



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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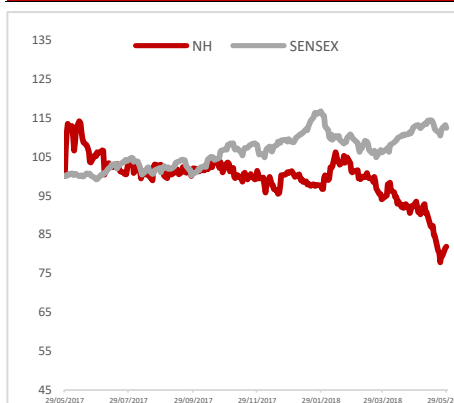
Buy on Dips

Current Price	238
Target Price	273
Upside/Downside	17%
52 Week Range	225/343

Key Share Data

Market Cap (Rs.bn)	48.63
Market Cap (US\$ mn)	720.66
No of o/s shares (mn)	204.360s
Face Value	10
Monthly Avg. vol	
(BSE+NSE) Nos'000	105.29
BSE Code	539551
NSE Code	NH
Bloomberg	NARH:IN

Price performance



% Shareholding	Mar-18	Dec-17
Promoters	63.85	63.85
DII	21.21	22.6
FII	9.56	6.54
Others	7.38	7.01
Total	100	100

Narayana Hrudayalaya (NH) Q4FY18 EBITDA was much lower than estimate due to increased employee costs in view of the commissioning of its Gurugram hospital at New Delhi in March'18. The quarter also saw the consolidation of Cayman Islands hospital into NH.

Robust revenue growth, earnings hit due to new hospital overheads

Revenues increased 34% yoy (17% qoq) to Rs 6468 mn vs our estimate of Rs 6442 mn. However, the overheads increased 40% yoy (18% qoq) to Rs 5945 mn in view of the pre-commissioning expenses at Gurugram as well as the consolidation of Cayman Islands hospital during the quarter. EBITDA degrew 35% yoy (+2% qoq) to Rs 523 mn. EBITDA margins were 430 bps lower yoy (-120 bps qoq) at 8.1%. In view of increased debt the interest cost was significantly higher at Rs 204.6 mn. After tax credit of Rs 6.14 mn, and adjusting for share of loss of Rs 25.27 mn, PAT -56% to Rs 98.1 mn. EPS was at Rs 0.48.

Consolidation of Cayman Islands, commissioning of Gurugram hospital

The quarter saw the pro-rata consolidation of Cayman Islands into NH from Jan'18. NH also commissioned its 221 beds hospital at Gurugram in March'18.

Key takeaways from the concall

- Number of operating beds increased to 6232.
- ARPOB decreased 2% to Rs 8.3 mn in Q4FY18 in view of 2% lower contribution from gastrointestinal revenues.
- Occupancy at SRCC Mumbai was at 25% during the quarter.
- Occupancy at Cayman Islands has increased to 27% during the quarter.
- 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 consolidation of Cayman Islands, which was not factored into our earlier estimates. Further, the increased debt for financing both the Cayman acquisition (\$50 mn approx.) and NH's capex at Gurugram (Rs 200 crs approx.), and the slower movement of occupancy levels at Mumbai has resulted in lowering our earlier estimates.

Outlook & Valuation

We are positive on the developments at NH. The commissioning at Gurugram and consolidation of Cayman Islands are a welcome move for NH. While operating profitability will improve with the increase in occupancy at new hospitals, the pace of growth and its increased debt are key monitorables. We are positive on NH for offering niche treatment at affordable rates, which is in line with the current regulatory environment. **We recommend investors to buy on Dips NH 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	224.7	2.4%	8.9%
FY17	18781.6	16%	2288.6	12.2%	830.5	290%	4.06	57.6	8.6%	11.8%
FY18	22809.1	21%	2122.7	9.3%	504.0	-39%	2.47	95.0	4.9%	6.4%
FY19E	30098.3	32%	3094.1	10.3%	850.7	69%	4.16	56.3	7.9%	9.7%
FY20E	36039.5	20%	4201.6	11.7%	1608.6	89%	7.87	29.8	13.4%	13.8%



	Q4FY18	Q3FY18	Q4FY17	yoy	qoq	FY18	FY17	Var %
Income from operations	6468.0	5538.4	4835.3	34%	17%	22809.1	18781.6	21%
Other Income	42.5	37.1	57.3			189.0	174.8	
Total Income	6510.5	5575.5	4892.5	33%	17%	22998.1	18956.5	21%
Purchase of Medical Consumables & supplies	1686.7	1266.3	1039.2			5690.2	4388.8	
Inventory Change	-74.8	71.5	44.9			0.0	-29.8	
Employee Benefits	1421.7	1067.9	924.1			4656.9	3752.1	
Professional Fees to Doctors	1302.7	1215.3	1016.7			4787.8	3855.7	
Other expenses	1608.7	1402.8	1209.1			5676.8	4526.3	
TOTAL EXPENSES	5944.9	5023.8	4233.9	40%	18%	20811.6	16493.1	26%
EBITDA (ex OI)	523.0	514.6	601.3	-13%	2%	1997.4	2288.6	-13%
<i>EBITDA (ex-OI) margin</i>	<i>8.1%</i>	<i>9.3%</i>	<i>12.4%</i>			<i>8.8%</i>	<i>12.2%</i>	
EBIT	304.8	316.6	446.3	-32%	-4%	1312.1	1664.2	-21%
Interest	204.6	82.4	55.7			467.6	218.0	
Depreciation	260.8	235.1	212.3			999.5	799.2	
Profit Before Tax	100.2	234.2	390.6	-74%	-57%	844.6	1446.1	
Tax	-6.1	98.8	150.1			289.6	523.7	
Net Profit	106.4	135.4	240.6	-56%	-21%	555.0	922.5	-40%
Minority Interest (after tax)	0.0	0.0	0.2			-10.0	0.8	
Profit/Loss of Associate Company	-25.3	5.8	-18.1			-46.4	-79.3	
Net Profit after Minority Interest & P/L Asso.Co.	81.1	141.3	222.7			498.6	843.9	-41%
Extraordinary items	17.0	-0.2	0.0			5.4	-13.4	
Net Profit after extraordinary items	98.1	141.3	222.7	-56%	-31%	504.0	830.5	-39%
NPM%	1.5%	2.6%	4.6%			2.2%	4.4%	
Other comprehensive income	0.0	0.0	-1.6			0.0	0.0	
Total comprehensive income	98.1	141.3	221.1			504.0	830.5	
Equity	2043.6	2043.6	2043.6			2043.6	2043.6	
EPS after Minority Interest	0.48	0.69	1.09			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	30,098	36,040	Net Profit	213	831	504	851	1,609
Purchase of medical consumables	3,871	4,359	5,565	7,224	8,649	Add: Dep. & Amort.	761	799	1,000	1,266	1,349
Employee costs	3,025	3,752	4,657	6,287	7,858	Cash profits	974	1,630	1,504	2,117	2,958
Professional fees to Doctors	3,522	3,856	4,788	6,321	7,388	(Inc)/Dec in					
Other expenses	3,974	4,526	5,677	7,173	7,942	-Sundry debtors	(89)	(51)	(1,221)	(921)	(732)
Cost of sales	14,392	16,493	20,686	27,004	31,838	-Inventories	15	(26)	(313)	(401)	(244)
Operating Profit	1,746	2,289	2,123	3,094	4,202	-Loans/advances	1,262	(161)	162	(11)	(12)
Depreciation	761	799	1,000	1,266	1,349	-Sundry creditors	209	(443)	2,339	881	1,058
PBIT	985	1,489	1,123	1,828	2,853	-Provisions	70	21	114	97	97
Other income	147	175	189	217	250	Change in working capital	1,467	(659)	1,082	(355)	167
Interest	294	218	468	734	624	CF from Oper. activities	2,441	970	2,585	1,762	3,124
Profit before tax	838	1,446	845	1,311	2,479	CF from Inv. activities	(3,625)	(1,405)	(8,030)	(1,399)	(2,677)
Provision for tax	301	524	290	452	855	CF from Fin. activities	1,373	492	5,850	(234)	(216)
PAT Bfr Excp Items	537	922	555	859	1,624	Cash generated/(utilised)	188	57	405	130	230
Minority Interest	4	1	(10)	(8)	(15)	Cash at start of the year	295	243	341	353	423
Share of Profit of Associate	(217)	(79)	(46)	-	-	Cash at end of the year	243	341	353	423	588
Extraordinary Items	(110)	(13)	5	-	-						
Net Profit	213	831	504	851	1,609	Ratios					
Balance Sheet						OPM	10.8%	12.2%	9.3%	10.3%	11.7%
Equity capital	2,044	2,044	2,044	2,044	2,044	NPM	1.3%	4.4%	2.2%	2.8%	4.5%
Reserves	6,716	7,587	8,314	8,756	9,956	Tax rate	36%	36%	34%	34%	35%
Net worth	8,760	9,631	10,357	10,799	11,999	Growth Ratios (%)					
Def. Tax Liab.+Minority Int.	234	250	399	439	483	Net Sales	18%	16%	21%	32%	20%
Secured loans	1,876	1,798	6,963	6,963	6,963	Operating Profit	43%	31%	-7%	46%	36%
Unsecured loans	478	1,023	1,421	1,421	1,421	PAT	-227%	290%	-39%	69%	89%
Total debt	2,353	2,821	8,384	8,384	8,384	Per Share (Rs.)					
Other Liab	1,385	1,353	1,350	1,485	1,633	Net Earnings (EPS)	1.04	4.06	2.47	4.16	7.87
CAPITAL EMPLOYED	12,732	14,055	20,490	21,107	22,499	Cash Earnings (CPS)	4.77	7.97	7.36	10.36	14.47
Gross block	13,537	14,619	22,526	23,526	25,526	Dividend	0.00	1.00	2.00	2.00	2.00
Accumulated depreciation	3,611	4,410	5,409	6,676	8,025	Book Value	42.86	47.13	50.68	52.85	58.72
Net block	9,927	10,209	17,117	16,850	17,501	Free Cash Flow	-0.2	-2.3	-26.2	2.5	3.1
Capital WIP	138	530	350	250	500	Valuation Ratios					
Total fixed assets	10,065	10,740	17,467	17,100	18,001	P/E(x)	224.7	57.6	95.0	56.3	29.8
Other Intangible assets	28	27	703	703	703	P/B(x)	5.5	5.0	4.6	4.4	4.0
Goodwill	590	581	660	660	660	EV/EBIDTA(x)	28.6	21.8	23.5	16.1	11.9
Equity accounted Investees	869	928	37	37	37	EV/SALES(x)	3.1	2.7	2.2	1.7	1.4
Investments	3	33	50	350	550	Div. Yield(%)	0.0%	0.4%	0.9%	0.9%	0.9%
Other non current assets	1,291	1,143	1,564	1,763	1,991	FCF Yield(%)	-0.1%	-1.0%	-11.2%	1.1%	1.3%
Inventories	497	524	836	1,237	1,481	Return Ratios (%)					
Sundry debtors	1,518	1,569	2,790	3,711	4,443	ROE	2.4%	8.6%	4.9%	7.9%	13.4%
Cash & bank	243	341	353	423	588	ROCE	8.9%	11.8%	6.4%	9.7%	13.8%
Loans & advances	221	383	221	232	244						
Other current assets	240	199	593	653	718						
Sundry creditors	2,583	2,140	4,479	5,360	6,418						
Provisions	252	273	387	484	580						
Working capital	(114)	603	(73)	412	475						
CAPITAL DEPLOYED	12,732	14,055	20,409	21,026	22,419						



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