



Sequential revenue ramp up, lower costs drive earnings growth

- Sales came in at Rs 7504 mn -4% yoy/+25% qoq, 7% above our estimate.
- EBITDA came in at Rs 1049 mn +2% yoy/+292% qoq
- EBITDA margins at 14%, -80 bps yoy/+950 bps qoq
- PAT came in at Rs 423.7 mn, +35% yoy against a loss of Rs 34 mn in Q2FY21.
- EPS for the quarter came in at Rs 2.04.

Key Highlights

- India revenues (-10% yoy/+25% qoq) to Rs 6089 mn, Vs our estimate of Rs 5717 mn. India ARPOB increased 6% to Rs 10.2 mn, in line with our estimates. Operating beds were at 5929, +9 beds due to commencement at Chittagong heart centre and exit from CNH heart centre. Revenue from new hospitals +21% at Rs 792 mn.
- Cayman revenues (CC +25% yoy) to Rs 1400 mn (\$19.1 mn). Cayman ARPOB (+43% yoy/-9% qoq) to \$ 2 mn.
- Total Expenses (-5% yoy/+13% qoq) to Rs 6454 mn. Sequential increase in expenses was mainly from Purchase of consumables (27% of sales, +24%) Rs 1956 mn, Employee costs (21% of sales, +6%) Rs 1567 mn, other expenses (+4% Rs 1532 mn), Doctor fees (18% of sales, +17%) Rs 1367 mn.
- Ind AS 116 benefit of Rs 127 mn on EBITDA and decrease of Rs 16 mn in PAT.
- Interest -10% at Rs 186 mn and depreciation flat at Rs 465 mn.
- In view of the lower spend and improved sales & profitability in India and Cayman, we have increased FY22E Sales & PAT by 6% & 21%.

Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	537	11

Market data

Current price	Rs	484
Market Cap (Rs.Bn)	(Rs Bn)	100
Market Cap (US\$ Mn)	(US\$ Mn)	1373
Face Value	Rs	10
52 Weeks High/Low	Rs	524/210
Average Daily Volume	('000)	44
BSE Code		539551
Bloomberg		NARH:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	63.85	63.85
Public	35.44	35.44
Others	0.71	0.71
Total	100	100

Source: BSE

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	28,609	31,278	26,091	33,338	36,652
Adjusted net profit	593	1,190	(143)	1,717	2,051
Vs Consensus					
Free cash flow	158	(87)	900	2,424	1,796
EPS (Rs)	3	6	(1)	8	10
growth (%)	0	1	(1)	(13)	0
P/E (x)	169	84	(701)	58	49
P/B (x)	9	9	9	8	7
EV/EBITDA (x)	37	25	54	21	19
D/E	0.8	0.7	0.7	0.6	0.6
RoIC (%)	3.3	7.2	(0.9)	11.2	13.7
RoE (%)	5.5	10.5	(1.3)	13.7	14.7
Dividend yield (%)	0.4	0.4	0.0	0.4	0.6

Source: Company

Charulata Gaidhani
(022) 67141446
charulata.gaidhani@dalal-broacha.com

Conference call takeaways

India business

- International patients which normally comprise 10-11% of overall sales is at a standstill.
- The Chief Minister of West Bengal has announced a Swasthya Saarthi Yojana – a health insurance plan for the entire population of West Bengal. NH has good presence in Kolkata comprising 28% of sales. However, the company has not allocated beds for the scheme. Hence, if the scheme rolls out, NH will face short term challenges in the region.
- OPD footfalls are at 79% of pre Covid levels. OPD revenues at 18-20% of sales. The company looks forward to increased contribution from OPD.
- Delhi NCR did well in Q3FY21 with increase in Covid cases under treatment. Two NCR units turned EBITDA positive during the quarter. NCR sales may marginally come down in Q4 due to farmers protest in the region.
- The company has increased focus on digitization to widen reach. IT spend at 3% of sales, to increase to 5% going forward.

Contribution from Covid came down from 15.2% in Q2FY21 to 14.2% in Q3FY21.

OPD footfalls at the three flagship hospitals of NH have reached near pre-Covid levels in January.

By Cluster*

- **Bangalore (32% of sales)** -23% with EBITDAR margin at 19.4%.
- **South Peripheral (7% of sales)** +4% with EBITDAR margin at 22.2%.
- **Kolkata (28% of sales)** -11% with EBITDAR margin at 16.6%.
- **Eastern Peripheral (5% of sales)** -9% with EBITDAR margin at 11.1%.
- **Western (17% of sales)** +6% with EBITDAR margin at 8.9%.
- **Delhi NCR (11% of sales)** +26% with EBITDAR 0.9%.

Cayman Islands

- Plans for construction of Oncology block have been delayed by a quarter or two. The company expects commissioning in 12-18 months.
- The company expects marginal improvement in Cayman sales from current levels. The next growth will come post commissioning of the oncology block.

Quarterly Performance Analysis

Exhibit 1

Financials (INR in mn)	Q3FY21	Q2FY21	Q3FY20	YoY	QoQ	9MFY21	9MFY20	Var %
Income from operations	7504	6007	7852	-4%	25%	17446	23849	-27%
Other Income	46	104	55			196	167	
Total Income	7549	6111	7907	-5%	24%	17642	22998	-23%
Purchase of Medical Consumables & supplies	1956	1577	1861			4576	5624	
Inventory Change	32	39	-14			134	42	
Employee Benefits	1567	1476	1717			4572	4923	
Professional Fees to Doctors	1367	1168	1589			3566	4981	
Other expenses	1532	1480	1672			4191	5007	
TOTAL EXPENSES	6454	5740	6825	-5%	12%	17039	20577	-17%
EBITDA (ex OI)	1049	268	1027	2%	292%	407	3272	-88%
EBIT	630	-90	618	2%		-1417	2133	
Interest	186	194	206			577	645	
Depreciation	465	462	464			1391	1307	
Profit Before Tax	445	-285	412	8%		-1365	1488	
Tax	8	261	88			606	387	
Net Profit	452	-24	324	40%		-759	1101	
Minority Interest (after tax)	0	0	0			0	0	
Profit/Loss of Associate Company	-28	-10	-10			-49	-30	
Net Profit after Minority Interest & P/L Asso.Co.	424	-34	314			-808	1072	
Extraordinary items	0	0	0			0	0	
Net Profit after extraordinary items	424	-34	314			-808	1072	
Equity	2043.6	2043.6	2043.6			2043.6	2043.6	
EPS after Minority Interest	2.07	-0.17	1.54			-3.95	5.24	

Robust sequential sales growth from India (+34%)

Significant improvement in EBITDA margins due to lower employee costs, doctor fees and other expenses.

Lower interest burden helps turnaround

Cost Analysis	Q3FY21	Q2FY21	Q3FY20	YoY	QoQ	9MFY21	9MFY20	Var %
Purchase of Medical Consumables & supplies	26.1	26.2	23.7			26.2	23.6	
Employee Benefits	20.9	24.6	21.9			26.2	20.6	
Professional Fees to Doctors	18.2	19.4	20.2			20.4	20.9	
Other expenses	20.4	24.6	21.3			24.0	21.0	

Profitability	Q3FY21	Q2FY21	Q3FY20	YoY	QoQ	9MFY21	9MFY20	Var %
EBITDA margin	14.0	4.5	13.1			2.3	13.7	
PBT margin	5.9	-4.7	5.3			-7.8	6.2	
PAT margin	5.6	-0.6	4.0			-4.6	4.5	

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Narayana Hrudayalaya India as well as Cayman Islands has significantly recovered its operations. Improvement in elective surgeries in India and increased contribution of non Covid sales will help improve profitability going forward.

We roll forward our estimates to FY23. At Rs 490, NH trades at 19x EV/Bed, much lower than the larger players like Apollo (44x) and Fortis (31x) and 19x FY23E EV/EBITDA. We have valued NH as a weighted average of EV/Bed and EV/EBITDA on 50:50 basis. We have applied a multiple of 25x EV/Bed and 18x EV/EBITDA and arrived at a **target price of Rs 537**.

We maintain BUY on Dips.

Financial

	FY19	FY20	FY21E	FY22E	FY23E		FY19	FY20	FY21E	FY22E	FY23E
Profit & Loss (Rs mn)						Cash Flow St. (Rs. mn)					
Income from Operations	28,609	31,278	26,091	33,338	36,652	Net Profit	593	1,190	(143)	1,717	2,051
Purchase of medical consumabl	6,875	7,453	6,784	8,334	8,797	Add: Dep. & Amort.	1,373	1,857	1,900	1,934	2,057
Employee costs	6,241	6,737	6,198	6,508	7,159	Cash profits	1,966	3,047	1,757	3,651	4,108
Professional fees to Doctors	5,898	6,290	5,349	7,334	8,430	(Inc)/Dec in					
Other expenses	6,717	6,569	5,846	6,431	7,074	-Sundry debtors	125	42	478	(1,509)	(464)
Cost of sales	25,731	27,049	24,177	28,608	31,460	-Inventories	4	230	(112)	(199)	(91)
Operating Profit	2,878	4,229	1,914	4,730	5,193	-Loans/advances	(72)	(123)	(29)	(22)	(23)
Depreciation	1,373	1,857	1,900	1,934	2,057	-Sundry creditors	241	696	(556)	1,350	718
PBIT	1,505	2,372	15	2,796	3,136	-Provisions	37	253	169	169	203
Other income	167	238	273	328	361	Change in working capit	335	1,097	(50)	(211)	343
Interest	714	853	805	777	746	CF from Oper. activities	2,302	4,144	1,706	3,440	4,450
Profit before tax	958	1,757	(517)	2,347	2,751	CF from Inv. activities	(2,255)	(2,345)	(236)	(3,095)	(3,099)
Provision for tax	341	423	(429)	610	715	CF from Fin. activities	58	(1,721)	(97)	(205)	(389)
PAT Bfr Excp Items	617	1,335	(88)	1,737	2,036	Cash generated/(utilisec	104	79	1,374	141	963
Minority Interest	-	(1)	-	-	-	Cash at start of the year	860	1,204	1,512	2,978	3,220
Share of Profit of Associate	(23)	(34)	(55)	(20)	15	Cash at end of the year	1,204	1,512	2,978	3,220	4,294
Extraordinary Items	-	(109)	-	-	-						
Net Profit	593	1,190	(143)	1,717	2,051						
Balance Sheet						Ratios					
Equity capital	2,044	2,044	2,044	2,044	2,044	OPM	10.1%	13.5%	7.3%	14.2%	14.2%
Reserves	8,768	9,316	9,173	10,481	11,919	NPM	2.1%	3.8%	-0.5%	5.1%	5.6%
Net worth	10,811	11,360	11,217	12,525	13,962	Tax rate	36%	24%	83%	26%	26%
Def. Tax Liab.+Minority Int.	483	549	602	663	730	Growth Ratios (%)					
Secured loans	7,253	6,185	6,185	6,185	6,185	Net Sales	25%	9%	-17%	28%	10%
Unsecured loans	1,283	1,410	1,260	1,404	1,561	Operating Profit	36%	47%	-55%	147%	10%
Total debt	8,536	7,595	7,446	7,589	7,746	PAT	15%	101%	-112%	-1301%	19%
Other Liab	1,394	1,303	1,434	1,577	1,735						
CAPITAL EMPLOYED	21,224	20,807	20,698	22,353	24,173	Per Share (Rs.)					
Gross block	23,906	25,885	26,885	28,385	30,385	Net Earnings (EPS)	2.90	5.82	-0.70	8.40	10.03
Accumulated depreciation	6,782	8,639	10,539	12,474	14,531	Cash Earnings (CPS)	9.62	14.91	8.60	17.87	20.10
Net block	17,124	17,245	16,345	15,911	15,854	Dividend	2.00	2.00	0.00	2.00	3.00
Capital WIP	362	118	118	118	118	Book Value	52.90	55.59	54.89	61.29	68.32
Total fixed assets	17,486	17,363	16,463	16,029	15,972	Free Cash Flow	0.3	-3.8	8.5	4.5	3.9
Other Intangible assets	597	718	718	718	718	Valuation Ratios					
Goodwill	660	581	581	581	581	P/E(x)	168.8	84.1	-700.7	58.3	48.8
Equity accounted Investees	29	28	28	28	28	P/B(x)	9.3	8.8	8.9	8.0	7.2
Investments	145	835	0	1,500	2,500	EV/EBIDTA(x)	36.9	24.6	53.9	21.4	19.1
Other non current assets	1,980	1,840	1,911	2,005	2,104	EV/SALES(x)	3.7	3.3	4.0	3.0	2.7
Inventories	832	602	715	913	1,004	Div. Yield(%)	0.4%	0.4%	0.0%	0.4%	0.6%
Sundry debtors	2,664	2,622	2,144	3,653	4,117	FCF Yield(%)	0.1%	-0.8%	1.7%	0.9%	0.8%
Cash & bank	1,204	1,512	2,978	3,220	4,294						
Loans & advances	293	417	446	468	491	Return Ratios (%)					
Other current assets	477	382	420	462	508	ROE	5.5%	10.5%	-1.3%	13.7%	14.7%
Sundry creditors	4,720	5,417	4,861	6,211	6,929	ROCE	7.9%	12.5%	1.4%	14.0%	14.5%
Provisions	424	676	845	1,014	1,217	ROIC	3.30	7.17	-0.91	11.15	13.75
Working capital	327	(558)	997	1,492	2,269						
CAPITAL DEPLOYED	21,224	20,807	20,698	22,353	24,173						

Source: Dalal & Broacha Research, Company

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services. D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been barred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have a actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	HOR	kunal.bhatia@dalal-broacha.com	022 67141442	Auto Auto Ancillary FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT Telecom Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	Analyst	suraj.nandu@dalal-broacha.com	022 67141438	FMCG Retail
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 67141441	IT Telecom Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400021.

Tel: 91-22-2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com