



**Narayana Hrudayalaya Q4FY21 results were in line with estimates. Recovery across India and Cayman driven by increase in ARPOB, and adequate cost control have generated healthy earnings growth.**

- **Sales** came in at Rs 8378 mn +13% yoy/+12% qoq, 2% above our estimate.
- **EBITDA** came in at Rs 1414 mn +48% yoy/+39% qoq.
- **EBITDA margins at 16.9%, +400 bps yoy/+290 bps qoq highest so far.**
- **PAT** came in at Rs 680.5 mn, +198% yoy.
- **EPS** for the quarter came in at Rs 3.33.

#### Key Developments

- **India revenues** (+10% yoy/+15% qoq) to Rs 7002 mn. India ARPOB increased 11% to Rs 11 mn, 6% higher than our estimates. Operating beds were at 5442, +90 beds. Revenue from new hospitals +15% at Rs 735 mn.
- **Cayman revenues** (CC +30% yoy) to Rs 1351 mn (\$18.5 mn). Cayman ARPOB (+33% yoy on low base/flat qoq) to \$ 2 mn.
- **Total Expenses** (+8% yoy/+8% qoq) to Rs 6964 mn. Sequential increase in expenses was mainly from Purchase of consumables (25% of sales, +30%) Rs 2079 mn, Employee costs (20% of sales, +1%) Rs 1696 mn, other expenses (+10% Rs 1636 mn), Doctor fees (19% of sales, +3%) Rs 1562 mn.
- **Ind AS 116** benefit of Rs 133 mn on EBITDA and decrease of Rs 16 mn in PAT. Excluding Ind AS benefit, EBITDA margin was at 15.3%. Interest -12% at Rs 182 mn and depreciation -19% at Rs 449 mn.

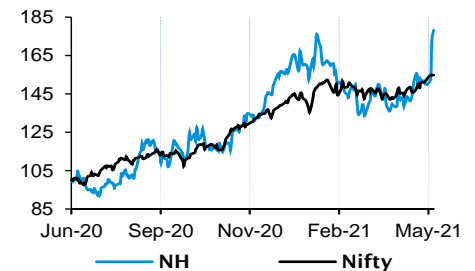
Rating	TP (Rs)	Up/Dn (%)
<b>SELL</b>	<b>505</b>	<b>1</b>

#### Market data

<b>Current price</b>	<b>Rs</b>	<b>498</b>
Market Cap (Rs.Bn)	(Rs Bn)	102
Market Cap (US \$ Mn)	(US \$ Mn)	1395
Face Value	Rs	10
52 Weeks High/Low	Rs	566/251
Average Daily Volume	('000)	8434
BSE Code		539551
Bloomberg		NARH:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	63.85	63.85
FII	10.96	8.95
DII	19.59	21.17
Others	5.60	5.32
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	28,609	31,278	25,823	30,331	34,538
EBITDA	2,878	4,229	1,821	3,721	4,376
EBITDA margins	10.1%	13.5%	7.1%	12.3%	12.7%
Adjusted net profit	593	1,190	(143)	1,056	1,491
Free cash flow	158	(87)	(23)	1,832	1,612
EPS (Rs)	2.9	5.8	(0.7)	5.2	7.3
P/E (x)	174	87	(722)	98	69
P/B (x)	10	9	9	9	8
EV/EBITDA (x)	38	25	58	28	24
D/E	0.8	0.7	0.6	0.5	0.5
RoIC (%)	3.3	7.2	(1.0)	6.8	9.1
RoE (%)	5.5	10.5	(1.3)	8.9	11.7
Dividend yield (%)	0.4	0.4	0.0	0.4	0.6

Source: Company

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### By Cluster

- **Bangalore** (34% of sales) +8% with EBITDAR margin at 26.3%.
- **South Peripheral** (6% of sales) +11% with EBITDAR margin at 20.1%.
- **Kolkata** (29% of sales) +10% with EBITDAR margin at 19.9%.
- **Eastern Peripheral** (5% of sales) +9% with EBITDAR margin at 15.6%.
- **Western** (16% of sales) +19% with EBITDAR margin at 6%.
- **Delhi NCR** (9% of sales) +11% with EBITDAR -3.3%.

## Conference call Key Highlights

### India hospitals

- Q4FY21 saw a lower proportion of Covid19 cases (3% Vs 14% in Q3FY21), leading to 10% yoy/13% qoq growth in sales across clusters.
- International patients contributed 2% of Q4FY21 India sales.
- There has been a sequential improvement in EBITDAR margins across Bengaluru, Kolkata and East India clusters.
- The Delhi cluster was impacted due to the increased spread from the farmers protests and other related events.
- The company has setup radiation services at its hospitals in Ahmedabad and Jaipur, which is margin accretive. Q4FY21 saw an increased contribution from oncology (13% Vs 10% in Q4FY20), resulting in improved EBITDA margins.
- With the second wave progressing from April, there have been constraints for ICU beds. India sales have been impacted 7-10% in April & May.

### 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 Cayman sales to marginally decline from current levels. The next growth will come post commissioning of the oncology block.

## Key Highlights from the Quarter

Financials (INR in mn)	Q4FY21	Q3FY21	Q4FY20	YoY	QoQ	FY21	FY20	Var %
Income from operations	8378	7504	7429	13%	12%	25823	31278	-17%
Other Income	85	46	70			282	238	
<b>Total Income</b>	<b>8463</b>	<b>7549</b>	<b>7500</b>	<b>13%</b>	<b>12%</b>	<b>26105</b>	<b>31516</b>	<b>-17%</b>
Purchase of Medical Consumables & supplies	2079	1956	1600			6779	7453	
Inventory Change	-10	32	188			0	0	
Employee Benefits	1696	1567	1680			6272	6737	
Professional Fees to Doctors	1562	1367	1520			5128	6290	
Other expenses	1636	1532	1484			5824	6569	
<b>TOTAL EXPENSES</b>	<b>6964</b>	<b>6454</b>	<b>6472</b>	<b>8%</b>	<b>8%</b>	<b>24002</b>	<b>27049</b>	<b>-11%</b>
<b>EBITDA (ex OI)</b>	<b>1414</b>	<b>1049</b>	<b>957</b>	<b>48%</b>	<b>35%</b>	<b>1821</b>	<b>4229</b>	<b>-57%</b>
<b>EBIT</b>	<b>1055</b>	<b>630</b>	<b>477</b>			<b>158</b>	<b>2610</b>	
Interest	182	186	208			760	853	
Depreciation	445	465	551			1835	1857	
<b>Profit Before Tax</b>	<b>872</b>	<b>445</b>	<b>269</b>	<b>224%</b>	<b>96%</b>	<b>-492</b>	<b>1757</b>	
Tax	-172	8	36			-418	423	
<b>Net Profit</b>	<b>700</b>	<b>452</b>	<b>233</b>			<b>-75</b>	<b>1335</b>	
Minority Interest (after tax)	0	0	0			0	-1	
Profit/Loss of Associate Company	-19	-28	-5			-68	-34	
<b>Net Profit after Minority Interest &amp; P/L Asso.Co.</b>	<b>681</b>	<b>424</b>	<b>229</b>	<b>198%</b>	<b>61%</b>	<b>-143</b>	<b>1299</b>	
Extraordinary items	0	0	-109			0	-109	
<b>Net Profit after extraordinary items</b>	<b>680</b>	<b>424</b>	<b>120</b>	<b>467%</b>	<b>61%</b>	<b>-143</b>	<b>1190</b>	
Equity	2043.6	2043.6	2043.6			2043.6	2043.6	
<b>EPS after Minority Interest</b>	<b>3.33</b>	<b>2.07</b>	<b>0.59</b>			<b>-0.70</b>	<b>5.82</b>	

**EBITDA margin highest so far at 16.9% from lower spend-employee, Doctor fees and other expenses**

**Debt repayment reduces interest costs**

**Tax credit aids PAT growth**

Cost Analysis	Q4FY21	Q3FY21	Q4FY20	FY21	FY20
Purchase of Medical Consumables & supplies	24.8	26.1	21.5	26.2	23.8
Employee Benefits	20.2	20.9	22.6	24.3	21.5
Professional Fees to Doctors	18.6	18.2	20.5	19.9	20.1
Other expenses	19.5	20.4	20.0	22.6	21.0

Profitability	Q4FY21	Q3FY21	Q4FY20	FY21	FY20
EBITDA margin	16.9	14.0	12.9	7.1	13.5
PBT margin	10.4	5.9	3.6	-1.9	5.6
PAT margin	8.1	5.6	1.6	-0.6	3.8

Source: Dalal & Broacha Research, Company

## Valuation & Outlook

Narayana Hrudayalaya reported a net loss of Rs 143 mn in FY21. Business recovery over Q3 & Q4FY21 indicates quick restoration of normal operations. The second wave hit India from April '21 with higher volumes and expected impact on profitability.

We have lowered our estimates for Sales/EBITDA/PAT by -23%/-21%/-38% for FY22E and -6%/-16%/-27% for FY23E, in view of the second wave hitting India hard resulting in pressure on ARPOB. Further, with costs coming back post Covid, we expect a gradual recovery in earnings in India. Recovery in Cayman will spear post the oncology block and opening of international borders. We have factored the delay in oncology block at Cayman.

At Rs 505, NH trades at 68x FY23E EPS of Rs 7.4 and 24x EV/EBITDA. We have valued NH at 18x FY23E EBITDA and 20x EV/Bed (80:20) and arrived at a target price of Rs 505. We believe the stock is adequately priced. **We revise our rating from BUY on Dips to SELL.**

## Financials

	FY19	FY20	FY21	FY22E	FY23E		FY19	FY20	FY21	FY22E	FY23E
<b>Profit &amp; Loss (Rs mn)</b>						<b>Cash Flow St. (Rs. mn)</b>					
<b>Income from Operations</b>	<b>28,609</b>	<b>31,278</b>	<b>25,823</b>	<b>30,331</b>	<b>34,538</b>	Net Profit	593	1,190	(143)	1,056	1,491
Purchase of medical consumabl	6,875	7,453	6,779	7,552	8,289	Add: Dep. & Amort.	1,373	1,857	1,835	1,881	2,076
Employee costs	6,241	6,737	6,272	6,586	7,573	<b>Cash profits</b>	<b>1,966</b>	<b>3,047</b>	<b>1,692</b>	<b>2,937</b>	<b>3,568</b>
Professional fees to Doctors	5,898	6,290	5,128	6,066	7,253	(Inc)/Dec in					
Other expenses	6,717	6,569	5,824	6,406	7,047	-Sundry debtors	125	42	(163)	(123)	(403)
<b>Cost of sales</b>	<b>25,731</b>	<b>27,049</b>	<b>24,002</b>	<b>26,610</b>	<b>30,162</b>	-Inventories	4	230	124	(353)	(115)
<b>Operating Profit</b>	<b>2,878</b>	<b>4,229</b>	<b>1,821</b>	<b>3,721</b>	<b>4,376</b>	-Loans/advances	(72)	(123)	(112)	(26)	(28)
Depreciation	1,373	1,857	1,835	1,881	2,076	-Sundry creditors	241	696	1,099	132	(24)
PBIT	1,505	2,372	(14)	1,839	2,300	-Provisions	37	253	(125)	55	61
Other income	167	238	282	338	372	Change in working capit	335	1,097	823	(315)	(510)
Interest	714	853	760	703	676	<b>CF from Oper. activities</b>	<b>2,302</b>	<b>4,144</b>	<b>2,515</b>	<b>2,622</b>	<b>3,058</b>
<b>Profit before tax</b>	<b>958</b>	<b>1,757</b>	<b>(492)</b>	<b>1,474</b>	<b>1,995</b>	<b>CF from Inv. activities</b>	<b>(2,255)</b>	<b>(2,345)</b>	<b>(592)</b>	<b>(2,373)</b>	<b>(2,858)</b>
Provision for tax	341	423	(418)	383	519	<b>CF from Fin. activities</b>	<b>58</b>	<b>(1,721)</b>	<b>(1,531)</b>	<b>(272)</b>	<b>(462)</b>
PAT Bfr Excp Items	617	1,335	(75)	1,091	1,476	<b>Cash generated/(utilisec</b>	<b>104</b>	<b>79</b>	<b>393</b>	<b>(23)</b>	<b>(262)</b>
Minority Interest	-	(1)	0	-	-	Cash at start of the year	860	1,204	1,512	1,646	1,689
Share of Profit of Associate	(23)	(34)	(68)	(35)	15	Cash at end of the year	1,204	1,512	1,646	1,689	1,500
Extraordinary Items	-	(109)	-	-	-						
Net Profit	593	1,190	(143)	1,056	1,491						
<b>Balance Sheet</b>						<b>Ratios</b>					
Equity capital	2,044	2,044	2,044	2,044	2,044	OPM	10.1%	13.5%	7.1%	12.3%	12.7%
Reserves	8,768	9,316	9,159	9,807	10,685	NPM	2.1%	3.8%	-0.6%	3.5%	4.3%
<b>Net worth</b>	<b>10,811</b>	<b>11,360</b>	<b>11,203</b>	<b>11,850</b>	<b>12,728</b>	Tax rate	36%	24%	85%	26%	26%
Def. Tax Liab.+Minority Int.	483	549	136	148	164	<b>Growth Ratios (%)</b>					
Secured loans	7,253	6,185	5,041	5,041	5,041	Net Sales	25%	9%	-17%	17%	14%
Unsecured loans	1,283	1,410	1,322	1,433	1,555	Operating Profit	36%	47%	-57%	104%	18%
<b>Total debt</b>	<b>8,536</b>	<b>7,595</b>	<b>6,363</b>	<b>6,474</b>	<b>6,596</b>	PAT	15%	101%	-112%	-839%	41%
Other Liab	1,394	1,303	1,238	1,362	1,498						
<b>CAPITAL EMPLOYED</b>	<b>21,224</b>	<b>20,807</b>	<b>18,940</b>	<b>19,835</b>	<b>20,987</b>	<b>Per Share (Rs.)</b>					
Gross block	23,906	25,885	26,913	28,413	30,913	<b>Net Earnings (EPS)</b>	2.90	5.82	-0.70	5.17	7.30
Accumulated depreciation	6,782	8,639	10,475	12,356	14,432	<b>Cash Earnings (CPS)</b>	9.62	14.91	8.28	14.37	17.46
Net block	17,124	17,245	16,438	16,057	16,481	Dividend	2.00	2.00	0.00	2.00	3.00
Capital WIP	362	118	183	1,000	1,000	Book Value	52.90	55.59	54.82	57.99	62.28
<b>Total fixed assets</b>	<b>17,486</b>	<b>17,363</b>	<b>16,621</b>	<b>17,057</b>	<b>17,481</b>	Free Cash Flow	0.3	-3.8	-1.8	9.0	6.4
Other Intangible assets	597	718	588	588	588	<b>Valuation Ratios</b>					
Goodwill	660	581	581	581	581	P/E(x)	174.0	86.7	-722.3	97.7	69.2
Equity accounted Investees	29	28	26	26	26	P/B(x)	9.5	9.1	9.2	8.7	8.1
Investments	145	835	1,177	1,177	1,477	EV/EBIDTA(x)	37.9	25.3	58.0	28.4	24.1
Other non current assets	1,980	1,840	1,127	1,182	1,240	EV/SALES(x)	3.8	3.4	4.1	3.5	3.1
Inventories	832	602	478	831	946	Div. Yield(%)	0.4%	0.4%	0.0%	0.4%	0.6%
Sundry debtors	2,664	2,622	2,785	2,908	3,312	FCF Yield(%)	0.1%	-0.8%	-0.4%	1.8%	1.3%
Cash & bank	1,204	1,512	1,646	1,689	1,500	<b>Return Ratios (%)</b>					
Loans & advances	293	417	529	555	583	ROE	5.5%	10.5%	-1.3%	8.9%	11.7%
Other current assets	477	382	449	494	543	ROCE	7.9%	12.5%	1.4%	11.0%	12.7%
Sundry creditors	4,720	5,417	6,515	6,648	6,624	ROIC	3.30	7.17	-0.97	6.83	9.12
Provisions	424	676	551	606	667						
Working capital	327	(558)	(1,180)	(777)	(407)						
<b>CAPITAL DEPLOYED</b>	<b>21,224</b>	<b>20,807</b>	<b>18,940</b>	<b>19,835</b>	<b>20,987</b>						

Source: Dalal &amp; Broacha Research, Company

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