

August 8, 2023

## Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,110		1,100	
Sales (Rs. m)	49,908	55,782	49,789	55,652
% Chng.	0.2	0.2		
EBITDA (Rs. m)	10,961	12,382	10,791	12,255
% Chng.	1.6	1.0		
EPS (Rs.)	34.3	39.0	32.0	37.7
% Chng.	7.2	3.5		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	37,013	45,248	49,908	55,782
EBITDA (Rs. m)	6,535	9,658	10,961	12,382
Margin (%)	17.7	21.3	22.0	22.2
PAT (Rs. m)	3,421	6,066	7,005	7,962
EPS (Rs.)	16.7	29.7	34.3	39.0
Gr. (%)	(2,493.5)	77.3	15.5	13.7
DPS (Rs.)	-	1.2	1.2	1.2
Yield (%)	-	0.1	0.1	0.1
RoE (%)	26.2	33.5	28.4	24.9
RoCE (%)	25.6	30.7	26.2	24.6
EV/Sales (x)	5.7	4.6	4.2	3.7
EV/EBITDA (x)	32.2	21.8	19.3	16.7
PE (x)	60.3	34.0	29.5	25.9
P/BV (x)	13.9	9.7	7.4	5.8

### Key Data

NARY.BO | NARH IN

52-W High / Low	Rs.1,077 / Rs.607
Sensex / Nifty	65,953 / 19,597
Market Cap	Rs.206bn/ \$ 2,494m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.343.94m

### Shareholding Pattern (%)

Promoter's	63.85
Foreign	11.10
Domestic Institution	12.51
Public & Others	12.54
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	0.1	38.1	59.3
Relative	(0.9)	26.3	41.0

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# Narayana Hrudayalaya (NARH IN)

Rating: BUY | CMP: Rs1,010 | TP: Rs1,110

## Strong quarter across India and Cayman

### Quick Pointers:

- Booked Rs 60mn of one-time loss from Narayana Health Integrated Care unit.
- Bangalore, Kolkata and Cayman units to drive growth

**Narayana Hrudayalaya (NARH) reported healthy EBIDTA at Rs2.71bn (up 41% YoY, 8% beat to our estimate. Both India (Rs1.65bn; flat QoQ) and Cayman (\$13.5mn; up 7% QoQ) reported healthy profitability. We expect this growth momentum to sustain. The company reiterates its aggressive capex plan mainly towards its core and high performing regions such as Bangalore, Kolkata and Cayman which enhances growth visibility. Despite capex intensity going up, RoE/ RoCE will remain healthy at ~25%. Our FY24E and FY25E EBIDTA marginally stands increased by 2%. We maintain 'BUY' rating with a revised TP of Rs. 1,110/share, based on 22x FY25E EV/EBITDA for India business and 12x EV/EBITDA for Cayman hospitals. At CMP, stock is trading at valuations of 17.6x EV/EBITDA (adj for IND AS) and 26x P/E on FY25E. Faster ramp up in new Cayman unit will be a key.**

- India and Cayman biz profitability continues to remains healthy:** NARH reported pre IND AS EBIDTA of Rs2.6bn (up 45% YoY). Adjusted for loss of Rs. 60mn related to NHIC unit in Q1, EBIDTA was at Rs. 2.63bn vs our estimate of Rs. 2.4bn. Overall, margins came in 21%; stable QoQ. India business adjusted for one offs continues to report healthy EBIDTA of Rs1.65bn; flat QoQ and 25% YoY. Cayman reported strong EBIDTA of \$13mn vs \$12.6mn/\$8.7mn in Q4FY23/Q1FY23. OPM was of 45.7%, up 320 bps QoQ.
- Higher ARPOB at Rs. 37,260/day; net debt reduced by Rs1.1bn:** Revenue grew by 19% YoY (1% QoQ) to Rs12.3bn. ARPOB for India business was up 1% QoQ and 12% YoY to Rs. 37,260/day aided by price hike taken Jan 2023 and better payor mix. Discharges were higher by 7% YoY (2% QoQ) for India. Cayman revenues improved 32% YoY to \$29.9mn (up 2% QoQ). Discharges were higher 18% YoY, while OP volumes were up by 3% YoY (15% QoQ) for Cayman aided by commercialization of new radiation block. Cayman ARPOB was up by 21% YoY (5% QoQ). Reported PAT was at Rs1.84bn (up 6% QoQ). Net debt decreased by Rs 1.12bn to Rs188mn.
- Key con-call takeaways: (1) Capex** – guidance of Rs. 11.4bn in FY24E of which Rs1.1bn incurred in Q1. **(2) Cayman-** Newly commissioned radiation oncology block at Cayman island has not been margin dilutive and will contribute meaningfully in future. The commercialization of new multi-specialty hospital at Cayman likely to be by H1FY25 and will be margin dilutive **(3) New units:** Mumbai hospital to breakeven by end of FY24. New hospitals contributed Rs1.2bn of revenues (10% YoY growth) with EBIDTA margins at 6% in Q1 **(4) Mgmt** reiterated inflation headwinds on gross margins in near term **(5) Narayana Health Integrated Care (NHIC)** reported revenues of Rs. 45mn with patient's footfalls of +29K. 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 **(6) NARH** received one time deferred tax credit which resulted in lower tax in India **(7) Marginal** revision in CGHS scheme largely more towards OPD patients **(8) Combination** of high end tertiary and clinical work driving higher ARPOB and margins with lower ALOS.

**Exhibit 1: Q1FY24 Result Overview (Rs mn) – Adj EBITDA for one offs was 10% above our estimate**

Y/e March	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
<b>Net Sales</b>	<b>12,334</b>	<b>10,334</b>	<b>19.4</b>	<b>12,216</b>	<b>1.0</b>	<b>49,908</b>	<b>45,248</b>	<b>10.3</b>
COGS	2,717	2,419	12.3	2,624	3.6	11,479	10,012	14.7
<i>% of Net Sales</i>	<i>22.0</i>	<i>23.4</i>		<i>21.5</i>		<i>23.0</i>	<i>22.1</i>	
Employee Cost	2,454	2,149	14.2	2,273	8.0	10,111	8,792	15.0
<i>% of Net Sales</i>	<i>19.9</i>	<i>20.8</i>		<i>18.6</i>		<i>27.3</i>	<i>23.8</i>	
Other Expenses	4,456	3,846	15.9	4,561	(2.3)	17,357	16,786	3.4
<i>% of Net Sales</i>	<i>36.1</i>	<i>37.2</i>		<i>37.3</i>		<i>46.9</i>	<i>45.4</i>	
<b>Total</b>	<b>9,628</b>	<b>8,415</b>	<b>14.4</b>	<b>9,458</b>	<b>1.8</b>	<b>38,947</b>	<b>35,589</b>	<b>9.4</b>
<b>EBITDA</b>	<b>2,707</b>	<b>1,920</b>	<b>41.0</b>	<b>2,757</b>	<b>(1.8)</b>	<b>10,961</b>	<b>9,658</b>	<b>13.5</b>
<i>Margins (%)</i>	<i>21.9</i>	<i>18.6</i>		<i>22.6</i>		<i>22.0</i>	<i>21.3</i>	
Other Income	151	80	88.6	147	2.8	600	654	(8.3)
Interest	209	151	39.1	206	1.7	850	695	22.4
Depreciation	589	475	24.1	563	4.6	2,247	2,100	7.0
<b>PBT</b>	<b>2,059</b>	<b>1,375</b>	<b>49.8</b>	<b>2,135</b>	<b>(3.6)</b>	<b>8,464</b>	<b>7,518</b>	<b>12.6</b>
Tax	219	267	(17.9)	403	(45.7)	1,439	1,450	(0.8)
<i>Tax rate %</i>	<i>10.6</i>	<i>19.4</i>		<i>18.9</i>		<i>17.0</i>	<i>19.3</i>	
<b>PAT</b>	<b>1,840</b>	<b>1,108</b>	<b>66.1</b>	<b>1,732</b>	<b>6.2</b>	<b>7,025</b>	<b>6,068</b>	<b>15.8</b>
Share in (loss)/profit of associate	-	(2)		-		(20)	2	
Minority Interest	(1)	-		(1)		-	3	
<b>Reported PAT</b>	<b>1,840</b>	<b>1,105</b>	<b>66.5</b>	<b>1,732</b>	<b>6.2</b>	<b>7,003</b>	<b>6,064</b>	<b>15.5</b>

Source: Company, PL

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

Revenues (Rs. mn)	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
<b>Cayman</b>	<b>2,437</b>	<b>1,680</b>	<b>45.1</b>	<b>2,445</b>	<b>(0.3)</b>	<b>9,758</b>	<b>8,749</b>	<b>11.5</b>
<i>% of Total Sales</i>	<i>19.8</i>	<i>16.3</i>		<i>20.0</i>		<i>19.6</i>	<i>19.3</i>	
<b>India</b>	<b>9,897</b>	<b>8,654</b>	<b>14.4</b>	<b>9,771</b>	<b>1.3</b>	<b>40,150</b>	<b>36,499</b>	<b>10.0</b>
<i>% of Total Sales</i>	<i>80.2</i>	<i>83.7</i>		<i>80.0</i>		<i>80.4</i>	<i>80.7</i>	
<b>Total Sales</b>	<b>12,334</b>	<b>10,334</b>	<b>19.4</b>	<b>12,216</b>	<b>1.0</b>	<b>49,908</b>	<b>45,248</b>	<b>10.3</b>

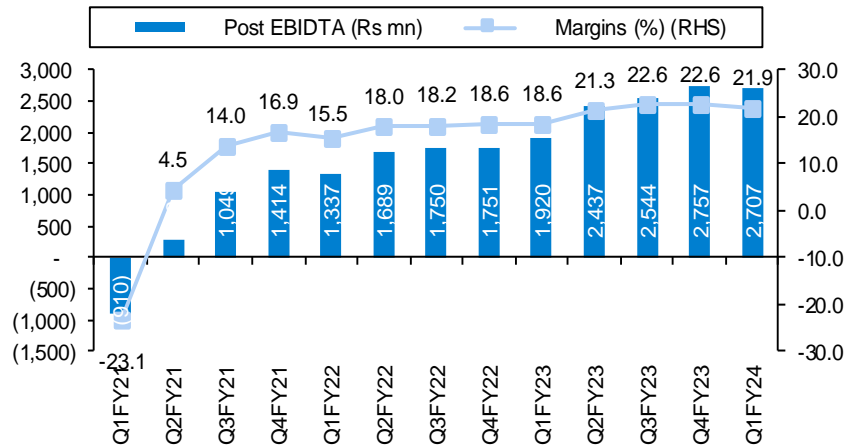
Source: Company, PL

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

Break up of EBITDA	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)
<b>Cayman</b>	<b>1,114</b>	<b>645</b>	<b>72.7</b>	<b>1,039</b>	<b>7.2</b>
<i>% OPM</i>	<i>45.7</i>	<i>38.4</i>		<i>42.5</i>	
<b>India</b>	<b>1,593</b>	<b>1,285</b>	<b>24.0</b>	<b>1,438</b>	<b>10.8</b>
<i>% OPM</i>	<i>16.1</i>	<i>14.8</i>		<i>14.7</i>	
<b>St Lucia</b>	<b>-</b>	<b>(10)</b>	<b>NA</b>	<b>280</b>	<b>NA</b>

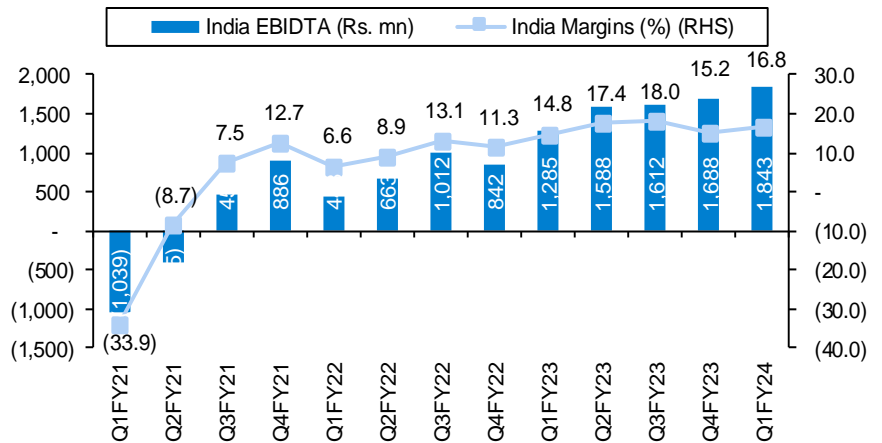
Source: Company, PL

Exhibit 4: Consolidated margins was stable QoQ



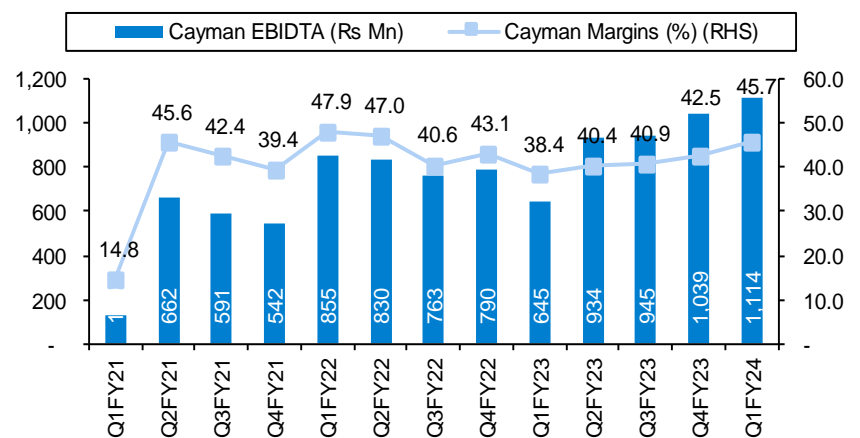
Source: Company, PL

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

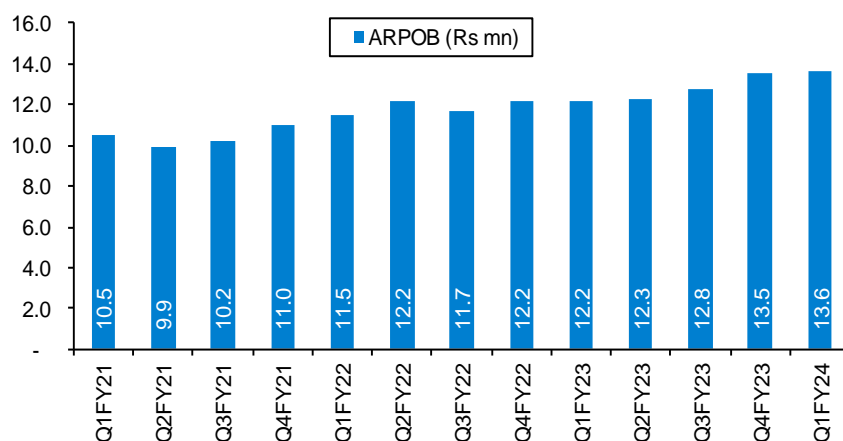


Source: Company, PL

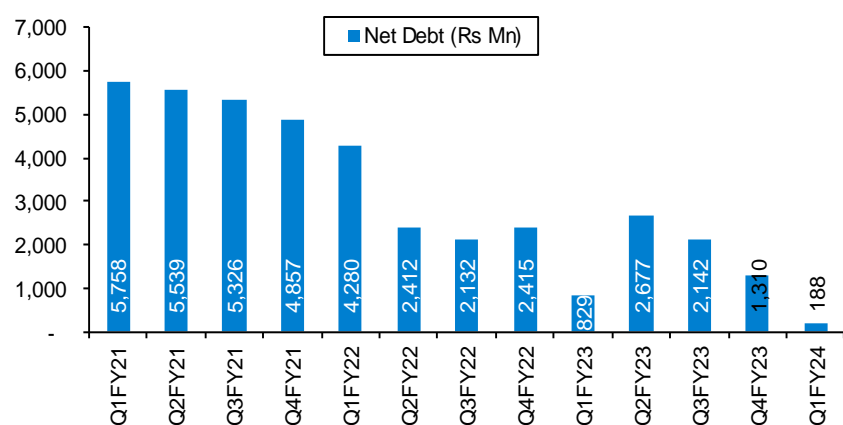
Exhibit 6: Cayman margins improved by 320 bps QoQ



Source: Company, PL

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


Source: Company, PL

**Exhibit 8: Net debt continues to further decreased by Rs. 1.1bn QoQ**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>37,013</b>	<b>45,248</b>	<b>49,908</b>	<b>55,782</b>
YoY gr. (%)	43.3	22.2	10.3	11.8
Cost of Goods Sold	9,092	10,012	11,479	12,830
Gross Profit	27,921	35,236	38,429	42,952
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	17,357	18,942
<b>EBITDA</b>	<b>6,535</b>	<b>9,658</b>	<b>10,961</b>	<b>12,382</b>
YoY gr. (%)	258.9	47.8	13.5	13.0
Margin (%)	17.7	21.3	22.0	22.2
Depreciation and Amortization	1,835	2,100	2,247	2,405
<b>EBIT</b>	<b>4,700</b>	<b>7,558</b>	<b>8,714</b>	<b>9,978</b>
Margin (%)	12.7	16.7	17.5	17.9
Net Interest	663	695	850	700
Other Income	346	654	600	700
<b>Profit Before Tax</b>	<b>4,383</b>	<b>7,518</b>	<b>8,464</b>	<b>9,978</b>
Margin (%)	11.8	16.6	17.0	17.9
Total Tax	877	1,450	1,439	1,996
Effective tax rate (%)	20.0	19.3	17.0	20.0
<b>Profit after tax</b>	<b>3,506</b>	<b>6,068</b>	<b>7,025</b>	<b>7,982</b>
Minority interest	-	-	-	-
Share Profit from Associate	(85)	(2)	(20)	(20)
<b>Adjusted PAT</b>	<b>3,421</b>	<b>6,066</b>	<b>7,005</b>	<b>7,962</b>
YoY gr. (%)	(2,493.5)	77.3	15.5	13.7
Margin (%)	9.2	13.4	14.0	14.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,421</b>	<b>6,066</b>	<b>7,005</b>	<b>7,962</b>
YoY gr. (%)	(2,493.5)	77.3	15.5	13.7
Margin (%)	9.2	13.4	14.0	14.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,421	6,066	7,005	7,962
<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>29.7</b>	<b>34.3</b>	<b>39.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>31,410</b>	<b>36,483</b>	<b>47,483</b>	<b>52,983</b>
Tangibles	29,722	35,177	46,177	51,677
Intangibles	1,689	1,306	1,306	1,306
<b>Acc: Dep / Amortization</b>	<b>12,193</b>	<b>14,293</b>	<b>16,541</b>	<b>18,946</b>
Tangibles	12,193	14,293	16,541	18,946
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>19,217</b>	<b>22,190</b>	<b>30,943</b>	<b>34,038</b>
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	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	594	716	820	917
Trade receivables	4,369	4,315	4,922	5,502
Cash & Bank Balance	1,722	3,799	4,905	7,293
Other Current Assets	2,807	4,261	4,102	4,585
<b>Total Assets</b>	<b>31,297</b>	<b>41,621</b>	<b>52,032</b>	<b>58,675</b>
<b>Equity</b>				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	12,843	19,270	26,038	33,763
<b>Total Network</b>	<b>14,886</b>	<b>21,314</b>	<b>28,082</b>	<b>35,807</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	5,449	7,622	9,622	7,622
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,490	6,150	7,794	8,711
Other current liabilities	4,169	4,435	4,435	4,435
<b>Total Equity &amp; Liabilities</b>	<b>31,297</b>	<b>41,621</b>	<b>52,032</b>	<b>58,675</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	4,383	7,518	8,464	9,978
Add. Depreciation	1,835	2,100	2,247	2,405
Add. Interest	663	695	850	700
Less Financial Other Income	346	654	600	700
Add. Other	121	2,111	(20)	(20)
Op. profit before WC changes	7,002	12,424	11,541	13,062
Net Changes-WC	(1,275)	(127)	1,090	(241)
Direct tax	(877)	(1,450)	(1,439)	(1,996)
<b>Net cash from Op. activities</b>	<b>4,850</b>	<b>10,846</b>	<b>11,193</b>	<b>10,826</b>
Capital expenditures	(2,507)	(7,378)	(11,000)	(5,500)
Interest / Dividend Income	-	-	-	-
Others	(162)	(4,363)	-	-
<b>Net Cash from Invt. activities</b>	<b>(2,669)</b>	<b>(11,741)</b>	<b>(11,000)</b>	<b>(5,500)</b>
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	-	-
<b>Net cash from Fin. activities</b>	<b>(1,780)</b>	<b>2,972</b>	<b>913</b>	<b>(2,937)</b>
<b>Net change in cash</b>	<b>401</b>	<b>2,077</b>	<b>1,106</b>	<b>2,388</b>
Free Cash Flow	2,343	3,468	193	5,326

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>11,416</b>	<b>11,282</b>	<b>12,216</b>	<b>12,334</b>
YoY gr. (%)	21.4	17.6	29.9	19.4
Raw Material Expenses	2,572	2,397	2,624	2,717
Gross Profit	8,844	8,885	9,592	9,617
Margin (%)	77.5	78.8	78.5	78.0
<b>EBITDA</b>	<b>2,437</b>	<b>2,544</b>	<b>2,757</b>	<b>2,707</b>
YoY gr. (%)	44.3	45.4	57.5	41.0
Margin (%)	21.3	22.6	22.6	21.9
Depreciation / Depletion	489	573	563	589
<b>EBIT</b>	<b>1,948</b>	<b>1,971</b>	<b>2,194</b>	<b>2,118</b>
Margin (%)	17.1	17.5	18.0	17.2
Net Interest	151	187	206	209
Other Income	312	116	147	151
<b>Profit before Tax</b>	<b>2,109</b>	<b>1,899</b>	<b>2,135</b>	<b>2,059</b>
Margin (%)	18.5	16.8	17.5	16.7
Total Tax	420	360	403	219
Effective tax rate (%)	19.9	19.0	18.9	10.6
<b>Profit after Tax</b>	<b>1,689</b>	<b>1,539</b>	<b>1,732</b>	<b>1,840</b>
Minority interest	-	(1)	(1)	(1)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,689</b>	<b>1,539</b>	<b>1,733</b>	<b>1,841</b>
YoY gr. (%)	70.0	57.9	151.3	66.5
Margin (%)	14.8	13.6	14.2	14.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,689</b>	<b>1,539</b>	<b>1,733</b>	<b>1,841</b>
YoY gr. (%)	70.0	57.9	151.3	66.5
Margin (%)	14.8	13.6	14.2	14.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,689</b>	<b>1,539</b>	<b>1,733</b>	<b>1,841</b>
Avg. Shares O/s (m)	204	204	204	204
<b>EPS (Rs)</b>	<b>8.3</b>	<b>7.5</b>	<b>8.5</b>	<b>9.0</b>

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	16.7	29.7	34.3	39.0
CEPS	25.7	40.0	45.3	50.7
BVPS	72.8	104.3	137.4	175.2
FCF	11.5	17.0	0.9	26.1
DPS	-	1.2	1.2	1.2
<b>Return Ratio(%)</b>				
RoCE	25.6	30.7	26.2	24.6
ROIC	15.9	20.0	18.5	19.4
RoE	26.2	33.5	28.4	24.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.3	0.2	0.2	0.0
Net Working Capital (Days)	5	(9)	(15)	(15)
<b>Valuation(x)</b>				
PER	60.3	34.0	29.5	25.9
P/B	13.9	9.7	7.4	5.8
P/CEPS	39.3	25.3	22.3	19.9
EV/EBITDA	32.2	21.8	19.3	16.7
EV/Sales	5.7	4.6	4.2	3.7
Dividend Yield (%)	-	0.1	0.1	0.1

Source: Company Data, PL Research

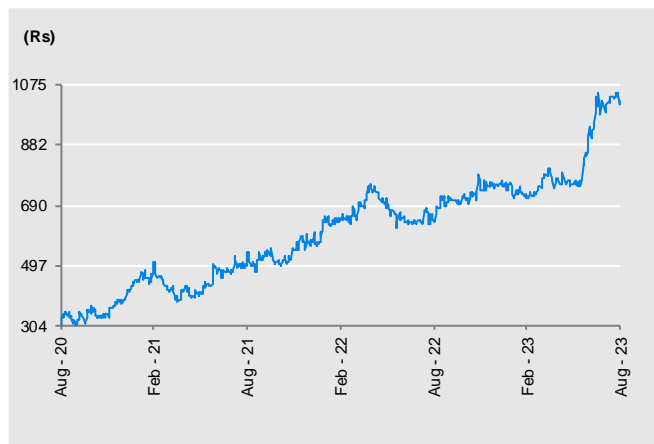
### Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
India hospitals	28,466	35,547	39,450	44,422
Cayman Island	6,965	8,829	9,758	10,660
Others	1,582	872	700	700

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	1,100	1,013
2	16-Jun-23	BUY	1,100	1,037
3	22-May-23	BUY	980	827
4	06-Apr-23	BUY	965	760
5	11-Feb-23	BUY	965	719
6	06-Jan-23	BUY	920	712
7	19-Dec-22	BUY	920	756
8	14-Nov-22	BUY	900	740
9	06-Oct-22	BUY	810	715
10	06-Sep-22	BUY	810	708

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,300	5,283
2	Aster DM Healthcare	BUY	335	311
3	Aurobindo Pharma	BUY	660	761
4	Cipla	BUY	1,220	1,069
5	Divi's Laboratories	Hold	2,700	3,737
6	Dr. Reddy's Laboratories	Reduce	5,150	5,476
7	Eris Lifesciences	BUY	780	706
8	Fortis Healthcare	BUY	365	324
9	Glenmark Pharmaceuticals	Reduce	570	668
10	HealthCare Global Enterprises	BUY	375	326
11	Indoco Remedies	BUY	380	324
12	Ipca Laboratories	Hold	750	760
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,314
14	Krishna Institute of Medical Sciences	BUY	1,660	1,782
15	Lupin	Hold	1,010	1,064
16	Max Healthcare Institute	BUY	565	614
17	Narayana Hrudayalaya	BUY	1,100	1,013
18	Sun Pharmaceutical Industries	BUY	1,265	1,141
19	Torrent Pharmaceuticals	BUY	2,250	2,055
20	Zydus Lifesciences	Accumulate	520	588

## 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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