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DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

May 2017

VALUE PICK

CHASING VALUE, NOT PRICES

Company Name	:	**NARAYANA HRUDAYALAYA**
BSE Code	:	**539551**
Time Duration	:	**1 year**
CMP	:	**₹311 (as on 10 May, 2017)**
Target Price	:	**₹390**

The Value Pick for the month of May is Narayana Hrudayalaya, a Bangalore-based chain of multi-speciality hospitals providing facilities of cardiac surgery, cardiology, neurosurgery, oncology and much more. It has grown revenue at a CAGR of 30% over FY11-15. Management expects that the new hospitals will post double-digit growth while the existing facilities will show 8-9% growth, in line with the industry. We see the company has been expanding its capacity following its asset light model and which helps it to remain profitable and chart its expansion story. We see key levers for growth being higher awareness in the younger generation, company's expansion strategy of pan-India presence and maintenance of profitability due to asset light model. Hence, we are targeting it to provide 25% upside from the current levels to touch target price of Rs.390 over a year.

Healthcare services growth remains strong

India's healthcare sector is expected to reach Rs 18.8 trillion at a CAGR of 13% over FY16-21. In India, the healthcare industry contributes only 4.1% to nation's economy. The Government is thus focusing on prioritising this sector. The factors which may contribute to flourishing this sector could be health awareness among the young population, changing disease profile (towards lifestyle diseases), increasing penetration of health insurance and increasing bed count across the country. Healthcare delivery space which includes hospitals, nursing homes and diagnostic centres comprises 60% of the sector's growth. Healthcare delivery space segment is expected to grow at a CAGR of 12% till FY20. To meet the rising demand, India needs to add 0.17cr number of beds till 2025. Urban areas in India can avail of healthcare services due to easy availability but rural areas still lack behind in availing such services. With Government's support, this sector has high prospective to grow by improving its presence in rural areas.

Expanding footprint to boost growth

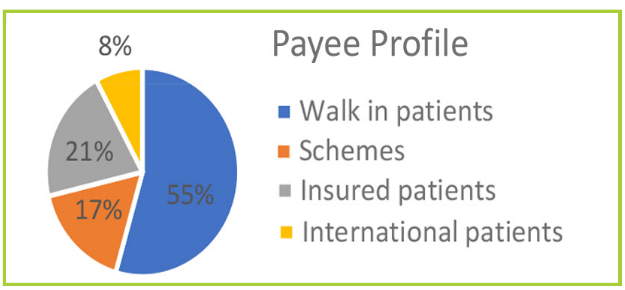
Narayana Hrudayalaya has a network of 18 owned hospitals with 4369 beds, 4 managed hospitals with 720 beds, 7 heart centres with 376 beds, 19 primary healthcare facilities with 10 beds across India and a single hospital overseas at the Cayman Islands. As on January 1, 2017, it has over 5,576 operational beds across all its centres with the potential to reach a capacity of over 6,900 beds. Its average effective capital cost per operational bed is 0.27 Cr. The company's presence is seen in all 4 clusters across India. Majority hospitals are in southern area i.e in Karnataka state with 4 hospitals in Bangalore itself. Eastern region has 10 hospitals including places like Kolkata, Jharkhand, Assam and West Bengal with total 1952 operational beds. Western and central clusters include states like Gujarat, Rajasthan, Chhattisgarh. In the northern region, a hospital is operational in Jammu & Kashmir.

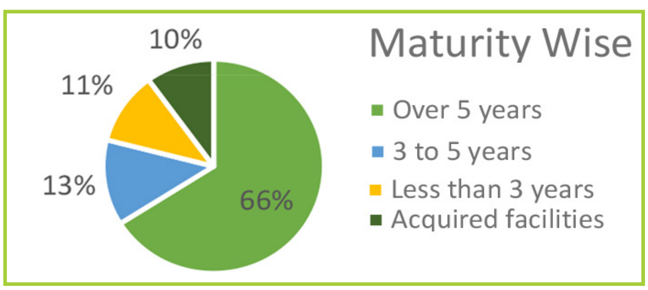
A few multi-speciality hospitals are on the way to get operational within next few months. An operational basis paediatric hospital with the 297-bed facility is about to open in Mumbai in the next 12 months. Another hospital on a leasehold basis with 220-bed capacity will open in Bhubhaneshwar. Also, a hospital in Kenya with 130 beds capacity is in line to get operational within next 2 years.

Narayana Hrudayalaya has acquired NewRise Healthcare Pvt Ltd from Panacea Biotech Ltd for Rs. 180cr in April 2017. NewRise Healthcare is setting up a multi-speciality, 230-beds hospital at Gurugram, which is in final stages of completion and is expected to be commissioned within the next 9 months. This new acquisition will consolidate the company's footprint in the northern cluster and grow in the NCR market.

Lowest cost provider with asset light model

The private sector hospitals generally have a higher number of





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owned hospitals which makes their business heavy asset-based model. But Narayana Hrudayalaya has managed to expand its business with light asset model by owning less number of hospitals while the rest are on either lease & operate revenue sharing or managed basis. Also, the company has been able secure low-cost land from trusts and government. This helps the company to lower its CapEx cost. To further save its costs, the company has bought low-cost medical equipment and use pay-per-use model for the expensive ones. The company is known for providing medical services at low cost as compared to its peers. It has managed gross block/bed at Rs 0.3 Cr vs Rs 0.8 Cr for private hospitals. Recently, Indian Government announced that US FDA approved medicated coronary stent would be made available for only Rs 30,000 in India. This would definitely help the company to provide cardiac related services at more lower cost.

Financial Performance

Revenue in Q3FY17 increased by 13.9% YoY to Rs 455.27 Cr. Its operating profit margin stood at 11.3% in Q3FY17 as against 10.5% in the corresponding quarter of previous year. Robust growth of 21.9% was seen in EBITDA, reflecting EBITDA margin of 12.4%. Its net profit swelled by 194% to Rs. 17.02cr in Q3FY17 YoY. A number of operational beds till Dec 16 rose to 5576 from 5456 on Dec 15. As the company follows asset light model, it enjoys the low debt-equity ratio of 0.19x as on 31st Dec 2017.

Valuation and Outlook

The company is trading at TTM P/E of 95.62 with TTM EPS of Rs 3.11. Its P/B ratio stands at 6.44x. It delivers ROE and ROCE of 4.9% and 9.19% respectively. It's EV/TTM EBITDA 27.37x which is better as compared to its peers.

We see that it trades at a premium due to the high growth seen in the last one year and the expansion plans. We expect that for a couple of quarters there would be pressure on margins due to high growth however we expect it to consolidate its profits with growth in maturity profile of hospitals by end of FY18.

We urge investors to **buy** the scrip on dips in three tranches.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	1607.45	1363.85	1095.12	839.29	657.78
Total Income	1620.14	1371.59	1117.51	854.45	660.69
Total Expenditure	1429.40	1238.18	972.45	755.94	574.26
PBIDT	190.74	133.40	145.06	98.50	86.43
PAT	40.47	5.93	35.33	23.84	25.72
Adj. EPS(Rs)	0.94	-0.84	1.69	1.32	1.37

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201612	201609	Q on Q Var%	201512	Y on Y Var%
Net Sales	447.74	479.44	-6.61	396.56	12.91
Total Expenditure	402.70	424.07	-5.04	356.49	12.96
PBIDT (Excl OI)	52.57	63.35	-17.02	43.20	21.69
PAT	18.67	28.53	-34.57	10.97	70.12
PBIDTM% (Excl OI)	11.55	13.00	-11.15	10.81	6.85
PBIDTM%	12.40	13.97	-11.24	11.58	7.08
PATM%	4.10	5.85	-29.91	2.75	49.09
Adj. EPS(Rs)	0.83	1.30	-36.15	0.28	196.43