



Narayana Hrudayalaya

IPO Flash

IPO details

Issue opens	December 17, 2015
Issue closes	December 21, 2015
Issue size	Rs600-613 crore
Type of issue	Offer for sale
Offer size	2.45 crore equity shares
Face value	Rs10
QIB portion	50% of issue size
Non-institutional portion	15% of issue size
Retail portion	35% of issue size
Price band	Rs245-250 per equity share

The issue

Narayana Hrudayalaya Ltd (NHL) is coming out with an initial public offering (IPO) to raise Rs600-613 crore from the equity market at a price band of Rs245-250 per equity share. Since the offer is being made through offer for sale, the proceeds from the offer will be remitted to the respective selling shareholders. The company will not receive any proceeds from the offer.

Company background

Founded in 2000, by Dr Devi Prasad Shetty, Narayana Hrudayalaya Ltd (NHL) is one of the leading private healthcare service providers in India, operating a chain of multispecialty, tertiary and primary healthcare facilities. NHL is headquartered in Bengaluru, India and operates a network of hospitals in India with a particularly strong presence in the southern state of Karnataka and eastern India, as well as an emerging presence in western and central India. Currently, NHL has a network of 23 hospitals (multispecialty and superspecialty healthcare facilities which provide tertiary care), 8 heart centres (superspecialty units which are set-up in a third party hospital) and 24 primary care facilities (including clinics and information centres), across a total of 31 cities, towns and villages in India with 5,442 (*Includes facilities and beds across hospitals that are owned, operated, leased and managed, and the 101 operational beds (104 capacity beds) facility in the Cayman Islands operated by our associate company, HCCL.*) operational beds and the potential to reach a capacity of up to 6,602 beds (*Based on management estimates, which includes facilities and beds across hospitals that are owned, operated, leased and managed, and the 101 operational beds (104 capacity beds) facility in the Cayman Islands operated by our associate company, HCCL.*).

Offer	2.45 crore equity shares
<i>Comprising offer for sale by:</i>	
1. JP Morgan Mauritius IV Holdings Limited	Upto 12.26 lakh equity shares
2. Ambadevi Mauritius Holding Limited	Upto 18.86 lakh equity shares
3. Ashoka Holdings	Upto 6.29 lakh equity shares
4. Dr Devi Prasad Shetty	Upto 2.04 lakh equity shares
5. Shakuntala Shetty	Upto 2.04 lakh equity shares

Shareholding pattern of selling shareholders

Particulars	Pre-issue	Post-issue	Change (%)
1. JP Morgan Mauritius IV Holdings Limited	10.67	4.67	-6.0
2. Ambadevi Mauritius Holding Limited	2.53	1.61	-0.9
3. Ashoka Holdings	8.45	5.37	-3.1
4. Dr Devi Prasad Shetty	32.66	31.66	-1.0
5. Shakuntala Shetty	31.38	30.38	-1.0

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Narayana Health is a brand that is strongly associated with the mission to deliver high quality and affordable healthcare services to the broader population by leveraging on economies of scale, skilled doctors and an efficient business model. NHL operates business through a combination of following models:

- Hospitals they own and operate
- Hospitals and heart centres that they operate and pay a revenue share to the owner of the hospital premises
- Hospitals, stand-alone clinics and primary care facilities that they operate on lease or license basis
- Hospital management services that they provide to third parties for a management fee (managed hospitals)

Key positives

Pan-India network presence of healthcare facilities: NHL has a broader network of healthcare facilities across India with 23 hospitals, 8 heart centres and 25 primary care facilities across India. They have an established presence and strong brand recognition in two geographical clusters, namely southern states of Karnataka and eastern India. Its presence is emerging in western and central India as well.

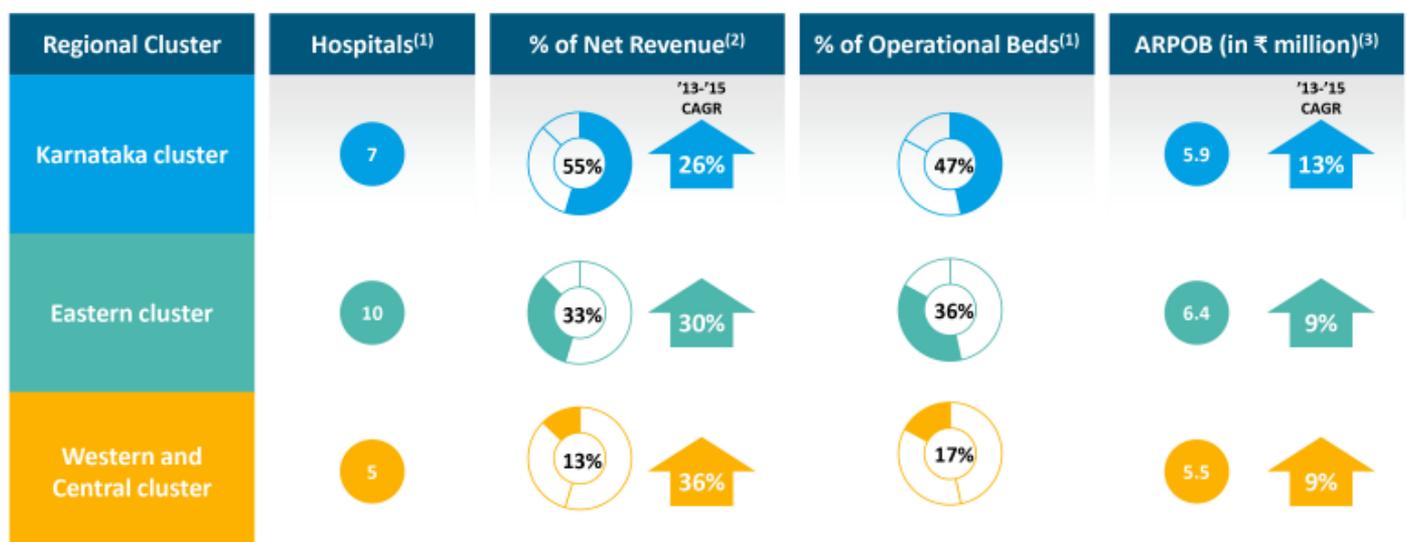
Karnataka cluster is centered on NH Health City, located in Bommasandra, Bengaluru, which comprises NICS, a superspeciality hospital for cardiology and cardiac surgery, and MSMC, a multispecialty hospital for cancer care,

neurology and neurosurgery, nephrology and urology, and houses what we believe, is one of India's largest bone marrow transplant unit. As of date of the RHP, Karnataka cluster comprises 4 hospitals in Bengaluru and a hospital each in Mysore, Bellary and Shimoga, and 7 heart centres totaling 2,344 operational beds, with a capacity of 2,913 beds. In addition, the hospitals in Hyderabad and Telangana have 305 operational beds currently.

In eastern India, presence is centered on RTIICS, a multispecialty hospital located in Kolkata with a strong presence in cardiology and cardiac surgery, as well as neurology and neurosurgery, and nephrology and urology. As of the RHP, NHL operated 10 hospitals, including hospitals in the greater Kolkata area encompassing Howrah, Barasat and the Eastern Metropolitan Bypass, a multispecialty hospital in Jamshedpur, Jharkhand, a superspeciality hospital in Guwahati, Assam and a hospital each in Durgapur and Berhampore, West Bengal and a heart centre in Durgapur, West Bengal, totaling to 1,877 operational beds, with a capacity of 2,253 beds.

NHL's presence in western and central India comprises of 5 hospitals, one each in Jaipur (Rajasthan), Raipur (Chhattisgarh), Palanpur (Gujarat), Ahmedabad (Gujarat) and Mahuva (Gujarat) totaling to 857 operational beds currently with a capacity of 1,008 beds. NHL currently is in the process of commissioning a dedicated pediatric hospital in Mumbai, Maharashtra and a multispecialty hospital in Lucknow, Uttar Pradesh.

Key performance statistics (FY2015):



(1) Includes Managed Hospitals. Excludes Malla Reddy Hospital at Hyderabad which does not belong to any of the above defined clusters

(2) Excludes Managed Hospitals, the Cayman Facility, Malla Reddy Hospital at Hyderabad and other Ancillary Businesses

(3) Excludes Managed Hospitals, Cayman, MMRHL and Malla Reddy Hospital at Hyderabad

Highly Efficient Model of Capital Deployment: NHL's has developed a niche calibrated model for establishing and expanding hospitals which has allowed them to achieve a more efficient use of capital. They have an effective capital cost per bed of Rs 2.5 million as of March 31, 2015. NHL operates business through a combination of four models in order to expand market presence while maximizing the efficiency of capital deployment.

NHL's asset right model, where partners own the fixed assets and NH owns the medical equipment, and operates and manages the hospital has helped them to establish themselves as a preferred partner for governments owing to scale, track record, and ethos of high quality affordable care. Below is table for upcoming hospitals.

NH Model for 23 Multi & Superspecialty Facilities

Model	No. of Facilities	Description
Owned + Operated	4	Hospitals owned and operated by NH
Revenue Share	7	Hospitals that NH operates and pays a revenue share to owner of the hospital premises
Leased & Operated	8	Hospitals that NH operates on a lease or licence basis
Managed	4	Hospital management services that NH provides to third parties for a management fee

Location	Estimated time for commencement	Type of hospital	No of beds
Vaishno Devi1	Within next 12 months	Multispecialty	241
Lucknow2	Within next 24 months	Multispecialty	326
Bhubaneshwar3	NA	Multispecialty	NA
Mumbai2	Within next 24 months	Multispecialty, paediatric	297

(1) To be executed on a public-private partnership model. Project land and building will be owned by the Vaishno Devi Board.

(2) To be executed on an operations and management basis.

(3) See "Risk Factors", page 20, Risk Factor no. 6, for our request to the Government of Odisha for allotment of an alternate land parcel for this project.

Multispecialty hospital with strong presence in cardiac and renal sciences: NHL's strong reputation and clinical capabilities in cardiac and renal sciences, as well as continuing expansion across other high-value clinical specialties have positioned them well to benefit from the increasing demand in India for quality healthcare services, particularly tertiary healthcare services. Their chain of multispecialty, tertiary and primary healthcare facilities provide advanced levels of care in over 30 specialties. They have a strong legacy in cardiac and renal sciences, which form the foundation of NHL's services offering. The key volume statistics for cardiac and renal specialties are mentioned in the table below:

Particulars	FY13	FY14	FY15	CAGR (%)
Cardiac surgeries	11,563	13,206	14,036	10.2
Cardiology procedures	37,878	47,743	51,546	16.7
Dialysis procedures	110,823	152,825	184,443	29.0
Kidney transplant	507	655	829	27.9

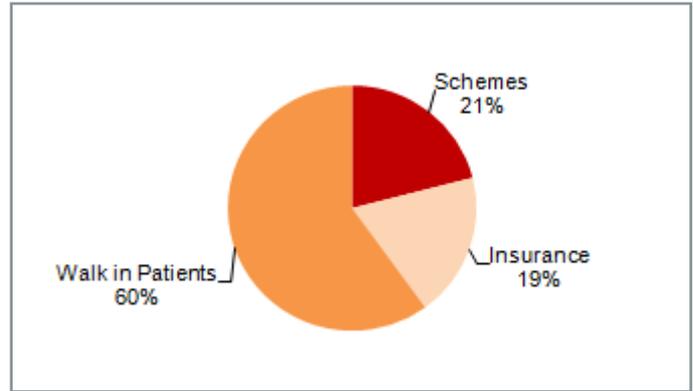
A combination of factors, including changing demographics, increasing affluence of the Indian population, greater health awareness and an increase in lifestyle-related diseases, will lead to an increase in demand for quality tertiary and other healthcare services. NHL has therefore expanded scope of its core specialty areas to include four additional areas of focus, ie cancer care, neurology and neurosurgery, orthopaedics, and gastroenterology. All these seven core specialties account for around 90% of inpatient billed revenues.

NHL's competitive advantages facilitate the delivery of affordable care: NHL intends to maximise operating efficiencies and profitability across our network by focusing on the following key areas:

- Improve average revenue per occupied bed (ARPOB) per day through an increase in focus on high growth tertiary care areas that would improve the case mix, as well as through a reduction in average length of stay (ALOS) to increase patient turnover rate thereby allowing them to capitalise on the first two to three days' of a patient's stay, which typically accounts for a significant portion of in-patient revenue.
- Maximise efficiencies through greater integration and better supply chain management. NHL's hospitals are large consumers of drugs and medical consumables, such as stents, sutures and other surgical materials. To minimise costs and leverage on economies of scale, the management intends to focus on standardising the type of medical and other consumables used across the network, optimising procurement costs, consolidating suppliers and optimising the use of medical consumables by establishing guidelines for medical procedures across network.

- Improve occupancy rates and the utilisation of key equipment and operating theatres, particularly at new hospitals, by placing greater emphasis on the delivery of tertiary care services, expanding our referral network and increasing community outreach programmes.

Payee profile (FY2015)



Attractive mix of profitable mature hospitals and scalable newer hospitals: Over time, NHL expects the financial metrics of new hospitals to converge with those of the more mature hospitals.

Key performance statistics for NHL's 23 multispecialty and superspecialty facilities:

Maturity	Hospitals	% of Net Revenue ⁽¹⁾⁽²⁾	% of Operational Beds		ARPOB (in ₹ million) ⁽¹⁾	EBITDA Margin ⁽³⁾
Over 5 Years	6	68%	44%	60%	6.4	24%
3-5 Years	3	14%	16%	47%	4.5	5%
Less Than 3 Years	10	13%	31%	41%	5.5	(14%)
Acquired Facilities	4	4%	10%	50%	2.9	3%

(1) Excludes Managed Hospitals, Cayman and MMRHL
 (2) Does not add up to 100% due to rounding off
 (3) Prior to allocation of corporate expenses

Key risks:

Particulars	Litigation filedby	Current status / Amount involved
The KSPCB, upon inspection of our premises, directed initiation of criminal proceedings against our Company for contravention of Section 25, read with Section 44 of the Water Act for expansion of NH Health City without the prior approval of the KSPCB.	Karnataka State Pollution Control Board(KSPCB)	The matter is pending before the Additional Civil Judge (Junior Division) and Judicial Magistrate (First Class), Anekal, Bangalore. Amount involved is not ascertainable.
A public interest litigation was initiated before the Rajasthan High Court alleging that a large number of encroachments, including land belonging to our Company had affected the flow of the Amanisha Nalla	P.N. Mandola	By an order dated December 18, 2013 the Rajasthan High Court directed the site commissioners to make recommendations to restore the Amanishah nala to its original state. Amount involved is not ascertainable.
Tolaram Bafna Artificial Limb and Caliper Centre donated land and building to the Government of Assam in 2007 and the Government permitted our Company to operate a hospital out of the land and building. Tolaram Bafna filed a writ petition before the Guwahati High Court alleging breach of terms and this was upheld by the Guwahati High Court. Company filed an appeal before the division bench of the High Court.	Tolaram Bafna Artificial Limb and Caliper Centre & Others	By a deed of agreement dated May 12, 2015, entered into between our Company, Tolaram Bafna Artificial Limb and Caliper Centre, Premchand TolaramBafna Charitable Trust, Acharya Tulsi Orthopedic Hospital, Subhakaran Jain and the State of Assam, we have settled the dispute. The Division Bench is yet to dispose off the writ appeal in terms of the settlement. Amount is not ascertainable.
Savita Murarka filed a money suit against Dr Binod S Agarwal and certain others alleging medical negligence and overcharging of fees. She claimed an amount of ` 50 Million from our Company's facility in Jamshedpur along with a demand of security being furnished for such amount.	Savita Murarka	The defendants sought that the suit be dismissed with costs. Amount involved is ` 50 million
Sanjay Kumar Jain filed a complaint alleging medical negligence and fraud by the Company and its doctor under Section 465, 468, 420 read with Section 34 and Section 304A of the Indian Penal Code.	Sanjay Kumar Jain	Dr. Bimalendu Kumar was granted anticipatory bail by an order of the High Court of Jharkhand in A.B.A No. 1787 of 2015 dated June 09, 2015. Amount involved is not ascertainable.

Valuation: At the price band of Rs245-250 per share, the issue is priced at 37.4-38.1x its EV/ EBITDA for FY2015.

Key financials

Consolidated profit & loss

(Rs cr)

Particulars	FY2011	FY2012	FY2013	FY2014	FY2015	H1FY2016
Revenue from operations	477.58	657.78	839.29	1095.12	1363.85	783.36
Total raw material cost	152.70	195.76	232.77	281.28	340.69	189.875
Employee expense	77.93	112.59	156.54	198.49	276.93	160.47
Other expenses	191.29	267.21	368.72	495.25	617.03	345.82
Total operating cost	421.92	575.56	758.03	975.03	1234.66	696.16
Operating profit	55.66	82.22	81.26	120.09	129.20	87.20
Sales (%)	11.7	12.5	9.7	11.0	9.5	11.1
Other income	2.63	2.90	15.16	22.39	7.74	5.20
PBIDT	58.29	85.13	96.42	142.48	136.93	92.40
Interest (cost)/Inc	5.33	9.24	16.61	28.36	40.89	17.14
PBDT	52.96	75.89	79.81	114.13	96.04	75.27
Less depreciation	32.14	37.23	46.01	57.44	66.69	35.20
Profit before tax	20.83	38.65	33.80	56.68	29.35	40.06
Tax	7.18	12.93	9.97	21.35	17.52	14.85
Profit before exceptional Item	13.64	25.72	23.84	35.33	11.83	25.21
MI + Share of (profit)/loss of associate	0.00	(0.03)	(0.96)	3.63	22.69	12.723
Reported PAT	13.64	25.75	24.80	31.71	(10.86)	12.49

Restated consolidated summary statement of assets & liabilities

(Rs cr)

Particulars	FY2011	FY2012	FY2013	FY2014	FY2015	H1FY2016
Liabilities						
Equity capital	0.33	0.33	0.33	0.33	200.00	200.00
Networth	480.94	515.34	547.02	580.40	764.77	780.89
Minority interest	0.00	1.78	5.01	2.78	0.68	0.27
Deferred tax liabilities	15.28	17.50	19.04	25.21	28.75	26.24
Total loans	90.0	116.2	218.6	279.4	305.1	201.5
Long-term loan	90.01	115.74	187.34	227.23	206.58	133.44
Short-term loan	0.00	0.50	31.31	52.22	98.53	68.02
Capital employed	586.2	650.9	789.7	887.8	1099.3	1008.9
Assets						
Fixed assets	530.12	578.15	664.72	758.08	922.90	941.03
Goodwill	0.00	0.00	0.00	0.87	59.02	59.21
Investments	0.00	0.00	6.79	51.42	52.22	70.34
Other non-current assets	0.00	0.00	1.34	1.40	1.09	1.64
Current assets	172.0	204.8	290.4	344.8	383.5	419.1
Other current assets	3.23	4.47	7.48	13.18	11.25	12.70
Inventories	25.97	27.98	38.37	49.26	51.22	53.52
Sundry debtors	46.31	67.24	91.48	134.18	142.93	157.42
Cash & bank balance	22.36	19.20	25.43	28.06	29.52	43.96
Loans & advances	74.10	85.91	127.59	120.11	148.58	151.54
Less: Current liabilities & provisions	115.9	132.1	173.5	267.9	260.4	423.3
Sundry creditors	52.69	70.05	77.13	152.91	137.04	187.94
Other current liabilities	57.99	53.56	88.22	104.68	104.92	215.81
Provisions	5.18	8.48	8.14	10.27	18.44	19.53
Net current assets	56.1	72.7	116.9	76.9	123.1	-4.1
Deferred tax assets	0.00	0.00	0.00	0.00	0.00	0.00
Capital deployed	586.2	650.9	789.7	887.8	1099.3	1008.9

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