

# Narayana Hrudayalaya

REDUCE

CMP Rs505

Target Rs380

Downside 25%

## Result Highlights

- ✓ Rebound continue in Q4 with 10% growth in domestic business though sharp deceleration in H1 FY21 lead to 23% revenue fall in FY21
- ✓ Q4 margin jumped yoy on low base of last year and better quality of revenue – higher ARPOB and longer ICU days
- ✓ Company unlikely to incur any significant capex in India; Cayman onco addition to drive revenues beyond FY23

**Our view:** Q4 FY21 quality of revenues improved as government patients stayed away and ARPOB increased yoy in Q4 and FY21. We reckon several moving parts would pull in differing directions casting an impact on FY22 earnings. As pandemic eases, leading to a revival in international patient inflow, this could lead to a decline in Cayman Island margin with the extent depending on pace of patient inflow. In domestic business, the return of government patients and lower ICU bed usage (especially compared to H2 FY21) would adversely impact mix and ARPOB; on the other hand, ARPOB would get a leg up as Mumbai and Gurugram hospitals continue towards breakeven status.

Hence, we have cut FY22 estimate by 15% and expect a more normalized year of operations in FY23 with 1) Cayman Island margin above FY20 base 2) three new hospitals break even and 3) existing hospitals margin move to 25%. This results in a rather sharp 25% jump in FY23 EPS estimate. We raise our target EV/EBIDTA multiple to 14x from 12x earlier with revised TP Rs380 (earlier Rs325) on increased earnings optimism in FY23 and receding capital allocation risk in India. However, we reckon extant valuation of over 18x EV/EBIDTA adequately factors in the growth in FY23. Moreover, stock trades at a premium EV/EBIDTA to formulation players with strong branded presence in India who are leaders in chronic/acute categories with a more robust and sustainable ROE/cash flow generation business. Another risk to extended valuation could be government clamp down on specific procedure costs – not in the near term but over a medium time frame. We continue to like the franchise, but lower valuation would be more palatable. Reduce stays.

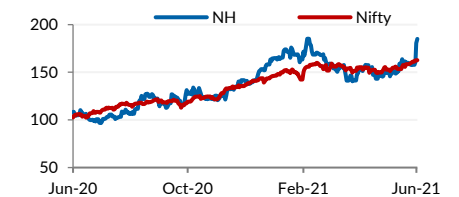
## Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	8,378	7,504	11.6	7,429	12.8
inventory changes	10	(32)	(130.9)	(188)	(105.2)
Purchase of stocks	(2,079)	(1,956)	6.3	(1,600)	30.0
Staff	(1,696)	(1,567)	8.2	(1,680)	1.0
Professional fees to doctors	(1,562)	(1,367)	14.3	(1,520)	2.8
Other expenses	(1,636)	(1,532)		(1,484)	
OPM (%)	16.9	14.0	290 bps	12.9	399 bps
Depreciation	(445)	(465)	(4.3)	(551)	(19.3)
Interest	(182)	(186)	(1.8)	(208)	(12.3)
Other income	85	46	86.7	70	21.3
Tax	(172)	(8)	2,113.9	(36)	378.9
Effective tax rate (%)	20.2	1.9	1835 bps	13.6	661 bps
Minority/Associate	(19)	(28)		(5)	330.2
Exceptional	-	-		(109)	
PAT	681	408	66.6	120	467.4

## Stock data (as on June 2, 2021)

Nifty:	15,576
52 Week h/l (Rs)	567 / 263
Market cap (Rs/USD mn)	103182/1412
Outstanding Shares	204
6m Avg t/o (Rs mn):	164
Div yield (%):	-
Bloomberg code:	NARH IN
NSE code:	NH

## Stock performance



	1M	3M	1Y
Absolute return	24.1%	17.2%	70.8%

## Shareholding pattern (As of Mar'21 end)

Promoter	63.9%
FII+DII	29.6%
Others	6.5%

## Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	REDUCE
Target Price	380	325

## Δ in earnings estimates

	FY22e	FY23e
EPS (New)	7.4	13.4
EPS (Old)	8.9	10.6
% change	-17%	+26%

## Financial Summary

	FY21	FY22e	FY23e
Net Revenue	25,823	35,748	38,039
YoY Growth	-17.4	38.4	6.4
EBIDTA	1,821	4,360	5,844
YoY Growth	-56.9	139.4	34.0
PAT	-143	1,512	2,738
YoY Growth	-	-	81.1
ROE	-0.7	13.1	20.2
EPS	-0.7	7.4	13.4
P/E	-	68.2	37.7
BV	54.8	61.0	73.3
P/BV	9.2	8.3	6.9

## BHAVESH GANDHI

Lead Analyst

bhaves.gandhi@ysil.in



## MEET PARIKH, Associate

meet.pariikh@ysil.in

## AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

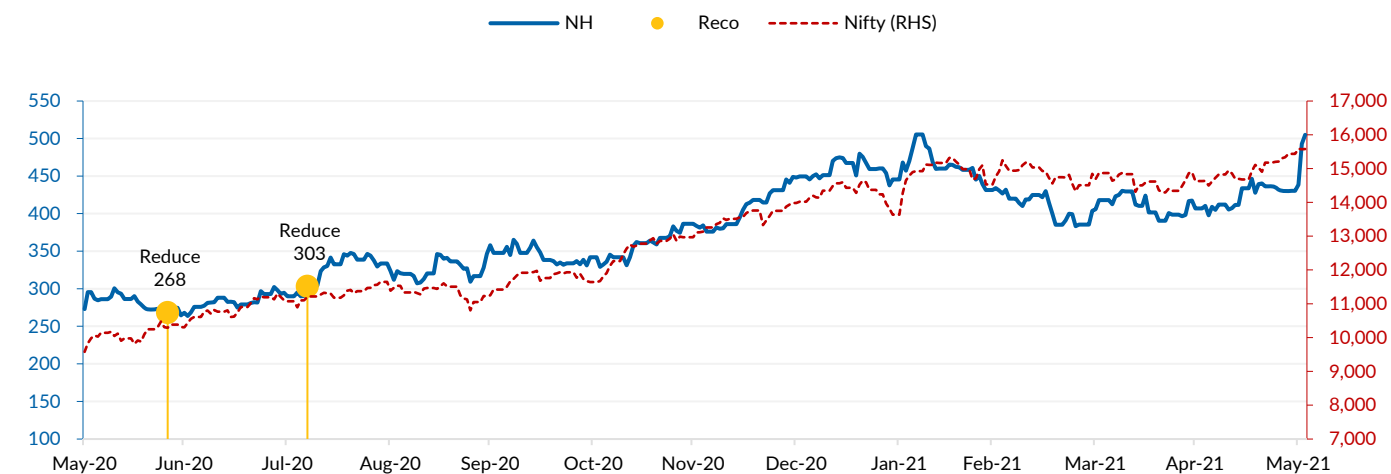
## CON-CALL HIGHLIGHTS

- ✓ Covid patient's revenue contributed only 3% of revenue in Q4 vs 13% Last year same quarter.
- ✓ Flagships hospital business have been impacted in April due to lockdown due to covid wave.
- ✓ Scaling up infrastructure of beds in anticipation of 3<sup>rd</sup> covid wave.
- ✓ Upgradation of hospitals across regions got held up due to covid. The company will take the construction up now. The company will borrow to fund the capex plans for the company.
- ✓ IRR rate are very attractive for the company.
- ✓ Second wave- April (7% revenue down compared to March), May is down 3-4% down from April.
- ✓ Cayman Islands- The company will not be able to maintain the current margins level as the lockdown eases.
- ✓ Capex for Oncology business (Cayman)- The work is on track, the company has kept buffers for any delay, but the confident of getting the work down below the budget.
- ✓ Capex- for FY22E it will be around Rs 2.5 bn+ (because in FY21 the capex was deferred to next year and will bunch up in FY22E, and another brownfield capex)
- ✓ Mature hospitals growth- Bangalore in high single digit growth rate and other smaller hospitals will be small double digit.
- ✓ 11 units are cancer centers and radiation units will be put in Ahmedabad, Jaipur.
- ✓ Kolkata hospital- Flagship growth will be in low single digit, Kolkata as region is showing good growth as the company is adding beds in hospitals other than the flagship hospitals.
- ✓ EBITDA margin- cost saving measures such as salary cuts have been stopped, but import cost have risen.
- ✓ ARPOB may stay in the same range for the next few quarters, post which it will normalize.
- ✓ The company is buying as much vaccine from the manufacturers as possible. The company is buying and administering around 3.5-4.5 lakh doses (75% covishield, 25% is covaxin and sputnik combined)

**Exhibit 2: Financial summary**

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	28,609	31,278	25,823	35,748	38,039
yoy growth (%)	25.4	9.3	-17.4	38.4	6.4
OPM (%)	10.1	13.5	7.1	12.2	15.4
EPS (Rs)	2.9	5.8	-0.7	7.4	13.4
P/E (x)	174.0	86.7	-721.9	68.2	37.7
P/BV (x)	9.5	9.1	9.2	8.3	6.9
EV/EBITDA (x)	39.0	26.6	60.5	25.4	18.4
Debt/Equity (x)	0.9	1.0	0.8	0.5	0.2
ROE (%)	5.8	12.0	-0.7	13.1	20.2
ROCE (%)	8.0	11.7	1.3	14.6	23.2

## Recommendation Tracker



## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Bhavesh Gandhi, Meet Parikh

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

### YES Securities (India) Limited

**Registered Office:** Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Email: [research@ysil.in](mailto:research@ysil.in) | Website: [www.yesinvest.in](http://www.yesinvest.in)

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

**Details of Compliance Officer:** Name: Vaibhav Purohit, Email id: [compliance@ysil.in](mailto:compliance@ysil.in), Contact No-+91-22-33479208

## **RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

## **ABOUT YES SECURITIES (INDIA) LIMITED**

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.