

Cayman expansion in Camana Bay to improve reach...

Narayana Hrudayalaya's (NH) subsidiary - Health City Cayman Islands (HCCI), already running a hospital at East End, Grand Cayman, Cayman Islands, is establishing a facility at a new location in the Camana Bay Development area of Grand Cayman. This is in order to expand the scope of super specialty treatment options already offered and offer medical services closer to the city centre. As such, the new facility, planned on a 3-acre land plot, is expected to have 50 operating beds and will be completely commercialised within two years with a capex outlay of ~US\$100 million that will be funded through a mix of internal accruals and debt.

Snapshot of NH's Cayman offering – existing & upcoming

Existing: NH had, in April 2010, set up a 110 bedded (current) multi-speciality hospital in East End, Cayman Islands by entering into an agreement with the Government of Cayman Islands, which was later commissioned in April 2014. It had initially entered into the JV with 28.6% stake in the hospital and then bought back the rest of the 71.4% stake from Ascension Health for a cash consideration of US\$32 million in 2017. HCCI primarily targets Caymanians and North American patients (Cayman Islands is 430 miles south of Miami, near Caribbean islands) and provides high-quality, affordable tertiary health care. For FY20, HCCI revenues was at US\$61.1 million with EBITDA at US\$15.1 million (EBITDA margin of 24.7%).

Upcoming: In order to increase reach and cater to more patients, NH is now setting up a 50 bedded facility closer to the city centre at Camana Bay, Grand Cayman with an investment of US\$100 million funded equally by HCCI internal accruals and borrowing. It will include an advanced cancer centre, which will offer comprehensive oncology treatment including bone marrow transplant, CAR-T cell therapy, medical oncology, haemato oncology, surgical oncology and radiation oncology. It will also offer robotic surgery, a neonatal intensive care unit, emergency and critical care, as well as a fully equipped radiology department. The radiotherapy and associated block is expected to get commercialised within 12-18 months while the remaining portion will take an additional six to 12 months.

Valuations & Outlook

The expansion at Camana Bay is likely to improve HCCI's reach to patients both – international and local, due to close proximity to the airport and several major residential complexes. Significant capital outlay notwithstanding, the new facility would complement the existing set up by focusing more on day care, short stay but niche categories of oncology care while the existing facility would continue to cater to tertiary and quaternary care. We expect the impact of this blended model to materialise from FY23 onwards. NH's experience in running hospital in this region could be handy for such types of ventures. We maintain our **BUY** recommendation and arrive at a target price of ₹ 545 (earlier ₹ 580) based on SOTP (Exhibit 1).

Key Financial Summary

(₹ Crore)	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E %
Revenues	3127.8	2501.6	3316.7	3638.6	5.2
EBITDA	422.9	149.1	460.3	542.4	8.6
EBITDA Margins (%)	13.5	6.0	13.9	14.9	
Adjusted PAT	129.8	-46.4	151.6	213.9	18.1
EPS (₹)	6.4	-2.3	7.4	10.5	
PE (x)	72.1	NA	61.8	43.8	
EV to EBITDA (x)	23.9	67.7	22.3	18.6	
Price to book (x)	8.2	8.6	7.7	6.6	
RoE (%)	11.4	-4.3	12.4	15.1	
RoCE (%)	11.0	-0.5	10.1	12.3	

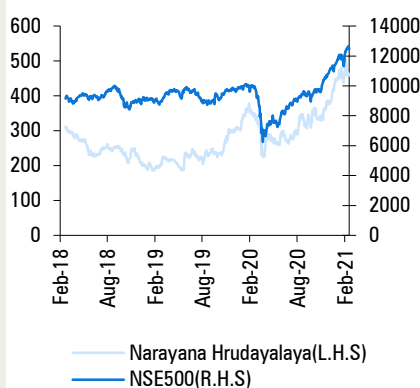
Source: ICICI Direct Research; Company



Particulars

Particular	Amount
Market Capitalisation	₹ 9360 crore
Debt (FY20)	₹ 952 crore
Cash (FY20)	₹ 115 crore
EV	₹ 10197 crore
52 week H/L (₹)	524/210
Equity capital	₹ 204.4 crore
Face value	₹ 10

Price performance



Key risks to our call

- Cost overrun due to delay in construction activity
- Longer breakeven time in case expected pricing does not materialise

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Conference Call Highlights

- Existing: HCCI is currently offering tertiary healthcare services to medical tourists and Caymanians from its existing unit in East End, which is located about 30 km away from George Town, the capital and hub of prominent activity of the nation
 - 110 operational beds with specialties offered including: orthopaedics, cardiac sciences, neurosciences, gastro sciences, internal medicine, pulmonology, medical oncology and urology
- HCCI is expanding to a new location in the Camana Bay Development area of Grand Cayman
- The objective of the new facility is to expand the scope of superspeciality treatment options offered by HCCI's existing facility and offer medical services closer to the city centre
 - The new facility location is within 10 minutes of the airport and major residential complexes
 - The new facility will include an advanced cancer centre that will offer comprehensive oncology treatment including bone marrow transplant, CAR-T cell therapy, medical oncology, haemato oncology, surgical oncology and radiation oncology
 - The new facility will also offer robotic surgery, a neonatal intensive care unit, emergency and critical care, as well as a fully equipped radiology department
 - Radiotherapy and associated block is expected to get commercialised within 12-18 months while the remaining portion would take six to 12 months more (~ 24 months overall)
- The proposed hospital is expected to have 50 operating beds and is planned to be executed on a 3-acre plot of land. The total construction and commissioning time is expected to be 24 months with the radiotherapy centre expected to be commissioned in 12-18 months
 - Estimated total project cost of US\$100 million funded by 1:1 ratio of internal accruals of HCCI and borrowing
 - Cost of debt to be Libor + 1.7-1.8%
 - Capex breakup: US\$8 million for land, US\$15 million for medical equipment and the rest for civil construction and interiors
- Financial incentives would include certain import duty exceptions for some medical equipment and life-saving drugs

Exhibit 1: Valuation

Particulars	Valuation Matrix	Multiple (x)	Enterprise value (₹ cr)
Hospital (Matured)	EV/EBITDA	16.0	9580.3
Cayman	EV/EBITDA	16.0	1843.1
Hospital (New)	EV/Sales	1.0	394.1
Other Business	EV/Sales	1.0	161.4
Net Debt FY23E (₹ cr)			875.2
EV (₹ cr)			11103.6
No of shares (cr)			20.4
Per Share Value (₹)			545.0

Source: ICICI Direct Research

Financial Summary

Exhibit 2: Profit & Loss (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenues	3,127.8	2,501.6	3,316.7	3,638.6
Growth (%)	9.3	-20.0	32.6	9.7
Raw Material Expenses	745.3	653.1	874.8	960.0
Employee Expenses	681.4	615.3	815.8	895.0
Other Manufacturing Expenses	1,278.2	1,084.1	1,165.8	1,241.2
Total Operating Expenditure	2,704.9	2,352.5	2,856.4	3,096.2
EBITDA	422.9	149.1	460.3	542.4
Growth (%)	46.9	-64.7	208.7	17.8
Interest	85.3	76.3	69.1	69.1
Depreciation	185.8	185.5	195.5	198.6
Other Income	23.8	24.3	6.6	10.9
PBT before Exceptional Items	175.6	-88.5	202.4	285.6
Less: Forex & Exceptional Item	10.9	0.0	0.0	0.0
PBT	164.7	-88.5	202.4	285.6
Total Tax	42.3	-47.0	50.8	71.7
PAT before MI	122.5	-41.5	151.6	213.9
Minority Interest	0.1	0.0	0.0	0.0
PAT	118.9	-46.4	151.6	213.9
Adjusted PAT	129.8	-46.4	151.6	213.9
Growth (%)	118.8	-135.7	-426.7	41.1
EPS	5.8	-2.3	7.4	10.5
EPS (Adjusted)	6.4	-2.3	7.4	10.5

Source: ICICI Direct Research

Exhibit 4: Balance Sheet (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	204.4	204.4	204.4	204.4
Reserve and Surplus	931.6	885.2	1,016.3	1,209.8
Total Shareholders fund	1,136.0	1,089.6	1,220.7	1,414.2
Total Debt	952.2	952.2	1,152.2	1,152.2
Deferred Tax Liability	54.4	57.1	59.9	62.9
Minority Interest	0.5	0.6	0.6	0.6
Other liabilities	280.4	294.4	309.1	324.6
Source of Funds	2,423.5	2,393.8	2,742.6	2,954.5
Gross Block - Fixed Assets	2,877.0	2,927.0	3,077.0	3,127.0
Accumulated Depreciation	843.3	1,028.8	1,224.3	1,422.9
Net Block	2,033.7	1,898.2	1,852.7	1,704.1
Capital WIP	11.8	71.8	371.8	641.8
Net Fixed Assets	2,045.5	1,970.0	2,224.5	2,345.9
Goodwill on Consolidation	58.1	58.1	58.1	58.1
Investments	86.3	136.3	136.3	136.3
Inventory	60.2	48.2	96.4	70.1
Cash	114.8	95.0	130.9	277.0
Debtors	262.2	209.7	308.7	305.1
Loans & Advances & Other CA	79.8	83.8	88.0	92.4
Total Current Assets	517.1	436.7	624.0	744.5
Creditors	361.6	289.2	386.4	420.7
Provisions & Other CL	106.0	111.3	116.9	122.7
Total Current Liabilities	467.6	400.5	503.3	543.4
Net Current Assets	49.5	36.2	120.7	201.2
LT L&A, Other Assets	182.0	191.1	200.6	210.6
Deferred Tax Assets	2.0	2.1	2.2	2.3
Application of Funds	2,423.5	2,393.8	2,742.6	2,954.5

Source: ICICI Direct Research

Exhibit 3: Cash Flow Statement (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	118.9	-46.4	151.6	213.9
Add: Depreciation & Amortization	185.8	185.5	195.5	198.6
Net Increase in Current Assets	24.3	60.6	-151.3	25.5
Net Increase in Current Liabilities	45.4	-67.1	102.8	40.1
Others	85.3	76.3	69.1	69.1
CF from operating activities	459.7	208.9	367.6	547.3
(Inc)/dec in Fixed Assets	-394.1	-110.0	-450.0	-320.0
(Inc)/dec in Investments	-68.9	-50.0	0.0	0.0
Others	-12.4	7.6	7.9	8.3
CF from investing activities	-475.4	-152.4	-442.1	-311.7
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Debt	138.7	0.0	200.0	0.0
Dividend & Dividend Tax	-23.8	0.0	-20.4	-20.4
Others	-85.3	-76.3	-69.1	-69.1
CF from financing activities	29.7	-76.3	110.4	-89.6
Net Cash flow	14.1	-19.8	36.0	146.0
Opening Cash	100.7	114.8	95.0	130.9
Closing Cash	114.8	95.0	130.9	277.0
Free Cash Flow	65.6	98.9	-82.4	227.3

Source: ICICI Direct Research

Exhibit 5: Key Ratios (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	6.4	-2.3	7.4	10.5
Cash EPS	14.3	6.8	16.0	19.2
BV	55.6	53.3	59.7	69.2
DPS	1.2	0.0	1.0	1.0
Cash Per Share	41.3	50.3	59.9	69.6
Operating Ratios (%)				
EBITDA margins	13.5	6.0	13.9	14.9
Net Profit margins	4.1	-1.9	4.6	5.9
Cash Conversion cycle	-4.6	-4.6	2.1	-4.6
Asset Turnover	1.1	0.9	1.2	1.4
Return Ratios (%)				
RoE	11.4	-4.3	12.4	15.1
RoCE	11.0	-0.5	10.1	12.3
RoIC	11.2	-1.8	14.1	19.1
Valuation Ratios (x)				
P/E	72.1	NA	61.8	43.8
EV / EBITDA	23.9	67.7	22.3	18.6
EV / Revenues	3.2	4.0	3.1	2.8
Market Cap / Revenues	3.0	3.7	2.8	2.6
Price to Book Value	8.2	8.6	7.7	6.6
Solvency Ratios				
Net Debt / Equity	0.8	0.8	0.8	0.7
Net Debt / EBITDA	1.8	4.9	2.0	1.4
Current Ratio	0.9	0.9	1.0	0.9

Source: ICICI Direct Research

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