FY23 Result Overview (Rs mn) – EBITDA above our estimates**

(Rs m)	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
<b>Net Sales</b>	<b>10,334</b>	<b>8,598</b>	<b>20.2</b>	<b>9,407</b>	<b>9.9</b>
COGS	2,419	2,154	12.3	2,199	10.0
<i>% of Net Sales</i>	<i>23.4</i>	<i>25.1</i>		<i>23.4</i>	
Employee Cost	2,149	1,906	12.8	1,961	9.6
<i>% of Net Sales</i>	<i>20.8</i>	<i>22.2</i>		<i>20.8</i>	
Other Expenses	3,846	3,201	20.2	3,497	10.0
<i>% of Net Sales</i>	<i>37.2</i>	<i>37.2</i>		<i>37.2</i>	
<b>Total</b>	<b>8,415</b>	<b>7,261</b>	<b>15.9</b>	<b>7,656</b>	<b>9.9</b>
<b>EBITDA</b>	<b>1,920</b>	<b>1,337</b>	<b>43.6</b>	<b>1,751</b>	<b>9.7</b>
<i>Margins (%)</i>	<i>18.6</i>	<i>15.5</i>		<i>18.6</i>	
Other Income	80	67	19.8	98	(18.1)
Interest	151	171	(11.9)	163	(7.4)
Depreciation	475	447	6.1	468	1.5
<b>PBT</b>	<b>1,375</b>	<b>786</b>	<b>75.0</b>	<b>1,218</b>	<b>12.8</b>
Tax	267	9	2,953.6	503	(47.0)
<i>Tax rate %</i>	<i>19.4</i>	<i>1.1</i>		<i>41.3</i>	
<b>PAT</b>	<b>1,108</b>	<b>777</b>	<b>42.6</b>	<b>715</b>	<b>54.9</b>
Share in (loss)/profit of associate	(2)	(15)		(26)	
Minority Interest	-	-		-	
<b>Reported PAT</b>	<b>1,106</b>	<b>762</b>	<b>45.2</b>	<b>690</b>	<b>60.4</b>

Source: Company, PL

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

Revenues (Rs. mn)	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Cayman	1,810	1,723	5.1	1,813	(0.2)
<i>% of Total Sales</i>	<i>17.5</i>	<i>20.2</i>		<i>19.5</i>	
India	8,524	6,815	25.1	7,462	14.2
<i>% of Total Sales</i>	<i>82.5</i>	<i>79.8</i>		<i>80.5</i>	
<b>Total Sales</b>	<b>10,334</b>	<b>8,538</b>	<b>21.0</b>	<b>9,275</b>	<b>11.4</b>

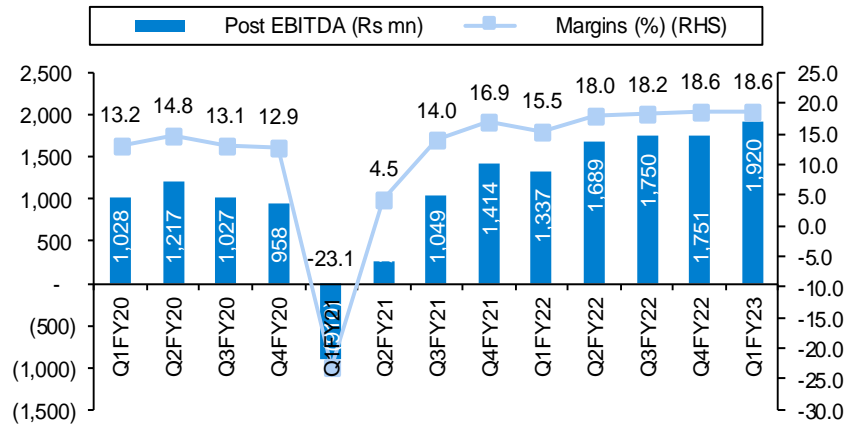
Source: Company, PL

**Exhibit 3: Break-up of EBITDA**

Break up of EBITDA	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Cayman	631	789	(20.0)	791	(20.3)
<i>% OPM</i>	<i>34.8%</i>	<i>45.8%</i>		<i>43.6%</i>	
India	1,299	514	152.6	841	54.4
<i>% OPM</i>	<i>15.2%</i>	<i>7.5%</i>		<i>11.3%</i>	
St Lucia	(10)	46	(121.7)	132	(107.6)

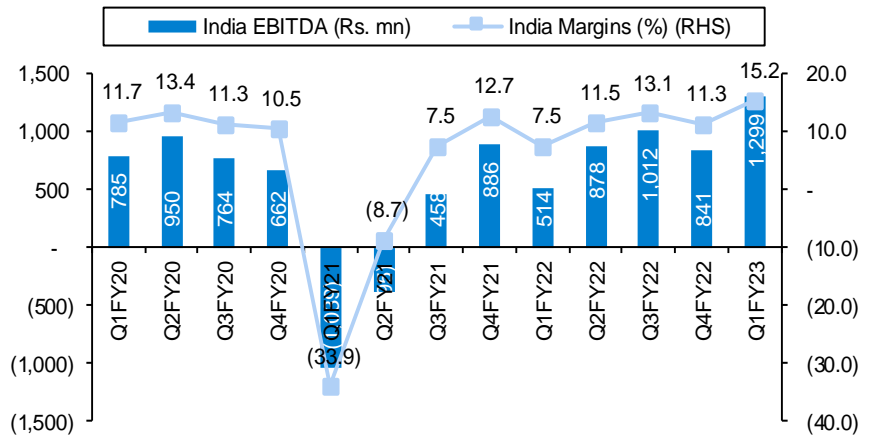
Source: Company, PL

**Exhibit 4: Margins were flat QoQ due to lower profitability in Cayman**



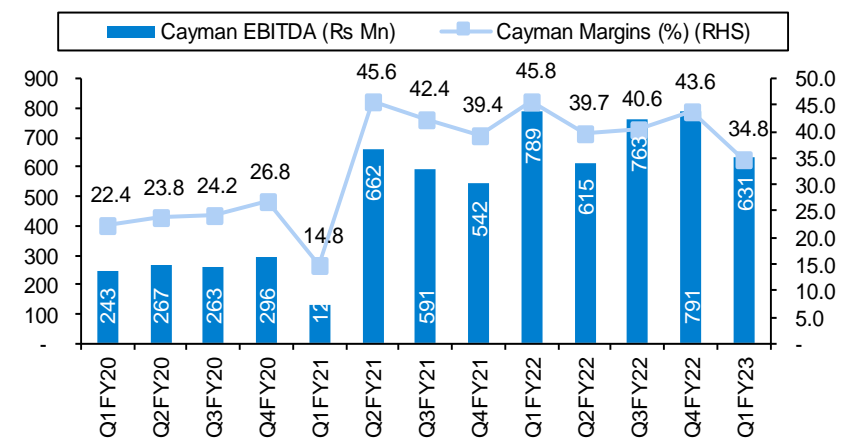
Source: Company, PL

**Exhibit 5: Margin improvement in India led by Bangalore and Northern units**



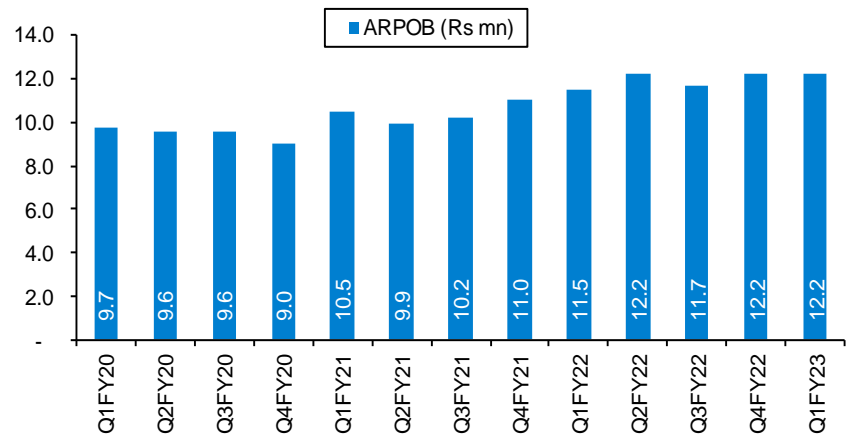
Source: Company, PL

**Exhibit 6: Cayman margins impacted by lower discharges**



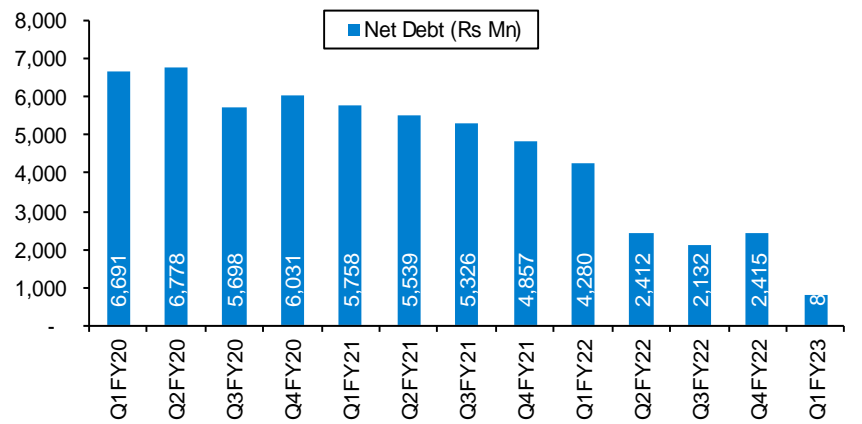
Source: Company, PL

**Exhibit 7: Sequentially stable ARPOB**



Source: Company, PL

**Exhibit 8: Net debt decreased by 1.6bn QOQ**



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>41,724</b>	<b>45,919</b>
YoY gr. (%)	(17.4)	43.3	12.7	10.1
Cost of Goods Sold	6,779	9,092	10,014	11,021
Gross Profit	19,045	27,921	31,710	34,899
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	14,683	15,241
<b>EBITDA</b>	<b>1,821</b>	<b>6,535</b>	<b>8,189</b>	<b>9,494</b>
YoY gr. (%)	(56.9)	258.9	25.3	15.9
Margin (%)	7.1	17.7	19.6	20.7
Depreciation and Amortization	1,835	1,835	1,963	2,101
<b>EBIT</b>	<b>(14)</b>	<b>4,700</b>	<b>6,226</b>	<b>7,394</b>
Margin (%)	(0.1)	12.7	14.9	16.1
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>5,776</b>	<b>6,844</b>
Margin (%)	(1.9)	11.8	13.8	14.9
Total Tax	(418)	877	1,155	1,369
Effective tax rate (%)	84.9	20.0	20.0	20.0
<b>Profit after tax</b>	<b>(75)</b>	<b>3,506</b>	<b>4,621</b>	<b>5,475</b>
Minority interest	-	-	-	-
Share Profit from Associate	(68)	(85)	(40)	(40)
<b>Adjusted PAT</b>	<b>(143)</b>	<b>3,421</b>	<b>4,581</b>	<b>5,435</b>
YoY gr. (%)	(112.0)	(2,493.5)	33.9	18.6
Margin (%)	(0.6)	9.2	11.0	11.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(143)</b>	<b>3,421</b>	<b>4,581</b>	<b>5,435</b>
YoY gr. (%)	(112.0)	(2,493.5)	33.9	18.6
Margin (%)	(0.6)	9.2	11.0	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(143)	3,421	4,581	5,435
<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>22.4</b>	<b>26.6</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>45,910</b>
Tangibles	27,384	29,722	39,722	44,222
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>29,653</b>
Tangibles	17,026	17,529	25,565	27,965
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	914	1,006
Trade receivables	2,785	4,369	4,687	5,158
Cash & Bank Balance	1,321	1,722	993	2,458
Other Current Assets	2,086	2,807	3,429	3,774
<b>Total Assets</b>	<b>27,700</b>	<b>31,297</b>	<b>39,866</b>	<b>44,639</b>
<b>Equity</b>				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	9,159	12,843	17,186	22,384
<b>Total Networkth</b>	<b>11,203</b>	<b>14,886</b>	<b>19,230</b>	<b>24,428</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	5,716	6,290
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>39,866</b>	<b>44,639</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	(492)	4,383	5,776	6,844
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	8,449	9,704
Net Changes-WC	(78)	(1,275)	(36)	(333)
Direct tax	418	(877)	(1,155)	(1,369)
<b>Net cash from Op. activities</b>	<b>2,826</b>	<b>4,850</b>	<b>7,258</b>	<b>8,002</b>
Capital expenditures	(898)	(2,808)	(10,000)	(4,500)
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>(4,500)</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>(729)</b>	<b>1,465</b>
Free Cash Flow	1,927	2,042	(2,742)	3,502

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>9,403</b>	<b>9,596</b>	<b>9,407</b>	<b>10,334</b>
YoY gr. (%)	56.5	27.9	12.3	20.2
Raw Material Expenses	2,375	2,364	2,199	2,419
Gross Profit	7,028	7,233	7,208	7,915
Margin (%)	74.7	75.4	76.6	76.6
<b>EBITDA</b>	<b>1,689</b>	<b>1,750</b>	<b>1,751</b>	<b>1,920</b>
YoY gr. (%)	531.1	66.8	23.8	43.6
Margin (%)	18.0	18.2	18.6	18.6
Depreciation / Depletion	459	461	468	475
<b>EBIT</b>	<b>1,230</b>	<b>1,289</b>	<b>1,283</b>	<b>1,445</b>
Margin (%)	13.1	13.4	13.6	14.0
Net Interest	167	163	163	151
Other Income	121	69	98	80
<b>Profit before Tax</b>	<b>1,185</b>	<b>1,195</b>	<b>1,218</b>	<b>1,375</b>
Margin (%)	12.6	12.4	13.0	13.3
Total Tax	168	196	503	267
Effective tax rate (%)	14.2	16.4	41.3	19.4
<b>Profit after Tax</b>	<b>1,016</b>	<b>998</b>	<b>715</b>	<b>1,108</b>
Minority interest	-	-	-	-
Share Profit from Associates	(23)	(23)	(26)	(2)
<b>Adjusted PAT</b>	<b>993</b>	<b>975</b>	<b>690</b>	<b>1,106</b>
YoY gr. (%)	(3,004.6)	138.7	1.3	45.2
Margin (%)	10.6	10.2	7.3	10.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>993</b>	<b>975</b>	<b>690</b>	<b>1,106</b>
YoY gr. (%)	(3,004.6)	138.7	1.3	45.2
Margin (%)	10.6	10.2	7.3	10.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>993</b>	<b>975</b>	<b>690</b>	<b>1,106</b>
Avg. Shares O/s (m)	204	204	204	204
<b>EPS (Rs)</b>	<b>4.9</b>	<b>4.8</b>	<b>3.4</b>	<b>5.4</b>

Source: Company Data, PL Research

**Key Financial Metrics**

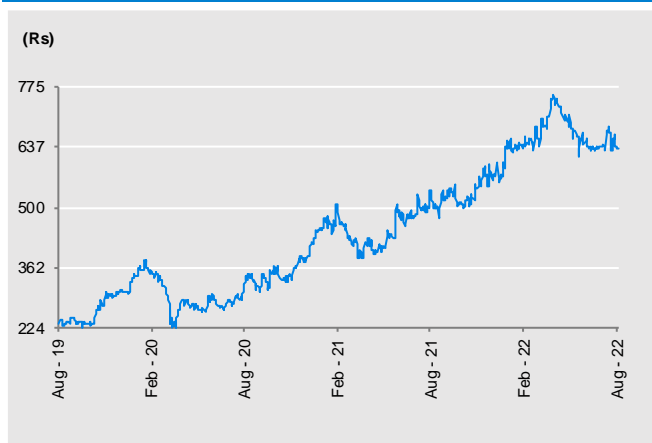
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	(0.7)	16.7	22.4	26.6
CEPS	8.3	25.7	32.0	36.9
BVPS	54.8	72.8	94.1	119.5
FCF	9.4	10.0	(13.4)	17.1
DPS	-	-	1.2	1.2
<b>Return Ratio(%)</b>				
RoCE	(0.1)	25.6	25.9	24.8
ROIC	(0.1)	15.9	16.0	17.5
RoE	(1.3)	26.2	26.9	24.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.4	0.3	0.4	0.2
Net Working Capital (Days)	(12)	5	(1)	(1)
<b>Valuation(x)</b>				
PER	(981.0)	41.0	30.6	25.8
P/B	12.5	9.4	7.3	5.7
P/CEPS	82.9	26.7	21.4	18.6
EV/EBITDA	79.2	22.0	18.0	15.3
EV/Sales	5.6	3.9	3.5	3.2
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	16,053	16,884
Other mature hospitals	8,016	9,422	11,422	12,756
Cayman Island	5,118	6,965	7,208	8,379
New hospitals	2,420	3,630	4,347	5,081
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	07-Jul-22	BUY	773	639
2	24-May-22	BUY	773	634
3	08-Apr-22	BUY	773	733
4	03-Mar-22	BUY	774	668

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	269
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	347	274
11	Indoco Remedies	BUY	430	396
12	Ipca Laboratories	BUY	1,085	946
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,600	1,220
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	370
17	Narayana Hrudayalaya	BUY	773	639
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	425	364

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

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%

## ANALYST CERTIFICATION

### (Indian Clients)

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