

## Narayana Hrudayalaya Ltd

NH (established in 2000) is a multi speciality hospital with a network of 45 healthcare facilities in India and strong presence in Bangalore and Karnataka. It also operates hospital in Cayman Islands which is a 110 bed facility. The share price is expected to grow by 3x in 3 years.

Date of report:	27-08-2024	Industry PE	58.6	Sector	Medical Industry
CMP:	1268	Current PE	32.11	No of Years	24
Market Cap:	25903Cr	Highest PE	157.5 (2018)	Key Products	Hospital Services
ROCE / ROE	26.5% / 31.4%	Lowest PE	26.1 (2023)	Key Competitor	Apollo/ Max Healthcare

### Business Model and Industry Analysis

#### Overview:

The company is a multi speciality hospital providing cardiac, cancer care, neurology and neurosurgery, orthopaedics and gastroenterology services. It has presence in India (mainly Bangalore and Kolkata) and at Cayman Islands. In India it has a network of 45 healthcare facility. The group owns and operates certain hospitals and enters into management agreement with others due to which company acquires operating control of this hospital. The co operates at lower ARPOB compared to its peers and so to continue its growth, co has taken unique measure to increase throughput by debottlenecking capacity and improving payer mix. Group is also focused on technology where it has started robotic surgeries in some of its centre. It is also investing in technology to automate appointment to discharge process resulting in reduction of ALOS.

Also the company has recently venture into insurance service where a person has to pay insurance premium and can take treatment in any of the group hospital in case of medical need

#### Industry Growth:

The hospital industry is expected to grow at a CAGR of 2.8% till 2031. In a multi speciality hospital people tend to visit the same hospital due to trust gain over a brand name.

#### Capacity Utilisation:

NHL has 45 healthcare facility (6164 bed capacity) of which 18 (5626 beds) are owned/operated, one (178 beds) is managed, four (250 beds) are heart centres, 21 (no beds) are primary healthcare facility and one (110 beds) hospital in Cayman Islands. Currently the company is operating around 60% capacity utilisation

#### Opportunities:

- Increasing Throughput:** NHL will be adding new beds in upcoming 2-3 years till then it is focused on increasing revenue by changing payor mix, high end surgeries, room upgradation, automation to reduce ALOS etc
- New Hospitals:** New hospitals take 3 years to breakeven and further 3 years to come to its maturity stage. Hospitals at Ahmedabad, Mumbai and gurugram will start contributing to NHL bottom line in coming years
- Insurance Business:** The newly launched insurance is gaining good traction. It has expanded its presence across 6 touchpoints in Bangalore and has seen 45000+ patient transactions

#### Risk:

- Competitive Industry:** Stiff competition as there is pressure from new as well as existing players. Increasing subsidies from govt and improvement in services from govt hospitals may cause attrition in patients profile
- Regulatory Risk:** Restrictive pricing regulation proves to be a cap on profit margins. Further hospitals also faces risk of legal actions by patients in case of an adverse circumstances
- Discontinuation of lease:** Co operates on leased buildings. If these lease are not renewed its business operation will be disrupted or may lead to losses

#### Future Expansion:

- Brownfield Expansion:** NHL is planning to add new two floors to its Gurugram hospital. Further it is also planning to add oncology units to Jaipur, Ahmedabad and Mysore units. It will do other miscellaneous brownfield expansion and M&R to existing hospitals
- Greenfield Expansion:** Will be done in upcoming 2-3 years. In Bangalore it will be adding infrastructure to health city and would look for expansion of heart hospital. In Kolkata, the co is looking to acquire land parcel and add new infrastructure close to its existing hospital
- Cayman Island:** Around 500-600 cr will be flown to expand hospital at cayman island which will start its operation in H1 FY2025

**Management:**

Management is forward looking and focuses first on brownfield expansion over greenfield. Further they are willing to invest in technology to bring in advanced surgical processes and in automation to increase turnaround time and reduce ALOS. Promoters hold 63.8% unpledged shareholding in NHL.

**Institutional Investor:**

FII and DII continue to hold around **18.23%** in the company

**Historical Data and Financials****Profit N Loss Account:**

- Sales have grown at CAGR of 25% for last 3 years
- Margins have continuously improved and stands at around **14%** currently

**Balance Sheet:**

- Interest coverage ratio is **11 times**
- Co is expanding with mix of debt and internal accruals
- Debtor days and Inventory days have improved
- Working Cycle and Cash conversion cycle have improved YoY
- Current ratio stands at 1 times.

**Cash Flow:**

- Co has a very healthy CFO/PAT of 1.52 times
- Co has a positive CFO always

**Valuation:**

Particular	FY 24			FY 25E			FY 26E			FY 27E		
	IP	OP	Cayman	IP	OP	Cayman	IP	OP	Cayman	IP	OP	Cayman
Footfall	236	2541	39	260	2795	42	286	3075	45	344	3699	48
ARPP	123	4	15	130	4	16	137	4.84	16	143	5	17
Total (INR Cr)	2910	1067	59	3375	1230	65	3898	1488	72	4925	1970	80
Operating Revenue (INR Cr)	4037			4670			5458			6974		
Total Revenue (INR Cr)	5046			5780			6679			8317		
Profit (INR Cr)	790			983			1135			1414		
EPS	38.62			48.04			56			69		
PE Ratio	32.4			38.0			38.0			59.0		
Price	1251.3			1825.5			2109.4			4078.1		

1. Footfall- FY 24 as provided in PPT. FY 25 and FY 26 10% increase. FY 27 700 bed will be added. Assumed 50% utilisation and divided between IP and OP in ratios as FY24
2. ARPP- FY 24 and FY 25 as per PPT. Increase further as per FY 25 trend
3. Total revenue- Increased other revenue at 10%
4. PE Ratio- Fy 25 and 26 avg PE of 5 year. FY 27 used industry PE

*Disclaimer: This is a study report, not for any decision making or investment advisory.*

Made by: Nidhi Devidan (7083398946)

Date: 28<sup>th</sup> August 2024