

Retail Equity Research

Narayana Hrudayalaya Ltd

Healthcare Services

BSE CODE : 539551

NSE CODE: NH

BLOOMBERG CODE: NARH:IN

SENSEX : 60,348

Accumulate

12Months Investment Period

Rating as per Small Cap

CMP Rs.780 TARGET Rs. 911 RETURN 17% ↑

(Closing: 08-03-2023)

KEY CHANGES:
TARGET ↑
RATING ↔
EARNINGS ↑

Topline surged; healthy businesses across regions

Narayana Health Ltd (NH) is a chain of multi-specialty hospitals operating in India and the Cayman Islands.

- NH reported 9MFY23 revenue of Rs. 3,303cr (+20% YoY) from Rs.2,760cr in 9MFY22 driven by higher momentum in both Indian and Cayman businesses.
- The company registered an EBITDA of Rs.690 cr from Rs. 478cr in 9MFY22 with an EBITDA margin of 20.9% (up 360 bps YoY) on account of improvement in payor mix and cost efficiency. Resultantly, PAT grew 59% YoY to Rs.434 cr.
- The unit at Cayman Island reported revenues at \$80mn (18% YoY) for the nine month period due to lifting of restrictions.
- The recently acquired orthopaedic hospital, Sparsh, began operations in October 2022 and generated 30% EBITDA for the quarter.
- We expect the growth to continue on the back of increased patient footfall, rising Average Revenue Per Operating Bed (ARPOB) and the aggressive capex plan for both organic and inorganic expansion.
- Hence we reiterate our "Accumulate" rating based on 17x FY25E EV/EBITDA with a target price of Rs.911.

Strong performance led by flagship centres

Narayana Health reported solid numbers with consolidated 9MFY23 revenue at Rs.3,303 up 20% YoY supported by growth across the flagship units, new hospitals and improvement in payor mix. Revenue from the new hospitals for the third quarter was Rs.110cr, which witnessed a 17% growth from the previous year. Among this, the Mumbai hospital has reached break-even whereas Gurugram and Dharamshila are positive. Despite the seasonality impact in Q3FY23, international patient mix remained unchanged at 8% with domestic footfalls contributing 45%. Average Revenue Per Operating Bed (ARPOB) for Q3FY23 was Rs.1.28 cr against 1.17cr in Q3FY22. EBITDA for the nine-month period was at Rs.690cr from Rs. 478cr in 9MFY22. EBITDA margin expanded to 20.9% (up 360 bps YoY) on account of improving cost efficiency. Resultantly, adj. PAT grew 59% YoY Rs.434cr for the period.

Update on aggressive capex plans

For the nine months ending December 31,2022, Narayana Health has incurred a capital outlay of 680cr and is expected to spend the balance of the guided capex of Rs.1000cr during Q4. NH is on track to commence its Oncology block in the Cayman Islands from Q1FY24 with the radiology services commencing in April. Narayana will exercise a mix of brownfield and greenfield expansion in India while utilizing 36% of the capex amount for maintenance and replacement. A total capex allocation of Rs.317cr is allotted in FY23 for Cayman Islands which is guided to be increased to Rs.479cr in FY24. Keeping the liquidity profile constant, NH plans to fund the guided capex through a mix of internal accruals (Rs.500 cr) and borrowings (Rs. 500 cr). The efforts in revamping the marketing team has seeded well and the total investments in digital engagements channel grew online traffic by 97.5% to 5.4 million users.

Cayman Island witnessed muted growth

Revenue from Cayman was reported at \$80mn (18% YoY) in 9MFY23 managing to contribute to the overall performance despite the holiday season. The new oncology block is on track to commence its operations from Q1FY24 with radiology services. The company remains optimistic continues to explore investments in the surrounding islands on an opportunistic basis

Outlook and valuation

Backed by the Indian and Cayman operations, Narayana Health continued its revenue growth over the quarters. Rising footfall from patients, capacity additions in existing units and expansion in the hospitals at Cayman Island is expected to support future growth prospects of the company. Hence we reiterate our "Accumulate" rating based on 17x FY25E EV/EBITDA with a target price of Rs. 911.

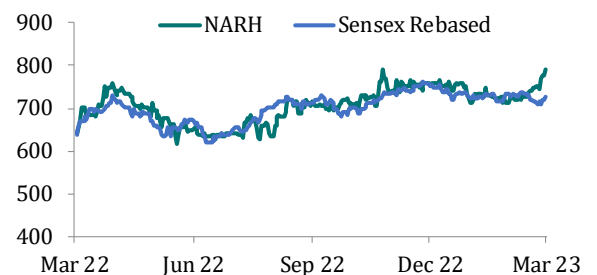
Company Data

Market Cap (Rs cr)	14,585
Enterprise Value (Rs cr)	14,989
Outstanding Shares (cr)	20.4
Free Float	36.1
Dividend Yield	0.1%
52 week high (Rs)	810
52 week low (Rs)	590
6m average volume (cr)	0.02
Beta	0.8
Face value (Rs)	10

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	63.8	63.8	63.8
FPI's	10.0	9.5	10.2
MFs/Institutions	18.7	17.5	15.3
Public	7.5	9.2	10.7
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	5.0%	11.0%	20.8%
Absolute Sensex	-3.8%	2.0%	10.8%
Relative Return	8.8%	9.0%	9.9%

*over or under performance to benchmark index



Consolidated (cr)	FY23E	FY24E	FY25E
Sales	4,452	4,948	5,429
Growth (%)	20	11	10
EBITDA	946	1064	1113
EBITDA Margin(%)	21.3	21.5	20.5
PAT Adj.	585	618	635
Growth (%)	71	6	3
Adj.EPS	29	30	31
Growth (%)	71	6	3
P/E	27.3	25.9	25.2
P/B	7.7	6.0	4.8
EV/EBITDA	17.6	15.8	14.7
ROE (%)	32.8	25.9	21.1
D/E	0.40	0.41	0.25

Yadhu Ramachandran
 Research Analyst

Quarterly Financials (Consolidated)

(Rs cr)	Q3FY23	Q3FY22	YoY Growth (%)	Q2FY22	QoQ Growth (%)	9MFY23	9MFY22	YoY Growth (%)
Sales	1,128	960	17.6	1,141	-1.2	3,303	2,760	19.7
EBITDA	255	175	45.3	244	4.4	690	478	44.5
EBITDA margins %	22.56	18.25	425bps	21.36	106bps	20.90	17.31	360bps
Depreciation	57	46	24.3	49	17.2	154	137	12.4
EBIT	197	129	52.8	195	1.2	537	341	57.4
Interest	19	16	14.8	15	24.7	49	50	-2.6
Other Income	12	7	67.4	31	-63.1	51	26	97.4
Exceptional Items	0	0		0		0	0	
PBT	190	117	61.9	211	-10.0	539	311	73.4
Tax	36	20	80.0	42	-15	105	38	
Share of profit from Associate	-	-	-	-	-	-	-	-
Reported PAT	154	98	57.7	169	-8.9	434	273	59.0
Adjustments	0	0		0		0	0	
Adj PAT	154	98	57.7	169	-8.9	434	273	59.0
No. of Shares	20.4	20.4		20.4	0.0	20.4	21.4	
Adj EPS (Rs)	8	5	57.7	8	-8.9	21	13	59.0

Change in Estimates

	Old estimates		New estimates			Change %	
Year / Rs Cr	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
Revenue	4,337	4,747	4452	4948	5429	2.66%	4.23%
EBITDA	787	945	946	1064	1113	20.22%	12.57%
Margins (%)	18.2	19.9	21.3	21.5	20.5	310 bps	160 bps
Adj. PAT	432	491	585	618	635	35.39%	25.94%
EPS	21	24	29	30	31	36.53%	26.30%

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	2,582	3,701	4,452	4,948	5,429
% change	-17	43	20	11	10
EBITDA	182	654	946	1064	1113
% change	-57	258	45	12	5
Depreciation	183	183	202	253	286
EBIT	-1	470	744	811	827
Interest	76	66	75	106	106
Other Income	28	35	45	49	54
PBT	-49	439	713	754	775
% change	-129	-1000	63	6	3
Tax	-42	88	128	136	139
Tax Rate (%)	27.0	17.5	18.0	18.0	18.0
Reported PAT	-14	343	585	618	635
Adj.*	0	0	0	0	0
Adj. PAT	-14	343	585	618	635
% change	-111	-2578	71	6	3
No. of shares (cr)	20	20	20	20	20
Adj EPS (Rs)	-1	17	29	30	31
% change	-111	-2578	71	6	3
DPS (Rs)	0	0	1	1	1

BALANCE SHEET

Y.E March (Rs Cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	132	172	142	258	480
Accounts Receiva- ble	279	437	488	569	640
Inventories	48	59	74	88	100
Other Cur. Assets	119	169	195	230	268
Investments	2	1	1	1	1
Gross Fixed Assets	2,907	3,069	4,076	5,076	5,376
Net Fixed Assets	1,844	1,875	2,680	3,427	3,441
CWIP	18	63	113	114	120
Intangible Assets	239	241	281	291	301
Def. Tax (Net)	2	1	1	1	1
Other Assets	89	111	134	161	271
Total Assets	2,769	3,129	4,108	5,140	5,622
Current Liabilities	559	626	686	763	837
Provisions	55	69	75	82	92
Debt Funds	618	545	824	1,106	823
Other Liabilities	417	401	451	501	550
Equity Capital	204	204	204	204	204
Reserves & Surplus	916	1,284	1,867	2,483	3,117
Shareholder's Fund	1,120	1,489	2,071	2,688	3,321
Total Liabilities	2,769	3,129	4,108	5,140	5,622
BVPS	53	73	96	126	157

CASH FLOW

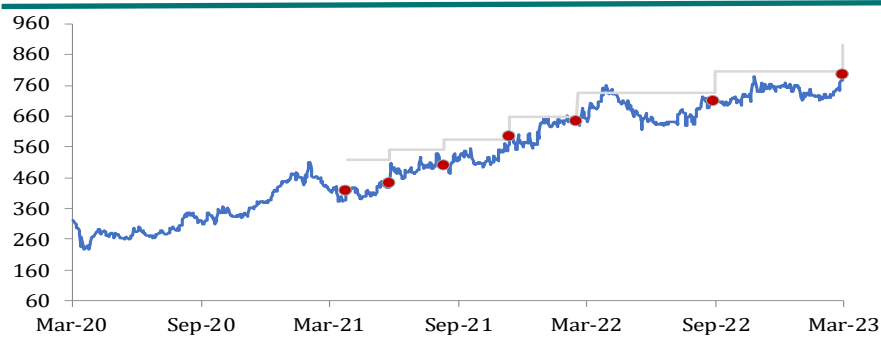
Y.E March (Rs Cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Net inc. + Depn.	169	526	915	1007	1061
Non-cash adj.	-42	103	128	136	139
Changes in W.C	56	-152	-25	-47	-36
C.F-Operation	305	485	762	824	885
Capital exp.	-70	-250	-1057	-1001	-306
Change in inv.	-42	-27	-62	-37	-121
C.F - investment	-113	-267	-1119	-1038	-427
Issue of equity	0	0	0	0	0
Issue/repay debt	-102	-68	279	282	-283
Dividends paid	0	0	0	0	0
Other finance.CF	-92	-91	50	50	49
C.F - Finance	-194	-159	329	332	-234
Chg. in cash	-2	59	-28	118	224
Closing cash	132	172	142	258	480

RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	7.1	17.7	21.3	21.5	20.5
EBIT margin (%)	-0.0	12.7	16.7	16.3	15.2
Net profit mgn.(%)	-0.5	9.3	13.1	12.5	11.7
ROE (%)	-1.2	26.3	32.9	26.0	21.1
ROCE (%)	0.0	18.8	21.7	18.5	17.3
W.C & Liquidity					
Receivables (days)	38	35	38	39	41
Inventory (days)	8	5	5	6	6
Payables (days)	60	50	49	48	48
Current ratio (x)	1.0	1.3	1.3	1.5	1.8
Quick ratio (x)	0.7	1.0	0.9	1.1	1.3
Turnover &Leverage					
Gross asset T.O (x)	1.0	1.4	1.2	1.1	1.1
Total asset T.O (x)	0.9	1.2	1.1	1.0	1.0
Int. covge. ratio (x)	0.0	7.1	9.9	7.6	7.8
Adj. debt/equity (x)	0.6	0.4	0.4	0.4	0.2
Valuation					
EV/Sales (x)	6.4	4.4	3.7	3.4	3.0
EV/EBITDA (x)	90.4	25.0	17.6	15.8	14.7
P/E (x)	-1156.8	46.7	27.3	25.9	25.2
P/BV (x)	13.2	9.9	7.7	6.0	4.8



Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside.
Sell: Exit from the stock.
Not rated/ Neutral: The analyst has no investment opinion on this stock

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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