



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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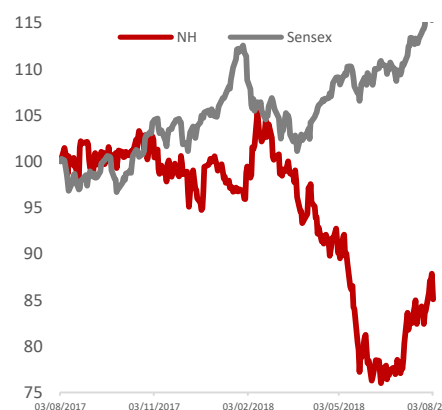
Neutral

Current Price	251
Target Price	273
Upside/Downside	9%
52 Week Range	212/320

Key Share Data

Market Cap (Rs.bn)	51.47
Market Cap (US\$ mn)	750.02
No of o/s shares (mn)	204.360s
Face Value	10
Monthly Avg. vol	
(BSE+NSE) Nos'000	386.99
BSE Code	539551
NSE Code	NH
Bloomberg	NARH:IN

Price performance



% Shareholding	June-18	Mar-18
Promoters	63.85	63.85
DII	23.33	21.21
FII	5.20	9.56
Others	7.62	7.38
Total	100	100

Narayana Hrudayalaya (NH) Q1FY19 results were below estimates. The lower occupancy at Whitefield, one of its top 3 hospitals and lower ARPOB at Cayman Islands are a concern to business. These along with higher overheads due to new hospitals at Mumbai and Delhi, and interest burden have resulted in a net loss of Rs 41 mn for the quarter. We reduce our rating to NEUTRAL in view of lack of visibility of earnings growth over the next few quarters.

Robust revenue growth, earnings hit due to lower occupancy and overheads

Revenues increased 25% yoy(1% qoq) to Rs 6523 mn. The NH India revenues increased 10% yoy with balance growth coming from Cayman Islands. EBITDA decreased 6% yoy (-10% qoq) to Rs 474 mn due to higher employee costs (+41% yoy, 6% qoq) and other expenses (+27% yoy, flat qoq). EBITDA margins were 240 bps lower yoy (-80 bps qoq) at 7.3%. PBT decreased 97% to Rs 6 mn. After taxes of Rs 30 mn and loss of associate of Rs 18 mn, NH incurred a net loss of Rs 41.4 mn. EPS was at Rs (-0.2).

Key takeaways from the concall

- Number of operating beds increased to 6143.
- NH India Occupancy was lower at 55% compared to 59% a year ago.
- During Q1FY19 Cayman ARPOB dropped from \$1.9 mn to \$1.5 mn yoy. Q1 is normally a weak quarter for Cayman.
- Overall ARPOB was 6% higher yoy (+4% qoq) at Rs 8.6 mn.
- During the quarter, NH has reduced 1 managed hospital representing 90 beds.
- NH plans to increase service offerings at SRCC Mumbai and Dharamshila New Delhi in order to improve ARPOBs and occupancy levels.

Revision of estimates

We have revised our estimates downwards for NH in view of the lower occupancy at Whitefield, Bengaluru which is expected to continue for the next 2 quarters and net loss in Q1FY19

Outlook & Valuation

The lower occupancy at Whitefield, Bengaluru, one of the top 3 hospitals of NH India and lower ARPOBs at Cayman Islands are a concern. Further, the increased overheads at its new hospitals namely SRCC (Mumbai), Dharamshila and Gurugram at Delhi and lower pace of growth in occupancy have reduced profitability. The loss in Q1FY19 and low visibility of improvement in earnings has come in as a major disappointment for NH. **We reduce our rating to NEUTRAL with a target price of Rs 273.**

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	251.3	2.4%	8.9%
FY17	18781.6	16%	2288.6	12.2%	830.5	290%	4.06	64.5	8.6%	11.8%
FY18	22809.1	21%	2122.7	9.3%	504.0	-39%	2.47	106.2	4.9%	6.4%
FY19E	26991.5	18%	2054.3	7.6%	318.1	-37%	1.56	168.3	3.1%	4.9%
FY20E	32459.8	20%	2759.5	8.5%	678.4	113%	3.32	78.9	6.4%	8.0%



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	Q1FY19	Q4FY18	Q1FY18	yoy	qoq	FY18	FY17	Var %
Income from operations	6523.4	6468.0	5211.1	25%	1%	22809.1	18781.6	21%
Other Income	30.0	42.5	52.3			189.0	174.8	
Total Income	6553.3	6510.5	5263.4	25%	1%	22998.1	18956.5	21%
Purchase of Medical Consumables & supplies	1612.7	1686.7	1537.4			5690.2	4388.8	
Inventory Change	-49.7	-74.8	-276.6			0.0	-29.8	
Employee Benefits	1508.9	1421.7	1072.5			4656.9	3752.1	
Professional Fees to Doctors	1369.1	1302.7	1104.9			4787.8	3855.7	
Other expenses	1608.2	1608.7	1268.9			5676.8	4526.3	
TOTAL EXPENSES	6049.3	5944.9	4707.1	29%	2%	20811.6	16493.1	26%
EBITDA (ex OI)	474.1	523.0	504.0	-6%	-9%	1997.4	2288.6	-13%
<i>EBITDA (ex-OI) margin</i>	<i>7.3%</i>	<i>8.1%</i>	<i>9.7%</i>			<i>8.8%</i>	<i>12.2%</i>	
EBIT	178.3	304.8	338.2	-47%	-42%	1312.1	1664.2	-21%
Interest	171.9	204.6	103.1			467.6	218.0	
Depreciation	325.8	260.8	218.2			999.5	799.2	
Profit Before Tax	6.4	100.2	235.1	-97%	-94%	844.6	1446.1	
Tax	30.0	-6.1	100.5			289.6	523.7	
Net Profit	-23.5	106.4	134.6	-117%	-122%	555.0	922.5	-40%
Minority Interest (after tax)	0.0	0.0	0.0			-10.0	0.8	
Profit/Loss of Associate Company	-17.9	-25.3	-25.4			-46.4	-79.3	
Net Profit after Minority Interest & P/L Asso.Co.	-41.4	81.1	109.2			498.6	843.9	-41%
Extraordinary items	0.0	17.0	0.0			5.4	-13.4	
Net Profit after extraordinary items	-41.4	98.1	109.2	-138%	-142%	504.0	830.5	-39%
NPM %	-0.6%	1.5%	2.1%			2.2%	4.4%	
Other comprehensive income	0.0	0.0	0.0			0.0	0.0	
Total comprehensive income	-41.4	98.1	109.2			504.0	830.5	
Equity	2043.6	2043.6	2043.6			2043.6	2043.6	
EPS after Minority Interest	-0.20	0.48	0.53			2.47	4.13	



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NARAYANA HRUDAYALAYA FINANCIALS											
	FY16	FY17	FY18	FY19E	FY20E		FY16	FY17	FY18	FY19E	FY20E
Profit & Loss (Rs mn)						Cash Flow St. (Rs. mn)					
Income from Operations	16,138	18,782	22,809	26,991	32,460	Net Profit	213	831	504	318	678
Purchase of medical consum:	3,871	4,359	5,565	6,478	7,790	Add: Dep. & Amort.	761	799	1,000	1,255	1,327
Employee costs	3,025	3,752	4,657	6,054	7,567	Cash profits	974	1,630	1,504	1,574	2,005
Professional fees to Doctors	3,522	3,856	4,788	5,668	6,654	(Inc)/Dec in					
Other expenses	3,974	4,526	5,677	6,737	7,688	-Sundry debtors	(89)	(51)	(1,221)	(538)	(674)
Cost of sales	14,392	16,493	20,686	24,937	29,700	-Inventories	15	(26)	(313)	(125)	(373)
Operating Profit	1,746	2,289	2,123	2,054	2,759	-Loans/advances	1,262	(161)	162	(11)	(12)
Depreciation	761	799	1,000	1,255	1,327	-Sundry creditors	209	(443)	2,339	327	974
PBIT	985	1,489	1,123	799	1,433	-Provisions	70	21	114	97	97
Other income	147	175	189	217	250	Change in working cap	1,467	(659)	1,082	(250)	12
Interest	294	218	468	587	624	CF from Oper. activiti	2,441	970	2,585	1,324	2,017
Profit before tax	838	1,446	845	429	1,059	CF from Inv. activities	(3,625)	(1,405)	(8,030)	(635)	(2,398)
Provision for tax	301	524	290	103	365	CF from Fin. activities	1,373	492	5,850	(234)	(216)
PAT Bfr Excp Items	537	922	555	326	693	Cash generated/(utilis	188	57	405	455	(596)
Minority Interest	4	1	(10)	(8)	(15)	Cash at start of the year	295	243	341	353	749
Share of Profit of Associate	(217)	(79)	(46)	-	-	Cash at end of the year	243	341	353	749	87
Extraordinary Items	(110)	(13)	5	-	-						
Net Profit	213	831	504	318	678						
Balance Sheet						Ratios					
Equity capital	2,044	2,044	2,044	2,044	2,044	OPM	10.8%	12.2%	9.3%	7.6%	8.5%
Reserves	6,716	7,587	8,314	8,223	8,493	NPM	1.3%	4.4%	2.2%	1.2%	2.1%
Net worth	8,760	9,631	10,357	10,267	10,537	Tax rate	36%	36%	34%	24%	35%
Def. Tax Liab.+Minority Int.	234	250	399	439	483	Growth Ratios (%)					
Secured loans	1,876	1,798	6,963	6,963	6,963	Net Sales	18%	16%	21%	18%	20%
Unsecured loans	478	1,023	1,421	1,421	1,421	Operating Profit	43%	31%	-7%	-3%	34%
Total debt	2,353	2,821	8,384	8,384	8,384	PAT	-227%	290%	-39%	-37%	113%
Other Liab	1,385	1,353	1,350	1,485	1,633						
CAPITAL EMPLOYED	12,732	14,055	20,490	20,574	21,036	Per Share (Rs.)					
Gross block	13,537	14,619	22,526	23,126	25,126	Net Earnings (EPS)	1.04	4.06	2.47	1.56	3.32
Accumulated depreciation	3,611	4,410	5,409	6,665	7,992	Cash Earnings (CPS)	4.77	7.97	7.36	7.70	9.81
Net block	9,927	10,209	17,117	16,461	17,134	Dividend	0.00	1.00	2.00	2.00	2.00
Capital WIP	138	530	350	250	500	Book Value	42.86	47.13	50.68	50.24	51.56
Total fixed assets	10,065	10,740	17,467	16,711	17,634	Free Cash Flow	-0.2	-2.3	-26.2	3.8	-1.4
Other Intangible assets	28	27	703	703	703	Valuation Ratios					
Goodwill	590	581	660	660	660	P/E(x)	251.3	64.5	106.2	168.3	78.9
Equity accounted Investees	869	928	37	37	37	P/B(x)	6.1	5.6	5.2	5.2	5.1
Investments	3	33	50	50	50	EV/EBIDTA(x)	30.6	23.3	25.1	26.0	19.3
Other non current assets	1,291	1,143	1,564	1,700	1,847	EV/SALES(x)	3.3	2.8	2.3	2.0	1.6
Inventories	497	524	836	961	1,334	Div. Yield(%)	0.0%	0.4%	0.8%	0.8%	0.8%
Sundry debtors	1,518	1,569	2,790	3,328	4,002	FCF Yield(%)	-0.1%	-0.9%	-10.0%	1.4%	-0.5%
Cash & bank	243	341	353	749	87	Return Ratios (%)					
Loans & advances	221	383	221	232	244	ROE	2.4%	8.6%	4.9%	3.1%	6.4%
Other current assets	240	199	593	653	718	ROCE	8.9%	11.8%	6.4%	4.9%	8.0%
Sundry creditors	2,583	2,140	4,479	4,807	5,781						
Provisions	252	273	387	484	580						
Working capital	(114)	603	(73)	632	23						
CAPITAL DEPLOYED	12,732	14,055	20,409	20,494	20,956						



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