

### Improving ARPOB Led By Operational Efficiency

**Est. Vs. Actual for Q2FY25:** Revenue – **INLINE**; EBITDA Margin – **BEAT**; PAT – **BEAT**

#### Changes in Estimates post Q2FY25

**FY25E/FY26E:** Revenue: 0.4%/0.2%; **EBITDA:** 6.0%/13.8%; **PAT:** -0.4%/6.2%

#### Recommendation Rationale:

HCG reported a strong set of results, in line with our expectations. Revenue grew by 13.7%, driven by a 7.5% YoY ARPOB increase and a 6.4% growth in the number of occupied days. The ARPOB of Rs 45,188 rose by 7.5% YoY and 1.9% QoQ, showing healthy growth, while occupancy at 65.6% remained nearly flat YoY/QoQ.

EBITDA margins improved to 18.5%, up by 109/118bps YoY/QoQ, meeting our expectation of 18%. Reported PAT stood at Rs 21 Cr, showing a growth of 91% YoY and 51% QoQ.

#### Sector Outlook: **Positive**

**Company Outlook & Guidance:** The cancer industry is growing at a CAGR of 17% and HCG is outpacing this industry growth. The company plans to add 900 incremental beds over the next 4-5 years to capture upcoming opportunities. We believe there are several levers for margin improvement, as most emerging centers have matured (margins exceeding 20%). Operating leverage, along with MG Hospital, will add 300 bps to margins over the next three years.

**Current Valuation:** EV/EBITDA 12x for FY26E earnings (Earlier: 12x EV/EBITDA)

**Current TP:** Rs 535/share (Earlier TP: Rs 395/share)

**Recommendation:** We maintain our **BUY** recommendation on the stock.

#### Financial Performance

HCG reported a strong set of results, in line with our expectations. Revenue grew by 13.7%, driven by a 7.5% YoY ARPOB increase and a 6.4% growth in the number of occupied days. The ARPOB of Rs 45,188 rose by 7.5% YoY and 1.9% QoQ, showing healthy growth, while occupancy at 65.6% remained nearly flat YoY/QoQ. EBITDA margins improved to 18.5%, up by 109/118 bps YoY/QoQ, meeting our expectation of 18%. Reported PAT stood at Rs 21 Cr, showing a growth of 91% YoY and 51% QoQ.

Emerging centers currently comprise 163 beds, down from 532 beds six months ago. Revenue from emerging centers was Rs 53 Cr, compared to Rs 121 Cr YoY, reflecting that most centers have now matured and are contributing to profit at the operating level. These 163 beds in emerging centers are expected to reach EBITDA breakeven by year-end.

Existing centers reported revenue of Rs 485 Cr, with EBITDA margins around 23.3% for the last quarter. Management has guided that, excluding MG, Consol EBITDA margins could reach 20% in Q4FY25. HCG recently acquired MG Hospital in Vizag, a comprehensive care provider with 196 operational beds and healthy margins of 35%. This deal, valued at 9.8x EV/EBITDA, appears favourable for shareholders. Additionally, HCG inaugurated a 200-bed comprehensive cancer care center in Ahmedabad last quarter, and the company is adding 125 beds in North Bangalore through a brownfield capacity expansion.

#### Key Financial (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	554	5.3%	13.7%	545	1.6%
EBITDA	102	12.5%	20.8%	98	4.4%
EBITDA Margin	18.5%	118	109	18.0%	
Net Profit	21	51%	91%	19	10%
EPS (Rs)	1.5	51%	91%	1.3	10%

Source: Company, Axis Securities Research

(CMP as of 11<sup>th</sup> November 2024)

CMP (Rs)	466
Upside /Downside (%)	15%
High/Low (Rs)	520/314
Market cap (Cr)	6,500
Avg. daily vol. (6m) Shrs.	80,000
No. of shares (Cr)	13.8

#### Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	71.3	71.3	71.2
FII's	6.7	4.0	4.3
MFs / UTI	6.5	8.7	8.9
Others	15.5	16.1	15.5

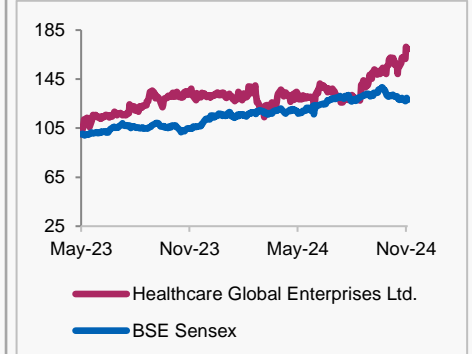
#### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,912	2,290	2,642
EBITDA	330	430	534
Net Profit	41	90	150
EPS (Rs)	3.0	6.5	10.8
PER (x)	157.0	72.0	43.1
P/BV (x)	7.8	7.1	6.1
EV/EBITDA (x)	20.8	15.5	12.5
ROE (%)	5.0	9.8	14.1

#### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0.4%	0.2%
EBITDA	6.0%	13.8%
PAT	-0.4%	6.2%

#### Relative Performance:



Source: ACE Equity

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## Outlook

The cancer industry is growing at a CAGR of 17%, and HCG is outpacing this industry growth. The company plans to add 900 incremental beds over the next 4-5 years to capture upcoming opportunities. We believe there are several levers for margin improvement, as most emerging centers have matured (margins exceeding 20%), and operating leverage, along with MG Hospital, will add 300 bps to margins over the next three years.

## Valuation & Recommendation

We anticipate a 1000bps improvement in RoIC for HCG over the next three years, driven by increased operating profitability. Currently, the stock trades at 14x and 12x EV/EBITDA for FY25 and FY26, respectively. **We recommend a BUY with a target price of Rs 535/share.**

## Key Risks to our Estimates and TP

- Economic Slowdown may impact the overall revenue growth of the company
- A high attrition rate of doctors may impact the company's revenue growth
- Unplanned Capex may lead to a weak balance sheet for the company

## Change in Estimates

(Rs Cr)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	2,290	2,642	2,280	2,637	0.4%	0.2%
EBITDA	430	534	406	469	6.0%	13.8%
PAT	90	150	90	141	-0.4%	6.2%

Source: Company, Axis Securities Research

**HCG Ltd: Q2FY25 Results**

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Net Sales	487	470	495	526	554	13.7%	5.3%
Growth (YoY%)	15.9%	10.6%	12.0%	14.1%	13.7%		
Total Expenditure	402	391	403	435	451	12.2%	3.8%
Raw Material Consumed	122	113	125	136	149		
Gross margins (%)	75.2%	75.8%	75.2%	74.7%	73.9%	-124	-71
Employee Expenses	77	77	77	85	85		
% of sales	15.8%	16.5%	15.5%	16.2%	15.4%		
Medical consultancy charges	106	104	106	112	118		
% of sales	21.8%	22.2%	21.4%	21.3%	21.3%		
Other Expenses	98	96	97	104	104		
% of sales	20.1%	20.4%	19.7%	19.8%	18.8%		
<b>EBITDA</b>	<b>85</b>	<b>79</b>	<b>92</b>	<b>91</b>	<b>102</b>	<b>20.8%</b>	<b>12.5%</b>
EBITDA Margins	14.0%	13.3%	15.3%	14.2%	0.0%	-1,404	
Interest	27	29	27	34	36		
Depreciation	43	44	46	47	50		
Other Income	3	6	5	9	11		
Associate PL/	-0	-0	0	0	-0		
Exceptional Items	0	0	4	0	0		
<b>PBT</b>	<b>18</b>	<b>11</b>	<b>28</b>	<b>19</b>	<b>28</b>	<b>55.1%</b>	<b>45.1%</b>
Tax	7	8	5	5	7		
Tax (%)	39.3%	68.4%	16.9%	28.1%	25.2%		
Reported PAT	10.83	3.52	23.46	13.70	20.68	91.0%	50.9%
Adjusted PAT	10.83	3.52	19.56	13.70	20.68	91.0%	50.9%

Source: Company, Axis Securities Research

**Occupancies and ARPOB**

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Avg. Occupancy Rate (AOR)	65.8%	59.8%	63.9%	65.7%	65.6%	-20	-10
ARPOB (Rs)	42,054	42,788	42,741	44,342	45,188	7.5%	1.9%
Revenue*	348	332	352	464	485	39.3%	4.6%
EBITDA*	83	79	84	102	113	36.3%	10.4%
Existing Centres EBITDA margins	23.9%	23.8%	24.0%	22.1%	23.3%		
Revenue*	121.6	121.1	125.4	47.5	53.0	-56.4%	11.6%
EBITDA*	12.2	12.6	17.6	4.2	3.0	-75.4%	-28.6%
New Centre EBITDA margins	10.0%	10.4%	14.0%	8.8%	5.7%		

\*Reclassification done by HCG; Emerging Centers now moved to Established Centre in Q1FY25

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Particulars (Rs Cr)	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>1,912</b>	<b>2,290</b>	<b>2,642</b>	<b>2,990</b>
<b>Growth (%)</b>	<b>12.8%</b>	<b>19.7%</b>	<b>15.4%</b>	<b>13.2%</b>
Total Expenditure	1,583	1,859	2,108	2,368
Raw Material Consumed	479	572	660	748
% of sales	24.9%	25.0%	25.0%	25.0%
<b>Gross margins (%)</b>	<b>75.1%</b>	<b>74.5%</b>	<b>75.0%</b>	<b>75.0%</b>
Employee Expenses	308	371	428	484
% of sales	16.1%	16.2%	16.2%	16.2%
Other Expenses	799	916	1,020	1,136
% of sales	41.8%	40.0%	38.6%	38.0%
<b>EBIDTA</b>	<b>330</b>	<b>430</b>	<b>534</b>	<b>622</b>
<b>EBITDAM (%)</b>	<b>17.2%</b>	<b>18.8%</b>	<b>20.2%</b>	<b>20.8%</b>
EBIT	155	223	307	385
EBITM (%)	8.1%	9.7%	11.6%	12.9%
Other Income	17	22	16	18
Exceptional Items	4	0	0	0
Share of P/L of Associates	0	2	2	2
<b>PBT</b>	<b>68</b>	<b>120</b>	<b>200</b>	<b>287</b>
Tax Rate (%)	39.0%	25.0%	25.0%	25.0%
Tax	26	30	50	72
<b>Reported PAT</b>	<b>41</b>	<b>90</b>	<b>150</b>	<b>215</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY24	FY25E	FY26E	FY27E
Share Capital	139	139	139	139
Reserves & Surplus	686	776	926	1,141
Shareholders Fund	826	915	1,065	1,280
Minority Interest	39	41	43	45
- Long Term Borrowings	1,044	1,297	1,267	1,187
- Deferred Tax Liabilities(Net)	6	6	6	6
- Other Long Term Liabilities	33	38	43	49
- Long Term Provisions	16	16	16	16
Total Non Current Liabilities	1,099	1,356	1,332	1,258
- Short Term Borrowings	187	187	187	187
- Trade Payables	281	339	362	410
- Other Current Liabilities	214	238	217	246
- Short Term Provisions	18	18	18	18
Total Current Liabilities	744	826	828	904
<b>Total Liabilities</b>	<b>2,707</b>	<b>3,138</b>	<b>3,268</b>	<b>3,487</b>
Gross Block	1,699	2,075	2,268	2,368
Depreciation	685	892	1,119	1,356
% of GB	40.3%	43.0%	49.3%	57.3%
- Fixed Assets	1,845	1,962	1,928	1,792
- Non Current Investments	7	7	7	7
- Deferred Tax Asset(Net)	7	7	7	7
- Long Term Loans & Advances	77	77	77	77
- Other Non Current Assets	92	150	170	200
Total Non Current Assets	2,027	2,203	2,189	2,082
- Inventories	43	48	55	62
- Trade Receivables	294	351	405	459
- Cash & Cash Equivalents	303	495	516	682
- Short Term Loans & Advances	2	2	2	2
- Other Current Assets	38	40	100	200
Total Current Assets	680	935	1,078	1,404
<b>TOTAL ASSETS</b>	<b>2,707</b>	<b>3,138</b>	<b>3,267</b>	<b>3,487</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E Mar, Rs. Cr	FY24	FY25	FY26E	FY27E
PBT	68	120	200	287
Add: Depreciation	174	207	227	237
Add: Interest	109	127	125	118
Cash flow from operations	351	454	552	642
Change in working capital	-17	35	134	109
Taxes	26	30	50	72
Miscellaneous expenses	0	0	0	0
Net cash from operations	341	389	368	462
Capital expenditure	-445	-325	-193	-100
Change in Investments	-0	0	0	0
Net cash from investing	-445	-325	-193	-100
Increase/Decrease in debt	373	253	-30	-80
Dividends	0	0	0	0
Proceedings from equity	0	-0	0	0
Interest	-109	-127	-125	-118
Others	-54	2	2	2
Net cash from financing	211	127	-153	-196
Net Inc./(Dec.) in Cash	107	192	22	165
Opening cash balance	197	303	495	516
Closing cash balance	303	495	516	682

Source: Company, Axis Securities Research

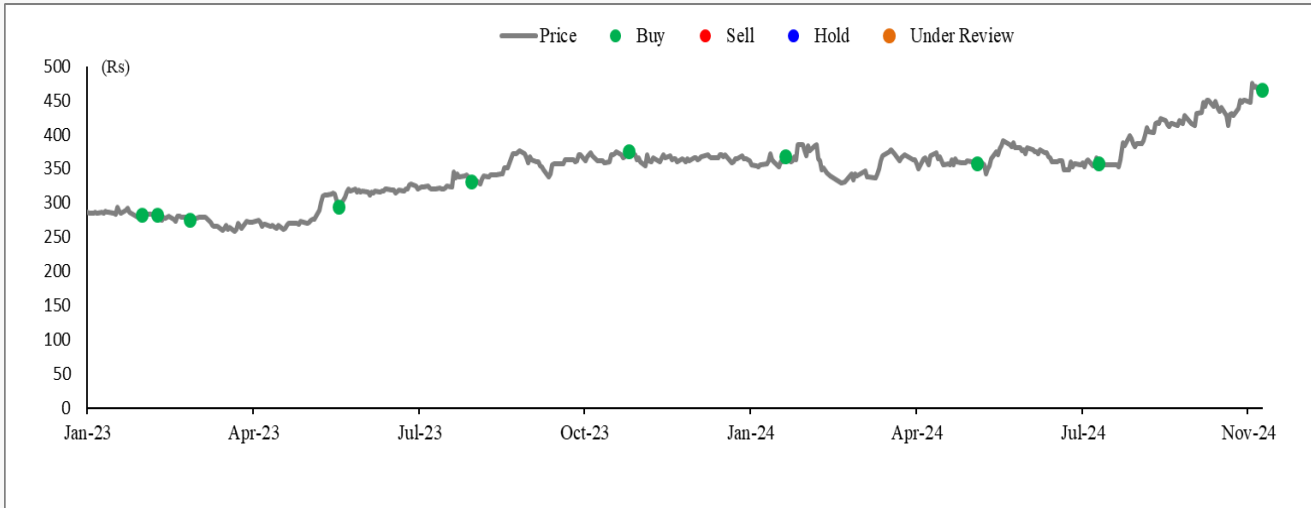
**Ratio Analysis**

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth	12.8%	19.7%	15.4%	13.2%
OPM	17.2%	18.8%	20.2%	20.8%
Oper. profit growth	10.3%	30.6%	24.0%	16.6%
COGS / Net sales	24.9%	25.0%	25.0%	25.0%
Overheads/Net sales	41.8%	40.0%	38.6%	38.0%
Depreciation / G. block	-	-	-	-
Effective interest rate	-	-	-	-
Net wkg.cap / Net sales	-0.9%	0.8%	5.8%	8.7%
Net sales / Gr block (x)	1.1	1.1	1.2	1.3
RoCE	8.2	11.0	15.1	20.2
Debt / equity (x)	0.8	0.8	0.7	0.5
Effective tax rate	0.4	0.3	0.3	0.3
RoE	5.0	9.8	14.1	16.8
Payout ratio (Div/NP)	4.0	4.0	4.0	4.0
EPS (Rs.)	3.0	6.5	10.8	15.5
EPS Growth	127%	118%	67%	44%

Source: Company, Axis Securities Research

## Healthcare Global Enterprise Price Chart and Recommendation History



Date	Reco	TP	Research
11-Nov-22	BUY	330	Result Update
13-Feb-23	BUY	315	Result Update
01-Dec-22	BUY	330	Top Picks
01-Jan-23	BUY	330	Top Picks
01-Feb-23	BUY	330	Top Picks
13-Feb-23	BUY	310	Result Update
01-Mar-23	BUY	330	Top Picks
01-Apr-23	BUY	330	Top Picks
26-May-23	BUY	325	Result Update
11-Aug-23	BUY	364	Result Update
13-Nov-23	BUY	412	Result Update
12-Feb-24	BUY	405	Result Update
31-May-24	BUY	400	Result Update
09-Aug-24	BUY	395	Result Update
12-Nov-24	BUY	535	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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