

Narayana Hrudayalaya Ltd.

February 19, 2025 | CMP: INR 1,370 | Target Price: INR 1,460

HOLD

Expected Share Price Return: 6.6% | Dividend Yield: 0.5% | Expected Total Return: 7.1%

Change in Estimates	✓
Target Price Change	✓
Recommendation	✓

Company Info	
BB Code	NARH IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	1418/1088
Mkt Cap (Bn)	INR 281 / \$ 3.2
Shares o/s (Mn)	204.4
3M Avg. Daily Volume	2,88,799

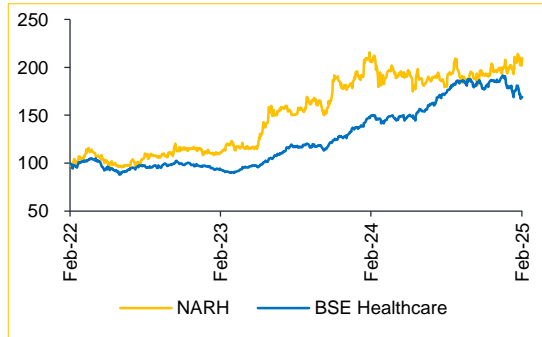
Change in Estimates						
	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	61.8	66.5	-7.1	71.9	79.4	-9.4
EBITDA	13.9	13.7	1.5	17.0	16.9	1.0
EBITDAM %	22.5	20.6	190bps	23.7	21.2	243bps
PAT	7.4	7.4	0.8	9.5	9.5	-0.1
EPS	36.3	36.0	0.8	46.5	46.5	-0.1

Actual vs Consensus			
INR Bn	Q3FY25A	Consensus Est.	Dev. %
Revenue	13.7	14.4	-5.4
EBITDA	3.1	3.3	-7.8
EBITDAM %	13.8	13.9	-10bps
PAT	1.9	2.2	-12.4

Key Financials					
INR Bn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	45.2	50.2	54.4	61.8	71.9
YoY (%)	22.2	10.9	8.5	13.4	16.5
EBITDA	9.7	11.5	12.0	13.9	17.0
EBITDAM %	22.5	24.1	23.3	23.8	25.0
Adj PAT	6.1	7.9	7.2	7.4	9.5
EPS	29.7	38.6	35.1	36.3	46.5
ROE %	28.5	27.4	19.9	17.1	17.9
ROCE %	26.1	21.0	15.9	16.1	17.7
PE(x)	46.1	35.5	39.0	37.7	29.5
EV/EBITDA	29.5	25.3	24.5	21.0	16.9
BVPS	104.3	141.1	176.2	212.5	259.0
FCF	16.1	20.4	21.0	22.7	24.6

Shareholding Pattern (%)			
	Dec-24	Sep-24	Jun-24
Promoters	63.85	63.85	63.85
FIs	9.45	9.69	10.01
DIs	8.68	7.90	8.23
Public	18.00	18.56	17.91

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE Healthcare	68.8	80.7	13.3
NARH	109.5	88.9	0.8



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NARH Sees YoY Growth Driven by ARPP Increase, But Misses Estimates

- Revenue grew 13.5% YoY but declined 2.4% 13.7 Bn (vs. CEBPL estimates of INR 14.4 Bn).
- EBITDA stood at INR 3.1 Bn, up 10.1% YoY and flat QoQ, with margins at 22.5%, contracting 71bps YoY and expanding 43bps QoQ (vs. CEBPL estimates of 23.0%).
- PAT increased 2.6% YoY but declined 3.0% QoQ to INR 1.9 Bn (vs. CEBPL estimates of INR 2.2 Bn).
- Average Revenue Per Patient (ARPP) for Indian facilities stood at INR 133.5K for In-Patients (IP) (+8.5% YoY) and INR 4.4K for Out-Patients (OP) (+4.8% YoY).
- Cayman facility's ARPP came in at USD 34.9K for IP (+13.7% YoY) and USD 1.3K for OP (+8.3% YoY).

New Cayman Bay Facility Ramp-Up Expected from Q4FY25, Revenue to Boost with IPD Expansion

Cayman posted 14.4% YoY and 20.4% QoQ sales growth in INR terms, now contributing ~20% of total revenue. NARH began outpatient services at the new Cayman Bay facility during the quarter and launched IPD and emergency room services in January 2025. Obstetrics and Neonatal care services started in February. Management anticipates full commissioning of all services by March 2025. We expect the hospital to ramp up fully, boosting both revenue and EBITDA from Q4FY25 onwards.

India Region Bed Expansion Paused Until FY28, International Patient Revenues Impacted by Geopolitical Issues

India revenues grew 13.3% YoY but declined 6.9% QoQ due to seasonality. International patient volumes saw a significant drop, particularly from Bangladesh, due to ongoing geo-political issues. The company plans to expand its bed capacity to over 8,000 beds by FY30 (currently 6,313), with most of these additions expected by FY28/29, primarily in the Bangalore region. In the near term, with no major bed expansions, we expect gradual growth in the India region, driven primarily by ARPP expansion and better case mix.

View and Valuation: We value NARH at an EV/EBITDA of 18x on an FY27 basis, with a target price of INR 1,460 and have downgraded our rating to 'HOLD'. With no bed expansion in the India region (which accounts for 80% of revenue) until FY28, we expect a slowdown in revenue growth. However, the ramp-up of the new Cayman Bay facility is expected to reduce high operational costs related to scaling the facility, thereby improving NARH's overall EBITDA margin.

Particulars (INR Mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Net Sales	13,667	12,036	13.5	14,000	-2.4
Materials consumed	2,763	2,442	13.2	3,002	-8.0
Gross Profit	10,903	9,594	13.6	10,998	-0.9
Gross Margin (%)	79.8	79.7	7bps	78.6	122bps
Employee + Operating Expenses	7,833	6,805	15.1	7,914	-1.0
EBITDA	3,070	2,789	10.1	3,084	-0.5
EBITDA Margin (%)	22.5	23.2	-71bps	22.0	43bps
Depreciation	700	632	10.7	651	7.4
EBIT	2,370	2,158	9.9	2,433	-2.6
Interest Cost	366	251	46.0	351	4.2
PBT	2,188	2,086	4.9	2,318	-5.6
APAT	1,929	1,880	2.6	1,990	-3.0
APAT Margin (%)	14.1	15.6	-150bps	14.2	-9bps
Adj. EPS (Rs)	9.4	9.2	2.6	9.7	-3.0

Management Call - Highlights

Cayman Islands Business

- The initial patient response has been strong, supporting the investment strategy.
 - Revenue in Q3 was limited, as only outpatient services were contributing.
 - Margins improved in Q3, but 85% of the new facility's costs were still being incurred.
 - The company launched the ARIA insurance plan in Cayman to integrate outpatient and inpatient care.
 - Expansion into the Bahamas (4% stake in Doctor's Hospital) is expected to increase referrals.
- Q4 is expected to show stronger performance as occupancy and patient flow improve.
 - The new Cayman facility will contribute more meaningfully to revenue from Q4 onward.

India Business

- Overall occupancy remained stable at slightly below 60%, similar to last year.
- Seasonality affected Q3, leading to fewer elective procedures and weaker revenue growth.
- New hospitals in Gurugram, Dharamshala, and SRCC showed EBITDA improvement.
- Gurugram is leading profitability improvements among the new hospitals.
- The Mumbai SRCC hospital was slightly negative in Q3 but is expected to perform better in Q4.
- Management expects stronger revenue in Q4 due to seasonal recovery and operational improvements.

Expansion Plans

- The company is actively exploring brownfield acquisitions but only at the right price.
- Greenfield projects are planned beyond FY28, focusing on key cities like Bangalore, Kolkata, Delhi, and Jaipur.
- There is scope to add beds at existing hospitals, but only if justified by demand.
- Clinics are being expanded, with a target of 50 new centers in Bangalore and Kolkata.
- The company is prioritizing growth in areas where it does not have a strong presence.

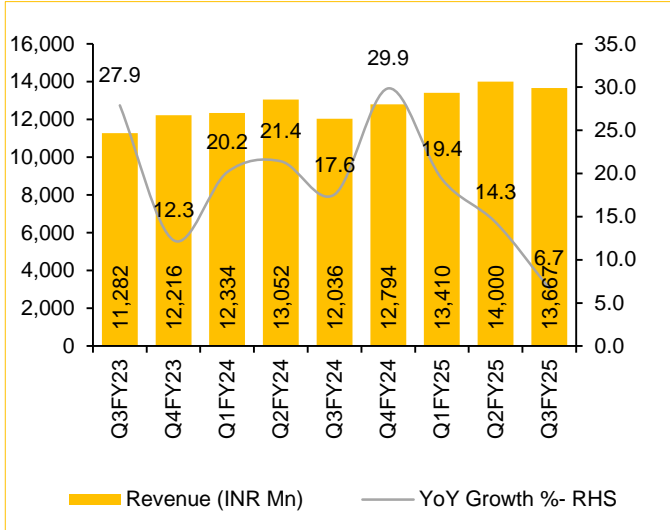
Insurance Business

- The ARIA insurance plan was launched to offer seamless outpatient and inpatient coverage.
- The company is focusing on integrating clinics and hospitals under this insurance model.
- Premium pricing and coverage structures are designed to make healthcare more accessible.
- The insurance subsidiary is adequately capitalized and does not require significant additional investment.
- Senior citizen-specific insurance products are being evaluated but will take time to roll out.

Outlook

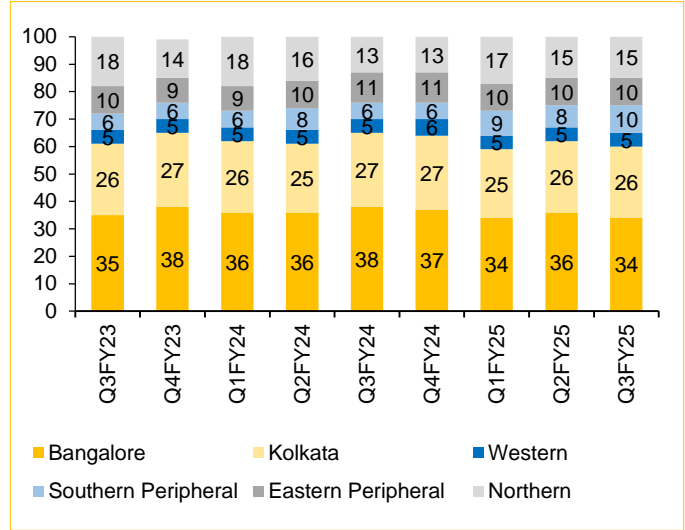
- Q4 is expected to show stronger performance as occupancy and patient flow improve.
- The new Cayman facility will contribute more meaningfully to revenue from Q4 onward.
- Expansion in the Bahamas is expected to increase international patient referrals.
- Brownfield expansion in India remains a challenge due to high asset valuations.

After peak growth, revenue expansion normalizes



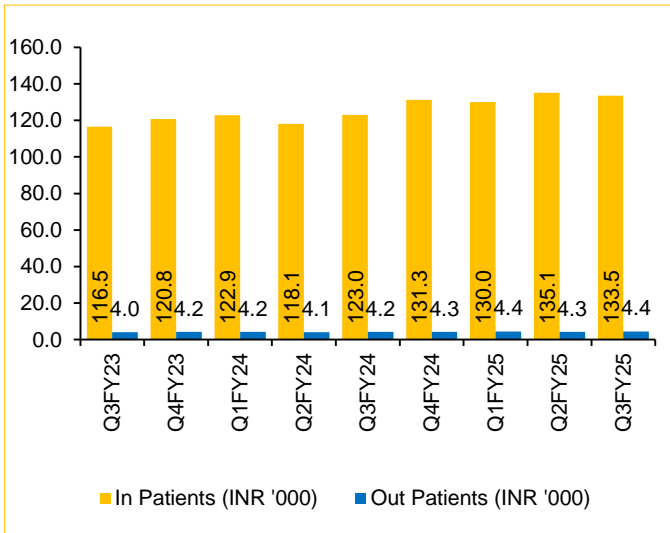
Source: Company, CEBPL

Bangalore facility continues to be major contributor to revenue (INR 13.7 Bn)



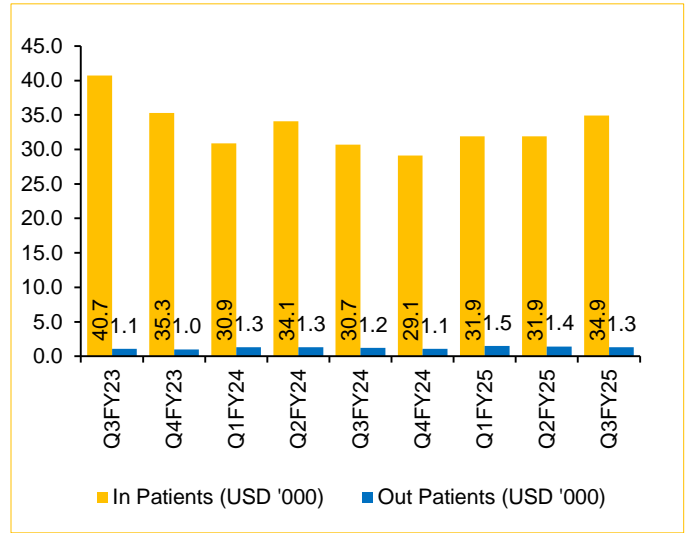
Source: Company, CEBPL

India facilities see consistent ARPP growth



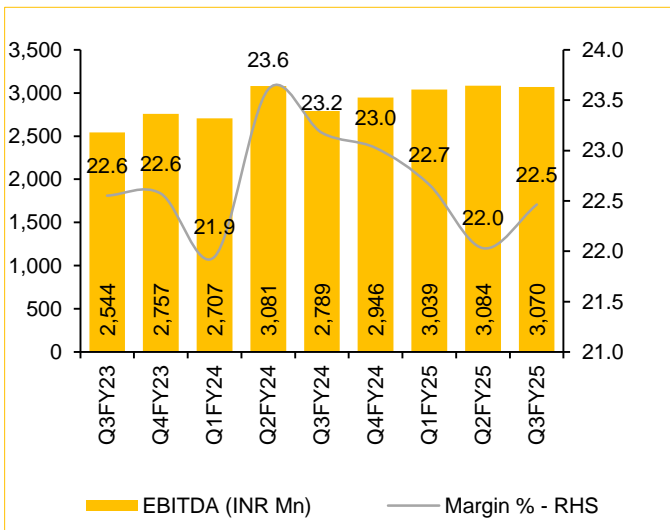
Source: Company, CEBPL

Cayman facility sees growth in IP ARPP



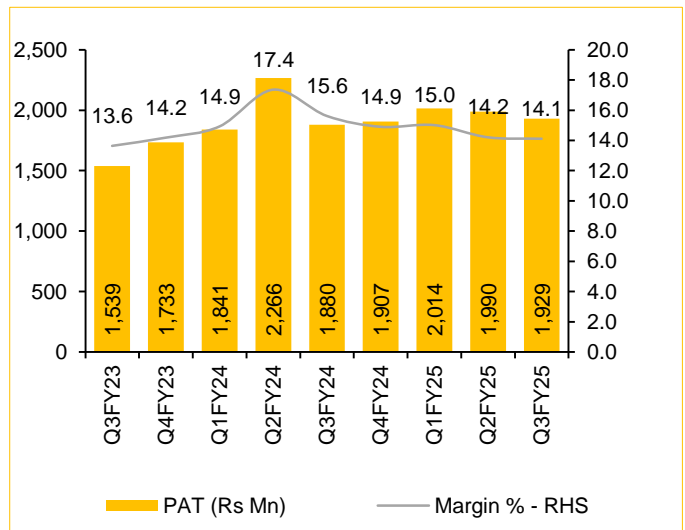
Source: Company, CEBPL

EBITDA growth flattens as margins expand slightly



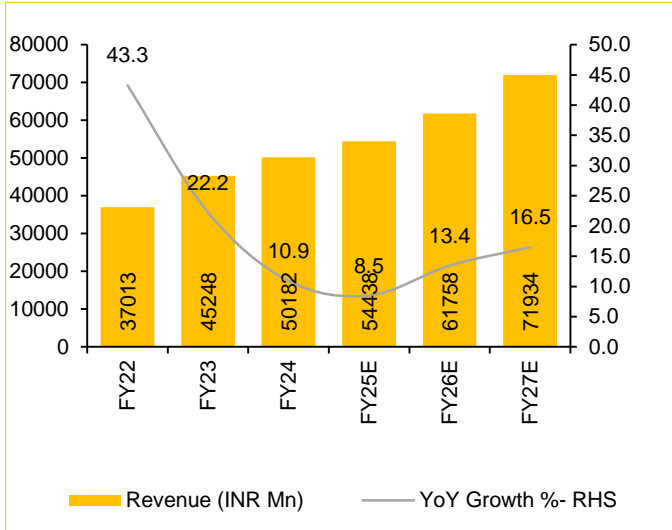
Source: Company, CEBPL

PAT stabilizes with margins holding steady



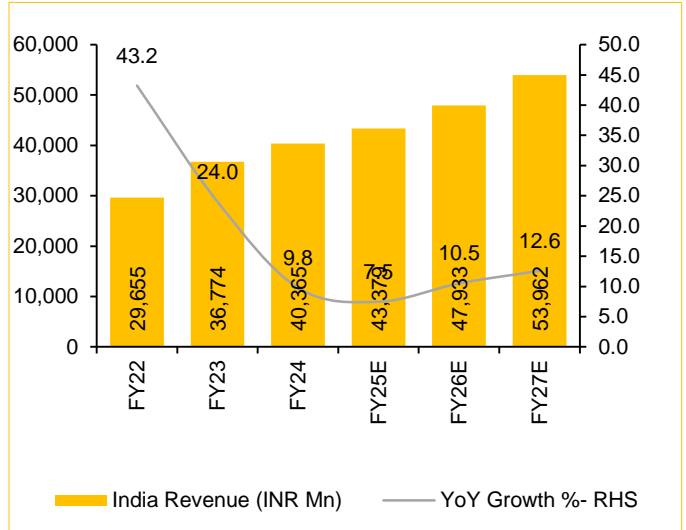
Source: Company, CEBPL

Revenue expected to grow at a CAGR of 13%



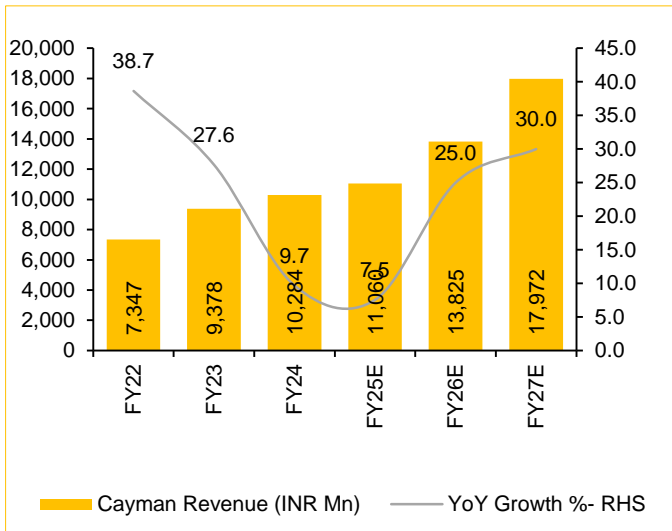
Source: Company, CEBPL

India growth to be driven by better case mix and ARPP



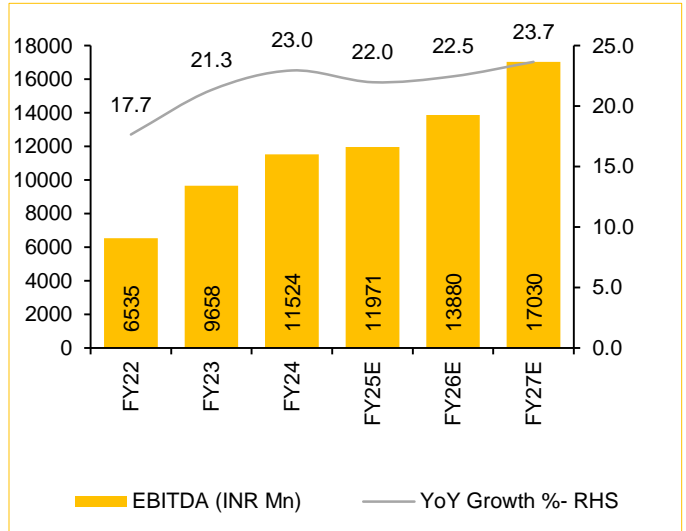
Source: Company, CEBPL

New Cayman bay facility scale-up to drive growth



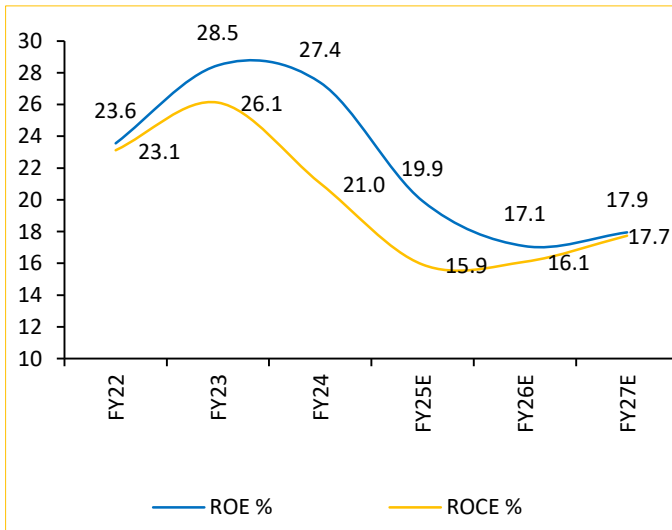
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EBITDA and Margins to improve with scalability



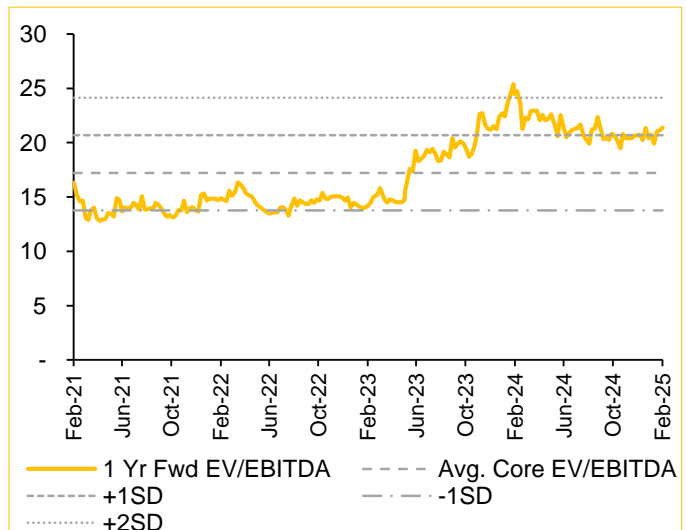
Source: Company, CEBPL

ROE and ROCE Trends



Source: Company, CEBPL

1 Year Forward EV Band



Source: Company, CEBPL

Income Statement (Consolidated in INR Mn)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	45,248	50,182	54,438	61,758	71,934
Gross Profit	35,236	39,443	43,006	48,789	56,828
EBITDA	9,658	11,524	11,971	13,880	17,030
Depreciation	2,100	2,421	3,067	3,767	4,467
EBIT	7,558	9,102	8,904	10,114	12,563
Other Income	654	752	902	1,083	1,299
Interest Expense	695	969	1,366	1,306	1,198
PBT	7,518	8,885	8,440	9,890	12,665
Reported PAT	6,068	7,896	7,174	7,418	9,499
EPS	29.7	38.6	35.1	36.3	46.5

Source: Company, CEBPL

Balance Sheet (Consolidated in INR Mn)

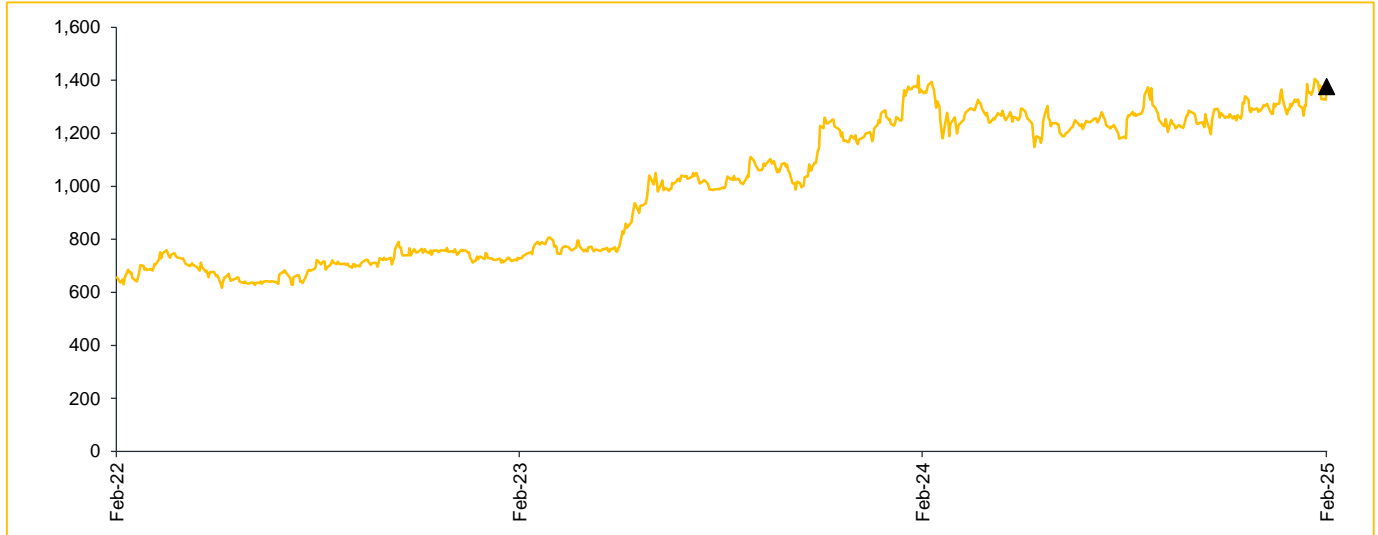
Particular	FY23	FY24	FY25E	FY26E	FY27E
Net Worth	21,314	28,837	36,011	43,429	52,927
Minority Interest	10	14	14	14	14
Borrowings	8,842	16,267	22,767	21,767	19,967
Trade Payables	6,150	6,036	6,562	7,614	8,869
Other Non-current Liabilities	3,274	2,845	3,104	3,752	4,259
Other Current Liabilities	2,031	2,248	2,366	2,513	2,923
Total Net Worth & Liabilities	41,621	56,245	70,825	79,088	88,958
Net Block	19,227	21,984	28,917	35,150	40,683
Capital WIP	2,592	5,141	5,641	6,141	6,641
Goodwill & Intangible Assets	2,830	2,508	2,575	2,644	2,718
Investments	5	45	45	45	45
Trade Receivables	4,315	4,219	4,474	5,076	5,912
Cash & Cash Equivalents	3,799	4,165	10,008	10,351	11,834
Other Non-current Assets	4,027	7,107	7,495	7,570	8,402
Other Current Assets	4,825	11,077	11,670	12,110	12,722
Total Assets	41,621	56,245	70,825	79,088	88,958

Source: Company, CEBPL

Cash Flows (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash Flows From Operations	10,846	10,666	10,996	12,719	14,554
Cash Flows From Investing	-11,741	-14,579	-10,066	-10,070	-10,073
Cash Flows From Financing	877	4,885	5,134	-2,306	-2,998
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios					
Revenues	22.2	10.9	8.5	13.4	16.5
EBITDA	47.8	19.3	3.9	16.0	22.7
PBT	71.5	18.2	-5.0	17.2	28.1
PAT	73.0	30.1	-9.1	3.4	28.1
Margins					
Gross Margin	77.9	78.6	79.0	79.0	79.0
EBITDA Margin	22.5	24.1	23.3	23.8	25.0
PBT Margin	16.6	17.7	15.5	16.0	17.6
Tax Rate	19.3	11.1	15.0	25.0	25.0
PAT Margin	13.4	15.7	13.2	12.0	13.2
Profitability					
Return On Equity (ROE)	28.5	27.4	19.9	17.1	17.9
Return On Invested Capital (ROIC)	36.1	35.8	21.4	18.2	19.3
Return On Capital Employed (ROCE)	26.1	21.0	15.9	16.1	17.7
Financial Leverage					
OCF/EBITDA (x)	1.1	0.9	0.9	0.9	0.9
OCF / Net profit (x)	1.8	1.4	1.5	1.7	1.5
EV/EBITDA (x)	30	25	24	21	17
Earnings					
EPS	29.7	38.6	35.1	36.3	46.5
Shares Outstanding	204.4	204.4	204.4	204.4	204.4
Working Capital					
Inventory Days (x)	26.1	37.4	35.0	35.0	35.0
Receivable Days (x)	34.8	30.7	30.0	30.0	30.0
Creditor Days (x)	49.6	43.9	44.0	45.0	45.0
Working Capital Days	11.3	24.2	21.0	20.0	20.0

Source: Company, CEBPL

Historical share price chart: Narayan Hrudayalaya Limited



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HOLD	The security is expected to show upside or downside returns by 14% to -5% over the next 12 months
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