

Rating: BUY | CMP: Rs1,365 | TP: Rs1,435

February 17, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	1,435		1,250	
Sales (Rs. m)	58,868	67,059	59,278	65,909
% Chng.	(0.7)	1.7		
EBITDA (Rs. m)	13,004	15,400	12,799	15,021
% Chng.	1.6	2.5		
EPS (Rs.)	41.8	49.5	41.8	48.7
% Chng.	-	1.7		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	45,248	51,082	58,868	67,059
EBITDA (Rs. m)	9,658	11,680	13,004	15,400
Margin (%)	21.3	22.9	22.1	23.0
PAT (Rs. m)	6,066	8,145	8,537	10,122
EPS (Rs.)	29.7	39.9	41.8	49.5
Gr. (%)	77.3	34.3	4.8	18.6
DPS (Rs.)	1.2	1.2	1.2	1.2
Yield (%)	0.1	0.1	0.1	0.1
RoE (%)	33.5	32.2	25.6	23.8
RoCE (%)	30.7	28.2	26.1	26.9
EV/Sales (x)	6.2	5.5	4.7	4.1
EV/EBITDA (x)	29.3	24.2	21.5	17.8
PE (x)	46.0	34.2	32.7	27.6
P/BV (x)	13.1	9.5	7.4	5.9

Key Data

NARY.BO | NARH IN

52-W High / Low	Rs.1,445 / Rs.720
Sensex / Nifty	72,427 / 22,041
Market Cap	Rs.279bn/ \$ 3,360m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.557.85m

Shareholding Pattern (%)

Promoter's	63.85
Foreign	11.51
Domestic Institution	10.86
Public & Others	13.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.3	38.0	87.1
Relative	9.4	24.9	58.4

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In line EBITDA aided by Cayman business

Quick Pointers:

- Booked Rs 85mn of one-time loss from Narayana Health Integrated Care unit.
- Better payor mix aided ARPOB for India segment.

Narayana Hrudayalaya (NARH) reported EBITDA at Rs2.8bn (up 10% YoY), in line with our estimate. Cayman business reported strong profitability at Rs. 1.2bn; up 27% YoY. While India biz reported muted profitability at Rs. 1.7bn; up 4% YoY impacted by seasonality and certain rationalization of units in Q3. We expect growth from India region to recover momentum. The company reiterates its aggressive capex plan mainly towards its core and high performing regions such as Bangalore, Kolkata and Cayman which enhances growth visibility. Despite capex intensity going up, RoE/ RoCE will remain healthy at ~25%. Our FY25E and FY26E EBITDA broadly remains unchanged. We maintain 'BUY' rating with a revised TP of Rs. 1,435/share (earlier at 1,250/share), based on 23x FY26E EV/EBITDA for India business and 12x EV/EBITDA for Cayman hospitals. At CMP, stock is trading at valuations of 18.5x EV/EBITDA (adj for IND AS). Faster ramp up in new Cayman unit (operationalize from H1FY25) will be a key.

- Muted growth in India business; Cayman was healthy:** NARH reported pre IND AS EBITDA of Rs2.6bn (up 8% YoY). Company reported loss of Rs. 85mn (Rs. 60mn in Q2) related to NHIC and NHIL unit in Q3. Overall, margins came in 21.7%; declined 100 bps QoQ. India business adjusted for one offs reported EBITDA of Rs1.7bn; down 14% QoQ and up 4% YoY. Cayman reported healthy EBITDA of \$14.4mn; up 26% YoY and flat QoQ. Cayman OPM was healthy at 47%.
- Healthy ARPOB at Rs. 38,630/day; turned net cash company:** Revenue grew by 7% YoY (down 8% QoQ) to Rs12bn. ARPOB for India business was up 10% YoY to Rs. 38,630/day aided by better payor mix. Discharges were flat YoY (declined 11% QoQ) for India. Cayman revenues improved 9% YoY to \$30.6mn (down 3% QoQ). Discharges and OP volumes were highest by 26% YoY and 25% YoY for Cayman aided by commercialization of new radiation block in Q1. However, Cayman ARPOB was declined by 5% YoY (9% QoQ). Reported PAT was at Rs1.9bn (up 22% YoY). During the quarter, NARH turned net cash company to the tune of Rs251mn vs net debt of Rs 675mn in Q2.
- Key con-call takeaways: (1) Capex** – guidance of Rs. 11.4bn in FY24E of which Rs5bn incurred in 9MFY24. Guided capex of Rs. 10-12bn for FY25 pertains to new units at Bangalore, Kolkata, Raipur (India expansion capex at Rs. 4-4.5bn) and Cayman (Rs.1.5bn). Evaluating projects for organic & inorganic opportunities in its core regions as well as overseas. **(2) Cayman-** Newly commissioned radiation oncology block at Cayman island progressing well. A new multi-specialty hospital at Cayman is on track to be commercialized by 1HFY25. **(3) New units:** New hospitals margins were at 4% vs 7% in Q2; where Dharmshila continues to see a healthy ramp up. Mgmt cited strong recovery in Q4. Mumbai unit expected to be positive by end of Q4FY24. **(4) Narayana Health Integrated Care (NHIC)** reported revenues of Rs. 53.7mn vs 52.5mn in Q2 with patient's footfalls of +42.7K. **(5)** Revenue growth was muted in north and west region which witnessed impact from seasonality **(6)** Overall rationalization impact guided at 2-3% in Q3 as company exited MS Ramaiah unit. **(7) Growth drivers** would be higher throughput, digital initiatives and leveraging operational efficiencies. **(8) Payor mix-** Guided out of pocket mix to reach 40-50% in next 5 years. Currently at 20-22%.

Exhibit 1: Q3FY24 Result Overview (Rs mn) – In line EBITDA; aided by Cayman biz

Y/e March	3QFY24	3QFY23	YoY gr. (%)	2QFY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Net Sales	12,036	11,282	6.7	13,052	(7.8)	37,423	33,032	13.3
COGS	2,442	2,397	1.9	2,845	(14.2)	8,004	7,388	8.3
<i>% of Net Sales</i>	<i>20.3</i>	<i>21.2</i>		<i>21.8</i>		<i>21.4</i>	<i>22.4</i>	
Employee Cost	2,542	2,197	15.7	2,553	(0.4)	7,549	6,519	15.8
<i>% of Net Sales</i>	<i>21.1</i>	<i>19.5</i>		<i>19.6</i>		<i>20.2</i>	<i>19.7</i>	
Other Expenses	4,262	4,143	2.9	4,574	(6.8)	13,292	12,224	8.7
<i>% of Net Sales</i>	<i>35.4</i>	<i>36.7</i>		<i>35.0</i>		<i>40.2</i>	<i>37.0</i>	
Total	9,247	8,737	5.8	9,971	(7.3)	28,846	26,131	10.4
EBITDA	2,790	2,544	9.6	3,081	(9.5)	8,577	6,901	24.3
<i>Margins (%)</i>	<i>23.2</i>	<i>22.6</i>		<i>23.6</i>		<i>22.9</i>	<i>20.9</i>	
Other Income	179	116	54.9	184	(2.8)	514	508	1.2
Interest	251	187	33.8	229	9.6	689	489	40.9
Depreciation	632	573	10.2	553	14.3	1,773	1,537	15.4
PBT	2,086	1,899	9.8	2,484	(16.0)	6,629	5,382	23.2
Tax	205	360	(43.2)	217	(5.6)	641	1,047	(38.8)
<i>Tax rate %</i>	<i>9.8</i>	<i>19.0</i>		<i>8.7</i>		<i>9.7</i>	<i>19.5</i>	
PAT	1,881	1,539	22.3	2,267	(17.0)	5,989	4,335	38.1
Share in (loss)/profit of associate	-	(0)		-		-	(2)	
Minority Interest	(1)	(1)		(1)		(3)	(1)	
Reported PAT	1,880	1,538	22.3	2,266	(17.0)	5,992	4,334	38.2

Source: Company, PL

Exhibit 2: Break-up of Revenues

Revenues (Rs. mn)	3QFY24	3QFY23	YoY gr. (%)	2QFY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Cayman	2,576	2,309	11.6	2,525	2.0	7,539	6,226	21.1
<i>% of Total Sales</i>	<i>21.2</i>	<i>20.2</i>		<i>19.3</i>		<i>20.1</i>	<i>18.8</i>	
India	9,590	9,098	5.4	10,527	(8.9)	30,014	26,931	11.4
<i>% of Total Sales</i>	<i>78.8</i>	<i>79.8</i>		<i>80.7</i>		<i>79.9</i>	<i>81.2</i>	
Total Sales	12,166	11,407	6.7	13,052	(6.8)	37,553	33,157	13.3

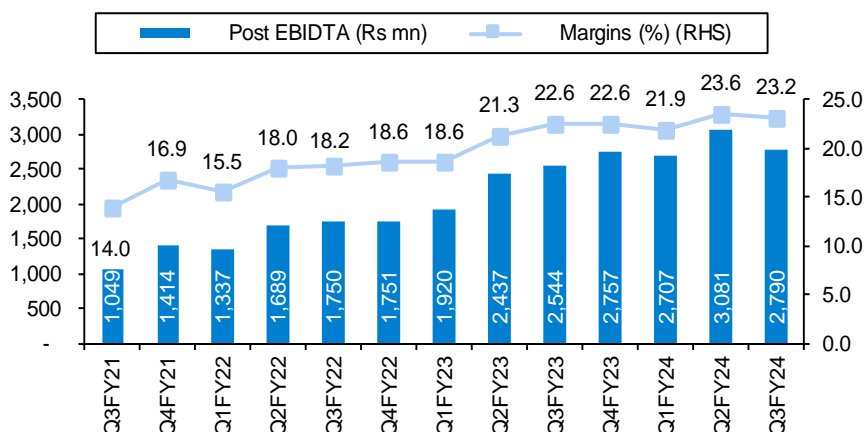
Source: Company, PL

Exhibit 3: Break-up of EBITDA

Break up of EBITDA	3QFY24	3QFY23	YoY gr. (%)	2QFY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Cayman	1,202	945	27.3	1,203	(0.1)	3,519	2,592	35.7
<i>% OPM</i>	<i>46.7</i>	<i>40.9</i>		<i>47.6</i>		<i>46.7</i>	<i>41.6</i>	
India	1,672	1,612	3.7	1,942	(13.9)	5,267	4,416	19.3
<i>% OPM</i>	<i>17.4</i>	<i>17.7</i>		<i>18.4</i>		<i>17.5</i>	<i>16.4</i>	
Others	(85)	(13)	NA	(64)	NA	(209)	(108)	NA

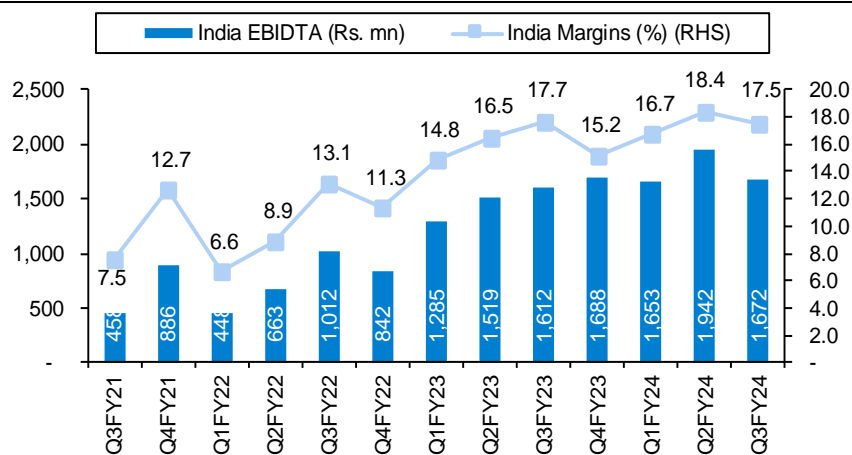
Source: Company, PL

Exhibit 4: Consolidated margins (Post IND AS) declined 40 bps QoQ



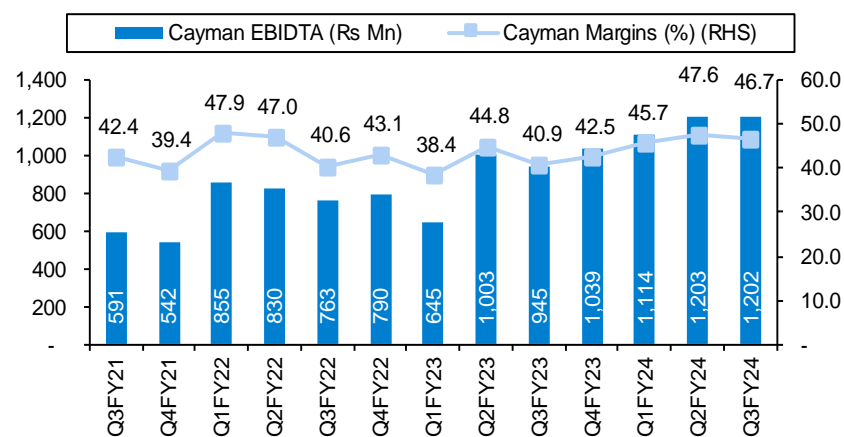
Source: Company, PL

Exhibit 5: India margins adjusted for one off was down 90 bps QoQ



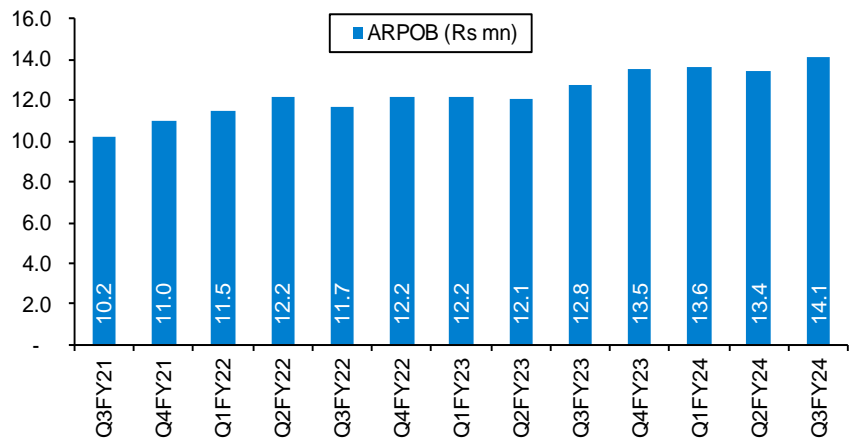
Source: Company, PL

Exhibit 6: Cayman margins improved by 50 bps QoQ



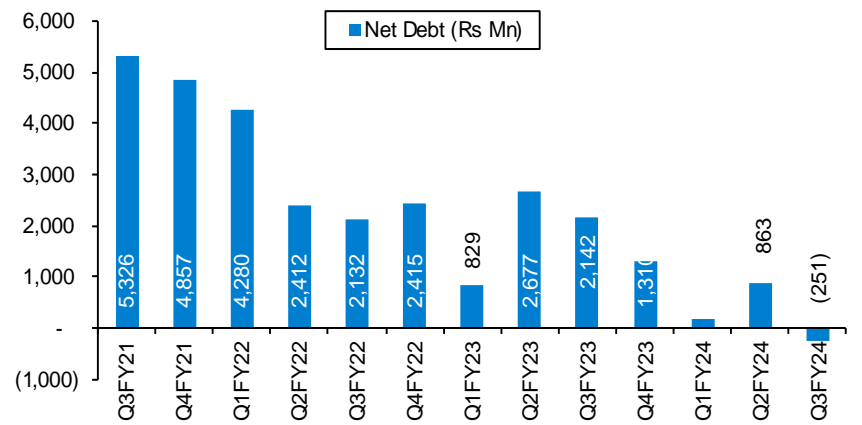
Source: Company, PL

Exhibit 7: India ARPOB YoY growth aided by better payor mix



Source: Company, PL

Exhibit 8: Turned net cash positive of Rs. 251mn in Q3



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	45,248	51,082	58,868	67,059
YoY gr. (%)	22.2	12.9	15.2	13.9
Cost of Goods Sold	10,012	11,749	13,540	15,424
Gross Profit	35,236	39,333	45,328	51,636
Margin (%)	77.9	77.0	77.0	77.0
Employee Cost	8,792	10,111	11,627	13,372
Other Expenses	16,786	17,542	20,697	22,864
EBITDA	9,658	11,680	13,004	15,400
YoY gr. (%)	47.8	20.9	11.3	18.4
Margin (%)	21.3	22.9	22.1	23.0
Depreciation and Amortization	2,100	2,394	2,562	2,741
EBIT	7,558	9,286	10,442	12,658
Margin (%)	16.7	18.2	17.7	18.9
Net Interest	695	930	850	750
Other Income	654	700	700	750
Profit Before Tax	7,518	9,056	10,292	12,658
Margin (%)	16.6	17.7	17.5	18.9
Total Tax	1,450	906	1,750	2,532
Effective tax rate (%)	19.3	10.0	17.0	20.0
Profit after tax	6,068	8,150	8,542	10,127
Minority interest	-	-	-	-
Share Profit from Associate	(2)	(5)	(5)	(5)
Adjusted PAT	6,066	8,145	8,537	10,122
YoY gr. (%)	77.3	34.3	4.8	18.6
Margin (%)	13.4	15.9	14.5	15.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,066	8,145	8,537	10,122
YoY gr. (%)	77.3	34.3	4.8	18.6
Margin (%)	13.4	15.9	14.5	15.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,066	8,145	8,537	10,122
Equity Shares O/s (m)	204	204	204	204
EPS (Rs)	29.7	39.9	41.8	49.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	36,483	47,983	54,483	59,983
Tangibles	35,177	46,677	53,177	58,677
Intangibles	1,306	1,306	1,306	1,306
Acc: Dep / Amortization	14,293	16,688	19,250	21,991
Tangibles	14,293	16,688	19,250	21,991
Intangibles	-	-	-	-
Net fixed assets	22,190	31,295	35,233	37,992
Tangibles	20,884	29,989	33,927	36,686
Intangibles	1,306	1,306	1,306	1,306
Capital Work In Progress	2,592	2,592	2,592	2,592
Goodwill	1,174	1,174	1,174	1,174
Non-Current Investments	2,519	2,519	2,519	2,519
Net Deferred tax assets	(814)	(814)	(814)	(814)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	716	840	968	1,102
Trade receivables	4,315	5,318	5,967	6,798
Cash & Bank Balance	3,799	3,504	5,202	9,005
Other Current Assets	4,261	4,199	4,838	5,512
Total Assets	41,621	51,496	58,549	66,750
Equity				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	19,270	27,178	35,478	45,363
Total Networkth	21,314	29,222	37,522	47,406
Non-Current Liabilities				
Long Term borrowings	7,622	7,622	5,622	3,622
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,150	8,117	8,871	9,186
Other current liabilities	4,435	4,435	4,435	4,435
Total Equity & Liabilities	41,621	51,496	58,549	66,749

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	7,518	9,056	10,292	12,658
Add. Depreciation	2,100	2,394	2,562	2,741
Add. Interest	695	930	850	750
Less Financial Other Income	654	700	700	750
Add. Other	2,111	(5)	(5)	(5)
Op. profit before WC changes	12,424	12,375	13,699	16,145
Net Changes-WC	(127)	902	(664)	(1,323)
Direct tax	(1,450)	(906)	(1,750)	(2,532)
Net cash from Op. activities	10,846	12,372	11,285	12,290
Capital expenditures	(7,378)	(11,500)	(6,500)	(5,500)
Interest / Dividend Income	-	-	-	-
Others	(4,363)	-	-	-
Net Cash from Inv. activities	(11,741)	(11,500)	(6,500)	(5,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	2,174	-	(2,000)	(2,000)
Dividend paid	(237)	(237)	(237)	(237)
Interest paid	(695)	(930)	(850)	(750)
Others	1,730	-	-	-
Net cash from Fin. activities	2,972	(1,167)	(3,087)	(2,987)
Net change in cash	2,077	(295)	1,698	3,803
Free Cash Flow	3,468	872	4,785	6,790

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	12,216	12,334	13,052	12,036
YoY gr. (%)	29.9	19.4	14.3	6.7
Raw Material Expenses	2,624	2,717	2,845	2,442
Gross Profit	9,592	9,617	10,208	9,594
Margin (%)	78.5	78.0	78.2	79.7
EBITDA	2,757	2,707	3,081	2,790
YoY gr. (%)	57.5	41.0	26.4	9.6
Margin (%)	22.6	21.9	23.6	23.2
Depreciation / Depletion	563	589	553	632
EBIT	2,194	2,118	2,528	2,158
Margin (%)	18.0	17.2	19.4	17.9
Net Interest	206	209	229	251
Other Income	147	151	184	179
Profit before Tax	2,135	2,059	2,484	2,086
Margin (%)	17.5	16.7	19.0	17.3
Total Tax	403	219	217	205
Effective tax rate (%)	18.9	10.6	8.7	9.8
Profit after Tax	1,732	1,840	2,267	1,881
Minority interest	(1)	(1)	(1)	(1)
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,733	1,841	2,268	1,882
YoY gr. (%)	151.3	66.5	34.3	22.3
Margin (%)	14.2	14.9	17.4	15.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,733	1,841	2,268	1,882
YoY gr. (%)	151.3	66.5	34.3	22.3
Margin (%)	14.2	14.9	17.4	15.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,733	1,841	2,268	1,882
Avg. Shares O/s (m)	204	204	204	204
EPS (Rs)	8.5	9.0	11.1	9.2

Source: Company Data, PL Research

Key Financial Metrics

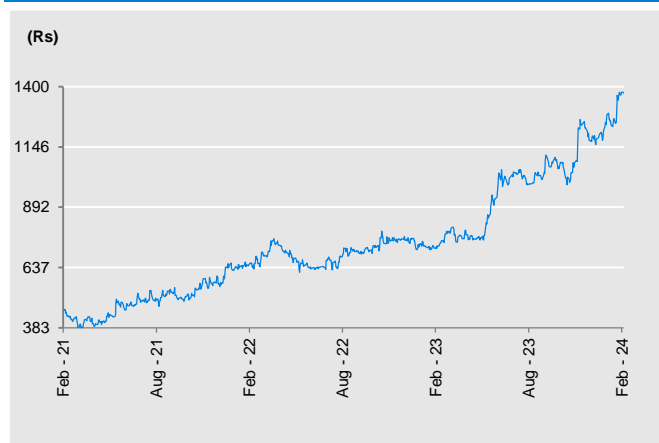
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	29.7	39.9	41.8	49.5
CEPS	40.0	51.6	54.3	62.9
BVPS	104.3	143.0	183.6	232.0
FCF	17.0	4.3	23.4	33.2
DPS	1.2	1.2	1.2	1.2
Return Ratio(%)				
RoCE	30.7	28.2	26.1	26.9
ROIC	20.0	19.3	19.6	21.9
RoE	33.5	32.2	25.6	23.8
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.0	(0.1)
Net Working Capital (Days)	(9)	(14)	(12)	(7)
Valuation(x)				
PER	46.0	34.2	32.7	27.6
P/B	13.1	9.5	7.4	5.9
P/CEPS	34.2	26.5	25.1	21.7
EV/EBITDA	29.3	24.2	21.5	17.8
EV/Sales	6.2	5.5	4.7	4.1
Dividend Yield (%)	0.1	0.1	0.1	0.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
India hospitals	35,547	40,378	46,278	52,009
Cayman Island	8,829	10,004	11,890	14,350
Others	872	700	700	700

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	BUY	1,250	1,212
2	15-Nov-23	BUY	1,250	1,133
3	07-Oct-23	BUY	1,110	1,092
4	08-Aug-23	BUY	1,110	1,010
5	06-Jul-23	BUY	1,100	1,013
6	16-Jun-23	BUY	1,100	1,037
7	22-May-23	BUY	980	827
8	06-Apr-23	BUY	965	760

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,434
2	Aster DM Healthcare	BUY	500	440
3	Aurobindo Pharma	Accumulate	1,120	1,026
4	Cipla	Accumulate	1,400	1,375
5	Divi's Laboratories	Reduce	3,150	3,652
6	Dr. Reddy's Laboratories	Reduce	5,650	5,841
7	Eris Lifesciences	BUY	1,100	924
8	Fortis Healthcare	BUY	780	444
9	Glenmark Pharmaceuticals	Reduce	570	893
10	HealthCare Global Enterprises	BUY	420	367
11	Indoco Remedies	Accumulate	380	369
12	Ipca Laboratories	Hold	1,060	1,152
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,800
14	Jupiter Life Line Hospitals	BUY	1,360	1,229
15	Krishna Institute of Medical Sciences	BUY	2,200	2,078
16	Lupin	Hold	1,600	1,606
17	Max Healthcare Institute	BUY	925	799
18	Narayana Hrudayalaya	BUY	1,250	1,212
19	Sun Pharmaceutical Industries	BUY	1,640	1,415
20	Sunteck Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,700	2,526
22	Zydus Lifesciences	Accumulate	855	804

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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