

25 February 2025

India | Equity Research | Company Update

HealthCare Global Enterprises

Healthcare

PE change of hands to improve prospects

HealthCare Global Enterprises' (HCG) current promoter CVC Capital (Aseco PTE) is likely to sell up to 54% of its stake in the company to another private equity (PE) firm, KKR, at an agreed price of INR 445/share (cumulative value between INR 320bn–339bn). As per the deal, KKR would initially buy 51% stake from CVC and may further buy 3% if its shareholding in the company does not rise above 54% post the mandated open offer (priced at INR 504.41/share). Founder-promoter Dr BS Ajaikumar shall move to a non-executive role and serve as the Chairman of the company. CVC had played a major role in driving operational efficiencies in the company with EBITDA margins scaling up from ~15.7% in FY20 to 17.2% in FY24, while KKR is expected to drive the next leg of growth through M&A and aggressive bed expansion. We lower our rating for HCG to **HOLD** and maintain the target price of INR 525.

KKR to become the largest shareholder in HCG

KKR would purchase 54% stake in HCG from CVC Capital in two tranches at INR 445/share (11% discount to CMP, as at 21 Feb'25), valuing the company at 21.8x/18.8x/15x FY24/25E/26E EV/EBITDA. As per the deal, it shall initially acquire 51% from CVC and has announced an open offer to acquire a further 26% from public at INR 504.41/share (13% higher-than-offered to CVC and ~1% higher than CMP). However, if post the open offer KKR is unable to increase its stake in HCG to 54%, then it may further purchase up to 3% stake from CVC. The existing promoter CVC and Dr BS Ajaikumar would cease to be in control of the company and KKR shall nominate its representative directors onto the board. Dr BS Ajaikumar shall serve as Non-executive Chairman of the company. Post the deal, CVC may continue to hold 6–9% stake in the company while Dr BS Ajaikumar and family would hold 10.87% stake. The transaction is expected to be completed by Q3CY25.

Key managerial personnel to be well rewarded

In the last five years, CVC had made a remarkable transformation in the overall operational performance of HCG. Its operating EBITDA increased at 17.6% CAGR over FY20–24. Overall occupancy and ARPOB improved from ~43%/~INR 32,767 in FY20 to 64%/INR 41,802 at end-FY24. To reward its key employees, the company is planning to issue a bonus and issue 1.62mn shares (~1.2% dilution) to the eligible employees.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	19,118	22,251	24,898	27,543
EBITDA	3,292	3,827	4,681	5,481
EBITDA Margin (%)	17.2	17.2	18.8	19.9
Net Profit	440	516	1,015	1,548
EPS (INR)	3.2	3.7	7.3	11.1
EPS % Chg YoY	49.9	17.2	96.6	52.5
P/E (x)	148.7	137.6	70.0	45.9
EV/EBITDA (x)	24.5	21.2	16.9	14.0
RoCE (%)	5.6	9.0	9.5	11.4
RoE (%)	5.2	6.1	10.9	14.7

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Market Data

Market Cap (INR)	71bn
Market Cap (USD)	820mn
Bloomberg Code	HCG IN
Reuters Code	HEAC BO
52-week Range (INR)	568 /310
Free Float (%)	29.0
ADTV-3M (mn) (USD)	1.9

Price Performance (%)	3m	6m	12m
Absolute	8.9	33.0	35.6
Relative to Sensex	14.8	41.1	33.8

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 score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.9	-
EBITDA	(3.1)	0.5
EPS	(31.4)	(15.1)

Previous Reports

13-11-2024: [Q2FY25 results review](#)

11-08-2024: [Q1FY25 results review](#)

Valuation and risks

Under CVC, HCG's management had refrained from adding new beds over FY20–23, as it focused on improving occupancy (surged from ~43% in FY20 to 64% in FY24) and driving operational efficiencies (margins up 150bps over FY20–24). Its occupancy had remained between 64–65% over FY23–24. It had recently acquired a 196-bedded oncology focused hospital in Vizag. The Vizag hospital operates at 2x margins (~34%) as compared to HCG and is even more profitable than its Cuttack hospital. In Q3, it consolidated operations at the Vizag hospital. It is currently developing two hospitals with total capacity of 125 beds in north Bangalore and Whitefield areas of 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. 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 a payback period of 6–8 years, depending on whether it is strategic or financial value.

We reduce our EBITDA estimates by ~3% for FY25E to factor in lower margins for emerging centres. We expect HCG to register a revenue CAGR of 13% over FY24–27E and EBITDA margin to improve by 266bps to 19.9% in FY27E. The stock currently trades at EV/EBITDA of 16.9x FY26E and 14x FY27E. We lower our rating to **Hold** (earlier **ADD**), though maintain our target price of INR 525, based on 17x FY26E EV/EBITDA (unchanged).

Upside risk: Rapid increase in pace of M&A, better-than-anticipated operational synergies. **Downside risks:** Higher competition in oncology and delay in operational turnaround of new centres.

Exhibit 1: Quarterly review

Particulars (INR mn)	Q3FY25	Q3FY24	YoY % Chg	Q2FY25	QoQ % Chg	9MFY25	9MFY24	YoY % Chg
Net Sales	5,586	4,699	18.9	5,535	0.9	16,377	14,175	15.5
EBITDA	884	808	9.4	1,023	(13.6)	2,816	2,398	17.4
EBITDA margins (%)	15.8	17.2	-140bps	18.5	-270bps	17.2	16.9	30bps
Other income	55	62	(10.1)	112	(50.4)	255	123	107.1
PBIDT	939	870	8.0	1,134	(17.2)	3,071	2,521	21.8
Depreciation	565	442	28.0	497	13.6	1,533	1,284	19.4
Interest	407	295	38.2	360	13.1	1,104	819	34.8
Extraordinary income/ (exp.)	-	(22)	-	-	-	-	(22)	-
PBT	(33)	112	(129.6)	277	(111.9)	434	396	9.6
Tax	(111)	77	(243.1)	70	(258.5)	13	217	(94.1)
Minority Interest	8	(23)	(133.9)	27	(71.4)	50	(68)	(174.1)
Reported PAT	70	57	22.2	180	(61.3)	371	246	50.7
Adjusted PAT	70	64	9.3	180	(61.3)	371	256	44.9

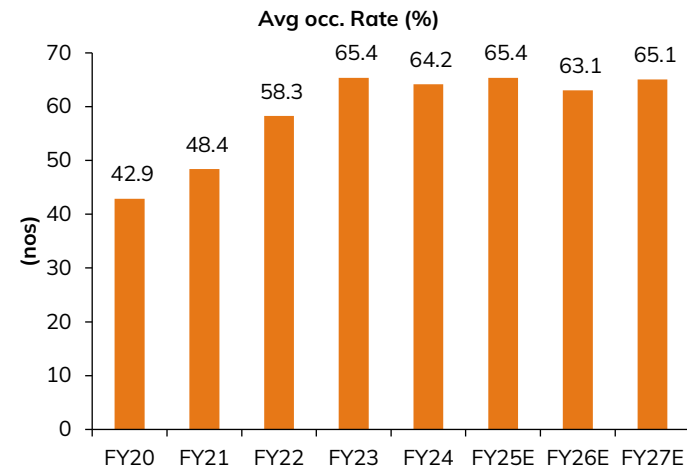
Source: Company data, I-Sec research

Exhibit 2: Business mix

(INR mn)	Q3FY25	Q3FY24	YoY % Chg	Q2FY25	QoQ % Chg	9MFY25	9MFY24	YoY % Chg
Karnataka Cluster	1,534	1,423	7.8	1,631	(5.9)	4,729	4,501	5.1
Gujarat Cluster	1,291	1,175	9.9	1,344	(3.9)	3,978	3,526	12.8
East India Cluster	642	533	20.5	646	(0.6)	1,905	1,555	22.5
Maharashtra Cluster	898	728	23.4	893	0.6	2,609	2,100	24.2
Others	1,085	677	60.4	864	25.6	2,720	1,989	36.8
Milann	136	164	(17.1)	158	(13.9)	438	505	(13.3)
Total	5,586	4,699	18.9	5,536	0.9	16,379	14,175	15.6

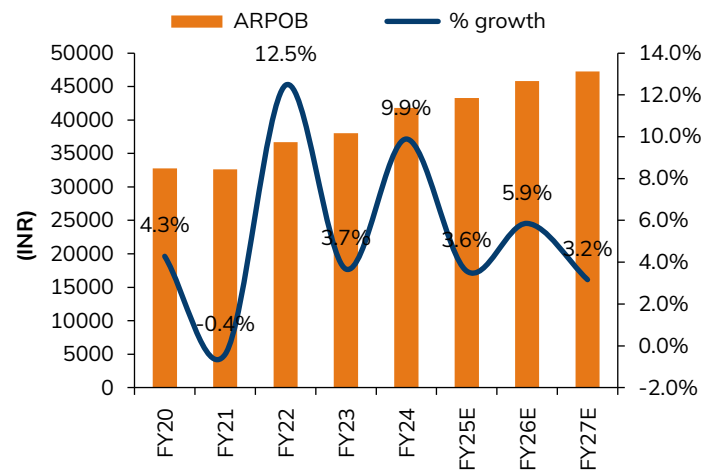
Source: Company data, I-Sec research

Exhibit 3: Occupancy may remain between 63-65% in coming years



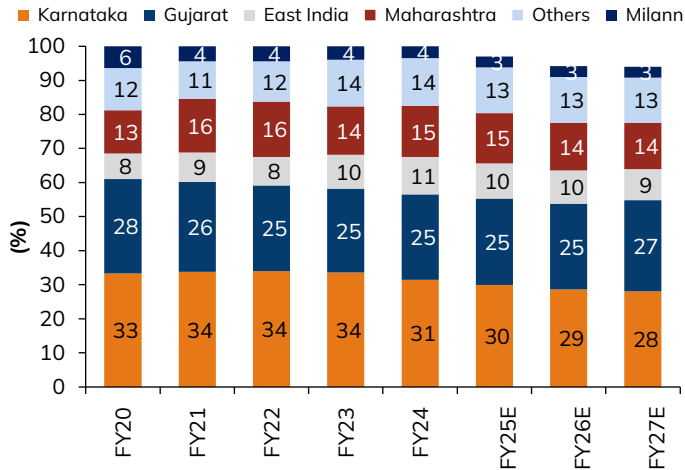
Source: I-Sec research, Company data

Exhibit 4: ARPOB to grow at a ~4% CAGR over FY24-27E



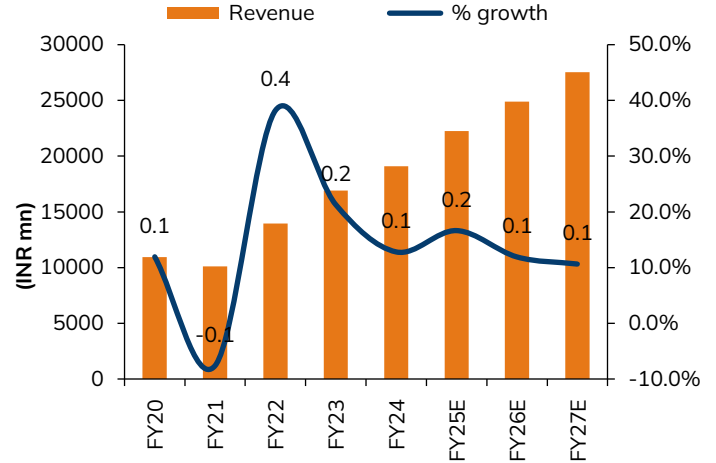
Source: I-Sec research, Company data

Exhibit 5: Cluster wise revenue break up



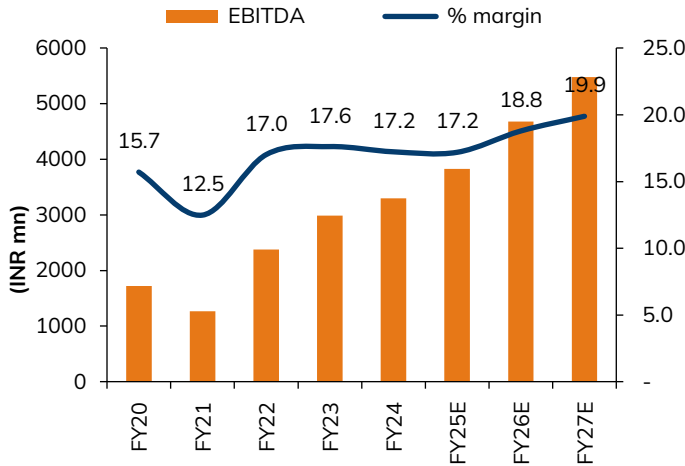
Source: I-Sec research, Company data

Exhibit 6: Expect 13% revenue CAGR over FY24–27E



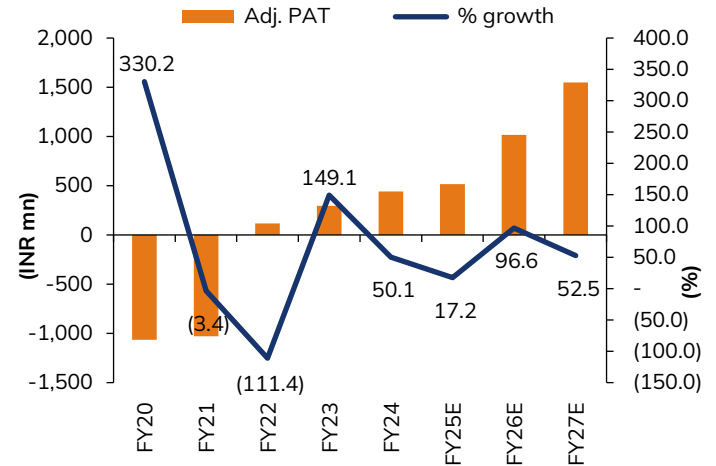
Source: I-Sec research, Company data

Exhibit 7: EBITDA margin to improve by ~266bps over FY24–27E



Source: I-Sec research, Company data

Exhibit 8: Adj. PAT to grow at CAGR of ~52% over FY24–27E



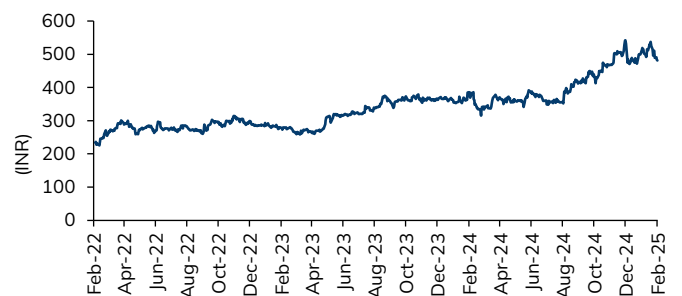
Source: I-Sec research, Company data

Exhibit 9: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	71.3	71.2	71.2
Institutional investors	14.0	15.9	15.7
MFs and others	8.7	8.9	10.0
FIs/Banks	0.0	0.0	2.7
Insurance	0.2	0.2	0.2
FII	4.0	6.8	2.8
Others	14.7	12.9	13.1

Source: Bloomberg

Exhibit 10: Price chart



Source: Bloomberg

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	19,118	22,251	24,898	27,543
Operating Expenses	11,071	12,638	13,893	15,176
EBITDA	3,292	3,827	4,681	5,481
EBITDA Margin (%)	17.2	17.2	18.8	19.9
Depreciation & Amortization	1,744	2,111	2,072	2,185
EBIT	1,549	1,716	2,609	3,297
Interest expenditure	1,087	1,523	1,421	1,229
Other Non-operating Income	173	322	334	367
Recurring PBT	635	515	1,521	2,434
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	264	26	383	613
PAT	410	489	1,138	1,821
Less: Minority Interest	68	27	(123)	(273)
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	478	516	1,015	1,548
Net Income (Adjusted)	440	516	1,015	1,548

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	6,799	6,897	7,625	9,169
of which cash & cash eqv.	3,031	2,524	2,750	3,792
Total Current Liabilities & Provisions	5,135	6,208	6,804	7,422
Net Current Assets	1,664	689	821	1,748
Investments	103	103	103	103
Net Fixed Assets	10,147	11,536	10,964	10,280
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	22,355	21,915	22,157
Liabilities				
Borrowings	6,728	6,678	5,128	3,578
Deferred Tax Liability	61	61	61	61
provisions	157	182	204	226
other Liabilities	328	328	328	328
Equity Share Capital	1,393	1,393	1,393	1,393
Reserves & Surplus	6,865	7,381	8,396	9,944
Total Net Worth	8,258	8,774	9,789	11,337
Minority Interest	393	366	489	762
Total Liabilities	21,941	22,355	21,915	22,157

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	2,846	4,616	4,747	5,371
Working Capital Changes	(272)	58	(137)	(124)
Capital Commitments	(1,840)	(3,500)	(1,500)	(1,500)
Free Cashflow	1,006	1,116	3,247	3,871
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)	(1,523)	(1,421)	(1,229)
Cash flow from Financing Activities	(640)	(1,623)	(3,021)	(2,829)
Chg. in Cash & Bank balance	(52)	(507)	226	1,042
Closing cash & balance	1,915	2,524	2,750	3,792

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	3.4	3.7	7.3	11.1
Adjusted EPS (Diluted)	3.2	3.7	7.3	11.1
Cash EPS	15.7	18.9	22.2	26.8
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	59.3	63.0	70.3	81.4
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	12.8	16.4	11.9	10.6
EBITDA	10.1	16.2	22.3	17.1
EPS (INR)	49.9	17.2	96.6	52.5
Valuation Ratios (x)				
P/E	148.7	137.6	70.0	45.9
P/CEPS	32.5	27.1	23.0	19.0
P/BV	8.6	8.1	7.3	6.3
EV / EBITDA	24.5	21.2	16.9	14.0
P / Sales	3.7	3.2	2.9	2.6
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	75.1	74.0	74.6	75.0
EBITDA Margins (%)	17.2	17.2	18.8	19.9
Effective Tax Rate (%)	39.2	5.0	25.2	25.2
Net Profit Margins (%)	2.3	2.3	4.1	5.6
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.4	0.4	0.2	0.0
Net Debt / EBITDA (x)	1.1	1.1	0.5	(0.1)
Profitability Ratios				
RoCE (%)	5.6	9.0	9.5	11.4
RoE (%)	5.2	6.1	10.9	14.7
RoC (%)	5.9	10.4	10.9	13.4
Fixed Asset Turnover (x)	1.9	2.1	2.2	2.6
Inventory Turnover Days	9	9	8	8
Receivables Days	60	60	59	59
Payables Days	57	60	58	57

Source Company data, I-Sec research

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