

**HOLD**

Target Price: Rs 324

CMP : Rs 317  
Potential Upside : 2%

**MARKET DATA**

No. of Shares : 204 mn  
Market Cap : Rs 65 bn  
Free Float : 35%  
Avg. daily vol (6mth) : 76,070 shares  
52-w High / Low : Rs 360 / Rs 272  
Bloomberg : NARH IB Equity  
Promoter holding : 65%  
FII / DII : 20% / 10%

# Narayana Hrudayalaya

MIDCAPS

## Uniquely positioned

**Financial summary (consolidated)**

Y/E Mar	Sales (Rs mn)	EBITDA (Rs mn)	Adj PAT (Rs mn)	EPS (Rs)	Change YOY (%)	EV/E (x)	RoE (%)	RoCE (%)
FY15	13,639	1,292	(108.3)	(0.5)	(100.1)	51.6	(1.6)	6.7
FY16	16,075	1,765	301.4	1.5	(372.3)	37.9	3.6	9.7
FY17E	19,320	2,502	901.2	4.4	199.4	27.0	9.7	13.6
FY18E	23,027	3,057	1,195.6	5.9	32.7	22.0	11.5	15.8

Source: Company, Axis Capital

**Key drivers**

(Rs bn)	FY16	FY17E	FY18E
Revenue	16	19	23
EBITDA	1.8	2.5	3.1

## Narayana Hrudayalaya: A multi-year compounding story

We believe Narayana Hrudayalaya (NH) is entering a growth phase similar to that of Apollo Hospitals between FY05-10, wherein the latter reported over 25% growth for over 6 years. As bulk of the capex is over, **we expect 20% revenue CAGR coupled with 450 bps improvement in EBITDA margin to 16% (as utilization improves), over FY16-20**. Initiate coverage with HOLD and DCF-based target price of Rs 324 (implies ~22x FY18E EV/EBITDA; in line with Asian Peers). While immediate upside is capped, we believe the stock can compound at ~15% given **earnings are back-ended and 3x increase in EBITDA to Rs 5 bn expected by FY20**.

- ♦ NH is the largest affordable private sector healthcare provider in India with strong presence in South and East. NH has 23 hospitals, 7 heart centers and 23 primary care facilities across 32 locations with 5,300 operational beds (potential capacity 6,600)
- ♦ **Competitive positioning - a direct play on affordable organized quality healthcare in India:** NH's pricing usually at a fraction of the cost vs. pvt players and (b) only treatments in subsidized government hospitals and trusts are cheaper. **Despite such low pricing, NH scores high on brand and treatment quality (NABH\* and JCI^ accreditations)** – thus making it a preferred choice for masses not looking at government/municipal hospitals for treatment
- ♦ **Asset light business model to enable better profitability as beds mature:** While hospital business is usually asset heavy, NH has managed a gross block/bed at Rs 2.5 mn vs. Rs 7-8 mn for private hospitals. This is mainly because NH has been able to secure low cost land from trust and governments
- ♦ **Margin to move up in line with peers (10% currently vs. ~16% for peers):** Most capacities are in place but only 70% have been operationalized so far with utilization at ~50%. Currently, top 3 hospitals (~40% of operational beds) contribute 54% of revenue but ~130% of EBITDA. This implies that other 20 hospitals are operating at ~3% EBITDA margin – as these beds mature, we expect margin to converge with that enjoyed by NH's top 3 hospitals
  - Top 3 hospitals posted 22% EBITDA CAGR over last 4 years and are currently at only ~65% utilization. Operating metrics at 25%+ EBITDA margin and 25%+ RoCE are comparable to the best-in-class hospitals across Asia including Apollo Hospitals

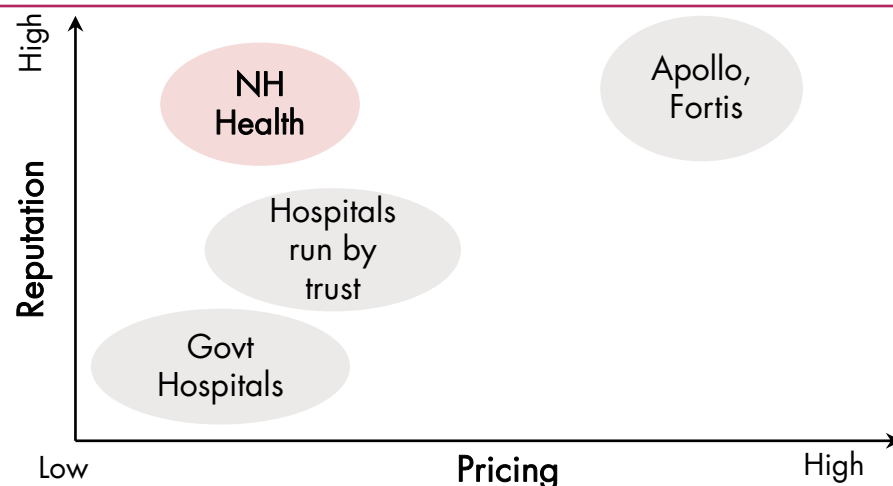
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## One of the lowest cost healthcare provider in India

NH provides treatment at significantly lower cost but scores high on brand and treatment quality



Source: Axis Capital

NH offers medical packages at a fraction of the cost vs. treatments provided at other private hospitals

	Cost at NH (Rs)	Cost at other Pvt hospitals (Rs)
Cardiac surgery	170,000	400,000
Cardiology	67,000	175,000
Nephrology	92,000	250,000
Orthopaedics	90,000	350,000
Urology	32,000	120,000

Source: Axis Capital

- ◆ 'Narayana Health' brand is widely recognized for quality healthcare at affordable prices. Strong brand equity and goodwill among patients and healthcare professionals has positioned NH as a partner of choice for government bodies, trusts and organizations seeking to operate and manage healthcare facilities
  - Some of NH facilities are JCI and NABH accredited
- ◆ **Business model:** Partners would invest in land and building, while NH would invest in medical equipments and manage the hospital
- ◆ **Low Gross Block / bed:**
  - NH: Rs 2.5 mn
  - Other private hospitals: Rs 7-8 mn

ARPOB of NH is significantly lower vs. competition

	Apollo	Fortis	NH
ARPOB (Rs/bed/ day)	24,500	34,200	17,300

Source: Axis Capital

Note: ARPOB for NH, Fortis includes doctor fees  
ARPOB for Apollo is net of doctor fees

NH can perform a heart surgery at USD 1,000-1500

## Quality healthcare at 1/3<sup>rd</sup> the price with 25% EBITDA and RoCE

NH has low capex (Rs 2.5 mn/ bed vs. Rs 7-8 mn for other private hospitals) and significantly lower operating cost

RoCE  
(~25%)

=

EBIT  
(~25% EBITDA)

Capital employed  
(~Rs 2.5 mn/  
bed)

### ◆ Lower operating cost

- Centralized purchasing of consumables
- Economies of scale with higher volume

	Apollo	Fortis	NH
3 Yr in-patient volume CAGR	9%	5%	19%

- Ward beds requiring less para-medics/ support staff
- While doctor salaries are at par with other hospitals, each doctor is incentivized to perform higher number of surgeries

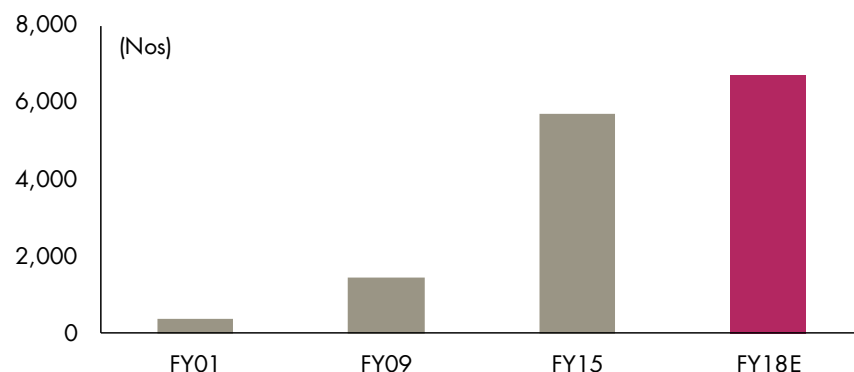
### ◆ Lower capex by entering into smart land deals

- Tie-up with 'Trusts', management contracts, long term land lease, purchasing cheap land (which is usually away from the centre of city)
- Low construction cost for greenfield projects (no centralized air-conditioning, etc)

- ◆ Volume benefits on equipment (usually sourced from single vendor)

## Financial metrics of new hospitals to converge with those of matured ones

### Significant bed addition in last 6 years



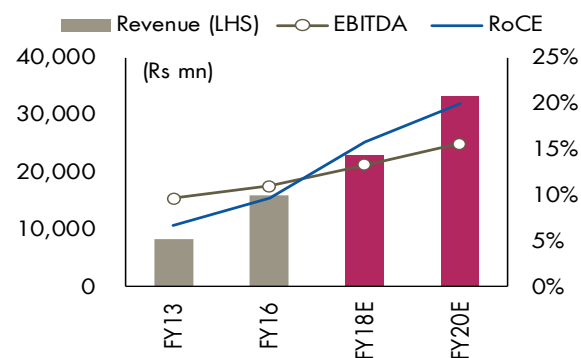
### Resulting in only 40% of beds which have matured

	Top 3 hospitals	Other hospitals
% of beds	40%	60%
Revenue (Rs m n)	8,701	7,367
EBITDA margin	25%	3%
RoCE	30%	3%

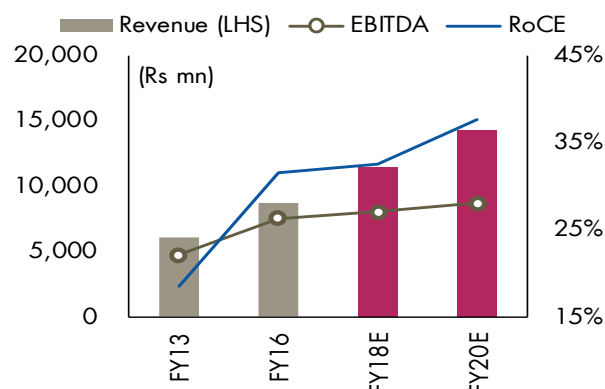
- NH has proved that mature hospitals can deliver 25% EBITDA with 30% RoCE
- With the investment phase behind NH, most hospitals which have been added in the last 3 years will start giving similar returns

## 20% revenue CAGR over FY16-20E and EBITDA margin to improve 450 bps to ~16% as hospitals mature

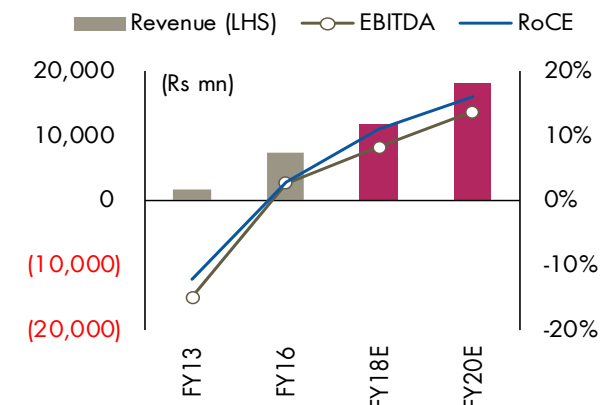
### Consolidated financials



### Flagship hospitals already clocking 25% EBITDA margin and 30% RoCE



### New hospitals: Reducing losses



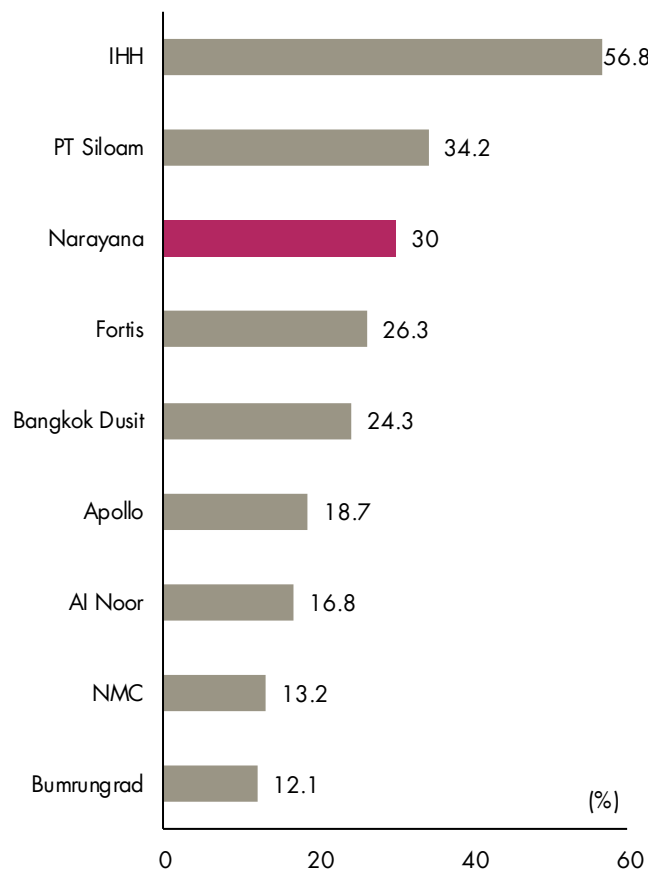
## Attractive mix of profitable mature hospitals and scalable new hospitals

	Hospitals	No. of Op beds	Occupancy (%)	ARPOB (Rs mn)	Revenue (Rs mn)	EBITDAR* (%)
Over 5 years	8	2,250	57	7.0	11,570	24
3 – 5 years	4	630	54	4.7	2,090	4
Less than 3 years	7	840	42	7.8	965	3
Acquired facilities	4	460	59	3.3	1,447	6

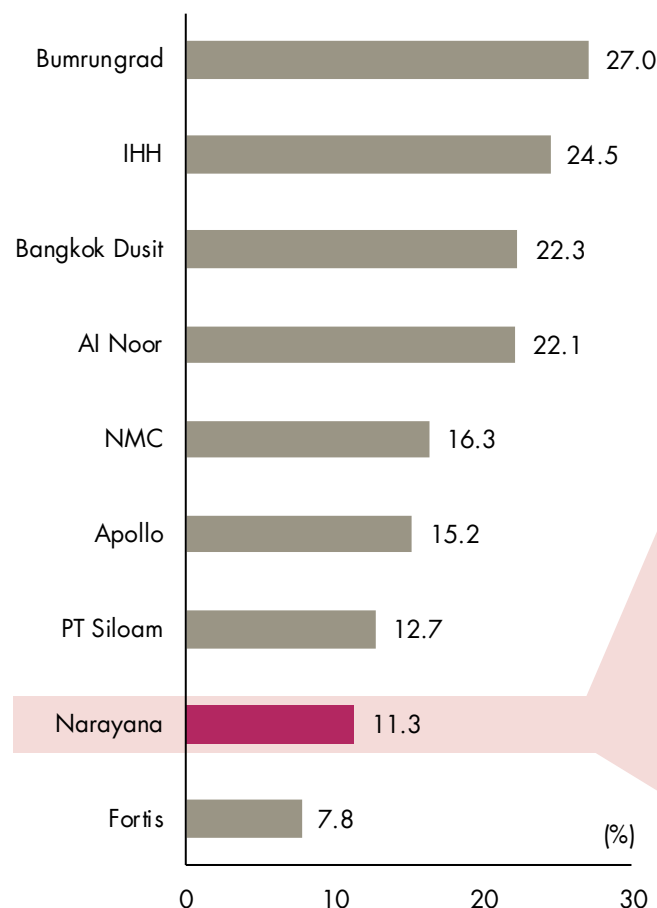
- ♦ 54% of operational beds are over 5 years which contribute 70% of revenue but ~150% of EBITDA
  - Only 2 hospitals opened prior to FY09
- ♦ Established hospitals are clocking EBITDA margin and RoCE of ~25%
  - Hospitals over 5 years too have room to improve, as occupancy at ~60%
- ♦ We expect the financial metrics of new hospitals to converge with those of mature hospitals over time

## Operating metrics in line with Asian peers

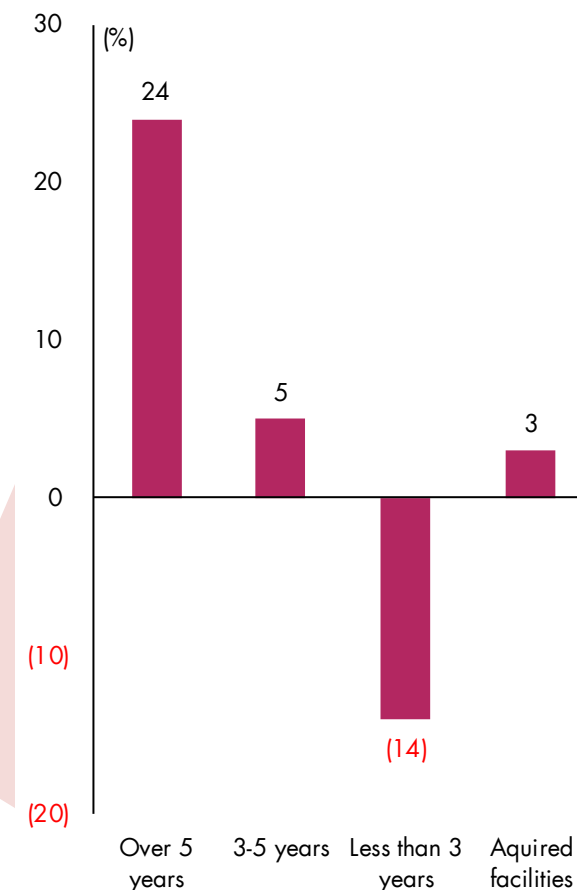
### Revenue growth (last 4 years CAGR)



### EBITDA margin



### EBITDA margin by maturity of hospital



NH has been one of the fastest growing hospitals in Asia. Matured hospitals are clocking EBITDA margin which is one of the best when compared to top Asian hospitals. Currently, overall margin depressed as majority of beds are yet to mature



# About NH

## Journey from 225 to 6,500 beds and beyond

**FY00-09: Adds 2,150 beds**  
Gross block: Rs 2.6 mn/bed

- ♦ NH Cardiac
- ♦ RTIICS
- ♦ MSH - Bangalore

**FY10-15: Adds 3,500 beds**  
Gross block: Rs 2.4 mn/bed

- ♦ Jamshedpur
- ♦ Shimoga
- ♦ Hyderabad
- ♦ Ahmedabad
- ♦ Jaipur
- ♦ Raipur
- ♦ Mysore
- ♦ Dharwad
- ♦ Kolar
- ♦ Davangere
- ♦ Whitefield
- ♦ Guwahati
- ♦ HSR - Bangalore
- ♦ Barasat
- ♦ Berhampore
- ♦ Westbank - Howrah
- ♦ St Marthas - Bangalore
- ♦ Suguna - Bangalore
- ♦ Durgapur
- ♦ Kuppam
- ♦ Health City – Cayman Island

**FY16-18: Adds 1,100 beds**  
Gross block: Rs 2 mn/ bed

### FY17

- ♦ Vaishno Devi (240 beds; construction cost, equipments funded by Vaishno Devi trust. Also operating losses for initial years funded)

### FY18

- ♦ Lucknow (325 beds; operations and management)
- ♦ Mumbai (~300 beds; Rs 1 mn capex)
- ♦ Bhubaneswar (construct and operate hospital on leasehold land)

### Footprint

6,500  
capacity beds

Present across 31  
locations

3 JCI and 4 NABH  
accreditations

402 daily surgeries  
and procedures

5,300 operational  
beds

54 facilities (incl.  
primary care centres)

2,632 doctors

~2 mn patients  
treated annually

## Highly efficient model of capital deployment

### 23 multi specialty facilities operating under different business models

NH follows a mix of various models to expand its hospital network

- Some of the hospitals are owned by NH
- Smart land deals by engaging with charitable trusts and private hospitals wherein the partners own the land and building and NH usually invests only in medical equipments and operates /manages hospitals
- Governments encourage NH to set up hospitals by lucrative land deals, as it serves the masses
- NH crashes its capex cost by following an asset light model and judicious use of resources

### Mixed model of 23 multi specialty facilities

Model	No of facilities	Description
Owned and operated	4	Hospitals owned and operated by NH
Revenue share	6	Hospitals that NH operates and pays a revenue share to owner of the hospital premises
Leased & Operated	7	Hospitals that NH operates on a lease or license basis
PPP	2	NH operates with nominal investment in partnership with public entities
Managed	4	Hospital management services that NH provides to third parties for a fee

## Business strategy

### Focus on clinical excellence at affordable prices

The philosophy of NH is to provide quality healthcare at affordable prices and yet be profitable. Despite catering to the lower strata of society, it has been successful by reducing capex (smart land deals) and improving operating efficiencies. 3 of NH's hospitals are JCI (Joint Commission International) accredited, while 6 are NABH (National Accreditation Board for Hospitals and Healthcare Providers) recognized, implying quality healthcare

### Continue implementing 'asset right' model for efficient capital deployment

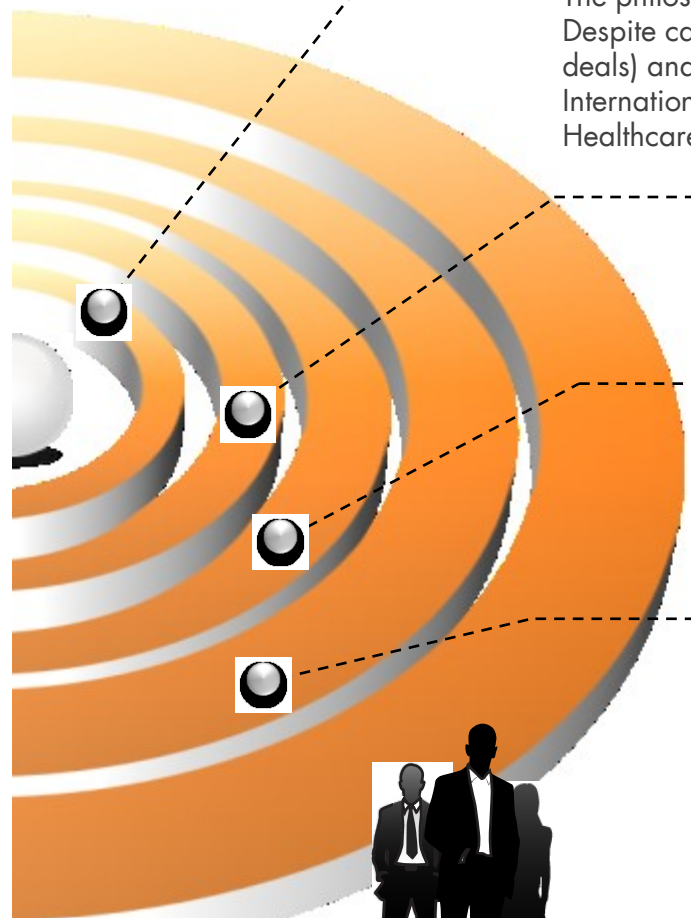
Tie-up with 'Trusts', purchasing cheap land which is away from the centre of the city, management contracts

### Focus on Hub and Spoke model

NH has a strong presence in Karnataka and Eastern India. In Bangalore, NH has 2 large hospitals viz: NH Cardiac and MSH; while RTICS is located in Kolkata. NH has built other hospitals around above hospitals, thereby strengthening its presence in those clusters

### Expanding tertiary clusters in western and central India besides strengthening presence in Karnataka and Eastern India

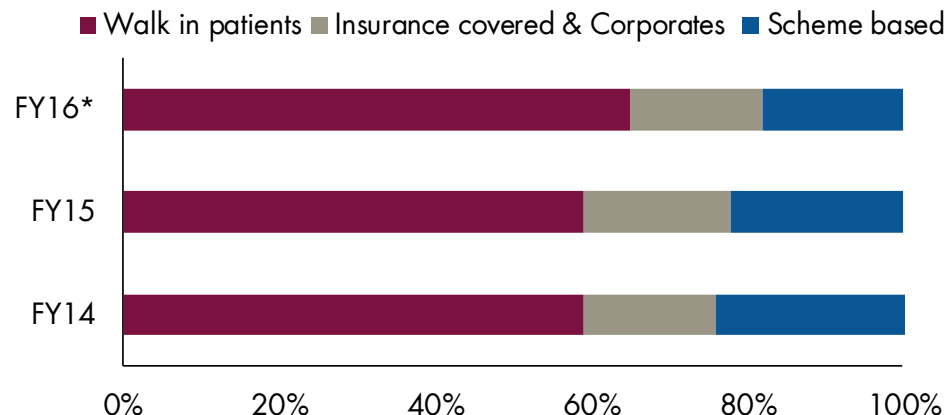
Focus has been to expand its geographic presence beyond Karnataka and West Bengal



# BUSINESS STRATEGY

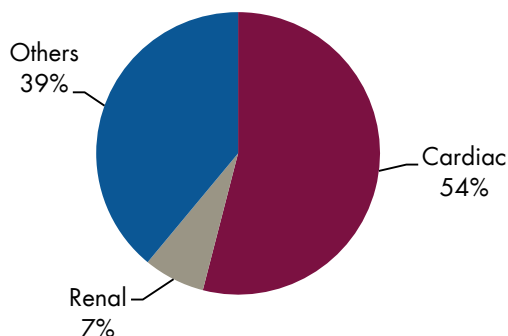
## NH: Client mix improving

### Client mix on an uptrend



\* Walk ins include international patients

### Multi specialty capabilities with strong presence in cardiac and renal care



NH is focusing more on walk-in patients (currently 18% of patients are scheme based, while another 17% are patients covered by insurance, corporate tie-ups, etc) which should improve capital efficiency

- ◆ NH started as a cardiac hospital, but has emerged as a multispecialty chain of hospitals. Cardiac contributes ~54% of in-patient revenue
- ◆ NH has a strong focus on Renal sciences as well and is probably one of the hospitals with the highest number of dialysis (~180,000 annual procedures) and over 800 kidney transplants in FY15
- ◆ NH caters to ~0.2 mn in-patients annually across various ailments

## Pan India presence

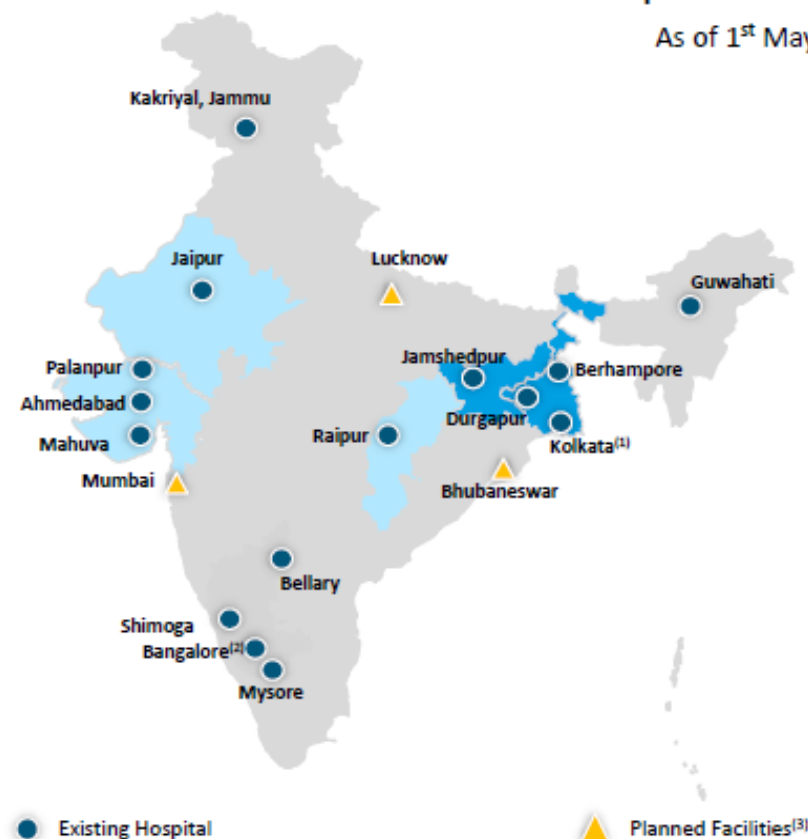
### Spreading its wings

- ♦ Strong presence in Karnataka and Eastern India
  - NH intends to further strengthen its presence in these clusters
- ♦ From a single hospital in Bangalore, NH has succeeded in becoming a pan-India player
  - 23 Multi-specialty facilities and 23 primary care centers across India
- ♦ 3 new hospitals being commissioned over the next couple of years
  - Land tied-up
  - Funding in place

## Diversified presence

### Network of Hospitals in India

As of 1<sup>st</sup> May, 2016



## Risk factors

### Investments in Cayman Island hospital not yielding returns

- ◆ NH has invested ~USD 17 mn for a 28% stake in Cayman Island hospital. This 104 bed facility is currently loss making and might need further investments

### Inability to get lucrative land deals

- ◆ A major reason why NH has been able to lower its capex is because of smart land deals. At its newly inaugurated hospital in Katra (Jammu), besides a ready building and state of art equipment funded by the Vaishno Devi Trust, operating losses for the first 5 years will also be absorbed

### Some facilities are required to provide free/ subsidized treatment

- ◆ As a result of attractive land deals, NH is required to provide free treatment or subsidize costs to certain categories of patients across a number of facilities. In addition, NH is required by some of its partners to operate a minimum number of free beds in certain facilities

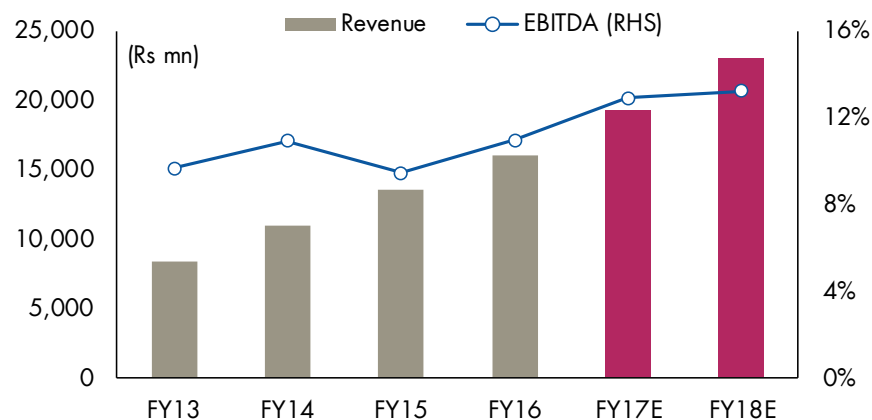


# Financials and valuation



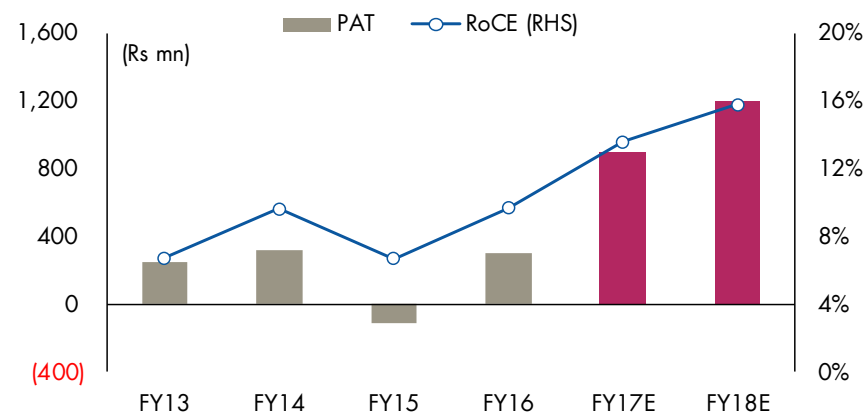
## Improving operating and financial parameters

### Revenue and EBITDA %



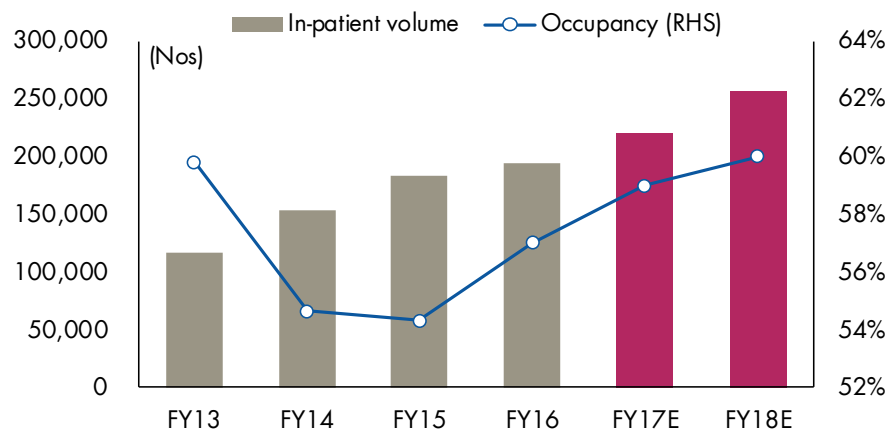
Source: Company, Axis Capital

### PAT & RoCE



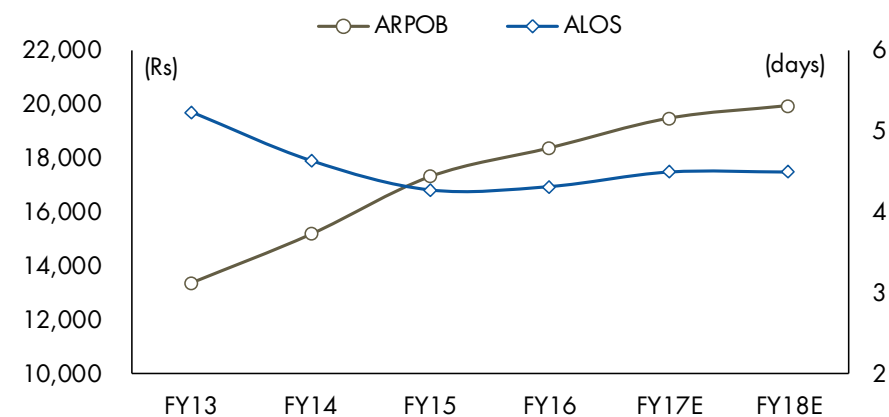
Source: Company, Axis Capital

### Inpatient volume and occupancy to increase



Source: Company, Axis Capital

### ARPOB and ALOS



Source: Company, Axis Capital

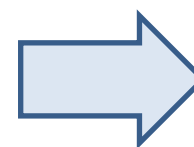
## Valuation

### Key assumptions

	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Revenue (Rs mn)	19,320	23,027	27,965	31,776	36,685	42,344	47,783	53,739	61,466	69,517	77,304
Capacity Beds	5,648	6,733	6,733	6,733	7,233	7,733	8,233	8,733	9,233	9,733	10,233
Available Beds	4,977	5,553	5,715	6,115	6,515	6,915	7,315	7,715	8,215	8,715	9,215
Occupancy %	59%	60%	65%	67%	69%	70%	71%	72%	74%	75%	75%
ALOS	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Inpatient Volume	220,159	256,230	297,037	321,447	353,430	381,263	409,745	438,876	478,077	514,954	545,371
ARPOB (Rs / day)	19,501	19,971	20,921	21,967	23,066	24,680	25,914	27,210	28,571	29,999	31,499
Capex (Rs mn)	1,500	2,438	1,403	2,105	2,219	2,459	2,611	2,876	3,354	3,557	3,781
Inc in Working Capital (Rs mn)	1,319	397	406	313	403	465	447	490	635	662	640

### Sensitivity

		WACC (%)				
		9.0	10.0	11.0	12.0	13.0
Terminal growth (%)	3	389	316	262	221	189
	4	448	355	289	240	202
	5	537	408	324	264	219
	6	686	489	373	295	241
	7	982	624	446	340	270



Implying 22x FY18E EV/ EBITDA

- ♦ In-patient increase due to annual addition of 400-500 beds along with hospitals maturing leading to higher occupancy
- ♦ ARPOB growth of 5% assumed (price hikes, better case mix and higher out-patient volume)
- ♦ While near term upside capped, back ended growth will keep valuation elevated. Over a long term, we expect the stock to compound at 15-20%

## Narayana Hrudayalaya

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## Peer valuation

Company name	Apollo Hospitals Enterprise Ltd	Raffles Medical Group Ltd	Bumrungrad Hospital PCL	Bangkok Dusit Medical Services PCL	IHH Healthcare Bhd	Narayana Hrudayalaya Ltd
Price (USD)	20	1	5	1	2	5
Mcap (USDm)	2,820	2,037	3,855	10,502	12,935	968
EV (USDm)	3,144	1,992	3,767	11,265	14,590	1,000
<b>Sales (USDm)</b>						
CY14/FY15	847	296	481	1,726	2,244	223
CY15/FY16	930	299	516	1,838	2,174	245
CY16/FY17e	1,084	350	549	1,956	2,461	281
CY17/FY18e	1,267	396	612	2,172	2,840	329
<b>EBITDA (USDm)</b>						
CY14/FY15	137	69	138	392	590	22
CY15/FY16	120	67	155	412	547	27
CY16/FY17e	144	77	166	426	637	36
CY17/FY18e	174	89	188	482	726	45
<b>PE (x)</b>						
CY14/FY15	51	37	46	46	56	na
CY15/FY16	56	40	38	45	54	326
CY16/FY17e	45	38	37	42	49	70
CY17/FY18e	35	34	32	36	40	53
<b>EV/Ebitda (x)</b>						
CY14/FY15	22	28	28	29	23	47
CY15/FY16	26	30	25	27	26	37
CY16/FY17e	22	26	23	26	22	27
CY17/FY18e	20	23	20	23	19	21
<b>ROE (x)</b>						
CY14/FY15	11	13	27	17	4	(2)
CY15/FY16	11	12	28	16	5	7
CY16/FY17e	13	13	27	17	6	10
CY17/FY18e	16	14	26	18	6	12

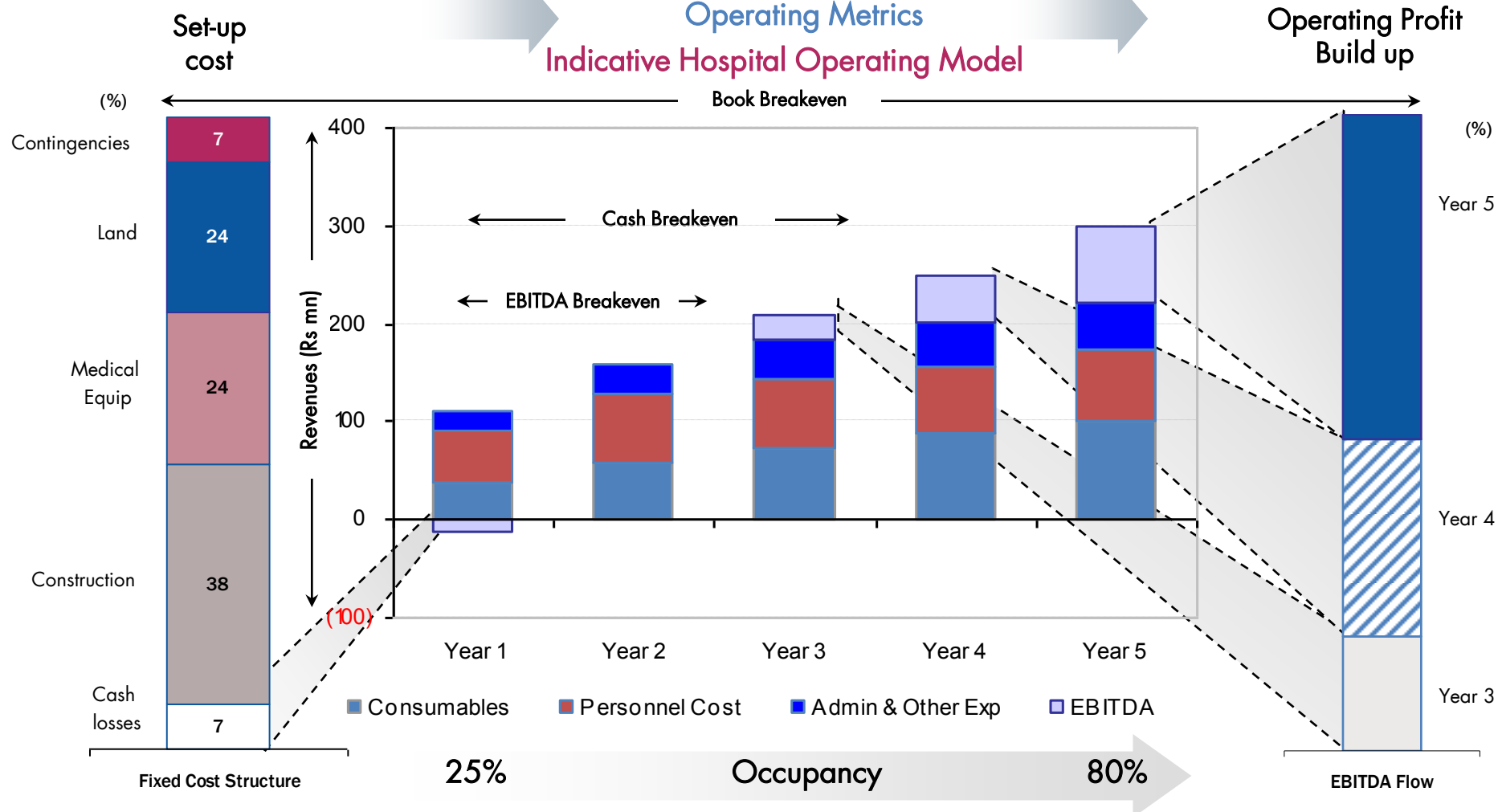
Source: Bloomberg

## Would multiples in Indian healthcare delivery space sustain?

- ♦ Multiples are generally a function of growth longevity, entry barriers, and return on capital. Multiples are sustainable for companies which belong to Industries where entry barriers are high, threat of substitutes is low, growth period is long/sustainable with potential return on incremental capital reasonably in excess of cost of capital . We believe Indian Healthcare industry enjoys all these attributes
- ♦ Growth to sustain - Healthcare delivery space (Rs 4 trn in FY15) is expected to grow at 12-15% over next few years
  - India has ~15% of world population, but one of the worst healthcare infrastructures among growing economies with lowest per capita spends on healthcare. Current hospital infrastructure is inadequate with less than 1 bed per 1,000 population (global average at 3)
  - Discretionary spend on healthcare is on the rise given improving income levels, rising health awareness, changing lifestyles resulting in better case mix, rising insurance penetration and scaling medical tourism. To add to this, India has young population which will age over time and put more pressure on the already inadequate infrastructure
    - To address this issue, India needs to add ~ 2 mn additional beds by 2025
- ♦ High entry barriers include long gestation periods, high capital requirements, regulatory approvals, attracting top doctors, para-medics, best management practices
- ♦ While Hospitals is a long gestation business , a mature hospital can consistently earn EBIDTA margin of 25%+ with sustainable RoCE of 20%+. It would take 2-3 years to breakeven and 5 years for the hospital to mature

# Hospitals: Difficult business; benefits to accrue over the long-term

## Operating Metrics Indicative Hospital Operating Model



Capital intensive business with long payback period

## Operating highlights for a 200 bed hospital

### Profit projections for a 200 bed hospital

(Rs mn)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6
Occupancy (%)	35%	50%	57%	60%	70%	80%
ARPOB (Rs/ bed/ day)	15,000	16,000	18,000	20,000	22,000	23,500
Avg. Length of Stay (days)	6.0	6.0	5.5	5.0	5.0	5.0
Net Revenues	383	584	749	876	1,124	1,372
<b>Expenses</b>						
Consumables	115	175	187	219	281	343
Personnel	186	234	257	293	315	336
Other costs	115	175	202	228	281	343
EBITDA	(32)	(0)	103	137	247	350
EBITDA (%)	-8%	0%	14%	16%	22%	26%
Depreciation	7.5	7.5	7.5	7.5	7.5	7.5
Interest	80	70	60	50	40	30
PBT	(120)	(78)	36	79	200	313
RoCE (%)	-7%	-4%	3%	5%	13%	20%

Source: Axis Capital

- ♦ Assumed capex cost of Rs 8 mn, funded by a 1:1 debt equity
- ♦ Though a long gestation business, a matured hospital can earn EBITDA margin of ~25% and achieve RoCE of over 20%

## Company financials (Consolidated)

### Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	13,639	16,075	19,320	23,027
Other operating income	-	-	-	-
<b>Total operating income</b>	<b>13,639</b>	<b>16,075</b>	<b>19,320</b>	<b>23,027</b>
Cost of goods sold	(5,586)	(6,363)	(7,631)	(8,866)
Gross profit	8,052	9,712	11,689	14,162
<i>Gross margin (%)</i>	<i>59.0</i>	<i>60.4</i>	<i>60.5</i>	<i>61.5</i>
Total operating expenses	(6,760)	(7,946)	(9,186)	(11,105)
<b>EBITDA</b>	<b>1,292</b>	<b>1,765</b>	<b>2,502</b>	<b>3,057</b>
<i>EBITDA margin (%)</i>	<i>9.5</i>	<i>11.0</i>	<i>13.0</i>	<i>13.3</i>
Depreciation	(667)	(752)	(901)	(998)
<b>EBIT</b>	<b>625</b>	<b>1,013</b>	<b>1,602</b>	<b>2,059</b>
Net interest	(409)	(294)	(327)	(344)
Other income	77	102	70	70
<b>Profit before tax</b>	<b>294</b>	<b>821</b>	<b>1,345</b>	<b>1,785</b>
Total taxation	(175)	(306)	(444)	(589)
<i>Tax rate (%)</i>	<i>59.6</i>	<i>37.3</i>	<i>33.0</i>	<i>33.0</i>
Profit after tax	119	515	901	1,196
Minorities	-	-	-	-
Profit/ Loss associate co(s)	(227)	(213)	-	-
Adjusted net profit	(108)	301	901	1,196
<i>Adj. PAT margin (%)</i>	<i>(0.8)</i>	<i>1.9</i>	<i>4.7</i>	<i>5.2</i>
Net non-recurring items	-	-	-	-
Reported net profit	(108)	301	901	1,196

Source: Company, Axis Capital

### Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	2,000	2,044	2,041	2,041
Reserves & surplus	5,647	6,825	7,726	8,921
Net worth	7,654	8,871	9,769	10,965
Borrowing	3,620	2,321	3,120	2,620
Other non-current liabilities	339	261	261	261
<b>Total liabilities</b>	<b>13,649</b>	<b>14,308</b>	<b>16,070</b>	<b>17,176</b>
Gross fixed assets	11,302	12,355	13,855	15,355
Less: Depreciation	(2,868)	(3,620)	(4,521)	(5,519)
Net fixed assets	8,434	8,734	9,334	9,836
Add: Capital WIP	204	-	-	-
Total fixed assets	8,638	8,734	9,334	9,836
Total Investment	521	871	521	521
Inventory	512	497	840	1,001
Debtors	1,429	1,527	2,034	2,424
Cash & bank	295	241	326	73
Loans & advances	1,486	1,397	1,932	2,188
Current liabilities	2,035	2,854	2,919	3,329
Net current assets	1,811	1,098	2,545	2,739
Other non-current assets	643	751	751	751
<b>Total assets</b>	<b>13,649</b>	<b>14,308</b>	<b>16,070</b>	<b>17,176</b>

## Company financials (Consolidated)

### Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	294	821	1,345	1,785
Depreciation & Amortisation	(667)	(752)	(901)	(998)
Chg in working capital	(394)	825	(1,319)	(397)
<b>Cash flow from operations</b>	<b>767</b>	<b>2,489</b>	<b>879</b>	<b>2,211</b>
Capital expenditure	(982)	(1,257)	(1,500)	(1,500)
<b>Cash flow from investing</b>	<b>(2,216)</b>	<b>(1,606)</b>	<b>(1,151)</b>	<b>(1,500)</b>
Equity raised/ (repaid)	2,000	1,000	(3)	-
Debt raised/ (repaid)	(135)	(1,299)	799	(500)
Dividend paid	-	-	-	-
<b>Cash flow from financing</b>	<b>1,403</b>	<b>(593)</b>	<b>470</b>	<b>(844)</b>
Net chg in cash	(46)	290	198	(133)

### Valuation ratios

Y/E March	FY15	FY16	FY17E	FY18E
PE (x)	(585.0)	214.8	71.7	54.1
EV/ EBITDA (x)	51.6	37.9	27.0	22.0
EV/ Net sales (x)	4.9	4.2	3.5	2.9
PB (x)	8.3	7.3	6.6	5.9
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	(0.3)	1.9	(1.0)	1.1

Source: Company, Axis Capital

### Key ratios

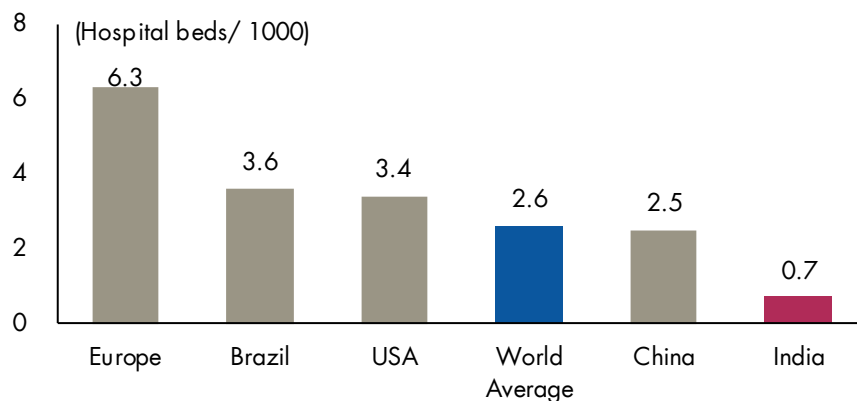
Y/E March	FY15	FY16	FY17E	FY18E
<b>OPERATIONAL</b>				
FDEPS (Rs)	(0.5)	1.5	4.4	5.9
CEPS (Rs)	2.8	5.2	8.8	10.7
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
<b>GROWTH</b>				
Net sales (%)	24.5	17.9	20.2	19.2
EBITDA (%)	7.6	36.6	41.7	22.2
Adj net profit (%)	(134.1)	(378.2)	199.0	32.7
FDEPS (%)	(100.1)	(372.3)	199.4	32.7
<b>PERFORMANCE</b>				
RoE (%)	(1.6)	3.6	9.7	11.5
RoCE (%)	6.7	9.7	13.6	15.8
<b>EFFICIENCY</b>				
Asset turnover (x)	1.4	1.5	1.6	1.8
Sales/ total assets (x)	1.1	1.1	1.3	1.4
Working capital/ sales (x)	0.1	0.1	0.1	0.1
Receivable days	38.3	34.7	38.4	38.4
Inventory days	15.1	12.7	18.2	18.3
Payable days	54.7	66.4	58.5	56.4
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	0.5	0.3	0.3	0.3
Net debt/ equity (x)	0.5	0.3	0.3	0.2
Current ratio (x)	1.9	1.4	1.9	1.8
Interest cover (x)	1.5	3.4	4.9	6.0



# About Indian healthcare industry

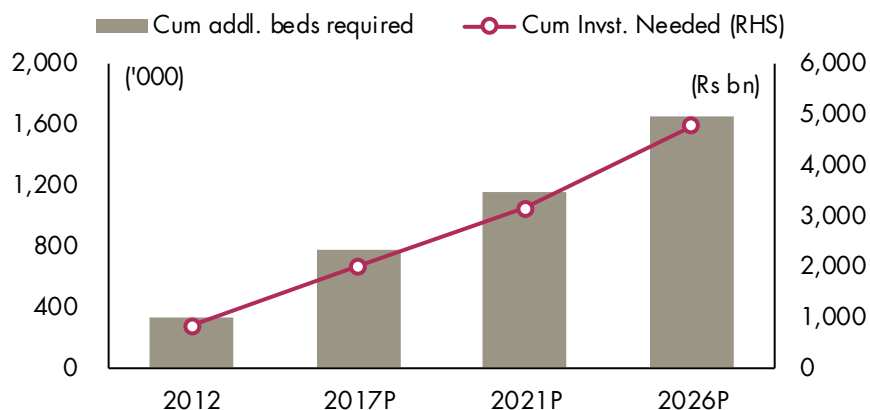
## Indian healthcare – Secular growth story

### Inadequate bed infrastructure in India



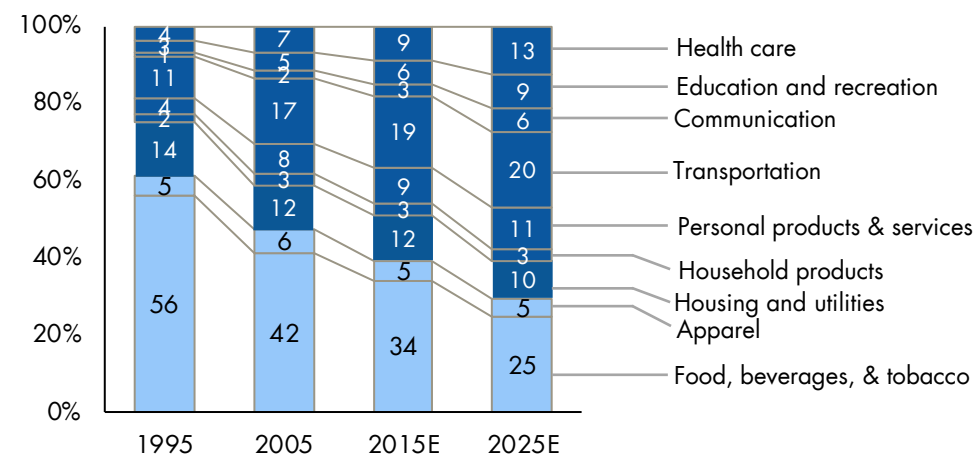
Source: WHO, India Brand Equity Foundation (IBEF)

### No. of beds & investments to rise multi-fold



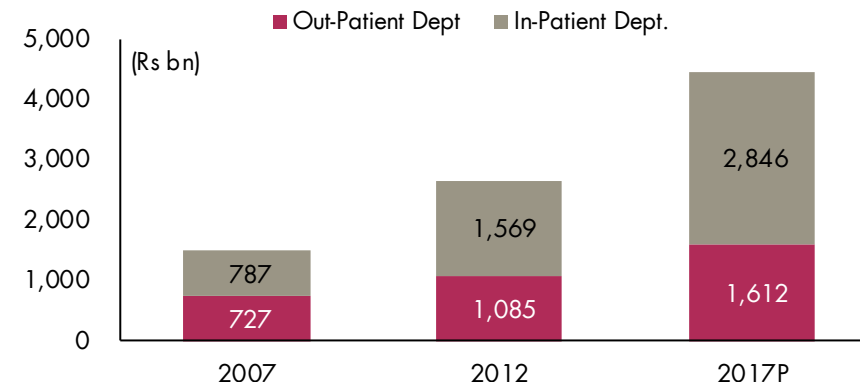
Source: Crisil

### Rising wallet share of the Indian consumer



Source: Mckinsey

### Market size of the healthcare delivery system in India - "In-patient" to grow at a faster pace



Source: Crisil

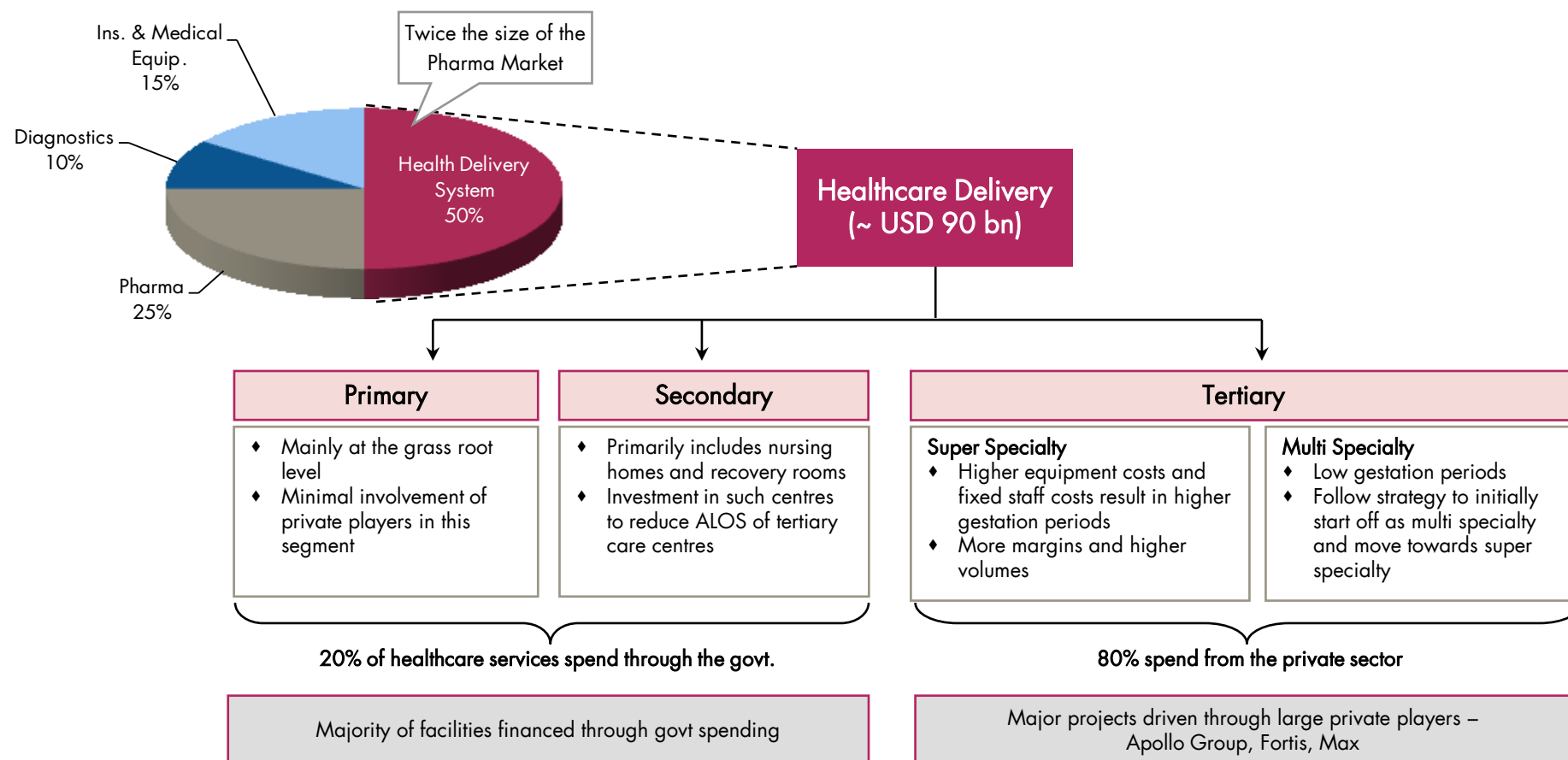
## Hospitals: The best play on healthcare

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- ♦ Healthcare delivery market in India is estimated to be ~ USD 50 bn as on FY13, and is approximately twice the size of the pharma industry
- ♦ India has ~ 15% of the world's population, but has one of the worst healthcare infrastructure among growing economies and the lowest per capita spend on healthcare. Current hospital infrastructure is inadequate with only 0.7 beds per 1,000 population vs. global average of ~3 beds per 1,000 population
- ♦ Demographic changes, improving income levels, rising awareness, changing lifestyles resulting in better case mix, rising insurance penetration and scaling medical tourism will result in a consistent rise in discretionary spending on healthcare
- ♦ To meet the rising demand and address the current shortage, India would require to add ~1.7 mn beds by 2025
- ♦ Healthcare delivery market is estimated to grow to over USD 100 bn by 2019 from USD 50 bn in FY13. This growth is largely expected to come from significant growth in in-patient revenues
- ♦ Government spend on healthcare in India is significantly lower as compared to developed nations like US and UK. Private sector has taken the lead in scaling the healthcare infrastructure. Govt. is facilitating private investments by giving 5-yr tax holidays for hospitals set up in semi urban areas, in addition to lesser duties for medical equipment

Indian healthcare market –secular growth opportunity

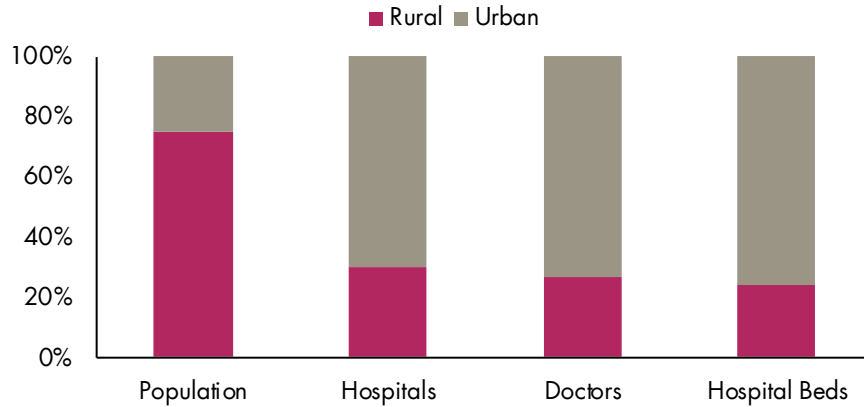
## Overview of the Indian healthcare market



Limited number of listed companies catering to the health delivery market

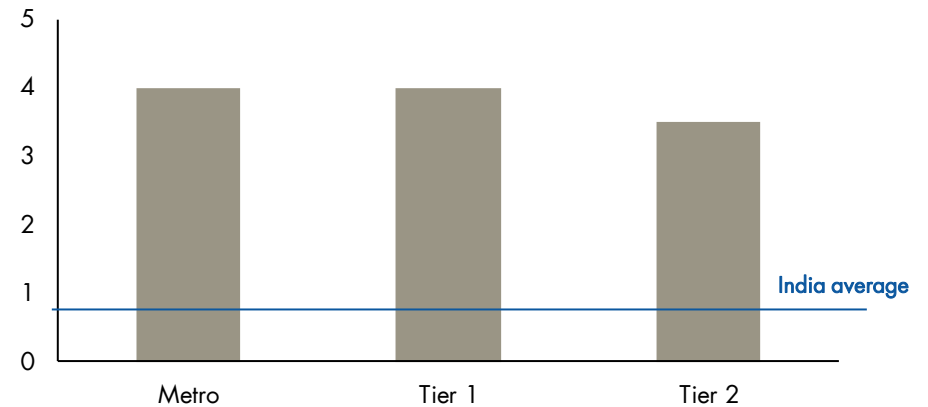
## Healthcare supply is skewed along rural and urban lines

### Infrastructure is skewed towards urban areas



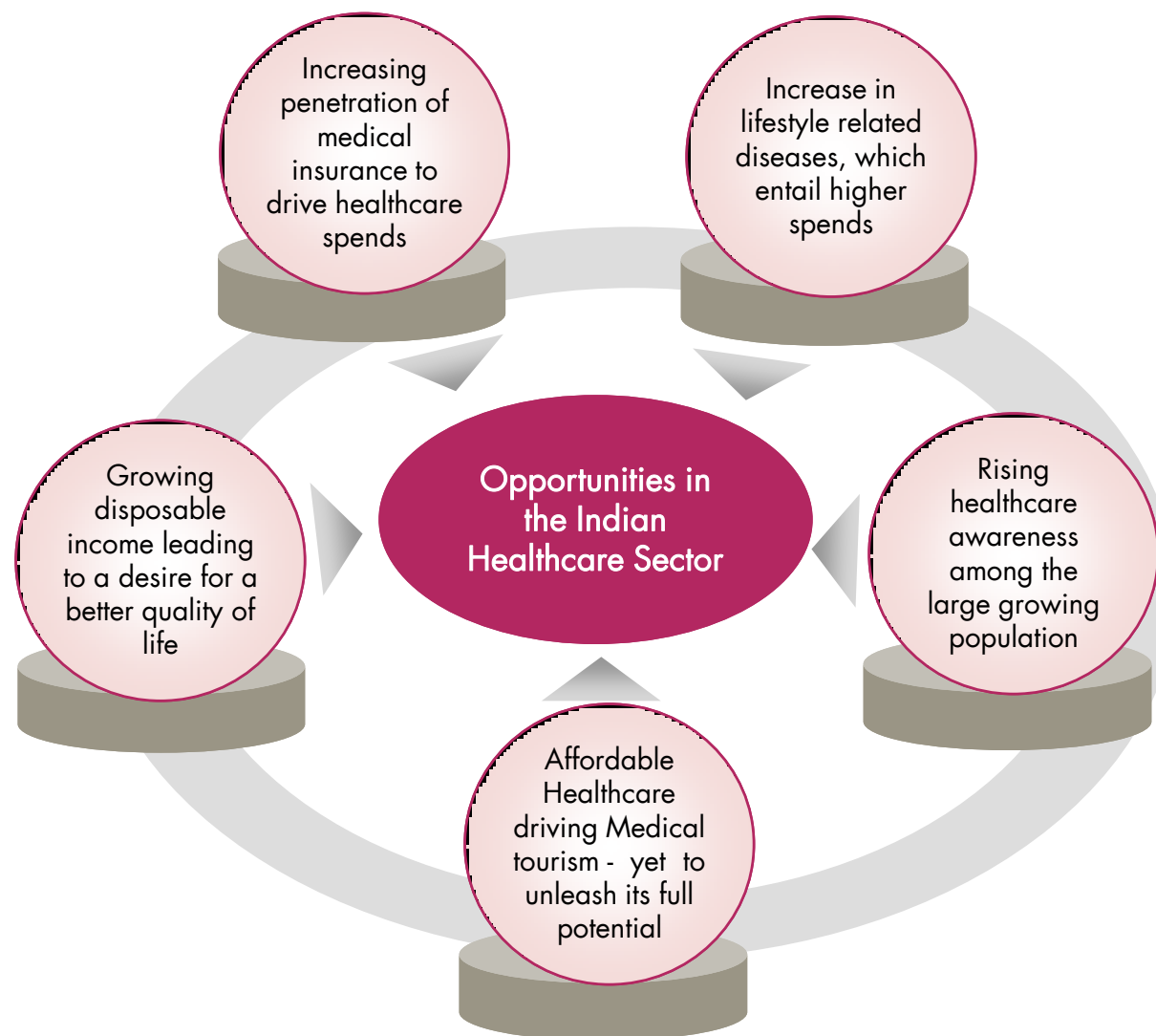
Source: NAT Health

### Poor access outside of top cities



Source: NAT Health

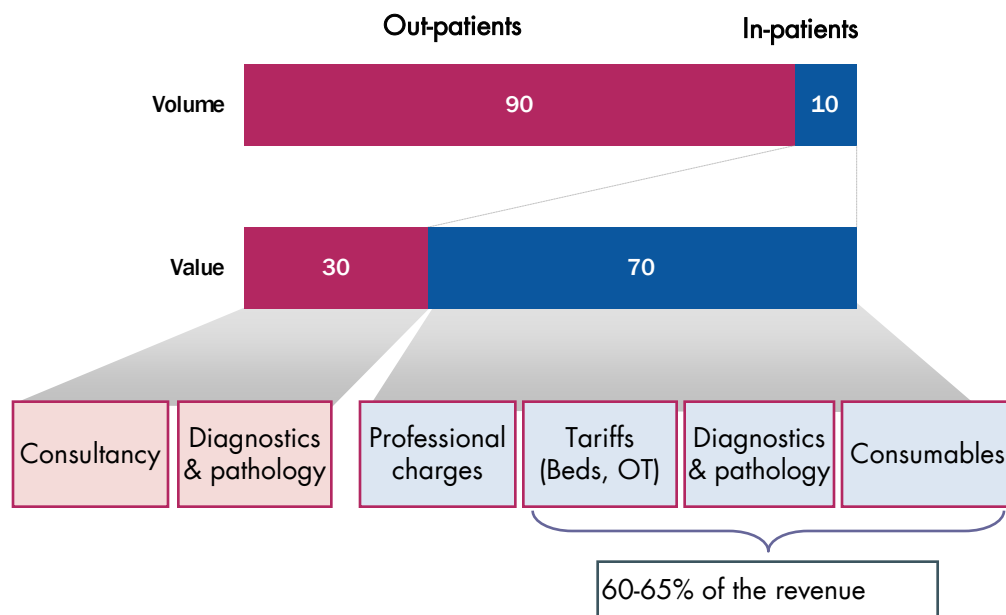
## Drivers for the healthcare industry



Source: Axis Capital

## Revenue/ profit drivers

### Revenue split



### Profit drivers

#### Average Revenue Per Occupied Bed (ARPOB)

Largely determined by the case mix coupled with the hospitals brand image to price its product

#### Average Length of Stay (ALOS)

Maximum revenue generation happens in first 3 days, hence hospitals focus on reducing the length of stay by improving patient turnover

**An optimal balance of these factors crucial to achieve higher profits**

#### Case mix

Lifestyle related diseases on the rise resulting in higher revenues and profits. Hospitals can attract a better case mix by having the necessary infrastructure/ equipment and reputed doctors for these ailments

#### Occupancy

Given high fixed costs, high occupancy rates critical for success. A combination of lower ALOS and higher occupancy rates result in high operating margins. Mature hospital usually operates at over 75% occupancy

**In-patient churn/ turnover – Key to hospital revenue**

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