

Shubh Nivesh



CMP: ₹ 1222

Target: ₹ 1485(22%)

Target Period: 12 months

October 14, 2024

BUY

Targets growth with significant capex...

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

- Apparent slowdown in recent quarters but things looking promising with good recovery in India – Revenues in Q1FY25 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 still at pilot run stage – The company is targeting aggressive capex (+₹ 3000 crore over 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. Losses from the new hospitals have reduced significantly which has a positive bearing on the margins. 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.

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	

Source: Company, ICICI Direct Research



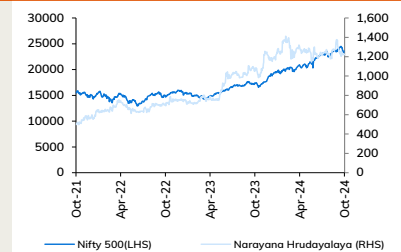
Particulars

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
Promote	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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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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