

May 28, 2024

Q4FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	1,335		1,435	
Sales (Rs. m)	56,915	65,020	58,868	67,059
% Chng.	(3.3)	(3.0)		
EBITDA (Rs. m)	12,563	14,911	13,004	15,400
% Chng.	(3.4)	(3.2)		
EPS (Rs.)	39.0	46.5	41.8	49.5
% Chng.	(6.6)	(6.0)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	45,248	50,182	56,915	65,020
EBITDA (Rs. m)	9,658	11,524	12,563	14,911
Margin (%)	21.3	23.0	22.1	22.9
PAT (Rs. m)	6,066	7,896	7,972	9,511
EPS (Rs.)	29.7	38.6	39.0	46.5
Gr. (%)	77.3	30.2	1.0	19.3
DPS (Rs.)	1.2	4.6	4.6	5.8
Yield (%)	0.1	0.4	0.4	0.5
RoE (%)	33.5	31.5	24.6	23.8
RoCE (%)	30.7	25.2	21.1	22.3
EV/Sales (x)	5.7	5.2	4.7	4.1
EV/EBITDA (x)	26.6	22.8	21.3	17.9
PE (x)	41.7	32.0	31.7	26.6
P/BV (x)	11.9	8.8	7.0	5.7

Key Data

NARY.BO | NARH IN

52-W High / Low	Rs.1,445 / Rs.847
Sensex / Nifty	75,391 / 22,932
Market Cap	Rs.253bn/ \$ 3,040m
Shares Outstanding	204m
3M Avg. Daily Value	Rs.436.32m

Shareholding Pattern (%)

Promoter's	63.85
Foreign	10.91
Domestic Institution	10.12
Public & Others	15.12
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.0)	(0.1)	46.5
Relative	(5.2)	(12.6)	21.5

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Narayana Hrudayalaya (NARH IN)

Rating: BUY | CMP: Rs1,237 | TP: Rs1,335

EBITDA miss led by India business

Quick Pointers:

- Booked Rs 116mn of loss from its clinics and insurance business.
- Better payor mix aided ARPOB for India segment.

Narayana Hrudayalaya (NARH) reported EBITDA at Rs2.95bn (up 7% YoY), 5% below our estimate. Cayman business continues to reported healthy profitability at Rs. 1.2bn; up 19% YoY. While India business reported muted profitability at Rs. 1.8bn; up 4% YoY led by higher losses in NHIC and lower IP volumes. 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 ~23%. Our FY25E and FY26E EBITDA stands reduced by ~3%. We maintain 'BUY' rating with a revised TP of Rs. 1,335/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 18x EV/EBITDA (adj for IND AS). Faster ramp up in new Cayman unit (operationalize from H1FY25) will be a key.

- EBITDA miss led by lower India profitability; Cayman was steady:** NARH reported pre IND AS EBITDA of Rs2.8bn (up 6% YoY). Company reported loss of Rs. 116mn (Rs. 85mn in Q3) related to NHIC and NHIL unit in Q4. Overall, margins came in 21.6%; flat QoQ. India business adjusted for one offs in Q4FY23 and NHIC losses, reported EBITDA of Rs1.9bn; up 10% YoY. Cayman reported healthy EBITDA of \$14.1mn; up 17% YoY and flat QoQ. Cayman OPM was healthy at 46.5%.
- Healthy ARPOB at Rs. 40,822/day; net debt increased by Rs. 2.1bn:** Revenue grew by 5% YoY to Rs12.8bn. ARPOB for India business was up 10% YoY to Rs. 40,822/day aided by better payor mix. IP volumes were lower 2% YoY for India. Cayman revenues improved 2% YoY to \$30.4mn (flat QoQ). IP and OP volumes grew by 2% YoY and 4% YoY for Cayman aided by commercialization of new radiation block in Q1. Cayman ARPOB declined by 5% YoY (flat QoQ). Reported PAT was at Rs1.9bn (up 10% YoY). During Q4, NARH's net debt increased by Rs. 2.2bn to the tune of Rs1.8bn.
- Key con-call takeaways: (1) Capex** – incurred Rs9.1bn in FY24 and guidance of Rs. 16.4bn in FY25E; 20% funded through internal accrual and balance through debt. Break up of capex - Rs.3.2bn will be deployed in routine and maintenance purpose, ~Rs.2.7bn capex for the Cayman business and remaining for greenfield and brownfield expansion **(2) Expansion plan** would be largely focused in Bangalore and Kolkata. In Bangalore it includes brownfield expansion at Health City, recently acquired 1.5acre land parcel in HSR, Sarjapur and company is also exploring new land parcels for greenfield expansion. Further company has acquired land in Rajarat, Kolkata for potential bed capacity of 1000 with 500 bed to commercialize in Phase 1 by FY28. Paid Rs1.8bn towards land cost in Q4 **(3) Cayman-** new multi-specialty hospital at Cayman is on track to be commercialized by Q2FY25 with 60 beds. **(4) New**

units: Gurgaon and SRCC unit EBITDA margins were in single digit whereas Dharamshila reported margins in double digit in Q4. On combined basis; new hospitals margins were at 9% with revenue base of Rs. 1.2bn. **(5) Narayana Health Integrated Care (NHIC)** – Plan to add 20-30 clinics per year with capex per unit at Rs.10-20mn. **(6)** Tax rate guided at 26% for India biz and zero tax for Cayman in FY25. **(8)** Mgmt reiterated revenue growth drivers would be leveraging operational efficiencies, increasing payor mix, higher throughput, and digital initiatives.

Exhibit 1: Q4FY24 Result Overview (Rs mn) –EBITDA miss led by lower India profitability and higher NHIC losses

Y/e March	4QFY24	4QFY23	YoY gr. (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Net Sales	12,794	12,216	4.7	12,036	6.3	50,182	45,248	10.9
COGS	2,735	2,624	4.2	2,442	12.0	10,739	10,012	7.3
<i>% of Net Sales</i>	<i>21.4</i>	<i>21.5</i>		<i>20.3</i>		<i>21.4</i>	<i>22.1</i>	
Employee Cost	2,494	2,273	9.7	2,542	(1.9)	10,043	8,792	14.2
<i>% of Net Sales</i>	<i>19.5</i>	<i>18.6</i>		<i>21.1</i>		<i>27.1</i>	<i>23.8</i>	
Other Expenses	4,620	4,561	1.3	4,262	8.4	17,877	16,786	6.5
<i>% of Net Sales</i>	<i>36.1</i>	<i>37.3</i>		<i>35.4</i>		<i>48.3</i>	<i>45.4</i>	
Total	9,848	9,458	4.1	9,247	6.5	38,659	35,589	8.6
EBITDA	2,946	2,757	6.8	2,790	5.6	11,524	9,658	19.3
<i>Margins (%)</i>	<i>23.0</i>	<i>22.6</i>		<i>23.2</i>		<i>23.0</i>	<i>21.3</i>	
Other Income	239	147	62.6	179	33.4	752	654	14.9
Interest	280	206	36.1	251	11.8	969	695	39.5
Depreciation	648	563	15.1	632	2.5	2,421	2,100	15.3
PBT	2,256	2,135	5.7	2,086	8.2	8,885	7,518	18.2
Tax	348	403	(13.5)	205	70.2	989	1,450	(31.8)
<i>Tax rate %</i>	<i>15.4</i>	<i>18.9</i>		<i>9.8</i>		<i>11.1</i>	<i>19.3</i>	
PAT	1,908	1,732	10.1	1,881	1.4	7,896	6,068	30.1
Share in (loss)/profit of associate	-	-		-		-	(2)	
Minority Interest	(1)	(1)		(1)		(4)	3	
Reported PAT	1,907	1,731	10.1	1,880	1.4	7,893	6,062	30.2

Source: Company, PL

Exhibit 2: Break-up of Revenues

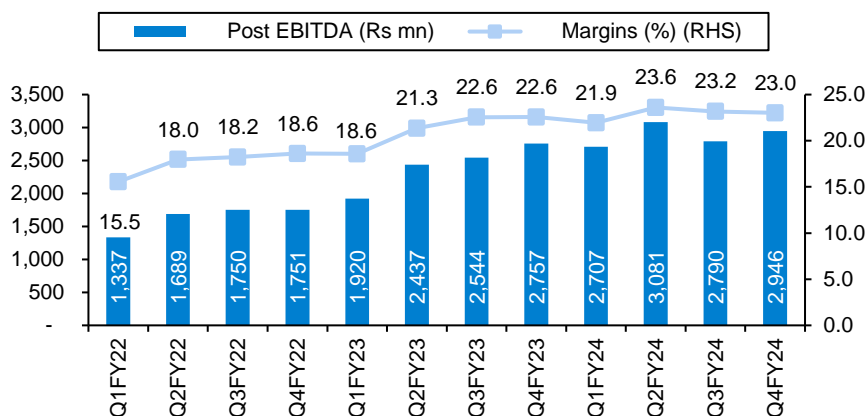
Revenues (Rs. mn)	4QFY24	4QFY23	YoY gr. (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Cayman	2,485	2,409	3.2	2,511	(1.0)	9,942	8,573	16.0
<i>% of Total Sales</i>	<i>19.4</i>	<i>19.7</i>		<i>20.9</i>		<i>19.8</i>	<i>18.9</i>	
India	10,309	9,807	5.1	9,526	8.2	40,241	36,675	9.7
<i>% of Total Sales</i>	<i>80.6</i>	<i>80.3</i>		<i>79.1</i>		<i>80.2</i>	<i>81.1</i>	
Total Sales	12,794	12,216	4.7	12,037	6.3	50,183	45,248	10.9

Source: Company, PL

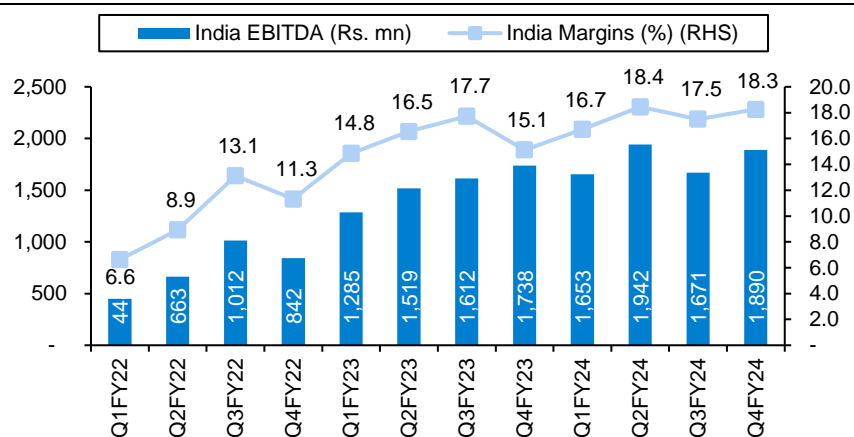
Exhibit 3: Break-up of EBITDA

Break up of EBITDA	4QFY24	4QFY23	YoY gr. (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Cayman	1,201	989	21.4	1,202	(0.2)	4,720	3,582	31.8
<i>% OPM</i>	<i>48.3</i>	<i>41.1</i>		<i>47.9</i>		<i>47.5</i>	<i>41.8</i>	
India	1,861	1,488	25.1	1,672	11.3	7,129	5,905	20.7
<i>% OPM</i>	<i>18.1</i>	<i>15.2</i>		<i>17.6</i>		<i>17.7</i>	<i>16.1</i>	
Others	(116)	280	NA	(85)	NA	(325)	172	(288.8)

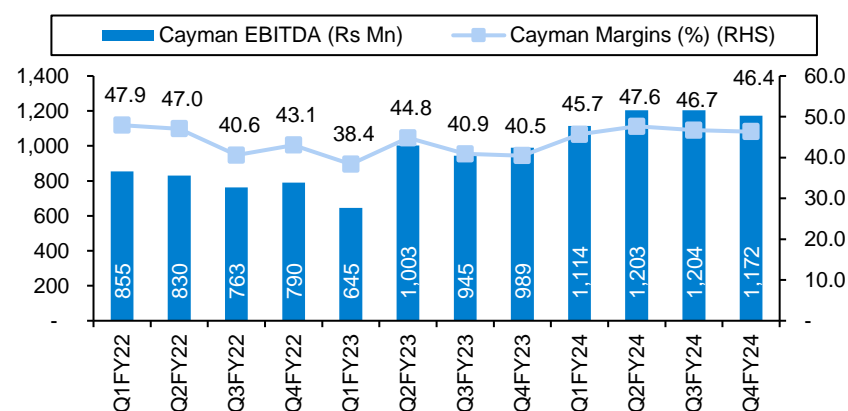
Source: Company, PL

Exhibit 4: Consolidated margins (Post IND AS) largely flat QoQ


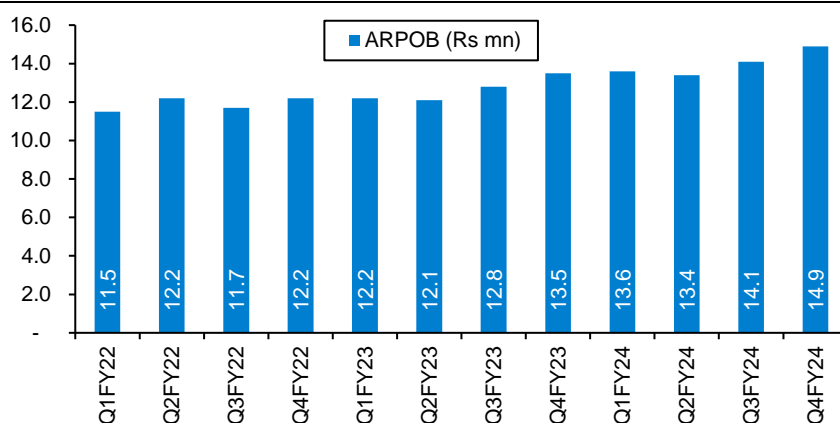
Source: Company, PL

Exhibit 5: India margins adjusted for NHIC losses was up 80 bps QoQ


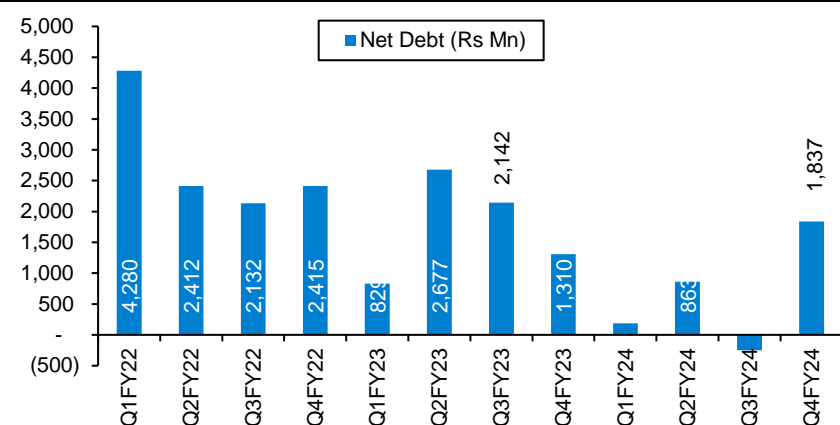
Source: Company, PL

Exhibit 6: Cayman margins improved by 80 bps QoQ


Source: Company, PL

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


Source: Company, PL

Exhibit 8: Net debt increased by Rs. 2.1bn in Q4


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	45,248	50,182	56,915	65,020
YoY gr. (%)	22.2	10.9	13.4	14.2
Cost of Goods Sold	10,012	10,739	12,521	14,304
Gross Profit	35,236	39,443	44,394	50,716
Margin (%)	77.9	78.6	78.0	78.0
Employee Cost	8,792	10,043	11,449	13,052
Other Expenses	16,786	17,877	20,381	22,753
EBITDA	9,658	11,524	12,563	14,911
YoY gr. (%)	47.8	19.3	9.0	18.7
Margin (%)	21.3	23.0	22.1	22.9
Depreciation and Amortization	2,100	2,421	2,591	2,772
EBIT	7,558	9,102	9,972	12,139
Margin (%)	16.7	18.1	17.5	18.7
Net Interest	695	969	1,000	1,000
Other Income	654	752	750	750
Profit Before Tax	7,518	8,885	9,722	11,889
Margin (%)	16.6	17.7	17.1	18.3
Total Tax	1,450	989	1,750	2,378
Effective tax rate (%)	19.3	11.1	18.0	20.0
Profit after tax	6,068	7,896	7,972	9,511
Minority interest	-	-	-	-
Share Profit from Associate	(2)	-	-	-
Adjusted PAT	6,066	7,896	7,972	9,511
YoY gr. (%)	77.3	30.2	1.0	19.3
Margin (%)	13.4	15.7	14.0	14.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,066	7,896	7,972	9,511
YoY gr. (%)	77.3	30.2	1.0	19.3
Margin (%)	13.4	15.7	14.0	14.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,066	7,896	7,972	9,511
Equity Shares O/s (m)	204	204	204	204
EPS (Rs)	29.7	38.6	39.0	46.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	36,483	42,046	56,046	66,046
Tangibles	35,177	40,027	54,027	64,027
Intangibles	1,306	2,019	2,019	2,019
Acc: Dep / Amortization	14,293	16,715	19,306	22,078
Tangibles	14,293	16,715	19,306	22,078
Intangibles	-	-	-	-
Net fixed assets	22,190	25,332	36,741	43,969
Tangibles	20,884	23,313	34,722	41,949
Intangibles	1,306	2,019	2,019	2,019
Capital Work In Progress	2,592	5,141	5,141	5,141
Goodwill	1,174	1,179	1,179	1,179
Non-Current Investments	2,519	8,442	8,442	8,442
Net Deferred tax assets	(814)	(417)	(417)	(417)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	716	1,099	1,247	1,425
Trade receivables	4,315	4,219	4,990	5,700
Cash & Bank Balance	3,799	4,165	883	(932)
Other Current Assets	4,261	6,616	6,237	7,126
Total Assets	41,621	56,246	64,914	72,103
Equity				
Equity Share Capital	2,044	2,044	2,044	2,044
Other Equity	19,270	26,793	33,814	42,135
Total Networth	21,314	28,837	35,857	44,179
Non-Current Liabilities				
Long Term borrowings	7,622	14,437	15,437	13,437
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,150	6,036	6,683	7,551
Other current liabilities	4,435	4,622	4,622	4,622
Total Equity & Liabilities	41,621	56,246	64,914	72,103

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	7,518	8,885	9,722	11,889
Add. Depreciation	2,100	2,421	2,591	2,772
Add. Interest	695	969	1,000	1,000
Less Financial Other Income	654	752	750	750
Add. Other	337	(543)	(4)	(4)
Op. profit before WC changes	10,650	11,733	13,309	15,657
Net Changes-WC	1,053	(155)	107	(909)
Direct tax	(858)	(912)	(1,750)	(2,378)
Net cash from Op. activities	10,846	10,666	11,667	12,370
Capital expenditures	(7,378)	(9,708)	(14,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	(4,363)	(4,871)	-	-
Net Cash from Invt. activities	(11,741)	(14,579)	(14,000)	(10,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	2,084	6,682	1,000	(2,000)
Dividend paid	(203)	(508)	(948)	(1,185)
Interest paid	(695)	(969)	(1,000)	(1,000)
Others	1,785	(926)	-	-
Net cash from Fin. activities	2,972	4,280	(948)	(4,185)
Net change in cash	2,077	366	(3,282)	(1,815)
Free Cash Flow	3,468	958	(2,333)	2,370

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	12,334	13,052	12,036	12,794
YoY gr. (%)	19.4	14.3	6.7	4.7
Raw Material Expenses	2,717	2,845	2,442	2,735
Gross Profit	9,617	10,208	9,594	10,059
Margin (%)	78.0	78.2	79.7	78.6
EBITDA	2,707	3,081	2,790	2,946
YoY gr. (%)	41.0	26.4	9.6	6.8
Margin (%)	21.9	23.6	23.2	23.0
Depreciation / Depletion	589	553	632	648
EBIT	2,118	2,528	2,158	2,298
Margin (%)	17.2	19.4	17.9	18.0
Net Interest	209	229	251	280
Other Income	151	184	179	239
Profit before Tax	2,059	2,484	2,086	2,256
Margin (%)	16.7	19.0	17.3	17.6
Total Tax	219	217	205	348
Effective tax rate (%)	10.6	8.7	9.8	15.4
Profit after Tax	1,840	2,267	1,881	1,908
Minority interest	(1)	(1)	(1)	(1)
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,841	2,268	1,882	1,909
YoY gr. (%)	66.5	34.3	22.3	10.1
Margin (%)	14.9	17.4	15.6	14.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,841	2,268	1,882	1,909
YoY gr. (%)	66.5	34.3	22.3	10.1
Margin (%)	14.9	17.4	15.6	14.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,841	2,268	1,882	1,909
Avg. Shares O/s (m)	204	204	204	204
EPS (Rs)	9.0	11.1	9.2	9.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	29.7	38.6	39.0	46.5
CEPS	40.0	50.5	51.7	60.1
BVPS	104.3	141.1	175.5	216.2
FCF	17.0	4.7	(11.4)	11.6
DPS	1.2	4.6	4.6	5.8
Return Ratio(%)				
RoCE	30.7	25.2	21.1	22.3
ROIC	20.0	17.5	15.6	16.6
RoE	33.5	31.5	24.6	23.8
Balance Sheet				
Net Debt : Equity (x)	0.2	0.4	0.4	0.3
Net Working Capital (Days)	(9)	(5)	(3)	(2)
Valuation(x)				
PER	41.7	32.0	31.7	26.6
P/B	11.9	8.8	7.0	5.7
P/CEPS	30.9	24.5	23.9	20.6
EV/EBITDA	26.6	22.8	21.3	17.9
EV/Sales	5.7	5.2	4.7	4.1
Dividend Yield (%)	0.1	0.4	0.4	0.5

Source: Company Data, PL Research

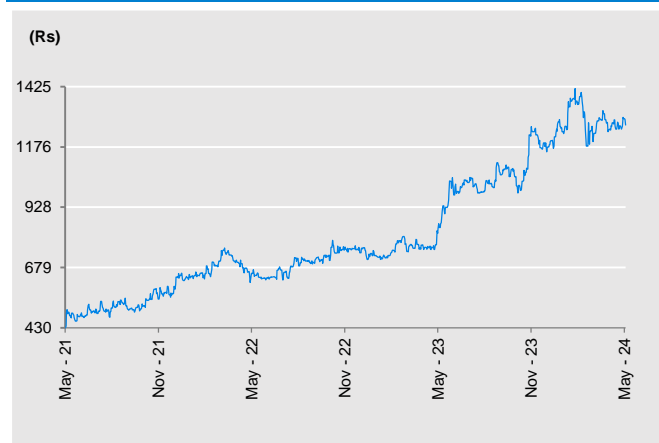
Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
India hospitals	35,547	39,224	44,180	49,795
Cayman Island	8,829	10,259	12,035	14,525
Others	872	700	700	700

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-24	BUY	1,435	1,286
2	17-Feb-24	BUY	1,435	1,365
3	08-Jan-24	BUY	1,250	1,212
4	15-Nov-23	BUY	1,250	1,133
5	07-Oct-23	BUY	1,110	1,092
6	08-Aug-23	BUY	1,110	1,010
7	06-Jul-23	BUY	1,100	1,013
8	16-Jun-23	BUY	1,100	1,037

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,259
2	Aster DM Healthcare	BUY	515	457
3	Aurobindo Pharma	Accumulate	1,120	1,124
4	Cipla	Accumulate	1,405	1,340
5	Divi's Laboratories	Accumulate	4,350	4,122
6	Dr. Reddy's Laboratories	Reduce	5,700	6,258
7	Eris Lifesciences	BUY	1,100	908
8	Fortis Healthcare	BUY	515	462
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	368
11	Indoco Remedies	Accumulate	335	320
12	Ipca Laboratories	Hold	1,060	1,315
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,774
14	Jupiter Life Line Hospitals	BUY	1,360	1,275
15	Krishna Institute of Medical Sciences	BUY	2,100	1,950
16	Lupin	Hold	1,675	1,611
17	Max Healthcare Institute	BUY	925	803
18	Narayana Hrudayalaya	BUY	1,435	1,286
19	Sun Pharmaceutical Industries	BUY	1,710	1,539
20	Sunteck Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,900	2,613
22	Zydus Lifesciences	Accumulate	1,130	1,104

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

ANALYST CERTIFICATION

(Indian Clients)

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