

IPO Note: Narayana Hrudayalaya Ltd.

Industry: Healthcare

Recommendation: Neutral

Date: December 14, 2015

Issue Snapshot

Company Name	Narayana Hrudayalaya Ltd.
Issue Opens	December 17, 2015 to December 21, 2015
Price Band	Rs. 245 to Rs. 250
Bid Lot	60 Equity Shares and in multiples thereof.
The Offer	Public issue of 2,45,23,297 Equity shares of Face value Rs.10 each, (Comprising of Offer for Sale by Selling Shareholder).
Issue Size	Rs. 600.8 – 613.1 Crore
IPO Process	100% Book Building
Face Value	Rs. 10.00
Exchanges	NSE & BSE
BRLM	Axis Capital Limited, IDFC Securities Limited and Jefferies India Private Limited
Registrar	Karvy Computershare Private Limited

Objects of the Offer

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the sale of 24,523,297 Equity Shares by the Selling Shareholders. Further, the Company expects that the listing of the Equity Shares will enhance the visibility and brand image among the existing and potential clients and provide liquidity to the existing shareholders. The Company will not receive any proceeds of the Offer and all the proceeds will go to the Selling Shareholders.

Issue Break up

Issue Size	Allocation	Equity Shares
QIB	50%	12,261,649
HNI	15%	3,678,495
RII	35%	8,583,154
Total	100%	24,523,297

Company Highlights

- Narayana Hrudayalaya Ltd ("NHL") was founded in 2000 by the Promoter, Dr. Devi Prasad Shetty, who has over 30 years of medical experience, including as a cardiac surgeon. The company has their headquarter in Bengaluru, India and operate a national 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.
- NHL is one of the leading private healthcare service providers in India, operating a chain of multispecialty, tertiary and primary healthcare facilities.
- NHL had a network of 23 hospitals (multispeciality and superspeciality healthcare facilities which provide tertiary care), 8 heart centres (superspeciality 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 operational beds and the potential to reach a capacity of up to 6,602 beds. In FY 2015, the facilities provided care to over 1.97 million patients.
- The company uses "asset right" model for expansion of their hospital network. The calibrated model for establishing and expanding the hospitals has allowed them to achieve a more efficient use of capital. NHL has an effective capital cost per bed of Rs. 25.5 Lakh as of March 31, 2015.
- As of September 30, 2015, the company had 11,163 employees which included 344 doctors, 5,587 nurses, 1,996 paramedical staff and 3,236 administrative personnel. Additionally, the company had 487 Students, which included 469 doctors, 14 Paramedics and administrative trainees.

- NHL has four healthcare projects underway at Vaishnodevi, Lucknow, Bhuwaneshwar and Mumbai and all these are expected to be on stream in next 12 to 24 months. These projects will add around 1000 beds on completion. Most of the projects are on PPP model thus it reduces capex for NHL.
- In FY 2015 and the 3 months ended June 30, 2015, NHL had a daily average of 534 in-patient admissions and 4,477 out-patients, and performed a daily average of 312 surgeries and procedures (of which 39 were cardiac surgeries, 142 catheterisation laboratory procedures, and 2 kidney transplants), and 513 dialyses.
- On financial performance front, company witnessed a stupendous growth with revenue growing at a CAGR of 30% during FY11-FY15, while EBITDA grew at stable pace of 24% CAGR over same period. While on profitability basis (except FY15) the company has shown continuous growth but in FY15 the company has reported loss and thus its RoNW turned negative. Consistent growth in operating level led stable and healthy operating cash flows growth over the years. Further, the company has bounced back in first half of current fiscal, posting net profit of Rs. 12.49 crore on a turnover of Rs.788.56 crore.
- On valuation front, the company is valued at higher end. If we annualize half year result for FY16, EPS will be around Rs. 1.24 and thus on the higher price band, the issue is at a P/E of around 200 plus and EV/EBITDA of around 33x. The valuation looks expensive if we compare NHL with its peers, they are trading at a P/E of 55x – 75x with EV/EBITDA of 25x – 40x. Thus, it looks this IPO will not leave much for the investors on the table. However looking at the asset right business model of the company, strong reputed brand and focus on high value specialty areas the company is expected to deliver good performance in future. Hence we have a **NEUTRAL** view on this issue but the company can be a good long term bet.

Financial Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15	H1FY16
Share Capital	0.3	0.3	0.3	0.3	200.0	200.0
Net Worth	480.9	515.3	547.0	580.4	764.8	780.9
Long Term Borrowings	90.0	115.7	187.3	227.2	206.6	133.4
Other Long Term Liabilities	17.9	23.5	26.5	33.5	44.1	38.7
Short-term borrowings	0.0	0.5	31.3	52.2	98.5	68.0
Other Current Liabilities	113.2	126.1	166.1	259.5	245.0	410.9
Fixed Assets	530.1	578.2	664.7	758.1	922.9	941.0
Non Current Assets	63.3	76.1	122.3	158.8	175.8	192.8
Current Assets	108.7	128.7	176.1	238.8	261.0	298.4
Total Assets	702.1	783.0	963.2	1155.7	1359.7	1432.1
Revenue from Operations	477.6	657.8	839.3	1095.1	1363.9	783.4
Revenue Growth (%)		37.7	27.6	30.5	24.5	
EBITDA	55.7	82.2	81.3	120.1	129.2	87.2
EBITDA Margin (%)	11.7	12.5	9.7	11.0	9.5	11.1
Net Profit	13.6	25.8	24.8	31.7	(10.9)	12.5
Net Profit Margin (%)	2.9	3.9	3.0	2.9	(0.8)	1.6
Earnings Per Share (Rs.)	0.7	1.4	1.3	1.7	(0.6)	0.6
Return on Networth (%)	2.8	5.0	4.5	5.5	-1.4	1.6
Net Asset Value per Share (Rs.)	25.6	27.4	29.1	30.8	38.2	39.0

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15	H1FY16
Cash flow from Operations Activities	29.7	52.9	44.6	110.0	76.7	124.7
Cash flow from Investing Activities	(93.8)	(91.5)	(146.7)	(168.2)	(221.6)	(82.7)
Cash flow from Financing Activities	51.1	38.1	108.1	56.9	140.3	(38.5)
Net increase/(decrease) in cash and cash equivalents	(13.0)	(0.5)	6.1	(1.3)	(4.6)	3.5
Cash and cash equivalents at the beginning of the year	31.5	18.5	18.1	24.1	23.5	20.8
Cash and cash equivalents at the end of the year	18.5	18.1	24.1	23.5	20.8	24.3

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	EPS (Rs.)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBIDTA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Apollo Hospitals	5178.5	13.9%	24.4	0.5	12.1	10.6	58.7	6.0	26.3	3.7	19387.1
Fortis Health.	4088.6	3.2%	-3.1	0.4	-0.4	-4.3	--	1.9	40.6	1.9	8090.8
Narayana Hrudaya	1363.9	9.5%	-0.5	0.5	7.2	1.8	--	6.4*	33.3*	3.7*	5100.0*

Note: Some figures for Narayana Hrudaya are the calculated by Ashika Research.

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