

Price: 1,665

Recommendation: Buy

Industry: Hospital

Sector: Healthcare

Report Date: 03-Apr-2025

Narayana Hrudayalaya Limited is strategically enhancing its market presence and operational efficiency. The company is expanding in Bangalore and Kolkata, focusing on high-demand services by converting general ward beds to critical care beds. It is investing in a new hospital in Bangalore's HSR Layout, a strategic location. Diversification includes targeting SMEs with insurance and exploring Caribbean opportunities. Challenges include high project costs and slower brownfield Capex execution.

| 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 | 79.3 | Sales Growth | 9.78 % | Sales Growth | -7.39 % |
| PEG Ratio | 1.50 | PAT Growth | 62.93 % | Sales Growth QYoY | 12.19 % |
| EV/EBITDA | 44.8 | EPS Growth | 0.96 % | PAT Growth | -25.28 % |
| P/B | 17.5 | Dividend Yield | 0.24 | PAT Growth QYoY | 0.64 % |
| Capital Allocation | | Holdings | | Leverage | |
| RoE | 25.5 % | Promoter | 63.8 % | Debt/Equity | 0.49 |
| RoA | 13.4 % | FII | 9.45 % | Debt | 957 Cr |
| RoCE | 22.7 % | DII | 8.68 % | Market Cap | 34041 Cr |
| RoIC | 31.7 % | Public | 17.4 % | Enterprise value | 34828 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 earnings call, Narayana Hrudayalaya Limited outlined several strategic initiatives and business strategies aimed at enhancing their market presence and operational efficiency. The company is focusing on expanding its footprint in key markets such as Bangalore and Kolkata, with plans for both brownfield and greenfield expansions. They are reallocating resources to improve yield by converting general ward beds to critical care beds, reflecting a strategic shift towards high-demand services. The company is also investing in a new hospital in HSR Layout, Bangalore, despite higher costs compared to peers, due to the strategic location in a startup hub. This expansion is part of their broader strategy to be closer to customers and enhance integrated care offerings.

The company is actively pursuing diversification through its insurance business, targeting small and medium enterprises with group insurance policies. This initiative aims to provide value to smaller companies that find narrow network plans attractive. The insurance venture is seen as a channel for growth, although the company is cautious about not losing money by chasing volumes. Additionally, Narayana Hrudayalaya is exploring opportunities in the Caribbean, with a small investment in the Bahamas, which provides optionality for future expansion and synergies in procurement and strategy.

Looking ahead, the company is optimistic about its growth prospects, with a focus on scaling its integrated care model, which includes clinics and insurance. The clinics are expected to enhance patient engagement and brand recall, although immediate referral revenue may not be significant. The company is also exploring the potential of its Cayman Islands operations, which serve as a model for efficient healthcare delivery in a Western context. The expansion in Cayman is expected to contribute to revenue growth, with the new hospital facilities being well-received.

On the positive side, the company's strategic focus on core markets and integrated care is likely to drive sustainable growth. The diversification into insurance and international markets provides additional revenue streams and risk mitigation. However, the company faces challenges in executing its expansion plans, as seen in the slower-than-expected brownfield Capex execution. The high cost of new projects, such as the HSR hospital, also poses a financial challenge. To optimize growth, the company must balance its ambitious expansion plans with prudent financial management and operational efficiency.

NH Daily Closing One Year Price Chart



| Name | Mar Cap (Rs. Cr.) | P/E | ROE | Sales(G) QoQ | Sales(G) QYoY | PAT(G) QoQ | PAT(G) QYoY |
|------------------|-------------------|-------|--------|--------------|---------------|------------|-------------|
| Apollo Hospitals | 95975.10 | 73.26 | 13.33% | -1.12% | 13.94% | -1.72% | 51.77% |
| Fortis Health. | 49774.54 | 63.32 | 7.85% | -3.02% | 14.80% | 4.58% | 76.38% |
| Narayana Hrudaya | 34041.26 | 79.30 | 25.48% | -7.41% | 12.26% | -24.93% | 0.71% |
| Global Health | 33328.94 | 65.70 | 17.93% | -1.37% | 12.79% | 9.21% | 15.64% |
| Aster DM Health. | 24463.39 | 84.50 | 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 | Operating profit and PAT reflect robust annual growth, highlighting efficient cost management and revenue generation. Quarterly figures show a dip, suggesting potential short-term operational challenges or market conditions impacting profitability. |
| Profitability Matrix | The company maintains healthy profitability margins, with an impressive operating profit margin and EBITDA margin. The net profit margin indicates effective cost control and revenue management, supporting sustainable financial health. |
| Valuation Matrix | The high trailing P/E ratio suggests market optimism about future growth, while the PEG ratio indicates balanced growth expectations. EV/EBITDA and P/B ratios reflect strong market valuation, though careful monitoring of market conditions is advised. |
| Growth (YoY) | Year-over-year growth in sales and PAT is strong, reflecting successful strategic initiatives and market positioning. EPS growth is modest, suggesting room for improvement in earnings efficiency. Dividend yield remains low, indicating reinvestment focus. |
| Growth (QoQ) | Quarter-over-quarter growth shows a decline in sales and PAT, indicating potential short-term market or operational challenges. However, QYoY growth remains positive, suggesting underlying strength and resilience in the business model. |
| Capital Allocation | The company demonstrates effective capital allocation with strong RoE, RoA, and RoCE, indicating efficient use of resources to generate returns. High RoIC reflects strategic investments yielding positive outcomes, supporting long-term growth. |
| Holdings | Promoter holding is strong, indicating confidence in the company's prospects. FII and DII holdings suggest institutional interest, while public holding provides liquidity. The number of shares indicates a stable equity base supporting market activities. |
| Leverage | The company's leverage is moderate, with a manageable debt/equity ratio. Debt levels are significant but supported by a strong market cap and enterprise value, indicating financial stability. Cash equivalents provide liquidity for operational needs. |

Analyst viewpoint: Narayana Hrudayalaya Limited is positioned for robust short to mid-term growth, propelled by strategic market expansion and a disciplined approach to operational efficiency. The recent initiatives to convert general ward beds to critical care in key locations like Bangalore and Kolkata reflect a pivot towards high-demand services and an improvement in revenue yield. The planned greenfield expansion, notably the new hospital in Bangalore's HSR Layout, signals confidence in capturing market opportunities despite elevated costs. The company's growth is underpinned by a strong revenue increase over the previous year, supported by effective sales strategies and resource allocation. Valuation metrics such as a high trailing P/E ratio and a balanced PEG ratio confirm market confidence, while a solid ROE of 25.5% signals robust returns on equity.

Peer comparison highlights Narayana Hrudayalaya's above-average sales and PAT growth year-over-year, reinforcing its strategic market positioning. The diversification into insurance targeting SMEs, coupled with exploratory ventures in the Caribbean, provides promising avenues for revenue diversification and risk management. While the quarterly decline in QoQ sales growth indicates potential short-term fluctuations, the fundamental resilience of the business model is reflected in positive QYoY metrics. A minor concern is the slower brownfield Capex execution, which challenges current expansion plans. However, the company's strategic focus and innovative market maneuvers are set to optimize growth until operational efficiencies match its ambitious roadmap.

Please read detailed disclosure on next page.

