

August 11, 2022

Q1FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	358		347	
Sales (Rs. m)	16,330	17,494	15,351	16,609
% Chng.	6.4	5.3		
EBITDA (Rs. m)	2,968	3,466	2,869	3,321
% Chng.	3.5	4.4		
EPS (Rs.)	3.9	7.4	3.7	7.0
% Chng.	5.5	5.0		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	10,134	13,978	16,330	17,494
EBITDA (Rs. m)	1,266	2,380	2,968	3,466
Margin (%)	12.5	17.0	18.2	19.8
PAT (Rs. m)	(1,935)	537	547	1,023
EPS (Rs.)	(8.0)	(2.9)	3.9	7.4
Gr. (%)	(33.7)	(63.1)	(233.8)	87.0
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(18.5)	(5.2)	6.1	10.5
RoCE (%)	(2.3)	6.7	9.8	12.0
EV/Sales (x)	3.9	3.0	2.5	2.3
EV/EBITDA (x)	31.1	17.5	13.9	11.7
PE (x)	(35.6)	(96.6)	72.2	38.6
P/BV (x)	5.1	4.5	4.3	3.8

Key Data

HEAC.BO | HCG IN

52-W High / Low	Rs.313 / Rs.213
Sensex / Nifty	58,817 / 17,535
Market Cap	Rs.40bn/ \$ 497m
Shares Outstanding	139m
3M Avg. Daily Value	Rs.53.85m

Shareholding Pattern (%)

Promoter's	71.42
Foreign	7.22
Domestic Institution	2.94
Public & Others	18.42
Promoter Pledge (Rs bn)	0.85

Stock Performance (%)

	1M	6M	12M
Absolute	2.7	13.8	12.4
Relative	(4.9)	13.1	3.9

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HealthCare Global Enterprises (HCG IN)

Rating: BUY | CMP: Rs284 | TP: Rs358

Strong beat aided by higher occupancy

Quick Pointers:

- Guided for another 150-200bps margin improvement over next 1-2 years.
- Higher occupancy and healthy ARPOB aided profitability in Q1FY23.

HCG's consolidated post IND AS EBITDA grew strongly by 41% YoY (+14% QoQ) to Rs 722mn, above our estimates (Rs606mn). Existing centers reported healthy profitability with EBITDA growth of 24% YoY (23% QoQ) to Rs750mn, while new centers continue to report highest EBITDA at Rs100mn (Rs154mn in FY22).

HCG's asset light approach with focus on partnering has made its business model – capital efficient and scalable. The company operates most of its Comprehensive Cancer Centre (CCC) on lease/rental basis with HCG investing only in equipment's. Out of 25 HCG's CCC, only four are on owned land. HCG is in a consolidation mode and given reducing capex intensity, we expect profitability to improve further from FY23. Our FY23E and FY24E EBITDA stands increase by ~4%. We expect a 28% EBITDA CAGR over FY22-24E after adjusting for IND AS. At CMP, the stock trades at 14x FY24E EV/EBITDA adjusted for rentals. We maintain 'Buy' rating with revised TP of Rs358 (Rs347 earlier) valuing at 18x FY24E EV/EBITDA.

- Beats our estimates aided by higher occupancy:** Revenue grew by 26% YoY to Rs4bn, above our estimate (Rs3.5bn). Existing centers grew by 23% YoY while new centers continue to see strong ramp up with revenue growth of 34% YoY. Milann centers reported revenue growth of 43% YoY. ARPOB improved 6% YoY; flat QoQ to Rs 38.4K per day. Overall occupancy was healthy and recovered to 64.6% (59.9% in Q4). International business ramped up ~1.4x to pre COVID levels. Net debt was flat QoQ to Rs1.9bn.
- Key con-call takeaways:** (1) Capex for Q1FY23 was at Rs.163mn; total planned capex for Ahmedabad is at Rs.850mn and expected to be commercialized in Q1FY25. Bangalore planned capex is at Rs.250mn and expected to be operationalized by Q4FY24 (2) Mgmt guided to focus on capacity utilization in Maharashtra and Kolkata. New centers such as Kolkata to turn into positive EBITDA in next 12 months. (3) Higher ARPOB is a result of combination of pricing ability by having NABH accredited hospitals and revision in cash as well as TPA patients. Bangalore flagship center continues to enjoy highest ARPOB of Rs. 66K and higher utilizations (4) Expect 150-200 bps margin improvement over next 18-24 months aided by initiatives taken such as cost rationalization and pricing efficiencies. Company have already implemented in Bangalore cluster (5) Maharashtra cluster saw only 10% YoY growth given COVID base in centers like Nashik (6) Normalized annual tax rate would be at 25%. (7) HCG pioneering advanced medical technology to cancer patients; expected to boost the revenue growth.

Exhibit 1: Q1FY23 Result Overview (Rs mn) –EBITDA beat aided by higher occupancy and ARPOB

Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Net Sales	4,081	3,231	26.3	3,646	11.9
COGS	978	831	17.6	910	7.4
<i>% of Net Sales</i>	<i>24.0</i>	<i>25.7</i>		<i>25.0</i>	
Employee Cost	687	558	23.1	607	13.3
<i>% of Net Sales</i>	<i>16.8</i>	<i>17.3</i>		<i>16.6</i>	
Other Expenses	1,694	1,330	27.4	1,498	13.1
<i>% of Net Sales</i>	<i>41.5</i>	<i>41.1</i>		<i>41.1</i>	
Total	3,359	2,719	23.5	3,015	11.4
EBITDA	722	512	40.9	632	14.3
<i>Margins (%)</i>	<i>17.7</i>	<i>15.9</i>		<i>17.3</i>	
Other Income	29	34	(15.4)	30	(3.3)
Interest	250	264	(5.3)	241	3.5
Depreciation	397	378	5.0	411	(3.5)
PBT	104	(95)	(209.8)	9	1,032.6
Tax	79	36	120.6	(13)	(697.0)
<i>Tax rate %</i>	<i>76.2</i>	<i>(37.9)</i>		<i>(144.6)</i>	
PAT	25	(131)	(118.9)	23	10.2
Share in (loss)/profit of associate	-	6		-	
Minority Interest	(36)	(30)		(37)	
EO items	-	-		-	
Reported PAT	60	(96)	(163.2)	60	1.0

Source: Company, PL

Exhibit 2: Break up of revenues

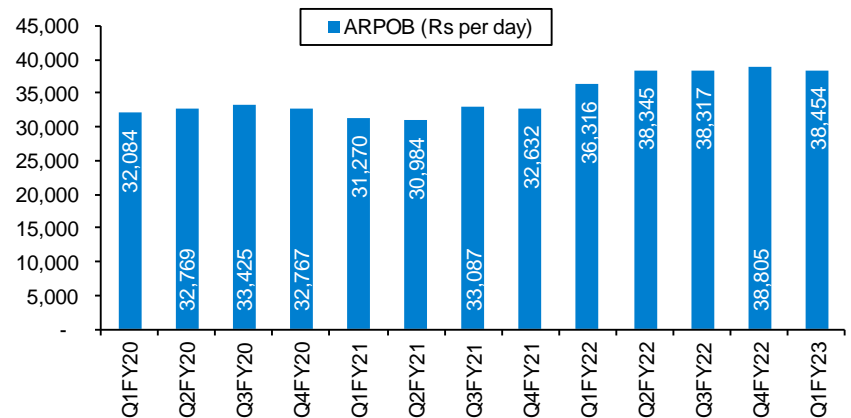
Revenues- Rs. mn	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Existing cancer centers	2,979	2,418	23.2	2,662	11.9
<i>% of Net Sales</i>	<i>73.0</i>	<i>74.8</i>		<i>73.0</i>	
New centers	929	693	34.1	826	12.5
<i>% of Net Sales</i>	<i>22.8</i>	<i>21.4</i>		<i>22.7</i>	
Milan centers	173	121	42.7	158	9.3
<i>% of Net Sales</i>	<i>4.2</i>	<i>3.7</i>		<i>4.3</i>	
Total revenues	4,081	3,232	26.3	3,646	11.9

Source: Company, PL

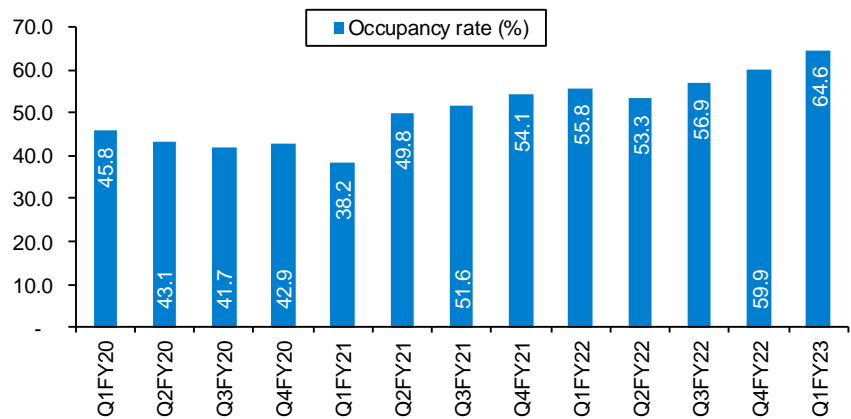
Exhibit 3: Break up of EBITDA

EBITDA- Rs mn	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Existing centers	750	606	23.8	676	10.9
New centers	100	8	1,152.5	37	170.8

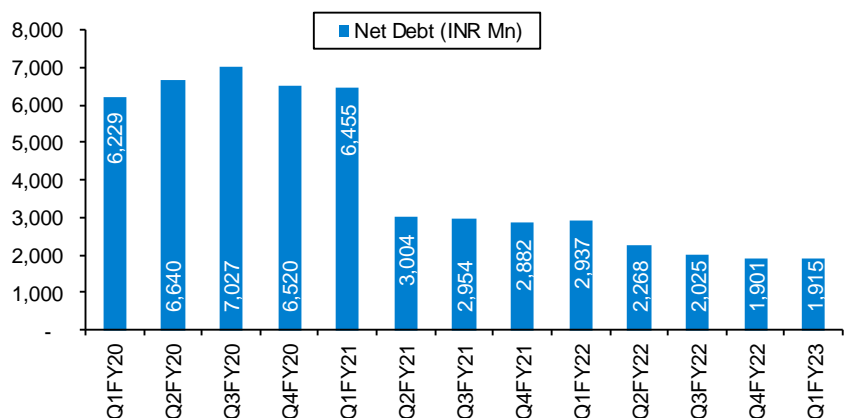
Source: Company, PL * Excluding corporate cost

Exhibit 4: ARPOB improvement on price hike and payor mix


Source: Company, PL

Exhibit 5: Occupancy continue to recover and remain healthy


Source: Company, PL

Exhibit 6: Net debt was flat QoQ


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	10,134	13,978	16,330	17,494
YoY gr. (%)	(7.5)	37.9	16.8	7.1
Cost of Goods Sold	2,403	3,549	3,907	4,187
Gross Profit	7,731	10,429	12,423	13,308
Margin (%)	76.3	74.6	76.1	76.1
Employee Cost	1,959	2,337	2,617	2,879
Other Expenses	4,506	5,713	6,838	6,963
EBITDA	1,266	2,380	2,968	3,466
YoY gr. (%)	(26.5)	88.0	24.7	16.8
Margin (%)	12.5	17.0	18.2	19.8
Depreciation and Amortization	1,592	1,583	1,694	1,812
EBIT	(326)	797	1,274	1,654
Margin (%)	(3.2)	5.7	7.8	9.5
Net Interest	1,192	978	800	650
Other Income	170	127	150	200
Profit Before Tax	(1,349)	(54)	624	1,204
Margin (%)	(13.3)	(0.4)	3.8	6.9
Total Tax	(76)	489	187	301
Effective tax rate (%)	5.6	(904.6)	30.0	25.0
Profit after tax	(1,273)	(543)	437	903
Minority interest	(273)	(134)	(110)	(120)
Share Profit from Associate	-	-	-	-
Adjusted PAT	(1,935)	537	547	1,023
YoY gr. (%)	81.4	(127.8)	1.8	87.0
Margin (%)	(19.1)	3.8	3.4	5.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(1,935)	537	547	1,023
YoY gr. (%)	81.4	(127.8)	1.8	87.0
Margin (%)	(19.1)	3.8	3.4	5.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1,935)	537	547	1,023
Equity Shares O/s (m)	125	139	139	139
EPS (Rs)	(8.0)	(2.9)	3.9	7.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	18,417	20,623	21,623	23,023
Tangibles	18,417	20,623	21,623	23,023
Intangibles	-	-	-	-
Acc: Dep / Amortization	5,352	6,934	8,628	10,440
Tangibles	5,352	6,934	8,628	10,440
Intangibles	-	-	-	-
Net fixed assets	13,066	13,689	12,995	12,583
Tangibles	13,066	13,689	12,995	12,583
Intangibles	-	-	-	-
Capital Work In Progress	300	217	217	217
Goodwill	963	1,813	1,813	1,813
Non-Current Investments	57	58	58	58
Net Deferred tax assets	300	47	47	47
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	211	300	357	382
Trade receivables	1,866	2,175	2,765	2,963
Cash & Bank Balance	409	1,975	2,294	3,138
Other Current Assets	3,141	1,910	2,453	2,868
Total Assets	20,356	22,195	23,012	24,081
Equity				
Equity Share Capital	1,254	1,390	1,390	1,390
Other Equity	5,718	7,313	7,860	8,883
Total Network	6,972	8,703	9,250	10,273
Non-Current Liabilities				
Long Term borrowings	4,132	4,076	4,076	4,076
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,455	1,940	2,319	2,485
Other current liabilities	7,586	7,330	7,330	7,330
Total Equity & Liabilities	20,356	22,195	23,012	24,081

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	(1,273)	(543)	437	903
Add. Depreciation	1,592	1,583	1,694	1,812
Add. Interest	1,192	978	800	650
Less Financial Other Income	170	127	150	200
Add. Other	-	-	-	-
Op. profit before WC changes	1,511	2,018	2,931	3,365
Net Changes-WC	(507)	(105)	(812)	(472)
Direct tax	-	-	-	-
Net cash from Op. activities	1,004	1,913	2,119	2,894
Capital expenditures	(354)	(712)	(1,000)	(1,400)
Interest / Dividend Income	-	-	-	-
Others	(1,315)	398	-	-
Net Cash from Invt. activities	(1,670)	(315)	(1,000)	(1,400)
Issue of share cap. / premium	5,194	1,322	-	-
Debt changes	(2,428)	(3,126)	-	-
Dividend paid	-	-	-	-
Interest paid	(1,192)	(978)	(800)	(650)
Others	(1,022)	2,462	-	-
Net cash from Fin. activities	553	(320)	(800)	(650)
Net change in cash	(113)	1,278	319	844
Free Cash Flow	650	1,201	1,119	1,494

Source: Company Data, PL Research

Key Financial Metrics

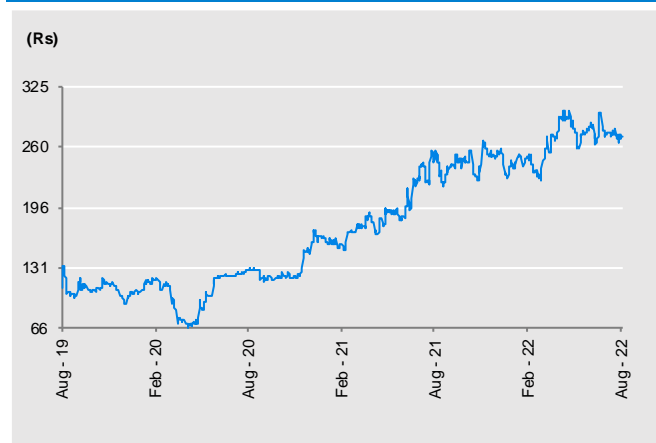
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	(8.0)	(2.9)	3.9	7.4
CEPS	(2.7)	15.3	16.1	20.4
BVPS	55.6	62.6	66.5	73.9
FCF	5.2	8.6	8.1	10.7
DPS	-	-	-	-
Return Ratio(%)				
RoCE	(2.3)	6.7	9.8	12.0
ROIC	(1.6)	3.9	6.2	7.9
RoE	(18.5)	(5.2)	6.1	10.5
Balance Sheet				
Net Debt : Equity (x)	0.5	0.2	0.2	0.1
Net Working Capital (Days)	22	14	18	18
Valuation(x)				
PER	(35.6)	(96.6)	72.2	38.6
P/B	5.1	4.5	4.3	3.8
P/CEPS	(104.1)	18.6	17.6	13.9
EV/EBITDA	31.1	17.5	13.9	11.7
EV/Sales	3.9	3.0	2.5	2.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	3,520	3,581	3,646	4,081
YoY gr. (%)	42.0	30.7	22.3	26.3
Raw Material Expenses	912	895	910	978
Gross Profit	2,608	2,685	2,736	3,103
Margin (%)	74.1	75.0	75.0	76.0
EBITDA	617	619	632	722
YoY gr. (%)	105.7	63.7	60.4	40.9
Margin (%)	17.5	17.3	17.3	17.7
Depreciation / Depletion	380	414	411	397
EBIT	237	205	221	325
Margin (%)	6.7	5.7	6.0	8.0
Net Interest	232	240	241	250
Other Income	33	29	30	29
Profit before Tax	38	(6)	9	104
Margin (%)	1.1	(0.2)	0.3	2.6
Total Tax	429	37	(13)	79
Effective tax rate (%)	1,132.5	(590.3)	(144.6)	76.2
Profit after Tax	(391)	(43)	23	25
Minority interest	(41)	(40)	(37)	(36)
Share Profit from Associates	(20)	-	-	-
Adjusted PAT	1,031	(458)	60	60
YoY gr. (%)	(562.5)	57.5	(105.9)	(163.2)
Margin (%)	29.3	(12.8)	1.6	1.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,031	(458)	60	60
YoY gr. (%)	(562.5)	57.5	(105.9)	(163.2)
Margin (%)	29.3	(12.8)	1.6	1.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,031	(458)	60	60
Avg. Shares O/s (m)	125	139	139	139
EPS (Rs)	11.7	(3.3)	0.4	0.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	347	274
2	30-May-22	BUY	347	276
3	08-Apr-22	BUY	316	292
4	03-Mar-22	BUY	316	238

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	269
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	347	274
11	Indoco Remedies	BUY	430	396
12	Ipca Laboratories	BUY	1,085	946
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,600	1,220
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	370
17	Narayana Hrudayalaya	BUY	773	639
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	425	364

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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