



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result update@ Dalal & Broacha

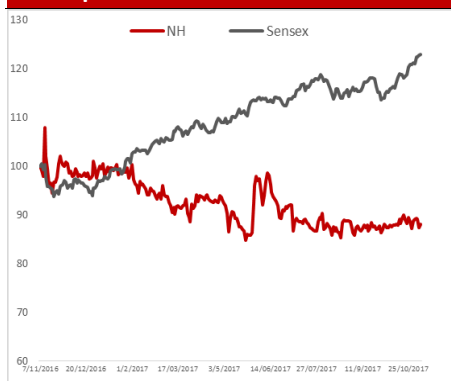
BUY

Current Price	302
Target Price	440
Upside/Downside	46%
52 Week Range	375/281.5

Key Share Data

Market Cap (Rs.bn)	61.8
Market Cap (US\$ mn)	958.12
No of o/s shares (mn)	204.4
Face Value	10
Monthly Avg. vol (BSE+NSE) Nos'000	43
BSE Code	539551
NSE Code	NH
Bloomberg	NARH:IN

Price performance



% Shareholding	Sep-17	Jun -17
Promoters	63.85	63.85
DII	14.36	12.7
FII	13.2	18.03
Others	8.59	5.42
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	290.1	2.4%	8.9%
FY17	18781.6	16%	2288.6	12.2%	830.5	290%	4.06	74.4	8.6%	11.8%
FY18E	23097.1	23%	2549.1	11.0%	968.9	17%	4.74	63.8	9.5%	11.8%
FY19E	27436.4	19%	3530.8	12.9%	1599.1	65%	7.82	38.6	14.0%	16.4%

Narayana Hrudayalaya (NH) Q2FY18 results were in line with expectations. While revenues were better than our estimates, the profits were marginally below estimates. Improvement in sequential profitability and significant betterment in the performance at Cayman Islands marks the quarter for NH.

Robust revenue growth, earnings pressure due to new hospital overheads

Revenues increased 15% yoy to Rs 5592 mn. EBITDA declined 8% to Rs 581 mn in view of increased expenses (doctor fees and other expenses - towards existing as well as new hospitals in Mumbai and New Delhi). Depreciation was significantly higher at Rs 285 mn (Rs 197mn in Q2FY17). PBT declined 36% to Rs 275 mn. PAT declined 37% to Rs 178.6 mn. After share of profit from Cayman Islands of Rs 1.54 mn, the Net Profit was 32% lower at Rs 180.1 mn.

Cayman Islands turns PAT accretive

Performance of Cayman Islands was significantly better with 55% increase in revenues to \$11.6 mn and 339% increase in EBITDA to \$ 1.8 mn. EBITDA margins for the quarter were at 15.5%. The share of profit was at Rs 1.54 mn, indicating a PAT margin of 13.3% compared to a loss of Rs 20.4 mn in Q2FY17. NH has decided to acquire the balance 71.4% stake in Cayman Islands at a consideration of \$ 32 mn by January 2018.

Key takeaways from the concall

- Number of operating beds increased to 5889 compared to 5636 in Q2FY17.
- Occupancy rate was marginally lower at 64.2% (65.5% in Q2FY17).
- ARPOB increased 10% to Rs 7.7 mn in Q2FY18.
- During the quarter, the Dharamshila Oncology hospital has been upgraded to a multi-specialty hospital.
- The occupancy of the SRCC Mumbai hospital is increasing steadily.
- NH has planned for a capex of Rs 3500 mn during FY18.

Outlook & Valuation

We are positive about the performance of NH. The increase in costs is a temporary phase and will start adding to EBITDA, as the occupancy rates at the new hospitals improve. A significant achievement has been the turnaround of Cayman Islands, with a share of profit of Rs 1.54 mn during the quarter. We believe NH will benefit as the second largest player by operating beds and its policy of offering niche treatment at affordable rates, with the lowest capex per bed. At Rs 302, NH trades at 39x FY19E EPS of Rs 7.8. **We recommend investors to BUY NH with a target price of Rs 440.**



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	Q2FY18	Q1FY18	Q2FY17	yoy	qoq	FY17	FY16	Var %
Income from operations	5591.6	5211.1	4874.1	15%	7%	18781.6	15995.6	17%
% growth	15%	15%	13%			17%	17%	
Other Income	57.1	52.3	47.5			174.8	146.9	
Total Income	5648.7	5263.4	4921.7	15%	7%	18956.5	16142.4	17%
Purchase of Medical Consumables & supplies	1199.8	1537.4	1205.4			4388.8	3856.3	
Inventory Change	154.8	-276.6	-65.5			-29.8	14.8	
Employee Benefits	1094.8	1072.5	960.8			3752.1	3338.4	
Professional Fees to Doctors	1164.9	1104.9	968.6			3855.7	3209.0	
Other expenses	1396.4	1268.9	1171.4			4526.3	3974.2	
TOTAL EXPENSES	5010.7	4707.1	4240.7	18%	6%	16493.1	14392.6	15%
EBITDA (ex OI)	581.0	504.0	633.5	-8%	15%	2288.6	1602.9	43%
<i>EBITDA (ex-OI) margin</i>	<i>10.4%</i>	<i>9.7%</i>	<i>13.0%</i>			<i>12.2%</i>	<i>10.0%</i>	
EBIT	352.6	338.2	484.0	-27%	4%	1664.2	1131.6	47%
Interest	77.5	103.1	52.7			218.0	294.4	
Depreciation	285.5	218.2	197.0			799.2	761.2	
Profit Before Tax	275.1	235.1	431.2	-36%	17%	1446.1	727.0	
Tax	96.5	100.5	146.0			523.7	301.4	
Net Profit	178.6	134.6	285.3	-37%	33%	922.5	425.6	117%
Minority Interest (after tax)	0.0	0.0	0.3			0.8	4.1	
Profit/Loss of Associate Company	1.5	-25.4	-20.4			-79.3	-217.5	
Net Profit after Minority Interest & P/L Asso.Co.	180.1	109.2	265.2			843.9	212.2	298%
Extraordinary items	0.0	0.0	0.0			-13.4	-110.1	
Net Profit after extraordinary items	180.1	109.2	265.2	-32%	65%	830.5	102.1	713%
NPM %	3.2%	2.1%	5.4%			4.4%	0.6%	
Other comprehensive income	0.0	0.0	-3.9			0.0	-7.9	
Total comprehensive income	180.1	109.2	261.2			830.5	94.2	
Equity	2043.6	2043.6	2043.6			2043.6	2043.6	
EPS after Minority Interest	0.88	0.53	1.30			4.13	1.04	



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NARAYANA HRUDAYALAYA FINANCIALS									
	FY16	FY17	FY18E	FY19E		FY16	FY17	FY18E	FY19E
Profit & Loss (Rs mn)					Cash Flow St. (Rs. mn)				
Income from Operations	16,138	18,782	23,097	27,436	Net Profit	213	831	969	1,599
Purchase of medical consuma	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	Cash profits	974	1,630	1,891	2,611
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)
Cost of sales	14,392	16,493	20,548	23,906	-Inventories	15	(26)	(420)	(176)
Operating Profit	1,746	2,289	2,549	3,531	-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 cap	1,467	(659)	603	144
Interest	294	218	390	410	CF from Oper. activitie	2,441	970	2,494	2,756
Profit before tax	838	1,446	1,429	2,329	CF from Inv. activities	(3,625)	(1,405)	(2,606)	(2,655)
Provision for tax	301	524	500	815	CF from Fin. activities	1,373	492	354	(233)
PAT Bfr Excp Items	537	922	929	1,514	Cash generated/(utilise	188	57	242	(132)
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	Ratios				
Balance Sheet					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%
Net worth	8,760	9,631	10,191	11,381	Growth Ratios (%)				
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%
Total debt	2,353	2,821	3,421	3,421	Per Share (Rs.)				
Other Liab	1,385	1,353	1,488	1,637	Net Earnings (EPS)	1.04	4.06	4.74	7.82
CAPITAL EMPLOYED	12,732	14,055	15,378	16,744	Cash Earnings (CPS)	4.77	7.97	9.25	12.78
Gross block	13,537	14,619	16,119	17,619	Dividend	0.00	1.00	2.00	2.00
Accumulated depreciation	3,611	4,410	5,332	6,344	Book Value	42.86	47.13	49.87	55.69
Net block	9,927	10,209	10,787	11,275	Free Cash Flow	-0.2	-2.3	-0.2	0.7
Capital WIP	138	530	500	500	Valuation Ratios				
Total fixed assets	10,065	10,740	11,287	11,775	P/E(x)	290.1	74.4	63.8	38.6
Other Intangible assets	28	27	27	27	P/B(x)	7.1	6.4	6.1	5.4
Goodwill	590	581	581	581	EV/EBIDTA(x)	36.6	27.9	25.1	18.1
Equity accounted Investees	869	928	928	928	EV/SALES(x)	4.0	3.4	2.8	2.3
Investments	3	33	1,033	2,033	Div. Yield(%)	0.0%	0.3%	0.7%	0.7%
Other non current assets	1,291	1,143	1,280	1,434	FCF Yield(%)	-0.1%	-0.8%	-0.1%	0.2%
Inventories	497	524	943	1,119	Return Ratios (%)				
Sundry debtors	1,518	1,569	2,201	2,612	ROE	2.4%	8.6%	9.5%	14.0%
Cash & bank	243	341	564	410	ROCE	8.9%	11.8%	11.8%	16.4%
Loans & advances	221	383	402	422					
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)					
CAPITAL DEPLOYED	12,732	14,055	15,378	16,744					



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