

May 22, 2023

Q4FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	980		965	
Sales (Rs. m)	50,177	55,122	49,849	54,862
% Chng.	0.7	0.5		
EBITDA (Rs. m)	10,717	12,091	10,690	12,001
% Chng.	0.3	0.7		
EPS (Rs.)	31.7	36.6	31.0	36.1
% Chng.	2.1	1.4		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	37,013	45,248	50,177	55,122
EBITDA (Rs. m)	6,535	9,658	10,717	12,091
Margin (%)	17.7	21.3	21.4	21.9
PAT (Rs. m)	3,421	6,066	6,476	7,484
EPS (Rs.)	16.7	29.7	31.7	36.6
Gr. (%)	(2,493.5)	77.3	6.8	15.6
DPS (Rs.)	-	1.2	1.2	1.2
Yield (%)	-	0.1	0.1	0.1
RoE (%)	26.2	33.5	26.5	24.0
RoCE (%)	25.6	30.7	25.6	24.3
EV/Sales (x)	4.7	3.8	3.5	3.1
EV/EBITDA (x)	26.4	17.9	16.3	14.1
PE (x)	49.4	27.9	26.1	22.6
P/BV (x)	11.4	7.9	6.1	4.9

Key Data

NARY.BO | NARH IN

52-W High / Low	Rs.856 / Rs.588
Sensex / Nifty	61,964 / 18,314
Market Cap	Rs.169bn/ \$ 2,040m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.153.9m

Shareholding Pattern (%)

Promoter's	63.85
Foreign	10.36
Domestic Institution	13.56
Public & Others	12.23
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.3	10.2	24.7
Relative	3.3	9.3	9.4

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Narayana Hrudayalaya (NARH IN)

Rating: BUY | CMP: Rs827 | TP: Rs980

Strong operating performance aided across India and Cayman

Quick Pointers:

- Booked Rs280mn of one-time income from St Lucia.
- Capex guidance of Rs11.4bn for FY24.

Narayana Hrudayalaya (NARH) reported another quarter of healthy EBITDA at Rs2.76bn (up 8% QoQ), 5% beat to our estimate. Both India (Rs1.65bn; flat QoQ) and Cayman (\$12.5mn; up 9% QoQ) reported healthy profitability. We expect this growth momentum to sustain. The company also plans to continue its aggressive capex plan with guided capex of Rs.11bn in FY24E mainly towards its core and high performing regions such as Bangalore, Kolkata and Cayman. We maintain 'BUY' rating with TP of Rs. 980/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 15x EV/EBITDA (adj for IND AS) and 23x P/E on FY25E. Faster ramp up in new Cayman unit will be a key.

- India and Cayman biz profitability remains healthy:** NARH reported pre IND AS EBITDA of Rs 2.6bn. Adjusted for St Lucia's EBITDA of Rs280mn and one off expenses in Q4, EBITDA was up 7% QoQ and 71% YoY. Overall, margins came in 21.5%; largely flat QoQ. India business adjusted for one offs continues to report healthy EBITDA of Rs1.65bn; flat QoQ and 58% YoY. Cayman reported strong EBITDA of USD 12.5mn vs USD 11.5mn in Q3 and USD 10.5mn in Q4FY22. OPM was of 42.5%, up 160 bps QoQ.
- Higher ARPOB at Rs. 36,986/day; net debt reduced by Rs830mn:** Revenue grew by 30% YoY (up 8% QoQ) to Rs12.2bn. ARPOB for India business was up 5% QoQ and 11% YoY to Rs. 36,986/day aided by better payor mix. Discharges were higher by 18% YoY (3% QoQ) for India. Cayman revenues improved 20% YoY to \$29.3mn (up 4% QoQ). Discharges were higher 8% YoY, while OP volumes were down by 14% YoY for Cayman; ARPOB was up 16% YoY. Reported PAT was at Rs1.73bn (up 13% QoQ). Net debt decreased by Rs830mn to Rs1.3bn.
- Key con-call takeaways:** (1) **Capex** – guidance of Rs. 11.4bn in FY24E of which Rs1.5bn will be used for greenfield expansion in Kolkata, Rs5.9bn towards Cayman units (2) **Cayman- New radiation** oncology block at Cayman island has been operationalized in May 2023. New unit should come on stream in Q1FY25. Initially would be targeting locals and thereby intend to scale up medical tourism. (3) **New units:** Mumbai hospital has achieved breakeven in Jan 2023; registered Rs. 6mn of EBITDA vs negative EBITDA from last past quarters. Gurugram hospital EBITDA stood at Rs37mn (3% margin) while Dharmshila margin was robust at 14% with EBITDA of Rs290mn for FY23 (4) **Mgmt** guided likely headwinds and margin may taper off in FY24 for India business (5) **Health City-** The company has additional land available in Health City and intends to expand in NH cardiac unit and also refurbish Trauma as well as MSH unit which will help them to enhance capacity (6) **NH** has incorporated new company- Narayana Health Integrated Care which will offer services to patients within clinics as well home care and online route. Plans to start first across Bangalore units.

Exhibit 1: Q4FY23 Result Overview (Rs mn) – Adj EBITDA for one offs was 5% above our estimate

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	12,216	9,407	29.9	11,282	8.3	45,248	37,013	22.2
COGS	2,624	2,199	19.3	2,397	9.5	10,012	9,092	10.1
<i>% of Net Sales</i>	<i>21.5</i>	<i>23.4</i>		<i>21.2</i>		<i>22.1</i>	<i>24.6</i>	
Employee Cost	2,273	1,961	15.9	2,197	3.4	8,792	7,685	14.4
<i>% of Net Sales</i>	<i>18.6</i>	<i>20.8</i>		<i>19.5</i>		<i>23.8</i>	<i>20.8</i>	
Other Expenses	4,561	3,497	30.5	4,143	10.1	16,786	13,701	22.5
<i>% of Net Sales</i>	<i>37.3</i>	<i>37.2</i>		<i>36.7</i>		<i>45.4</i>	<i>37.0</i>	
Total	9,458	7,656	23.5	8,737	8.3	35,589	30,478	16.8
EBITDA	2,757	1,751	57.5	2,544	8.4	9,658	6,535	47.8
<i>Margins (%)</i>	<i>22.6</i>	<i>18.6</i>		<i>22.6</i>		<i>21.3</i>	<i>17.7</i>	
Other Income	147	98	50.2	116	27.0	654	346	89.4
Interest	206	163	26.6	187	9.9	695	663	4.8
Depreciation	563	468	20.4	573	(1.8)	2,100	1,835	14.5
PBT	2,135	1,218	75.3	1,899	12.4	7,518	4,383	71.5
Tax	403	503	(19.9)	360	11.8	1,450	877	65.4
<i>Tax rate %</i>	<i>18.9</i>	<i>41.3</i>		<i>19.0</i>		<i>19.3</i>	<i>20.0</i>	
PAT	1,732	715	142.2	1,539	12.6	6,068	3,506	73.0
Share in (loss)/profit of associate	-	(26)		(0)		(5)	(87)	
Minority Interest	(1)	(0)		(1)		(2)	(0)	
Reported PAT	1,732	689	151.5	1,538	12.6	6,062	3,419	77.3

Source: Company, PL

Exhibit 2: Break-up of Revenues

Revenues (Rs. mn)	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Cayman	2,445	1,835	33.2	2,310	5.9	8,879	7,262	22.3
<i>% of Total Sales</i>	<i>20.5</i>	<i>19.8</i>		<i>20.5</i>		<i>24.3</i>	<i>19.8</i>	
India	9,491	7,440	27.6	8,972	5.8	36,089	29,335	23.0
<i>% of Total Sales</i>	<i>79.5</i>	<i>80.2</i>		<i>79.5</i>		<i>98.6</i>	<i>80.2</i>	
Total Sales	11,936	9,275	28.7	11,282	5.8	44,968	36,597	22.9

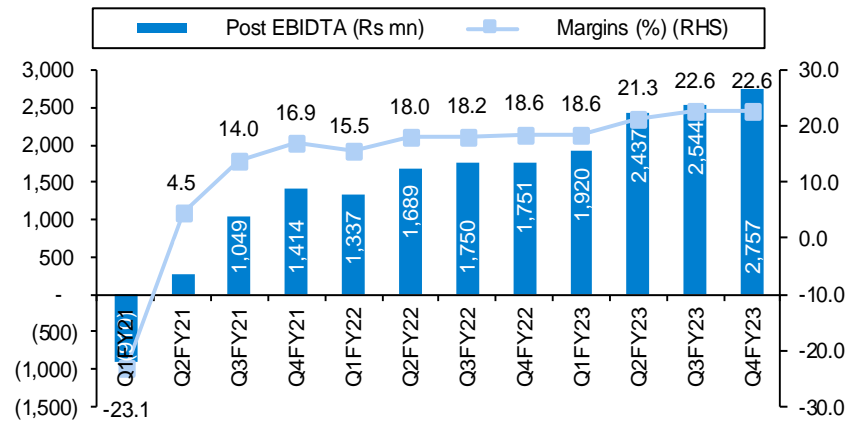
Source: Company, PL

Exhibit 3: Break-up of EBITDA

Break up of EBITDA	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)
Cayman	1,039	790	31.5	945	10.0
<i>% OPM</i>	<i>42.5</i>	<i>43.1</i>		<i>40.9</i>	
India	1,688	842	100.4	1,625	3.9
<i>% OPM</i>	<i>17.8</i>	<i>11.3</i>		<i>18.1</i>	
St Lucia	280	132	112.1	(13)	NA

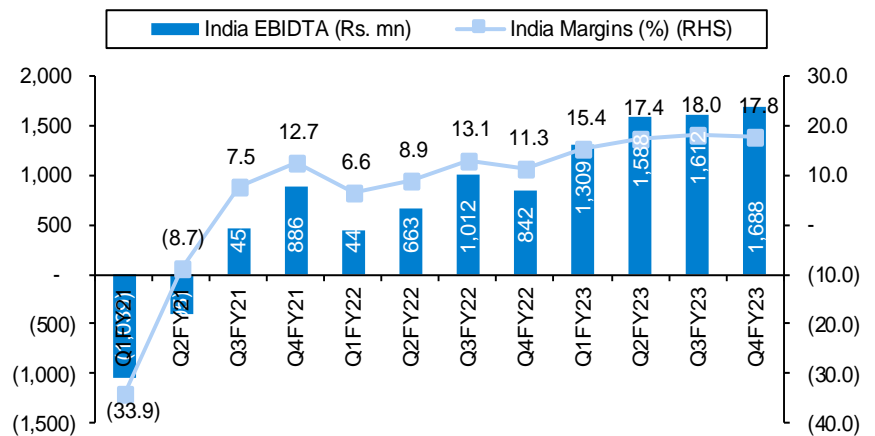
Source: Company, PL

Exhibit 4: Flat margins QoQ



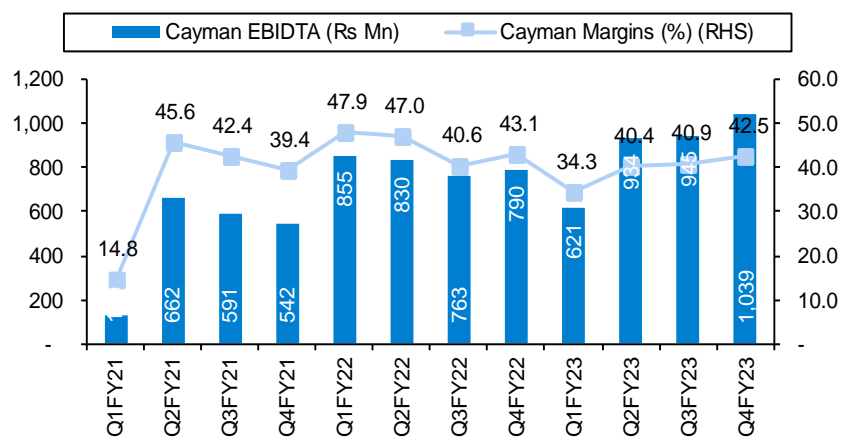
Source: Company, PL

Exhibit 5: India margins adjusted for one off was flat QoQ

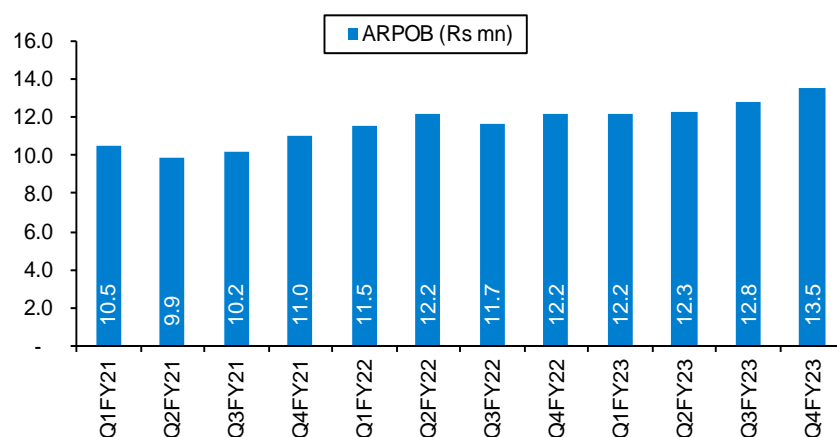


Source: Company, PL

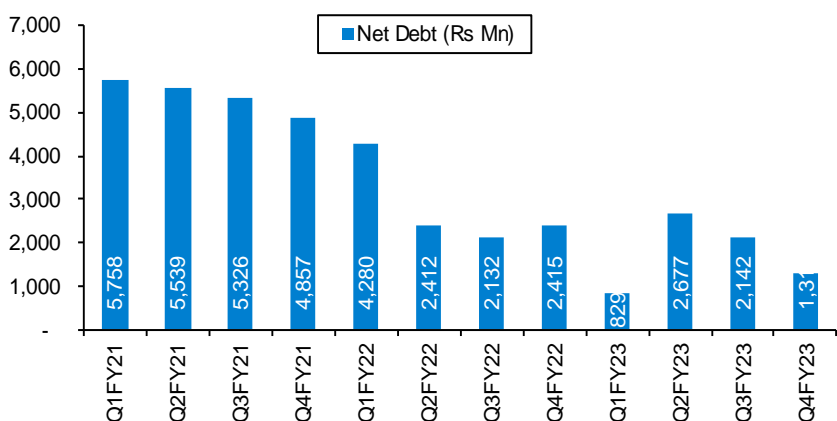
Exhibit 6: Cayman margins improved by 160 bps QoQ



Source: Company, PL

Exhibit 7: India ARPOB growth aided by better payor and case mix


Source: Company, PL

Exhibit 8: Net debt continues to decreased by Rs. 832mn QoQ


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	37,013	45,248	50,177	55,122
YoY gr. (%)	43.3	22.2	10.9	9.9
Cost of Goods Sold	9,092	10,012	11,541	12,678
Gross Profit	27,921	35,236	38,636	42,444
Margin (%)	75.4	77.9	77.0	77.0
Employee Cost	7,685	8,792	10,111	11,627
Other Expenses	13,701	16,786	17,808	18,725
EBITDA	6,535	9,658	10,717	12,091
YoY gr. (%)	258.9	47.8	11.0	12.8
Margin (%)	17.7	21.3	21.4	21.9
Depreciation and Amortization	1,835	2,100	2,247	2,405
EBIT	4,700	7,558	8,470	9,686
Margin (%)	12.7	16.7	16.9	17.6
Net Interest	663	695	850	800
Other Income	346	654	500	500
Profit Before Tax	4,383	7,518	8,120	9,386
Margin (%)	11.8	16.6	16.2	17.0
Total Tax	877	1,450	1,624	1,877
Effective tax rate (%)	20.0	19.3	20.0	20.0
Profit after tax	3,506	6,068	6,496	7,509
Minority interest	-	-	-	-
Share Profit from Associate	(85)	(2)	(20)	(25)
Adjusted PAT	3,421	6,066	6,476	7,484
YoY gr. (%)	(2,493.5)	77.3	6.8	15.6
Margin (%)	9.2	13.4	12.9	13.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,421	6,066	6,476	7,484
YoY gr. (%)	(2,493.5)	77.3	6.8	15.6
Margin (%)	9.2	13.4	12.9	13.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,421	6,066	6,476	7,484
Equity Shares O/s (m)	204	204	204	204
EPS (Rs)	16.7	29.7	31.7	36.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	31,410	36,483	46,483	51,983
Tangibles	29,722	35,177	45,177	50,677
Intangibles	1,689	1,306	1,306	1,306
Acc: Dep / Amortization	12,193	14,293	16,541	18,946
Tangibles	12,193	14,293	16,541	18,946
Intangibles	-	-	-	-
Net fixed assets	19,217	22,190	29,943	33,038
Tangibles	17,529	20,884	28,636	31,732
Intangibles	1,689	1,306	1,306	1,306
Capital Work In Progress	669	2,592	2,592	2,592
Goodwill	581	1,174	1,174	1,174
Non-Current Investments	1,324	2,519	2,519	2,519
Net Deferred tax assets	(496)	(814)	(814)	(814)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	594	716	825	906
Trade receivables	4,369	4,315	4,949	5,437
Cash & Bank Balance	1,722	3,799	4,402	6,256
Other Current Assets	2,807	4,261	4,124	4,531
Total Assets	31,297	41,621	50,583	56,508
Equity				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	12,843	19,270	25,509	32,756
Total Network	14,886	21,314	27,553	34,800
Non-Current Liabilities				
Long Term borrowings	5,449	7,622	9,622	7,622
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,490	6,150	6,874	7,551
Other current liabilities	4,169	4,435	4,435	4,435
Total Equity & Liabilities	31,297	41,621	50,583	56,507

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	4,383	7,518	8,120	9,386
Add. Depreciation	1,835	2,100	2,247	2,405
Add. Interest	663	695	850	800
Less Financial Other Income	346	654	500	500
Add. Other	121	2,111	(20)	(25)
Op. profit before WC changes	7,002	12,424	11,197	12,566
Net Changes-WC	(1,275)	(127)	117	(298)
Direct tax	(877)	(1,450)	(1,624)	(1,877)
Net cash from Op. activities	4,850	10,846	9,690	10,391
Capital expenditures	(2,507)	(7,378)	(10,000)	(5,500)
Interest / Dividend Income	-	-	-	-
Others	(162)	(4,363)	-	-
Net Cash from Invt. activities	(2,669)	(11,741)	(10,000)	(5,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	195	2,174	2,000	(2,000)
Dividend paid	-	(237)	(237)	(237)
Interest paid	(663)	(695)	(850)	(800)
Others	(1,312)	1,730	-	-
Net cash from Fin. activities	(1,780)	2,972	913	(3,037)
Net change in cash	401	2,077	603	1,854
Free Cash Flow	2,343	3,468	(310)	4,891

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	10,334	11,416	11,282	12,216
YoY gr. (%)	20.2	21.4	17.6	29.9
Raw Material Expenses	2,419	2,572	2,397	2,624
Gross Profit	7,915	8,844	8,885	9,592
Margin (%)	76.6	77.5	78.8	78.5
EBITDA	1,920	2,437	2,544	2,757
YoY gr. (%)	43.6	44.3	45.4	57.5
Margin (%)	18.6	21.3	22.6	22.6
Depreciation / Depletion	475	489	573	563
EBIT	1,445	1,948	1,971	2,194
Margin (%)	14.0	17.1	17.5	18.0
Net Interest	151	151	187	206
Other Income	80	312	116	147
Profit before Tax	1,375	2,109	1,899	2,135
Margin (%)	13.3	18.5	16.8	17.5
Total Tax	267	420	360	403
Effective tax rate (%)	19.4	19.9	19.0	18.9
Profit after Tax	1,108	1,689	1,539	1,732
Minority interest	-	-	(1)	(1)
Share Profit from Associates	(2)	-	-	-
Adjusted PAT	1,106	1,689	1,539	1,733
YoY gr. (%)	45.2	70.0	57.9	151.3
Margin (%)	10.7	14.8	13.6	14.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,106	1,689	1,539	1,733
YoY gr. (%)	45.2	70.0	57.9	151.3
Margin (%)	10.7	14.8	13.6	14.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,106	1,689	1,539	1,733
Avg. Shares O/s (m)	204	204	204	204
EPS (Rs)	5.4	8.3	7.5	8.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	16.7	29.7	31.7	36.6
CEPS	25.7	40.0	42.7	48.4
BVPS	72.8	104.3	134.8	170.3
FCF	11.5	17.0	(1.5)	23.9
DPS	-	1.2	1.2	1.2
Return Ratio(%)				
RoCE	25.6	30.7	25.6	24.3
ROIC	15.9	20.0	18.3	19.3
RoE	26.2	33.5	26.5	24.0
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.2	0.0
Net Working Capital (Days)	5	(9)	(8)	(8)
Valuation(x)				
PER	49.4	27.9	26.1	22.6
P/B	11.4	7.9	6.1	4.9
P/CEPS	32.1	20.7	19.4	17.1
EV/EBITDA	26.4	17.9	16.3	14.1
EV/Sales	4.7	3.8	3.5	3.1
Dividend Yield (%)	-	0.1	0.1	0.1

Source: Company Data, PL Research

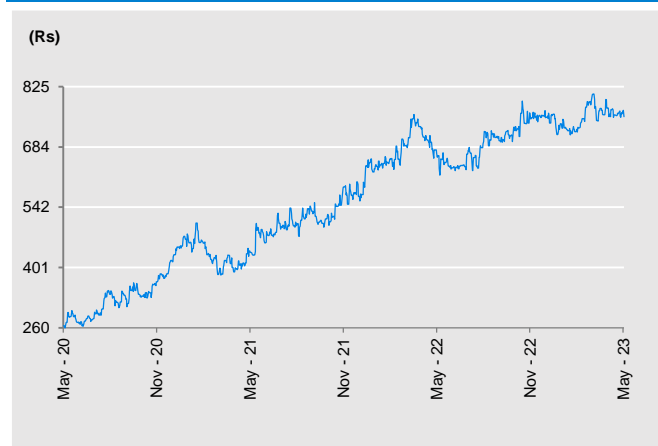
Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Flagship hospitals	13,725	17,176	18,909	21,194
Other mature hospitals	9,422	11,956	13,499	15,203
Cayman Island	6,965	8,829	9,869	10,400
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-Apr-23	BUY	965	760
2	11-Feb-23	BUY	965	719
3	06-Jan-23	BUY	920	712
4	19-Dec-22	BUY	920	756
5	14-Nov-22	BUY	900	740
6	06-Oct-22	BUY	810	715
7	06-Sep-22	BUY	810	708
8	12-Aug-22	BUY	810	686
9	07-Jul-22	BUY	773	639
10	24-May-22	BUY	773	634

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	265	240
3	Aurobindo Pharma	BUY	565	522
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	2,890
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	360	256
9	Glenmark Pharmaceuticals	Accumulate	460	480
10	HealthCare Global Enterprises	BUY	375	274
11	Indoco Remedies	BUY	430	328
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,975
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	965	760
18	Sun Pharmaceutical Industries	BUY	1,175	997
19	Torrent Pharmaceuticals	BUY	1,820	1,578
20	Zydus Lifesciences	Accumulate	520	508

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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