

November 5, 2024

Q2FY25 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	1,420		1,420	
Sales (Rs. m)	63,972	71,480	63,972	71,480
% Chng.	-	-	-	-
EBITDA (Rs. m)	14,485	17,057	14,485	17,057
% Chng.	-	-	-	-
EPS (Rs.)	46.5	56.5	46.5	56.5
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	50,182	56,656	63,972	71,480
EBITDA (Rs. m)	11,524	11,960	14,485	17,057
Margin (%)	23.0	21.1	22.6	23.9
PAT (Rs. m)	7,896	7,760	9,503	11,555
EPS (Rs.)	38.6	38.0	46.5	56.5
Gr. (%)	30.2	(1.7)	22.5	21.6
DPS (Rs.)	4.6	4.6	5.8	5.8
Yield (%)	0.4	0.4	0.5	0.5
RoE (%)	31.5	24.1	23.9	23.5
RoCE (%)	25.2	19.9	21.2	22.7
EV/Sales (x)	5.1	4.5	4.0	3.5
EV/EBITDA (x)	22.1	21.5	17.7	14.6
PE (x)	30.9	31.5	25.7	21.1
P/BV (x)	8.5	6.9	5.6	4.5

Key Data

NARY.BO | NARH IN

52-W High / Low	Rs.1,445 / Rs.1,026
Sensex / Nifty	79,477 / 24,213
Market Cap	Rs.244bn/ \$ 2,905m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.447.1m

Shareholding Pattern (%)

Promoter's	63.85
Foreign	9.69
Domestic Institution	8.52
Public & Others	17.94
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.9)	(4.3)	15.6
Relative	0.8	(11.1)	(6.4)

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EBITDA miss on ramp-up cost of Cayman unit

Quick Pointers:

- Reiterated 1,500-bed expansion plan in Bengaluru, Kolkata and Raipur
- Booked Rs138mn of losses in Q2 from its clinics and insurance business

Narayana Hrudayalaya (NARH) reported EBITDA of Rs3.1bn (flat YoY) in Q2FY25, below our estimates due to ramp-up cost incurred for the new Cayman unit. Cayman business reported profitability of Rs950mn, down 23% YoY. India business reported healthy EBITDA adjusted for NHIC losses, up 15% YoY. The management reiterated its aggressive capex plan and commitment towards growing throughput over the next 3-4 years through debottlenecking, refurbishment and better bed mix. In the medium term, NARH intends to add 1,500 beds through greenfield expansion across Bengaluru, Kolkata and Raipur. Our FY25E and FY26E EBITDA remains broadly unchanged. We maintain 'BUY' rating with a TP of Rs1,420/share, based on 23x Sep'26E EV/EBITDA for India business and 12x EV/EBITDA for Cayman hospitals. At CMP, the stock is trading at 17.5x FY26E EV/EBITDA (adj for IND AS). Faster ramp-up of the Cayman unit will be key.

- EBITDA miss led by Cayman; India profitability in-line:** NARH reported EBITDA of Rs3.1bn (flat YoY). Losses in insurance and clinics business were to tune of Rs138mn vs Rs121mn in Q1. Overall, margins came in at 22%, down ~160bps YoY. India business adjusted for insurance and clinics, reported EBITDA of Rs2.3bn, up 15% YoY. Cayman reported EBITDA of \$11.3mn, down ~20% YoY, with OPM of 39%.
- ARPOB up 12% YoY, net debt increased by Rs1.1bn:** Revenues grew by 7% YoY to Rs14bn. ARPOB for India business grew 12% YoY to Rs41,096/day. IP volumes were down YoY for India due to lower footfalls from Bangladesh, resulting from the political unrest. Cayman revenues declined 8% YoY to \$29mn. Both IP and OP volumes declined by 6% and 8% YoY, respectively, for Cayman due to seasonality impact, hurricane and some key doctors going on leave. Reported PAT stood at Rs2bn (down 12% YoY). NARH's net debt increased by Rs1.1bn to the tune of Rs2.7bn.
- Key con-call takeaways: Capex and expansion plan** – NARH incurred capex of Rs5.36bn in 1HFY25; of this, Rs3.2bn was invested in India (Rs1.6bn spent for land purchase in Bengaluru and balance on regular capex and brownfield expansion in Kolkata). Total 700 greenfield beds in Kolkata & Bengaluru and 150 brownfield beds in Raipur will be added in the next 3-4 years. Mgmt has guided for Rs5bn of capex plan for greenfield expansion in Bengaluru. Kolkata project (Rajarhat facility first phase with 350 beds of the 1,000-bed expansion plan) is expected to receive all pending approvals in the next 3-4 weeks. **Cayman** - The new multi-specialty hospital is guided to be margin dilutive for another 4-5 quarters (earlier guided 6-8 quarters). Commercialized in Q2, the hospital has started OP services, while the IP business is awaiting govt approvals and will commence in 4 weeks. 60-65% of cost associated with the new unit has been incurred in Q2, while the entire ramp-up cost will be seen in H2FY25. **New units:** Revenues from new hospitals came in at Rs1.3bn, up 13% YoY, with margins at 11%. Mumbai unit achieved EBITDA breakeven and reported positive EBITDA margin at 1.5%, whereas Gurugram was at higher single digits. All other units were profitable. Occupancy of the flagship unit was at ~65%, while that of Raipur, Mysore and Shimoga stood at 70%. Cayman occupancy was muted in Q2. **Integrated business (NHIC & NHIL):** No. of patient transactions increased substantially by ~71% QoQ in clinic business. However, revenue per patient declined ~28% QoQ due to seasonality.



Exhibit 1: Q2FY25 Result Overview (Rs mn) – EBITDA miss led by Cayman

Y/e March	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Net Sales	14,000	13,052	7.3	13,410	4.4	27,410	25,387	8.0
COGS	3,002	2,845	5.5	2,882	4.2	5,884	5,562	5.8
<i>% of Net Sales</i>	<i>21.4</i>	<i>21.8</i>		<i>21.5</i>		<i>21.5</i>	<i>21.9</i>	
Employee Cost	2,821	2,553	10.5	2,764	2.1	5,584	5,007	11.5
<i>% of Net Sales</i>	<i>20.1</i>	<i>19.6</i>		<i>20.6</i>		<i>20.4</i>	<i>19.7</i>	
Other Expenses	5,093	4,574	11.4	4,725	7.8	9,818	9,030	8.7
<i>% of Net Sales</i>	<i>36.4</i>	<i>35.0</i>		<i>35.2</i>		<i>35.8</i>	<i>35.6</i>	
Total	10,916	9,971	9.5	10,371	5.3	21,287	19,599	8.6
EBITDA	3,084	3,081	0.1	3,039	1.5	6,123	5,788	5.8
<i>Margins (%)</i>	<i>22.0</i>	<i>23.6</i>		<i>22.7</i>		<i>22.3</i>	<i>22.8</i>	
Other Income	236	184	28.3	235	0.5	471	335	40.6
Interest	351	229	53.7	340	3.3	691	438	57.9
Depreciation	651	553	17.8	617	5.6	1,268	1,142	11.1
PBT	2,318	2,484	(6.7)	2,317	0.0	4,635	4,543	2.0
Tax	330	217	52.0	302	9.2	632	436	44.9
<i>Tax rate %</i>	<i>14.2</i>	<i>8.7</i>		<i>13.0</i>		<i>13.6</i>	<i>9.6</i>	
PAT	1,988	2,267	(12.3)	2,015	(1.3)	4,003	4,107	(2.5)
Share in (loss)/profit of associate	-	-		-		-	-	
Minority Interest	(2)	(1)		(1)		(3)	(2)	
Reported PAT	1,986	2,266	(12.3)	2,014	(1.4)	4,000	4,105	(2.6)

Source: Company, PL

Exhibit 2: Break-up of revenues

Revenues (Rs. mn)	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Cayman	2,373	(508)	(567.4)	2,618	(9.3)	4,991	1,986	151.2
<i>% of Total Sales</i>	<i>17.0%</i>	<i>-5.1%</i>		<i>19.5%</i>		<i>18.2%</i>	<i>8.9%</i>	
India	11,627	10,527	10.4	10,792	7.7	22,419	20,367	10.1
<i>% of Total Sales</i>	<i>83.1%</i>	<i>105.1%</i>		<i>80.5%</i>		<i>81.8%</i>	<i>91.1%</i>	
Total Sales	14,000	10,019	39.7	13,410	4.4	27,410	22,354	22.6

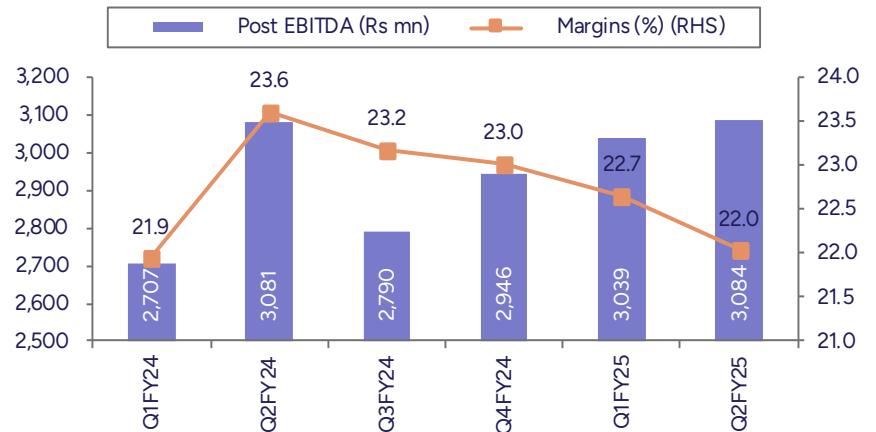
Source: Company, PL

Exhibit 3: Break-up of EBITDA

Revenues (Rs. mn)	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Cayman	944	1,159	(18.6)	1,231	(23.4)	2,175	2,273	(4.3)
<i>% CPM</i>	<i>39.8%</i>	<i>-228.3%</i>		<i>47.0%</i>		<i>43.6%</i>	<i>114.4%</i>	
India	2,278	1,986	14.7	1,928	18.2	4,206	3,639	15.6
<i>% CPM</i>	<i>19.6%</i>	<i>18.9%</i>		<i>17.9%</i>		<i>18.8%</i>	<i>17.9%</i>	
Others	(138)	(64)	(114.8)	(121)	(13.8)	(258)	(124)	(108.3)

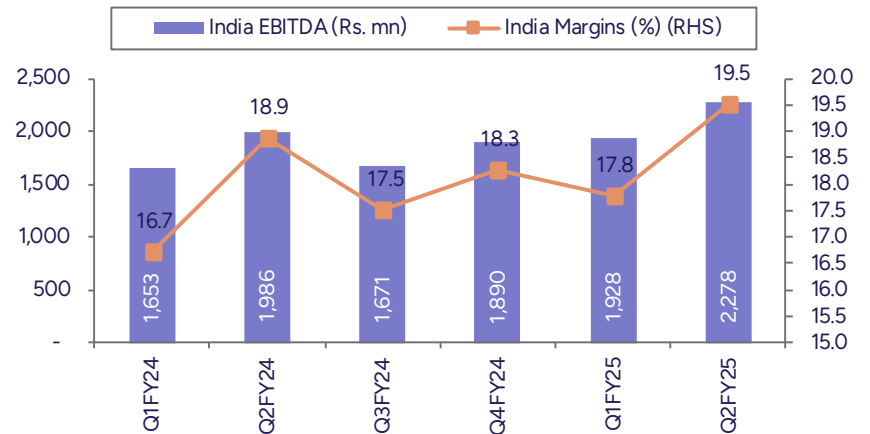
Source: Company, PL

Exhibit 4: Consolidated margins (post IND AS) down 70bps QoQ



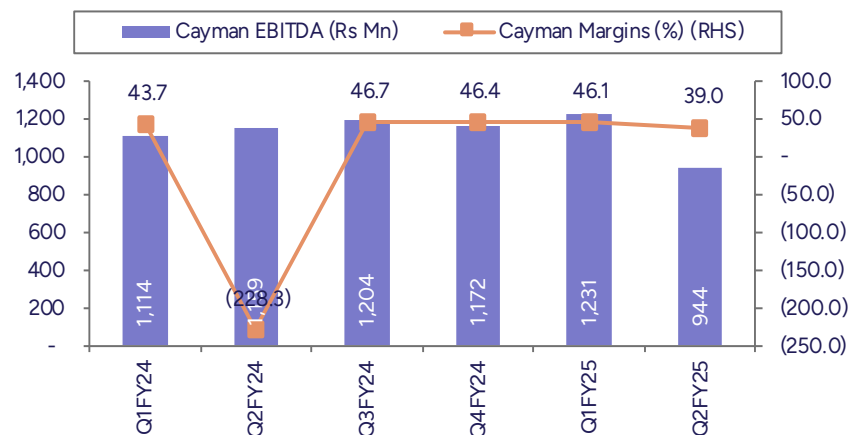
Source: Company, PL

Exhibit 5: India margins adj for NHIC improved 70bps YoY



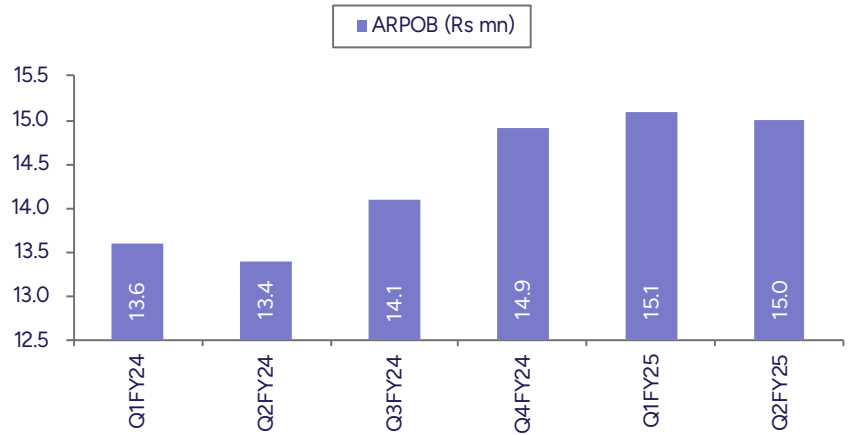
Source: Company, PL

Exhibit 6: Cayman margins sharply down QoQ due to new unit ramp-up cost



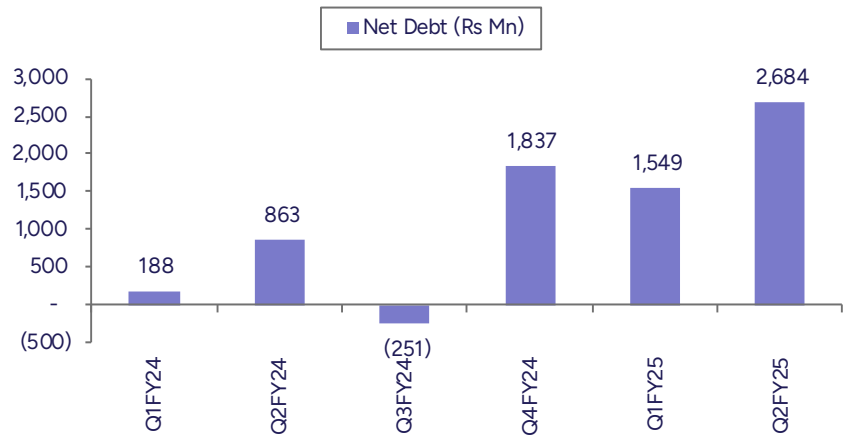
Source: Company, PL

Exhibit 7: India ARPOB YoY growth aided by better payor mix & lower ALOS



Source: Company, PL

Exhibit 8: Net debt increased by Rs1.1bn



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	50,182	56,656	63,972	71,480
YoY gr. (%)	10.9	12.9	12.9	11.7
Cost of Goods Sold	10,739	12,464	14,074	15,726
Gross Profit	39,443	44,191	49,898	55,755
Margin (%)	78.6	78.0	78.0	78.0
Employee Cost	10,043	11,449	13,052	14,879
Other Expenses	17,877	20,782	22,361	23,818
EBITDA	11,524	11,960	14,485	17,057
YoY gr. (%)	19.3	3.8	21.1	17.8
Margin (%)	23.0	21.1	22.6	23.9
Depreciation and Amortization	2,421	2,591	2,772	2,966
EBIT	9,102	9,369	11,713	14,091
Margin (%)	18.1	16.5	18.3	19.7
Net Interest	969	1,400	1,500	1,200
Other Income	752	950	1,100	1,200
Profit Before Tax	8,885	8,919	11,313	14,091
Margin (%)	17.7	15.7	17.7	19.7
Total Tax	989	1,159	1,810	2,536
Effective tax rate (%)	11.1	13.0	16.0	18.0
Profit after tax	7,896	7,760	9,503	11,555
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,896	7,760	9,503	11,555
YoY gr. (%)	30.2	(1.7)	22.5	21.6
Margin (%)	15.7	13.7	14.9	16.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,896	7,760	9,503	11,555
YoY gr. (%)	30.2	(1.7)	22.5	21.6
Margin (%)	15.7	13.7	14.9	16.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,896	7,760	9,503	11,555
Equity Shares O/s (m)	204	204	204	204
EPS (Rs)	38.6	38.0	46.5	56.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	42,046	54,046	64,046	70,546
Tangibles	40,027	52,027	62,027	68,527
Intangibles	2,019	2,019	2,019	2,019
Acc: Dep / Amortization	16,715	19,306	22,078	25,044
Tangibles	16,715	19,306	22,078	25,044
Intangibles	-	-	-	-
Net fixed assets	25,332	34,741	41,969	45,502
Tangibles	23,313	32,722	39,949	43,483
Intangibles	2,019	2,019	2,019	2,019
Capital Work In Progress	5,141	5,141	5,141	5,141
Goodwill	1,179	1,179	1,179	1,179
Non-Current Investments	8,442	8,442	8,442	8,442
Net Deferred tax assets	(417)	(417)	(417)	(417)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	1,099	1,242	1,402	1,567
Trade receivables	4,219	4,657	5,258	5,875
Cash & Bank Balance	4,165	3,090	3,334	5,285
Other Current Assets	6,616	6,209	7,011	6,854
Total Assets	56,246	64,753	73,789	79,898
Equity				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	26,793	33,601	41,915	52,280
Total Networth	28,837	35,644	43,958	54,324
Non-Current Liabilities				
Long Term borrowings	14,437	15,437	15,437	10,437
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,036	6,735	7,457	8,201
Other current liabilities	4,622	4,622	4,622	4,622
Total Equity & Liabilities	56,246	64,753	73,789	79,898

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	8,885	8,919	11,313	14,091
Add. Depreciation	2,421	2,591	2,772	2,966
Add. Interest	969	1,400	1,500	1,200
Less Financial Other Income	752	950	1,100	1,200
Add. Other	(543)	(4)	(4)	(4)
Op. profit before WC changes	11,733	12,906	15,581	18,254
Net Changes-WC	(155)	526	(842)	118
Direct tax	(912)	(1,159)	(1,810)	(2,536)
Net cash from Op. activities	10,666	12,273	12,930	15,836
Capital expenditures	(9,708)	(12,000)	(10,000)	(6,500)
Interest / Dividend Income	-	-	-	-
Others	(4,871)	-	-	-
Net Cash from Invst. activities	(14,579)	(12,000)	(10,000)	(6,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	6,682	1,000	-	(5,000)
Dividend paid	(508)	(948)	(1,185)	(1,185)
Interest paid	(969)	(1,400)	(1,500)	(1,200)
Others	(926)	-	-	-
Net cash from Fin. activities	4,280	(1,348)	(2,685)	(7,385)
Net change in cash	366	(1,075)	244	1,951
Free Cash Flow	958	273	2,930	9,336

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	12,036	12,794	13,410	14,000
YoY gr. (%)	6.7	4.7	8.7	7.3
Raw Material Expenses	2,442	2,735	2,882	3,002
Gross Profit	9,594	10,059	10,527	10,998
Margin (%)	79.7	78.6	78.5	78.6
EBITDA	2,790	2,946	3,039	3,084
YoY gr. (%)	9.6	6.8	12.3	0.1
Margin (%)	23.2	23.0	22.7	22.0
Depreciation / Depletion	632	648	617	651
EBIT	2,158	2,298	2,422	2,433
Margin (%)	17.9	18.0	18.1	17.4
Net Interest	251	280	340	351
Other Income	179	239	235	236
Profit before Tax	2,086	2,256	2,317	2,318
Margin (%)	17.3	17.6	17.3	16.6
Total Tax	205	348	302	330
Effective tax rate (%)	9.8	15.4	13.0	14.2
Profit after Tax	1,881	1,908	2,015	1,988
Minority interest	(1)	(1)	(1)	(2)
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,882	1,909	2,016	1,990
YoY gr. (%)	22.3	10.1	9.5	(12.3)
Margin (%)	15.6	14.9	15.0	14.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,882	1,909	2,016	1,990
YoY gr. (%)	22.3	10.1	9.5	(12.3)
Margin (%)	15.6	14.9	15.0	14.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,882	1,909	2,016	1,990
Avg. Shares O/s (m)	204	204	204	204
EPS (Rs)	9.2	9.3	9.9	9.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	38.6	38.0	46.5	56.5
CEPS	50.5	50.6	60.1	71.1
BVPS	141.1	174.4	215.1	265.8
FCF	4.7	1.3	14.3	45.7
DPS	4.6	4.6	5.8	5.8
Return Ratio(%)				
RoCE	25.2	19.9	21.2	22.7
ROIC	17.5	15.2	16.6	18.9
RoE	31.5	24.1	23.9	23.5
Balance Sheet				
Net Debt : Equity (x)	0.4	0.3	0.3	0.1
Net Working Capital (Days)	(5)	(5)	(5)	(4)
Valuation(x)				
PER	30.9	31.5	25.7	21.1
P/B	8.5	6.9	5.6	4.5
P/CEPS	23.7	23.6	19.9	16.8
EV/EBITDA	22.1	21.5	17.7	14.6
EV/Sales	5.1	4.5	4.0	3.5
Dividend Yield (%)	0.4	0.4	0.5	0.5

Source: Company Data, PL Research

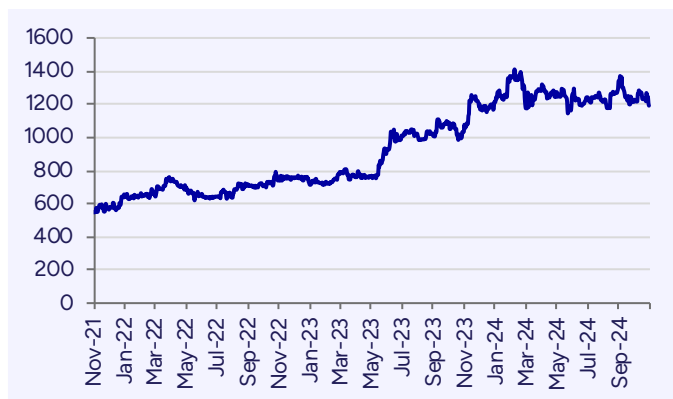
Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
India hospitals	39,224	43,921	49,162	55,200
Cayman Island	10,259	12,035	14,110	15,580
Others	700	700	700	700

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	BUY	1,420	1,219
2	03-Sep-24	BUY	1,420	1,272
3	07-Aug-24	BUY	1,350	1,218
4	08-Jul-24	BUY	1,335	1,246
5	28-May-24	BUY	1,335	1,237
6	08-Apr-24	BUY	1,435	1,286
7	17-Feb-24	BUY	1,435	1,365
8	08-Jan-24	BUY	1,250	1,212
9	15-Nov-23	BUY	1,250	1,133

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,150	6,774
2	Aster DM Healthcare	BUY	500	443
3	Aurobindo Pharma	Accumulate	1,525	1,466
4	Cipla	Accumulate	1,615	1,478
5	Divi's Laboratories	Accumulate	5,000	5,426
6	Dr. Reddy's Laboratories	Reduce	6,000	6,633
7	Eris Lifesciences	BUY	1,420	1,292
8	Fortis Healthcare	BUY	515	581
9	HealthCare Global Enterprises	BUY	420	430
10	Indoco Remedies	Accumulate	320	315
11	Ipca Laboratories	Reduce	1,250	1,491
12	J.B. Chemicals & Pharmaceuticals	BUY	2,100	1,715
13	Jupiter Life Line Hospitals	BUY	1,475	1,432
14	Krishna Institute of Medical Sciences	BUY	480	550
15	Lupin	BUY	2,300	2,198
16	Max Healthcare Institute	BUY	975	926
17	Narayana Hrudayalaya	BUY	1,420	1,219
18	Sun Pharmaceutical Industries	BUY	2,100	1,903
19	Sunteck Realty	BUY	700	588
20	Torrent Pharmaceuticals	Accumulate	3,600	3,433
21	Zydus Lifesciences	Accumulate	1,305	1,057

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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