



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Result update@ Dalal & Broacha

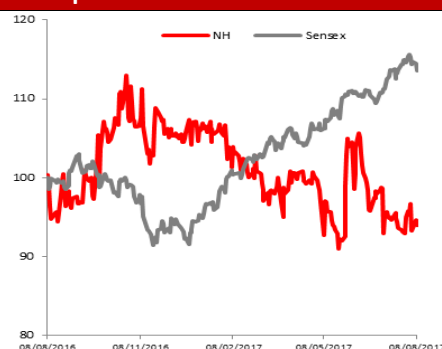
### Buy on Dips

Current Price	303
Target Price	<b>440</b>
Upside/Downside	45%
52 Week Range	375/286

### Key Share Data

Market Cap (Rs.bn)	61.9
Market Cap (US\$ mn)	970.99
No of o/s shares (mn)	204.4
Face Value	10
Monthly Avg. vol (BSE+NSE) Nos'000	98
BSE Code	539551
NSE Code	NH
Bloomberg	NARH:IN

### Price performance



% Shareholding	Jun-17	Mar-17
Promoters	63.85	63.85
FII	12.7	12.32
DII	18.03	17.46
Others	5.42	6.37
Total	100	100

### Key Financials

Year	Net Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY16	16138.0	18%	1746.0	10.8%	213.0	-227%	1.04	290.6	2.4%	8.9%
FY17	18781.6	16%	2288.6	12.2%	830.5	290%	4.06	74.5	8.6%	11.8%
FY18E	23097.1	23%	2549.1	11.0%	968.9	17%	4.74	63.9	9.5%	11.8%
FY19E	27436.4	19%	3530.8	12.9%	1599.1	65%	7.82	38.7	14.0%	16.4%

Narayana Hrudayalaya (NH) Q1FY18 results were below estimates. While revenues exceeded expectations, the earnings were lower due to impact of stent pricing and increased overheads on account of the commissioning of its hospital in Mumbai.

### Robust revenue growth, earnings pressure due to new hospital overheads

Revenues grew 15% to Rs 5211 mn. EBITDA de-grew 5% to Rs 504 mn due to increase in employee costs and other expenses. PBT de-grew 26% to Rs 235 mn due to doubling of interest cost. Share of loss from associate was at Rs 25 mn. PAT de-grew 38% to Rs 109 mn. EPS for the quarter was at Rs 0.54.

### Key takeaways from the concall

- The quarter saw the commissioning of 207 beds hospital at Haji Ali, Mumbai.
- ARPOB increased 12.5% to Rs 8.1 mn during the quarter, due to the commissioning of its hospital at Mumbai.
- Number of operating beds increased to 5799 beds compared to 5347 beds in Q1FY17.
- Occupancy was at 59% compared to 55% a year ago.
- The contribution of cardiac has come down to 44% of revenues compared to 58% a year ago.
- The contribution from international patients has increased from 8% in FY17 to 10% in Q1FY18.
- Revenue from Cayman Islands was at \$9.7 mn with EBITDA at \$0.7 mn.
- NH acquired a 230 beds hospital at Gurugram at NCR, New Delhi for a consideration of Rs 1800 mn. The company will be incurring a capex of Rs 600 mn and expects to commission the same by Q4FY18.
- The company exited from 181 beds hospital at Mahuwa, Gujarat. The facility was a part of the managed hospitals by NH.

### Outlook & Valuation

We are positive on the developments at NH. The quarter saw a marginal impact of controls on stent pricing and increased operating costs due to the commissioning of its Mumbai hospital. However, the improvement in ARPOB and occupancy levels due to its presence in Mumbai and New Delhi has triggered growth in performance. We believe earnings will improve with better occupancy levels at the new hospitals. We have revised our estimates downwards in view of the increased capex due to its acquisition and expansion in New Delhi that was not factored in earlier. At Rs 299, NH trades at 38x FY19E EPS of Rs 7.82. We recommend investors to BUY with a long term target price of Rs 440. We are positive on NH for the long term in view of its scalability with low capex per bed and affordable specialized healthcare.



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	Q1FY18	Q4FY17	Q1FY17	yoy	qoq	FY17	FY16	Var %
<b>Income from operations</b>	<b>5211.1</b>	<b>4835.3</b>	<b>4519.5</b>	<b>15%</b>	<b>8%</b>	<b>18781.6</b>	<b>15995.6</b>	<b>17%</b>
% growth	15%	14%	13%			17%	17%	
Other Income	<b>52.3</b>	<b>57.3</b>	<b>31.1</b>			<b>174.8</b>	<b>146.9</b>	
<b>Total Income</b>	<b>5263.4</b>	<b>4892.5</b>	<b>4550.6</b>	<b>16%</b>	<b>8%</b>	<b>18956.5</b>	<b>16142.4</b>	<b>17%</b>
Purchase of Medical Consumables & supplies	1537.4	1039.2	1089.8			4388.8	3856.3	
Inventory Change	-276.6	44.9	-23.2			-29.8	14.8	
Employee Benefits	1072.5	924.1	914.8			3752.1	3338.4	
Professional Fees to Doctors	1104.9	1016.7	920.7			3855.7	3209.0	
Other expenses	1268.9	1209.1	1089.4			4526.3	3974.2	
<b>TOTAL EXPENSES</b>	<b>4707.1</b>	<b>4233.9</b>	<b>3991.5</b>	<b>18%</b>	<b>11%</b>	<b>16493.1</b>	<b>14392.6</b>	<b>15%</b>
<b>EBITDA (ex OI)</b>	<b>504.0</b>	<b>601.3</b>	<b>528.1</b>	<b>-5%</b>	<b>-16%</b>	<b>2288.6</b>	<b>1602.9</b>	<b>43%</b>
<i>EBITDA (ex-OI) margin</i>	<i>9.7%</i>	<i>12.4%</i>	<i>11.7%</i>			<i>12.2%</i>	<i>10.0%</i>	
<b>EBIT</b>	<b>338.2</b>	<b>446.3</b>	<b>373.7</b>	<b>-10%</b>	<b>-24%</b>	<b>1664.2</b>	<b>1131.6</b>	<b>47%</b>
Interest	103.1	55.7	54.7			218.0	294.4	
Depreciation	218.2	212.3	185.5			799.2	761.2	
<b>Profit Before Tax</b>	<b>235.1</b>	<b>390.6</b>	<b>319.0</b>	<b>-26%</b>	<b>-40%</b>	<b>1446.1</b>	<b>727.0</b>	
Tax	100.5	150.1	118.3			523.7	301.4	
<b>Net Profit</b>	<b>134.6</b>	<b>240.6</b>	<b>200.6</b>	<b>-33%</b>	<b>-44%</b>	<b>922.5</b>	<b>425.6</b>	<b>117%</b>
Minority Interest (after tax)	0.0	0.2	-0.1			0.8	4.1	
Profit/Loss of Associate Company	-25.4	-18.1	-24.2			-79.3	-217.5	
<b>Net Profit after Minority Interest &amp; P/L Asso.Co.</b>	<b>109.2</b>	<b>222.7</b>	<b>176.4</b>			<b>843.9</b>	<b>212.2</b>	<b>298%</b>
Extraordinary items	0.0	0.0	0.0			-13.4	-110.1	
<b>Net Profit after extraordinary items</b>	<b>109.2</b>	<b>222.7</b>	<b>176.4</b>	<b>-38%</b>	<b>-51%</b>	<b>830.5</b>	<b>102.1</b>	<b>713%</b>
NPM %	2.1%	4.6%	3.9%			4.4%	0.6%	
Other comprehensive income	0.0	-1.6	9.1			0.0	-7.9	
<b>Total comprehensive income</b>	<b>109.2</b>	<b>221.1</b>	<b>185.5</b>			<b>830.5</b>	<b>94.2</b>	
Equity	2043.6	2043.6	2043.6			2043.6	2043.6	
<b>EPS after Minority Interest</b>	<b>0.53</b>	<b>1.09</b>	<b>0.86</b>			<b>4.13</b>	<b>1.04</b>	



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NARAYANA HRUDAYALAYA FINANCIALS									
	FY16	FY17	FY18E	FY19E		FY16	FY17	FY18E	FY19E
<b>Profit &amp; Loss (Rs mn)</b>					<b>Cash Flow St. (Rs. mn)</b>				
<b>Income from Operations</b>	<b>16,138</b>	<b>18,782</b>	<b>23,097</b>	<b>27,436</b>	Net Profit	213	831	969	1,599
Purchase of medical consumables	3,871	4,359	5,543	6,448	Add: Dep. & Amort.	761	799	922	1,012
Employee costs	3,025	3,752	4,690	5,628	<b>Cash profits</b>	<b>974</b>	<b>1,630</b>	<b>1,891</b>	<b>2,611</b>
Professional fees to Doctors	3,522	3,856	4,735	5,487	(Inc)/Dec in				
Other expenses	3,974	4,526	5,580	6,343	-Sundry debtors	(89)	(51)	(632)	(411)
<b>Cost of sales</b>	<b>14,392</b>	<b>16,493</b>	<b>20,548</b>	<b>23,906</b>	-Inventories	15	(26)	(420)	(176)
<b>Operating Profit</b>	<b>1,746</b>	<b>2,289</b>	<b>2,549</b>	<b>3,531</b>	-Loans/advances	1,262	(161)	(19)	(20)
Depreciation	761	799	922	1,012	-Sundry creditors	209	(443)	1,633	704
PBIT	985	1,489	1,627	2,519	-Provisions	70	21	41	47
Other income	147	175	192	221	Change in working capital	1,467	(659)	603	144
Interest	294	218	390	410	<b>CF from Oper. activities</b>	<b>2,441</b>	<b>970</b>	<b>2,494</b>	<b>2,756</b>
<b>Profit before tax</b>	<b>838</b>	<b>1,446</b>	<b>1,429</b>	<b>2,329</b>	<b>CF from Inv. activities</b>	<b>(3,625)</b>	<b>(1,405)</b>	<b>(2,606)</b>	<b>(2,655)</b>
Provision for tax	301	524	500	815	<b>CF from Fin. activities</b>	<b>1,373</b>	<b>492</b>	<b>354</b>	<b>(233)</b>
PAT Bfr Excp Items	537	922	929	1,514	<b>Cash generated/(utilised)</b>	<b>188</b>	<b>57</b>	<b>242</b>	<b>(132)</b>
Minority Interest	4	1	(10)	(15)	Cash at start of the year	295	243	341	564
Share of Profit of Associate	(217)	(79)	50	100	Cash at end of the year	243	341	564	410
Extraordinary Items	(110)	(13)	-	-					
Net Profit	213	831	969	1,599	<b>Ratios</b>				
<b>Balance Sheet</b>					OPM	10.8%	12.2%	11.0%	12.9%
Equity capital	2,044	2,044	2,044	2,044	NPM	1.3%	4.4%	4.2%	5.8%
Reserves	6,716	7,587	8,147	9,338	Tax rate	36%	36%	35%	35%
<b>Net worth</b>	<b>8,760</b>	<b>9,631</b>	<b>10,191</b>	<b>11,381</b>	<b>Growth Ratios (%)</b>				
Def. Tax Liab.+Minority Int.	234	250	278	305	Net Sales	18%	16%	23%	19%
Secured loans	1,876	1,798	2,398	2,398	Operating Profit	43%	31%	11%	39%
Unsecured loans	478	1,023	1,023	1,023	PAT	-227%	290%	17%	65%
<b>Total debt</b>	<b>2,353</b>	<b>2,821</b>	<b>3,421</b>	<b>3,421</b>					
Other Liab	1,385	1,353	1,488	1,637	<b>Per Share (Rs.)</b>				
<b>CAPITAL EMPLOYED</b>	<b>12,732</b>	<b>14,055</b>	<b>15,378</b>	<b>16,744</b>	<b>Net Earnings (EPS)</b>	1.04	4.06	4.74	7.82
Gross block	13,537	14,619	16,119	17,619	<b>Cash Earnings (CPS)</b>	4.77	7.97	9.25	12.78
Accumulated depreciation	3,611	4,410	5,332	6,344	Dividend	0.00	1.00	2.00	2.00
Net block	9,927	10,209	10,787	11,275	Book Value	42.86	47.13	49.87	55.69
Capital WIP	138	530	500	500	Free Cash Flow	-0.2	-2.3	-0.2	0.7
<b>Total fixed assets</b>	<b>10,065</b>	<b>10,740</b>	<b>11,287</b>	<b>11,775</b>	<b>Valuation Ratios</b>				
Other Intangible assets	28	27	27	27	<b>P/E(x)</b>	290.6	74.5	63.9	38.7
Goodwill	590	581	581	581	P/B(x)	7.1	6.4	6.1	5.4
Equity accounted Investees	869	928	928	928	EV/EBIDTA(x)	36.7	28.0	25.1	18.1
Investments	3	33	1,033	2,033	EV/SALES(x)	4.0	3.4	2.8	2.3
Other non current assets	1,291	1,143	1,280	1,434	Div. Yield(%)	0.0%	0.3%	0.7%	0.7%
Inventories	497	524	943	1,119	<b>FCF Yield(%)</b>	-0.1%	-0.7%	-0.1%	0.2%
Sundry debtors	1,518	1,569	2,201	2,612	<b>Return Ratios (%)</b>				
Cash & bank	243	341	564	410	<b>ROE</b>	2.4%	8.6%	9.5%	14.0%
Loans & advances	221	383	402	422	<b>ROCE</b>	8.9%	11.8%	11.8%	16.4%
Other current assets	240	199	219	241					
Sundry creditors	2,583	2,140	3,773	4,477					
Provisions	252	273	314	361					
Working capital	(114)	603	242	(34)					
<b>CAPITAL DEPLOYED</b>	<b>12,732</b>	<b>14,055</b>	<b>15,378</b>	<b>16,744</b>					



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