

Retail Equity Research

Narayana Hrudayalaya Ltd.


Healthcare Services

BSE CODE : 539551 NSE CODE: NH

BLOOMBERG CODE: NARH:IN SENSEX : 76,693

Accumulate

12 Months Investment Period Rating as per Mid cap

CMP Rs.1,267 TARGET Rs. 1,455 RETURN 15% 

(Closing: 07-06-2024)

KEY CHANGES: TARGET  RATING  EARNINGS 

Outlook for Success: Strategic Growth Initiatives

Narayana Hrudayalaya Ltd. (NH) is a network of hospitals specialising in various medical fields, with locations in both India and the Cayman Islands.

- NH reported a 10% increase in consolidated revenue, amounting to Rs. 5,018cr. for FY24, fuelled by better performance in both its Indian and Cayman operations
- The ARPOB rose by 10% to Rs. 1.40cr. in FY24, attributed to improvements in specialties and the payer mix.
- The EBITDA margin rose to 23% in FY24, an increase of 165 bps from 21.3% in FY23. This growth was achieved through cost optimization efforts, including digitization, business transformation, and strategic technology investments.
- The company's growth potential in integrated care units and the upcoming launch of a new insurance business are promising indicators for its future success.
- Considering the strategic expansion efforts, the positive impact of digital initiatives on cost reduction and growth, and an aggressive capex plan, we revise our target price to Rs. 1,455, based on a forward EV/EBITDA multiple of 20x for FY26E, and maintain an 'Accumulate' rating.

Efficiency drives margin expansion.

In FY24, NH reported consolidated revenue of Rs. 5,018cr, reflecting a solid 10% YoY increase, though this figure fell short of our estimates. Improved cost management and enhanced efficiency led to a remarkable 23% EBITDA margin, outperforming our forecast by 60 bps and demonstrating a 170 bps improvement compared to FY23, resulting in an EBITDA of Rs. 1,152cr. The company also achieved a PAT of Rs. 789cr., representing substantial 30% year-over-year growth. ARPOB increased by 10% YoY, rising from Rs. 1.35cr. in Q4 FY23 to Rs. 1.49cr in Q4FY24, driven by improvements in both specialties and the payer mix. Additionally, HCCI Cayman maintained strong business performance, reporting quarterly revenue of \$30.5mn and total annual revenue of \$123.9mn.

Cost optimization and digitization..

The company's EBITDA increased to Rs. 1,152cr. in FY24, reflecting a robust 19% YoY growth compared to Rs. 966cr. in FY23. Additionally, the EBITDA margin improved to 23%, marking a significant 170 bps increase from the 21.3% margin in the previous year. This improvement can be attributed to cost optimization efforts driven by a focus on digitization, business transformation, and strategic investments in technology and throughput. Notably, the adoption of the ATHMA platform streamlined supply chain management across the group, while the nursing app NAMAH contributed to efficiency gains within the Narayana Health System.

Capex boosts infrastructure and bed capacity

For FY25, the company has allocated Rs. 1,700cr. for capital expenditure. The expansion plans primarily target centers in Bangalore and Kolkata. In Bangalore, the focus is on enhancing the existing Health City campus. Additionally ~Rs. 300cr. is set aside for routine biomedical and maintenance purposes, while an extra Rs. 250cr is earmarked for the new Cayman facility. Funding for this capital expenditure will be sourced from internal accruals (20%) and debt financing (80%). Management anticipates significant expansion, including completing construction and adding beds over the next three to four years.

Outlook and valuation

Heightened The Cayman and Indian operations of Narayana Hrudayalaya have experienced revenue growth due to ARPOB, resulting from an improved payer mix and strategic expansion of patient care. Ongoing digital initiatives aimed at enhancing efficiency and reducing costs will further support expanded patient services and contribute to future revenue streams and margin improvement. The integrated care units and the upcoming implementation plan of a new insurance business stream are positive indicators for the company's future success outlook. With an aggressive Capex plan in place, we maintain 'Accumulate' rating with a revised target price of Rs. 1,455 based on a 20x EV/EBITDA multiple for FY26E.

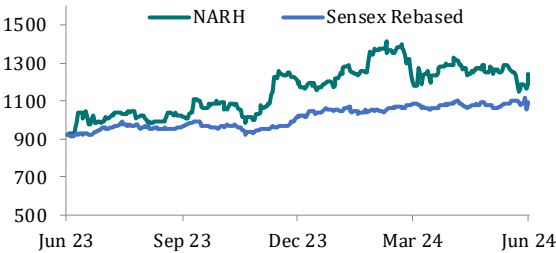
Company Data

Market Cap (Rs cr)	25,426
Enterprise Value (Rs cr)	25,615
Outstanding Shares (cr)	20.4
Free Float (%)	36.1
Dividend Yield (%)	0.2
52 week high (Rs)	1,445
52 week low (Rs)	919
6m average volume (cr)	0.04
Beta	0.63
Face value (Rs)	10

Shareholding (%)	Q2FY23	Q3FY24	Q4FY24
Promoters	63.8	63.8	63.8
FPI's	11.6	11.5	10.9
MFs/Institutions	11.0	10.3	9.6
Public/Others	13.6	14.4	15.7
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	5.4%	6.1%	34.5%
Absolute Sensex	0.9%	7.1%	18.4%
Relative Return	4.5%	-1.0%	16.2%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	5,018	5,712	6,533
Growth (%)	11	14	14
EBITDA	1,152	1,331	1,563
EBITDA Margin(%)	23.0	23.3	23.9
PAT Adj.	789	784	899
Growth (%)	30	-1	15
Adj. EPS	39	38	44
Growth (%)	30	-1	15
P/E	32.2	32.5	28.3
P/B	8.8	7.1	5.7
EV/EBITDA	23.0	20.5	17.4
ROE (%)	31.4	24.1	22.3
D/E	0.50	0.65	0.53

Quarterly Financials (Consolidated)

Profit & Loss

Rs.cr	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Sales	1,279	1,222	4.7	1,203.6	6.3	5,018	4,525	10.9
EBITDA	295	276	6.8	279	5.6	1,152	966	19.3
EBITDA margins (%)	23.0	22.5	45bps	23.2	-15bps	23.0	21.3	170bps
Depreciation	65	57	13.1	63	2.5	242	210	15.3
EBIT	230	218	5.2	216	6.5	910	756	20.5
Interest	28	21	36.2	25	11.8	97	69	39.5
Other Income	24	15	62.7	18	33.4	75	65	14.9
Exceptional Items	0	0		0		-1	0	
PBT	226	213	6.2	209	8.2	889	752	18.2
Tax	35	40	-13.4	36	-2.9	99	145	-31.8
Reported PAT	191	172	10.7	188	1.4	789	606	30.2
Adjustments	0	0		0		-1	0	
Adj PAT	191	172	10.7	188	1.4	789	606	30.2
No. of Shares	20.4	20.4		20.4	0.0	19.4	20.4	
EPS (Rs)	9.0	8.0	10.7	9.0	1.4	39.0	30.0	30.2

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	5,838	6,583	5,712	6,533	-2.20	-0.77
EBITDA	1,308	1,530	1,331	1,563	1.74	2.13
Margin (%)	22.4	23.2	23.3	23.9	90bps	72bps
Adj. PAT	761	885	784	899	3.08	1.58
EPS	37	43	38	44	3.92	2.48

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	3,701	4,525	5,018	5,712	6,533
% change	43	22	11	14	14
EBITDA	654	966	1,152	1,331	1,563
% change	259	48	19	15	17
Depreciation	142	210	242	311	384
EBIT	512	756	910	1,019	1,178
Interest	66	69	97	167	203
Other Income	35	65	75	87	101
PBT	480	752	889	939	1,077
% change	-6,589	57	18	6	15
Tax	88	145	99	155	178
Tax Rate (%)	25.5	19.3	11.1	16.5	16.5
Reported PAT	384	606	789	784	899
Adj.*	0	0	0	0	0
Adj. PAT	384	606	789	784	899
% change	1,297	58	30	-1	15
No. of shares (cr)	20	20	20	20	20
Adj EPS (Rs)	19	30	39	38	44
% change	1,297	58	30	-1	15
DPS (Rs)	0	1	4	3	3

BALANCE SHEET

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	172	380	416	510	636
Accounts Receivable	437	432	422	548	644
Inventories	59	72	110	94	100
Other Cur. Assets	170	314	582	662	750
Investments	132	252	844	945	1,041
Gross Fixed Assets	3,158	3,670	4,227	5,732	6,582
Net Fixed Assets	1,876	2,053	2,400	3,536	3,948
CWIP	63	259	514	670	555
Intangible Assets	109	283	251	308	362
Def. Tax (Net)	1	6	5	5	5
Other Assets	111	112	79	103	163
Total Assets	3,130	4,162	5,625	7,382	8,204
Current Liabilities	626	799	789	841	808
Provisions	69	83	91	94	101
Debt Funds	545	762	1,444	2,360	2,358
Other Liabilities	401	385	417	479	492
Equity Capital	204	204	204	204	204
Reserves & Surplus	1,284	1,927	2,679	3,403	4,240
Shareholder's Fund	1,489	2,131	2,884	3,607	4,445
Total Liabilities	3,130	4,162	5,625	7,382	8,204
BVPS	68	90	129	161	200

CASH FLOW

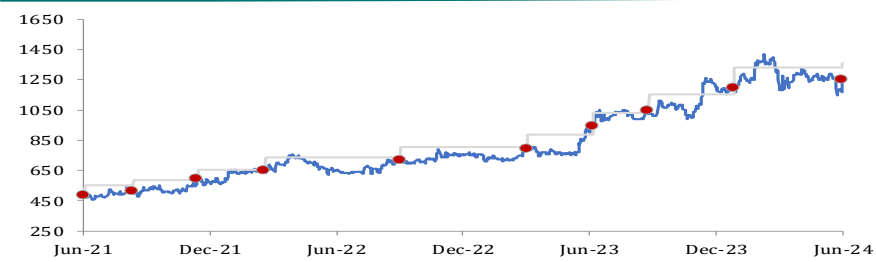
Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	526	816	242	1,251	1,461
Non-cash adj.	82	113	62	-242	-279
Changes in W.C	-152	105	-15	-134	-216
C.F-Operation	485	1,085	1,066	1,042	1,169
Capital exp.	-250	-521	-971	-1,661	-735
Change in inv.	-27	-201	-582	-125	-156
C.F - investment	-267	-1,174	-1,458	-1,698	-790
Issue of equity	0	0	0	0	0
Issue/repay debt	-68	208	368	916	-2
Dividends paid	0	-20	-51	-61	-61
Other finance.CF	-91	-100	171	-105	-190
C.F - Finance	-159	88	488	750	-253
Chg. in cash	59	-2	97	94	126
Closing cash	172	380	416	510	636

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	17.7	21.3	23.0	23.3	23.9
EBIT margin (%)	13.8	16.7	18.1	17.8	18.0
Net profit mgn.(%)	10.4	13.4	15.7	13.7	13.8
ROE (%)	29.4	33.5	31.5	24.2	22.3
ROCE (%)	20.4	22.5	18.8	15.6	15.9
W.C & Liquidity					
Receivables (days)	35	35	31	31	33
Inventory (days)	5	5	7	7	5
Payables (days)	50	56	60	56	51
Current ratio (x)	1.3	1.5	1.9	2.2	2.6
Quick ratio (x)	1.0	1.0	1.1	1.3	1.6
Turnover &Leverage					
Gross asset T.O (x)	1.4	1.5	1.5	1.2	1.2
Total asset T.O (x)	1.2	1.1	0.9	0.8	0.8
Int. covge. ratio (x)	7.7	10.9	9.4	6.1	5.8
Adj. debt/equity (x)	0.4	0.4	0.5	0.7	0.5
Valuation					
EV/Sales (x)	6.7	5.5	5.3	4.8	4.2
EV/EBITDA (x)	38.1	25.8	23.0	20.5	17.4
P/E (x)	63.9	40.5	32.2	32.5	28.3
P/BV (x)	16.5	11.5	8.8	7.1	5.7



Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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