

## Waning leverage, improving scenario to the fore...

Signs of a strong recovery amid sharp sequential growth of 28%, 75% in revenues, EBITDA, respectively, in Q2FY21, normalisation of OPD/IPD inflows as travel restrictions ease out point towards a better H2FY21 vis-à-vis H1FY21. The domestic business has already reached near pre-Covid levels on the back of strong growth seen in Tier-II/III cities. Furthermore, revival of inter-state travel and resumption of medical tourism from neighbouring countries (like Bangladesh) is likely to reach pre-Covid levels by the end of FY21, which will further support financials.

### Comprehensive cancer treatment network; strong pedigree

HCG operates one of the largest private cancer care networks in India with end-to-end solutions available under a single corporate entity. This consists of 22 comprehensive cancer centres that provide a single point destination for complete cancer care. Most centres are on a lease or rental basis with some in partnership with local doctors or hospitals. Owing to exclusive agreement with vendors, HCG procures equipment on a deferred payment basis. We expect revenues from cancer network to grow at 10% CAGR to ₹ 1365 crore over FY20-23E on the back of a ramp up in new hospitals.

### Cancer – Rapidly growing, under reported segment in India

Cancer is one of the fastest growing lifestyle diseases in India. High incidences of cancer in India can be attributed to rapid industrialisation, ageing population, lifestyle and food habits, poor immune conditions, genetic pre-disposition and hormonal imbalances, etc. As per Indian Council of Medical Research (ICMR), in 2018, total number of new cancer cases in India is estimated to be 15.7 lakh, which is likely to reach over 17.3 lakh by 2020. However, the real incidence of cancer in India could be 1.5-2x higher than the reported numbers (Ernst & Young report).

### Valuation & Outlook

HCG has utilised proceeds from the QIP (₹ 651 crore) by CVC for 1) de-leveraging of balance sheet (53% net debt reduction ex-capital leases in Q2) and 2) acquisition of the remainder 49.9% stake of Milann fertility centres (BACC Health Care Pvt Ltd) for ₹ 68.3 crore. It has recently appointed Raj Gore (ex-CEO – Southern region of Apollo Hospital) as CEO, which bodes well for the company. HCG, with its integrated, one-stop-solution and focused model, is well poised to capture the growing potential with pan-India focus on cancer therapy. De-leveraging of balance sheet, reduction of losses across new centres has substantially eased legacy overhangs. That said, the recent sharp rally in the stock (~40% up in a month) has well captured these positives. Weaker return ratio profile still remains a key concern for the stock. We change our recommendation from BUY to **HOLD** with a revised target price of ₹ 170 (13x FY23E EV/EBITDA). Moderation of capex and improvement in return ratios would remain key monitorables.

### Key Financial Summary

₹Crore	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E (%)
Revenues	1095.6	1003.4	1237.1	1429.6	9.3
EBITDA	159.9	136.6	215.5	259.7	17.5
EBITDA margins (%)	14.6	13.6	17.4	18.2	
Net Profit	-106.7	-149.6	-14.3	34.4	NA
EPS (₹)	-12.0	-9.2	-1.6	3.9	
PE (x)	NA	NA	NA	44.4	
EV to EBITDA (x)	17.8	16.5	9.4	7.3	
RoCE (%)	1.0	-0.3	4.0	6.6	
ROE	NA	NA	NA	3.8	

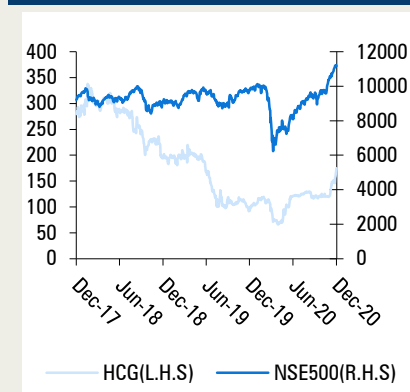
Source: ICICI Direct Research; Company



### Particulars

Particular	Amount
Market Capitalisation	₹2155 crore
Debt (FY 20)	₹1347 crore
Cash (FY 20)	₹32 crore
EV	₹3469 crore
52 week H/L	186/63
Equity capital	₹88.7 crore
Face value	₹10

### Price Performance



### Research Analyst

Siddhant Khandekar  
siddhant.khandekar@icicisecurities.com

Mitesh Shah  
mitesh.shah@icicisecurities.com

Sudarshan Agarwal  
sudarshan.agarwal@icicisecurities.com

## Financial Summary

Exhibit 1: Profit & Loss		₹ crore			
Year-end March	FY20	FY21E	FY22E	FY23E	
Total Operating Income	1,095.6	1,003.4	1,237.1	1,429.6	
Growth (%)	12.3	-8.4	23.3	15.6	
Raw Material Expenses	239.9	231.6	285.6	329.0	
Gross Profit	855.8	771.8	951.6	1,100.6	
Gross Profit Margins (%)	78.1	76.9	76.9	77.0	
Employee Expenses	208.0	199.8	216.5	242.3	
Other Expenditure	487.9	435.4	519.6	598.6	
Total Operating Expenditure	935.8	866.8	1,021.7	1,170.0	
<b>EBITDA</b>	<b>159.9</b>	<b>136.6</b>	<b>215.5</b>	<b>259.7</b>	
Growth (%)	43.3	-14.6	57.8	20.5	
Interest	137.7	118.9	90.3	72.0	
Depreciation	148.5	157.6	160.8	167.3	
Other Income	7.0	14.6	18.6	20.0	
<b>PBT before Exceptional Item</b>	<b>-119.3</b>	<b>-125.3</b>	<b>-17.1</b>	<b>40.2</b>	
Less: Exceptional Items	0.0	68.3	0.0	0.0	
PBT after Exceptional Items	-119.3	-193.6	-17.1	40.2	
Total Tax	6.2	-33.5	-2.8	5.9	
PAT before MI	-125.5	-160.1	-14.3	34.4	
Minority Interest	-18.8	-10.6	0.0	0.0	
<b>PAT</b>	<b>-106.7</b>	<b>-149.6</b>	<b>-14.3</b>	<b>34.4</b>	
Growth (%)	245.7	40.2	-90.5	-340.7	
<b>EPS (Adjusted)</b>	<b>-12.0</b>	<b>-9.2</b>	<b>-1.6</b>	<b>3.9</b>	

Source: ICICI Direct Research

Exhibit 2: Cash Flow Statement		₹ crore			
Year-end March	FY20	FY21E	FY22E	FY23E	
Profit/(Loss) after taxation	-146.0	-149.6	-14.3	34.4	
Add: Depreciation & Amortiz	148.5	157.6	160.8	167.3	
Net Increase in Current Ass	-43.1	19.6	-49.5	-42.7	
Net Increase in Current Liab	20.5	54.6	67.1	61.8	
Others	150.3	118.9	90.3	72.0	
<b>CF from Operating activiti</b>	<b>130.1</b>	<b>201.1</b>	<b>254.4</b>	<b>292.8</b>	
Investments	3.5	0.0	0.0	0.0	
(Purchase)/Sale of Fixed As	-107.4	-30.0	-80.0	-80.0	
Others	43.3	11.3	5.9	7.1	
<b>CF from Investing activitie</b>	<b>-60.6</b>	<b>-18.7</b>	<b>-74.1</b>	<b>-72.9</b>	
Proceeds from Equity	20.3	519.1	131.7	0.0	
(inc)/Dec in Loan	23.1	-401.5	-160.0	-158.5	
Interest paid	-114.5	-118.9	-90.3	-72.0	
Other	12.7	0.0	0.0	0.0	
<b>CF from Financing activiti</b>	<b>-58.4</b>	<b>-1.3</b>	<b>-118.6</b>	<b>-230.5</b>	
<b>Net Cash Flow</b>	<b>11.2</b>	<b>181.1</b>	<b>61.7</b>	<b>-10.6</b>	
Cash and Cash Equivalent	20.9	32.0	213.2	274.9	
<b>Cash</b>	<b>32.0</b>	<b>213.2</b>	<b>274.9</b>	<b>264.3</b>	
<b>Free Cash Flow</b>	<b>22.7</b>	<b>171.1</b>	<b>174.4</b>	<b>212.8</b>	

Source: ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore			
Year-end March	FY20	FY21E	FY22E	FY23E	
Equity Capital	88.7	88.7	88.7	88.7	
Reserve and Surplus	292.6	662.1	779.5	813.8	
Total Shareholders funds	381.3	750.8	868.2	902.5	
Total Debt	1,346.6	945.0	785.1	626.6	
Deferred Tax Liability	7.0	7.7	8.4	9.3	
Minority Interest	38.5	42.4	46.6	51.3	
Long-Term Provisions	7.3	8.0	8.8	9.7	
Other Non Current Liabilities	104.6	115.1	126.6	139.2	
<b>Source of Funds</b>	<b>1,885.2</b>	<b>1,869.0</b>	<b>1,843.7</b>	<b>1,738.6</b>	
Gross Block - Fixed Assets	1,912.4	1,942.4	2,022.4	2,102.4	
Accumulated Depreciation	375.6	533.2	694.1	861.4	
Net Block	1,536.7	1,409.1	1,328.3	1,241.0	
Capital WIP	46.1	46.1	46.1	46.1	
Fixed Assets	1,582.8	1,455.2	1,374.4	1,287.1	
Goodwill on Consolidation	109.3	109.3	109.3	109.3	
Investments	34.1	34.1	34.1	34.1	
Deferred Tax Assets	26.1	26.7	28.0	29.4	
Long Term Loans and Advance	155.6	158.7	166.6	175.0	
Other non-Current Assets	41.4	42.2	44.3	46.5	
Inventory	23.3	27.5	33.9	39.2	
Debtors	185.7	155.5	191.7	221.6	
Loans and Advances	5.4	6.0	6.6	7.2	
Other Current Assets	57.4	63.2	69.5	76.4	
Cash	32.0	213.2	274.9	264.3	
Total Current Assets	303.8	465.3	576.6	608.7	
Creditors	153.6	186.8	230.3	266.1	
Provisions	9.1	10.0	11.0	12.0	
Other Current Liabilities	205.4	225.9	248.5	273.3	
Total Current Liabilities	368.0	422.6	489.7	551.5	
Net Current Assets	-64.2	42.7	86.9	57.2	
<b>Application of Funds</b>	<b>1,885.2</b>	<b>1,869.0</b>	<b>1,843.7</b>	<b>1,738.6</b>	

Source: ICICI Direct Research

Exhibit 4: Key Ratios					
Year-end March	FY20	FY21E	FY22E	FY23E	
<b>Per share data (₹)</b>					
Reported EPS	-12.0	-16.9	-1.6	3.9	
Cash EPS	4.7	8.6	16.5	22.8	
BV per share	43.0	84.7	98.0	101.8	
Cash per Share	3.6	24.0	31.0	29.8	
Dividend per share	0.0	0.0	0.0	0.0	
<b>Operating Ratios (%)</b>					
Gross Profit Margins	78.1	76.9	76.9	77.0	
EBITDA margins	14.6	13.6	17.4	18.2	
PAT Margins	-9.7	-8.1	-1.2	2.4	
Cash Conversion Cycle	18.4	-1.4	-1.4	-1.4	
Asset Turnover	0.6	0.5	0.6	0.7	
EBITDA conversion Rate	81.4	147.3	118.1	112.8	
<b>Return Ratios (%)</b>					
RoE	NA	NA	NA	3.8	
RoCE	1.0	-0.3	4.0	6.6	
RoIC	0.6	-1.3	3.7	6.6	
<b>Valuation Ratios (x)</b>					
P/E	NA	NA	NA	44.4	
EV / EBITDA	17.8	16.5	9.4	7.3	
EV / Net Sales	2.6	2.2	1.6	1.3	
Market Cap / Sales	1.4	1.5	1.2	1.1	
Price to Book Value	4.0	2.0	1.8	1.7	
<b>Solvency Ratios</b>					
Debt / EBITDA	8.4	6.9	3.6	2.4	
Debt / Equity	3.5	1.3	0.9	0.7	
Current Ratio	0.7	0.6	0.6	0.6	

Source: ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, AkruTI Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

## ANALYST CERTIFICATION

We /I, Siddhant Khandekar, Inter CA, Mitesh Shah, (Cleared all 3 levels of CFA), Sudarshan Agarwal, PGDM (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com)

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.