

September 6, 2022

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	810		810	
Sales (Rs. m)	41,724	45,919	41,724	45,919
% Chng.	-	-	-	-
EBITDA (Rs. m)	8,189	9,494	8,189	9,494
% Chng.	-	-	-	-
EPS (Rs.)	22.4	26.6	22.4	26.6
% Chng.	-	-	-	-

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)	5.8	4.0	3.6	3.3
EV/EBITDA (x)	81.6	22.7	18.6	15.8
PE (x)	(1,012.2)	42.3	31.6	26.6
P/BV (x)	12.9	9.7	7.5	5.9

Key Data

NARY.BO | NARH IN

52-W High / Low	Rs.777 / Rs.492
Sensex / Nifty	59,246 / 17,666
Market Cap	Rs.145bn / \$ 1,812m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.144.33m

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	11.6	8.1	37.5
Relative	10.0	(0.9)	35.0

Param Desai

paramdesai@plindia.com | 91-22-66322259

Sanketa Kohale

sanketakohale@plindia.com | 91-22-66322426

Acquires 100 bed unit in Health City, Bangalore

Narayana Hrudayalaya (NARH) recently signed an agreement with Shiva and Shiva Orthopaedic Hospital to acquire its 100 beds Orthopedic and Trauma Hospital in Bengaluru on slump sale basis for Rs2.8bn (Rs800mn to be recovered after 4 years). Though acquisition looks expensive, it will offer entire spectrum of services in Health City. We see limited impact on financials given small deal size, besides the said acquisition is in-line with guidance of Rs10bn capex as guided by mgmt. for FY23.

We believe NARH's aggressive capex plans in India along with Cayman operations over next 2-3 years will enhance growth visibility beyond FY24. Additionally, company's ability to generate healthy margins/profitability in new Cayman unit will be a key monitorable. We are factoring \$10mn EBITDA from Cayman's new unit in FY24. Overall we expect EBITDA CAGR of 22% over FY22-FY24E and maintain 'Buy' rating at TP of Rs. 810/share, based on 20x FY24E EV/EBITDA for India business and 16x EV/EBITDA for Cayman hospitals. At CMP, the stock is trading at 16x EV/EBITDA (adj for IND AS) and 27x P/E on FY24E.

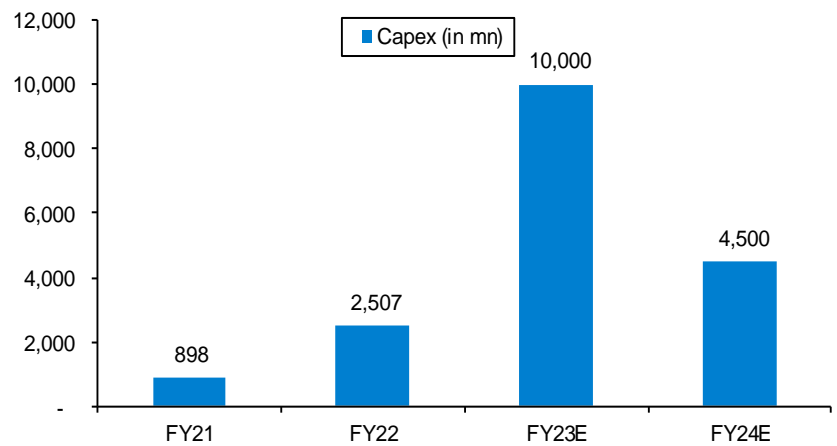
- Contours of the transaction:** NARH signed a Business Transfer Agreement (BTA) with Shiva and Shiva Orthopaedic hospital (Sparsh Hosur Road unit) located in Narayana Health City Campus, Bangalore where NARH already has two flagship hospitals operational: **NH Cardiac sciences** (offers only cardiac related services) and **Mazumdar Shaw Medical center** (multi-specialty hospital offering other than cardiac, orthopaedic, and trauma services). The company agreed to pay Rs2bn upfront and subscribe for Rs. 800mn Optionally Convertible Debentures (OCDs) to be redeemed after 4 years. NARH would have the right to convert OCDs into equity shares of the company (Shiva) in case of default. There is no intent from NARH to acquire other units of Shiva and the acquisition will be completed before CY Dec-22.
- Expensive acquisition, but NARH to offer entire spectrum of services in Health City:** Sparsh unit possesses 100 beds operational since a decade that has generated Rs490mn and Rs180mn revenues in FY22 and FY23 (4 months) along with healthy profitability. Flagship units of NARH in Health City generates +25-30% OPM. Assuming similar profitability levels, acquisition works out to be 16-17x EV/EBITDA and Rs 28mn/bed in FY22. Prima facie acquisition is expensive (typically cost/bed including land in metros is Rs14-15mn/bed), however it allows NARH to offer entire spectrum of healthcare services in Health city. Assuming Rs800mn money flow back to NARH after 4 years, acquisition works out to be at 12-13x EV/EBITDA and Rs20mn/bed.
- Stepping up capex across India and Cayman:** NARH has earmarked Rs10bn of capex in FY23 which includes new Cayman unit, inorganic opportunities and greenfield/ brownfield expansion in India business. The company's flagship units in Health city are running at optimum utilization levels thereby earmarking brownfield capex amounting to Rs5bn over next 3 years in entire Health City. There is also provision to enhance capacity in Sparsh unit. Currently, NARH has net debt of Rs. 800mn and is generating strong FCF across business.

Exhibit 1: NARH Bangalore units financials

Bangalore units	FY21	FY22	Q1FY23
Bangalore unit revenues	6,321	9,125	2,864
% of hospital operating revenues	32.0	32.0	35.0
YoY growth (%)	-36.0	48.0	56.0
% of hospital operating beds	30.0	28.0	27.0
ARPOB	12.5	14.1	14.5
EBITDAR (%)	10.4	23.4	32.8
EBITDAR (INR mn)	657	2,135	939

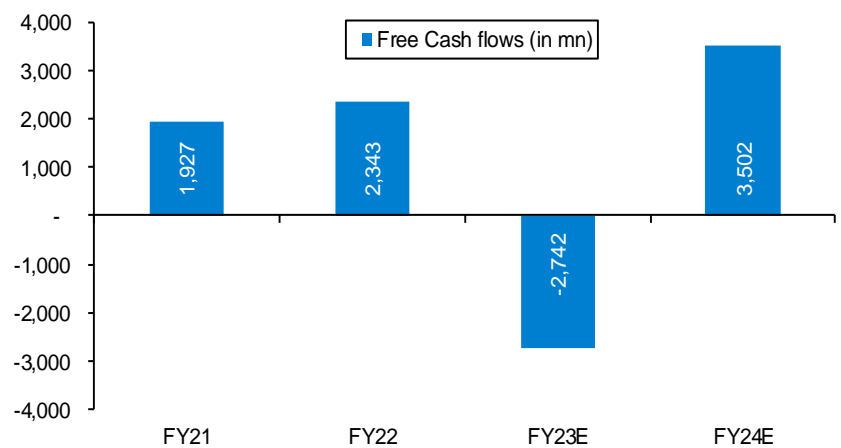
Source: Company, PL (Note: Bangalore units includes NICS, MSMC and HSR)

Exhibit 2: Aggressive capex planned in FY23



Source: Company, PL

Exhibit 3: Strong free cash flow generation



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	25,823	37,013	41,724	45,919
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
EBITDA	1,821	6,535	8,189	9,494
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
EBIT	(14)	4,700	6,226	7,394
Margin (%)	(0.1)	12.7	14.9	16.1
Net Interest	760	663	750	800
Other Income	282	346	300	250
Profit Before Tax	(492)	4,383	5,776	6,844
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
Profit after tax	(75)	3,506	4,621	5,475
Minority interest	-	-	-	-
Share Profit from Associate	(68)	(85)	(40)	(40)
Adjusted PAT	(143)	3,421	4,581	5,435
YoY gr. (%)	(112.0)	(2,493.5)	33.9	18.6
Margin (%)	(0.6)	9.2	11.0	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(143)	3,421	4,581	5,435
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
Equity Shares O/s (m)	204	204	204	204
EPS (Rs)	(0.7)	16.7	22.4	26.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	29,386	31,410	41,410	45,910
Tangibles	27,384	29,722	39,722	44,222
Intangibles	2,002	1,689	1,689	1,689
Acc: Dep / Amortization	10,358	12,193	14,156	16,257
Tangibles	10,358	12,193	14,156	16,257
Intangibles	-	-	-	-
Net fixed assets	19,028	19,217	27,254	29,653
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	-	-	-	-
Current Assets				
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
Total Assets	27,700	31,297	39,866	44,639
Equity				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	9,159	12,843	17,186	22,384
Total Network	11,203	14,886	19,230	24,428
Non-Current Liabilities				
Long Term borrowings	5,253	5,449	8,449	7,449
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
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
Total Equity & Liabilities	27,700	31,297	39,866	44,639

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)
Net cash from Op. activities	2,826	4,850	7,258	8,002
Capital expenditures	(898)	(2,808)	(10,000)	(4,500)
Interest / Dividend Income	-	-	-	-
Others	342	140	-	-
Net Cash from Inv. activities	(556)	(2,668)	(10,000)	(4,500)
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)	-	-
Net cash from Fin. activities	(2,097)	(1,781)	2,013	(2,037)
Net change in cash	173	401	(729)	1,465
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
Net Revenue	9,403	9,596	9,407	10,334
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
EBITDA	1,689	1,750	1,751	1,920
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
EBIT	1,230	1,289	1,283	1,445
Margin (%)	13.1	13.4	13.6	14.0
Net Interest	167	163	163	151
Other Income	121	69	98	80
Profit before Tax	1,185	1,195	1,218	1,375
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
Profit after Tax	1,016	998	715	1,108
Minority interest	-	-	-	-
Share Profit from Associates	(23)	(23)	(26)	(2)
Adjusted PAT	993	975	690	1,106
YoY gr. (%)	(3,004.6)	138.7	1.3	45.2
Margin (%)	10.6	10.2	7.3	10.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	993	975	690	1,106
YoY gr. (%)	(3,004.6)	138.7	1.3	45.2
Margin (%)	10.6	10.2	7.3	10.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	993	975	690	1,106
Avg. Shares O/s (m)	204	204	204	204
EPS (Rs)	4.9	4.8	3.4	5.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
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
Return Ratio(%)				
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
Balance Sheet				
Net Debt : Equity (x)	0.4	0.3	0.4	0.2
Net Working Capital (Days)	(12)	5	(1)	(1)
Valuation(x)				
PER	(1,012.2)	42.3	31.6	26.6
P/B	12.9	9.7	7.5	5.9
P/CEPS	85.5	27.5	22.1	19.2
EV/EBITDA	81.6	22.7	18.6	15.8
EV/Sales	5.8	4.0	3.6	3.3
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	12-Aug-22	BUY	810	686
2	07-Jul-22	BUY	773	639
3	24-May-22	BUY	773	634
4	08-Apr-22	BUY	773	733
5	03-Mar-22	BUY	774	668

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	4,313
2	Aster DM Healthcare	BUY	234	204
3	Aurobindo Pharma	Accumulate	635	593
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,140	3,726
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	358	284
11	Indoco Remedies	BUY	430	396
12	Ipca Laboratories	Hold	1,010	1,016
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,204
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	362
17	Narayana Hrudayalaya	BUY	810	686
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)

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

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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