24.05.2018

Narayan Hrudayalaya

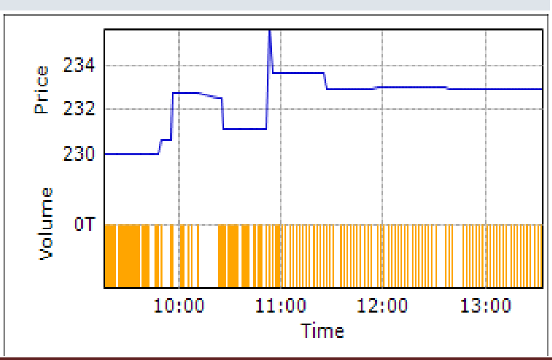
Initiating Coverage Report

Overview	
Market Cap.	**- 4858 cr.**
Market Price	**- 235.75**
52 Week High	**- 343.5**
52 Week Low	**- 228.95**
Industry	**- Hospital & Healthcare**

Share holding pattern		
Promoter %	**-**	**63.85**
Free Float %	**-**	**36.15**

Summary Financials (cr.)	FY15	FY16	FY17
Revenues	1363.85	1613.85	1878.16
PAT	-16.76	21.23	83.05
EPS	-0.84	1.04	4.06
P/E			73.79
Industry P/E			49.73
EV/EBITDA	3.99	31.42	20.35
D/E	0.47	0.29	0.23
RoCE	6.36	9.37	14.77
RoE	0.88	5.18	9.89

Price Volume Chart



COMPANY OVERVIEW:

Narayana Hrudayalaya (NH) was incorporated by renowned cardiac surgeon Dr Devi Prasad Shetty in 2000. The company was started as a predominant cardiac care hospitals group initially. Gradually, it also diversified into other specialties although cardiac still remains the mainstream specialty.
NH operates a network of hospitals, diagnostic centers, clinical or test centers. It offers medical, surgery and diagnostics and support services.
The company provide services in the area of cardiology; orthopedics; cosmetic surgery; anesthesia; imaging and radiology; nutrition and dietetics; physiotherapy, renal transplant, thoracic surgery; pediatric surgery; medical oncology, surgical gastroenterology; dermatology; rheumatology; hematology; neurology; psychiatry and psychology; and others.

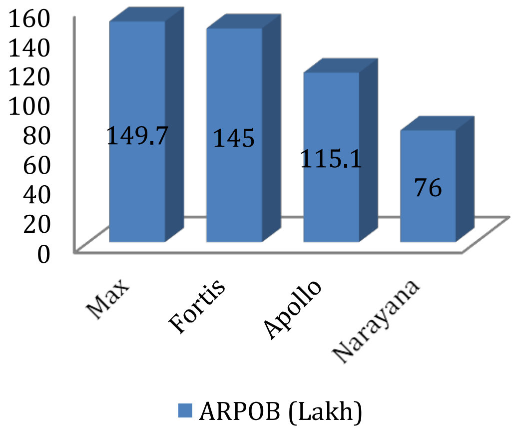
As on 31st December, 2017, Company had a total of 50 healthcare facilities (which included 20 owned/operated hospitals, 3 managed hospitals, 7 heart centers, 19 primary care facilities (including clinics and information centers) and 1 hospital in Cayman Islands) with 5889 operational beds and the potential to reach a capacity of up to 6888 beds.
Region wise, southern (mainly Karnataka) and eastern (mainly Kolkata) regions together account for 81% of operating revenues (FY17).

INVESTMENT RATIONALE:

Points of Appreciation:

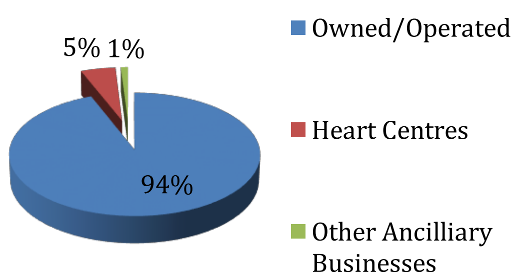
- Asset-Light Model:

Company follows asset light model as one of its different business models. It generally gets into contract with partners who would invest in brick & mortar while the company would be



Source: Company

Business Mix



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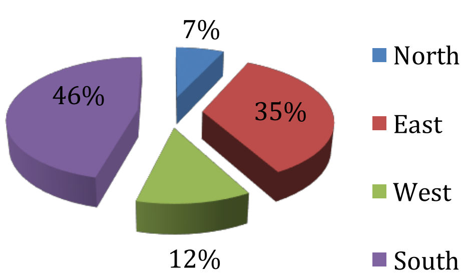
Cluster Wise



Source: Company

responsible for taking care of medical equipments and the hospital management on a revenue share basis.

NH's average effective capital cost per operational bed in FY17 was just 27 lakh against peer's average of approx. 90 lakh impacting its balance sheet positively in comparison to the competitors.

Year	2015	2016	2017
Capital Cost / Operational Bed (Lakh)	25.5	26	27

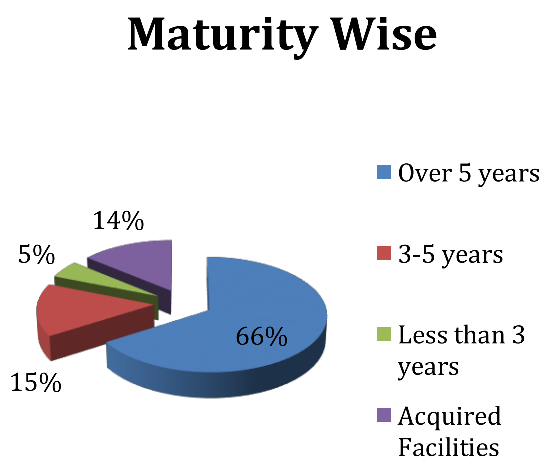
- <u>Combination of different Business Models</u>:

Company follows a diversified set of business models: Owned or Long term/Perpetual Lease, Revenue share/rentals, PPP: Public-Private Partnership, Management contract.
This mix of models has enabled the company to control and keep per cost of bed under check as they are able to expand their services without pressurizing the balance sheet.

- <u>Cost Cutting Measures</u>:

Management of NH believes in providing not just quality but also affordable treatment to the patients and in order to make it possible for the business they employ various measures that help them save on expenses and expenditures and operate with expanded efficiency and effectiveness.

- NH enters into an agreement with the vendors of the diagnostic machines for Blood Tests rather than buying a machine altogether. The vendor makes money due to large volume and hospital saves on the cost of machine.
- It has switched to digital X-rays system which saves the cost of film.
- Company claims to have had its owned hospitals planned and designed in a judicious way in order to ensure effective use of space. More beds are able to fit in less space, contributing in bringing the cost of per bed down.
- Unlike many hospitals, junior team of NH handles all the routine tasks of before and after the surgery so that the lead doctor is able to save time by operating directly on the patient. This way comparatively more surgeries are performed throughout the day.
- Air conditioners have been installed only in operation theatres as the remaining rooms are naturally ventilated.
- Company has deployed software to streamline postoperative cardiac ICU care.
- It has adopted new technologies like Laparoscopy, Robotic surgeries which are less risky and also takes less time.



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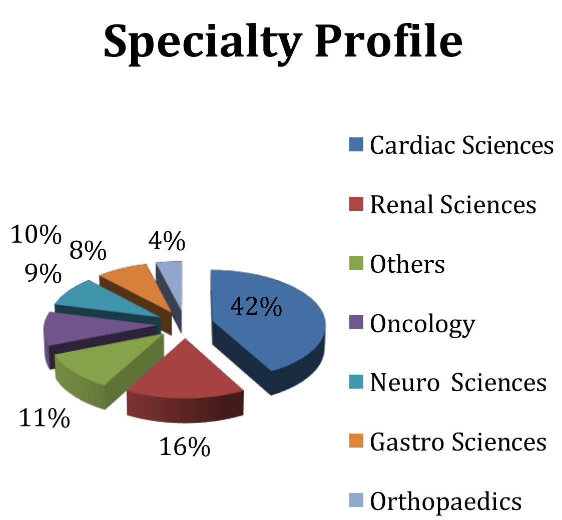

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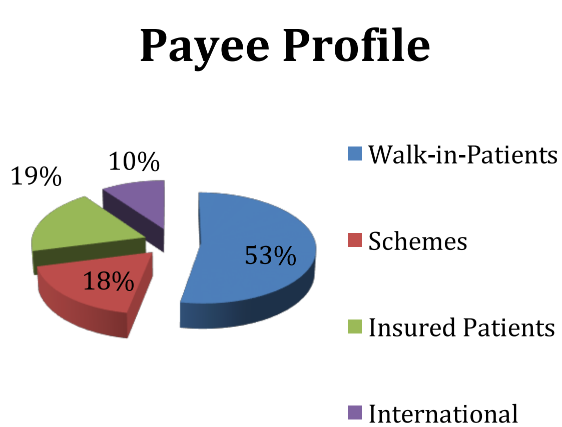


Source: Company

- Growth in International Patients:

India provides various standard surgeries at around 1/10th of the cost than other developed countries. This makes India a preferred country for undergoing such treatments. The number of foreign tourists coming to India for medical purposes rose by almost 50 per cent to 201,333 in 2016 from 134,344 in 2015. Contribution of International patients to total revenue has risen from 4.8% in FY16 to around 10% in Q3FY18.

- Supporting Macro Data:

- GDP allocation to healthcare sector is expected to rise to 2.5% by 2015 from current 1.5%.
- With rising life expectancy there is a rise in population which brings about a rise in disease prospect and with rise in per capita income there will be greater need for healthcare facilities in the country.
- 100% of FDI for Greenfield projects is allowed through automatic route and via government route for Brownfield projects.

Risks:

- Concentration of Revenues:

3 main hospitals of the company – Narayana Institute of Cardiac Sciences (NICS), Mazumdar Shaw Medical Centre (MSMC), and Rabindranath Tagore International Institute of Cardiac Sciences (RTIICS) are responsible for around 58% of the revenue. Continued growth of these hospitals is necessary for sound financials of the company.

- Government Regulations:

Government has recently decided to include cardiac stents and knee implants to the National List of Essential Medicines (NLEM) to cap the prices of both products. A restriction of 6 months on changing procedural prices was also implemented by government. A loss of around 40-45 crore is expected in FY18 by the management. Such regular interference by the government will hinder the functioning of the company also causing a hit on their bottom line at the same time.

- Impact of new units on Profitability:

Company is already running on low profit margin of around 4%. Addition of various new units (Jammu, Mumbai, Dharamshila, Gurugram) with low occupancy can prolong the gestation period of profits for the company.

- **Ongoing Legal Proceedings:**

There are 51 proceedings going against the company including its directors and promoters. Out of 51, 10 are filed as criminal cases and other includes Civil cases, PIL, Labor and Regulatory Proceedings, Legal Notices, Direct and Indirect Tax and Compounding Proceedings. Total amount involved is more than Rs. 65 crore which is equal to ~80% of FY17 profit. Any unfavorable outcome in these matters is expected to adversely affect their business, financial conditions, reputations and prospects.

- **Yet to acquire certain Government Approvals:**

Company does not possess occupancy certificate and prior environmental clearance for construction among others required for several of its units. Such facilities may be forced to vacate and construction forming part of these facilities may be demolished.

- **"PPP may "Bite back":**

A Public-Private Partnership Model is about the private company providing services while the government acting as service purchaser. This model involves a risk for the service provider as the government can impose cap over the cost of services it buys, which may further make the payback period for the hospitals longer.

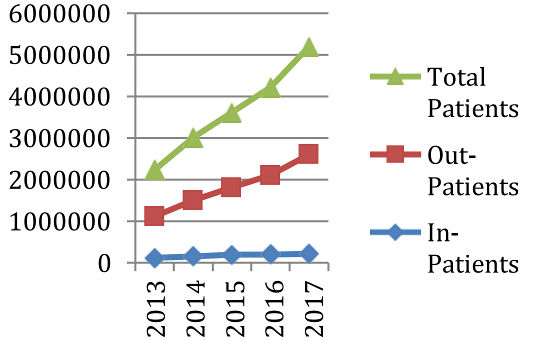
- **Dr. Devi Shetty- The brand:**

More than the affordability and quality approach of the company, it's the name of Devi Shetty that drives the customers to the hospitals. It's very clear that the entire business is substantially dependent on him.

BUSINESS MODEL

Sr. No.	Hospital	Maturity	Location	Cluster	Executed on the basis
1	NICS	Over 5 years	Bengaluru	South	Owned
2	MSMC	Over 5 years	Bengaluru	South	Owned
3	RTIICS	Over 5 years	Kolkata	East	Revenue-Share
4	Brahmananda Narayana Multispecialty Hospital	Over 5 years	Jamshedpur	East	Revenue-Share
5	Narayana Multispecialty Hospital	Over 5 years	Jaipur	West	Leased
6	MMI Narayana Multispecialty Hospital	Over 5 years	Raipur	West	Revenue-Share
7	Rabindranath Tagore Surgical Center	Over 5 years	Kolkata	East	Leased
8	Rotary Nationaleye Hospital	Over 5 years	Kolkata	East	Revenue-Share
9	Narayana Multispecialty Hospital	3 to 5 years	Ahmedabad	West	Leased
10	Narayana Multispecialty Hospital	3 to 5 years	Mysore	South	Leased
11	Sahyadri Narayana Multispecialty Hospital	3 to 5 years	Shimoga	South	Revenue-Share
12	Narayana Multispecialty Hospital	3 to 5 years	Bengaluru	South	Revenue-Share
13	Narayana Multispecialty Hospital	3 to 5 years	Bengaluru	South	Revenue-Share
14	Narayana Superspecialty Hospital	3 to 5 years	Guwahati	East	PPP
15	Kakriyal	Less than 3 years	Jammu	North	PPP
16	SRCC Children Hospital	Less than 3 years	Mumbai	West	Revenue-Share
17	Jindal Sanjeevani Multispecialty Hospital	Less than 3 years	Bellary	South	Managed
18	IQ City Narayana Multispecialty Hospital	Less than 3 years	Durgapur	East	Managed
19	NH Mavjat Multispecialty Hospital	Less than 3 years	Palanpur	West	Managed
20	Narayana Multispecialty Hospital	Acquired	Kolkata	East	Owned
21	Narayana Multispecialty Hospital	Acquired	Kolkata	East	Owned
22	Narayana Superspecialty Hospital	Acquired	Kolkata	East	Revenue-Share
23	Dharamshila Narayana Hospital	Acquired	Delhi	North	Revenue-Share

Source: Company



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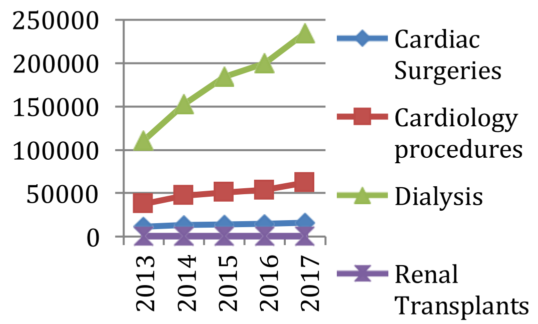


Source: Company

Company employs a Combination of different Business Models:

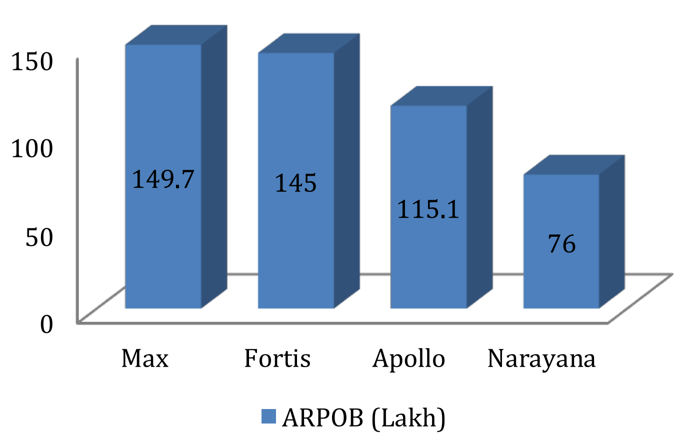
Company follows a diversified set of business models:

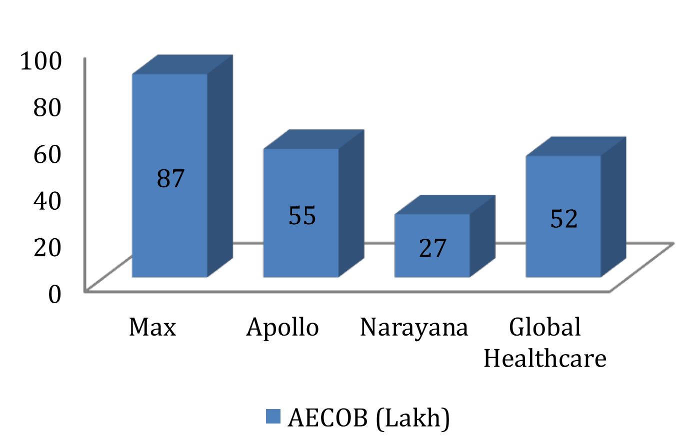
- <u>Owned or Long term/Perpetual Lease:</u>
  In this model NH owns the responsibility of looking after the profits and expenses as it owns both land and management of the hospitals. As on 31st December 2017, NH had 8 hospitals following this model.
- <u>Revenue share/rentals:</u>
  In this model, NH doesn't own the premises but the management and shares revenue it generates while operating with the owner of the land and building. At the end of FY2017, NH had 10 such hospitals.
- <u>PPP:</u>
  Public-Private Partnership is a model where company has to invest nominal amount of funds to get into partnership with public entities and has 2 hospitals in this model.
- <u>Management contract:</u>
  NH earns a management fee for managing and operating a 3rd party hospital. 3 hospitals are covered in this model.

This mix of models has enabled the company to control and keep per cost of bed under check as they are able to expand their services without pressurizing the balance sheet.

Source: Company

ENGAGEMENT FRAMEWORK	No. of UNITS	No. of OPERATIONAL BEDS	GROSS BLOCK + WIP (mn)	CAPITAL COST/ BED
Owned or Long Term/ Perpetual Lease	8 Hospitals	2607	9615	3.7
Revenue Share/Rentals	10 Hospitals	1817	3180	1.8
PPP	2 Hospitals	297	168	0.6
Managed Hospitals	3 Hospitals	720	-	-
Heart Centers	7 Heart Centers and 1 Clinic	386	511	1.3





Source: Company

Region wise bifurcation

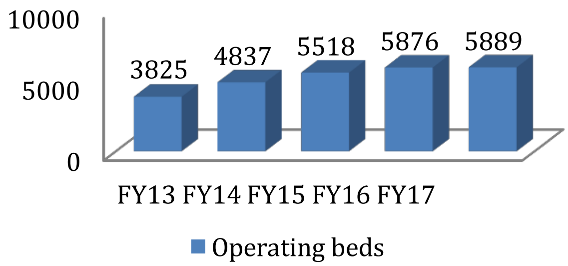
CLUSTER	LOCATIONS	No. of HOSPITALS	TOTAL OPERATIONAL BEDS		ARPOB (lakh)	OCCUPANCY
Southern (7)	Karnataka	7	2211 (41%)	The company also manages 6 heart centers totaling 302 operating beds.	79	60%
Eastern (9)	Kolkata	6	1966 (36%)	The company also manages a heart centre in Durgapur, West Bengal, totaling 49 operational beds	72	68%
	Assam	1				
	West Bengal	1				
	Jharkhand	1				
Northern (2)	Jammu	1	1246 (23%)	The company recently acquired a multispecialty hospital in Gurugram (NCR), which is expected to be commissioned in Q4FY18.	68	58%
	Delhi	1				
Western (5)	Raipur	1				
	Ahmedabad	1				
	Palanpur	1				
	Jaipur	1				
	Mumbai	1				
Overseas	Cayman Islands	1	105			

Source: Company

NH had set up a multi-specialty hospital in Cayman Islands on April 7, 2010. Health City Cayman Islands (HCCI) was a joint venture between NH and Ascension Health Ventures LLC, a US based trust. This 105 bedded hospital was commissioned in April 2014 and earned JCI, US accreditation in May, 2015 (JCI is the international arm of The Joint Commission, the leading health care accreditor in the US). NH had initially entered into a JV with a 28.6% stake in the hospital. Later, it bought back the rest of the 71.4% stake from Ascension Health in 2017 (EV of US$70 million for 105 beds), making it the step down subsidiary of Narayana Health, post completion of acquisition. HCCI is the largest hospital in the Caribbean with JCI accreditation and attracts patients from the Cayman Islands, the Caribbean and the Central America.

MATURITY	HOSPITALS			OPERATING REVENUE %			OPERATIONAL BEDS %		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Over 5 years	6	8	8	68	72	66	43	54	53
3 to 5 years	3	4	6	14	13	15	16	15	18
Less than 3 years	10	7	5	13	6	5	31	20	15
Acquired Facilities	4	4	3	5	9	14	10	11	13

MATURITY	ARPOB (lakh)			EBITAR MARGIN			OCCUPANCY RATE		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Over 5 years	64	70	84	24	24	25	60	57	65
3 to 5 years	45	47	71	5	4	9	47	55	55
Less than 3 years	55	78	70	-14	3	0	37	42	59
Acquired Facilities	29	33	75	3	6	8	50	59	61



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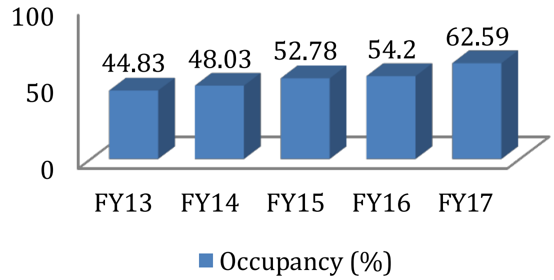

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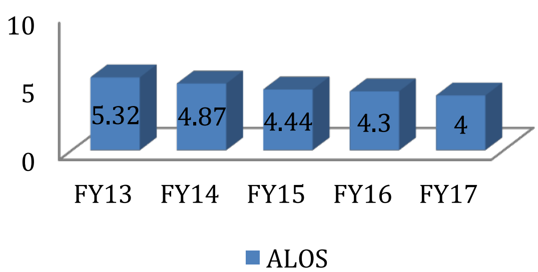

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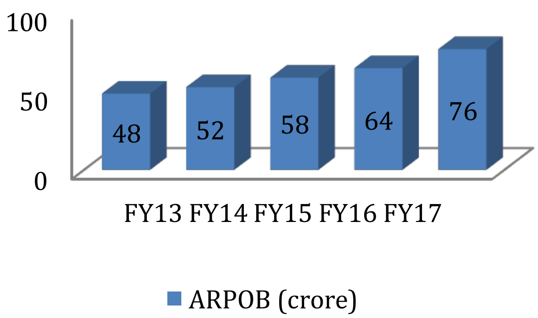

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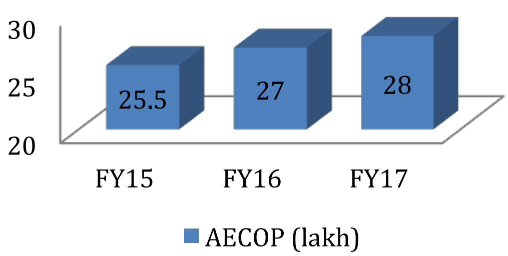


Source: Company

Given the high breakeven period of hospital industry, facilities of category 'Less than 3 years' are hampering the margins by contributing only 5% revenue on 15% operational beds at occupancy of 59% while other categories are giving a ratio of ~1.

The fact that at average occupancy, the less than 3 years facilities are commanding high ARPOB but a negligible margin, indicates that comparatively, treatments in the new facilities are proving substantially expensive. However, with one of the lowest ARPOBs in the market, company has a significant scope available for higher pricing.

Having ~34% of hospitals owned (or on long-term Lease), NH is having ~48% of operational beds employed in the mentioned model, followed by ~43% of operational beds in revenue based model which accounts for ~33% of total business model. Company is running at half of average revenue per operating bed in comparison to the leading competitor and at a third at average effective cost per operating bed indicating potential room for bettering margins and also the cost effectiveness of the model.

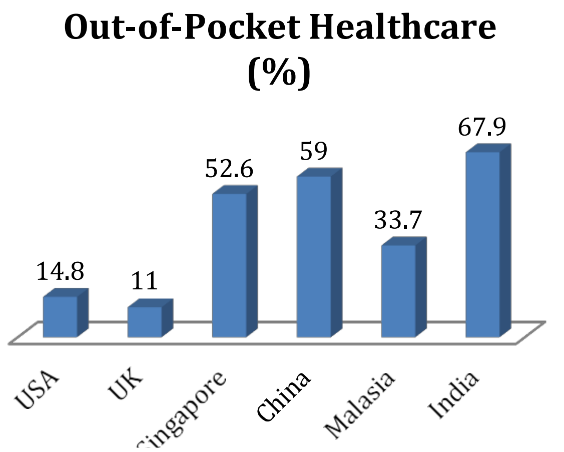
Over the course of 5 years (FY13-FY17), NH has increased its operating bed count at a CAGR of 11% along with improving occupancy rate at 9%.
On the account of these parameters and declining Average Length of Stay (ALOS) and a 5% CAGR of Average Effective Cost Per Operating Bed, company has been able to grow its Average Revenue Per Operating bed at 12% CAGR.

Government Initiatives:

In the Union Budget 2018-19, the overall health budget was increased from Rs. 48,878 crore to Rs. 52,800 crore (11.5% YoY rise).

India's universal health plan – National Health Policy (NHP) 2017 that aims to offer guaranteed benefits to a sixth of the world's population will cost an estimated Rs. 1.6 trillion over the next 4 years.
It came out with 3 objectives: progressively achieve universal health coverage, reinforce trust in public health care system and complement the growth of the private healthcare sector with public health goal.

Government seeks to engage private sector in order to provide services under the scheme by getting into partnership with them. This would not only improve the scalability of the medical services in the country but also improve the quality and address



Source: Company

	For Patients	For Hospitals
Bare Metal Stents	Rs. 30,000 - Rs. 55,000	Rs. 8,500 - Rs. 16,000
Cobalt-Chromium Stents	Rs. 50,000 - Rs. 70,000	Rs. 14,000 - Rs. 30,000
Drug-Eluting Stents	Rs. 1 lakh - Rs. 1.5 lakh	Rs. 75,000 to Rs. 80,000

- Profits shared by the cardiologists and hospitals
- Hospitals also levy handling charges of 15 to 20 per cent of MRP

Source: The Hindu

the shortcomings of government driven health services.

In the model, human resources, medical facilities and other logistics shall be provided by the private players whereas government will be responsible for space in district hospitals along with power and water supply.

Dodgy spending by the state along with inability to fulfill the rising healthcare needs has resulted in rise in the out-of-pocket expenditure in the country.

The private sector accounts for 90% of all hospitals, 60% of all beds and 80-85% of all doctors. Over 70% of population in rural areas and almost 80% in urban areas utilize private facilities.
Private sector provides almost 80% of outpatient and 60% of inpatient care.
However, this plan promises to reduce out-of-pocket costs of patients.

NH is already following PPP model for 2 of its hospitals and is known for providing standard quality not compromising on the affordability factor, the company appears as a partner-of-choice for a number of state governments and hence, suitable to get benefitted from the opportunity in coming years.

Impact of Stent price control:

In February 2018, NPPA (National Pharmaceutical Pricing Authority) exercised price control on stents used by hospitals.
A stent is a tiny expandable metal scaffold inserted in narrowed or weakened arteries. The procedure of placing stent in an artery is called Angioplasty.

Cardiac Sciences accounts for ~40% of NH’s consolidated revenue, this price control action can have significant negative impacts on NH’s profitability in near term.
Disturbances in supplies on account of shortage and uncertainty on availability of stents will have a direct impact on operational revenues.
The management expects a loss of Rs. 40-45 crore in FY18 due to this price control action.
Recently, West Bengal and Karnataka governments passed laws capping the prices of select private healthcare services.

INDUSTRY OVERVIEW

Healthcare has become one of India's largest sectors both in terms of revenues and employment. During 2008-22, the market is expected to record a CAGR of 16.28%. The total industry size is expected to touch US$ 160 bn by 2017 and US$ 372 bn by 2022.

Currently, the Government of India's expenditure on healthcare is 1.2% of Gross Domestic Product (GDP) and the government is targeting to increase that to 2.5% by 2025. And it currently contributes about 4-5% to India's GDP

India has only 7 beds per 10,000 population which is lower compared to global median of 26. Also, it has only 0.7 doctors and 1.7 nurses available per 1,000 populations which is less than he WHO recommendation of 1 doctor and 2.5 nurses per 1,000 populations.

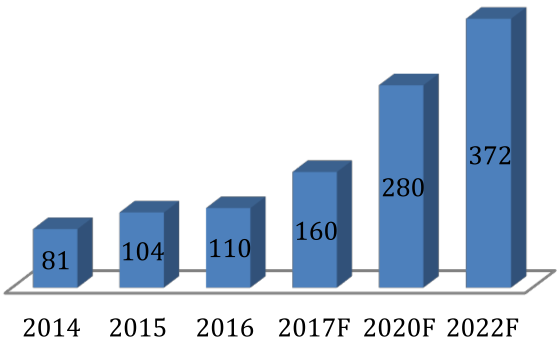
Out of the pocket expenditure on healthcare in India is 61% which is highest in the world.
India has amongst the lowest health insurance penetration among the developing countries, <20% population has health insurance.

India spends far less on healthcare as compared to most other middle-income countries. Only 3% specialist physicians are available to cater to rural demand which accounts for ~70% of total population.

India has 20% share of global disease burden and its share in the healthcare sector is very low with only 8% share o doctors and nursing staff and 6% of the world hospital beds.

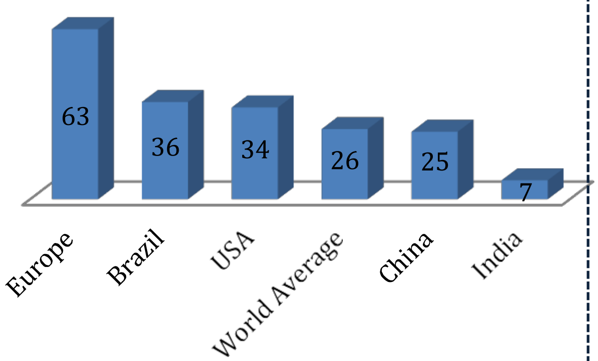
Rising income levels, ageing population, growing health awareness and changing attitude towards preventive health care is expected to boost healthcare services demand in future.
The low cost of medical services has resulted in a rise in the country's medical tourism, attracting patients from across the world.
Conducive policies for encouraging FDI, tax benefits, favorable government policies coupled with promising growth prospects have helped the industry attract private equity, venture capital and foreign players.

Growth Trend (US$ bn)



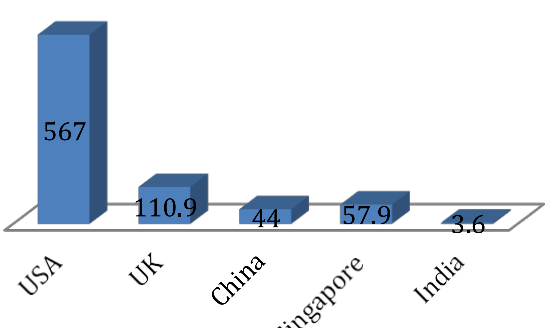
Source: ibef.org

No.of Beds/10,000



Source: ibef.org

Health Insurance Premium/Capita (US$; 2016)



Source: ibef.org

Porter's Forces

Threat of Substitutes – **Negative**
- Customers may go for public hospitals which are inexpensive.
- Customers might go for E-Health

Competitive Rivalry – **Medium**
- Increase in number of private players has led to increased competition.
- However number of hospitals is still low compared to requirement so there is not so much competition in the market.

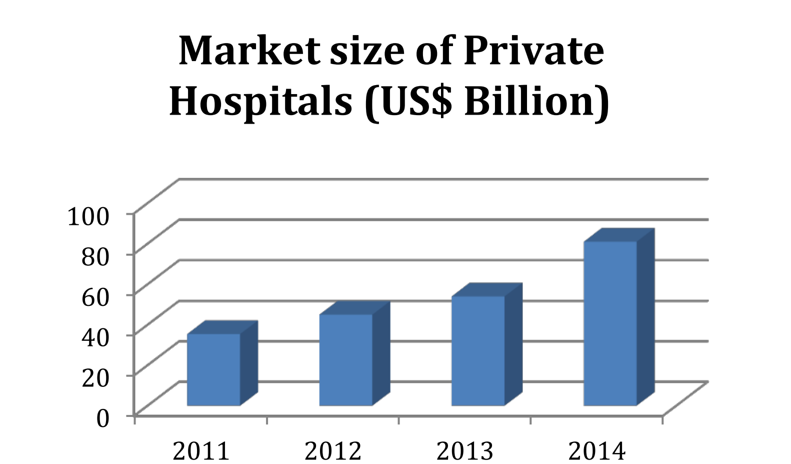
Threats of New Entrants – **Negative**
- Big threat of new entrants in the industry
- Number of players has increased considerably in recent times.

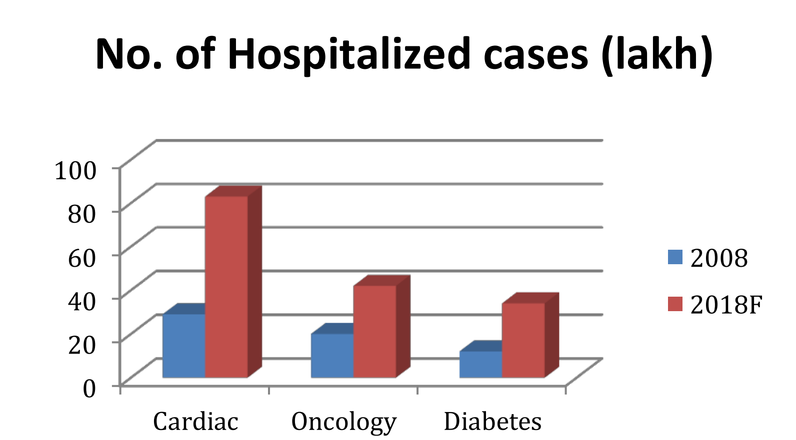
Bargaining power of Suppliers – Negative
- Its high because quality of products and timely delivery matter and there are less number of quality suppliers.

Bargaining power of Buyers – Medium
- Its low because of trust and loyalty however increase in number of options has given customers some bargaining power.

Large investments by private sector players are likely to contribute significantly to the development of India's hospital industry, which comprises around 80 per cent of the total market.
In India, private healthcare accounts for almost 74 per cent of the country's total healthcare expenditure Private sector's share in hospitals and hospital beds is estimated at 74 per cent and 40 per cent, respectively.

Increased incidences such as heart disease, obesity and diabetes have contributed to rising healthcare spending by individuals. Growing health awareness and precautionary treatments coupled with improved diagnostics are resulting in an increase in hospitalization.
Indian system of healthcare, Ayurveda has unique therapies which are beneficial for treatment of many chronic lifestyle disorders and thus attracting more number of patients to avail these services in India.
CAGR of hospitalized cases from 2008 – 18:
• Cardiac – 18 per cent
• Oncology – 16 per cent
• Diabetes – 19 per cent





Source: ibef.org

Peer Group Analysis

Apollo Hospitals is a leading player in the high-growth healthcare sector. It currently has a network of owned hospitals and hospitals through subsidiaries/JV/associates totaling to more than 4,000 beds. The company also has hospitals under management contracts which increases its spread and raises its total bed count to more than 6,800. Apollo has presence across the healthcare delivery value chain with 420 pharmacy outlets. Its integrated business model, scale, national footprint and presence across multiple disease and delivery segments make it one of the best plays on the sector.

Fortis Healthcare Limited incorporated in 1996, commissioned its first hospital in 2001 at Mohali, Punjab. The Fortis network includes multi-specialty hospitals and super-specialty centers providing comprehensive tertiary and quaternary healthcare to patients across specialties such as cardiac care, orthopedics, neurosciences, oncology, renal care, gastroenterology and mother & child care. Fortis runs one of the largest cardiac programmes in the world. It also has one of the largest orthopedics, neurosciences and renal sciences programmes in the country.

Max India Limited is engaged in various diversified businesses, such as healthcare, life insurance, health insurance, clinical research, etc. The Company operates through different subsidiaries for its businesses: Life Insurance: Max Life Insurance Company Limited (formerly Max New York Life Insurance, a joint venture (JV) between Max India and New York Life) Healthcare: Max Healthcare, a subsidiary of Max India, in partnership with Life Healthcare of South Africa. Health Insurance: Max Bupa Health Insurance, a JV between Max India and Bupa Finance Plc, UK. Clinical Research: Max Neeman Medical International, a fully owned subsidiary of Max India.

Healthcare Global Enterprise (HCG) is a provider of specialty healthcare in India, focused on cancer and fertility. Under the HCG brand, the company operates the largest private cancer care network with a pan-India presence. HCG network consists of 18 cancer centers across India, including 14 comprehensive cancer centers, three freestanding diagnostic centers and a day care chemotherapy centre. In 2013, the company entered the fertility segment by acquiring 50.1% stake in BACC Healthcare, which operates four fertility centers under the Milann brand in Bangalore. HCG also operates two multi-specialty hospitals in Gujarat.

Key players in Indian hospital industry (FY17)		
Company Name	**No. of Operational Beds**	**Presence**
Apollo Hospitals	6,997	Delhi, Noida, Kolkata, Ahmedabad,Mauritius, Pune, Raichur,
Fortis Healthcare Ltd	4,700	Mumbai, Bengaluru, Kolkata, Mohali, Noida, Delhi, Amritsar, Raipur, Jaipur,Chennai, Kota, Faridabad
Max India	2,330	Delhi, NCR, Punjab, Uttarakhand
Healthcare Global	1,364	Karnataka, Gujarat, Maharastra
Narayana Hrudalaya	5,889	Ahmedabad, Bengaluru, Davangere, Delhi, Dharwadi,Durgapur, Gurugram, Guwahati, Jammu, Jaipur, Jamshedpur, Kolar, Kolkata, Mumbai,Mysore, Raipur, Shimoga, Bellary, Palanpur

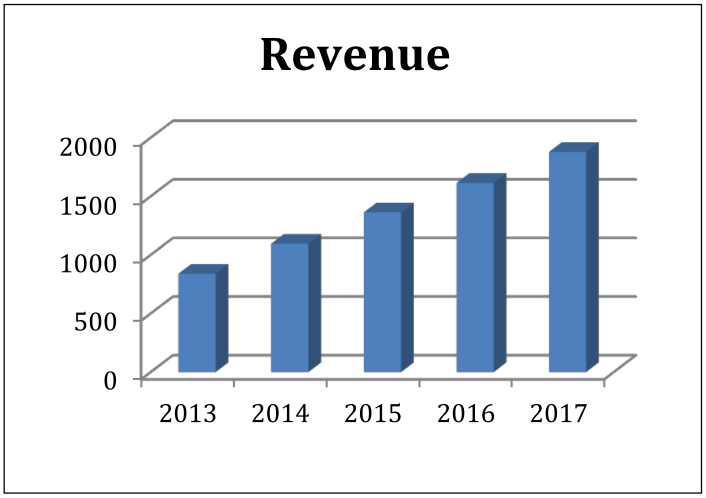
Domestic Peers Comparison (FY17; crore)

Name	Market Cap	No. of Operating beds	Revenue	EBITDA Margin	EBITDA
Apollo Hospital	11,398	6,997	4,163	17%	712
Fortis Healthcare	4,654	4,700	3,712	15%	545
Max India	2,654	2,330	2,567	11%	281
Healthcare Global	2,515	1,364	700	15%	105
Narayana Hrudalaya	4,858	5,889	1,878	13%	252

Domestic Peers Comparison (FY17; crore)

Name	Asset Turnover	EV/Sales	EV/EBITDA	Sales/Bed	EV/Bed	ARPOB	ALOS
Apollo Hospital	1	3	19.5	0.6	1.99	1.15	4
Fortis Healthcare	0.55	1.8	11.9	0.79	1.39	1.45	3.6
Max India	1.1	1.5	13.4	1.10	1.61	1.5	3.2
Healthcare Global	0.9	3.9	26.3	0.51	2.03	1.06	2.9
Narayana Hrudalaya	1.17	3.51	26.14	0.38	1.03	0.8	4.2

FINANCIALS



Revenue

Company derives revenues from several (over 50) of its medical facilities PAN India and also overseas (Cayman Island) which includes Multispecialty hospitals, heart centers, Primary healthcare facilities, and Pediatric hospital. It also earns a mere amount of revenue from interests, government grants.

Over the period of 5 years (FY13-FY17), company's sale has grown at a CAGR of ~22%.

40-45% of revenues are concentrated in 3 hospitals – NICS, MSMC, RTIICS. Company is heavily dependent on these facilities to continue to generate higher revenues and maintain a healthy financial position. 40-45% of total in-patient revenue is getting generated from cardiac care and cardiology procedures. A substantial portion of company's revenues are derived from arrangements with insurance companies, government sponsored health schemes and corporate tie-ups. Any adverse change in these relationships may adversely its business, operations, cash flows and prospects.

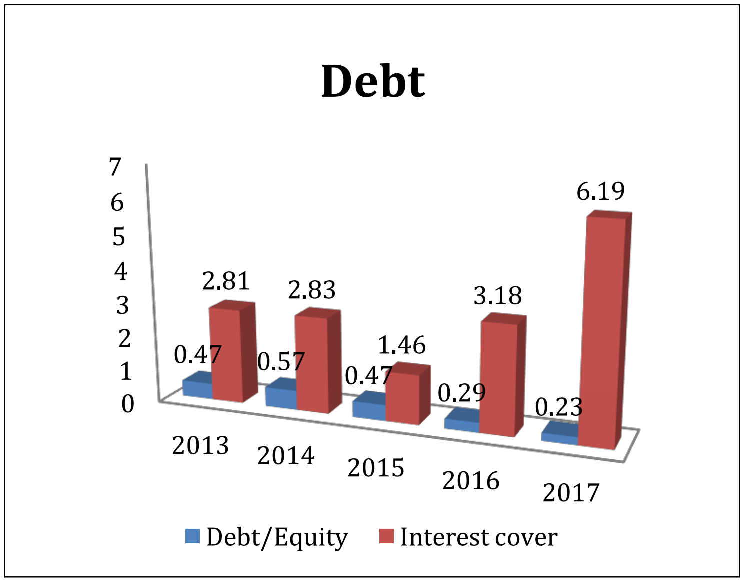
Capital Expenditure and New undertakings

Company has entered into a definite agreement with the partner with **Dharamshila Cancer & Research Centre** to prove healthcare services at Dharamshila Hospital & Research Centre in Delhi. It is a large, well-established 20 years facility with 300 operational beds located in Noida. The facility, currently, focused on Oncology will be upgraded to a state-of-the-art super-specialty tertiary unit with limited incremental capex. This is an asset-light transaction, as the hospital's assets are not being acquired. NH will pay revenue/rental share to the hospital owner.

NH is set to acquire 100% stake in **New Rise Healthcare Private Limited (NRHPL**) from Panacea Biotic Limited and PanEra Biotec Private Limited. NH will acquire 100% of its equity and preference shares for Rs. 180 crore. It is multi-specialty hospital with 230 beds, located in south-western NCR.

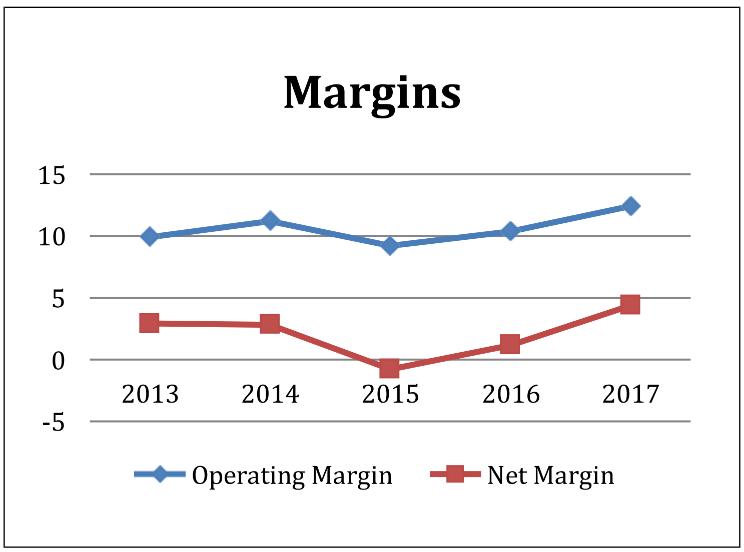
NH commissioned its 207 capacity bed **SRCC children's** hospital at Haji Ali Park, Mahalaxmi in Mumbai in April 2017. The hospital is designed to be a premier super-specialty, tertiary care "children only" hospital in the region. NH has set up this hospital as an asset light strategy with limited capex investments.

This year company has also invested in Mutual fund of ~Rs. 273 crore.



Debt

The company is further expanding its number of properties, especially in premium regions of western and eastern cluster, in response to meet the increasing demand for affordable and quality treatment in the country. Currently, company stands at a long term borrowings of ~Rs. 216 crore which gives out the debt to equity ratio as 0.23. Debt to equity ratio has decreased at a CAGR of 16.36% since FY2013, becoming less leveraged. In FY2017, company's interest coverage ratio stands at 6.19, which shows a remarkable improvement since FY2013 during which it was 2.81.

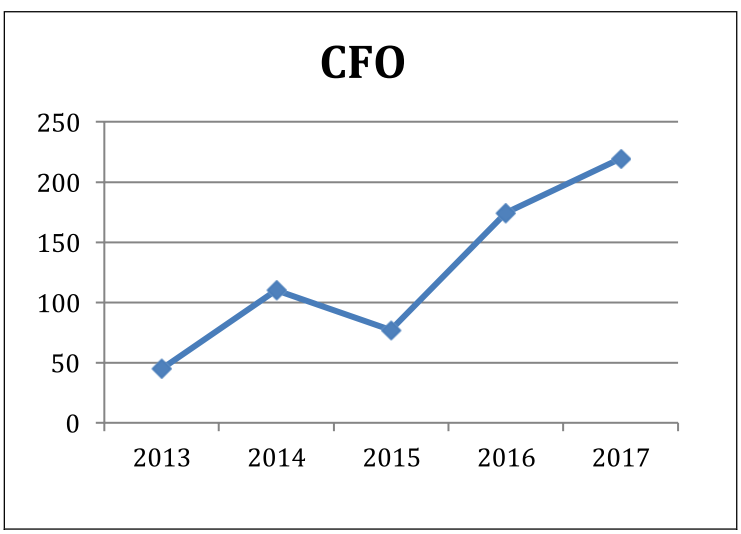


Margins

Operating Margin has given a growth of CAGR 5.75% in last 5 years and expanded by ~20% YoY in FY2017 whereas, profit margin has risen at ~11% CAGR since FY13 and stood at 71% YoY in FY17.

This massive expansion in profit margin for the FY17 was on the account of other income and reduction in interest payment. Other income was 0.5% of the total sales.

Around 50% of the company's expenditure is done behind consultation fees it pays to doctors (who don't form a part of the employees of the company) and employees' salary.



Funds from Operations

Depreciation of the company for FY17 stood at ~Rs. 80 crore which is around 100% of the net profit of the same year. Company has been generating very healthy funds from operations. CFO per share increased 25% in FY17. Over the period of 5 years, net profit grew at 36% CAGR whereas, CFO saw an upside of 49%.

Profit & Loss Account

Rs Cr	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17
Sales	**478**	**658**	**839**	**1,095**	**1,364**	**1,614**	**1,878**
% Growth YOY	-97%	38%	28%	30%	25%	18%	16%
Expenses	421	574	756	972	1,238	1,446	1,645
Material Cost (% of Sales)	34%	30%	29%	27%	25%	24%	23%
Power and Fuel	4%	3%	3%	3%	3%	3%	3%
Other Mfr. Exp	30%	31%	32%	32%	13%	10%	10%
Employee Cost	16%	17%	19%	18%	20%	21%	20%
Selling and Admin Cost	6%	6%	6%	8%	28%	30%	31%
Operating Profit	**57**	**84**	**83**	**123**	**126**	**168**	**233**
Operating Profit Margin	12%	13%	10%	11%	9%	10%	12%
Other Income	3	3	15	22	8	-7	10
Other Income as % of Sales	0.6%	0.4%	1.8%	2.0%	0.6%	-0.4%	0.5%
Depreciation	32	37	46	57	68	76	80
Interest	6	11	19	31	45	33	28
Interest Coverage(Times)	4	5	3	3	1	3	6
Profit before tax (PBT)	21	39	34	57	21	51	135
% Growth YOY	-99%	86%	-13%	68%	-64%	148%	166%
PBT Margin	4%	6%	4%	5%	2%	3%	7%
Tax	7	13	10	21	15	30	52
Net profit	**14**	**26**	**24**	**35**	**6**	**21**	**83**
% Growth YOY	-99%	89%	-7%	48%	-83%	251%	299%
Net Profit Margin	3%	4%	3%	3%	0%	1%	4%
EPS	0.7	1.3	1.2	1.8	0.3	1.0	4.1

	2011	2012	2013	2014	2015	2016	2017
Debtor Days	35	37	40	45	38	34	30
Inventory Turnover	18	24	22	22	26	32	35
Fixed Asset Turnover	1.0	1.3	1.4	1.5	1.5	1.5	1.7
Debt/Equity	0.2	0.3	0.5	0.6	0.5	0.3	0.2
Return on Equity	3%	5%	4%	6%	1%	2%	9%
Return on Capital Employed	3%	6%	4%	5%	4%	6%	10%

Balance Sheet

Rs Cr	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17
Equity Share Capital	0	0	0	0	200	204	204
Reserves	481	515	547	580	568	672	759
Borrowings	104	141	256	333	362	258	217
Other Liabilities	120	131	171	253	255	442	488
Total	**705**	**788**	**974**	**1,166**	**1,385**	**1,576**	**1,668**
Net Block	484	491	620	738	913	1,055	1,082
Capital Work in Progress	46	87	44	20	20	14	53
Investments	-	-	7	51	52	87	96
Other Assets	175	210	302	357	399	420	437
Total	**705**	**788**	**974**	**1,166**	**1,385**	**1,576**	**1,668**
Working Capital	55	78	131	104	145	-22	-51
Debtors	46	67	91	134	143	152	157
Inventory	26	28	38	49	52	51	53

Cash Flow

Report Date	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17
Cash from Operating Activity	29.7	52.86	44.62	109.99	76.73	174.07	219.35
Cash from Investing Activity	-93.82	-91.5	-146.68	-167.5	-222.86	-150.24	-146.19
Cash from Financing Activity	51.14	38.15	108.11	56.91	140.26	18.04	-45.14
Net Cash Flow	**-12.98**	**-0.49**	**6.05**	**-0.6**	**-5.87**	**41.88**	**28.03**
CFO/Sales	6%	8%	5%	10%	6%	11%	12%
CFO/Net Profit	218%	206%	187%	311%	1294%	836%	264%
FCF/Sales	-70%	-78%	-67%	-76%	-79%	-91%	-54%

MANAGEMENT

Dr. Devi Prasad Shetty:

He is the Chairman of the Company, and also an Executive Director. He is a cardiac surgeon with around 33 years of experience. After completing his MBBS from the University of Mysore in 1978, he received a master's degree in surgery from the University of Mysore in 1982. He initiated the concept of "micro health insurance scheme" in Karnataka, which eventually led to the Karnataka government to implement the Yeshasvini scheme, a micro health insurance scheme for rural farmers. He is the recipient of number of awards and honored, most noteworthy being 'Padma Shri' and 'Padma Bhushan' Award in 2003 and 2012, respectively.

Dr. Ashutosh Raghuvanshi:

He is the Managing Director and CEO of the Company. He is a cardiac surgeon with an overall experience of 26 years and has been part of the growth story of the Company since its early days. He has served as the Vice Chairman and group CEO and Executive Director of Narayana Health group of hospitals. Dr. Raghuvanshi completed his post graduation in cardiac surgery from the University of Bombay after completing his M.B.B.S and M.S in general surgery. He has worked at several renowned hospitals in Mumbai including Balabhai Nanavati Hospital, Breach Candy Hospital and Research Centre, amongst others, Apollo Hospitals in Chennai and Manipal Heart Foundation in Bengaluru before joining the Company.

Viren Shetty:

He is an Executive Director of the Company. He is a civil engineer who graduated from Visveswaraiah Technological University, Belgaum, Karnataka and he has completed his masters in business administration from Stanford University in 2012. He has been responsible for identifying new growth opportunities for the Company and the Group Companies and has eight years of experience. Viren Shetty has designed and built few hospitals for the Company including MSMC, multispecialty hospitals in Jaipur and Ahmedabad.

Source: Company

CONCLUDING VIEWS

Hospital industry works on leveraged balance sheet, high gestation and breakeven period, low margins and low return ratios. Earnings of the companies of this sector are highly dependent on the feedbacks from the consumers i.e. brand value.

Narayana Hrudayalaya is a company that follows asset light approach by employing different unleveraged business models which makes it stand out in comparison to most of its peers.

Company is on the way of increasing their facilities across the country in an unleveraged fashion but as more than half of the operational beds are still either owned or leased, it is susceptible to a prolonged breakeven phase and thus, subdued margins for several coming years.

Given a number of concerns such as the brand power of promoter Devi Shetty, concentrated revenues, government interference among others gives the company a risk angle as these factors will directly have an impact on the earnings of the company which already is running at a low margin. But, looking at the past performance, various business strategies adopted by the management in order to keep a check on its costing and its proven capabilities over the years, promising and supply deficit industry, the company appears set to make a mark and benefit the shareholders with its improved financials and valuations in long-term.

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Glossary

In-patient revenue:
In patient revenue is defined as revenue generated from a patient who lives in a hospital while under treatment.

Out-patient revenue:
Outpatient revenue is defined as revenue generated from a patient who does not stay in the hospital while under treatment.

Operational beds:
Operational beds are defined as the beds, which have been commissioned for service of the total capacity of beds

ARPOB:
ARPOB stands for Average Revenue per Occupied Bed. To calculate the average, divide the total revenue for each bed with the number of days the bed has been occupied

Average effective capital cost per operational bed (AECOP):
The metric is calculated by dividing the gross block +CWIP by the number of operational beds

ALOS:
ALOS stands for average length of stay. To calculate ALOS, divide the sum of inpatient days for a particular diagnosis with the number of patient admitted for the diagnosis. In simpler terms, it refers to the number of days a person stays in a hospital for a particular illness or disease.

JCI accreditation:
Joint Commission International (JCI) works to improve patient safety and quality of health care in the international community by offering education, publications, advisory services, and international accreditation and certification.