Narayana Hrudayalaya Limited

ISIN :INE410P01011 | NSE :NH

Price: 1,823
Recommendation: Buy
Industry: Hospital
Sector: Healthcare
Report Date: 21-Apr-2025

The company is advancing its growth strategy by expanding its Cayman facility, with new services like emergency rooms and surgeries. It is investing in technology and maintaining a consistent dividend strategy. The focus is on the Indian market, with plans for smaller hospitals in Bangalore, Kolkata, and Raipur. The company is also launching Arya, an insurance plan, and exploring opportunities in the Caribbean, aiming for sustainable growth.

Sales		Profit & Loss		Profitability Matrix	
Current Year	3517 Cr	Operating Profit(Year)	652 Cr	Operating Profit Margin	18.5 %
Previous Year	2965 Cr	Operating Profit(Quarter)	157 Cr	EBITDA Margin	20.64 %
Current Quarter	865 Cr	PAT (Year)	422 Cr	Net Profit Margin	12.9 %
Previous Quarter	934 Cr	PAT (Quarter)	79.2 Cr	EPS	21.0
Revenue (QYoY)	771 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E	86.8	Sales Growth	9.78 %	Sales Growth	-7.39 %
PEG Ratio	1.64	PAT Growth	62.93 %	Sales Growth QYoY	12.19 %
EV/EBITDA	48.9	EPS Growth	0.96 %	PAT Growth	-25.28 %
P/B	19.1	Dividend Yield	0.22	PAT Growth QYoY	0.64 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	25.5 %	Promoter	63.8 %	Debt/Equity	0.49
RoA	13.4 %	FII	9.66 %	Debt	957 Cr
RoCE	22.7 %	DII	8.52 %	Market Cap	37250 Cr
RoIC	31.7 %	Public	17.3 %	Enterprise value	38037 Cr
		No of Shares	20.4 Cr	Cash Equivalents	170 Cr

source : Company filings

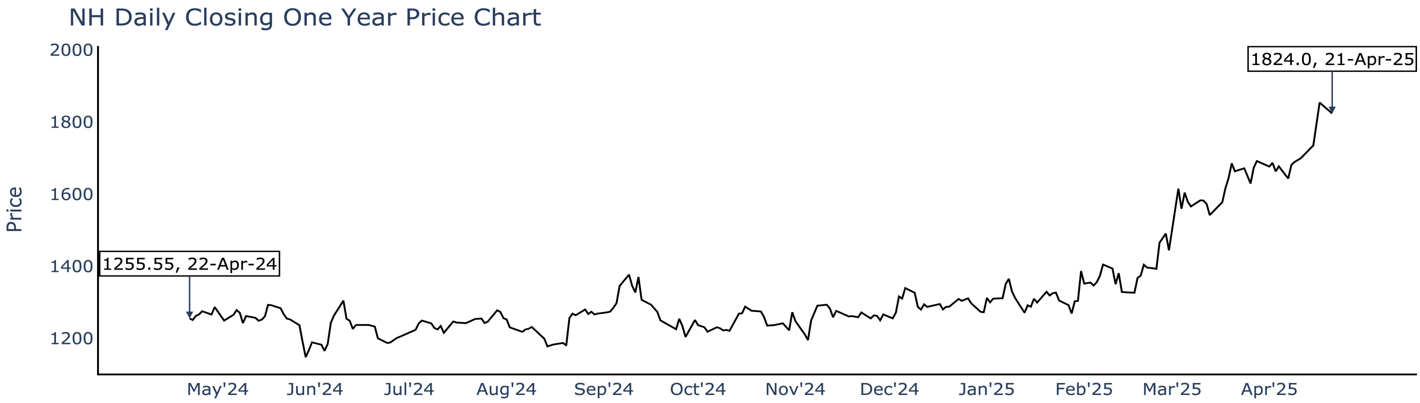
Company's Overview Based on Recent Concall and Performance:

In the recent meeting, the company outlined several new initiatives and strategies aimed at enhancing its business operations and growth trajectory. A significant focus was placed on the expansion of the Cayman facility, where the outpatient services commenced in December, marking a positive response and validating the investment thesis. The company plans to commission additional services such as emergency rooms and inpatient surgeries by January, with obstetrics and neonatal care expected to start by mid-February. This phased rollout is anticipated to improve margins, which had previously been diluted due to the costs of the new facility without corresponding revenue. The company is optimistic that the worst is behind them, with expectations of sequential improvement in margins moving forward.

The company is also investing in technology to drive performance, particularly in its Cayman clinics, and is committed to maintaining a consistent dividend strategy to ensure reasonable cash returns to shareholders. Funding for capital expenditures will be a mix of debt and internal accruals, with long-term loans from banks covering approximately 80% of the costs. The company is also exploring opportunities for expansion in the Caribbean, with a recent small investment in the Bahamas, a high-priority market due to its potential for medical tourism. However, the primary focus remains on the Indian market, which is considered the most attractive for healthcare capital deployment.

Looking ahead, the company is cautious about scaling its clinic operations too quickly, aiming to manage the financial burn within the hospital's overall performance levels. The break-even period for clinics is expected to be around 18 months, with profitable clinics subsidizing newer ones. The company has earmarked INR 400-500 crores for this business vertical, equivalent to the cost of a 250-bed hospital, indicating a significant commitment to this new initiative. The company is also launching Arya, a flagship insurance plan, which is expected to be a growth engine for the integrated care business.

From a growth perspective, the company is focused on organic expansion in its core markets, with plans to build smaller hospitals in Bangalore, Kolkata, and Raipur, while maintaining a flagship Health City in each city. The company is also exploring inorganic growth opportunities, although these are subject to high barriers and thresholds. The company is confident in its ability to sustain its organic growth trajectory and is poised to benefit from the uplift in revenue from the new Cayman hospital and other capacity additions. While the company is optimistic about its future prospects, it acknowledges the challenges of expanding in new markets and the need to carefully manage its financial resources to achieve its strategic objectives.



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Fortis Health.	49626.68	63.12	7.85%	-3.02%	14.80%	4.58%	76.38%
Narayana Hrudaya	37250.06	86.78	25.48%	-7.41%	12.26%	-24.93%	0.71%
Global Health	33797.36	66.63	17.93%	-1.37%	12.79%	9.21%	15.64%
Krishna Institu.	26369.04	75.72	17.63%	-0.63%	27.49%	-17.41%	23.47%
Aster DM Health.	25150.44	86.88	3.13%	-3.37%	9.97%	-27.71%	25.04%

Aspect	Commentary
Revenue	The company shows a solid revenue increase from the previous year, indicating strong market demand and effective sales strategies. However, a slight decline in quarterly revenue suggests potential seasonal fluctuations or market challenges that need addressing to maintain growth momentum.
Profit & Loss	Annual operating profit and PAT reflect robust financial health, with significant year-on-year growth. Quarterly figures, however, show a decline, highlighting potential short-term operational challenges or increased costs that may need strategic adjustments.
Profitability Matrix	The company maintains healthy profitability margins, with an impressive operating profit margin and EBITDA margin. The net profit margin and EPS indicate efficient cost management and strong earnings potential, supporting long-term financial stability.
Valuation Matrix	The high trailing P/E ratio suggests market optimism about future growth, though it may also indicate overvaluation. The PEG ratio and EV/EBITDA provide a balanced view of growth expectations and operational efficiency, while the P/B ratio reflects asset valuation.
Growth (YoY)	Year-on-year growth metrics are positive, with notable increases in sales and PAT, reflecting successful strategic initiatives. The modest EPS growth suggests room for improvement in earnings efficiency, while the dividend yield indicates shareholder value focus.
Growth (QoQ)	Quarterly growth figures reveal a decline in sales and PAT, suggesting potential operational inefficiencies or market challenges. However, the positive QYoY growth indicates underlying strength and resilience, warranting strategic focus on short-term improvements.
Capital Allocation	The company demonstrates effective capital allocation with strong RoE, RoA, and RoCE, indicating efficient use of resources. The impressive RoIC highlights the company's ability to generate returns on invested capital, supporting sustainable growth strategies.
Holdings	The promoter's significant stake reflects confidence in the company's prospects, while balanced FII and DII holdings indicate diversified investor interest. Public shareholding provides liquidity, supporting market stability and investor confidence in the company's future.
Leverage	The company's leverage is moderate, with a manageable debt/equity ratio, indicating prudent financial management. The market cap and enterprise value reflect strong market positioning, while cash equivalents provide liquidity for operational and strategic initiatives.

Analyst viewpoint: We are optimistic about the company's short to mid-term growth trajectory, supported by strategic expansions and robust performance metrics. The company has shown commendable year-on-year growth in sales, reflecting strong demand and effective strategic initiatives, despite a slight quarterly dip due to operational challenges. Notably, the company's focus on expanding its Cayman facility, with plans for additional services, showcases a commitment to enhancing margins and boosting revenue streams. The capital allocation remains effective with impressive returns on invested capital, underscoring operational efficiency. Furthermore, the current valuation metrics, including a high P/E ratio, reflect market optimism and future growth potential, corroborated by strategic investments in technology and expansion, both domestically and in high-potential markets like the Caribbean.

While the company is set for a sustainable growth path, we must cautiously note the slightly high debt to equity ratio, suggesting a need for careful financial management. Nonetheless, the positive year-on-year increase in PAT and strategic initiatives, such as the planned launch of new insurance products and smaller hospitals in key locations, provide a solid foundation for future growth. The company’s steadfast focus on organic growth, backed by a consistent dividend strategy ensuring shareholder returns, further solidifies its competitive standing in the healthcare sector. Our recommendation remains bullish, positioned to leverage both organic and strategic growth opportunities.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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