

Narayana Hrudayalaya Ltd.

Rise in specialty surgeries to drive growth

With the recovery in high-end cardiac elective work led by Narayana's flagship hospitals, Narayana reported record profitability for its Indian operations during 1QFY23. The international patient mix improved to 6% in Q1FY23 from 4% in Q4FY22 which led to improvement in revenues. ARPOB for India business was Rs. 33424 in Q1FY23 vs 30,684 in Q1FY22, an increase of 8.9% in the quarter. The Cayman business got impacted due to covid, but now due to upliftments of covid restriction the business is recovering. The company remained well focused to garner higher revenue from its India business. The India story is strong and there would be a continual need of healthcare given the demographic situation. A mix of brownfield, greenfield, and acquisition opportunities would be undertaken by Narayana to grow in India. The priority would be brownfield opportunities to ensure synergies in the existing set up. This would be followed by greenfield opportunities which must be close to the area of the existing set up. Having said these, Narayana can easily manage growth for the next 2-3 years in India without adding any fresh capacity/beds. On an overall basis, we are positive about the growth prospects of Narayana. **Accumulate.**

Satisfactory performance across topline and bottom-line

- Narayana reported satisfactory set of numbers for Q1FY23. While on a YoY basis there was a high growth of 20.2% because of the low base effect, on a sequential basis the company reported degrowth of 9.9%.
- On sequential basis, EBITDA grew 9.7% QoQ to Rs 1920 mn. However, it increased by 43.3% YoY due to lower consumables costs in the quarter. EBITDA Margin increased slightly to 18.6% in Q1FY23 from 15.6% in Q1FY22.
- The new hospitals registered EBITDA margin of 6.5% in the quarter. ARPOB for India business was Rs. 33424 in Q1FY23 vs 30,684 in Q1FY22, an increase of 8.9% in the quarter.
- The average revenue per person (ARPP) for India inpatients (IP) was Rs 1,12,500. ARPP for India outpatients (OP) was Rs 4000. ARPP for IP in Cayman was USD 29,600. ARPP for OP in Cayman was USD 900.
- IP footfalls were 55,000 for the quarter while OP footfalls were 5,72,000 for the India business. For Cayman, IP footfalls were 533 while OP footfalls were 7,950.

Outlook and Valuation:

We are positive about the growth prospects connected with Narayana. Both Cayman and India operations should continue to do well in the future. We expect patients mix and case mix to improve which would result in increased EBITDA margins going ahead. **We value the stock at 18x EV/EBITDA with respect to FY24e EBITDA to arrive at a target price of Rs 734. Accumulate.**

Y/E Mar (Rs mn)	Q1FY23	Q1 FY22	YoY (%)	Q1 FY22	QoQ (%)	Q1 FY23e	Var. (%)
Net sales	10,334	8,601	20.2%	9,407	9.9%	9,335	10.7%
Operating costs	8,415	7,261	15.9%	7,656	9.9%		
EBITDA	1,920	1,340	43.3%	1,751	9.7%	1,860	3.2%
EBITDA Margin (%)	18.6%	15.6%	300 bps	18.6%	(3) bps	18.7%	(12) bps
Depreciation	475	447	6.1%	468	1.5%		
Other income	80	64	25.6%	98	-18.1%		
Finance Cost	151	171	-11.9%	163	-7.4%		
PBT	1375	786	75.0%	1218	12.8%		
Provision for tax	267	9	2953.6%	503	-47.0%		
Effective tax rate (%)	19.4%	1.1%	1,828 bps	41.3%	(2,189) bps		
Share of (loss) of equity accounted investees	-2	-15	-83.7%	-26	-90.7%		
PAT (Reported)	1106	762	45.1%	689	60.4%	870	27.1%
NPM (%)	10.7%	8.9%	184 bps	7.3%	337 bps	8.8%	190 bps

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	31,278	9%	4,229	13.5%	1,269	115%	6.3	11.2%	10.4%	101.2	32.5
FY21	25,830	-17%	1,828	7.1%	-143	-111%	-0.7	-1.3%	0.0%	NA	75.3
FY22	37,013	43%	6,535	17.7%	3,419	NA	16.8	23.0%	20.0%	37.6	21.1
FY23e	39,518	7%	7,872	19.9%	3,909	14%	19.3	21.5%	22.5%	32.9	17.5
FY24e	42,216	7%	8,548	20.2%	4,422	13%	21.8	19.8%	23.2%	29.0	16.1

Source: AceEquity, SMIFS research



Rating: **Accumulate** Upside: **6%**
 Current Price: **690** Target Price: **734**

Earlier recommendation

Previous Rating: Accumulate
 Previous Target Price : 718
 Source: SMIFS Research

Market data

Bloomberg:	NARH IN
52-week H/L (Rs):	775/466
Mcap (Rs bn/USD mn):	141.0/1,807
Shares outstanding (mn):	204.4
Free float:	35.4%
Avg. daily vol. 3mth (3M Avg - in '000):	151.4
Face Value (Rs):	10
Group:	S&P BSE 500

Source: Bloomberg, SMIFS Research

Shareholding pattern (%)

	Jun-22	Mar-22	Dec-21	Sept-21
Promoter	63.9	63.9	63.9	63.9
Institutions	27.9	29.0	29.8	30.4
Non Insti	8.2	7.1	6.3	5.7
Total	100.0	100.0	100.0	100.0

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE 500	8.9	9.7	9.0	68.0
NARH IN	7.1	2.3	33.9	218.3

*as on 11th Aug 2022; Source: AceEquity, SMIFS research

Dhara Patwa

Sector Lead – Pharma & Healthcare
 9766492546/022 42005511
 dhara.patwa@smifs.com

Awanish Chandra

Head - Institutional Equities
 8693822293
 awanish.chandra@smifs.com

Q1FY23— Key takeaways from the management call

India Operations:

- While Narayana revises pricing for cash patients every January, in January 2022 the price increase across India has been moderate and each unit has taken its call with regard to pricing taking into account the unit's cost and operational profile. Due to inflationary pressure the management will take another hike in the coming months which will be in the range of 3-4%.
- ARPOB trend has increased due to improvement in international patients mix along with case mix.
- **Narayana would prioritise investment in Cayman and countries surrounding Cayman. But due to covid uncertainty they want to prioritise India as the India story is strong and there would be a continual need of healthcare in India given the demographic situation, however, Narayana would not want to overspend or overpay for expansion in India.** A mix of brownfield, greenfield and acquisition opportunities would be undertaken by Narayana to grow in India. The first priority would be brownfield opportunities to ensure synergies in the existing set up. This would be followed by greenfield opportunities which must be close to the area of the existing set up. The last priority would be acquisitions with an objective of not over paying and preferring tie-ups with charitable trust and government bodies to save costs.
- **In terms of brownfield expansion in 1-2 years in India, there are plans of setting up radiation oncology centres in Ahmedabad and Jaipur. Ahmedabad and Howrah would also see some bed capacity addition. A small piece of land has been selected close to RTIICS in Kolkata, where some expansion would happen. An OPD department may be added in Healthcity, Bangalore. Dharamshila may see some beds addition for bone marrow transplants and ICU. 2 more floors may be added in Gurugram subject to permission. Mysore may see 30 beds addition. Having said those, Narayana can easily manage growth for the next 2-3 years in India without adding any fresh capacity/beds.**
- One of the Delhi hospital generated EBITDA margin of 18%, however, Delhi cluster generated EBITDA margin of 9-10%
- **While new capacities are coming up in Delhi and Gurugram because of competition, Narayana would be cautious in adding capacity as these regions are very pricey in terms of land costs and rentals.** Having said that, if an attractive opportunity comes up in Gurugram, Narayana would definitely look at it. Delhi's occupancy is very low compared to RTIICS, Kolkata, and Raipur and thus capacity in Delhi would be added when the occupancy of Delhi becomes close to these centres.
- **The refurbishment of India hospitals with a plan of adding up more private, semi-private, and ICU beds is on track and the complete project is expected to get over in the next 5 years.**
- While Bangalore contributed to 40% of revenues during pre-Covid period, the contribution has declined to around 35% recently. This contribution may go back to 40% as we get back to normal times, but nothing can be said with certainty.
- Business mix: Owned/operated hospitals: 96%, heart centres: 3%, ancillary business: 1%. Indian operations payee profile – Domestic walk in:48%, insured patients: 23%, schemes: 23%, international patients:6%
- Delhi will reach to its normal trajectory given they are mutli specialit hospitals. Usually a new hospital take 3-4 years to break even and another 3-4 years for maturity.

- The utilization level of Mumbai pediatric hospital is 65%. This hospital is struggling from quite few years to break even due to low patient's admission.

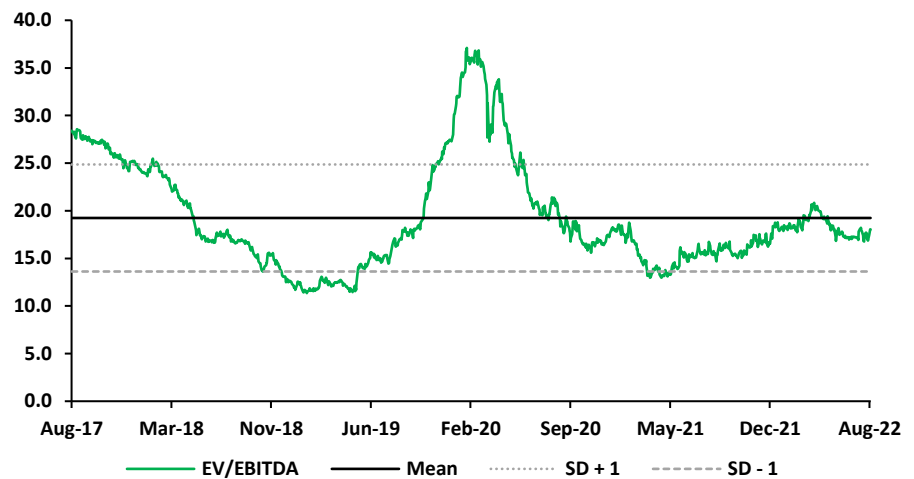
Cayman Operations:

- **The radiation oncology block in the new Cayman centre would get commissioned in the next 12 months. The balance unit will get operational in FY24.**
- **Cayman operations reported an EBITDA of USD 10.2 mln and a Revenue of USD 24.9 mln during Q3FY22. In the near term, the EBITDA Margin of Cayman operations will be maintained around the 40% mark, however, once the new unit is commissioned there would be some pressure on EBITDA margins as the new unit would definitely take some time to ramp up while fixed costs would continue to get incurred once the new unit becomes operational.**
- Cayman Islands – Operating revenue: US\$22.7 million (US\$23.2 million in Q1FY22). The decline in revenues was mainly due to low travel activity.
- Narayana will continue to add clinics in Cayman. These have an investment of USD 500,000 to USD 1 mln.
- **The tax rate in Cayman is nil and in India there are brought forward losses because of which Narayana has not opted for the 25% tax rate and continues to be in 35% tax bracket. The net effect on tax or effective tax rate because of the losses is below 20%. Narayana would migrate to the 25% tax regime once it completely sets off the brought forward losses.**
- Outpatients in Cayman in Q1FY23 has decreased by 3% to 7950 as compared to 8198 in Q1FY22.

Outlook and Valuation

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Fig 1: 1 year forward EV/EBITDA chart



Source: Company, SMIFS Research

Quarterly financials

Fig 2: Quarterly Financials

Y/E March (Rs mIn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Sales	6,007	7,504	8,378	8,598	9,403	9,596	9,407	10,334
COGS	1,616	1,988	2,069	2,154	2,375	2,364	2,199	2,419
Employee Costs	2,643	2,934	3,258	3,398	3,569	3,634	3,686	4,024
Other Expenditure	1,480	1,532	1,636	1,709	1,770	1,849	1,771	1,972
EBITDA	268	1,049	1,414	1,337	1,689	1,749	1,751	1,920
Depreciation	462	465	445	447	459	461	468	475
Interest	194	186	182	171	167	163	163	151
Other Income	104	46	85	67	121	69	98	80
Share of (loss) of equity accounted investees	(10)	(28)	(19)	(14)	(22)	(23)	(26)	(2)
Reported PBT	(295)	416	853	771	1,162	1,172	1,192	1,373
Tax	(261)	8	172	9	168	196	503	267
Tax rate (%)	88.4%	1.9%	20.2%	1.1%	14.5%	16.7%	42.2%	19.4%
Reported PAT	(34)	408	680	762	993	975	690	1,106
YoY Growth (%)								
Revenue	-22.7%	-8.7%	6.7%	118.5%	56.5%	27.9%	12.3%	20.2%
EBITDA	-74.0%	-13.8%	37.7%	NA	531.1%	66.7%	23.8%	43.6%
PAT	-111.3%	-10.0%	116.7%	NA	NA	138.9%	1.4%	45.2%
QoQ Growth (%)								
Revenue	52.7%	24.9%	11.6%	2.6%	9.4%	2.1%	-2.0%	9.9%
EBITDA	-129.4%	292.1%	34.8%	-5.5%	26.3%	3.6%	0.1%	9.7%
PAT	NM	NM	66.6%	12.0%	30.4%	-1.8%	-29.3%	60.4%
Margin (%)								
RMC/revenue (%)	26.9%	26.5%	24.7%	25.1%	25.3%	24.6%	23.4%	23.4%
Gross margin (%)	73.1%	73.5%	75.3%	74.9%	74.7%	75.4%	76.6%	76.6%
Employee cost/revenue (%)	44.0%	39.1%	38.9%	39.5%	38.0%	37.9%	39.2%	38.9%
Other expenses/revenue (%)	24.6%	20.4%	19.5%	19.9%	18.8%	19.3%	18.8%	19.1%
EBITDA margin (%)	4.5%	14.0%	16.9%	15.5%	18.0%	18.2%	18.6%	18.6%
PAT margin (%)	-0.6%	5.4%	8.1%	8.9%	10.6%	10.2%	7.3%	10.7%

Source: AceEquity, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	31,278	25,830	37,013	39,518	42,216
COGS	7,453	6,779	9,092	9,146	9,575
% of sales	23.8%	26.2%	24.6%	23.1%	22.7%
Personnel	13027	11400	14287	15147	16150
% of sales	41.6%	44.1%	38.6%	38.3%	38.3%
Other Exp.	6569	5824	7099	7354	7943
% of sales	21.0%	22.5%	19.2%	18.6%	18.8%
EBITDA	4,229	1,828	6,535	7,872	8,548
EBITDA Margin (%)	13.5%	7.1%	17.7%	19.9%	20.2%
Depreciation & Amortisation	1858	1835	1835	1785	2113
EBIT	2,371	-7	4,700	6,087	6,435
Interest Expenses	853	760	663	1081	604
EBT	1,518	-767	4,037	5,006	5,831
Other Income	238	275	346	243	254
Reported PBT	1,613	-561	4,298	5,218	6,064
Tax-Total	423	-418	877	1,305	1,637
Effective tax rate (%)	26.2%	74.5%	20.4%	25.0%	27.0%
Extraord. items - Adj.	-109	-	-	-	-
Reported PAT	1189	-143	3419	3909	4422

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23E	FY24E
Growth ratios (%)					
Net sales	9.3%	-17.4%	43.3%	6.8%	6.8%
EBITDA	46.9%	-56.8%	257.5%	20.4%	8.6%
Adjusted PAT	114.5%	-111.3%	-2490.5%	14.3%	13.1%
Margin Ratio (%)					
EBITDA Margin	13.5%	7.1%	17.7%	19.9%	20.2%
EBIT Margin	7.6%	0.0%	12.7%	15.4%	15.2%
PBT (Adjusted) Margin	5.5%	-2.2%	11.6%	13.2%	14.4%
PAT (Adjusted) Margin	4.1%	-0.6%	9.2%	9.9%	10.5%
Return Ratio (%)					
ROE	11.2%	-1.3%	23.0%	21.5%	19.8%
ROCE	10.4%	0.0%	20.0%	22.5%	23.2%
Turnover Ratio days (days)					
Inventory Period	30	26	26	26	26
Debtors Period	31	39	39	39	39
Creditors	177	221	187	187	187
Cash Conversion Cycle	-117	-156	-121	-121	-121
Solvency Ratio (%)					
Debt-equity (x) (Ex IND AS 116)	0.9	0.8	0.7	0.7	0.3
Net Debt-equity (x) (Ex IND AS 116)	0.8	0.6	0.6	0.5	0.2
Liquidity ratio (x)	1.0	0.9	1.2	1.0	1.1
Interest coverage ratio (x)	2.8	-0.0	7.1	5.6	10.7
Per share (Rs)					
Adjusted EPS	6.3	-0.7	16.8	19.3	21.8
CEPS	15.4	8.3	25.9	28.1	32.2
Book value	56.0	55.2	73.4	89.6	109.9
Dividend per share	-	-	1.5	1.5	1.5
Dividend Payout (%)	0%	0%	9%	8%	7%
Dividend Yield (%)	0.0%	0.0%	0.2%	0.2%	0.2%
Valuation					
P/E	98.5	-873.9	37.6	32.9	29.0
P/BV	11.0	11.2	8.6	7.1	5.8
P/S	4.0	4.8	3.5	3.3	3.0
EV/EBITDA	31.7	73.4	21.1	17.5	16.1

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Capital	2,044	2,044	2,044	2,044	2,044
Reserves & Surplus	9,316	9,159	12,843	13,916	18,056
Shareholders' Funds	11,360	11,203	14,886	15,960	20,099
Minority Interest	5	5	7	12	17
Total Debt	8,637	7,332	7,234	11,511	6,211
Deferred Tax Liabilities	544	130	510	510	510
Other Non Current Liabilities	2,804	2,595	2,429	2,511	2,460
Total Liabilities	23,350	21,265	25,066	30,503	29,296
Application of funds					
Net Block	20,337	19,044	19,259	19,984	23,370
Capital WIP	118	183	627	3,957	183
Non-current Asset	1,840	1,137	1,727	2,276	2,360
Net Non Current Assets	22,295	20,364	21,614	26,217	25,912
Investments	863	1,203	1,324	1,387	1,365
Goodwill	581	581	581	581	581
Inventories	602	478	594	645	676
Sundry Debtors	2,622	2,785	4,369	4,261	4,552
Other Current Assets	798	967	1,094	963	989
Cash & Bank Balances	1,148	1,321	1,722	2,682	1,822
Total Current Assets	5,171	5,551	7,778	8,552	8,039
Creditors	3,616	4,103	4,490	4,676	4,895
Other Current Liabilities	1,467	2,027	1,353	1,213	1,341
Current Provisions	477	305	387	346	366
Total Current Liabilities	5,561	6,435	6,231	6,235	6,602
Net Current Assets	-390	-884	1,547	2,317	1,437
Total Assets	23,350	21,265	25,066	30,503	29,296

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes					
	4,606	1,992	7,036	8,114	8,802
Net change in working capital	-172	1,099	-2,185	-1,783	-1,729
Cash flow from operating activities (a)	4,433	3,091	4,850	6,331	7,073
Capital expenditure (organic)	-1,325	-539	-3,220	-5,055	-1,725
FCF	3,108	2,552	1,631	1,276	5,348
Cash flow from investing activities (b)	-1,885	-1,130	-2,669	-5,069	-1,738
Cash flow from financing activities (c)	-2,469	-1,984	-1,589	-226	-6,208
Net change in cash (a+b+c)	79	-24	592	1,036	-873
Opening cash balance	965	1,026	1,106	1,722	2,681
Adjustments	-17	104	24	-77	14
Ending cash balance	1,026	1,106	1,722	2,681	1,822
Other bank balances	121	213	0		
Cash and Bank on balance sheet	1,147	1,320	1,722	2,681	1,822

Source: Company, SMIFS Research Estimates

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Contact us:

SMIFS Limited. (<https://www.smifs.com/>)

Compliance Officer:

Sudipto Datta,

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5401 / +91 33 6634 5401

Email Id.: compliance@smifs.com

Mumbai Office:

206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India

Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: institutional.equities@smifs.com

Kolkata Office:

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: (D) +91 33 6634 5408, (B) +91 33 4011 5400

Email Id: smifs.institutional@smifs.com
