

CMP: ₹ 1222

Target: ₹ 1485(22%)

Target Period: 12 months

August 8, 2024

BUY

Preparing for the next capex cycle...

About the stock: Narayana Hrudayalaya operates a chain of multispecialty, tertiary & primary healthcare facilities that focuses on cardiac, renal, cancer, neurology, neurosurgery, orthopaedics and gastroenterology specialties.

- NHL's network comprises 18 hospitals (including operated hospital), three heart centres, 17 primary healthcare facilities (including clinics and information centres) and a multi-speciality hospital in Cayman Islands.
- Revenue mix Q1FY25 – India: ₹ 1085.5 crore; (Bengaluru: 34%, Southern Peripheral: 9%, Kolkata: 25%, Eastern Peripheral: 10%, Western: 5%, Northern: 17%); Cayman Islands: US\$32 million

Investment Rationale:

- Q1FY25- decent print despite Cayman slowdown – Revenues improved ~8% YoY to ₹ 1341 crore, driven by ~10% growth in India to ₹ 1086 crore. Cayman growth was subdued at ~5% to ₹ 267 crore. EBITDA grew ~8% to ₹ 304 crore and margins stood at ~23%. ARPOB for Indian hospitals during the quarter came in at ₹ 41370, a growth of 11% YoY. India In-patient (IP) average revenue per patient grew 6% YoY to ₹ 130000. Similarly, IP footfall grew 6% to 650000 during the quarter. Cayman Islands hospital average revenue per patient grew 3% to US\$ 31900 during the quarter. During the quarter leading specialty profile was as follows- Cardiac Sciences- 33%, Oncology- 16%, Medicine and GI Sciences- 13%, Renal Sciences- 10%, Neuro Sciences- 8%. Payor profile during the quarter was as follows- Domestic Walk-in patients- 42%, Insured Patients- 29%, Schemes (Government) Patients- 21%, International Patients- 8%.
- Aggressive expansion plans, Insurance foray – The company is targeting aggressive capex (+₹ 3000 crore in the next 2-3 years) in cities such as Bengaluru and Kolkata where it has strong presence and brand loyalty. The second hospital in Cayman is also likely to commence operations in H2FY25. While the capex phase would be by far the largest in the last ten years, we believe the company is far better poised (despite negative FCF in FY25-26) to fathom the impact on the balance sheet as the margins and the return ratios are in good shape. Like many other pan-India hospital chains, the company is preparing for scenario beyond FY26. The management has reiterated focus on margins by way of judicious specialty and payor mix. The insurance foray is still in pilot phase and we need some more clarity and details to assess the performance, going ahead.

Rating and Target price

- Our SOTP valuation of ₹ 1485 is based on 24x FY26E Indian hospitals EBITDA and 15x FY26E Cayman hospital EBITDA.



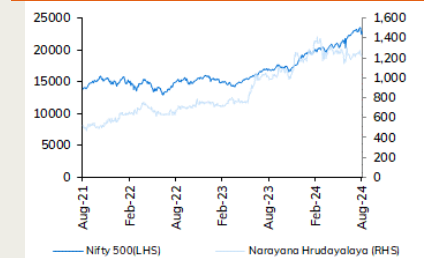
Particulars

Particular	Amount
Market Capitalisation	₹ 24973 crore
Debt (FY24)	₹ 1627 crore
Cash (FY24)	₹ 242 crore
EV	₹ 26358 crore
52 week H/L (₹)	1444/973
Equity capital	₹ 204 crore
Face value	₹ 10

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	63.9	63.9	63.9	63.9
FII's	11.6	11.5	10.9	10.0
DII's	10.9	10.2	9.5	8.2
Others	13.7	14.4	15.7	17.9

Price Chart



Key risks

- (i) Delay in capex Plan (ii) Slower than expected ramp-up at new Cayman hospital.

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	3 year CAGR (FY23-26E)
Revenues	3127.8	2582.3	3700.4	4524.7	13%	5031.6	5480.4	6113.6	11%
EBITDA	422.9	182.1	652.6	965.9	32%	1162.2	1242.6	1486.8	15%
EBITDA Margins (%)	13.5	7.1	17.6	21.3		23.1	22.7	24.3	
Adjusted PAT	129.8	-14.3	341.9	606.3	32.3	797.8	820.7	923.4	15%
EPS (₹)	6.4	-0.7	16.7	29.7		39.0	40.2	45.2	
PE (x)	192.4	NA	73.0	41.2		31.3	30.4	27.0	
EV to EBITDA (x)	60.9	140.6	38.9	26.4		22.0	21.0	17.8	
Price to book (x)	22.0	22.3	16.8	11.7		8.7	6.8	5.5	
RoE (%)	11.4	-1.3	23.0	28.4		27.7	22.3	20.2	
RoCE (%)	11.0	1.2	20.5	25.2		20.9	17.9	16.8	

Exhibit 1: Quarterly Summary

(₹ Crore)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Total Operating Income	859.8	940.3	959.6	940.7	1033.4	1141.6	1128.2	1221.5	1243.6	1305.2	1203.4	1279.4	1340.9	7.8	4.8
Raw Material Expenses	215.4	237.5	236.4	219.9	241.9	257.2	239.7	262.4	271.7	284.5	244.2	273.5	288.2	6.1	5.4
% of revenue	25.1	25.3	24.6	23.4	23.4	22.5	21.2	21.5	21.9	21.8	20.3	21.4	21.5	-36 bps	12 bps
Gross Profit	644.4	702.8	723.3	720.8	791.5	884.4	888.5	959.1	971.8	1020.8	959.2	1005.9	1052.7	8.3	4.7
Gross Profit Margin (%)	74.9	74.7	75.4	76.6	76.6	77.5	78.8	78.5	78.1	78.2	79.7	78.6	78.5	36 bps	-12 bps
Employee Expenses	190.6	189.3	192.5	196.1	214.9	217.3	219.7	227.3	245.4	255.3	254.2	249.4	276.4	12.6	10.8
% of revenue	22.2	20.1	20.1	20.8	20.8	19.0	19.5	18.6	19.7	19.6	21.1	19.5	20.6	88 bps	112 bps
Other Manufacturing Expense	320.1	344.6	355.8	349.7	384.6	423.5	414.3	456.0	445.6	457.4	426.2	462.0	472.5	6.0	2.3
% of revenue	37.2	36.6	37.1	37.2	37.2	37.1	36.7	37.3	35.8	35.0	35.4	36.1	35.2	-60 bps	-87 bps
Total Expenditure	726.1	771.4	784.6	765.6	841.5	897.9	873.7	945.7	962.8	997.1	924.7	984.8	1037.1	7.7	5.3
% of revenue	84.5	82.0	81.8	81.4	81.4	78.7	77.4	77.4	77.4	76.4	76.8	77.0	77.3	-8 bps	36 bps
EBITDA	133.7	168.9	175.0	175.1	192.0	243.7	254.4	275.8	280.8	308.1	278.7	294.5	303.9	8.2	3.2
EBITDA Margins (%)	15.5	18.0	18.2	18.6	18.6	21.3	22.6	22.6	22.6	23.6	23.2	23.0	22.7	8 bps	-36 bps
Depreciation	44.7	45.9	46.1	46.8	47.5	48.9	57.3	56.3	58.9	55.3	63.2	64.8	61.7	4.7	-4.8
Interest	17.1	16.7	16.3	16.3	15.1	15.1	18.7	20.6	20.9	22.9	25.1	28.0	34.0	62.4	21.4
Other Income	6.7	12.1	6.9	9.8	8.0	31.2	11.6	14.7	14.0	18.4	17.9	23.9	23.5	67.8	-1.6
PBT before forex & EO	78.6	118.5	119.5	121.8	137.5	210.9	189.9	213.6	215.0	248.4	208.4	225.6	231.7	7.8	2.7
Forex & EO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	78.6	118.5	119.5	121.8	137.5	210.9	189.9	213.6	215.0	248.4	208.4	225.6	231.7	7.8	2.7
Total Tax	0.9	16.8	19.6	50.3	26.7	42.0	36.0	40.3	21.9	21.7	20.5	34.8	30.2	37.9	-13.3
Tax rate (%)	1.1	14.2	16.4	41.3	19.4	19.9	19.0	18.9	10.2	8.7	9.8	15.4	13.0	285 bps	-241 bps
PAT after MI	76.2	99.3	97.5	68.9	110.6	168.8	153.8	173.2	192.8	226.5	187.8	190.6	201.2	4.3	5.5
Adjusted PAT	76.2	99.3	97.5	68.9	110.6	168.8	153.8	173.2	192.8	226.5	187.8	190.6	201.2	4.3	5.5
EPS (₹)	3.7	4.9	4.8	3.4	5.4	8.3	7.5	8.5	9.4	11.1	9.2	9.3	9.8		

Source: Company, ICICI Direct Research

Exhibit 2: SoTP Summary

Particulars	FY26E (₹ cr)	Valuation Matrix	Multiple (x)	Enterprise value (₹ cr)
India (Owned/Operated)	1062.4	EV/EBITDA	24.0	25496.6
Cayman	424.5	EV/EBITDA	15.0	6366.8
Net Debt FY26E (₹ cr)				1557.3
EV (₹ cr)				30306.1
No of shares (cr)				20.4
Per Share Value (₹)				1485.0
CMP				1222
Up/Down				22%

Source: ICICI Direct Research

Q1FY25 Conference call highlights

- During the quarter, ₹ 280 crore was spent towards capex for land acquisition in Bengaluru.
- In Bengaluru there will be a greenfield expansion with 200 beds and the company has bought 2 land parcels, one which is next to a current facility at flagship hospital and the other is on the outskirts of Bengaluru.
- At Kolkata, company has bought land in Rajarhat, a suburban area for new large hospital in phased manner with 600 beds capacity and the capex will be ₹1000 crore and management expect approval to be received in October 2024 and construction is expected to start by the end of 2024.
- The company takes underwriting in insurance at the time of acceptance rather than at the time of claim, ensuring seamless customer experience and hassle-free claim process.
- Company has committed ₹100 crore capital for its insurance business and management is not looking for any external partner.
- At present the insurance coverage is primarily at 8 Narayana facilities with provisions for emergency situations at other hospitals. While the network is narrow, there may be future expansions based on customer feedback.
- By the end of Q2FY25 the new hospital in Cayman is expected to be operational having capacity of 50 beds with major focus on OPD.
- Existing Cayman unit has shown good improvements in margin due to operational improvements. But the growth revenue & volume will be reaching towards saturation which would lead to a single digit growth in FY25.
- The three new hospitals (Gurugram, Dharamshila, SRCC Mumbai) reported combined sales of ₹ 123 crore, up 7% YoY. EBITDA margins stood at 7%.

Financial Tables

Exhibit 5: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Revenues	4,524.7	5,031.6	5,480.4	6,113.6	
Growth (%)	22.3	11.2	8.9	11.6	
Raw Material Expenses	1,001.2	1,073.9	1,177.9	1,314.0	
Employee Expenses	879.2	1,004.3	1,129.5	1,260.0	
Other Manufacturing Expenses	1,678.4	1,791.2	1,930.4	2,052.8	
Total Operating Expenditure	3,558.8	3,869.4	4,237.8	4,626.8	
EBITDA	965.9	1,162.2	1,242.6	1,486.8	
Growth (%)	48.0	20.3	6.9	19.7	
Interest	69.5	96.9	136.1	168.1	
Depreciation	210.0	242.1	246.6	292.7	
Other Income	65.4	74.2	84.5	61.1	
PBT before Exceptional Items	751.8	897.3	944.4	1,087.2	
Less: Forex & Exceptional Item:	0.0	0.0	0.0	0.0	
PBT	751.8	897.3	944.4	1,087.2	
Total Tax	145.0	98.9	123.1	163.1	
PAT before MI	606.8	798.4	821.3	924.1	
Minority Interest	0.3	0.5	0.5	0.5	
PAT	606.3	797.8	820.7	923.4	
Adjusted PAT	606.3	797.8	820.7	923.4	
Growth (%)	77.3	31.6	2.9	12.5	
EPS	29.7	39.0	40.2	45.2	
EPS (Adjusted)	29.7	39.0	40.2	45.2	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	204.4	204.4	204.4	204.4	
Reserve and Surplus	1,927.0	2,679.3	3,470.3	4,364.7	
Total Shareholders fund	2,131.4	2,883.7	3,674.7	4,569.0	
Total Debt	884.2	1,626.7	2,126.7	2,626.7	
Deferred Tax Liability	87.0	47.1	49.4	51.9	
Minority Interest	1.0	1.4	1.5	1.6	
Other liabilities	240.4	237.4	249.3	261.7	
Source of Funds	3,344.0	4,796.2	6,101.5	7,510.9	
Gross Block - Fixed Assets	3,596.0	4,152.3	5,352.3	6,352.3	
Accumulated Depreciation	1,377.0	1,619.1	1,865.8	2,158.4	
Net Block	2,219.0	2,533.1	3,486.5	4,193.8	
Capital WIP	259.2	514.1	1,014.1	1,514.1	
Net Fixed Assets	2,478.2	3,047.3	4,500.7	5,708.0	
Goodwill on Consolidation	117.4	117.9	117.9	117.9	
Investments	251.9	844.2	644.2	444.2	
Inventory	71.6	109.9	84.2	93.9	
Cash	144.6	241.8	318.7	625.2	
Debtors	431.5	421.9	459.5	512.6	
Loans & Advances & Other CA	394.9	332.8	349.4	366.9	
Total Current Assets	1,042.6	1,106.4	1,211.9	1,598.6	
Creditors	615.0	603.6	580.9	576.0	
Provisions & Other CL	203.1	224.8	236.0	247.8	
Total Current Liabilities	818.1	828.3	816.9	823.8	
Net Current Assets	224.5	278.0	394.9	774.8	
LT L&A, Other Assets	266.5	503.5	438.3	460.2	
Deferred Tax Assets	5.6	5.3	5.6	5.9	
Application of Funds	3,344.0	4,796.2	6,101.6	7,510.9	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit/(Loss) after taxation	606.7	698.4	820.7	923.4	
Add: Depreciation & Amortization	210.0	242.1	246.6	292.7	
Net Increase in Current Assets	-33.5	-9.4	-28.5	-80.3	
Net Increase in Current Liabilities	224.1	-6.1	-0.2	18.7	
Others	77.2	141.5	136.1	168.1	
CF from operating activities	1,084.6	1,066.6	1,174.6	1,322.6	
(Inc)/dec in Fixed Assets	-699.6	-967.5	-1,700.0	-1,500.0	
(Inc)/dec in Investments	-119.5	-585.9	200.0	200.0	
Others	-355.0	95.5	79.3	-7.2	
CF from investing activities	-1,174.1	-1,457.9	-1,420.7	-1,307.2	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	
Inc / (Dec) in Debt	160.8	368.2	500.0	500.0	
Dividend & Dividend Tax	-51.1	-50.8	-40.9	-40.9	
Others	-21.9	171.1	-136.1	-168.1	
CF from financing activities	87.7	488.5	323.1	291.1	
Net Cash flow	-1.8	97.1	77.0	306.5	
Opening Cash	146.4	144.7	241.8	318.7	
Closing Cash	144.6	241.8	318.7	625.2	
Free Cash Flow	385.0	99.1	-525.4	-177.4	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	29.7	39.0	40.2	45.2
Cash EPS	37.4	46.9	50.2	57.5
BV	104.3	141.1	179.8	223.6
DPS	2.5	4.0	2.0	2.0
Cash Per Share	67.4	79.2	91.3	105.6
Operating Ratios (%)				
EBITDA margins	21.3	23.1	22.7	24.3
Net Profit margins	13.4	15.9	15.0	15.1
Cash Conversion cycle	-163	-137	-123	-103
Asset Turnover	1.3	1.3	1.2	1.2
Return Ratios (%)				
RoE	28.4	27.7	22.3	20.2
RoCE	25.2	20.9	17.9	16.8
RoIC	29.0	29.2	24.4	24.5
Valuation Ratios (x)				
P/E	41.2	31.3	30.4	27.0
EV / EBITDA	26.4	22.0	21.0	17.8
EV / Revenues	5.6	5.1	4.8	4.3
Market Cap / Revenues	5.5	5.0	4.6	4.1
Price to Book Value	11.7	8.7	6.8	5.5
Solvency Ratios				
Net Debt / Equity	0.3	0.3	0.4	0.5
Net Debt / EBITDA	0.5	0.5	0.9	1.1
Current Ratio	1.1	1.0	1.1	1.2

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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