

February 11, 2023

## Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	965		920	
Sales (Rs. m)	49,849	54,862	49,200	54,459
% Chng.	1.3	0.7		
EBITDA (Rs. m)	10,690	12,001	10,416	11,781
% Chng.	2.6	1.9		
EPS (Rs.)	31.0	36.1	30.4	35.0
% Chng.	2.1	3.3		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	37,013	44,643	49,849	54,862
EBITDA (Rs. m)	6,535	9,447	10,690	12,001
Margin (%)	17.7	21.2	21.4	21.9
PAT (Rs. m)	3,421	5,826	6,342	7,380
EPS (Rs.)	16.7	28.5	31.0	36.1
Gr. (%)	(2,493.5)	70.3	8.8	16.4
DPS (Rs.)	-	1.2	1.2	1.2
Yield (%)	-	0.2	0.2	0.2
RoE (%)	26.2	33.0	27.0	24.5
RoCE (%)	25.6	29.9	25.6	24.3
EV/Sales (x)	4.1	3.4	3.1	2.8
EV/EBITDA (x)	23.1	16.2	14.5	12.6
PE (x)	43.0	25.2	23.2	19.9
P/BV (x)	9.9	7.2	5.5	4.4

### Key Data

### NARY.BO | NARH IN

52-W High / Low	Rs.820 / Rs.588
Sensex / Nifty	60,683 / 17,857
Market Cap	Rs.147bn/ \$ 1,781m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.165.5m

### Shareholding Pattern (%)

Promoter's	63.85
Foreign	10.23
Domestic Institution	14.02
Public & Others	11.90
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.1)	5.6	10.8
Relative	(3.0)	2.3	7.6

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# Narayana Hrudayalaya (NARH IN)

Rating: BUY | CMP: Rs719 | TP: Rs965

## Strong beat aided by India business

### Quick Pointers:

- Revenue growth of 17% YoY reported across new units.
- Capex of Rs20bn on track over FY23 & FY24.

**We upward revise our FY24/FY25E EBITDA by 3%/2%, as we factor in higher growth from India segment. Narayana Hrudayalaya (NARH) reported another quarter of strong EBITDA growth at Rs2.54bn (45% YoY and 4% QoQ), 17% beat to our estimate, aided by India business EBITDA at Rs1.6bn (up 58% YoY and 6% QoQ). We expect growth momentum to sustain. The company plans to continue with its aggressive capex plan for next 2-3 years, guided by capex of Rs.10bn annually in FY23E and FY24E. More importantly capex spend would be towards its core and high performing regions such as Bangalore, Kolkata and Cayman. Maintain 'BUY' rating with a revised TP of Rs. 965/share (earlier Rs920/share), based on 20x FY25E EV/EBITDA for India business and 12x EV/EBITDA for Cayman hospitals. At CMP, stock is trading at attractive valuations of 13x EV/EBITDA (adj for IND AS) and 20x P/E on FY25E. Faster ramp up in new Cayman unit will be a key.**

- EBITDA at Rs 2.4bn above estimates, aided by India biz:** NARH reported pre IND AS EBITDA of Rs 2.4bn, above our estimates (Rs2.1bn). Adjusted for St Lucia's EBITDA loss of Rs.13mn in Q3, EBITDA was up 3% QoQ and 50% YoY. Overall, margins improved by 430 bps YoY and 120 bps QoQ to 22.6%. India business continues to report strong EBITDA of Rs1.6bn; up 6% QoQ and 58% YoY. Cayman reported EBITDA of USD 11.5mn vs USD 12.5mn in Q2 and USD 10.1mn in Q3FY22. OPM was of 41.2%, down 270 bps QoQ.
- Higher ARPOB at Rs. 35,068/day; net debt reduced by Rs530mn:** Revenue grew by 18% YoY (down 1% QoQ) to Rs11.3bn. ARPOB for India business was up 4% QoQ to Rs. 35,068/day aided by better payor mix. Discharges were higher by 10% YoY for India. Cayman revenues improved 13% YoY to \$28.2mn (down 3% QoQ). Discharges were lower 17% YoY while OP volumes were up by 13% YoY for Cayman; ARPOB was up 10% YoY. Reported PAT was at Rs1.5bn (up 58% YoY). Net debt decreased by Rs.535mn to Rs2.1bn.
- Key con-call takeaways: (1) Capex** – Total spend was Rs 6.8bn for 9MFY23 which includes acquisition of Trauma unit. Another Rs. 3.2bn to spend in Q4FY23. Guided for another Rs10bn capex in FY24. Of total Rs20bn capex planned over FY23 & FY24, Rs 8bn to be spend on Cayman new unit, Rs2.3bn towards brownfield capex and Rs 5.5bn towards maintenance capex **(2) Cayman-** To commence radiotherapy block from Q1FY24 onwards **(3) New units:** Revenues from three new units (SRCC, Gurugram, and Dharamshila) were at Rs 1.1bn; 17% YoY growth and EBITDA margin at 9.3% in Q3 **(4) Bangalore** new Ortho facility acquired in Oct 22; generated 30% EBITDA in Q3 **(3) Payor mix in India** – During Q3, scheme patients were at 20% of total revenues vs 22% in Q2FY23 **(5)** Cayman discharges were lower from last four quarters. Despite of that, NARH saw ARPOB growth due to increase in complex surgeries. Expect discharges to scale up, as new therapeutic indications will be for offer **(6)** Net debt guidance at Rs5bn by end of FY24.

**Exhibit 1: Q3FY23 Result Overview (Rs mn) – EBITDA above our estimates**

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
<b>Net Sales</b>	<b>11,282</b>	<b>9,596</b>	<b>17.6</b>	<b>11,416</b>	<b>(1.2)</b>	<b>33,032</b>	<b>27,597</b>	<b>19.7</b>
COGS	2,397	2,364	1.4	2,572	(6.8)	7,388	6,893	7.2
<i>% of Net Sales</i>	<i>21.2</i>	<i>24.6</i>		<i>22.5</i>		<i>22.4</i>	<i>25.0</i>	
Employee Cost	2,197	1,925	14.2	2,173	1.1	6,519	5,724	13.9
<i>% of Net Sales</i>	<i>19.5</i>	<i>20.1</i>		<i>19.0</i>				
Other Expenses	4,143	3,558	16.4	4,235	(2.2)	12,224	10,205	19.8
<i>% of Net Sales</i>	<i>36.7</i>	<i>37.1</i>		<i>37.1</i>		<i>37.0</i>	<i>37.0</i>	
<b>Total</b>	<b>8,737</b>	<b>7,846</b>	<b>11.4</b>	<b>8,979</b>	<b>(2.7)</b>	<b>26,131</b>	<b>22,821</b>	<b>14.5</b>
<b>EBITDA</b>	<b>2,544</b>	<b>1,750</b>	<b>45.4</b>	<b>2,437</b>	<b>4.4</b>	<b>6,901</b>	<b>4,776</b>	<b>44.5</b>
<i>Margins (%)</i>	<i>22.6</i>	<i>18.2</i>		<i>21.3</i>		<i>20.9</i>	<i>17.3</i>	
Other Income	116	69	68.1	312	(63.0)	508	257	97.7
Interest	187	163	15.0	151	24.2	489	500	(2.3)
Depreciation	573	461	24.4	489	17.2	1,537	1,367	12.4
<b>PBT</b>	<b>1,899</b>	<b>1,195</b>	<b>59.0</b>	<b>2,109</b>	<b>(10.0)</b>	<b>5,382</b>	<b>3,165</b>	<b>70.1</b>
Tax	360	196	83.4	420	(14.3)	1,047	374	180.3
<i>Tax rate %</i>	<i>19.0</i>	<i>16.4</i>		<i>19.9</i>		<i>19.5</i>	<i>11.8</i>	
<b>PAT</b>	<b>1,539</b>	<b>998</b>	<b>54.2</b>	<b>1,689</b>	<b>(8.9)</b>	<b>4,335</b>	<b>2,791</b>	<b>55.3</b>
Share in (loss)/profit of associate	(0)	(23)		(0)		(2)	(61)	
Minority Interest	-	-		-		-	-	
<b>Reported PAT</b>	<b>1,539</b>	<b>975</b>	<b>57.8</b>	<b>1,689</b>	<b>(8.9)</b>	<b>4,333</b>	<b>2,730</b>	<b>58.7</b>

Source: Company, PL

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

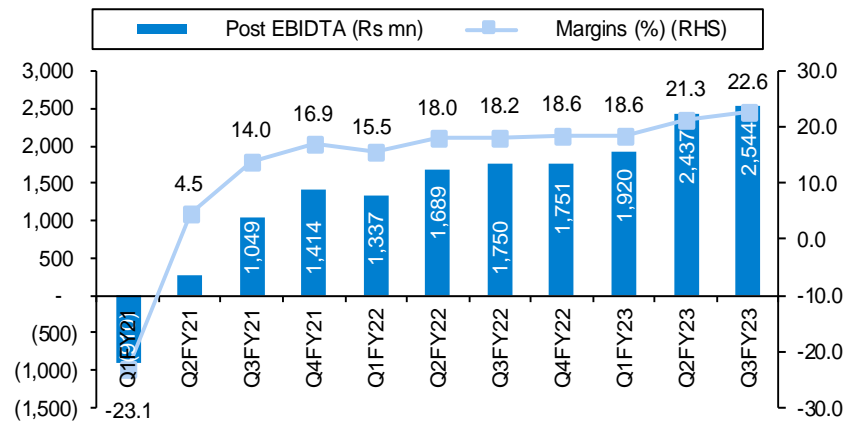
Revenues (Rs. mn)	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Cayman	2,327	1,879	23.8	2,322	0.2	6,459	5,152	25.4
<i>% of Total Sales</i>	<i>20.6</i>	<i>19.6</i>		<i>20.3</i>		<i>19.5</i>	<i>18.9</i>	
India	8,972	7,717	16.3	9,102	(1.4)	26,598	22,170	20.0
<i>% of Total Sales</i>	<i>79.4</i>	<i>80.4</i>		<i>79.7</i>		<i>80.5</i>	<i>81.1</i>	
<b>Total Sales</b>	<b>11,299</b>	<b>9,596</b>	<b>17.7</b>	<b>11,424</b>	<b>(1.1)</b>	<b>33,057</b>	<b>27,322</b>	<b>21.0</b>

Source: Company, PL

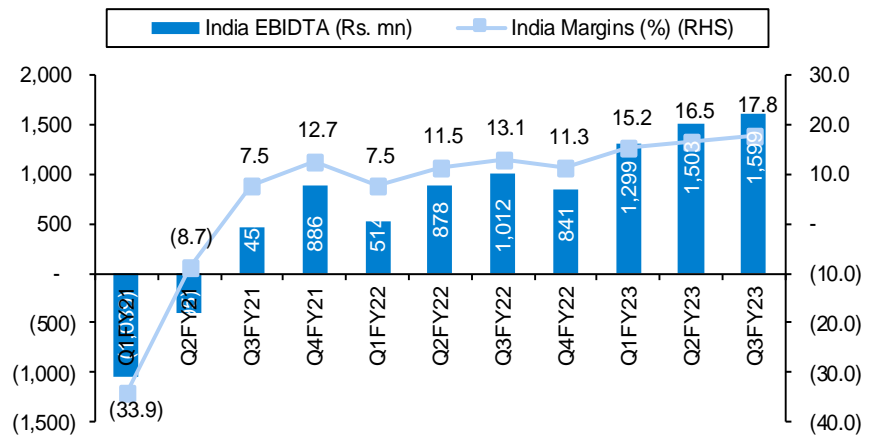
**Exhibit 3: Break-up of EBITDA**

Break up of EBITDA	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Cayman	958	763	25.6	1,019	(6.0)	2,607	2,166	20.4
<i>% OPM</i>	<i>41.2</i>	<i>40.6</i>		<i>43.9</i>		<i>40.4</i>	<i>42.0</i>	
India	1,599	1,012	58.0	1,503	6.4	4,401	2,404	83.1
<i>% OPM</i>	<i>17.8</i>	<i>13.1</i>		<i>16.5</i>		<i>16.5</i>	<i>10.8</i>	
St Lucia	(13)	(20)	(35.0)	(85)	(84.7)	(108)	241	NA

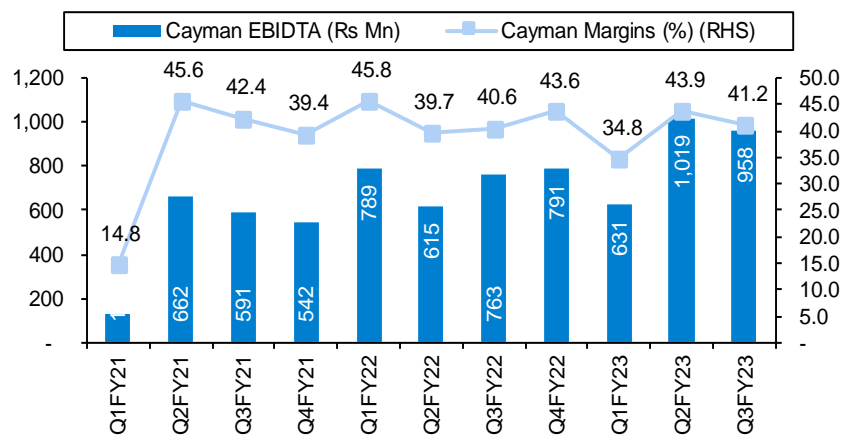
Source: Company, PL

**Exhibit 4: Higher margins due to better profitability in India biz**


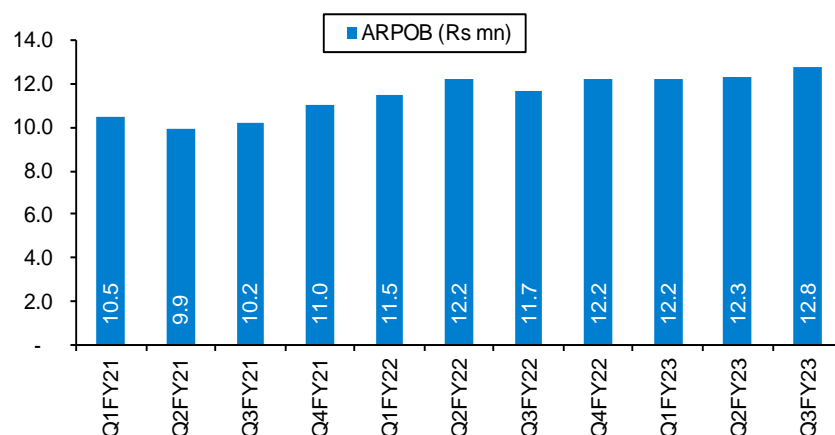
Source: Company, PL

**Exhibit 5: Margin improvement in India aided by better utilization and ARPOB**


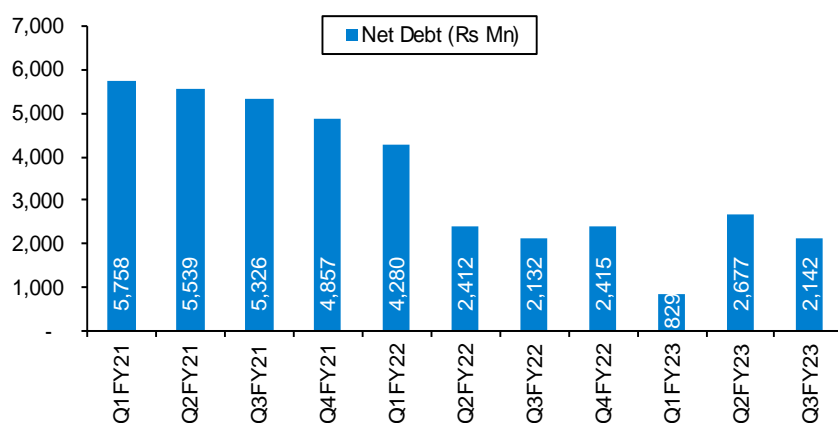
Source: Company, PL

**Exhibit 6: Cayman margins at +40%**


Source: Company, PL

**Exhibit 7: India ARPOB growth aided by better payor mix**


Source: Company, PL

**Exhibit 8: Net debt decreased by Rs. 535mn QoQ**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>37,013</b>	<b>44,643</b>	<b>49,849</b>	<b>54,862</b>
YoY gr. (%)	43.3	20.6	11.7	10.1
Cost of Goods Sold	9,092	10,714	11,964	13,167
Gross Profit	27,921	33,929	37,885	41,695
Margin (%)	75.4	76.0	76.0	76.0
Employee Cost	7,685	8,837	10,163	11,687
Other Expenses	13,701	15,644	17,032	18,007
<b>EBITDA</b>	<b>6,535</b>	<b>9,447</b>	<b>10,690</b>	<b>12,001</b>
YoY gr. (%)	258.9	44.6	13.2	12.3
Margin (%)	17.7	21.2	21.4	21.9
Depreciation and Amortization	1,835	2,092	2,238	2,395
<b>EBIT</b>	<b>4,700</b>	<b>7,355</b>	<b>8,452</b>	<b>9,606</b>
Margin (%)	12.7	16.5	17.0	17.5
Net Interest	663	680	850	800
Other Income	346	620	350	450
<b>Profit Before Tax</b>	<b>4,383</b>	<b>7,295</b>	<b>7,952</b>	<b>9,256</b>
Margin (%)	11.8	16.3	16.0	16.9
Total Tax	877	1,459	1,590	1,851
Effective tax rate (%)	20.0	20.0	20.0	20.0
<b>Profit after tax</b>	<b>3,506</b>	<b>5,836</b>	<b>6,362</b>	<b>7,405</b>
Minority interest	-	-	-	-
Share Profit from Associate	(85)	(10)	(20)	(25)
<b>Adjusted PAT</b>	<b>3,421</b>	<b>5,826</b>	<b>6,342</b>	<b>7,380</b>
YoY gr. (%)	(2,493.5)	70.3	8.8	16.4
Margin (%)	9.2	13.1	12.7	13.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,421</b>	<b>5,826</b>	<b>6,342</b>	<b>7,380</b>
YoY gr. (%)	(2,493.5)	70.3	8.8	16.4
Margin (%)	9.2	13.1	12.7	13.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,421	5,826	6,342	7,380
<b>Equity Shares O/s (m)</b>	<b>204</b>	<b>204</b>	<b>204</b>	<b>204</b>
<b>EPS (Rs)</b>	<b>16.7</b>	<b>28.5</b>	<b>31.0</b>	<b>36.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>31,410</b>	<b>41,410</b>	<b>51,410</b>	<b>56,910</b>
Tangibles	29,722	39,722	49,722	55,222
Intangibles	1,689	1,689	1,689	1,689
<b>Acc: Dep / Amortization</b>	<b>12,193</b>	<b>14,285</b>	<b>16,523</b>	<b>18,918</b>
Tangibles	12,193	14,285	16,523	18,918
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>19,217</b>	<b>27,126</b>	<b>34,887</b>	<b>37,993</b>
Tangibles	17,529	25,437	33,199	36,304
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	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	594	734	819	902
Trade receivables	4,369	4,892	5,463	6,012
Cash & Bank Balance	1,722	2,502	2,474	4,155
Other Current Assets	2,807	3,669	4,097	4,509
<b>Total Assets</b>	<b>31,297</b>	<b>41,512</b>	<b>50,329</b>	<b>56,159</b>
<b>Equity</b>				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	12,843	18,432	24,537	31,680
<b>Total Network</b>	<b>14,886</b>	<b>20,476</b>	<b>26,580</b>	<b>33,723</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	5,449	8,449	10,449	8,449
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,490	6,116	6,829	7,515
Other current liabilities	4,169	4,169	4,169	4,169
<b>Total Equity &amp; Liabilities</b>	<b>31,297</b>	<b>41,512</b>	<b>50,329</b>	<b>56,159</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	4,383	7,295	7,952	9,256
Add. Depreciation	1,835	2,092	2,238	2,395
Add. Interest	663	680	850	800
Less Financial Other Income	346	620	350	450
Add. Other	121	(10)	(20)	(25)
Op. profit before WC changes	7,002	10,057	11,020	12,426
Net Changes-WC	(1,275)	99	(371)	(357)
Direct tax	(877)	(1,459)	(1,590)	(1,851)
<b>Net cash from Op. activities</b>	<b>4,850</b>	<b>8,697</b>	<b>9,059</b>	<b>10,218</b>
Capital expenditures	(2,507)	(10,000)	(10,000)	(5,500)
Interest / Dividend Income	-	-	-	-
Others	(162)	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(2,669)</b>	<b>(10,000)</b>	<b>(10,000)</b>	<b>(5,500)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	195	3,000	2,000	(2,000)
Dividend paid	-	(237)	(237)	(237)
Interest paid	(663)	(680)	(850)	(800)
Others	(1,312)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,780)</b>	<b>2,083</b>	<b>913</b>	<b>(3,037)</b>
<b>Net change in cash</b>	<b>401</b>	<b>780</b>	<b>(28)</b>	<b>1,681</b>
Free Cash Flow	2,343	(1,303)	(941)	4,718

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>9,407</b>	<b>10,334</b>	<b>11,416</b>	<b>11,282</b>
YoY gr. (%)	12.3	20.2	21.4	17.6
Raw Material Expenses	2,199	2,419	2,572	2,397
Gross Profit	7,208	7,915	8,844	8,885
Margin (%)	76.6	76.6	77.5	78.8
<b>EBITDA</b>	<b>1,751</b>	<b>1,920</b>	<b>2,437</b>	<b>2,544</b>
YoY gr. (%)	23.8	43.6	44.3	45.4
Margin (%)	18.6	18.6	21.3	22.6
Depreciation / Depletion	468	475	489	573
<b>EBIT</b>	<b>1,283</b>	<b>1,445</b>	<b>1,948</b>	<b>1,971</b>
Margin (%)	13.6	14.0	17.1	17.5
Net Interest	163	151	151	187
Other Income	98	80	312	116
<b>Profit before Tax</b>	<b>1,218</b>	<b>1,375</b>	<b>2,109</b>	<b>1,899</b>
Margin (%)	13.0	13.3	18.5	16.8
Total Tax	503	267	420	360
Effective tax rate (%)	41.3	19.4	19.9	19.0
<b>Profit after Tax</b>	<b>715</b>	<b>1,108</b>	<b>1,689</b>	<b>1,539</b>
Minority interest	-	-	-	-
Share Profit from Associates	(26)	(2)	-	-
<b>Adjusted PAT</b>	<b>690</b>	<b>1,106</b>	<b>1,689</b>	<b>1,539</b>
YoY gr. (%)	1.3	45.2	70.0	57.8
Margin (%)	7.3	10.7	14.8	13.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>690</b>	<b>1,106</b>	<b>1,689</b>	<b>1,539</b>
YoY gr. (%)	1.3	45.2	70.0	57.8
Margin (%)	7.3	10.7	14.8	13.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>690</b>	<b>1,106</b>	<b>1,689</b>	<b>1,539</b>
Avg. Shares O/s (m)	204	204	204	204
<b>EPS (Rs)</b>	<b>3.4</b>	<b>5.4</b>	<b>8.3</b>	<b>7.5</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	16.7	28.5	31.0	36.1
CEPS	25.7	38.7	42.0	47.8
BVPS	72.8	100.2	130.1	165.0
FCF	11.5	(6.4)	(4.6)	23.1
DPS	-	1.2	1.2	1.2
<b>Return Ratio(%)</b>				
RoCE	25.6	29.9	25.6	24.3
ROIC	15.9	18.9	17.7	18.5
RoE	26.2	33.0	27.0	24.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.3	0.3	0.3	0.1
Net Working Capital (Days)	5	(4)	(4)	(4)
<b>Valuation(x)</b>				
PER	43.0	25.2	23.2	19.9
P/B	9.9	7.2	5.5	4.4
P/CEPS	28.0	18.6	17.1	15.0
EV/EBITDA	23.1	16.2	14.5	12.6
EV/Sales	4.1	3.4	3.1	2.8
Dividend Yield (%)	-	0.2	0.2	0.2

Source: Company Data, PL Research

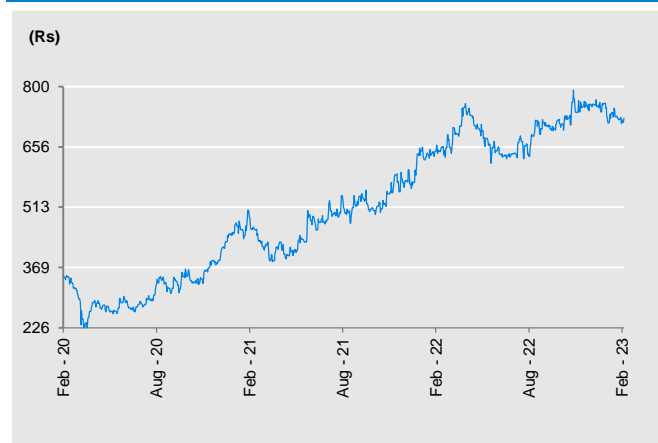
## Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Flagship hospitals	13,725	17,176	18,909	21,194
Other mature hospitals	9,422	11,742	13,499	15,203
Cayman Island	6,965	8,683	9,541	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-Jan-23	BUY	920	712
2	19-Dec-22	BUY	920	756
3	14-Nov-22	BUY	900	740
4	06-Oct-22	BUY	810	715
5	06-Sep-22	BUY	810	708
6	12-Aug-22	BUY	810	686
7	07-Jul-22	BUY	773	639
8	24-May-22	BUY	773	634
9	08-Apr-22	BUY	773	733
10	03-Mar-22	BUY	774	668

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,387
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	Accumulate	550	444
4	Cipla	BUY	1,280	1,035
5	Divi's Laboratories	Hold	2,700	2,884
6	Dr. Reddy's Laboratories	BUY	4,900	4,201
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	285
9	Glenmark Pharmaceuticals	Accumulate	460	434
10	HealthCare Global Enterprises	BUY	375	285
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Accumulate	950	858
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,965
14	Krishna Institute of Medical Sciences	BUY	1,660	1,505
15	Lupin	Hold	650	742
16	Max Healthcare Institute	BUY	500	436
17	Narayana Hrudayalaya	BUY	920	712
18	Sun Pharmaceutical Industries	BUY	1,175	1,035
19	Torrent Pharmaceuticals	BUY	1,820	1,557
20	Zydus Lifesciences	Accumulate	480	435

## 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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