ADD (Maintained)

CMP: **INR 469** Target Price: **INR 525 (INR 410)** ▲ 12%

ICICI Securities

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13 November 2024

India | Equity Research | Q2FY25 results review

HealthCare Global Enterprises

Healthcare

Strong traction across centres

HealthCare Global Enterprises' (HCG) Q2FY25 operational performance was in line with our expectations; however, higher interest cost impacted profits. Traction across established centres continues to be healthy (up 13%), while growth across emerging centres has been steady (up 31.5%). HCG is working to improve traction at South Mumbai centre which will likely aid in improving margins in emerging centres. In Q2, it commissioned 200 beds at a hospital in Ahmedabad. It acquired a 196-bed hospital in Vizag on 2 Oct'24. The facility is expected to have revenue of INR 1.2bn and margin of 35% in FY25. Patient awareness, affordability of medicines and better clinical outcomes are likely to benefit HCG. Raise FY26E EBITDA by ~2% to factor in higher growth across key clusters. Retain **ADD** with TP of INR 525, based on 17x FY26E EV/EBITDA (14x previously).

Mixed Q2FY25 result; higher interest cost dents profits

Revenue grew 13.7% YoY (+5.3% QoQ) to INR 5.5bn (I-Sec: INR 5.7bn) driven by better traction in Maharashtra and East India clusters. Gross margin contracted 123bps YoY (-71bps QoQ) to 73.9%. EBITDA rose 20.8% YoY (+12.5% QoQ) to INR 1.0bn (I-Sec: INR 1.1mn). EBITDA margin expanded 110bps YoY (+120 bps QoQ) to 18.5% (I-Sec: 18.9%). Interest cost rose 33.8% YoY (6.8% QoQ) to INR 360mn. Adj. PAT grew 32.9% YoY (+49.1% QoQ) to INR 180mn (I-Sec: INR 255mn).

Strong growth in Maharashtra and East India clusters

Oncology revenue grew 5.2% QoQ (+14.6% YoY) to INR 5.4bn. Occupancy stood at 65.6% vs 65.8% in Q2FY24 and 65.7% in Q1FY25. The slight dip in occupancy on YoY basis was due to lower ALOS (2 days vs. 2.1 in Q2FY24). ARPOB rose 1.9% QoQ (7.4% YoY) at INR 45,188. Karnataka/Gujarat/east India/Maharashtra clusters grew 3.6%/10.6%/20.7%/25.2% YoY, respectively. Established centres' revenue grew 13.0% YoY (+4.6% QoQ) to INR 4.8bn. Margin of established centres rose 130bps YoY (-125bps QoQ) to 23.3%. Emerging centres' (South Mumbai, Borivali and Kolkata) revenue grew 31.5% YoY (11.6% QoQ) to INR 530mn. Emerging centres reported margin of 5.7%. Milann (infertility) segment revenue declined 10.7% YoY to INR 158mn.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	19,118	22,058	24,898	27,543
EBITDA	3,292	3,948	4,706	5,371
EBITDA Margin (%)	17.2	17.9	18.9	19.5
Net Profit	458	752	1,196	1,613
EPS (INR)	3.3	5.4	8.6	11.6
EPS % Chg YoY	55.8	64.4	59.0	34.9
P/E (x)	136.7	86.8	54.6	40.5
EV/EBITDA (x)	22.8	19.2	15.6	13.2
RoCE (%)	5.7	8.0	9.6	10.9
RoE (%)	5.4	8.7	12.4	14.6

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Market Data

Market Cap (INR)	65bn
Market Cap (USD)	775mn
Bloomberg Code	HCG IN
Reuters Code	HEAC BO
52-week Range (INR)	520 /310
Free Float (%)	29.0
ADTV-3M (mn) (USD)	1.7

Price Performance (%)	3m	6m	12m
Absolute	31.7	32.0	23.8
Relative to Sensex	32.9	23.8	3.2

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	-
EBITDA	5.3	1.6
EPS	1.2	(2.4)

Previous Reports

11-08-2024: Q1FY25 results review

12-07-2024: Company Update

M&A hunt may continue for next couple of years

Through a combination of M&A and brownfield capex, HCG is aiming to increase its bed capacity by 33% to ~2,885 beds in the next 2–3 years. In Q2, it incurred capex of INR 520mn; net debt stood at INR 4.4bn as of 30 Sept'24. Further, the company is likely to incur capex of ~INR 3bn in FY25 (including acquisition), which may be funded through internal accruals and debt. It may further look to expand its network through M&A, as greenfield projects in new markets have a higher lead time to turn profitable.

Valuation and risks

HCG continues to witness growth in its emerging centres in Kolkata and Borivali. South Mumbai hospital reported loss of INR 400mn in H1FY25 due to reduction in international patient flow and a recovery is expected over the next couple of quarters. Its established centres have been reporting constant surge in revenue despite occupancy remaining range bound (up 13.0% YoY in Q2).

In Q2, it operationalised a 200-bed centre in Ahmedabad. It is currently developing two hospitals with total capacity of 125 beds in North Bangalore and Whitefield area in Bangalore. These facilities are expected to be fully operational by early FY26. Further, it has plans to add 60 beds in Cuttack, with the potential to expand to 100 beds in the future. Construction may begin by FY25 end with operations expected to start by early FY27. HCG's acquisition of 196-bed hospital in Vizag will be EBITDA accretive on consolidation. The Vizag hospital operates at 2x margins (~34%) as compared to HCG, and is even more profitable than its Cuttack hospital. Management is confident of Indore and Vizag acquisitions boosting growth.

The company may further look to acquire oncology hospitals with an established reputation in newer geographies. It targets standalone cancer centres with capacity of 80-100 beds. The acquisition price is usually in the range of 10-12x of EBITDA with payback period of 6-8 years, depending on whether it is strategic or financial value.

We like HCG's business model given its focus on niche oncology services; however, challenges such as occupancy and ARPOB improvement and cost rationalisation persist with management to prove resilience of its business model.

We raise our EBITDA estimates by ~2% for FY26E to factor in better margins for emerging centres. We expect HCG to register a revenue CAGR of 14.2% over FY24–26E and EBITDA margin to improve by 166bps to 18.9% in FY26E. The stock currently trades at EV/EBITDA of 19.2x FY25E and 15.6x FY26E. Maintain **ADD** with a revised target price of INR 525 (earlier INR 410), based on 17x FY26E EV/EBITDA (earlier 14x). **Key downside risks:** Higher competition in oncology and delay in operational turnaround of new centres.

Exhibit 1: Quarterly review

Particulars (INR mn)	Q2FY25	Q2FY24	YoY % Chg	Q1FY25	QoQ % Chg	H1FY25	H1FY24	YoY % Chg
Net Sales	**5,535**	**4,869**	**13.7**	**5,256**	**5.3**	**10,791**	**9,476**	**13.9**
EBITDA	1,023	846	20.8	909	12.5	1,932	1,589	21.5
EBITDA margins (%)	18.5	17.4	110bps	17.3	120bps	17.9	16.8	110bps
Other income	112	34	229.2	88	26.5	200	62	224.4
PBIDT	**1,134**	**880**	**28.9**	**997**	**13.7**	**2,132**	**1,651**	**29.1**
Depreciation	497	432	15.1	470	5.8	968	842	14.9
Interest	360	269	33.8	337	6.8	697	524	32.9
Extraordinary income/ (exp.)	-	-		-		-	-	
PBT	**277**	**179**	**54.6**	**190**	**45.7**	**467**	**284**	**64.2**
Tax	70	71	(2.4)	54	30.0	123	140	(12.0)
Minority Interest	27	(28)	(196.4)	16	73.5	42	(45)	(194.3)
Reported PAT	**180**	**136**	**32.9**	**121**	**49.1**	**301**	**189**	**59.3**
Adjusted PAT	**180**	**136**	**32.9**	**121**	**49.1**	**301**	**189**	**59.3**

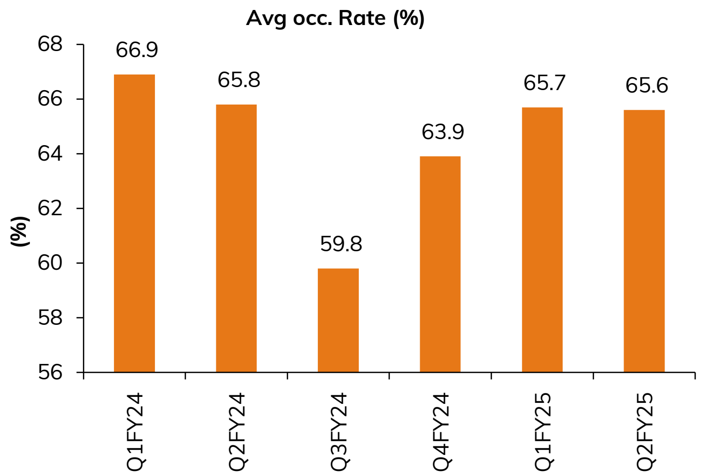
Source: Company data, I-Sec research

Exhibit 2: Business mix

(INR mn)	Q2FY25	Q2FY24	YoY % Chg	Q1FY25	QoQ % Chg	H1FY25	H1FY24	YoY % Chg
Karnataka Cluster	1,631	1,574	3.6	1,564	4.3	3,195	3,078	3.8
Gujarat Cluster	1,344	1,215	10.6	1,343	0.1	2,687	2,351	14.3
East India Cluster	646	535	20.7	617	4.7	1,263	1,022	23.6
Maharashtra Cluster	893	713	25.2	818	9.2	1,711	1,372	24.7
Others	864	656	31.7	771	12.1	1,635	1,312	24.6
Milann	158	177	(10.7)	144	9.7	302	341	(11.4)
Total	**5,536**	**4,870**	**13.7**	**5,257**	**5.3**	**10,793**	**9,476**	**13.9**

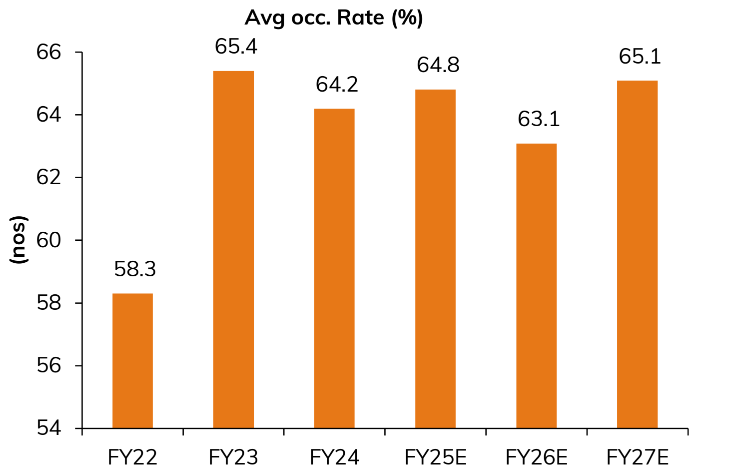
Source: Company data, I-Sec research

Exhibit 3: Occupancy dipped YoY due to lower ALOS



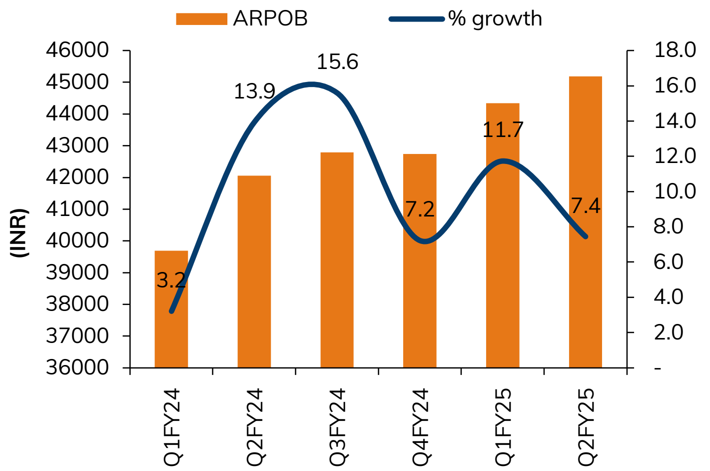
Source: I-Sec research, Company data

Exhibit 4: Occupancy may remain steady at ~65% in coming years



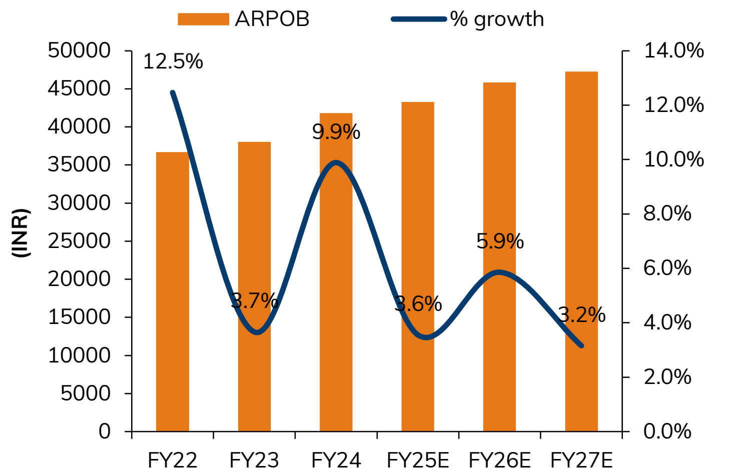
Source: I-Sec research, Company data

Exhibit 5: Registered strong growth in ARPOB



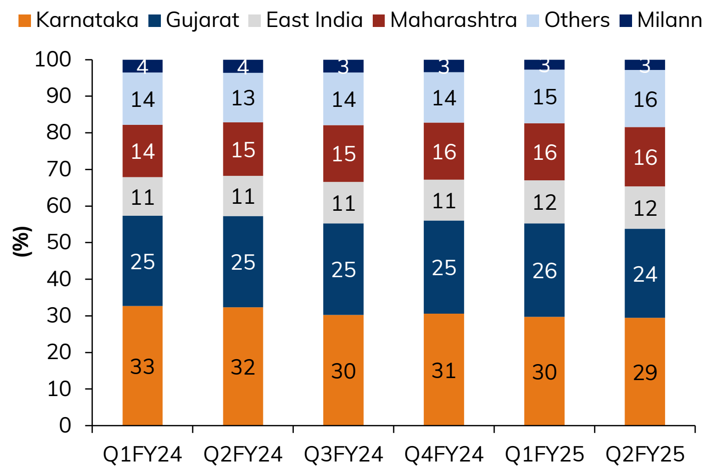
Source: I-Sec research, Company data

Exhibit 6: Expect ARPOB to grow at ~5% CAGR over FY24–26E



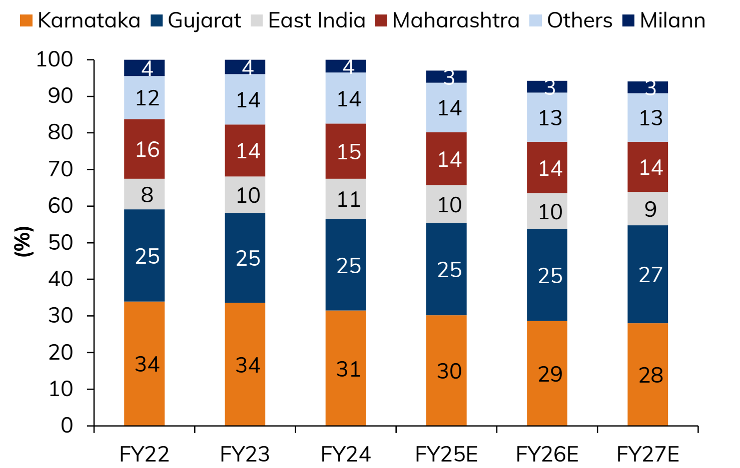
Source: I-Sec research, Company data

Exhibit 7: Hospital-wise revenue break up – quarter



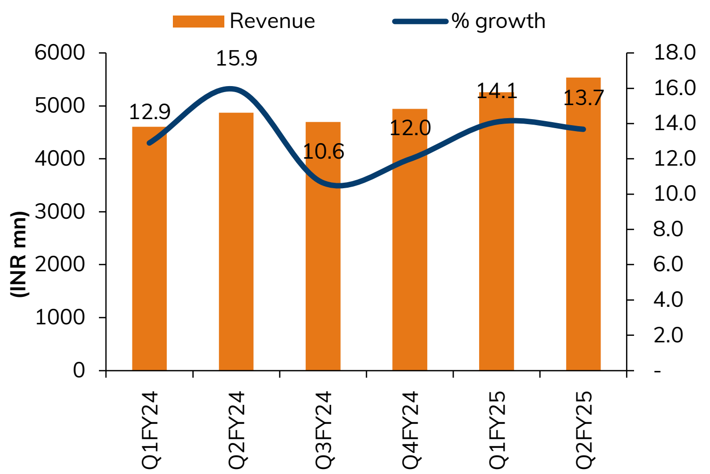
Source: I-Sec research, Company data

Exhibit 8: Hospital-wise revenue break up – annual



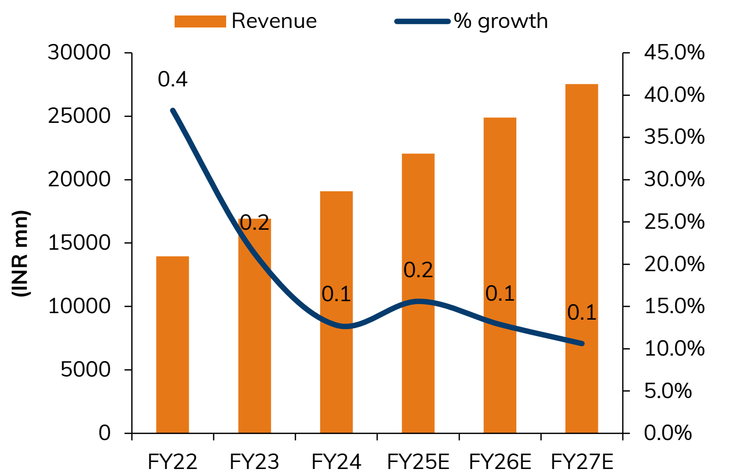
Source: I-Sec research, Company data

Exhibit 9: Revenue growth led by strong performance in Maharashtra and East India clusters



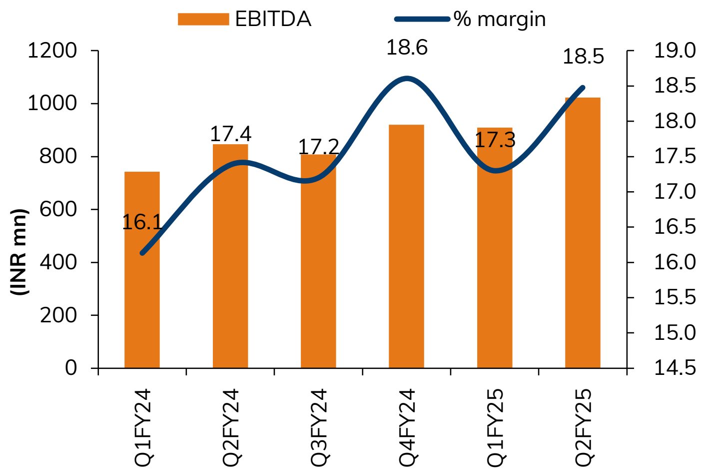
Source: I-Sec research, Company data

Exhibit 10: Expect 14.2% revenue CAGR over FY24–26E



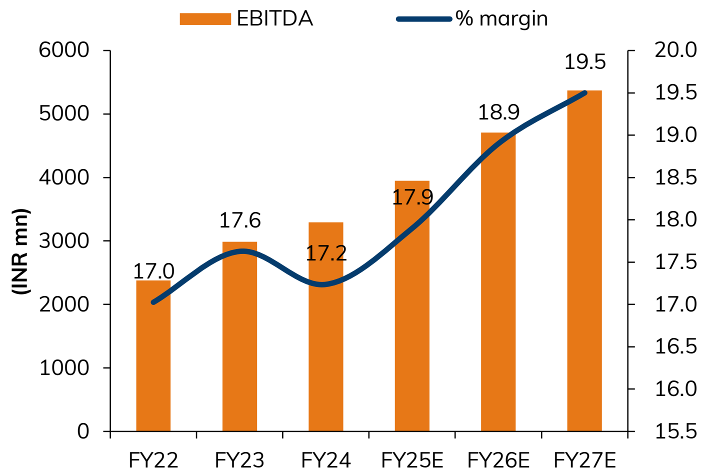
Source: I-Sec research, Company data

Exhibit 11: Margin expansion led by existing centres



Source: I-Sec research, Company data

Exhibit 12: EBITDA margin to improve by ~166bps over FY24–26E



Source: I-Sec research, Company data

Exhibit 13: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	71.3	71.3	71.2
Institutional investors	15.3	14.0	15.9
MFs and others	6.5	8.7	8.9
FIs/Banks	0.0	0.0	0.0
Insurance	0.2	0.2	0.2
FIIs	8.6	4.0	6.8
Others	13.4	14.7	12.9

Source: Bloomberg

Exhibit 14: Price chart

Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	19,118	22,058	24,898	27,543
Operating Expenses	11,071	12,661	14,117	15,452
EBITDA	**3,292**	**3,948**	**4,706**	**5,371**
EBITDA Margin (%)	**17.2**	**17.9**	**18.9**	**19.5**
Depreciation & Amortization	1,744	1,985	2,072	2,185
EBIT	1,549	1,963	2,634	3,186
Interest expenditure	1,087	1,333	1,244	1,076
Other Non-operating Income	173	339	373	410
Recurring PBT	635	969	1,763	2,521
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	**264**	**244**	**444**	**635**
PAT	410	725	1,319	1,886
Less: Minority Interest	68	27	(123)	(273)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	478	752	1,196	1,613
Net Income (Adjusted)	**458**	**752**	**1,196**	**1,613**

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	6,799	6,684	7,683	9,371
of which cash & cash eqv.	3,031	2,352	2,809	3,990
Total Current Liabilities & Provisions	5,135	5,886	6,571	7,267
Net Current Assets	**1,664**	**798**	**1,112**	**2,104**
Investments	103	103	103	103
Net Fixed Assets	10,147	11,662	11,090	10,405
ROU Assets	4,907	4,907	4,907	4,907
Capital Work-in-Progress	832	832	832	832
Total Intangible Assets	2,528	2,528	2,528	2,528
Other assets	1,689	1,689	1,689	1,689
Deferred Tax Assets	71	71	71	71
Total Assets	**21,941**	**22,590**	**22,332**	**22,639**
Liabilities				
Borrowings	**6,728**	**6,678**	**5,128**	**3,578**
Deferred Tax Liability	**61**	**61**	**61**	**61**
provisions	157	181	204	226
other Liabilities	328	328	328	328
Equity Share Capital	1,393	1,393	1,393	1,393
Reserves & Surplus	6,865	7,617	8,813	10,426
Total Net Worth	**8,258**	**9,010**	**10,206**	**11,819**
Minority Interest	393	366	489	762
Total Liabilities	**21,941**	**22,590**	**22,332**	**22,639**

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**2,846**	**4,254**	**4,800**	**5,357**
Working Capital Changes	(272)	(103)	(122)	(79)
Capital Commitments	(1,840)	(3,500)	(1,500)	(1,500)
Free Cashflow	**1,006**	**754**	**3,300**	**3,857**
Other investing cashflow	**(418)**	**-**	**-**	**-**
Cashflow from Investing Activities	(2,257)	(3,500)	(1,500)	(1,500)
Issue of Share Capital	20	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	933	(100)	(1,600)	(1,600)
Dividend paid	-	-	-	-
Others	(1,593)	(1,333)	(1,244)	(1,076)
Cash flow from Financing Activities	(640)	(1,433)	(2,844)	(2,676)
Chg. in Cash & Bank balance	**(52)**	**(679)**	**457**	**1,181**
Closing cash & balance	1,915	2,352	2,809	3,990

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	3.4	5.4	8.6	11.6
Adjusted EPS (Diluted)	3.3	5.4	8.6	11.6
Cash EPS	15.8	19.7	23.5	27.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	59.3	64.7	73.3	84.8
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	12.8	15.4	12.9	10.6
EBITDA	10.1	19.9	19.2	14.1
EPS (INR)	55.8	64.4	59.0	34.9
Valuation Ratios (x)				
P/E	136.7	86.8	54.6	40.5
P/CEPS	29.7	23.9	20.0	17.2
P/BV	7.9	7.3	6.4	5.5
EV / EBITDA	22.8	19.2	15.6	13.2
P / Sales	3.4	3.0	2.6	2.4
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	75.1	75.3	75.6	75.6
EBITDA Margins (%)	17.2	17.9	18.9	19.5
Effective Tax Rate (%)	39.2	25.2	25.2	25.2
Net Profit Margins (%)	2.4	3.4	4.8	5.9
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.4	0.5	0.2	0.0
Net Debt / EBITDA (x)	1.1	1.1	0.5	(0.1)
Profitability Ratios				
RoCE (%)	5.7	8.0	9.6	10.9
RoE (%)	5.4	8.7	12.4	14.6
RoIC (%)	6.1	9.1	10.9	12.9
Fixed Asset Turnover (x)	1.9	2.0	2.2	2.6
Inventory Turnover Days	9	9	8	8
Receivables Days	60	60	60	59
Payables Days	57	57	56	55

Source Company data, I-Sec research

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