

November 14, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	900		810	
Sales (Rs. m)	48,640	52,228	45,919	49,577
% Chng.	5.9	5.3		
EBITDA (Rs. m)	10,140	11,291	9,494	10,749
% Chng.	6.8	5.0		
EPS (Rs.)	29.3	33.1	26.6	30.9
% Chng.	10.2	6.9		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	37,013	43,436	48,640	52,228
EBITDA (Rs. m)	6,535	8,829	10,140	11,291
Margin (%)	17.7	20.3	20.8	21.6
PAT (Rs. m)	3,421	5,343	5,991	6,755
EPS (Rs.)	16.7	26.1	29.3	33.1
Gr. (%)	(2,493.5)	56.2	12.1	12.7
DPS (Rs.)	-	1.2	1.2	1.2
Yield (%)	-	0.2	0.2	0.2
RoE (%)	26.2	30.6	26.2	23.3
RoCE (%)	25.6	28.2	24.9	23.5
EV/Sales (x)	4.2	3.6	3.3	3.0
EV/EBITDA (x)	23.7	17.9	15.8	13.9
PE (x)	44.2	28.3	25.2	22.4
P/BV (x)	10.2	7.6	5.9	4.7

Key Data

NARY.BO | NARH IN

52-W High / Low	Rs.820 / Rs.530
Sensex / Nifty	61,795 / 18,350
Market Cap	Rs.151bn / \$ 1,871m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.277.51m

Shareholding Pattern (%)

Promoter's	63.85
Foreign	9.55
Domestic Institution	16.18
Public & Others	10.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.2	10.7	29.5
Relative	(3.6)	(3.1)	25.5

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Strong beat aided by India and Cayman unit

Quick Pointers:

- Highest ever profitability reported across India and Cayman unit.
- Capex of Rs10bn annually in FY23 and FY24.

Narayana Hrudayalaya (NARH) reported highest ever profitability in Q2 from its both Cayman (EBITDA of \$ 12.7mn; up 65% YoY) & India biz (EBITDA of Rs. 1.5bn; up 71% YoY). We expect this growth momentum to sustain. The company plans to continue with its aggressive capex plan for next 2-3 years, which will aid in enhancing growth visibility beyond FY24. However, it may increase debt and impact return ratios in near term too.

We expect EBITDA CAGR of 20% over FY22-25E. Our FY23E-25E EBITDA stand increase by 4-8%. Despite capex intensity going up, RoE/ RoCE will remain healthy at ~25%. We maintain 'Buy' rating with revised TP of Rs. 900/share (earlier Rs810/share), based on 20x Sept 2024E EV/EBITDA for India business and 16x EV/EBITDA for Cayman hospitals. At CMP, stock is trading at attractive valuations of 15.5x EV/EBITDA (adj for IND AS) and 25x P/E on FY24E.

- **EBITDA above estimates; aided by India and Cayman biz:** NARH reported pre IND AS EBITDA of Rs 2.3bn, above our estimates. Adjusted for St Lucia's one-time EBITDA loss of Rs.85mn in Q2, EBITDA came in at Rs.2.4bn, up 33% QoQ and 79% YoY (20% above our estimates of Rs. 2bn). India biz continues to report strong EBITDA of Rs1.5bn; up 16% QoQ and 71% YoY. The sequential growth was aided by seasonality and better occupancy across units. Cayman reported EBITDA of USD 12.7mn vs USD 7.9mn in Q1 and USD 7.8mn in Q2FY22. OPM of 44%, up 900 bps QoQ and 400bps YoY.
- Revenue grew by 21% YoY (11% QoQ) to Rs11.4bn. ARPOB for India business was up 1% QoQ to Rs. 33,699 per day. International biz contribution was at 8% of total revenues vs 6% in Q1. Discharges were higher by 20% YoY for India biz. Cayman reported \$29.1mn (up 28% QoQ) revenues in Q2FY23. Other income came in higher at Rs 312mn which includes Rs160mn of one-off income. Discharges were lower 8% YoY for Cayman biz, however ARPOB was up 11% YoY and QoQ. Reported PAT was at Rs1.7bn (up 70% YoY) vs our estimate of Rs 1.3bn. Net debt increased by Rs.1.9bn to Rs2.7bn, due to the recent acquisition of Ortho and trauma unit.
- **Key con-call takeaways:** (1) Plan of capital outlay for India and Cayman remains on track to tune of Rs10bn in FY23. So far spend Rs3bn towards acquisition, \$40mn spend for Cayman unit in FY23. Company guided for similar Rs10bn capex in FY24 largely towards India business— Brownfield expansion in Bangalore units, greenfield expansion across Kolkata and Raipur unit. (2) **New Hospitals:** Highest ever revenue reported across 3 units. Dharamshila reported +8% margin, while Gurgaon unit have break-even. Mumbai unit should break-even in next 6-9 months (3) **Cayman** - revenues and profitability grew QoQ aided by better case mix and higher outpatient volumes. Radiation oncology will be commercialized from Q4FY23 end and full IPD new facility in FY24 (4) Combination of high end tertiary and clinical work driving higher ARPOB and margins with lower ALOS. This would be achieved through implementing digital initiatives, upgrading machines in Bangalore, Howrah and Jaipur units.

Exhibit 1: Q2FY23 Result Overview (Rs mn) – EBITDA above our estimates

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Net Sales	11,416	9,403	21.4	10,334	10.5
COGS	2,572	2,375	8.3	2,419	6.3
<i>% of Net Sales</i>	<i>22.5</i>	<i>25.3</i>		<i>23.4</i>	
Employee Cost	2,173	1,893	14.8	2,149	1.1
<i>% of Net Sales</i>	<i>19.0</i>	<i>20.1</i>		<i>20.8</i>	
Other Expenses	4,235	3,446	22.9	3,846	10.1
<i>% of Net Sales</i>	<i>37.1</i>	<i>36.6</i>		<i>37.2</i>	
Total	8,979	7,714	16.4	8,415	6.7
EBITDA	2,437	1,689	44.3	1,920	26.9
<i>Margins (%)</i>	<i>21.3</i>	<i>18.0</i>		<i>18.6</i>	
Other Income	312	121	157.3	80	290.2
Interest	151	167	(9.4)	151	0.2
Depreciation	489	459	6.6	475	3.1
PBT	2,109	1,185	78.0	1,375	53.4
Tax	420	168	149.5	267	57.7
<i>Tax rate %</i>	<i>19.9</i>	<i>14.2</i>		<i>19.4</i>	
PAT	1,689	1,016	66.2	1,108	52.4
Share in (loss)/profit of associate	(0)	(23)		(2)	
Minority Interest	-	-		-	
Reported PAT	1,689	993	70.0	1,106	52.6

Source: Company, PL

Exhibit 2: Break-up of Revenues

Revenues (Rs. mn)	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Cayman	2,322	1,550	49.8	1,810	28.3
<i>% of Total Sales</i>	<i>20.3</i>	<i>16.9</i>		<i>17.5</i>	
India	9,102	7,638	19.2	8,524	6.8
<i>% of Total Sales</i>	<i>79.7</i>	<i>83.1</i>		<i>82.5</i>	
Total Sales	11,424	9,188	24.3	10,334	10.5

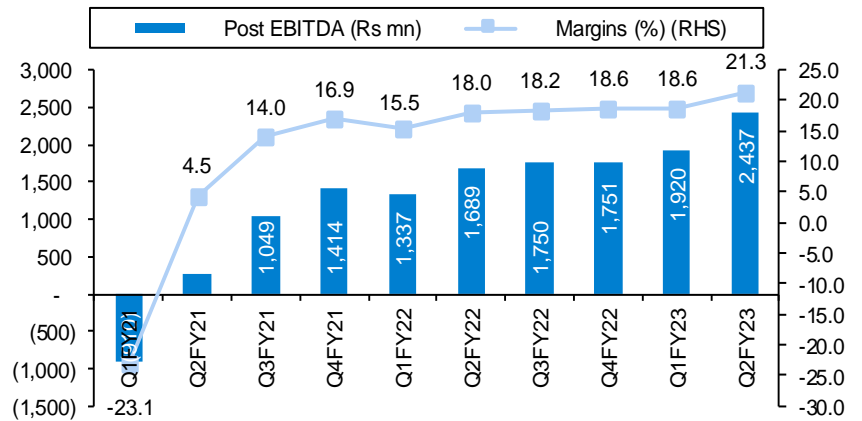
Source: Company, PL

Exhibit 3: Break-up of EBITDA

Break up of EBITDA	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Cayman	1,019	615	65.6	631	61.5
<i>% OPM</i>	<i>43.9</i>	<i>39.7</i>		<i>34.8</i>	
India	1,503	878	71.2	1,299	15.7
<i>% OPM</i>	<i>16.5</i>	<i>11.5</i>		<i>15.2</i>	
St Lucia	(85)	215	(139.5)	(10)	750.0

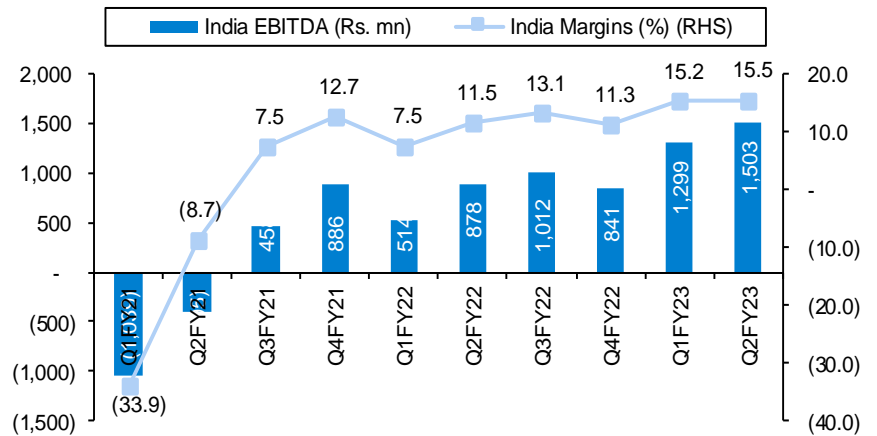
Source: Company, PL

Exhibit 4: Higher margins due to profitability across regions



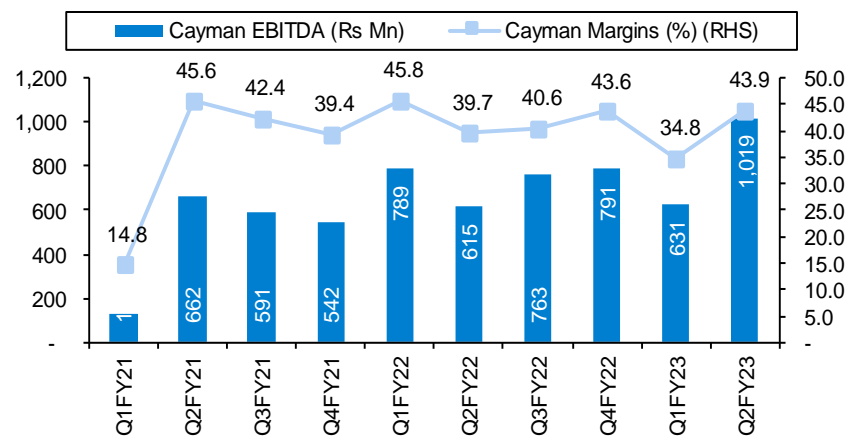
Source: Company, PL

Exhibit 5: Margin improvement in India aided by better utilization



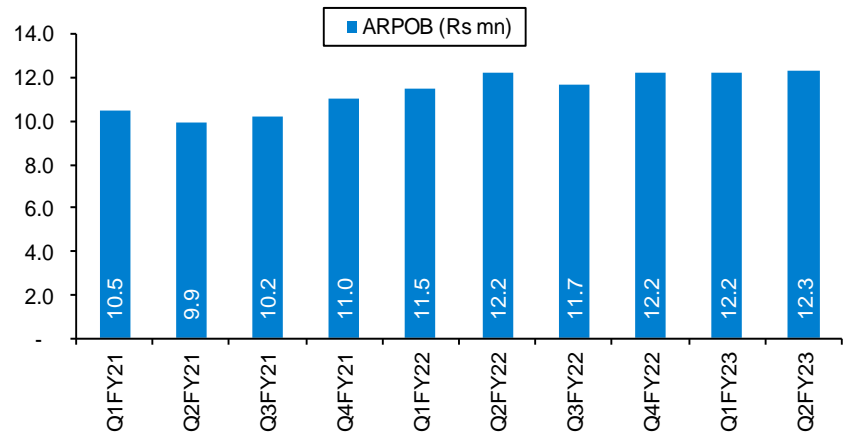
Source: Company, PL

Exhibit 6: Cayman margins improved on better case mix and higher volumes



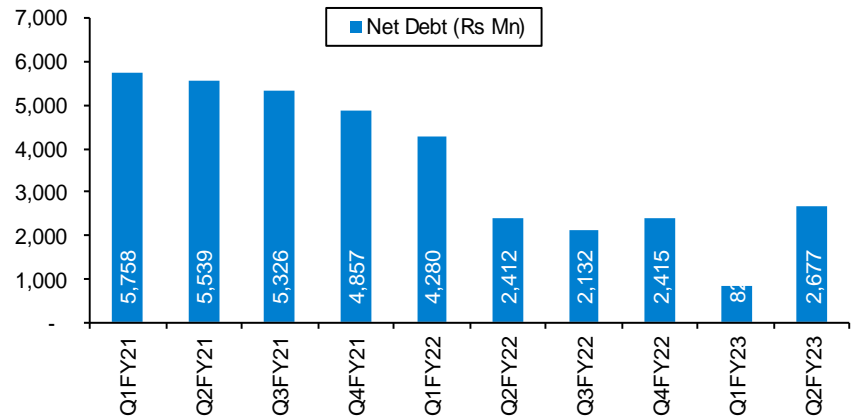
Source: Company, PL

Exhibit 7: ARPOB growth to sustain



Source: Company, PL

Exhibit 8: Net debt increased by 1.85bn QoQ on acquisition



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	37,013	43,436	48,640	52,228
YoY gr. (%)	43.3	17.4	12.0	7.4
Cost of Goods Sold	9,092	10,425	11,674	12,535
Gross Profit	27,921	33,011	36,966	39,694
Margin (%)	75.4	76.0	76.0	76.0
Employee Cost	7,685	8,837	10,163	11,687
Other Expenses	13,701	15,345	16,664	16,715
EBITDA	6,535	8,829	10,140	11,291
YoY gr. (%)	258.9	35.1	14.8	11.4
Margin (%)	17.7	20.3	20.8	21.6
Depreciation and Amortization	1,835	1,963	2,101	2,248
EBIT	4,700	6,866	8,039	9,043
Margin (%)	12.7	15.8	16.5	17.3
Net Interest	663	700	800	800
Other Income	346	550	300	250
Profit Before Tax	4,383	6,716	7,539	8,493
Margin (%)	11.8	15.5	15.5	16.3
Total Tax	877	1,343	1,508	1,699
Effective tax rate (%)	20.0	20.0	20.0	20.0
Profit after tax	3,506	5,373	6,031	6,795
Minority interest	-	-	-	-
Share Profit from Associate	(85)	(30)	(40)	(40)
Adjusted PAT	3,421	5,343	5,991	6,755
YoY gr. (%)	(2,493.5)	56.2	12.1	12.7
Margin (%)	9.2	12.3	12.3	12.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,421	5,343	5,991	6,755
YoY gr. (%)	(2,493.5)	56.2	12.1	12.7
Margin (%)	9.2	12.3	12.3	12.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,421	5,343	5,991	6,755
Equity Shares O/s (m)	204	204	204	204
EPS (Rs)	16.7	26.1	29.3	33.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	31,410	41,410	51,410	55,910
Tangibles	29,722	39,722	49,722	54,222
Intangibles	1,689	1,689	1,689	1,689
Acc: Dep / Amortization	12,193	14,156	16,257	18,505
Tangibles	12,193	14,156	16,257	18,505
Intangibles	-	-	-	-
Net fixed assets	19,217	27,254	35,153	37,406
Tangibles	17,529	25,565	33,465	35,717
Intangibles	1,689	1,689	1,689	1,689
Capital Work In Progress	669	669	669	669
Goodwill	581	581	581	581
Non-Current Investments	1,324	1,324	1,324	1,324
Net Deferred tax assets	(496)	(496)	(496)	(496)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	594	952	1,066	1,145
Trade receivables	4,369	4,879	5,464	5,867
Cash & Bank Balance	1,722	1,619	1,060	3,040
Other Current Assets	2,807	3,570	3,998	4,293
Total Assets	31,297	40,862	49,329	54,338
Equity				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	12,843	17,948	23,702	30,220
Total Networkth	14,886	19,992	25,746	32,263
Non-Current Liabilities				
Long Term borrowings	5,449	8,449	10,449	8,449
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,490	5,950	6,663	7,155
Other current liabilities	4,169	4,169	4,169	4,169
Total Equity & Liabilities	31,297	40,862	49,329	54,338

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	4,383	6,716	7,539	8,493
Add. Depreciation	1,835	1,963	2,101	2,248
Add. Interest	663	700	800	800
Less Financial Other Income	346	550	300	250
Add. Other	121	(30)	(40)	(40)
Op. profit before WC changes	7,002	9,349	10,400	11,501
Net Changes-WC	(1,275)	(172)	(414)	(285)
Direct tax	(877)	(1,343)	(1,508)	(1,699)
Net cash from Op. activities	4,850	7,834	8,478	9,517
Capital expenditures	(2,507)	(10,000)	(10,000)	(4,500)
Interest / Dividend Income	-	-	-	-
Others	(162)	-	-	-
Net Cash from Inv. activities	(2,669)	(10,000)	(10,000)	(4,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	195	3,000	2,000	(2,000)
Dividend paid	-	(237)	(237)	(237)
Interest paid	(663)	(700)	(800)	(800)
Others	(1,312)	-	-	-
Net cash from Fin. activities	(1,780)	2,063	963	(3,037)
Net change in cash	401	(103)	(559)	1,980
Free Cash Flow	2,343	(2,166)	(1,522)	5,017

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	9,596	9,407	10,334	11,416
YoY gr. (%)	27.9	12.3	20.2	21.4
Raw Material Expenses	2,364	2,199	2,419	2,572
Gross Profit	7,233	7,208	7,915	8,844
Margin (%)	75.4	76.6	76.6	77.5
EBITDA	1,750	1,751	1,920	2,437
YoY gr. (%)	66.8	23.8	43.6	44.3
Margin (%)	18.2	18.6	18.6	21.3
Depreciation / Depletion	461	468	475	489
EBIT	1,289	1,283	1,445	1,948
Margin (%)	13.4	13.6	14.0	17.1
Net Interest	163	163	151	151
Other Income	69	98	80	312
Profit before Tax	1,195	1,218	1,375	2,109
Margin (%)	12.4	13.0	13.3	18.5
Total Tax	196	503	267	420
Effective tax rate (%)	16.4	41.3	19.4	19.9
Profit after Tax	998	715	1,108	1,689
Minority interest	-	-	-	-
Share Profit from Associates	(23)	(26)	(2)	-
Adjusted PAT	975	690	1,106	1,689
YoY gr. (%)	138.7	1.3	45.2	70.0
Margin (%)	10.2	7.3	10.7	14.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	975	690	1,106	1,689
YoY gr. (%)	138.7	1.3	45.2	70.0
Margin (%)	10.2	7.3	10.7	14.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	975	690	1,106	1,689
Avg. Shares O/s (m)	204	204	204	204
EPS (Rs)	4.8	3.4	5.4	8.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	16.7	26.1	29.3	33.1
CEPS	25.7	35.7	39.6	44.1
BVPS	72.8	97.8	126.0	157.9
FCF	11.5	(10.6)	(7.4)	24.6
DPS	-	1.2	1.2	1.2
Return Ratio(%)				
RoCE	25.6	28.2	24.9	23.5
ROIC	15.9	17.5	16.7	17.6
RoE	26.2	30.6	26.2	23.3
Balance Sheet				
Net Debt : Equity (x)	0.3	0.3	0.4	0.2
Net Working Capital (Days)	5	(1)	(1)	(1)
Valuation(x)				
PER	44.2	28.3	25.2	22.4
P/B	10.2	7.6	5.9	4.7
P/CEPS	28.8	20.7	18.7	16.8
EV/EBITDA	23.7	17.9	15.8	13.9
EV/Sales	4.2	3.6	3.3	3.0
Dividend Yield (%)	-	0.2	0.2	0.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Flagship hospitals	13,725	16,353	17,634	18,560
Other mature hospitals	9,422	11,742	13,499	15,203
Cayman Island	6,965	8,299	9,606	10,140
New hospitals	3,630	4,347	5,081	5,369
Others	1,382	1,495	1,619	1,756

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	810	715
2	06-Sep-22	BUY	810	708
3	12-Aug-22	BUY	810	686
4	07-Jul-22	BUY	773	639
5	24-May-22	BUY	773	634
6	08-Apr-22	BUY	773	733
7	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	4,391
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	336
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,467
15	Lupin	Hold	650	719
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	810	715
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	BUY	425	409

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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