

Narayana Hrudayalaya Ltd

BUY

Choice

Narayana in Q1FY25 posted results marginally below our estimates. Consolidated revenue increased 8.7% YoY and 4.8% QoQ to INR 13,410 mn. The company reported the highest-ever revenue on a quarterly basis with profitability sustained at high levels, which is on account of improvement in realizations and increased patient footfalls. The performance improvement is supported by strong growth in business across our flagship units, and other hospitals, and steady improvements in the performance of our newer hospitals. Cayman Island saw a revenue increase of 4.8% YoY to INR 2,674 mn and India's business surged by 9.7% YoY to INR 10,855 mn.

- **India Business:** The ARPP for IP at INR 130,000 reflected a growth of 5.8% YoY and remained flat QoQ. The same for OP was reported at INR 4,400, up 4.8% YoY and 2.3% QoQ. The ALOS declined marginally sequentially to 4.3 days. The facilities always operates in the range of 60-65% on a midnight occupancy, while daycare and daytime occupancy is higher. No new beds will be commercialized in FY25, and the company expects to increase the OP and daycare capacity. Narayana Hrudayalaya Aditi insurance business was launched in Mysore in late June.
- **Cayman Business:** The ARPP for IP was USD 31,900, reflecting a growth of 3.2% YoY, and for OP was USD 1,500, showing a growth of 15.4% YoY. A new hospital in Cayman Bay was inaugurated in July, and the inflow of patients is expected to start before the end of Q2FY25. The primary motive of the new facility is to offer new services which is currently not being delivered in the facility, including trauma care, obstetrics, women's health, neonatal intensive care, etc.
- **Robust expansion keeps the growth intact:** The expansion strategy is concentrated in Bangalore and Kolkata. The company had incurred a capex of INR 2.8bn for the purchase of land in Bangalore for the greenfield expansion, regular maintenance, new equipment purchases, etc. For the Kolkata expansion, the cost of the first phase is around INR 1000cr for the 350 beds. NH will have around 8-10 lakhs square of construction coming up by the end of Q3FY25. The management is optimistic that it will continue to improve efficiency, generate double-digit revenue growth, and make significant use of the current facilities.
- **Outlook and Valuation:** We believe that the growth of the company will be driven by the new facility on Cayman Island, focus on increasing the OP and daycare capacity, and focus on the NCR region which is higher in ARPP compared to other regions, but the margins will remain subdued due to higher fixed cost for the Cayman Island. After factoring in the above rationales, we value the stock (20x EV for FY26E EBITDA), to arrive at a TP of INR 1,405 with a **BUY** rating.

Quarterly performance

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Net Sales	13,410	12,334	8.7	12,794	4.8
Materials consumed	2,882	2,717	6.1	2,735	5.4
Gross Profit	10,527	9,617	9.5	10,059	4.7
Employee Expenses	2,764	2,454	12.6	2,494	10.8
Prof Fees to Doctors	2,358	2,099	12.3	2,343	0.7
Operating Expenses	2,367	2,357	0.4	2,277	3.9
EBITDA	3,039	2,707	12.3	2,946	3.1
Depreciation	617	589	4.7	648	(4.8)
EBIT	2,422	2,118	14.4	2,298	5.4
Interest Cost	340	209	62.4	280	21.4
Other Income	235	151		239	
PBT	2,317	2,059	12.5	2,256	2.7
Exceptional Items	-	-		-	
Tax	302	219	37.9	348	(13.3)
Share of Associates	-	-	NA	-	NA
RPAT	2,015	1,840	9.5	1,908	5.6
APAT	2,015	1,840	9.5	1,908	5.6
EPS (Rs)	9.9	9.0	9.6	9.3	5.6

Margin Analysis	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Gross margin %	78.5	78.0	54	78.6	(12)
Employee Exp. % of Sales	20.6	19.9	71	19.5	112
Other Op. Exp % of Sales	17.7	19.1	(146)	17.8	(15)
Prof Fees to Doctors % of Sales	17.6	17.0	57	18.3	(72)
EBITDA Margin (%)	22.7	21.9	72	23.0	(36)
Tax Rate (%)	13.0	10.6	240	15.4	(241)
APAT Margin (%)	15.0	14.9	10	14.9	11

Source: Company, CEBPL

Aug 07, 2024	
CMP (Rs)	1,220
Target Price (Rs)	1,405
Potential Upside (%)	15.2

Company Info

BB Code	NARH IN EQUITY
ISIN	INE410P01011
Face Value (Rs.)	10
52 Week High (Rs.)	1445
52 Week Low (Rs.)	972
Mkt Cap (Rs bn.)	249
Mkt Cap (\$ bn.)	2.9
Shares o/s (Mn.)/F.F(%)	204.4/33
Adj. TTM EPS (Rs)	39.5
FY26E EPS (Rs)	37.2

Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	63.85	63.85	63.85
FII's	10.01	10.91	11.51
DII's	8.22	9.51	10.23
Public	17.92	15.72	14.40

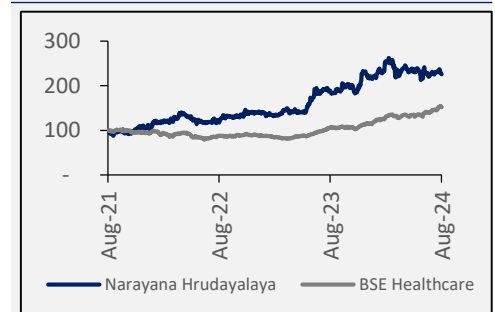
Relative Performance (%)

YTD	3Y	2Y	1Y
NH	125.8	92.2	19.5
BSE HC	51.8	72.6	43.7

Year end March (INR bn)

Particular	FY24	FY25E	FY26E
Revenue	50.2	60.2	71.9
Gross Profit (%)	78.6	47.2	56.2
EBITDA	11.5	13.1	14.8
EBITDA (%)	19.3	21.7	20.6
EPS (INR)	38.6	34.5	37.2

Rebased Price Performance



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CEBPL Estimates vs Actual

Particulars (Rs.mn)	Actual	CEBPL Est.	Deviation (%)
Revenue	13,410	13,562	(1.1)
EBIDTA	3,039	3,172	(4.2)
EBIDTA Margin (%)	22.7	23.4	-72.8
PAT	2,015	2,171	(7.2)

Source: Company, CEBPL

Valuation Methodology

Particulars	Alloted Multiple (x)	Value (Rs. Mn)
Enterprise Value (A)	20	2,96,433
Less: Net Debt (FY25E) (B)		9,383
Implied Market Cap. (A-B)		2,87,050
Value per share (Rs.)		1,405

Source: Company, CEBPL

Management Call - Highlights

Cayman

- New hospital in Cayman Bay was inaugurated in July, with patient inflow expected to start before the end of Q2FY25.
- The new hospital has around 50 beds and will focus on daycare services.
- The primary goal of the new facility is to offer services currently not available, such as emergency and trauma care, obstetrics, and women's health.
- Any hospital in Cayman, including the existing one, has very high fixed costs.
- Confident of Caribbean business to continue to grow through synergies between the two hospitals.
- In the existing Cayman unit, the company continues to see growth on a revenue basis and some good growth in volumes; however, management believes it has reached a sort of saturation point in the existing facility, making the timing for the new facility ideal and very much needed.

India

- India business was affected due to the election, which the management expects to get corrected in the coming quarters.
- Current growth is considered very normal and expects to see double-digit growth YoY.
- Major inflection to come with new capacities coming in the next 2-3 years.

Insurance Business

- Launched Narayana Health Insurance in Mysore in late June with the first product called Aditi, providing INR 1 Cr cover for surgeries for about INR 10,000 for a family of four.
- All systems, processes, and data flows are in line with IRDA regulations.
- At the moment, the focus is on Narayana hospitals only, which management may look to expand over time depending on customer needs. However, management expects that it will always be a narrow network.

Others

- NHIC continues to perform as per the growth plan, with revenue crossing INR 80 million, the highest so far, with more than 51,000 patient transactions across 8 clinics.
- The company is pursuing organic and inorganic growth opportunities both in India and overseas to drive synergies from existing operations.
- The company is increasing the spectrum of work to do more complex procedures.

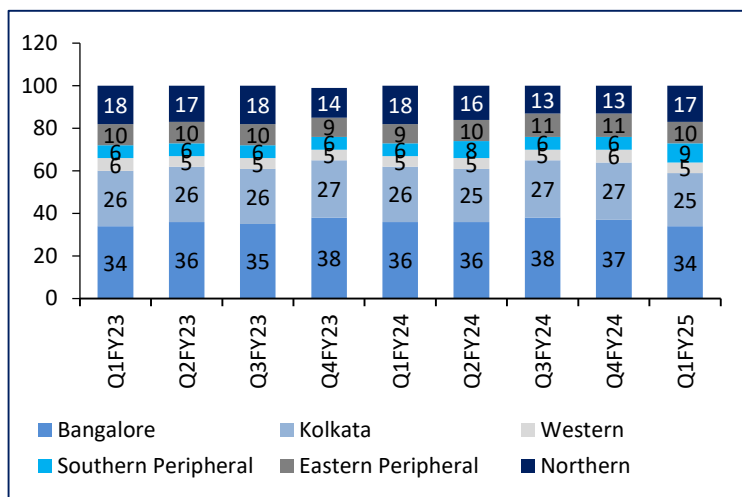
Capex

- Directed a capital outlay of INR 2.8 bn towards land purchase in Bangalore for greenfield expansion, regular maintenance, biomedical upgrades, and interior transformation work within existing hospitals.
- Confident of realizing the projected capex for FY25 as the company takes on more greenfield projects.
- The company is also in talks with various projects and developers to look at leasing options as well.

Outlook

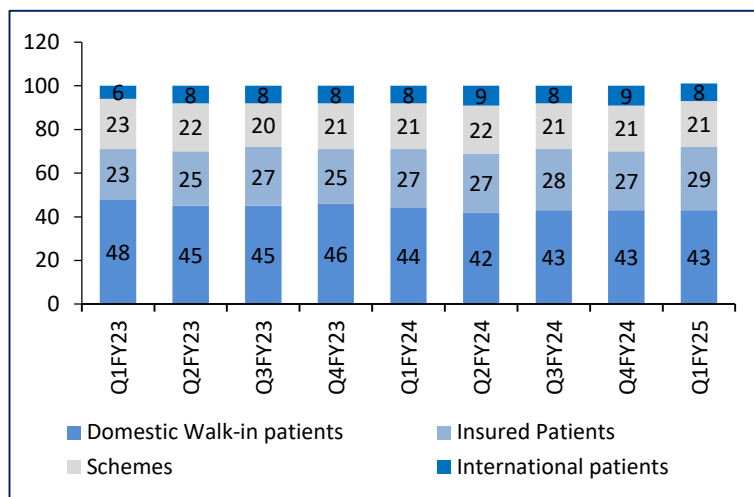
- Management expect Cayman facility to see incremental mid-single-digit growth.
- The tax rate is expected to stabilize around 13%, considering deferred tax credits and the mix of profitability between India and Cayman operations.

Bangalore has the maximum share (%)



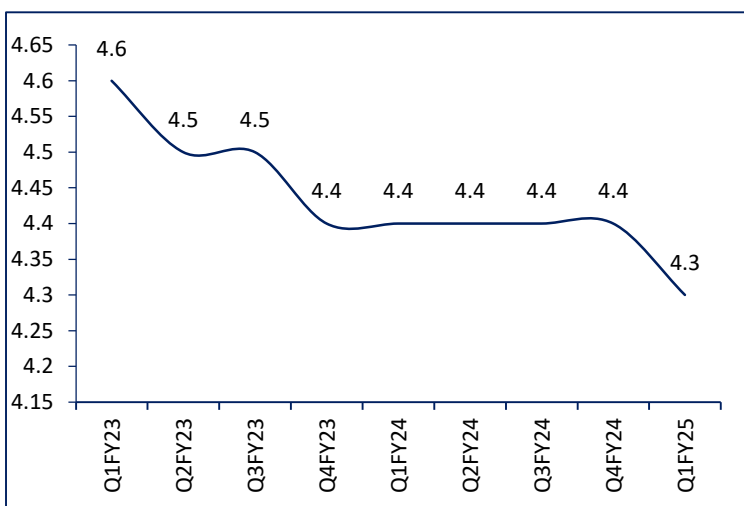
Source: Company, CEBPL

43% share is from domestic walk-in patients



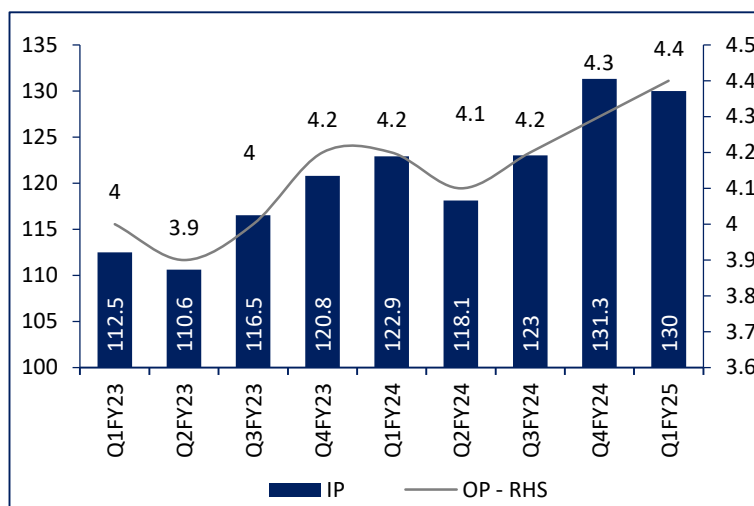
Source: Company, CEBPL

ALOS is sequentially declining



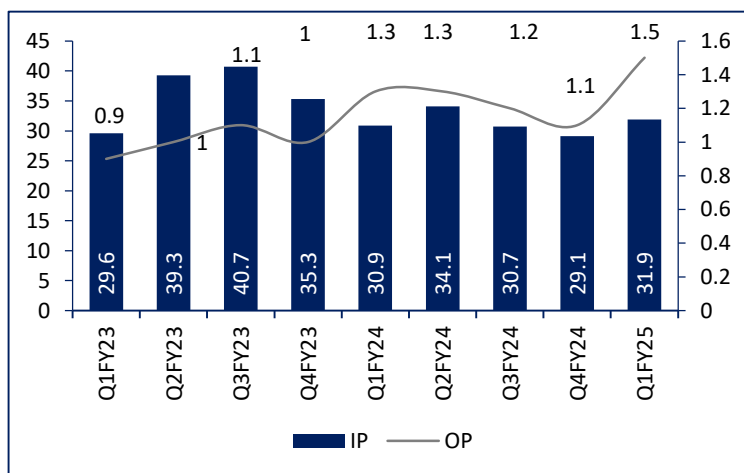
Source: Company, CEBPL

Average Revenue Per Patient (INR '000)- India



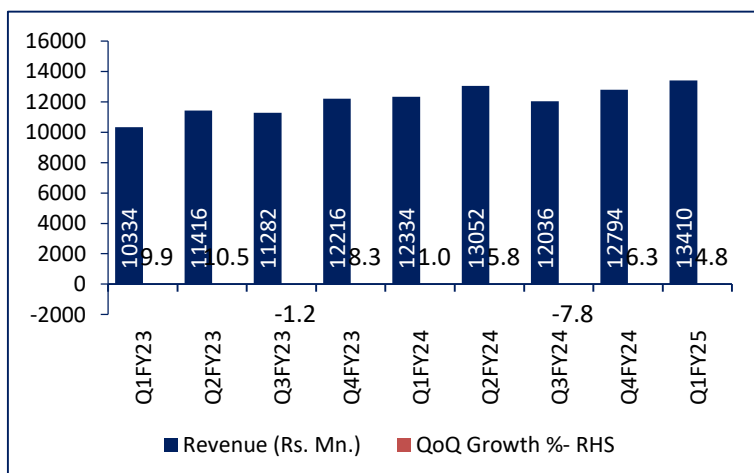
Source: Company, CEBPL

Average Revenue Per Patient (US\$ '000) - Cayman



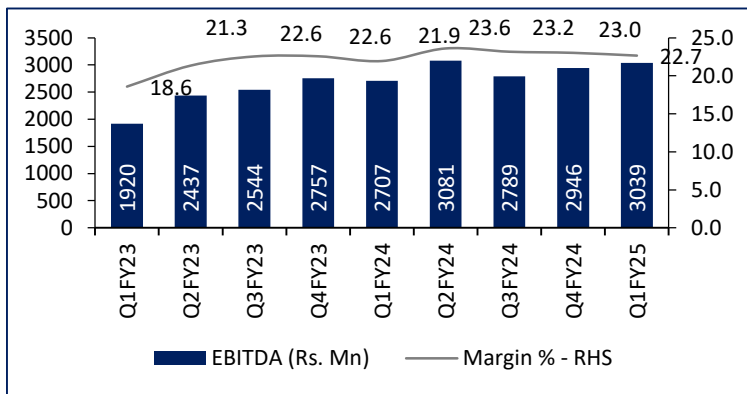
Source: Company, CEBPL

Revenue (Rs. Mn.) & QoQ Growth



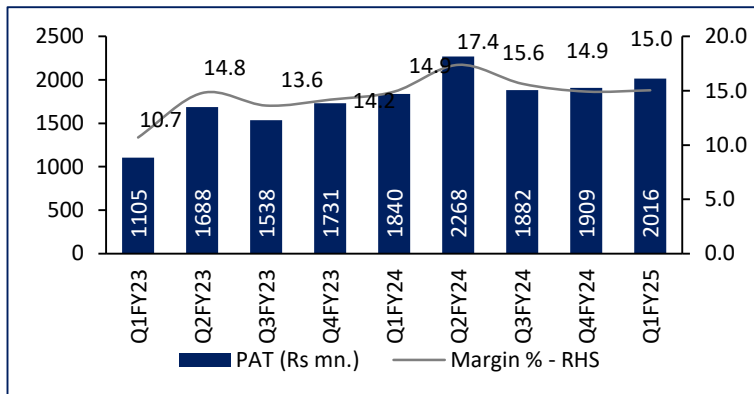
Source: Company, CEBPL

EBITDA (Rs. Mn) & Margin (%)



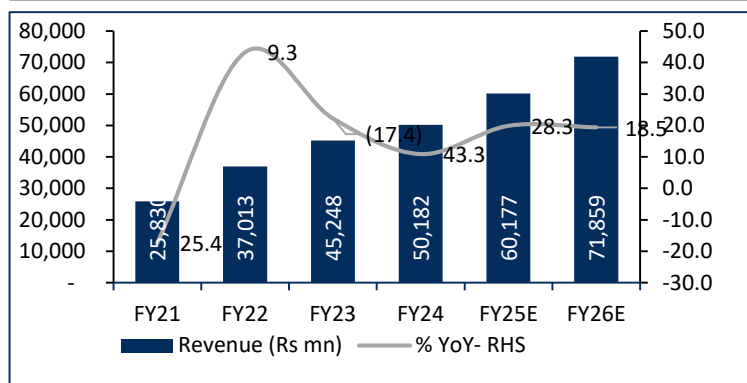
Source: Company, CEBPL

PAT (Rs mn.) & Margin (%)



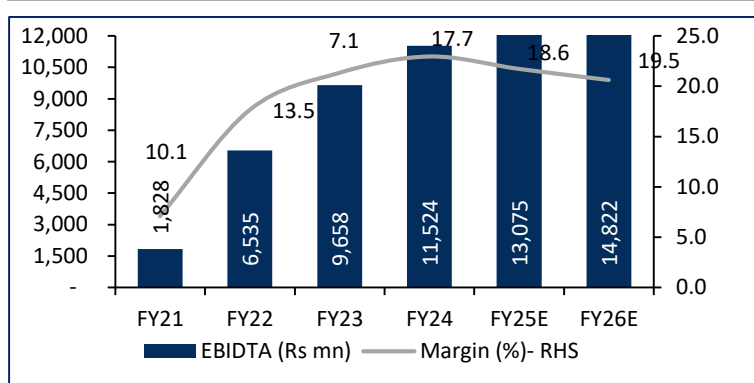
Source: Company, CEBPL

Revenue (Rs mn) % YoY growth (%)



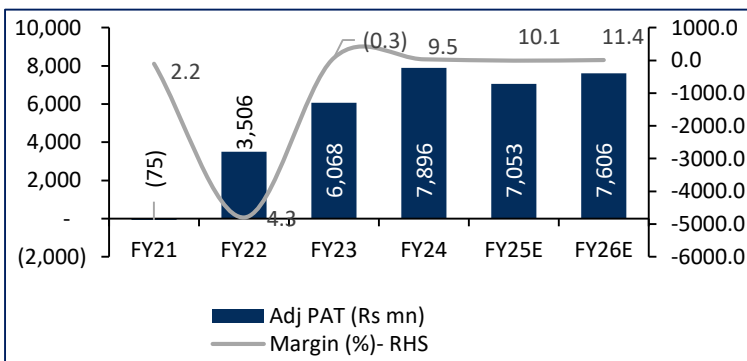
Source: Company, CEBPL

EBITDA (Rs mn) & Margin (%)



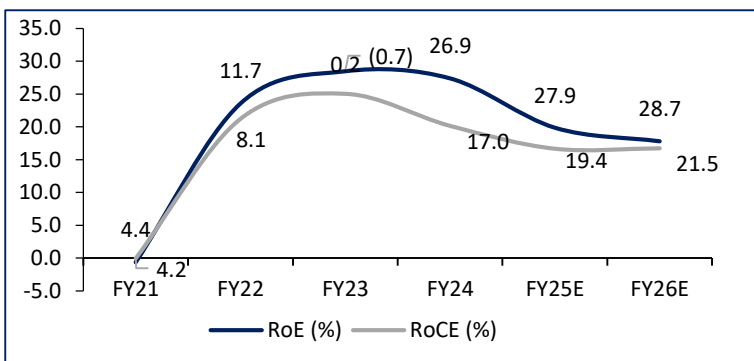
Source: Company, CEBPL

Adj. PAT (Rs mn) & Margin (%)



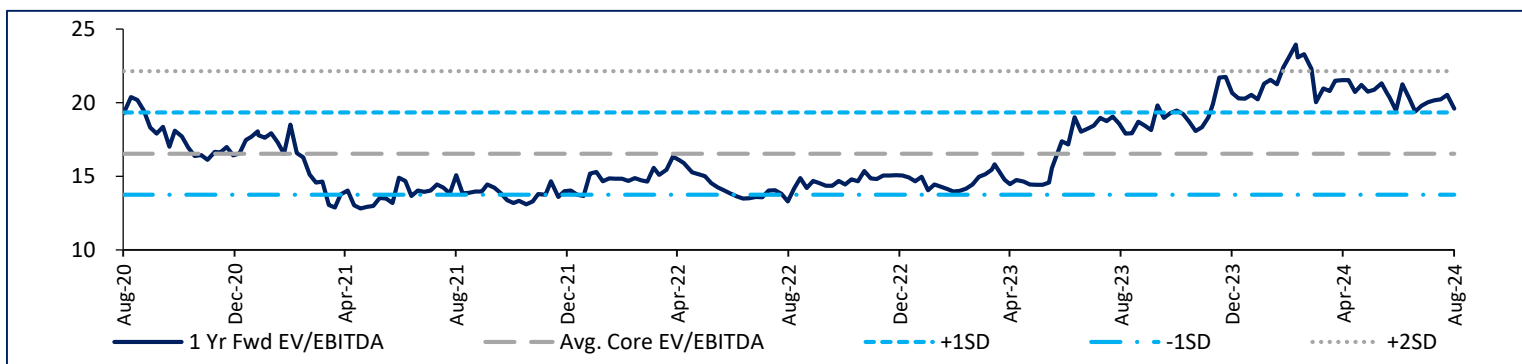
Source: Company, CEBPL

RoE (%) & RoCE (%)



Source: Company, CEBPL

1 Year Forward EV/EBITDA (x) band



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Revenue	37,013	45,248	50,182	60,177	71,859
YoY growth (%)	43.3	22.2	10.9	19.9	19.4
Gross profit	27,921	35,236	39,443	47,239	56,194
EBITDA	6,535	9,658	11,524	13,075	14,822
YoY growth (%)	257.5	47.8	19.3	13.5	13.4
EBITDA Margin (%)	17.7	21.3	23.0	21.7	20.6
Depreciation	1,835	2,100	2,421	3,262	3,862
EBIT	4,701	7,558	9,102	9,813	10,960
Interest expense	663	695	969	1,861	1,813
Other Income	346	654	752	865	994
Extraordinary item	-	-	-	-	-
RPAT	3,506	6,068	7,896	7,053	7,606
Adjusted PAT	3,506	6,068	7,896	7,053	7,606
YoY growth (%)	(4,800.4)	73.0	30.1	(10.7)	7.8
EPS (Rs)	17	29.7	38.6	34.5	37.2
NOPAT	3,760	6,100	8,089	7,850	8,220

Balance sheet (Consolidated in INR Mn.)

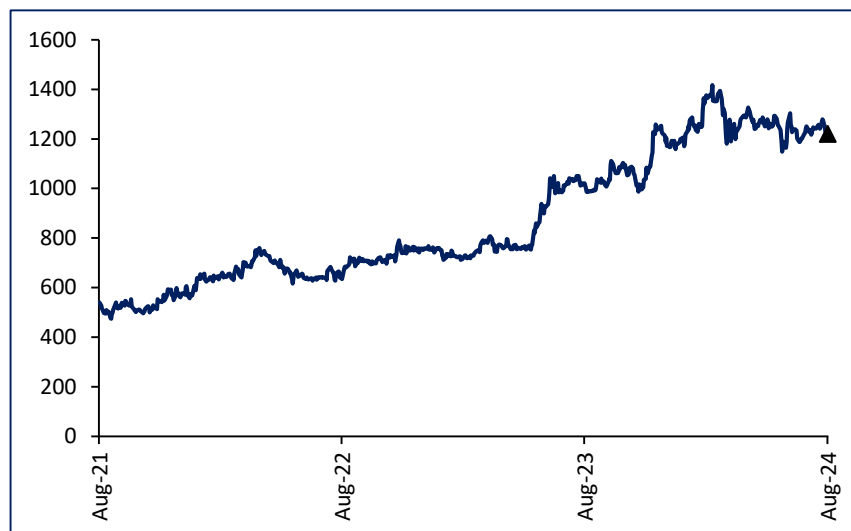
	FY22	FY23	FY24	FY25E	FY26E
Net worth	14,886	21,314	28,837	35,520	42,756
Minority Interest	7	10	14	14	14
Deferred tax	496	814	417	417	417
Total debt	7,234	8,842	16,267	23,267	22,667
Other liabilities & provisions	2,429	2,404	2,374	1,874	1,374
Total Net Worth & liabilities	25,053	33,384	47,909	61,093	67,229
Net Fixed Assets	18,755	20,534	25,332	38,070	44,209
Goodwill	581	1,174	1,179	1,179	1,179
Capital Work in progress	669	2,592	5,141	5,141	5,141
Investments & Others	3,508	6,020	8,442	9,442	10,442
Cash & bank balance	1,722	3,799	4,165	3,802	2,842
Loans & Advances & other assets	1,094	2,416	2,442	2,686	2,867
Net Current Assets	1,539	3,065	7,815	7,260	6,258
Total Assets	25,053	33,384	47,909	61,093	67,229
Capital Employed	22,128	30,166	45,118	58,801	65,437
Invested Capital	20,406	26,367	40,953	54,999	62,595
Net Debt	5,513	5,043	12,102	19,465	19,825
FCFF	2,348	3,135	219	(3,632)	3,323

Source: Company, CEBPL

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
CFO	4,850	10,846	10,666	12,368	13,323
Capex	(2,502)	(7,711)	(10,447)	(16,000)	(10,000)
FCF	2,348	3,135	219	(3,632)	3,323
CFI	(2,669)	(11,741)	(14,580)	(16,000)	(10,000)
CFF	(1,589)	631	4,885	4,769	(2,783)
Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Margin ratios (%)					
EBITDA Margin	17.7	21.3	23.0	21.7	20.6
PAT Margin	9.5	13.4	15.7	11.7	10.6
Performance Ratios (%)					
OCF/EBITDA (X)	0.7	1.1	0.9	0.9	0.9
OCF/IC	23.8	41.1	26.0	22.5	21.3
RoE	23.6	28.5	27.4	19.9	17.8
ROCE	21.2	25.1	20.2	16.7	16.7
RoIC(Post tax)	62.5	68.2	64.3	45.1	38.0
RoIC(Pre tax)	67.9	75.3	68.1	49.7	42.8
Turnover Ratios (days)					
Inventory	6	6	8	8	8
Debtors	43	35	31	35	35
Payables	44	50	44	50	50
Cash Conversion Cycle	5	(9)	(5)	(7)	(7)
Financial Stability ratios (x)					
Net debt to Equity	0.4	0.2	0.4	0.5	0.5
Net debt to EBITDA	0.8	0.5	1.1	1.5	1.3
Interest Coverage	7.1	10.9	9.4	5.3	6.0
Valuation metrics					
Fully diluted shares (mn)	204	204	204	204	204
Price (Rs)	1220	1220	1220	1220	1220
Market Cap(Rs. Mn)	2,49,279	2,49,279	2,49,279	2,49,279	2,49,279
PE(x)	71	41	32	35	33
EV (Rs.mn)	2,54,785	2,54,312	2,61,368	2,68,730	2,69,090
EV/EBITDA (x)	39	26	23	21	18
Book value (Rs/share)	73	104	141	174	209
Price to BV (x)	16.7	11.7	8.6	7.0	5.8
EV/OCF (x)	53	23	25	22	20

Source: Company, CEBPL

Historical recommendations and target price: Narayana Hrudayalaya Ltd



Narayana Hrudayalaya

1.	21-03-2023	OUTPERFORM,	Target Price Rs.957
2.	23-05-2023	OUTPERFORM,	Target Price Rs.970
3.	08-08-2023	ADD,	Target Price Rs. 1091
4.	16-11-2023	ADD,	Target Price Rs. 1,259
5.	17-02-2024	ADD	Target Price Rs. 1,456
6.	28-05-2024	BUY	Target Price Rs. 1,380
7.	07-08-2024	BUY	Target Price Rs. 1,405

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

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