Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

June 16, 2023

Management Meet Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,100		980	
Sales (Rs. m)	49,789	55,652	50,177	55,122
% Chng.	*(0.8)*	*1.0*		
EBITDA (Rs. m)	10,791	12,255	10,717	12,091
% Chng.	*0.7*	*1.4*		
EPS (Rs.)	32.0	37.7	31.7	36.6
% Chng.	*0.9*	*2.8*		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	37,013	45,248	49,789	55,652
EBITDA (Rs. m)	6,535	9,658	10,791	12,255
Margin (%)	*17.7*	*21.3*	*21.7*	*22.0*
PAT (Rs. m)	3,421	6,066	6,535	7,695
EPS (Rs.)	16.7	29.7	32.0	37.7
Gr. (%)	*(2,493.5)*	*77.3*	*7.7*	*17.8*
DPS (Rs.)	-	1.2	1.2	1.2
Yield (%)	-	*0.1*	*0.1*	*0.1*
RoE (%)	*26.2*	*33.5*	*26.7*	*24.6*
RoCE (%)	*25.6*	*30.7*	*25.8*	*24.6*
EV/Sales (x)	5.8	4.8	4.4	3.8
EV/EBITDA (x)	33.0	22.3	20.1	17.4
PE (x)	61.9	34.9	32.4	27.5
P/BV (x)	14.2	9.9	7.7	6.0

Key Data	NARY.BO | NARH IN
52-W High / Low	Rs.1,057 / Rs.588
Sensex / Nifty	62,918 / 18,688
Market Cap	Rs.212bn/ $ 2,578m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.267.64m

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	34.8	37.8	64.2
Relative	33.5	35.3	37.1

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Narayana Hrudayalaya (NARH IN)

Rating: BUY | CMP: Rs1,037 | TP: Rs1,100

Focus on increasing throughput

We hosted Viren Shetty (Executive Chairman) of Narayana Hrudayalaya's (NARH) for NDR at Mumbai. Management plans to continue with its aggressive capex and grow 2x throughput over next 4-5 years by debottlecking, refurbishment, adding more cath labs and onco block. More importantly capex spend would be towards core and high performing regions such as Bangalore, Kolkata and Cayman to enhance growth visibility.

We expect 13% EBIDTA CAGR over FY23-25E. Despite capex intensity going up, RoE/RoCE will remain healthy at ~25%. At CMP, stock is trading at valuations of 18x EV/EBIDTA (adj for IND AS) and 27.5x P/E on FY25E. Maintain 'BUY' rating with a revised TP of Rs. 1,100/share (earlier Rs980/share), based on 22x FY25E EV/EBIDTA for India business and 12x EV/EBIDTA for Cayman. Faster ramp up in new Cayman unit will be key.

- **Capacity expansion in India**: Currently NARH has ~5800 operational beds in India. There will be limited bed addition over next 2 years however company intends to improve throughput aided by refurbishment/debottlenecking of units and improving efficiencies to reduce turnaround times. Further company will be adding more cath labs, starting onco block in certain units, increasing critical care/ICUs beds and more emphasis on digital. Company will be adding capacities across Bangalore (Health City) and Kolkata regions. The company has additional land available in Health City, while looking for greenfield expansion in Kolkata for which land already been finalized and paid.

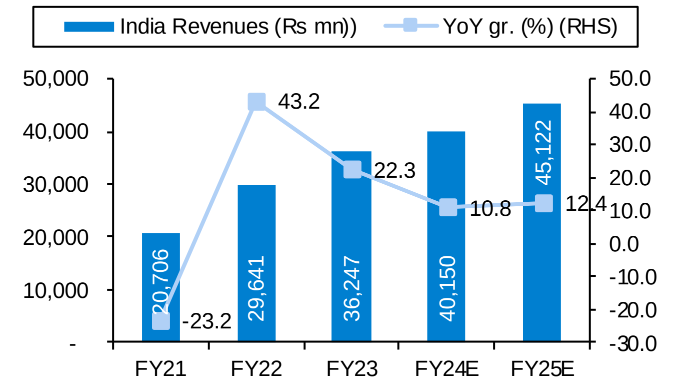
- **Ramp up in new Hospitals:** Mumbai unit turned profitable in Q4FY23, while Gurgaon unit was profitable in FY23 with 3% margin. Gurgaon unit should continue to sustain positive margins and scale up, while Mumbai unit margins may continue to remain volatile. Dharamshila unit continues to generate strong operating margins at 14% in FY23. Company may look to explore to expand capacity in new units. Overall sees margins for new hospitals to scale up to double digit over next 3-5 years.

- **Cayman – Strong cash generating asset:** Operationally, Cayman's business has been strong from last 2 years. The new radiation block has been commercialized and response has been good so far. Radiation block will be margin accretive and should aid growth for Cayman business in FY24. Commencement of new unit will be operationalizing from H1FY25. Management feels new unit will be margin dilutive during initial period, however expects absolute profitability of old +new unit should not be reduced/dilutive. So far company has spent $50mn towards Cayman new unit of which $10mn was towards radiation block. Management highlighted that 60% of Cayman capex will be funded through loan as favorable interest rates in Cayman Island.

- **Integrated care model - Objective to create future demand:** NARH incorporated fully owned subsidiary Narayana Health Integrated Care (NHIC) and initiated a slump sale to transfer existing clinic assets. This subsidiary will have clinics offering primary services, homecare, online care. They also intend to combine this with comprehensive health insurance plan. Management sees this model not much remunerative but will be asset light. The objective of this integrated care is to create future demand and stay near to patients. Initially company will be pilot testing in Bangalore and Kolkata markets with total investment of less than Rs0.5-1bn.

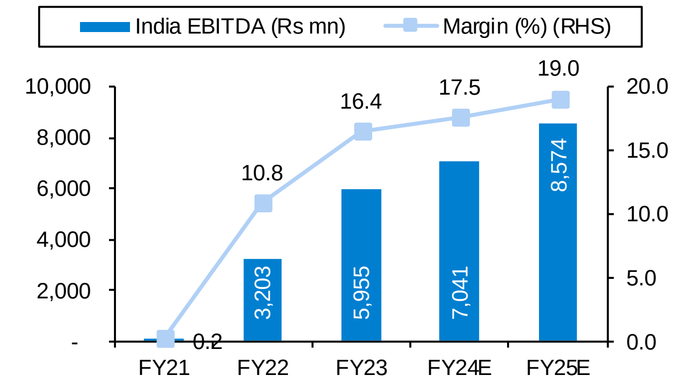
- **Other Highlights:**
  - Lot of input cost has been gone up, however most has been pass through by improving efficiencies and less by price hike.
  - CGHS price hike- Since 2014/15, it was the first time in Apr-23 that price hike was taken in CGHS scheme; largely reflected in room rent and outpatient services. Hike was not meaningful, however industry participants requested government to reconsider tariff across procedures under the scheme. Clarity will surface in July month, however given election year things may get delayed.
  - There will be gradual improvement in ARPP through tariff hike and improved specialty mix.
  - Cayman- Post commercialization of new unit, not much capex is expected however company will continue to explore opportunities in neighboring islands like Bermuda and Bahamas. These markets are much bigger in market potential than Cayman, however it also has strong local competition.
  - On Cayman Island, where doctor concentration is currently predominately from India, management plans to diversify doctor concentrations to the USA and Canada.
  - Combination of high end tertiary and clinical work drives higher ARPOB and margins with lower ALOS. This would be achieved through implementation of digital initiatives along with upgrading machines in Bangalore, Howrah and Jaipur units.
  - 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.
  - Medical Tourism – Management hinted towards possible reduction in medical tourism business in India, as there is likely improvement in operational services outside India.
  - Management guided for increasing patient footfall and increased focus on Bangladesh markets.
  - Company has existing facility at Raipur with 250 bed capacity which is running at optimum utilization. NARH is in talks with partner/land owner to enhance capacity in Raipur.

Exhibit 1: Revenues from India to grow at CAGR of ~12% over FY23-25E



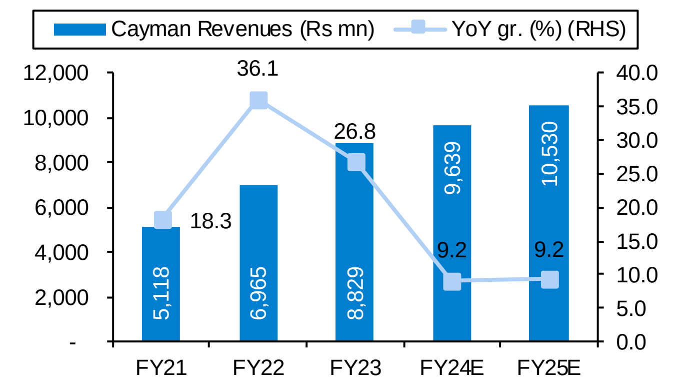
Source: Company, PL

Exhibit 2: Margins to improve on better utilization and case mix



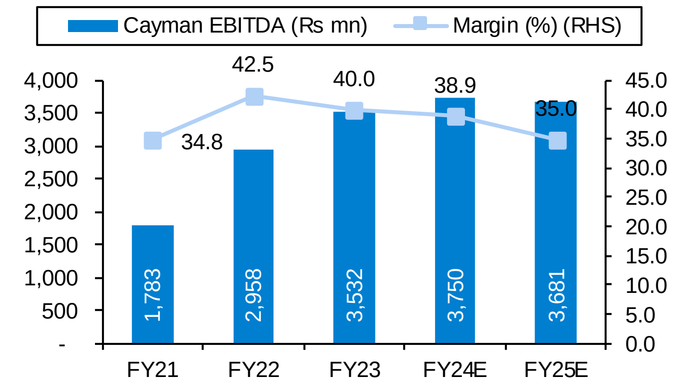
Source: Company, PL

Exhibit 3: Revenues from Cayman to grow at CAGR of +9% over FY23-25E



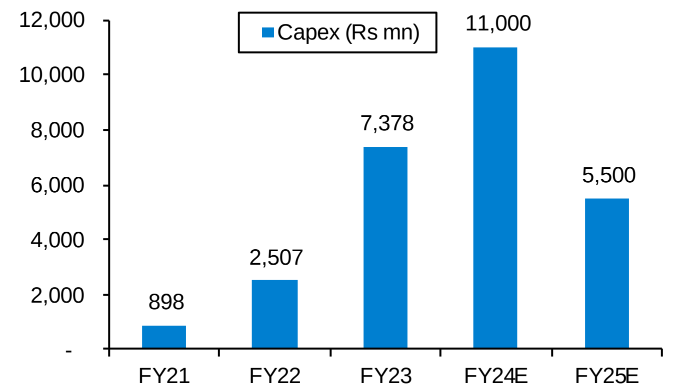
Source: Company, PL

Exhibit 4: We expect steady profitability in Cayman



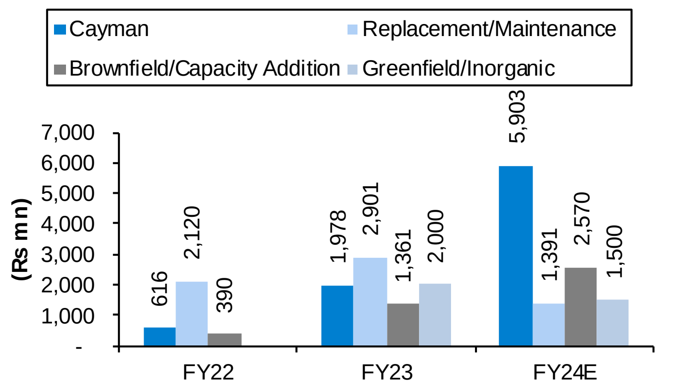
Source: Company, PL

Exhibit 5: Aggressive capex plan in FY24



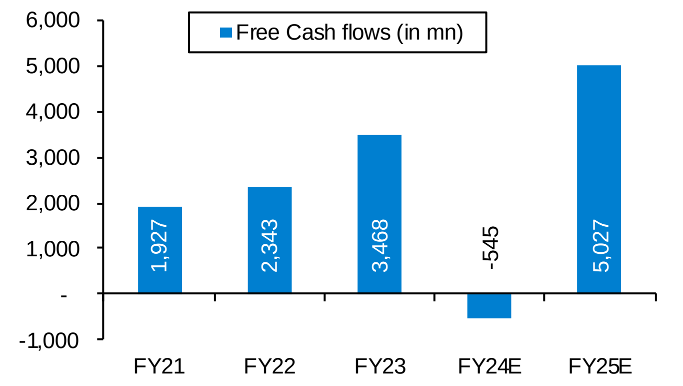
Source: Company, PL

Exhibit 6: NARH's capex plan for FY24E



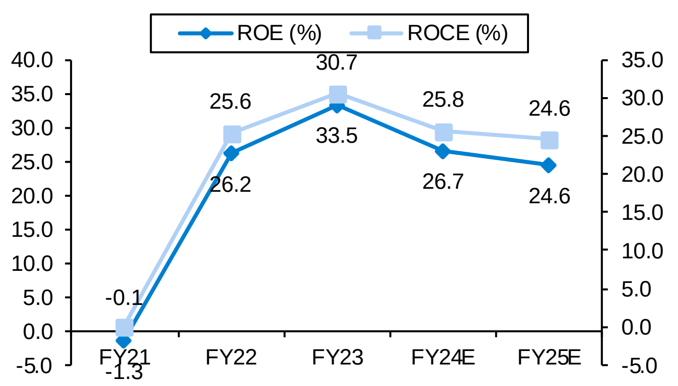
Source: Company, PL

Exhibit 7: Strong free cash flow generation



Source: Company, PL

Exhibit 8: Healthy ROE and ROCE profile



Source: Company, PL

Exhibit 9: Peer Valuation

Peer Hospital companies	MCap (Rs bn)	Rating	CMP (Rs)	EV/EBITDA (x)		PE (x)		ROE (x)		ROCE (x)		PB (x)	
				FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Apollo Hospitals Enterprise	750	BUY	5219	29.2	22.8	66.7	46.4	17.0	21.0	21.3	26.4	10.7	9.0
Aster DM Healthcare	153	BUY	305	9.6	8.2	25.1	20.0	11.5	13.5	13.4	15.0	3.1	2.8
Fortis Healthcare	231	BUY	306	18.3	15.2	35.4	28.3	8.6	9.8	11.4	12.9	2.9	2.7
HealthCare Global Enterprises	44	BUY	315	12.4	10.5	44.1	29.8	10.9	14.2	14.7	17.1	4.6	4.0
Krishna Institute of Medical Sciences	128	BUY	1604	18.8	16.1	35.1	30.2	20.0	19.6	23.6	23.7	6.5	5.5
Max Healthcare Institute	570	BUY	588	31.3	26.2	46.0	38.3	14.3	14.8	16.2	17.1	6.1	5.3
Narayana Hrudayalaya	212	BUY	1037	20.1	17.4	32.4	27.5	26.7	24.6	25.8	24.6	7.7	6.0

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**37,013**	**45,248**	**49,789**	**55,652**
YoY gr. (%)	*43.3*	*22.2*	*10.0*	*11.8*
Cost of Goods Sold	9,092	10,012	11,451	12,800
Gross Profit	27,921	35,236	38,337	42,852
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	17,436	18,969
EBITDA	**6,535**	**9,658**	**10,791**	**12,255**
YoY gr. (%)	*258.9*	*47.8*	*11.7*	*13.6*
Margin (%)	*17.7*	*21.3*	*21.7*	*22.0*
Depreciation and Amortization	1,835	2,100	2,247	2,405
EBIT	**4,700**	**7,558**	**8,544**	**9,850**
Margin (%)	*12.7*	*16.7*	*17.2*	*17.7*
Net Interest	663	695	850	700
Other Income	346	654	500	500
Profit Before Tax	**4,383**	**7,518**	**8,194**	**9,650**
Margin (%)	*11.8*	*16.6*	*16.5*	*17.3*
Total Tax	877	1,450	1,639	1,930
Effective tax rate (%)	*20.0*	*19.3*	*20.0*	*20.0*
Profit after tax	**3,506**	**6,068**	**6,555**	**7,720**
Minority interest	-	-	-	-
Share Profit from Associate	(85)	(2)	(20)	(25)
Adjusted PAT	**3,421**	**6,066**	**6,535**	**7,695**
YoY gr. (%)	*(2,493.5)*	*77.3*	*7.7*	*17.8*
Margin (%)	*9.2*	*13.4*	*13.1*	*13.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,421**	**6,066**	**6,535**	**7,695**
YoY gr. (%)	*(2,493.5)*	*77.3*	*7.7*	*17.8*
Margin (%)	*9.2*	*13.4*	*13.1*	*13.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,421	6,066	6,535	7,695
Equity Shares O/s (m)	**204**	**204**	**204**	**204**
EPS (Rs)	**16.7**	**29.7**	**32.0**	**37.7**

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**	**47,483**	**52,983**
Tangibles	29,722	35,177	46,177	51,677
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**	**30,943**	**34,038**
Tangibles	17,529	20,884	29,636	32,732
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	818	915
Trade receivables	4,369	4,315	4,911	5,489
Cash & Bank Balance	1,722	3,799	4,167	6,257
Other Current Assets	2,807	4,261	4,092	4,574
Total Assets	**31,297**	**41,621**	**51,271**	**57,613**
Equity				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	12,843	19,270	25,568	33,026
Total Networth	**14,886**	**21,314**	**27,612**	**35,070**
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	7,502	8,386
Other current liabilities	4,169	4,435	4,435	4,435
Total Equity & Liabilities	**31,297**	**41,621**	**51,271**	**57,612**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	4,383	7,518	8,194	9,650
Add. Depreciation	1,835	2,100	2,247	2,405
Add. Interest	663	695	850	700
Less Financial Other Income	346	654	500	500
Add. Other	121	2,111	(20)	(25)
Op. profit before WC changes	7,002	12,424	11,271	12,730
Net Changes-WC	(1,275)	(127)	822	(273)
Direct tax	(877)	(1,450)	(1,639)	(1,930)
Net cash from Op. activities	**4,850**	**10,846**	**10,455**	**10,527**
Capital expenditures	(2,507)	(7,378)	(11,000)	(5,500)
Interest / Dividend Income	-	-	-	-
Others	(162)	(4,363)	-	-
Net Cash from Invt. activities	**(2,669)**	**(11,741)**	**(11,000)**	**(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)	(700)
Others	(1,312)	1,730	-	-
Net cash from Fin. activities	**(1,780)**	**2,972**	**913**	**(2,937)**
Net change in cash	**401**	**2,077**	**368**	**2,090**
Free Cash Flow	2,343	3,468	(545)	5,027

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	32.0	37.7
CEPS	25.7	40.0	43.0	49.4
BVPS	72.8	104.3	135.1	171.6
FCF	11.5	17.0	(2.7)	24.6
DPS	-	1.2	1.2	1.2
Return Ratio(%)				
RoCE	25.6	30.7	25.8	24.6
ROIC	15.9	20.0	18.1	19.2
RoE	26.2	33.5	26.7	24.6
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.2	0.0
Net Working Capital (Days)	5	(9)	(13)	(13)
Valuation(x)				
PER	61.9	34.9	32.4	27.5
P/B	14.2	9.9	7.7	6.0
P/CEPS	40.3	25.9	24.1	21.0
EV/EBITDA	33.0	22.3	20.1	17.4
EV/Sales	5.8	4.8	4.4	3.8
Dividend Yield (%)	-	0.1	0.1	0.1

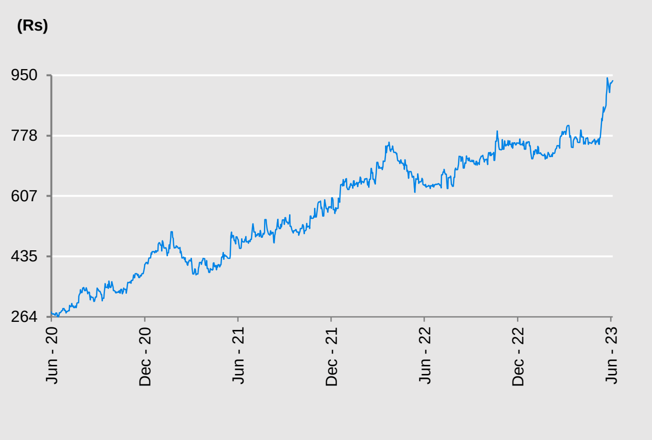
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
India hospitals	28,466	35,547	39,450	44,422
Cayman Island	6,965	8,829	9,639	10,530
Others	1,582	872	700	700

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-May-23	BUY	980	827
2	06-Apr-23	BUY	965	760
3	11-Feb-23	BUY	965	719
4	06-Jan-23	BUY	920	712
5	19-Dec-22	BUY	920	756
6	14-Nov-22	BUY	900	740
7	06-Oct-22	BUY	810	715
8	06-Sep-22	BUY	810	708
9	12-Aug-22	BUY	810	686
10	07-Jul-22	BUY	773	639

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,300	4,622
2	Aster DM Healthcare	BUY	335	270
3	Aurobindo Pharma	BUY	660	611
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	3,098
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	330	288
9	Glenmark Pharmaceuticals	Reduce	570	609
10	HealthCare Global Enterprises	BUY	375	294
11	Indoco Remedies	BUY	400	340
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,055
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	980	827
18	Sun Pharmaceutical Industries	BUY	1,140	970
19	Torrent Pharmaceuticals	BUY	1,900	1,714
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

ANALYST CERTIFICATION

(Indian Clients)

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