



NARAYANA HRUDAYALAYA: BALANCING AFFORDABLE HEALTH CARE AND WEALTH FOR INVESTORS – A CASE STUDY

KEYWORDS

Narayana Hrudayalaya, Dr. Devi Prasad Shetty, Asia Heart Foundation, Initial Public Offering

Dr. P. Roopa

Assistant Professor, Sree Vidyanikethan Institute of Management, Tirupati

ABSTRACT

Narayana Hrudayalaya (NH) was incorporated in May 2001 and is the dream project of the famous cardiac surgeon Dr. Devi Prasad Shetty as a part of the Asia Heart Foundation. Narayana Hrudayalaya grew very fast and was soon able to cater to the patients from around the world. There are many important lessons that can be learned from this project of Dr. Shetty. Most importantly, we can understand how one person's vision can change the world.

This paper dwells on the growth of Narayana Hrudayalaya and the success of its Initial Public Offering even during the times, when the market sentiments were bearish and the company also did not get good reviews. But the people of India has embraced his vision and that is the reason for the success of Narayana Hrudayalaya's IPO. The company has been able to give good capital gains to its investors which reiterated their belief on the company and its promoters.

JEL Classification: L26, L25, O35, I31

HEALTHCARE INDUSTRY

Healthcare has become one of the largest sectors in India, both in terms of revenue and employment. Healthcare comprises of hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. The Indian healthcare sector is growing at a brisk pace due to its strengthening coverage, services and increasing expenditure by public as well private players. It is the fifth largest employer among all sectors, both in terms of direct and indirect employment.

India's competitive advantage is due to large number of well-trained medical professionals. India health care sector is also less costly compared to its peers in Asia and Western countries. The cost of surgery in India is about one-tenth of that in the US or Western Europe.

The overall Indian healthcare market is worth US\$ 100 billion and is expected to grow to US\$ 280 billion by 2020, a Compound Annual Growth Rate (CAGR) of 22.9 per cent.

There is a significant scope for enhancing healthcare services since rural India, which accounts for over 70 per cent of the population, is set to emerge as a potential demand source.

OBJECTIVES OF THE CASE:

1. To study the growth of Narayana Hrudayalaya to a billion dollar company with its economies of scale model.
2. To assess the financial performance of Narayana Hrudayalaya before and after the Initial Public Offering (IPO).
3. To evaluate the stock market performance of the company after its listing and study how it was successful in creating wealth for its investors.

NARAYANA HRUDAYALAYA

Narayana Health Group was founded in the year 2001 by Dr. Devi Shetty and was established under the patronage of the Asian Heart Foundation. It is headquartered in Bengaluru. It was started with the motto: "None shall be turned away because they can't pay". Today, it has expanded to 31 hospitals in 19 cities in India and one in Cayman Islands. As the years went by Narayana Hrudayalaya Pvt. Ltd. officially changed its identity to Narayana Health.

This multispecialty hospital chain houses 1500 full-time Doctors and 15,000 employees across different states in the country. An average of 150 surgeries is performed on a daily basis and an average of 80,000 outpatients is recorded at the hospital facilities owned by the group every month.

The group has the unique credit of establishing first health city on outskirts of Bengaluru. This is spread over 25 acres and it is located in the Bommasandra Industrial Area on Hosur Road in Bengaluru. Narayana Hrudayalaya Health City consists of a 1000-bed cardiac care hospital and a 1400-bed multi-specialty hospital, which has one of Asia's most advanced Cancer Care facility and India's largest Bone Marrow Transplant Unit. Narayana Health has tied-up with Mrs. Kiran Mazumdar Shaw, the Chairperson of Biocon and has set up a fully integrated cancer hospital. This was established in 2009 at Bengaluru and today Mazumdar-Shaw Cancer Center, the oncology division of Narayana Health, is one of the premier oncology hospital in South India.

The business model can be broken down in to the following components:

- There are 4 Hospitals that Narayan Hrudayalaya own and operate
- There are 7 Hospitals and 8 Cardiac Centers that Narayan Hrudayalaya operate on revenue sharing basis
- There are 8 Hospitals, clinics and primary care facilities that Narayan Hrudayalaya operates on lease of license basis.
- There are 4 hospitals to provide hospital management service for a management fee.

Approximately more than 90% of revenue of Narayan Hrudayalaya is derived from hospitals, around 8% from heart centers and the remaining 2% as management fees.

What makes Narayana Hrudayalaya apart is that it's among the most economical. It is distinct because of its patient centric approach – the cost advantage it offers. It is for-profit model which has evolved around making healthcare solutions affordable.

Narayan Hrudayalaya follows a partnership model for expansion, which is based on expansion of hospital network through engaging partners who invest in and own fixed asset, primarily land and building, while Narayan Hrudayalaya invest in and own medical equipment, operate and manage hospital either on revenue sharing basis or revenue guarantee to partners.

PROMOTER DR. DEVI PRASAD SHETTY

Dr. Devi Shetty had a profound influence of Mother Teresa and her words "Hands that serve are more sacred than lips that pray." had an ever lasting impact on him. He was proud about the fact that he was the late Nobel laureate's personal cardiac surgeon in the early 1990s.

Narayana Hrudayalaya is promoted by Dr. Devi Shetty who is a social entrepreneur who has made it possible for thousands of low-income people to access quality health care.

Apart from being a social entrepreneur, Dr. Devi Shetty is a world-famous pediatric heart surgeon in his own right. In 1990, he became the first doctor in India to perform neo-natal open-heart surgery on a nine-day-old baby, paving the way for the practice of pediatric heart surgery in India. He is also credited with performing Asia's first dynamic cardio myoplasty operation to strengthen a weak heart muscle. He has performed more than 20,000 major heart surgeries and has built four of the largest heart hospitals in India, which made him India's one of the greatest doctors.

Dr. Devi Shetty understood that, the only way to achieve equality in healthcare access is by creating large economies of scale in healthcare delivery. In 2001, Dr. Shetty assimilated everything he had learned from his previous endeavors and founded the Narayana Hrudayalaya (NH) heart-hospital in Bangalore, where his dedicated team of surgeons performs more surgeries daily than any other hospital worldwide. Narayana Hrudayalaya ("God's Compassionate Home") employs a range of mechanisms to achieve its mission to never turn away a patient for lack of funds. Their strategy is based on the central operating principle of providing the lowest cost possible for the highest level of quality.

Narayana Hrudayalaya performs over 30 open heart surgeries a day, almost eight times the average at other Indian hospitals, and the highest in the world. Yet, the heart hospital is merely the fulcrum of the rapidly developing Narayana Health City in Bangalore. This campus consists of eight other hospitals and research institutes, ranging from a 1000-bed cancer hospital to a 500-bed eye hospital to institutes for neuroscience and thrombosis. The Narayana Health City is operating in Kolkata by the Rabindranath Tagore Institute of Cardiac Sciences, and many such health cities are in the drawing board stage. While the international medical field moves towards five-star boutique hospitals, Dr. Shetty's health cities are focused on the millions of poor people who cannot otherwise afford quality treatment.

Dr. Shetty is currently establishing the foundations to realize the grandest of his visions: "health cities" that will transform the way health care is delivered and accessed in India and other developing and under developed countries.

NARAYANA HRUDAYALAYA'S IPO

Narayan Hrudayalaya has entered the capital market with its IPO on 17th December, 2015 offering shares at a price band of Rs.245 to Rs.250 per share. The IPO would be offer for sale that means the shares offered under IPO would be offered by existing shareholders and no new shares will be floated in the market. Axis Capital Ltd, IDFC Securities and Jefferies lead managed the share sale.

Through the IPO, Narayan Hrudayalaya offered 245 lakh shares for sale by promoters and other shareholders to public. Among the promoters group, Dr. Devi Prasad Shetty and Shakuntala Shetty offered 20.40 lakhs shares each. The biggest block of 122.6 lakh shares was offered by JP Morgan, after which its holding will reduce to 4.67% from existing holding of 10.67%. Other shareholders who offered shares and reduced their holdings are Ashoka Holdings and Ambadevi Mauritius Holding. While former offered 62.8 lakhs and later offered 18.80 lakh shares respectively.

An important point to note couple of corporate heavy weights has invested through private placement including CDC Group and Biocon's owner Kiran Mazumdar Shaw. CDC group together with its company CDC India Opportunities Limited (CDC IOL) owns around 7.80% while Kiran Mazumdar Shaw holds 2.30% as on the date of presenting red herring prospectus.

Both of these investors are not participating in the IPO and have no intention to dilute their holdings. This factor was a shot in the arm and increased the confidence of retail investors.

Objects of the Issue:

The objects of the Offer are to:

- Achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the dilution of 20,436,081 Equity Shares by the Selling Shareholders;
- Enhance visibility and brand image among existing and potential clients; and
- Provide liquidity to the existing shareholders.

IPO Review:

Table 1: Financial Position of Narayana Hrudayalaya before IPO for the past 5 years

Particulars	March 2015	March 2014	March 2013	March 2012	March 2011
Revenue from operations	1307.57	1075.81	825.07	647.06	472.92
Revenue growth%	21.54%	30.39%	27.51%	36.82%	NA
Profit after Tax	28.92	36.02	18.45	28.98	17.4
PAT Growth %	(19.71%)	95.23%	(36.33%)	66.55%	NA
Current Ratio	0.83	0.79	0.92	0.97	0.94
Quick Ratio	0.67	0.64	0.73	0.76	0.71
Net Profit Ratio	2.19	3.30	2.31	4.77	3.86

Source: Computed from financial information gathered from moneycontrol.com

- Narayana Hrudayalaya has showed a fluctuating trend in the growth rate of revenue over the years from March 2011 to March 2015, it decreased from 36.82% in the year 2012 to 27.51% in the year ending 2013, it further increased to 30.39% in the year 2014 but again decreased drastically to 21.54% in the financial year 2015.
- Narayan Hrudayalaya profit after tax was also fluctuating, in the financial years 2012 and 2014, the PAT grew at a rate of 66.55% and 95.23% respectively, but in the years 2013 and 2015, the company showed a negative growth rate in PAT by 36.33% and 19.77% respectively.
- The current ratio has been showing a declining trend over the years from 2011 to 2014, however in the year 2015, it has increased slightly.
- Quick ratio on the other hand is has been showing a fluctuating trend, this indicates that liquidity position is not that satisfactory.
- Net profit ratio has also been showing a fluctuating trend, it was very high in the year 2012 and is low in the year 2015.

Overall it was concluded that prior to the IPO; the Company has shown slightly unsatisfactory financial performance. The growth rate was declining; further the liquidity and profitability position was also not very good. Hence lot of analysts felt that price band fixed by the company was not justifiable. However, there was also an opinion that, given the expansion plans of the company and increase in occupancy rate in existing hospitals the future seems bright.

Successful IPO:

The initial public offering Narayana Hrudayalaya attracted bids for 8.63 times the shares on sale. Most of the demand came from

foreign institutional investors and the portion reserved for qualified institutional buyers was oversubscribed 24.23 times, the quota for retail investors was oversubscribed by 1.87 times. Subscription from high net worth individuals was 3.62 times. It was a great achievement for the company. The volume of success was more considering the fact that the company's financial performance was also not so satisfactory. The price discovered after the issue was fixed at Rs.250 per share.

Table 2: Revenue and Profit of Narayana Hrudayalaya before and after IPO

Particulars	March 2015	March 2016	Growth Rate (%)
Total Revenue	1307.57	1456.94	11.42%
Profit after Tax	28.92	56.78	96.33%

Source: Computed from information gathered from moneycontrol.com

In the year ending March 2016, the revenues increased by 11.42% and the profit after tax increased by 96.33%. This was because of tremendous decrease in the expenses which was already showing a decreasing trend in the previous years.

Table 3: Stock Market Performance of Narayana Health in NSE

Particulars	Raw Returns	Market adjusted returns
On the listing day	34.78%	35.97%
One month after listing	31.36%	37.07%
Three months after listing	20.64%	23.45%
Six months after listing	24.22%	17.8%
Nine months after listing	35.14%	23.97%

Source: Computed from information gathered from nseindia.com

The above table shows the returns generated by Narayana Hrudayalaya since its listing in NSE. On the listing day the scrip closed at Rs. 336.95, while the issue price was Rs.250, thus the share earned a return of 34.78%. The return was also computed during different time gaps considered for study by taking closing prices of the given stock on that particular day. It is evident from the table that the scrip has given positive returns to its investors since its listing day, later the returns are showing a declining trend and this can be attributed to the fact that the market itself was falling down during that period. Later when the market picked up in the month of October, i.e., 9 months after listing, the returns were much higher than the returns on the listing day. When the return estimated using the above equation has been adjusted with the returns of the market, the CNX S&P Nifty Index is considered as representative of the market, for the corresponding period, it can be seen that the share of Narayana Hrudayalaya has performed much better than the market since the market adjusted returns have increased compared to the raw returns. This shows that the scrip as such has been performing well in the market.

THE FUTURE AHEAD

Narayana Hrudayalaya gets as much as 83% of its revenue comes from the Karnataka cluster and its operations in the Northeast, hence it has go a long way to capture the Indian market and compete with Apollo Hospitals and Fortis Healthcare. But now Dr. Devi Shetty is on a mission to build 5,000-bed "health cities" across India, encouraged by the success at his nine-year-old Narayana Hrudayalaya hospital in Bangalore. Narayana Hrudayalaya has a good brand name and sustainable model for providing quality and affordable healthcare. It has lowered the costs of delivering complex procedures, while also meeting social objectives.

Narayana Hrudayalaya went for public issue in the year 2015, when the market was going through a dull phase, but the issue

got a tremendous response from the investors who had faith in its promoter's vision and their willingness to be a part of one of the most successful social startup in recent years.

Healthcare for all, that's the dream on which Dr. Devi Prasad Shetty built his billion dollar company. He is an ingenious man who wants to change the way healthcare is delivered around the world. He is celebrated world over as the man who made heart surgeries available and affordable for the poor. Taking a leaf out of CK Prahalad's famous 'bottom of the pyramid theory', Dr Shetty designed an innovative method to bring heart surgery closer to the poorest socio-economic group in India without compromising on quality.

References:

1. Mr. Amarnath K. Menon (2016), "Dr. Devi Shetty - Hard Head, Soft Heart", India Today, 56-62
2. Healthcare Industry in India (December 2015), Retrieved from <http://www.ibef.org/industry/healthcare-india.aspx>
3. Narayana Health, Retrieved from https://en.wikipedia.org/wiki/Narayana_Health
4. Devi Shetty, Retrieved from https://en.wikipedia.org/wiki/Devi_Shetty
5. Narayana IPO Review (Dec 17, 2015), Retrieved from <http://www.simpleinterest.in/narayana-hrudayalaya-ipo-review-recommendation/>
6. Narayana Hrudalalaya, Retrieved from <http://www.moneycontrol.com/financials/narayanahrudayalaya/balance-sheetVI/NH>
7. www.nseindia.com