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Narayana health: the initial public offering decision[[1]](#endnote-1)

Narendra Nath Kushwaha, Bipin Kumar Dixit, and David Sharp wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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“‘Quality’ and ‘affordability’ are not mutually exclusive when it comes to healthcare delivery.”

–Dr. Devi Prasad Shetty, founder & chairman, Narayana Health

On August 29, 2015, Narayana Hrudayalaya Private Limited (NH), one of the leading healthcare providers in India, received the certificate of incorporation to become Narayana Hrudayalaya Limited (Narayana Health[[2]](#endnote-2) or NHL), a public limited company. Over the previous couple of years, major private equity (PE) investors—namely, JP Morgan Mauritius Holdings IV Limited (JPMorgan), Ashoka Investment Holdings Limited (Ashoka), and Ambadevi Mauritius Holding Limited (Ambadevi)—had been contemplating reducing their stake in NH. Taking the company public would provide an exit opportunity to the PE investors, whose ultimate objective was to realize returns by exiting from their investments at the end of the investment cycle.

Relying on NH’s robust business model, PE investors had invested heavily in Narayana Health in 2008 and also subsequently in 2014, which helped the company in expanding its network. Generally, PE investors invest for a period of three to seven years in a company and eventually exit from the investment at the opportune time.[[3]](#endnote-3) Though there were catastrophic events happening in the finance sector around the world, prospects for the company in India in 2015 were good, with a stable stock market and the Indian economy rising at a decent pace after several years of lacklustre growth. The first half of 2015 witnessed increased initial public offering (IPO) activity, driven by an enhanced need for companies to raise capital in light of the economic recovery, and private equity-backed companies trying to provide an exit route for their investors by capitalizing on the positive sentiments of the market.[[4]](#endnote-4)

After consultation with stakeholders—namely, the board of directors, promoters (founders), and management—PE investors of the company decided to go for an IPO through the “offer for sale” (OFS) route, where existing shareholders would sell their shares in the primary market and the company would not receive any proceeds from the offer. The OFS would allow selling shareholders to realize a return on their investment. Given the preparedness of NH and the current state of the Indian economy, PE investors had to decide the value of the IPO and whether the time was appropriate for NH to go public.

MACROECONOMIC CONDITIONS

In financial year (FY) 2014–2015, the Indian economy grew by 7.3 per cent, and it was projected to grow at 7.3 per cent and 7.5 per cent in FY 2015–2016 and FY 2016–2017, respectively, by the International Monetary Fund (IMF).[[5]](#endnote-5) India’s FY 2016–2017 growth rate projection surpassed China’s projection and made it the fastest-growing major economy. As of 2014 data of the World Bank, India was ranked as the ninth-largest economy with a gross domestic product (GDP) of $2 trillion, but in terms of per capita GDP, India was ranked very low, at 127th among 199 countries.[[6]](#endnote-6)

In 2014, global crude oil prices fell to $57.33 per barrel, registering a 47 per cent decline in the global market, and they were expected to drop further to $30 per barrel by the end of 2015.[[7]](#endnote-7) This significant drop in crude oil prices had a positive impact on the Indian economy because India imported approximately 80 per cent of its oil requirements. Sectors like information technology, healthcare, telecom, infrastructure, and retail were key to the growth of the economy. IMF managing director Christine Lagarde had famously noted India as a “bright spot” in the world economy.[[8]](#endnote-8)

THE INDIAN HEALTHCARE INDUSTRY

According to the World Health Organization (WHO), India’s total expenditure[[9]](#endnote-9) on healthcare was only 4 per cent of its GDP, compared to developed countries like the United States, which spent 18 per cent of its GDP. In 2013, annual expenditure on health was just $215 per capita.[[10]](#endnote-10) In terms of revenue and employment, healthcare had become one of India’s largest sectors. The Indian healthcare industry was worth $100 billion, and it was expected to grow by a compound annual growth rate of 22.9 per cent to $280 billion by 2020.[[11]](#endnote-11)

According to a FICCI–KPMG 2015 report called *Healthcare: The Neglected GDP Driver*, a robust healthcare system drove the GDP growth of an economy and also helped in employment generation and provided opportunities for innovation and entrepreneurship.[[12]](#endnote-12) Indian healthcare was not yet capable of handling an increasing number of lifestyle diseases. It required private players to invest in rural areas where scope and opportunity of investment lay. The telemedicine market, on the other hand, which had been able to provide increased access to healthcare services at a much lower cost, was expected to grow to $32 million by 2020 from the current level of $15 million.[[13]](#endnote-13)

Life expectancy at birth of people in India had increased from 41.38 years in 1960 to 68 years in 2014.[[14]](#endnote-14) Healthcare played a major contribution in achieving this feat; however, with the increase in life expectancy at birth, people required healthcare access for a longer period of time.

However, several challenges remained. The lack of quality healthcare programs in rural India, the growth of the health insurance market, a growing pharmaceutical sector, and an underdeveloped medical devices sector made the Indian healthcare industry a potential investment destination for private players[[15]](#endnote-15) and investors. An increase in the ageing population, a rise in the income of the middle class, and an increase in sedentary lifestyles that gave rise to lifestyle diseases also reflected the potential for the future growth of the Indian healthcare industry. According to the World Economic Forum and the Harvard School of Public Health, using their EPIC model, it was estimated that India would incur a loss of $5 trillion between 2012 and 2030 due to noncommunicable diseases.[[16]](#endnote-16) The creation of healthcare infrastructure, especially in rural areas, was required to provide affordable healthcare to people, and to ensure inclusive growth of the country.

Under WHO guidelines, 3.5 beds per 1,000 people was the minimum requirement for the healthcare sector; India, which accounted for 21 per cent of world diseases, had just 1.3 beds per 1,000 people and 0.702 doctors per 1,000 people.[[17]](#endnote-17) The number of doctors and beds was insufficient to meet the demand for healthcare services; India would require at least 100,000 additional beds and approximately $50 billion in investment to fulfil its demand.[[18]](#endnote-18) The healthcare system in India was in dire need of investment from domestic as well as foreign private players.

Competitors

Apollo Hospitals Enterprise Ltd. (AHEL) and Fortis Healthcare Ltd. (FHL) were the top two private-sector firms by size in the industry, apart from government-owned hospitals, which were not-for-profit (see Exhibit 1). AHEL reported the highest revenue among industry peers with a total of ₹46,380.70 million.[[19]](#endnote-19) AHEL and FHL were considered to be the main competitors (see Exhibits 2 and 3) of Narayana Health in the healthcare industry, and their enterprise value (EV) was estimated to be ₹203,330.97 million and ₹87,474.27 million, respectively. On March 31, 2015, AHEL and FHL stocks were trading at ₹1,365.45 and ₹164.55 per share, respectively.

NARAYANA HEALTH

Narayana Health was established with 225 operational beds in 2000 in Bengaluru, India, by Dr. Devi Prasad Shetty, a renowned cardiac surgeon. By the end of August 2015, Narayana Health had a network of 23 hospitals, eight heart centres, and 24 primary-care facilities across a total of 31 cities, towns, and villages in India, with 5,442 operational beds.[[20]](#endnote-20) Dr. Shetty had approximately 33 years of experience as a cardiac surgeon. He had worked at Guy’s Hospital in London, England, Birla Heart Research Centre in Kolkata, and the Manipal Heart Foundation in Bangalore, India,[[21]](#endnote-21) before establishing Narayana Health and becoming an entrepreneur himself.

Dr. Shetty had always had a fear of losing his mother during his childhood; the recurrent illness of his own parents inspired him to become a doctor.[[22]](#endnote-22) He also had the privilege of being a personal physician to Mother Teresa, and her philosophy inspired him to think about affordable healthcare[[23]](#endnote-23) for poor people. Mother Teresa’s statement that “Hands that serve are more sacred than lips that pray” had always inspired him to work for making healthcare available and affordable to all. The affordability of healthcare had always been a major concern for people in India; many families lived in fear of losing their loved ones because they could not afford the cost of medical treatment. Dr. Shetty said, “A solution is not a solution unless it is affordable.” Disassociating healthcare from affluence had always been Narayana Health’s primary goal. Narayana Health was known for its clinical excellence and process innovation capability. Its widely recognized brand was associated with quality, compassion, and affordable healthcare services in India. Narayana Health was identified with the following mission statement:

Our mission is to deliver high quality, affordable healthcare services to the broader population in India. Our core values are represented by the acronym “iCare,” which encompasses Innovation and efficiency, Compassionate care, Accountability, Respect for all, and Excellence as a culture. At the same time, we seek to generate a strong financial performance and deliver long-term value for our shareholders through the execution of our business strategy.[[24]](#endnote-24)

The mission of NH was to deliver high-quality, affordable healthcare services to people in India. Dr. Shetty wanted to build 5,000-bed “health cities” across India and a total of 30,000 beds by 2020;[[25]](#endnote-25) his goal was to provide affordable healthcare services to people without compromising on quality. NH had been able to achieve its goal of providing healthcare at a lower cost by applying its economies-of-scale business model, tweaking a few processes, driving hard bargains, and negotiating partnership deals.[[26]](#endnote-26) Dr. Shetty said, “The healthcare industry needs more process innovation than product innovation.”[[27]](#endnote-27)

In 2009, *The Wall Street Journal* described Dr. Shetty as “The Henry Ford of Heart Surgery” for doing a large number of surgeries at a lower cost in comparison to other hospitals across the world.[[28]](#endnote-28) In 2011, *The Economist* gave Dr. Shetty an award for a business process innovation that helped Narayana Health reduce healthcare costs using mass-production techniques.[[29]](#endnote-29) Narayana Health’s innovative business model had brought down the cost of healthcare services without compromising on quality. The mortality rate and infection rate at Narayana Health for coronary artery surgery were 1.27 per cent and 1 per cent, respectively, comparable to U.S. hospitals, whereas the incidence of pressure ulcers (bedsores) at NH had been almost zero during the last four years, compared to 8–40 per cent globally.[[30]](#endnote-30) NH had been honoured with many awards, including “Public Health Champion Award” by the WHO in 2015, under the category of innovation.[[31]](#endnote-31)

According to Vijay Govindarajan, an expert on strategy and innovation and the Coxe Distinguished Professor at Dartmouth College’s Tuck School of Business, Narayana Health had been able to recruit people who shared its vision that it must provide high-quality healthcare to people, irrespective of their financial and socioeconomic status.[[32]](#endnote-32) The success of NH in providing high-quality affordable healthcare to poor people had been dependent on the success of low-cost insurance schemes like Arogya Raksha Yojana for the private sector and Yeshaswini for the cooperative sector[[33]](#endnote-33) and telemedicine. Telemedicine had helped NH in getting patients from rural areas.

SOURCES OF FINANCING, RISK, AND GOVERNANCE[[34]](#endnote-34)

Before the 1990s, there were very limited sources of financing available for businesses in India—namely, bank financing and public equity markets. Private equity (PE) and venture capital (VC) funds then started functioning as an alternative source of financing and had been a significant contributor to India’s economic growth ever since. PE sector had invested more than $103 billion in approximately 3,100 companies in India from 2001 to 2014.[[35]](#endnote-35) In 2015, India was a top destination for PE and VC investors, with total investments of $22.4 billion.[[36]](#endnote-36) This huge interest among PE and VC investors towards India was a result of the strong fundamentals of the country, its young population with rising incomes, its high consumption, and its growing economy.

On February 6, 2008, Ashoka, Ambadevi, and JPMorgan invested ₹4 billion in Narayana Health. Ashoka and Ambadevi were together referred to as American International Group Inc. (AIG) funds. AIG funds and JPMorgan invested ₹2 billion each for 25 per cent stakes in Narayana Health.[[37]](#endnote-37) Ashoka Holdings was allotted 29,006 equity shares, while 8,701 equity shares were allotted to Ambadevi and 37,707 equity shares were allotted to JPMorgan. CDC Group plc invested ₹2 billion on December 24, 2014, for 20,339 equity shares. It was also given extensive veto rights under the shareholders’ agreement with respect to management of the company. An award of veto rights to PE investors increased the risk of the company. Because PE investors were based outside of India, NH could be considered a foreign-controlled company.

Over the last 15 years of operations, NH had borrowed from banks and financial institutions in the form of term loans, corporate loans, cash credit, overdrafts, and commercial paper. Ten million 10.5 per cent optionally convertible debentures (OCDs) were issued to CDC India Opportunities Limited for a sum of ₹1 billion on December 24, 2014, with the condition that OCDs would be converted into equity shares if NH went public. As of March 31, 2015, the total debt capital of NH was ₹2.01 billion, whereas total shareholders’ funds were ₹7.91 billion. NH had maintained an average long-term debt ratio of 0.27 in the last five years. It had relied more on private equity investment than on debt capital since its inception.

NH had 10 members on its board, including Dr. Shetty, who was chairman and executive director of the company, five independent directors, and Ms. Kiran Mazumdar Shaw. PE investors and banks were given the right to appoint nominee directors on the board of the company. Harjit Singh Bhatia was appointed as nominee director of Ashoka Holdings and Ambadevi (see Exhibit 5). Promoters of the company were required to hold at least 51 per cent of share capital at all times, failing which counterparties were given rights to terminate all arrangements with the company and declare the company “defaulted.” In the case of non-compliance with debt covenants, lenders were given rights to enforce their rights, which included conversion of their debt into equity and taking over control of the management.

By August 2015, a total of 204,360,804 equity shares were outstanding, owned by promoters[[38]](#endnote-38) and private equity investors. The founder of NH, Dr. Shetty, and his wife, Shakuntala Shetty, held major chunks of 33.37 per cent and 32.06 per cent of the shares, respectively, as promoters. Majority shareholding in the company provided control of the business to the promoters of the company. Narayana Health had remained profitable in the last five years of operations from FY 2011 to FY 2015 (see Exhibits 6, 7 and 8); its compound annual growth rate had been 29.15 per cent (see Exhibit 9).

INITIAL PUBLIC OFFERING

Issuance Process in India[[39]](#endnote-39)

The decision to go public and the timing of the issue were the most essential strategic considerations for equity issuance to be successful. A private company not only had to have a credible business plan, a predictable revenue stream, the right management team, and a standard financial reporting system, as well as fulfilling eligibility criteria, but it also had to acquire knowledge about the current economic situation and public appetite before pursuing an IPO.

The Securities and Exchange Board (SEBI) governed the IPO issuance process in India through the Disclosure and Investor Protection (DIP) guidelines of 2000, according to which a private company had to fulfil the eligibility norms set by the SEBI. Hiring one or more investment banks[[40]](#endnote-40) was the first step for equity issuance for firms going public. Investment banks had to submit bids to the firm with details about the money that could be raised from IPOs and their own share. These details had to be mentioned in the underwriting agreement once the bank had been hired.

A private company had to file an offer document,[[41]](#endnote-41) a red-herring draft prospectus (RHDP), with the SEBI for its review at least 30 days prior to filing a prospectus to the Registrar of Companies (ROC). Any changes suggested by the SEBI in the RHDP had to be made by the private firm before submitting the prospectus to the ROC. In this 30-day interval, the RHDP had to be kept open to public comment. An unlisted firm was also required to obtain prior in-principle approval from stock exchanges where it intended to list. Private companies were also required to obtain grades by at least one credible credit rating agency and disclose all their grades to the public, along with the credit rating agency rationale for the grades given. A private company had to appoint merchant bankers who would be responsible to do due diligence and ensure that all the requirements of the DIP guidelines of the SEBI were satisfied.

The SEBI had no role to play in setting the price band of the offer, which had to be decided by investment bankers of the company. However, it was mandatory for the unlisted firm to disclose all the parameters considered and processes followed in arriving at a certain issue price. There were two ways at which the price of the issue could be arrived: fixed pricing and the book-building process. In fixed pricing, the lead merchant (LM) decided the issue price, whereas in book building, the LM decided the price band instead of the fixed price. Market forces decided the final issue price in book building. In a book-built issue, allocation to retail individual investors, non-institutional investors, and qualified institutional buyers had to be in the ratio of 35:15:50.

Various marketing strategies for the issue—namely, the appointment of an advertising agency, a memorandum containing salient features, and a statutory advertisement—were supposed to be drawn up by the LM. The post-issue activities to be performed by the LM included the finalization of trading, the management of escrow accounts, the coordination of non-institutional allocation, the intimation of allocation, and the dispatch of refunds to bidders.

Gearing Up for the IPO

Going public was a monumental decision for Narayana Health, and therefore PE investors in consultation with the board of directors, chief executive officer (CEO), and chief financial officer (CFO) played a crucial role in arriving at this decision. Generally, the CFO assumed a key role in the process of IPO process execution and acted as a key representative in financial matters, while the CEO drove the strategic decision and monitored progress.[[42]](#endnote-42)

Preparing for an IPO was a complex process. Before initiating the process, PE investors needed to assemble a team of investment bankers, underwriters, registrar, lawyers, auditors, tax advisors, and accountants to plan and collaborate. NH was required to have net tangible assets of at least ₹30 million with distributable profits in at least three years and a net worth of ₹10 million in the last three years, and its issue size could not exceed five times the pre-issue net worth. Narayana Health was able to fulfil all eligibility requirements.

NH had to offer the company’s shares to the public for the first time in the primary market[[43]](#endnote-43) before it could be listed on India’s two prominent stock exchanges—namely, the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). It had an option of going public through a primary or secondary offering or both. In a primary offering, a company offered ‘“new shares” to the public, whereas in a secondary offering,[[44]](#endnote-44) promoters, PE investors, and VC investors cashed out their shares in the company.[[45]](#endnote-45) In a primary offering, the proceeds of the issue went to the company, whereas in a secondary offering, they went to the existing shareholders. In a secondary offering, the total number of outstanding shares remained constant before and after the issue. PE investors wanted NH to pursue an IPO through a secondary offering, i.e., an offer for sale (OFS).

Generally, companies had gone public in the past for two major reasons,[[46]](#endnote-46) primarily to raise capital for further investments such that the weighted average cost of capital could be minimized.[[47]](#endnote-47) Allowing selling shareholders to cash out their initial investments had been another major reason for companies to go public. An IPO allowed investors to realize a high return on invested capital when market conditions were favourable. In the case of NH, a primary motive of PE investors behind taking the company public was to provide themselves and other selling shareholders (promoters) with an opportunity to realize a return on their investment in the bullish market by selling portions of their stake in the company in the primary market. Enhancing visibility and brand image and achieving the benefits of listing on stock exchanges were other motives for going public.

DECISION

In the five years from FY 2011 to FY 2015, NH had reported a higher revenue growth rate than its peers and the average industry growth rate by successfully implementing its business model of economies of scale. It had also been able to provide affordable healthcare without compromising quality.

The biggest task in front of PE investors was to determine the offer price band through the appropriate valuation of the firm. Hiring book-running lead managers, deciding the timing for filing a red-herring prospectus with the SEBI and the size of the issue, and determining the appropriate offer price band were additional concerns. PE investors were supposed to consider the future growth potential of the healthcare industry, the strengths and weaknesses of NH’s business model, valuation multiples of the industry, and the financial performance of Narayana Health before arriving at any decision.

EXHIBIT 1: PERFORMANCE OF FIRMS OPERATING IN THE INDIAN HEALTHCARE INDUSTRY

as of March 31, 2015 (in ₹ millions)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Name of Company** | **Total Assets** | **Total Revenue** | **Profit after tax** |
| 1 | Apollo Hospitals Enterprise Ltd. | 58,199.90 | 46,380.70 | 3,466.00 |
| 2 | Fortis Healthcare Ltd. | 51,554.20 | 8,333.80 | −339.10 |
| 3 | Fortis Hospitals Ltd. | 23,253.70 | 20,275.50 | −856.70 |
| 4 | Narayana Hrudayalaya Ltd. | 13,175.40 | 13,176.20 | 210.00 |
| 5 | Max Healthcare Institute Ltd. | 14,674.20 | 8,226.70 | −381.40 |
| 6 | Escorts Heart Institute & Research Centre Ltd. | 12,123.60 | 4,313.60 | 252.50 |
| 7 | S R L Ltd. | 10,170.50 | 5,478.50 | 475.70 |
| 8 | Indraprastha Medical Corporation Ltd. | 4,633.80 | 7,144.00 | 324.90 |
| 9 | HealthCare Global Enterprises Ltd. | 7,115.50 | 4,244.40 | −23.70 |
| 10 | Tamil Nadu Medical Services Corporation Ltd. | 10,086.50 | 340.20 | 1.20 |

Source: Case authors using data from annual reports of companies for FY 2014–15.

EXHIBIT 2: BALANCE SHEET OF COMPARABLE FIRMS OF HEALTHCARE INDUSTRY

as of March 31, 2015 (in ₹ millions)

|  |  |  |
| --- | --- | --- |
|  | **Apollo Hospital** | **Fortis Health** |
| **Sources of funds** |  |  |
| Total share capital | 695.60 | 4,628.10 |
| Reserves | 30,915.10 | 32,167.00 |
| **Net worth** | **31,610.70** | **36,795.10** |
| Secured loans | 13,140.50 | 674.80 |
| Unsecured loans | 2,025.30 | 5,298.50 |
| **Total debt** | **15,165.80** | **5,973.30** |
| **Total shareholder equity and liabilities** | **46,776.50** | **42,768.40** |
|  |  |  |
| **Application of funds** |  |  |
| Gross block | 31,791.10 | 2,843.70 |
| Less: accumulated depreciation | 7,515.70 | 942.50 |
| **Net block** | **24,275.40** | **1,901.20** |
| Capital work in progress | 5,121.60 | 1,690.00 |
| **Investments** | **7,130.20** | **24,111.30** |
| Current assets except loans and advances | 11,312.80 | 1,185.90 |
| Loans and advances | 10,359.60 | 22,703.70 |
| Current liabilities | 10,118.70 | 8,587.40 |
| Provisions | 1,304.40 | 236.20 |
| **Net current assets** | **10,249.30** | **15,066.00** |
| **Total assets** | **46,776.50** | **42,768.50** |
|  |  |  |
| Contingent liabilities | 14,247.90 | 5,489.70 |
| Shares in issue (in millions) | 139.13 | 462.81 |
| Book value (₹) | 227.21 | 79.50 |

Source: “Narayana Hrudayalaya,” Moneycontrol.com, accessed May 6, 2016, www.moneycontrol.com/competition/narayana

hrudayalaya/comparison/NH#NH.

EXHIBIT 3: INCOME STATEMENT OF COMPARABLE FIRMS OF HEALTHCARE INDUSTRY

as of March 31, 2015 (in ₹ millions)

|  |  |  |
| --- | --- | --- |
|  | **Apollo Hospital** | **Fortis Healthcare** |
| **Income** |  |  |
| Sales | 45,927.9 | 6,106.4 |
| Other income & stock adjustments | 305.8 | 2,218.4 |
| **Total income** | **46,233.7** | **8,324.8** |
| **Expenditure** |  |  |
| Raw materials, power & fuel cost | 14,041.5 | 119.4 |
| Employee cost | 7,209.6 | 1,824.5 |
| Other manufacturing expenses | 10,690.8 | 1,485.8 |
| Miscellaneous expenses | 7,698.0 | 4,176.3 |
| **Total expenses** | **39,639.9** | **7,606.0** |
| PBDIT | 6,593.8 | 718.8 |
| Interest | 832.9 | 806.3 |
| PBDT | 5,760.9 | −87.5 |
| Depreciation | 1,580.4 | 271.3 |
| Profit before tax | 4,180.5 | −358.8 |
| Tax | 1,207.3 | −19.7 |
| **Net profit** | **3,466.0** | **−339.1** |

Note: PBDIT = profit before depreciation, interest, and taxes; PBDT = profit before depreciation and tax.

Source: “Narayana Hrudayalaya,” Moneycontrol.com, accessed May 6, 2016, www.moneycontrol.com/competition/narayana

hrudayalaya/comparison/NH#NH.

EXHIBIT 4: DETAILS OF SHAREHOLDERS HOLDING MORE THAN 5 per cent of SHARES

as of August 30, 2015

|  |  |  |
| --- | --- | --- |
| **Name of Shareholders** | **Number of Shares** | **Percentage of Holdings (%)** |
| Dr. Devi Prasad Shetty | 66,744,179 | 33.37 |
| Shakuntala Shetty | 64,126,703 | 32.06 |
| JPMorgan Mauritius Holdings IV Limited | 21,811,524 | 10.91 |
| Ashoka Investment Holdings Limited | 17,259,108 | 8.63 |
| CDC Group plc | 11,765,046 | 5.88 |

Source: Red-herring prospectus of Narayana Health filed with the SEBI.

EXHIBIT 5: BOARD OF DIRECTORS OF NARAYANA HEALTH

as of August 29, 2015

|  |  |  |  |
| --- | --- | --- | --- |
| **Board Member** | **Age** | **Designation** | **Details** |
| Dr. Devi Prasad Shetty | 62 | Chairman and Executive Director | Founder of the company and cardiac surgeon by profession with around 33 years of experience |
| Dr. Ashutosh Raghuvanshi | 53 | Managing Director & CEO | A cardiac surgeon with overall experience of 26 years and has been part of the company since its early days. |
| Viren Shetty | 31 | Executive Director | A civil engineer by profession responsible for identifying new growth opportunities for the company and has eight years of experience. |
| Kiran Mazumdar Shaw | 62 | Non-Executive Director | The chairperson and managing director of Biocon Limited. She is a first-generation entrepreneur with more than 39 years of experience in the field of biotechnology. |
| Harjit Singh Bhatia | 66 | Non-Executive Director | Around 42 years of experience and also a certified associate of the India Institute of Bankers. He was appointed as nominee director of Ashoka Holdings and Ambadevi. |
| Dinesh Krishna Swamy | 61 | Independent Director | A founding member of Infosys Limited with around 34 years of experience. |
| Muthuraman Balasubramanian | 71 | Independent Director | A professional with over 43 years of experience; served on boards of several organizations. |
| Arun Seth | 64 | Independent Director | Currently on the boards of several companies and also a trustee of the NASSCOM Foundation; drives corporate social responsibility initiatives for the IT industry. |
| B. N. Subramanya | 58 | Independent Director | Around 30 years of experience; a fellow member at Institute of Chartered Accountants of India (ICAI) since April 13, 1994. |
| Manohar D. Chatlani | 63 | Independent Director | A businessman with over 40 years of experience in the retail sector; has had business development and leadership roles. |

Source: Red-herring prospectus of Narayana Health filed with the SEBI.

EXHIBIT 6: BALANCE SHEET OF NARAYANA HEALTH

for the years ending March 31 (in ₹ millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **2011** | **2012** | **2013** | **2014** | **2015** |
| EQUITY AND LIABILITIES |  |  |  |  |  |
| [A] Shareholders’ funds |  |  |  |  |  |
| Share capital | 3.25 | 3.25 | 3.25 | 3.25 | 2,000.00 |
| Reserves and surplus | 4,857.39 | 5,147.22 | 5,331.67 | 5,693.50 | 5,912.99 |
| Total | 4,860.64 | 5,150.47 | 5,334.92 | 5,696.75 | 7,912.99 |
| [B] Non-current liabilities |  |  |  |  |  |
| Long-term borrowings | 872.75 | 1,112.67 | 1,731.89 | 2,172.17 | 1,593.36 |
| Deferred tax liabilities (net) | 152.78 | 175.01 | 190.36 | 241.15 | 272.89 |
| Other long-term liabilities | - | 8.65 | 15.17 | 20.86 | 46.22 |
| Long-term provisions | 25.99 | 48.01 | 54.50 | 61.47 | 97.78 |
| Total | 1,051.52 | 1,344.34 | 1,991.92 | 2,495.65 | 2,010.25 |
| [C] Current liabilities |  |  |  |  |  |
| Short-term borrowings | 0 | 0 | 293.22 | 522.17 | 943.47 |
| Trade payables | 526.94 | 692.91 | 764.06 | 1,552.87 | 1,222.04 |
| Other current liabilities | 545.13 | 543.03 | 864.18 | 973.83 | 778.73 |
| Short-term provisions | 25.65 | 36.23 | 25.21 | 38.06 | 65.90 |
|  | 1,097.72 | 1,272.17 | 1,946.67 | 3,086.93 | 3,010.14 |
| TOTAL (D = A + B + C) | 7,009.88 | 7,766.98 | 9,273.51 | 11,279.33 | 12,933.38 |
| ASSETS |  |  |  |  |  |
| [E] Non-current assets |  |  |  |  |  |
| (i) Fixed assets |  |  |  |  |  |
| a) Tangible assets | 4,066.13 | 4,068.29 | 4,984.75 | 6,194.67 | 6,424.77 |
| b) Intangible assets | 3.56 | 3.49 | 50.13 | 70.18 | 30.72 |
| c) Capital work-in-progress | 366.88 | 725.57 | 421.83 | 121.04 | 88.53 |
| d) Intangible assets under development | 30.66 | 68.75 | 22.69 | - | - |
| (ii) Non-current investments | 58.00 | 125.27 | 314.42 | 513.72 | 2,408.20 |
| (iii) Long-term loans and advances | 1,451.27 | 1,532.86 | 1,679.82 | 1,926.82 | 1,465.15 |
| (iv) Other non-current assets | - | - | 13.41 | 13.06 | 8.76 |
| Total | 5,976.50 | 6,524.23 | 7,487.05 | 8,839.49 | 10,426.13 |
| [F] Current assets |  |  |  |  |  |
| Inventories | 251.87 | 271.41 | 364.02 | 473.87 | 482.63 |
| Trade receivables | 462.28 | 672.44 | 914.70 | 1,331.50 | 1,430.65 |
| Cash and bank balances | 172.99 | 138.11 | 229.25 | 223.13 | 233.71 |
| Short-term loans and advances | 113.90 | 116.20 | 204.07 | 281.87 | 241.25 |
| Other current assets | 32.34 | 44.59 | 74.42 | 129.47 | 119.01 |
| Total | 1,033.38 | 1,242.75 | 1,786.46 | 2,439.84 | 2,507.25 |
| TOTAL (G = E + F) | 7,009.88 | 7,766.98 | 9,273.51 | 11,279.33 | 12,933.38 |

Source: Red-herring prospectus of Narayana Health filed with the SEBI.

EXHIBIT 7: STATEMENT OF PROFIT AND LOSS OF NARAYANA HEALTH

for the years ending March 31 (in ₹ millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **2011** | **2012** | **2013** | **2014** | **2015** |
| INCOME |  |  |  |  |  |
| Revenue from operations | 4,729.20 | 6,470.57 | 8,250.72 | 10,758.14 | 13,075.65 |
| Other income | 26.22 | 23.77 | 22.76 | 155.02 | 100.53 |
| Total revenue | 4,755.42 | 6,494.34 | 8,273.48 | 10,913.16 | 13,176.18 |
| EXPENSES | | | | | |
| Purchase of medical consumables, drugs, and surgical equipment | 1,616.76 | 1,965.47 | 2,401.18 | 2,866.45 | 3,286.36 |
| Changes in inventories of medical consumables, drugs, and surgical equipment | −95.42 | −19.54 | −92.61 | −09.85 | −8.76 |
| Employee benefits | 771.79 | 1,108.33 | 1,539.22 | 1,924.04 | 2,640.64 |
| Other expenses | 1,850.27 | 2,579.28 | 3,545.44 | 4,855.68 | 5,833.36 |
| Total expenses | 4,143.40 | 5,633.54 | 7,393.23 | 9,536.32 | 11,751.60 |
|  | | | | | |
| Profit before interest, tax, depreciation, and amortization | 612.02 | 860.80 | 880.25 | 1,376.84 | 1,424.58 |
| Finance costs | 52.25 | 87.04 | 156.78 | 266.95 | 347.07 |
| Depreciation and amortization | 313.89 | 355.68 | 439.69 | 546.81 | 619.56 |
| Profit before tax, as restated | 245.88 | 418.08 | 283.78 | 563.08 | 457.95 |
| Tax expense |  |  |  |  |  |
| Current tax | 68.00 | 106.00 | 84.00 | 152.00 | 137.00 |
| Deferred tax charge/(credit) | 32.80 | 22.25 | 15.33 | 50.79 | 31.75 |
| Minimum alternate tax credit entitlement | −28.96 | – | – | – | – |
| Total tax expenses | 71.84 | 128.25 | 99.33 | 202.79 | 168.75 |
|  | | | | | |
| Profit/(loss) for the year/period | 174.04 | 289.83 | 184.45 | 360.29 | 289.20 |

Source: Red-herring prospectus of Narayana Health filed with the SEBI.

EXHIBIT 8: CASH FLOW STATEMENT OF NARAYANA HEALTH

for the years ending March 31 (in ₹ millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **For the year ended March 31** | | | | |
| **2011** | **2012** | **2013** | **2014** | **2015** |
| **Cash flow from operating activities** |  |  |  |  |  |
| Profit before tax, as restated | 245.88 | 418.08 | 283.78 | 563.08 | 457.95 |
| **Adjustments:** |  |  |  |  |  |
| Foreign exchange unrealized (gain)/loss, net | −0.40 | −0.50 | – | – | −1.09 |
| Depreciation and amortization | 313.89 | 355.68 | 439.69 | 546.81 | 619.56 |
| Provision for other than temporary diminution in the value of long-term investments | – | – | – | 30.46 | 10.74 |
| Interest income on bank deposits and others | −7.70 | −4.39 | −4.20 | −6.41 | −32.12 |
| Interest expense and other borrowing costs | 52.25 | 87.04 | 156.78 | 266.95 | 347.07 |
| Profit on sale of non-current investment | – | – | – | −93.02 | – |
| (Profit)/loss on sale of fixed assets | −1.77 | – | – | 0.29 | 2.58 |
| **Operating cash flow before working capital changes** | **602.15** | **855.91** | **876.05** | **1,308.16** | **1,404.69** |
| Changes in trade receivables | −252.43 | −210.16 | −242.26 | −416.80 | −99.15 |
| Changes in inventories | −95.42 | −19.54 | −92.61 | −109.85 | −8.76 |
| Changes in other assets | −22.11 | −12.25 | −28.40 | −55.05 | 26.05 |
| Changes in loans and advances | −124.61 | −104.99 | −139.44 | −134.08 | −267.10 |
| Changes in liabilities and provisions | 332.32 | 196.36 | 244.22 | 1,248.09 | −246.41 |
| **Cash generated from operations** | **439.90** | **705.33** | **617.56** | **1,840.47** | **809.32** |
| Income taxes paid, net | −101.12 | −131.59 | −172.28 | −195.79 | −199.83 |
| **Net cash generated from operating activities (A)** | **338.78** | **573.74** | **445.28** | **1,644.68** | **609.49** |

EXHIBIT 8 (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Cash flow from investing activities** |  |  |  |  |  |
| Purchase of fixed assets | −983.66 | −850.75 | −1,071.67 | −1,221.80 | −803.07 |
| Investment in subsidiary | −146.31 | −19.58 | −189.25 | −403.92 | −377.38 |
| Movement in deposits (having original maturity of more than three months), net | 116.05 | 26.74 | −1.85 | −22.84 | −50.60 |
| Movement in deposits (due to mature after 12 months from the reporting date), net | – | – | −13.40 | 1.68 | 2.39 |
| Payment for acquisition of long-term investment | – | – | −0.26 | −2.74 | −883.95 |
| Government grant received | – | – | 50.00 | 170.00 | – |
| Proceeds from sale of fixed assets | 3.79 | – | – | – | 10.11 |
| Purchase of assets on slump sale | – | – | – | −419.83 | – |
| Proceeds from sale of non-current investments | – | – | – | 168.78 | – |
| Share application money received | – | – | – | – | 300.00 |
| Unsecured loan given to related parties | – | – | – | – | −224.24 |
| Repayment of loan by related party | – | – | – | – | 85.68 |
| Interest received on bank deposits and others | 7.70 | 3.37 | 2.76 | 4.74 | 18.43 |
| **Net cash (used in) investing activities (B)** | **−1,002.43** | **−840.22** | **−1,223.67** | **−1,725.93** | **−1,922.63** |
|  |  |  |  |  |  |
| **Cash flow from financing activities** |  |  |  |  |  |
| Proceeds from long-term borrowings | 614.07 | 468.02 | 932.27 | 502.38 | 985.80 |
| Proceeds from short-term borrowings | – | – | 225.00 | – | 300.00 |
| Repayment of long-term borrowings | −81.00 | −125.02 | −202.61 | −418.59 | −2,744.06 |
| Repayment of short-term borrowings | – | – | – | −225.00 | −50.00 |
| Change in bank overdrafts | 0.19 | - | 68.22 | 453.95 | 171.30 |
| Proceeds from issue of debentures | – | – | – | – | 1,000.00 |
| Expenses incurred in relation to issue of debentures | – | – | – | – | −16.85 |
| Proceeds from issue of equity shares | – | – | – | – | 2,000.06 |
| Expenses incurred in relation to issue of shares | – | – | – | – | −56.18 |
| Interest and other borrowing costs paid | −48.45 | −84.65 | −155.22 | −264.00 | −316.95 |
| **Net cash provided by/(used in) financing activities (C)** | **484.81** | **258.35** | **867.66** | **48.74** | **1,273.12** |
| **Net (decrease) / increase in cash and cash equivalents (A + B + C)** | **−178.84** | **−8.13** | **89.27** | **−32.51** | **−40.02** |
| Cash and cash equivalents at the beginning of the year/period | 313.64 | 134.80 | 126.67 | 215.94 | 187.00 |
| Cash and cash equivalent acquired on slump sale basis | – | – | – | 3.57 | – |
| **Cash and cash equivalents at the end of the year/period** | **134.80** | **126.67** | **215.94** | **187.00** | **146.98** |

Source: Red-herring prospectus of Narayana Health filed with the SEBI.

EXHIBIT 9: HISTORICAL FINANCIAL ANALYSIS OF NARaYANA HEALTH

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **2011** | **2012** | **2013** | **2014** | **2015** | **Average** |
| Total revenue | 4,755.42 | 6,494.34 | 8,273.48 | 10,913.16 | 13,176.1 | 8,722.52 |
| Revenue growth rate |  | 0.3657 | 0.2740 | 0.3191 | 0.2074 | 0.2915 |
| Expenses | 4,143.40 | 5,633.54 | 7,393.23 | 9,536.32 | 11,751.60 | 7,691.62 |
| Expenditure % of sales | 0.8713 | 0.8675 | 0.8936 | 0.8738 | 0.8919 | 0.8796 |
| EBITDA | 612.02 | 860.80 | 880.25 | 1,376.84 | 1,424.58 | 1,030.89 |
| Minus: Depreciation & amortization | 313.89 | 355.68 | 439.69 | 546.81 | 619.56 | 455.13 |
| Depreciations % of sales | 0.0660 | 0.0548 | 0.0531 | 0.0501 | 0.0470 | 0.0542 |
| EBIT | 298.13 | 505.12 | 440.56 | 830.03 | 805.02 | 575.77 |
| Taxes | 104.35 | 176.80 | 154.20 | 290.51 | 281.76 | 201.52 |
| Net income | 193.78 | 328.33 | 286.36 | 539.52 | 523.26 | 374.25 |
|  | | | | | |  |
| EBIT | 298.13 | 505.12 | 440.56 | 830.03 | 805.02 | 575.77 |
| Plus: Depreciation & amortization | 313.89 | 355.68 | 439.69 | 546.81 | 619.56 | 455.13 |
| Minus: Taxes | 104.35 | 176.79 | 154.20 | 290.51 | 281.76 | 201.52 |
| Operating cash flow | 507.67 | 684.00 | 726.01 | 1,086.33 | 1,142.82 | 829.38 |
| Minus: Δ net working capital\* | 162.25 | 150.58 | 258.49 | −532.31 | 595.37 | 126.88 |
| Change in net working capital % of sales | 0.030 | 0.020 | 0.030 | –0.050 | 0.050 | 0.017 |
| Minus: P&E expenditure\*\* | 983.66 | 850.75 | 1,071.67 | 1,221.80 | 803.07 | 986.19 |
| Equals: Enterprise cash flow | −638.24 | −317.32 | −604.11 | 396.84 | −255.62 | −283.69 |

Notes: \* Obtained by subtracting “Cash generated from operations” from “Operating cash flow before working capital changes” of cash flow statement (see Exhibit 8); \*\* Purchase of fixed assets (CAPEX) from cash flow statement (see Exhibit 8).

Source: Authors’ calculation based on data provided in case Exhibit 7.

**EXHIBIT 10: DATA FOR VALUATION EXERCISE**

The beta for the healthcare industry and the risk-free rate of return were 0.596 and 6.5 per cent, respectively. The total equity risk premium for the Indian market was 9.71 per cent. The cost of debt for Narayana Health could be assumed to be 10 per cent.

Discounted cash flow (DCF) analysis could be used for the valuation of the firm by forecasting the future revenues of the firm. Financial information of the past several years would help in forecasting future revenue streams. Multiple valuation could also help in finding the right value of the firm; however, determining the right valuation multiple by considering various factors—like future growth potential of the healthcare industry, and strengths and weaknesses of NH’s business model—was the real challenge. Valuation multiples, namely, price-to-earnings (P/E) ratio, price-to-book (P/B) ratio, enterprise value (EV)–sales ratio, and EV/EBITDA (earnings before interest, tax, depreciation, and amortization), could be used for multiple valuation. The DCF analysis method and multiple valuation method would help Narayana Health in determining the appropriate offer price range for the issue.

Source: Beta based on authors’ calculation from historical share prices of comparable competitors Apollo and Fortis between FY 2014 and FY 2015; Risk-free rate of return = generic Indian government 10-year bond bid yield, Bloomberg Markets, accessed December 30, 2016, www.bloomberg.com/quote/GIND10YR:IND; Total equity risk premium based on Aswath Damodaran, “Country Default Spreads and Risk Premiums,” NYU Stern, July 2016, accessed, January 2, 2017, http://pages.stern.nyu.edu/~adamodar/New\_Home\_Page/datafile/ctryprem.htm; Cost of debt = average approximation of long-term debt annual interest rate given in red-herring prospectus of Narayana Health filed with the SEBI; Multiple valuation was a method of company valuation that used different multiples of comparable firm(s).

**ENDNOTES**

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Narayana Hrudayalaya Private Limited or any of its employees. [↑](#endnote-ref-1)
2. Narayana Health was the brand name of Narayana Hrudayalaya Limited. [↑](#endnote-ref-2)
3. “Exit Routes in Private Equity Transactions,” Hungarian Private Equity and Venture Capital Association (HVCA), accessed December 26, 2016, www.hvca.hu/pevc-explained/private-equity/exit-routes-in-private-equity-transactions. [↑](#endnote-ref-3)
4. Ansuya Harjani, “2015: Revival Year for India’s IPO Market?” *CNBC*, October 21, 2015, accessed May 28, 2017, www.cnbc.com/2015/10/21/will-coffee-day-and-indigo-revive-indias-ipo-market.html. [↑](#endnote-ref-4)
5. “Subdued Demand, Diminished Prospects: World Economic Outlook (WEO) Update,” International Monetary Fund, January 2016, accessed December 18, 2016, www.imf.org/external/pubs/ft/weo/2016/update/01/; A financial year (FY) in India started on April 1 and ended on March 31. [↑](#endnote-ref-5)
6. All dollar figures are U.S. dollars; “GDP per Capita (Current US$),” The World Bank, accessed December 26, 2016, http://data.worldbank.org/indicator/NY.GDP.PCAP.CD. [↑](#endnote-ref-6)
7. Rahul Oberoi, “Oiling the Wheels,” *Money Today*, February 2015, accessed December 26, 2016, www.businesstoday.in/moneytoday/stocks/falling-oil-prices-will-bring-a-windfall-for-india inc/story/215108.html. [↑](#endnote-ref-7)
8. “Press Release: IMF Managing Director Meets Prime Minister Modi, Announces High Level Regional Conference,” International Monetary Fund, March 17, 2015, accessed December 26, 2016, www.imf.org/external/np/sec/pr/2015/pr151

   18.htm. [↑](#endnote-ref-8)
9. The total sum of government and private expenditure on healthcare. [↑](#endnote-ref-9)
10. “India,” WHO, accessed December 26, 2016, www.who.int/countries/ind/en. [↑](#endnote-ref-10)
11. “Healthcare Industry in India,” India Brand Equity Foundation, accessed December 26, 2016, www.ibef.org/industry/healthcare-india.aspx. [↑](#endnote-ref-11)
12. Nandakumar Jairam, Ashok Kakkar, and Vishal Bali, *Healthcare: The Neglected GDP Driver* (KPMG and FICCI, 2015), accessed May 31, 2017, https://assets.kpmg.com/content/dam/kpmg/pdf/2016/03/Healthcare-the-neglected-GDP-driver-2015.pdf. [↑](#endnote-ref-12)
13. BS B2B Bureau, “Indian Telemedicine Market to Become More Than Double by 2020,” *Business Standard India*, June 6, 2016, accessed May 29, 2017, www.business-standard.com/content/b2b-pharma/indian-telemedicine-market-to-become-more-than-double-by-2020-116060600568\_1.html. [↑](#endnote-ref-13)
14. “Life Expectancy at Birth, Total (Years),” The World Bank, accessed December 26, 2016, http://data.worldbank.org/indicator/SP.DYN.LE00.IN. [↑](#endnote-ref-14)
15. Vijay Ramnath Jayaraman, “5 Things to Know About India’s Healthcare System,” *Forbes India*, September 11, 2014, accessed May 29, 2017, www.forbesindia.com/blog/health/5-things-to-know-about-the-indias-healthcare-system/. [↑](#endnote-ref-15)
16. D.E. Bloom, E.T. Cafiero, E. Jané-Llopis, S. Abrahams-Gessel, L.R. Bloom, S. Fathima, A.B. Feigl, et al., *The Global Economic Burden of Noncommunicable Diseases* (Geneva: World Economic Forum and Harvard School of Public Health, September 2011), accessed July 17, 2017, www3.weforum.org/docs/WEF\_Harvard\_HE\_GlobalEconomicBurdenNonCommuni

    cableDiseases\_2011.pdf. [↑](#endnote-ref-16)
17. Vishal Bali, “Healthcare: A Collective National Agenda,” *BW Businessworld*, February 29, 2016, accessed May 29, 2017, http://businessworld.in/article/Healthcare-A-Collective-National-Agenda/29-02-2016-91513; “Global Health Observatory Data Repository: Density per 1,000, Data by Country,” World Health Organization, accessed December 26, 2016, http://apps.who.int/gho/data/node.main.A1444. [↑](#endnote-ref-17)
18. Vishal Bali, “Missing the Bus?” *BW Businessworld*, March 17, 2016, accessed May 31, 2017, http://businessworld.in/article/Missing-The-Bus-/17-03-2016-92051. [↑](#endnote-ref-18)
19. ₹ = INR = Indian rupees; US$1.00 = ₹67.15 on August 29, 2016. [↑](#endnote-ref-19)
20. Adopted from Narayana Health’s red-herring draft prospectus filed with the SEBI. [↑](#endnote-ref-20)
21. “Narayana Hrudayalaya: A Model for Accessible, Affordable Health Care?” Knowledge@Wharton, July 1, 2010, accessed May 31, 2017, http://knowledge.wharton.upenn.edu/article/narayana-hrudayalaya-a-model-for-accessible-affordable-health-care. [↑](#endnote-ref-21)
22. “Dr. Shetty’s Letter to the Children,” Health City Cayman Islands, accessed December 26, 2016, www.healthcitycaymanislands.com/about/our-leadership/dr-shetty-message. [↑](#endnote-ref-22)
23. Indian Brand Equity Foundation, *Making Heart Care Affordable*, accessed May 31, 2017, www.brandindiapharma.in/current-events-health/images/Making\_heart\_care\_affordable.pdf. [↑](#endnote-ref-23)
24. “NH Identity,” Narayana Health, accessed December 26, 2016, www.narayanahealth.org/about-us/nh-identity. [↑](#endnote-ref-24)
25. PTI, “Narayana Hrudayalaya to Set Up Four 5,000 Bed Health Cities in India,” *The Economic Times*, May 3, 2012, accessed May 29, 2017, http://economictimes.indiatimes.com/industry/healthcare/biotech/healthcare/narayana-hrudayalaya-to-set-up-four-5000-bed-health-cities-in-india/articleshow/12980582.cms?intenttarget=no. [↑](#endnote-ref-25)
26. “Narayana Hrudayalaya: A Model for Accessible, Affordable Health Care?” op. cit. [↑](#endnote-ref-26)
27. Geeta Anand, “The Henry Ford of Heart Surgery,” *The* *Wall Street Journal*, November 25, 2009, accessed May 31, 2017, www.wsj.com/articles/SB125875892887958111. [↑](#endnote-ref-27)
28. Ibid. [↑](#endnote-ref-28)
29. “And the Winners Were . . .,” *The Economist*, December 3, 2011, accessed May 31, 2017, www.economist.com/node/

    21540389. [↑](#endnote-ref-29)
30. N. Madhavan, “Compassionate Heart, Business Mind,” *Business Today*, May 25, 2014, accessed May 31, 2017, www.businesstoday.in/magazine/cover-story/biggest-india-innovation-narayana-health/story/205823.html. [↑](#endnote-ref-30)
31. “Awards and Recognition,” Narayana Health, accessed December 26, 2016, www.narayanahealth.org/about-us/awards-and-recognitions. [↑](#endnote-ref-31)
32. Madhavan, op. cit. [↑](#endnote-ref-32)
33. Arogya Raksha Yojana was a unique micro-health insurance scheme launched by Biocon Foundation in association with Narayana Health in 2004. It offered people of rural India affordable access to high-quality healthcare by paying a small amount of ₹502–₹594 ($11) per annum. Yeshaswini was a self-funded scheme introduced by the state government for farmers in Karnataka. The concept of a “rural healthcare scheme” was initiated by Dr. Devi Prasad Shetty and was implemented across Karnataka with financial assistance from the state government. [↑](#endnote-ref-33)
34. Data in this section was obtained from Narayana Health’s red-herring prospectus filed with the SEBI, Capitaline Databases and Centre for Monitoring Indian Economy (CMIE) database. [↑](#endnote-ref-34)
35. “Indian Private Equity: Driving Growth without Returns,” *Business Standard*, July 2, 2015, accessed May 29, 2017, www.business-standard.com/article/specials/indian-private-equity-driving-growth-without-returns-115070200024\_1.html. [↑](#endnote-ref-35)
36. Reghu Balakrishnan, “2015 Sees Highest-Ever Private Equity Investments in India,” Live Mint, March 3, 2016, accessed May 29, 2017, www.livemint.com/Industry/DZYKCErQomg1vBKjrCfBDO/Private-equity-investments-in-India-highest-in-2015-report.html. [↑](#endnote-ref-36)
37. Seema Singh, “AIG, JPMorgan Buy 25% Stake in Narayana Hrudayalaya,” Live Mint, February 7, 2008, accessed May 29, 2017, www.livemint.com/Companies/0nKvMHSnyq8sJrs9kcc04I/AIG-JPMorgan-buy-25-stake-in-Narayana-Hrudayalaya.html. [↑](#endnote-ref-37)
38. A person who started a business, provided the initial capital, and often held a majority stake. [↑](#endnote-ref-38)
39. Rules and requirements were adopted from the SEBI (www.sebi.gov.in) guidelines. [↑](#endnote-ref-39)
40. In the case of more than one investment bank, one investment bank took the lead. [↑](#endnote-ref-40)
41. A public company making a rights issue of more than five million was also required to file an offer document. However, for preferential allotment and qualified institutional placement (QIP), filing an offer document was not required. A red-herring draft prospectus was filed when a company decided to raise money from the public. It contained necessary information about the company’s business operations, risks, and financials, but it did not disclose the offering price and size. [↑](#endnote-ref-41)
42. KPMG, *A Guide to Going Public* (2015), accessed May 29, 2017, https://assets.kpmg.com/content/dam/kpmg/pdf/2015/

    06/KPMG-A-Guide-to-Going-Public-Interactive.pdf. [↑](#endnote-ref-42)
43. Rights issues and private placements were the other two ways in which corporations could raise capital in India in primary markets. [↑](#endnote-ref-43)
44. This was also known as an offer for sale. [↑](#endnote-ref-44)
45. Richard A Brealey et al., *Principles of Corporate Finance* (New York: McGraw-Hill Inc., US, 2012). [↑](#endnote-ref-45)
46. Other benefits of going public included a) the market share price of the company worked as a performance measure on a daily basis, b) it provided liquidity to the company, c) it helped in gaining the trust of investors, and provided an alternative source for future capital requirements because public companies were required to disclose financial statements at regular intervals and needed to comply with the stringent regulations of the SEBI, d) it enhanced the visibility and stature of the company, and e) it helped the company with the merger and acquisition of other firms through publicly traded shares. [↑](#endnote-ref-46)
47. James C. Brau and Stanley E. Fawcett, “Evidence on What CFOs Think About the IPO Process: Practice, Theory, and Managerial Implications,” *Journal of Applied Corporate Finance* 18, no. 3 (June 1, 2006): 107–117, doi:10.1111/j.1745-6622.2006.00103.x. [↑](#endnote-ref-47)