



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

Analyst: Charulata Gaidhani (022) 67141446

## Result update@ Dalal & Broacha

### BUY

Current Price	290
Target Price	<b>440</b>
Upside/Downside	52%
52 Week Range	280.70/343.50

### Key Share Data

Market Cap (Rs.bn)	60.50
Market Cap (US\$ mn)	945.61
No of o/s shares (mn)	204.360s
Face Value	10
Monthly Avg. vol	
(BSE+NSE) Nos'000	115.5
BSE Code	539551
NSE Code	NH
Bloomberg	NARH:IN

### Price performance



% Shareholding	Dec-17	Sep-17
Promoters	63.85	63.85
DII	22.6	14.36
FII	6.54	13.2
Others	7.01	8.59
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	277.8	2.4%	8.9%
FY17	18781.6	16%	2288.6	12.2%	830.5	290%	4.06	71.3	8.6%	11.8%
FY18E	23097.1	23%	2549.1	11.0%	968.9	17%	4.74	61.1	9.5%	11.8%
FY19E	27436.4	19%	3530.8	12.9%	1599.1	65%	7.82	37.0	14.0%	16.4%
FY20E	33821.5	23%	5116.9	15.1%	2738.8	71%	13.40	21.6	20.0%	22.5%

**Narayana Hrudayalaya (NH) Q3FY18 results were in line with expectations. In a positive development, NH has acquired 100% stake in Cayman Islands, which will now be a 100% subsidiary.**

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

Revenues from operations grew 24% to Rs 5538 mn, in view of 4% increase in average revenue per occupied bed (ARPOB) and improved occupancy of 60.9% for the quarter. EBITDA decreased 21% to Rs 515 mn due to 25% increase in expenses namely Medical consumables (25%), employee cost (12%), doctor fees (28%) and other expenses (33%). EBITDA margins dipped 240 bps to 9.3%. PBT degrew 24% to Rs 234 mn. PAT after share of profit of Rs 5.8 mn, degrew 23% to Rs 141 mn due to higher taxes. EPS for the quarter was at Rs 0.70.

#### Acquisition of 100% stake in Cayman Islands

In January'2018, NH, through its subsidiary acquired the balance (71.4%) stake in Health City Cayman Islands Ltd. The enterprise value of Health City Cayman Islands is at \$70mn. The acquisition will enable NH to improve its ARPOB further and help maintain profitability till the occupancy levels improve at Mumbai & Delhi.

#### Key takeaways from the concall

- Number of operating beds continued to be at 5889.
- Occupancy rate was higher at 60.9% (56.7% in Q3FY17).
- ARPOB increased 4% to Rs 8 mn in Q3FY18.
- During the quarter, the Dharamshila Oncology hospital has been upgraded to a multi-specialty hospital.
- NH expects to commission its Gurugram hospital by Q4FY18.
- The occupancy of the SRCC Mumbai hospital is increasing steadily.
- Cayman Islands earned revenues of \$11.4mn and an EBITDA of \$1.7mn.

#### Outlook & Valuation

We are positive on the developments at NH. The acquisition of balance stake in Cayman Islands is a welcome move with higher ARPOB and profitability going forward. The operational expenses of Mumbai and Delhi are currently hitting the profitability and will subside over the next few quarters. We believe NH will benefit the most from the changes in India's healthcare industry in view of increased coverage of health insurance for affordable treatment. NH offers niche treatment at affordable rates with a low capex per bed of Rs 2.8 mn. At Rs 290, NH trades at 21x FY20E EPS of Rs 13.4. **We recommend investors to BUY NH for long term with a target price of Rs 440.**



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	Q3FY18	Q2FY18	Q3FY17	yoy	qoq	FY17	FY16	Var %
<b>Income from operations</b>	<b>5538.4</b>	<b>5591.6</b>	<b>4552.7</b>	<b>22%</b>	<b>-1%</b>	<b>18781.6</b>	<b>15995.6</b>	<b>17%</b>
% growth	22%	15%	13%			17%	17%	
Other Income	<b>37.1</b>	<b>57.1</b>	<b>38.9</b>			<b>174.8</b>	<b>146.9</b>	
<b>Total Income</b>	<b>5575.5</b>	<b>5648.7</b>	<b>4591.6</b>	<b>21%</b>	<b>-1%</b>	<b>18956.5</b>	<b>16142.4</b>	<b>17%</b>
Purchase of Medical Consumables & supplies	1266.3	1199.8	1054.4			4388.8	3856.3	
Inventory Change	71.5	154.8	14.0			-29.8	14.8	
Employee Benefits	1067.9	1094.8	952.5			3752.1	3338.4	
Professional Fees to Doctors	1215.3	1164.9	949.7			3855.7	3209.0	
Other expenses	1402.8	1396.4	1056.4			4526.3	3974.2	
<b>TOTAL EXPENSES</b>	<b>5023.8</b>	<b>5010.7</b>	<b>4027.0</b>	<b>25%</b>	<b>0%</b>	<b>16493.1</b>	<b>14392.6</b>	<b>15%</b>
<b>EBITDA (ex OI)</b>	<b>514.6</b>	<b>581.0</b>	<b>525.7</b>	<b>-2%</b>	<b>-11%</b>	<b>2288.6</b>	<b>1602.9</b>	<b>43%</b>
<i>EBITDA (ex-OI) margin</i>	<i>9.3%</i>	<i>10.4%</i>	<i>11.5%</i>			<i>12.2%</i>	<i>10.0%</i>	
<b>EBIT</b>	<b>316.6</b>	<b>352.6</b>	<b>364.2</b>	<b>-13%</b>	<b>-10%</b>	<b>1664.2</b>	<b>1131.6</b>	<b>47%</b>
Interest	82.4	77.5	54.9			218.0	294.4	
Depreciation	235.1	285.5	200.4			799.2	761.2	
<b>Profit Before Tax</b>	<b>234.2</b>	<b>275.1</b>	<b>309.3</b>	<b>-24%</b>	<b>-15%</b>	<b>1446.1</b>	<b>727.0</b>	
Tax	98.8	96.5	109.3			523.7	301.4	
<b>Net Profit</b>	<b>135.4</b>	<b>178.6</b>	<b>200.1</b>	<b>-32%</b>	<b>-24%</b>	<b>922.5</b>	<b>425.6</b>	<b>117%</b>
Minority Interest (after tax)	0.0	0.0	0.3			0.8	4.1	
Profit/Loss of Associate Company	5.8	1.5	-16.7			-79.3	-217.5	
<b>Net Profit after Minority Interest &amp; P/L Asso.Co.</b>	<b>141.3</b>	<b>180.1</b>	<b>183.6</b>			<b>843.9</b>	<b>212.2</b>	<b>298%</b>
Extraordinary items	-0.2	0.0	0.0			-13.4	-110.1	
<b>Net Profit after extraordinary items</b>	<b>141.3</b>	<b>180.1</b>	<b>183.6</b>	<b>-23%</b>	<b>-22%</b>	<b>830.5</b>	<b>102.1</b>	<b>713%</b>
NPM %	2.6%	3.2%	4.0%			4.4%	0.6%	
Other comprehensive income	0.0	0.0	-3.2			0.0	-7.9	
<b>Total comprehensive income</b>	<b>141.3</b>	<b>180.1</b>	<b>180.4</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>0.69</b>	<b>0.88</b>	<b>0.90</b>			<b>4.13</b>	<b>1.04</b>	



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NARAYANA HRUDAYALAYA FINANCIALS											
	FY16	FY17	FY18E	FY19E	FY20E		FY16	FY17	FY18E	FY19E	FY20E
<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>	<b>33,822</b>	Net Profit	213	831	969	1,599	2,739
Purchase of medical consum:	3,871	4,359	5,543	6,448	7,948	Add: Dep. & Amort.	761	799	922	1,012	1,087
Employee costs	3,025	3,752	4,690	5,628	6,754	<b>Cash profits</b>	<b>974</b>	<b>1,630</b>	<b>1,891</b>	<b>2,611</b>	<b>3,826</b>
Professional fees to Doctors	3,522	3,856	4,735	5,487	6,764	(Inc)/Dec in					
Other expenses	3,974	4,526	5,580	6,343	7,239	-Sundry debtors	(89)	(51)	(632)	(411)	(605)
<b>Cost of sales</b>	<b>14,392</b>	<b>16,493</b>	<b>20,548</b>	<b>23,906</b>	<b>28,705</b>	-Inventories	15	(26)	(420)	(176)	(259)
<b>Operating Profit</b>	<b>1,746</b>	<b>2,289</b>	<b>2,549</b>	<b>3,531</b>	<b>5,117</b>	-Loans/advances	1,262	(161)	(19)	(20)	(21)
Depreciation	761	799	922	1,012	1,087	-Sundry creditors	209	(443)	1,633	704	1,036
PBIT	985	1,489	1,627	2,519	4,030	-Provisions	70	21	41	47	54
Other income	147	175	192	221	310	Change in working cap	1,467	(659)	603	144	206
Interest	294	218	390	410	410	<b>CF from Oper. activities</b>	<b>2,441</b>	<b>970</b>	<b>2,494</b>	<b>2,756</b>	<b>4,032</b>
<b>Profit before tax</b>	<b>838</b>	<b>1,446</b>	<b>1,429</b>	<b>2,329</b>	<b>3,929</b>	<b>CF from Inv. activities</b>	<b>(3,625)</b>	<b>(1,405)</b>	<b>(1,606)</b>	<b>(2,655)</b>	<b>(3,675)</b>
Provision for tax	301	524	500	815	1,375	<b>CF from Fin. activities</b>	<b>1,373</b>	<b>492</b>	<b>354</b>	<b>(233)</b>	<b>(215)</b>
PAT Bfr Excp Items	537	922	929	1,514	2,554	<b>Cash generated/(utilis)</b>	<b>188</b>	<b>57</b>	<b>1,242</b>	<b>(132)</b>	<b>141</b>
Minority Interest	4	1	(10)	(15)	(15)	Cash at start of the year	295	243	341	1,564	1,410
Share of Profit of Associate	(217)	(79)	50	100	200	Cash at end of the year	243	341	1,564	1,410	1,527
Extraordinary Items	(110)	(13)	-	-	-						
Net Profit	213	831	969	1,599	2,739						
<b>Balance Sheet</b>						<b>Ratios</b>					
Equity capital	2,044	2,044	2,044	2,044	2,044	OPM	10.8%	12.2%	11.0%	12.9%	15.1%
Reserves	6,716	7,587	8,147	9,338	11,668	NPM	1.3%	4.4%	4.2%	5.8%	8.1%
<b>Net worth</b>	<b>8,760</b>	<b>9,631</b>	<b>10,191</b>	<b>11,381</b>	<b>13,711</b>	Tax rate	36%	36%	35%	35%	35%
Def. Tax Liab.+Minority Int.	234	250	278	305	335	<b>Growth Ratios (%)</b>					
Secured loans	1,876	1,798	2,398	2,398	2,398	Net Sales	18%	16%	23%	19%	23%
Unsecured loans	478	1,023	1,023	1,023	1,023	Operating Profit	43%	31%	11%	39%	45%
<b>Total debt</b>	<b>2,353</b>	<b>2,821</b>	<b>3,421</b>	<b>3,421</b>	<b>3,421</b>	PAT	-227%	290%	17%	65%	71%
Other Liab	1,385	1,353	1,488	1,637	1,801						
<b>CAPITAL EMPLOYED</b>	<b>12,732</b>	<b>14,055</b>	<b>15,378</b>	<b>16,744</b>	<b>19,268</b>	<b>Per Share (Rs.)</b>					
Gross block	13,537	14,619	16,119	17,619	18,619	<b>Net Earnings (EPS)</b>	1.04	4.06	4.74	7.82	13.40
Accumulated depreciation	3,611	4,410	5,332	6,344	7,431	<b>Cash Earnings (CPS)</b>	4.77	7.97	9.25	12.78	18.72
Net block	9,927	10,209	10,787	11,275	11,188	Dividend	0.00	1.00	2.00	2.00	2.00
Capital WIP	138	530	500	500	500	Book Value	42.86	47.13	49.87	55.69	67.09
<b>Total fixed assets</b>	<b>10,065</b>	<b>10,740</b>	<b>11,287</b>	<b>11,775</b>	<b>11,688</b>	Free Cash Flow	-0.2	-2.3	4.7	0.7	1.6
Other Intangible assets	28	27	27	27	27						
Goodwill	590	581	581	581	581	<b>Valuation Ratios</b>					
Equity accounted Investees	869	928	928	928	928	<b>P/E(x)</b>	277.8	71.3	61.1	37.0	21.6
Investments	3	33	33	1,033	3,533	P/B(x)	6.8	6.1	5.8	5.2	4.3
Other non current assets	1,291	1,143	1,280	1,434	1,610	EV/EBIDTA(x)	1.4	1.1	1.0	0.7	0.5
Inventories	497	524	943	1,119	1,378	EV/SALES(x)	0.2	0.1	0.1	0.1	0.1
Sundry debtors	1,518	1,569	2,201	2,612	3,216	Div. Yield(%)	0.0%	0.3%	0.7%	0.7%	0.7%
Cash & bank	243	341	1,564	1,410	1,527	<b>FCF Yield(%)</b>	-0.1%	-0.8%	1.6%	0.3%	0.5%
Loans & advances	221	383	402	422	443						
Other current assets	240	199	219	241	265	<b>Return Ratios (%)</b>					
Sundry creditors	2,583	2,140	3,773	4,477	5,513	<b>ROE</b>	2.4%	8.6%	9.5%	14.0%	20.0%
Provisions	252	273	314	361	415	<b>ROCE</b>	8.9%	11.8%	11.8%	16.4%	22.5%
Working capital	(114)	603	1,242	966	901						
<b>CAPITAL DEPLOYED</b>	<b>12,732</b>	<b>14,055</b>	<b>15,378</b>	<b>16,744</b>	<b>19,268</b>						



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subject company in the past twelve months	
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