



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Q2FY21 Result Update@ Dalal & Broacha

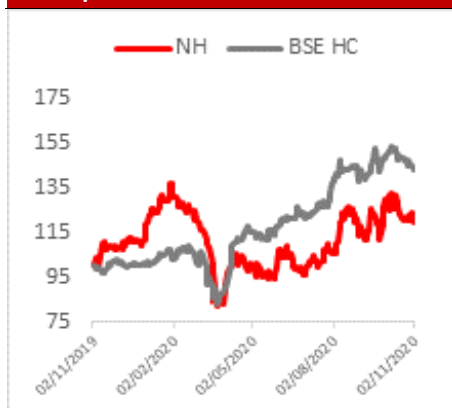
BUY on Dips

| | |
|-----------------|---------|
| Current Price | 360 |
| Target Price | 402 |
| Upside/Downside | 12% |
| 52 Week Range | 210/389 |

Key Share Data

| | |
|-----------------------------------|---------|
| Market Cap (Rs.bn) | 68 |
| Market Cap (US\$ mn) | 916 |
| No of o/s shares (mn) | 204 |
| Face Value | 10 |
| Monthly Avg.vol (BSE+NSE) Nos'000 | 158 |
| BSE Code | 539551 |
| NSE Code | NH |
| Bloomberg | NARH:IN |

Price performance



| % Shareholding | Sep-20 | Jun-20 |
|----------------|------------|------------|
| Promoters | 63.85 | 63.85 |
| FII | 8.54 | 9.28 |
| DII | 21.09 | 19.96 |
| Others | 6.52 | 6.91 |
| Total | 100 | 100 |

Key Financials

| Year | Net Sales | % Growth | EBITDA | OPM (%) | PAT | % Growth | EPS | PE (x) | RoE (%) | RoCE (%) | EV/EBITDA |
|-------|-----------|----------|--------|---------|------|----------|-------|--------|---------|----------|-----------|
| FY18 | 22809 | 21% | 2123 | 9.3% | 514 | -38% | 2.52 | 143 | 5.0% | 6.4% | 37.7 |
| FY19 | 28609 | 25% | 2878 | 10.1% | 593 | 15% | 2.90 | 124 | 5.5% | 7.9% | 27.7 |
| FY20 | 31278 | 9% | 4229 | 13.5% | 1190 | 101% | 5.82 | 62 | 10.5% | 12.5% | 18.3 |
| FY21E | 25465 | -19% | 1652 | 6.5% | -436 | -137% | -2.13 | -169 | -4.0% | 0.1% | 46.6 |
| FY22E | 31524 | 24% | 4283 | 13.6% | 1416 | | 6.93 | 52 | 11.9% | 12.3% | 17.6 |

Narayana Hrudayalaya Q2FY21 (first cut) results were below estimates. While revenues exceeded expectations, the profitability was below estimates. Sequential recovery in India across clusters and Cayman operations improved profitability.

KTAs from NH concall:

India Business

1. Revenues from Covid19 patients -16% of India sales (Rs 728 mn).
2. Significantly lower ARPOBs (~50%) and higher number of treatment days (ALOS) for Covid19 patients brought in lower growth in ARPOB (+3%).
3. The lower ARPOB growth and higher consumables required in Covid19 treatment, reduced profitability during the quarter.
4. See improvement in October after easing lockdown.
5. Also see improvement in Karnataka hospitals, as the Covid19 breakout is lower in the State.
6. Breakeven of new hospitals (SRCC, Gurugram) delayed to FY22.

Cayman Islands

7. Cayman revenues were at \$19.5 mn (+22% yoy) in Q2FY21, in view of the change in billing systems. The revenue is not sustainable in the coming quarters, as there are only local patients at Cayman with international travel not expected to open up for 1-2 quarters.
8. Cayman EBITDA was at \$8.9 mn, the highest so far due to rejigging of Doctor's salaries from fixed to variable in view of the pandemic.
9. Q3 will be better but not normal as Covid19 cases are expected to grow in Delhi.
10. The company expects normalization by Q4FY21.

We have revised our estimates adjusting for the deferred tax credit, ARPOBs and occupancy in H1FY21. We have valued NH as a weighted average of DCF, 18x EV per bed and 20x EV/EBITDA, and arrived at a target price of Rs 402.

We upgrade our rating from ACCUMULATE to BUY on Dips.



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Key Result Highlights

- ***India revenues*** (-36% yoy/+48% qoq) to Rs 4550 mn, Vs our estimate of Rs 4861 mn. India ARPOB increased 3% to Rs 9.9 mn, in line with our estimates. Operating beds were at 5920, +62 beds due to commencement at Chittagong heart centre. Revenue from new hospitals -11% at Rs 577 mn.
- ***Cayman revenues*** (CC +22% yoy) to Rs 1424 mn(\$19.5 mn). Cayman ARPOB (+29% yoy/+38% qoq) to \$ 2.2 mn.
- **Total Expenses** (-18% yoy/+19% qoq) to Rs 5740 mn. Sequential increase in expenses was mainly from Purchase of consumables (27% of sales, +51%) Rs 1576 mn, other expenses (+26% Rs 1480 mn), Doctor fees (19% of sales, +13%) Rs 1168 mn.
- **Ind AS 116** benefit of Rs 129 mn on EBITDA and decrease of Rs 18 mn in PAT.
- Interest -11% at Rs 194 mn and depreciation +8% at Rs 462 mn, in view of 3 new hospitals.

By Cluster

- Bangalore (29% of sales) -49% with EBITDAR margin at -6.2%.
- South Peripheral (9% of sales) -2% with EBITDAR margin at 19.6%.
- Kolkata (26% of sales) -39% with EBITDAR margin at -3.9%.
- Eastern Peripheral (5% of sales) -39% with EBITDAR margin at -7.6%.
- Western (19% of sales) -19% with EBITDAR margin at -1.4%.
- Northern (12% of sales) -3% with EBITDAR -9.6%.

We have revised our estimates adjusting for the deferred tax credit, ARPOBs and occupancy in H1FY21. NH has incurred PBT loss of Rs 1809 mn and has utilized deferred tax credit of Rs 598 mn in H1FY21.

| | FY21E | FY21E(O) | % change | FY22E | FY22E(O) | % change |
|-----------|-------|----------|----------|-------|----------|----------|
| Net Sales | 25465 | 23824 | 7% | 31524 | 30827 | 2% |
| % growth | -19% | -24% | | 24% | 29% | |
| EBITDA | 1652 | 1748 | -5% | 4283 | 4508 | -5% |
| OPM | 6.5% | 7.3% | | 13.6% | 14.6% | |
| PAT | -436 | -791 | | 1416 | 1482 | -4% |
| % growth | | | | 0% | | |
| EPS | -2.13 | -3.87 | | 6.93 | 7.25 | |

We have valued Narayana Hrudayalaya as a weighted average of DCF (33%), 18x EV/Bed (34%) and 20x EV/EBITDA (33%), and arrived at a target price of Rs 366.

| Company | CMP 13/11/20 | MCAP | EV | Operating Beds | EV per Bed |
|-------------------|-----------------|--------|----------|-------------------|---------------|
| Apollo Hospitals | 2031 | 293721 | 3,16,136 | 7267 | 44 |
| Fortis Healthcare | 138 | 104826 | 1,13,254 | 3700 | 31 |
| Aster DM | 158 | 79372 | 99,104 | 3607 | 27 |
| Max India | 122 | 110440 | 1,22,364 | 3000 | 41 |
| Narayana Hrudayal | 360 | 73570 | 77,516 | 5343 | 15 |
| Average | | | | | 31 |



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| | Q2FY21 | Q1FY21 | Q2FY20 | YoY | QoQ | H1FY21 | H1FY20 | Var % |
|--|--------------|---------------|--------------|--------------|------------|--------------|--------------|--------------|
| Income from operations | 6007 | 3935 | 8223 | -27% | 53% | 9942 | 15997 | -38% |
| Other Income | 104 | 47 | 64 | | | 151 | 112 | |
| Total Income | 6111 | 3982 | 8287 | -26% | 53% | 10093 | 22998 | -56% |
| Purchase of Medical Consumables & supplies | 1577 | 1043 | 1886 | | | 2619 | 3763 | -30% |
| Inventory Change | 39 | 63 | 29 | | | 102 | 55 | 85% |
| Employee Benefits | 1476 | 1529 | 1760 | | | 3005 | 3206 | -6% |
| Professional Fees to Doctors | 1168 | 1031 | 1630 | | | 2199 | 3392 | -35% |
| Other expenses | 1480 | 1179 | 1701 | | | 2659 | 3335 | -20% |
| TOTAL EXPENSES | 5740 | 4845 | 7006 | -18% | 18% | 10584 | 13752 | -23% |
| EBITDA (ex OI) | 268 | -910 | 1217 | -78% | | -642 | 2245 | -129% |
| <i>EBITDA (ex-OI) margin</i> | <i>4.5%</i> | <i>-23.1%</i> | <i>14.8%</i> | | | <i>-6.5%</i> | <i>9.3%</i> | |
| EBIT | -90 | -1327 | 852 | -111% | | -1417 | 1514 | -194% |
| Interest | 194 | 197 | 217 | | | 392 | 439 | |
| Depreciation | 462 | 464 | 429 | | | 926 | 843 | |
| Profit Before Tax | -285 | -1524 | 634 | | | -1809 | 1075 | |
| Tax | 261 | 337 | 168 | | | 598 | 298 | |
| Net Profit | -24 | -1187 | 466 | | | -1211 | 777 | -256% |
| Minority Interest (after tax) | 0 | 0 | 0 | | | 0 | 0 | |
| Profit/Loss of Associate Company | -10 | -10 | -13 | | | -21 | -20 | |
| Net Profit after Minority Interest & P/L Asso.Co. | -34 | -1198 | 454 | | | -1232 | 758 | -263% |
| Extraordinary items | 0 | 0 | 0 | | | 0 | 0 | |
| Net Profit after extraordinary items | -34 | -1198 | 454 | | | -1232 | 758 | -263% |
| NPM % | -0.6% | -30.4% | 5.5% | | | -12.4% | 2.3% | |
| Equity | 2044.6 | 2043.6 | 2043.6 | | | 2043.6 | 2043.6 | |
| EPS after Minority Interest | -0.17 | -5.86 | 2.22 | | | -6.03 | 3.71 | |



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| NARAYANA HRUDAYALAYA FINANCIALS | | | | | | | | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|----------------------------------|----------------|----------------|----------------|--------------|----------------|
| | FY18 | FY19 | FY20 | FY21E | FY22E | | FY18 | FY19 | FY20 | FY21E | FY22E |
| Profit & Loss (Rs mn) | | | | | | Cash Flow St. (Rs. mn) | | | | | |
| Income from Operations | 22,809 | 28,609 | 31,278 | 25,465 | 31,524 | Net Profit | 514 | 593 | 1,190 | (436) | 1,416 |
| Purchase of medical consumables | 5,565 | 6,875 | 7,453 | 6,621 | 7,881 | Add: Dep. & Amort. | 1,000 | 1,373 | 1,857 | 1,900 | 1,934 |
| Employee costs | 4,657 | 6,241 | 6,737 | 6,063 | 6,670 | Cash profits | 1,514 | 1,966 | 3,047 | 1,464 | 3,351 |
| Professional fees to Doctors | 4,788 | 5,898 | 6,290 | 5,348 | 6,620 | (Inc)/Dec in | | | | | |
| Other expenses | 5,677 | 6,717 | 6,569 | 5,781 | 6,070 | -Sundry debtors | (1,221) | 125 | 42 | 529 | (1,362) |
| Cost of sales | 20,686 | 25,731 | 27,049 | 23,812 | 27,240 | -Inventories | (313) | 4 | 230 | (95) | (166) |
| Operating Profit | 2,123 | 2,878 | 4,229 | 1,652 | 4,283 | -Loans/advances | 162 | (72) | (123) | (29) | (22) |
| Depreciation | 1,000 | 1,373 | 1,857 | 1,900 | 1,934 | -Sundry creditors | 2,339 | 241 | 696 | (673) | 1,129 |
| PBIT | 1,123 | 1,505 | 2,372 | (248) | 2,349 | -Provisions | 114 | 37 | 253 | 169 | 169 |
| Other income | 189 | 167 | 238 | 273 | 328 | Change in working capital | 1,082 | 335 | 1,097 | (98) | (252) |
| Interest | 468 | 714 | 853 | 838 | 736 | CF from Oper. activities | 2,595 | 2,302 | 4,144 | 1,365 | 3,099 |
| Profit before tax | 845 | 958 | 1,757 | (812) | 1,941 | CF from Inv. activities | (7,522) | (2,255) | (2,345) | (236) | (3,095) |
| Provision for tax | 290 | 341 | 423 | (406) | 505 | CF from Fin. activities | 5,840 | 58 | (1,721) | (97) | (205) |
| PAT Bfr Excp Items | 555 | 617 | 1,335 | (406) | 1,436 | Cash generated/(utilised) | 913 | 104 | 79 | 1,033 | (200) |
| Minority Interest | - | - | (1) | - | - | Cash at start of the year | 341 | 860 | 1,204 | 1,512 | 2,637 |
| Share of Profit of Associate | (46) | (23) | (34) | (30) | (20) | Cash at end of the year | 860 | 1,204 | 1,512 | 2,637 | 2,537 |
| Extraordinary Items | 5 | - | (109) | - | - | | | | | | |
| Net Profit | 514 | 593 | 1,190 | (436) | 1,416 | Ratios | | | | | |
| Balance Sheet | | | | | | OPM | 9.3% | 10.1% | 13.5% | 6.5% | 13.6% |
| Equity capital | 2,044 | 2,044 | 2,044 | 2,044 | 2,044 | NPM | 2.3% | 2.1% | 3.8% | -1.7% | 4.5% |
| Reserves | 8,314 | 8,768 | 9,316 | 8,880 | 9,888 | Tax rate | 34% | 36% | 24% | 50% | 26% |
| Net worth | 10,357 | 10,811 | 11,360 | 10,924 | 11,931 | Growth Ratios (%) | | | | | |
| Def. Tax Liab.+Minority Int. | 399 | 483 | 549 | 602 | 663 | Net Sales | 21% | 25% | 9% | -19% | 24% |
| Secured loans | 6,963 | 7,253 | 6,185 | 6,185 | 6,185 | Operating Profit | -7% | 36% | 47% | -61% | 159% |
| Unsecured loans | 1,421 | 1,283 | 1,410 | 1,260 | 1,404 | PAT | -38% | 15% | 101% | -137% | -425% |
| Total debt | 8,384 | 8,536 | 7,595 | 7,446 | 7,589 | Per Share (Rs.) | | | | | |
| Other Liab | 1,350 | 1,394 | 1,303 | 1,434 | 1,577 | Net Earnings (EPS) | 2.52 | 2.90 | 5.82 | -2.13 | 6.93 |
| CAPITAL EMPLOYED | 20,490 | 21,224 | 20,807 | 20,405 | 21,760 | Cash Earnings (CPS) | 7.41 | 9.62 | 14.91 | 7.16 | 16.40 |
| Gross block | 22,526 | 23,906 | 25,885 | 26,885 | 28,385 | Dividend | 2.00 | 2.00 | 2.00 | 0.00 | 2.00 |
| Accumulated depreciation | 5,409 | 6,782 | 8,639 | 10,539 | 12,474 | Book Value | 50.68 | 52.90 | 55.59 | 53.45 | 58.38 |
| Net block | 17,117 | 17,124 | 17,245 | 16,345 | 15,911 | Free Cash Flow | -30.1 | 0.3 | -3.8 | 7.2 | 3.3 |
| Capital WIP | 269 | 362 | 118 | 118 | 118 | Valuation Ratios | | | | | |
| Total fixed assets | 17,385 | 17,486 | 17,363 | 16,463 | 16,029 | P/E(x) | 143.1 | 124.0 | 61.8 | -168.7 | 51.9 |
| Other Intangible assets | 703 | 597 | 718 | 718 | 718 | P/B(x) | 7.1 | 6.8 | 6.5 | 6.7 | 6.2 |
| Goodwill | 660 | 660 | 581 | 581 | 581 | EV/EBIDTA(x) | 37.7 | 27.7 | 18.3 | 46.6 | 17.6 |
| Equity accounted Investees | 37 | 29 | 28 | 28 | 28 | EV/SALES(x) | 3.5 | 2.8 | 2.5 | 3.0 | 2.4 |
| Investments | 50 | 145 | 835 | 0 | 1,500 | Div. Yield(%) | 0.6% | 0.6% | 0.6% | 0.0% | 0.6% |
| Other non current assets | 1,219 | 1,980 | 1,840 | 1,911 | 2,005 | FCF Yield(%) | -8.4% | 0.1% | -1.1% | 2.0% | 0.9% |
| Inventories | 836 | 832 | 602 | 698 | 864 | Return Ratios (%) | | | | | |
| Sundry debtors | 2,790 | 2,664 | 2,622 | 2,093 | 3,455 | ROE | 5.0% | 5.5% | 10.5% | -4.0% | 11.9% |
| Cash & bank | 860 | 1,204 | 1,512 | 2,637 | 2,537 | ROCE | 6.4% | 7.9% | 12.5% | 0.1% | 12.3% |
| Loans & advances | 221 | 293 | 417 | 446 | 468 | | | | | | |
| Other current assets | 593 | 477 | 382 | 420 | 462 | | | | | | |
| Sundry creditors | 4,479 | 4,720 | 5,417 | 4,744 | 5,873 | | | | | | |
| Provisions | 387 | 424 | 676 | 845 | 1,014 | | | | | | |
| Working capital | 435 | 327 | (558) | 704 | 899 | | | | | | |
| CAPITAL DEPLOYED | 20,490 | 21,224 | 20,807 | 20,405 | 21,760 | | | | | | |



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| Contact | Email ID | Contact No. | Sector |
|-------------------------------|---|---------------------|----------------------------|
| Mr. Kunal Bhatia | kunal.bhatia@dalal-broacha.com | 022 67141442 | Auto, Auto Ancillary, FMCG |
| Mrs.Charulata Gaidhani | charulata.gaidhani@dalal-broacha.com | 022 67141446 | Pharma /Healthcare |
| Mr. Mayank Babla | mayank.babladalal-broacha.com | 022 67141412 | I.T/Telecom/Media |
| Mr. Avinash Tanawade | avinash.tanawade@dalal-broacha.com | 022 67141449 | BFSI |
| Mr. Akshay Ashok | akshay.ashok@dalal-broacha.com | 022 67141486 | BFSI |
| Mr. Suraj Nandu | suraj.nandu@dalal-broacha.com | 022 67141438 | Associate |

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021
Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com