

September 3, 2024

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

Rating	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Target Price	BUY 1,420		BUY 1,350	
Sales (Rs.m)	56,656	63,972	57,381	66,305
% Chng.	(1.3)	(3.5)		
EBITDA (Rs.m)	11,960	14,485	12,641	15,063
% Chng.	(5.4)	(3.8)		
EPS (Rs.)	38.0	46.5	40.2	47.9
% Chng.	(5.5)	(2.9)		

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)	5.4	4.8	4.3	3.7
EV/EBITDA (x)	23.5	22.8	18.8	15.5
PE (x)	32.9	33.5	27.4	22.5
P/BV (x)	9.0	7.3	5.9	4.8

Key Data	NARY.BO NARH IN
52-W High / Low	Rs.1,445 / Rs.980
Sensex / Nifty	82,560 / 25,279
Market Cap	Rs.260bn/ \$ 3,098m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.569.16m

Shareholding Pattern (%)

Promoter's	63.85
Foreign	10.01
Domestic Institution	8.85
Public & Others	17.29
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.4	(3.6)	24.2
Relative	1.4	(13.8)	(1.6)

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Narayana Hrudayalaya (NARH IN)

Rating: BUY | CMP: Rs1,272 | TP: Rs1,420

India business to drive growth

We hosted Mr. Viren Shetty (Executive Chairman) and Dr. Anesh Shetty (CEO – HCCI Cayman) of Narayana Hrudayalaya (NARH) for NDR at Mumbai. 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, benefits of which will be seen from FY28/29. More importantly, capex spend would be mainly towards core and high-performing regions such as Bengaluru, Kolkata and Cayman, to enhance growth visibility.

We expect 14% EBITDA CAGR over FY24-27E. RoE/RoCE will remain healthy at ~24/21%, despite capex intensity going up. At CMP, the stock is trading at valuations of 18.4x EV/EBITDA (PRE IND AS) and 27.4x P/E on FY26E. Our FY25/FY26E EBITDA estimate stands reduced by 5%/4% as we factor in higher losses from the new unit at Cayman. Maintain 'BUY' rating with a revised TP of Rs1,420/share (earlier Rs1,350/share) as we roll forward, based on 23x Sep'26E EV/EBITDA for India business and 12x EV/EBITDA for Cayman. Faster ramp-up in the Cayman unit will be the key.

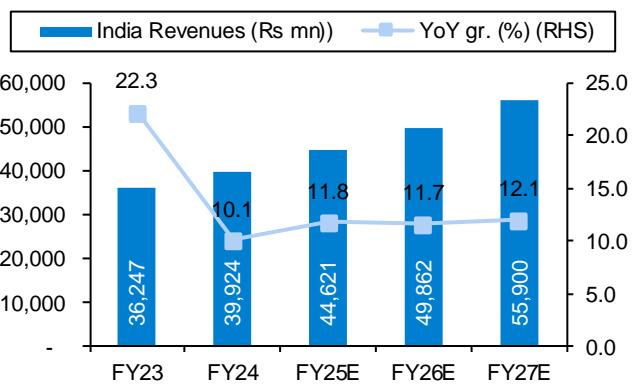
India – Greenfield expansion and improving throughput to drive growth: NARH had ~5,500 operational beds in India as of Q1FY25. Near-term growth and profitability will be driven by better bed mix, which will be achieved through a combination of improving throughput, refurbishment, debottlenecking, cost management, and digitalization. Further, the company aims to expand oncology and robotic services to its wider network and expand critical care/ICU beds. It will be also adding beds through the brownfield route across Bengaluru and Kolkata units. Further, NARH intends to add 1,500 beds in the medium term through greenfield expansion across Bengaluru, Kolkata and Raipur, benefit of which will be seen from FY28/29. Overall, we have factored in 17% EBITDA CAGR from India units over FY24-27E.

Cayman – Faster ramp-up of new unit will be key: Operationally, Cayman unit profitability has been robust at 2x EBITDA growth over FY21-24. Post commercialization of a radiation block in FY24, Cayman's margins have further improved by 560bps YoY to 44.4%. A new unit with 50 beds will be commercialized in Q3FY25. This unit will offer services like obstetrics and pediatrics, oncology and outpatient services, which will have limited cannibalization of services with the existing unit. The management cited that the new unit will be highly margin dilutive for the initial 3-4 quarters and likely recoup margins within 6-8 quarters of its commercialization. Overall, we have factored in Cayman EBITDA (unit 1+2) to reach +\$72mn by FY27 from current \$56mn.

- **Integrated care model - Objective to enhance volumes in hospital business:** NARH incorporated its fully owned subsidiary Narayana Health Integrated Care (NHIC) on Jan 2023 that offers primary services and wellness management. Eight NHIC clinics are operational with focus on Bengaluru market, and generated revenue of Rs220mn in FY24. NARH intends to scale up by opening 20+ clinics over the next 2 years, near its hospitals. NARH has also introduced comprehensive health insurance plans on pilot basis in the Mysore market and intends to expand to other regions such as Bengaluru and Kolkata with new and differentiated products. Currently, cash burn across the two entities stands at Rs500mn on annual basis, which will continue to remain elevated in the near term and see moderation from FY27.
- **Aggressive capex plan:** NARH's FY25 capex plan of Rs16bn includes Rs3bn of maintenance and routine capex, and Rs2.5bn pending capex for the new unit at Cayman. The residual capex is towards existing greenfield expansion, particularly in Bengaluru and Kolkata, and any new opportunities. Additionally, the company will explore opportunities to acquire distressed hospital assets. In case of NHIC and NHIL, the management plans to spend Rs4-5bn over the next 2-3 years.
- **Other highlights:**
 - Most NARH hospitals in India are operating at their peak utilization level, except Mumbai and Gurugram units, which have the potential to increase the utilization level.
 - Margin improvement for India segment will stem from better bed mix and cost management programs.
 - Mumbai and Gurugram units were facing challenges for years. The Mumbai unit is expected to break even soon, and the latter achieved positive EBITDA in Q1FY25. The Mumbai unit reported losses in single digit in Q1FY25. Dharamshila unit continues to generate strong operating margins, at 16-17%.
 - NARH plans to explore new regions such as Bhopal, Rajkot and Nashik.
 - NARH has acquired 7 acres of land in Rajarhat, Kolkata, where it plans to add 1,000 beds. In the initial phase, 300 beds are expected to be operational by FY27/28.
 - Higher growth in the past was the result of improvement in specialty and bed mix. Similar growth may be difficult to achieve in near term for India business.
 - Payor mix – Government schemes' business share is guided to reduce by 1-2% to 20%.
 - Attrition rate at the senior doctor level was in single digits, but was 15% at the mid-senior level and 33-35% for nurses.
 - NARH plans to pass on a part of increased input cost through price hike in the coming quarters, which will help improve ARPP.

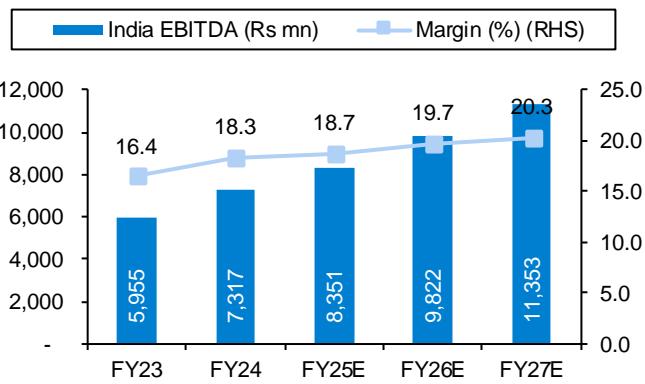
- The management hinted at possible reduction in medical tourism in India, due to the political unrest in Bangladesh.
- Typically, each NHIC clinic costs Rs5-10mn and will take 18-20 months to break even. Further, NARH's insurance business will require 0.4-0.5mn policies to break even. The insurance business is connected with 25k+ patients with 8,500+ subscription plans.
- **Financials:** NARH has delivered robust profitability with consolidated EBITDA margins improving by ~530bps to 23% over FY22-24. Going forward, we expect margins to be under stress due to the commercialization of the second unit in Cayman. However, margins are likely to improve from FY27E as the unit in Cayman ramps up and operational efficiency improves across India operations. Overall, we expect consolidated EBITDA to grow at 14% CAGR and PAT at 14% CAGR over FY24-27E.

Exhibit 1: India revs to grow at ~12% CAGR over FY24-27E



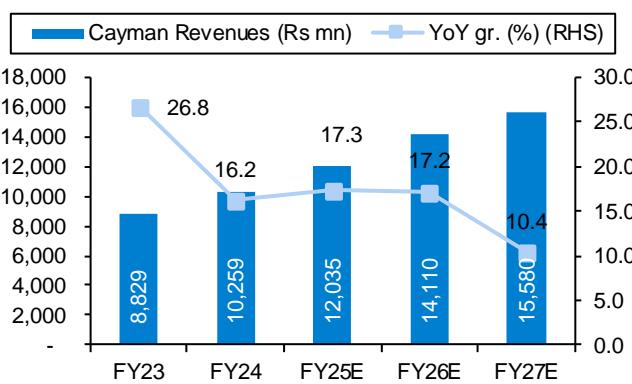
Source: Company, PL

Exhibit 2: Margins to rise on improved ARPOB, case mix



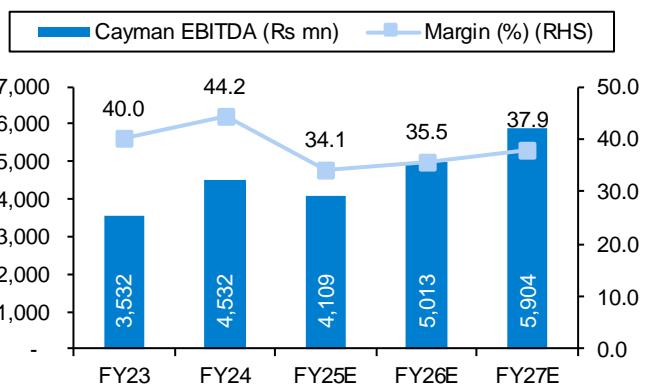
Source: Company, PL

Exhibit 3: Cayman rev. to clock ~15% CAGR over FY24-27E



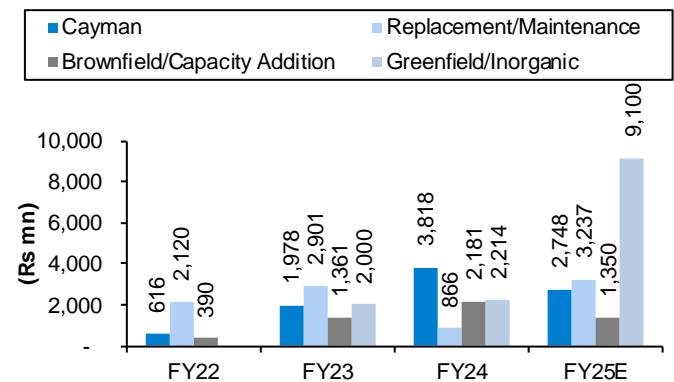
Source: Company, PL

Exhibit 4: Margins to dilute in near-term led by new unit



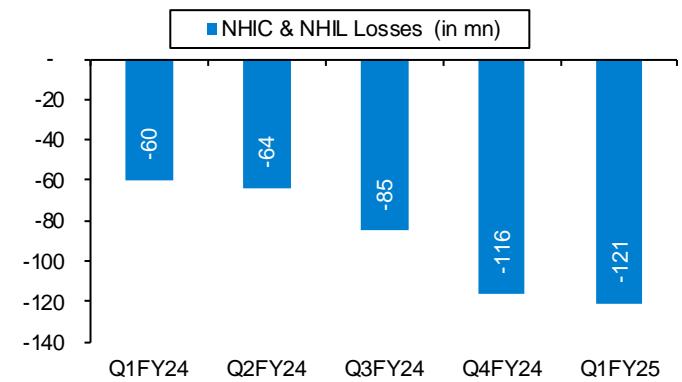
Source: Company, PL

Exhibit 5: NARH's aggressive capex plan for FY25E



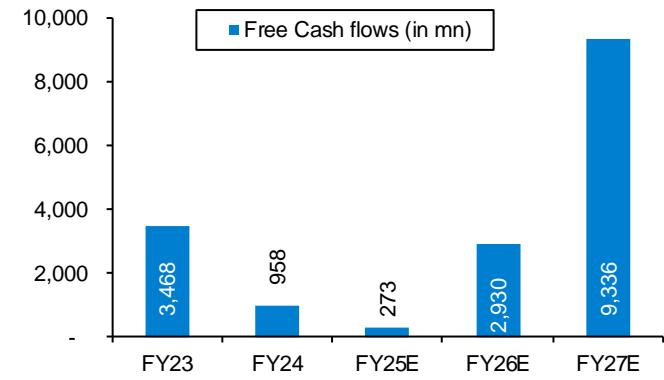
Source: Company, PL

Exhibit 6: NHIC and NHIL losses likely to remain elevated



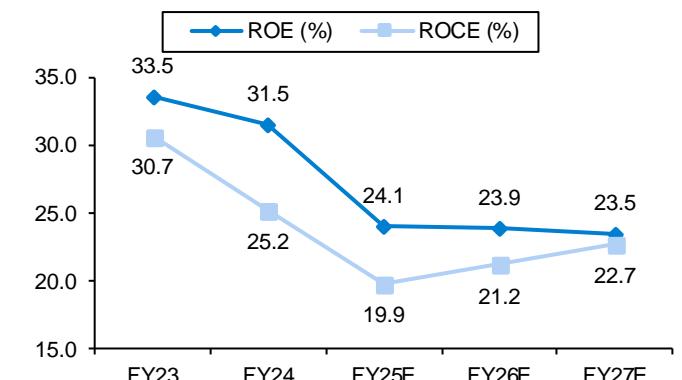
Source: Company, PL (Note: NHIL losses included from Q4FY24)

Exhibit 7: Strong free cash flow generation by FY27E



Source: Company, PL

Exhibit 8: Healthy ROE and ROCE profile



Source: Company, PL

Exhibit 9: Peer Valuation

Peer Hospital companies	MCap (Rs bn)	EV/EBITDA (x)			PE (x)		ROE (x)		ROCE (x)		PB (x)		Post IND AS EBITDA CAGR (%) FY24-26E
		FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Apollo Hospitals Enterprise	991	31.2	24.7	65.3	48.3	20.0	22.5	23.7	28.2	12.0	9.9	14.7	
Aster DM Healthcare	201	35.9	28.1	53.3	36.5	19.0	23.9	19.4	23.5	9.6	8.0	26.8	
Fortis Healthcare	425	29.6	24.8	54.2	41.3	9.8	11.9	13.4	15.6	5.1	4.7	20.6	
HealthCare Global Enterprises	54	13.9	11.1	70.3	41.3	8.9	13.5	14.6	19.1	6.0	5.2	25.6	
Krishna Institute of Medical Sciences	200	31.2	26.4	58.1	49.1	17.3	17.5	17.8	17.9	9.3	8.0	17.8	
Max Healthcare Institute	857	38.6	29.5	57.8	42.8	14.9	17.5	16.9	20.4	8.1	7.0	23.3	
Narayana Hrudayalaya	260	21.9	18.1	33.5	27.4	24.1	23.9	19.9	21.2	7.3	5.9	12.1	
Jupiter Life Line Hospitals	89	28.7	23.2	39.9	32.1	17.4	18.3	19.7	20.8	6.4	5.4	24.5	

Source: PL; Note: EV/EBITDA is on post IND AS basis

Exhibit 10: Expect NARH's (India) pre IND AS growth of +17% over FY24-26E

Peer Hospital companies	EV/EBITDA (x)		Pre IND AS EBITDA CAGR (%) FY24-26E
	FY25E	FY26E	
APHS IN	33.5	26.1	33.3
ASTERDM IN	31.1	24.3	29.5
FORH IN	30.5	25.4	21.4
HCG IN	17.9	13.7	32.3
KIMS IN	32.0	26.9	18.5
MAXHEALT IN	39.8	30.3	24.1
NARH (Ex Cayman and NHIC)	26.0	21.8	17.2
JLHL IN	28.7	23.2	24.5

Source: PL; Note: EV/EBITDA is on pre IND AS basis; NARH – assigned 12x EV/EBITDA to Cayman business; Fortis and KIMS EV/ EBITDA is adjusted for minority stake.

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 Inv. 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

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	32.9	33.5	27.4	22.5
P/B	9.0	7.3	5.9	4.8
P/CEPS	25.2	25.1	21.2	17.9
EV/EBITDA	23.5	22.8	18.8	15.5
EV/Sales	5.4	4.8	4.3	3.7
Dividend Yield (%)	0.4	0.4	0.5	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	13,052	12,036	12,794	13,410
YoY gr. (%)	14.3	6.7	4.7	8.7
Raw Material Expenses	2,845	2,442	2,735	2,882
Gross Profit	10,208	9,594	10,059	10,527
Margin (%)	78.2	79.7	78.6	78.5
EBITDA	3,081	2,790	2,946	3,039
YoY gr. (%)	26.4	9.6	6.8	12.3
Margin (%)	23.6	23.2	23.0	22.7
Depreciation / Depletion	553	632	648	617
EBIT	2,528	2,158	2,298	2,422
Margin (%)	19.4	17.9	18.0	18.1
Net Interest	229	251	280	340
Other Income	184	179	239	235
Profit before Tax	2,484	2,086	2,256	2,317
Margin (%)	19.0	17.3	17.6	17.3
Total Tax	217	205	348	302
Effective tax rate (%)	8.7	9.8	15.4	13.0
Profit after Tax	2,267	1,881	1,908	2,015
Minority interest	(1)	(1)	(1)	(1)
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,268	1,882	1,909	2,016
YoY gr. (%)	34.3	22.3	10.1	9.5
Margin (%)	17.4	15.6	14.9	15.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,268	1,882	1,909	2,016
YoY gr. (%)	34.3	22.3	10.1	9.5
Margin (%)	17.4	15.6	14.9	15.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,268	1,882	1,909	2,016
Avg. Shares O/s (m)	204	204	204	204
EPS (Rs)	11.1	9.2	9.3	9.9

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-Aug-24	BUY	1,350	1,218
2	08-Jul-24	BUY	1,335	1,246
3	28-May-24	BUY	1,335	1,237
4	08-Apr-24	BUY	1,435	1,286
5	17-Feb-24	BUY	1,435	1,365
6	08-Jan-24	BUY	1,250	1,212
7	15-Nov-23	BUY	1,250	1,133
8	07-Oct-23	BUY	1,110	1,092

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,150	6,516
2	Aster DM Healthcare	BUY	400	368
3	Aurobindo Pharma	Accumulate	1,525	1,462
4	Cipla	Accumulate	1,680	1,575
5	Divi's Laboratories	Accumulate	5,000	4,991
6	Dr. Reddy's Laboratories	Reduce	6,000	6,879
7	Eris Lifesciences	BUY	1,250	1,128
8	Fortis Healthcare	BUY	515	486
9	HealthCare Global Enterprises	BUY	420	362
10	Indoco Remedies	Accumulate	320	322
11	Ipca Laboratories	Reduce	1,250	1,349
12	J.B. Chemicals & Pharmaceuticals	BUY	2,100	1,930
13	Jupiter Life Line Hospitals	BUY	1,475	1,315
14	Krishna Institute of Medical Sciences	BUY	2,400	2,192
15	Lupin	BUY	2,300	1,994
16	Max Healthcare Institute	BUY	975	916
17	Narayana Hrudayalaya	BUY	1,350	1,218
18	Sun Pharmaceutical Industries	BUY	1,885	1,715
19	Sunteck Realty	BUY	700	588
20	Torrent Pharmaceuticals	Accumulate	3,300	3,162
21	Zydus Lifesciences	Accumulate	1,305	1,301

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

ANALYST CERTIFICATION

(Indian Clients)

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