

November 14, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	375		358	
Sales (Rs. m)	18,913	20,939	17,494	18,954
% Chng.	8.1	10.5		
EBITDA (Rs. m)	3,634	4,162	3,466	3,990
% Chng.	4.8	4.3		
EPS (Rs.)	6.8	9.8	7.4	9.8
% Chng.	(7.4)	0.6		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	13,978	17,240	18,913	20,939
EBITDA (Rs. m)	2,380	3,088	3,634	4,162
Margin (%)	17.0	17.9	19.2	19.9
PAT (Rs. m)	537	416	947	1,366
EPS (Rs.)	(2.9)	3.0	6.8	9.8
Gr. (%)	(63.1)	(201.8)	127.6	44.3
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(5.2)	4.7	9.9	12.7
RoCE (%)	6.7	10.9	13.7	15.6
EV/Sales (x)	3.1	2.5	2.2	2.0
EV/EBITDA (x)	18.1	13.9	11.7	10.0
PE (x)	(100.2)	98.4	43.2	30.0
P/BV (x)	4.7	4.5	4.1	3.6

Key Data

HEAC.BO | HCG IN

52-W High / Low	Rs.313 / Rs.215
Sensex / Nifty	61,624 / 18,329
Market Cap	Rs.41bn/ \$ 504m
Shares Outstanding	139m
3M Avg. Daily Value	Rs.49.39m

Shareholding Pattern (%)

Promoter's	71.39
Foreign	-
Domestic Institution	10.70
Public & Others	17.91
Promoter Pledge (Rs bn)	0.90

Stock Performance (%)

	1M	6M	12M
Absolute	(1.1)	12.9	13.9
Relative	(7.0)	(3.3)	12.1

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Healthy margin outlook

Quick Pointers:

- Guided for 300-400 bps margin improvement
- Higher occupancy from new units aided profitability in Q2FY23.

HCG's consolidated post IND AS EBITDA grew healthy 21% YoY (4% QoQ) to Rs 747mn, in line with our estimates (Rs754mn). Adjusted for one time consulting (Rs50mn) and ESOP related charges (Rs12.9mn); was up by 28% YoY. Existing centers reported strong profitability with EBITDA growth of 30% YoY (4% QoQ) to Rs777mn, while new centers reported EBITDA at Rs 95mn (Rs 195mn in H1FY23). Margins improved by 10bps QoQ (25bps YoY) to 17.8% on cost rationalization initiatives. Margins adjusted for one off were at 19.3%.

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. Our FY23E and FY24E EBITDA stands increase by ~4-5%. We expect a 27% EBITDA CAGR over FY22-25E after adjusting for IND AS. At CMP, the stock trades at 15x FY24E EV/EBITDA adjusted for rentals. We maintain 'Buy' rating with revised TP of Rs375 (Rs358 earlier) valuing at 18x FY24E EV/EBITDA.

- **In-line EBITDA aided by higher occupancy:** Revenue grew by 19% YoY to Rs 4.2bn, in line with our estimate. Existing centers grew by 19% YoY while new centers continue to see healthy ramp up with revenue growth of 26% YoY. Milann centers reported revenue de-growth of 5% YoY. ARPOB improved 1% YoY; declined 4% QoQ to Rs 36.9K per day. Overall occupancy was healthy and recovered to 66.4% (64.6% in Q1). Net debt increased marginally by Rs198mn QoQ to Rs2.1bn.
- **Key con-call takeaways:** (1) Currently the company is actively pursuing few inorganic acquisitions as a part of growth strategy. Brownfield expansion in Ahmedabad, Mysore and Bangalore is on track. Expected capex for Ahmedabad and Bangalore units at Rs. 850mn (incurred Rs. 70mn) and Rs. 250mn (incurred Rs. 10mn); would be commissioned by Q1FY25 and Q4FY24; respectively. (2) Consulting cost of Rs. 50mn pertains to productivity and efficiency across the system including digital platform which would not be there from FY24 onwards. (3) Growth momentum in Kolkata (40% YoY) and Mumbai units (30% YoY) to continue along with healthy ARPOB (4) No margin impact of rising currency rates due to no dollar exposure and already signed agreements with suppliers for medical equipment. (5) Mgmt guided 100-150 bps margin improvement aided by cost optimization and pricing strategies in near term. Guided 300-400 bps margin improvement in medium term (6) Revenues coming from consultation and diagnostic oncology (20%), Medical oncology (35%), Radiation oncology (20%) and Surgical Oncology contributes 25% to overall topline.

Exhibit 1: Q2FY23 Result Overview (Rs mn) –In- line EBITDA aided by higher occupancy

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Net Sales	4,200	3,520	19.3	4,081	2.9
COGS	1,024	912	12.2	978	4.7
<i>% of Net Sales</i>	<i>24.4</i>	<i>25.9</i>		<i>24.0</i>	
Employee Cost	683	561	21.8	687	(0.6)
<i>% of Net Sales</i>	<i>16.3</i>	<i>15.9</i>		<i>16.8</i>	
Other Expenses	1,746	1,429	22.2	1,694	3.1
<i>% of Net Sales</i>	<i>41.6</i>	<i>40.6</i>		<i>41.5</i>	
Total	3,453	2,902	19.0	3,359	2.8
EBITDA	747	617	21.0	722	3.5
<i>Margins (%)</i>	<i>17.8</i>	<i>17.5</i>		<i>17.7</i>	
Other Income	20	33	(40.3)	29	(32.3)
Interest	258	232	11.1	250	3.3
Depreciation	408	380	7.4	397	2.9
PBT	100	38	164.4	104	(3.8)
Tax	47	429	(89.0)	79	(40.4)
<i>Tax rate %</i>	<i>47.2</i>	<i>1,132.5</i>		<i>76.2</i>	
PAT	53	(391)	(113.5)	25	113.3
Share in (loss)/profit of associate	-	(20)		-	
Minority Interest	(21)	(41)		(36)	
EO items	-	1,401		-	
Reported PAT	74	1,031	(92.8)	60	22.0

Source: Company, PL

Exhibit 2: Break up of revenues (Rs m)

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Existing cancer centers	3,090	2,596	19.0	2,979	3.7
<i>% of Net Sales</i>	<i>73.6</i>	<i>73.7</i>		<i>73.0</i>	
New centers	945	750	26.0	929	1.7
<i>% of Net Sales</i>	<i>22.5</i>	<i>21.3</i>		<i>22.8</i>	
Milan centers	166	174	(4.9)	173	(4.2)
<i>% of Net Sales</i>	<i>3.9</i>	<i>4.9</i>		<i>4.2</i>	
Total revenues	4,201	3,520	19.3	4,081	2.9

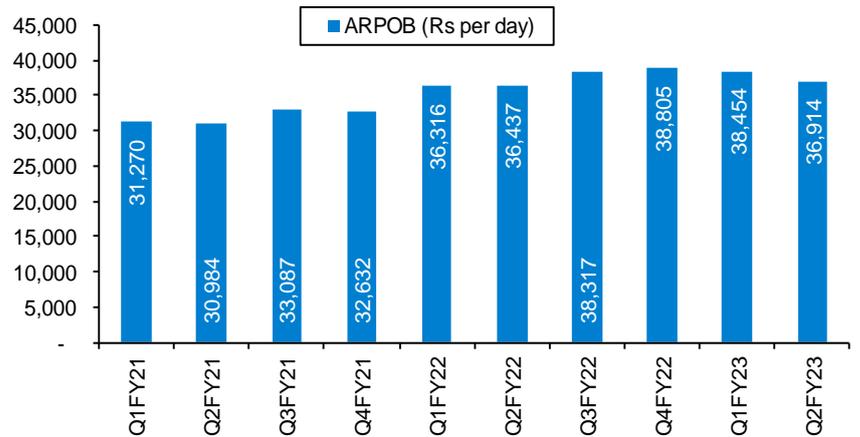
Source: Company, PL

Exhibit 3: Break up of EBITDA (Rs mn)

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)
Existing centers	777	645	20.5	750	3.6
New centers	95	33	187.9	100	(5.2)

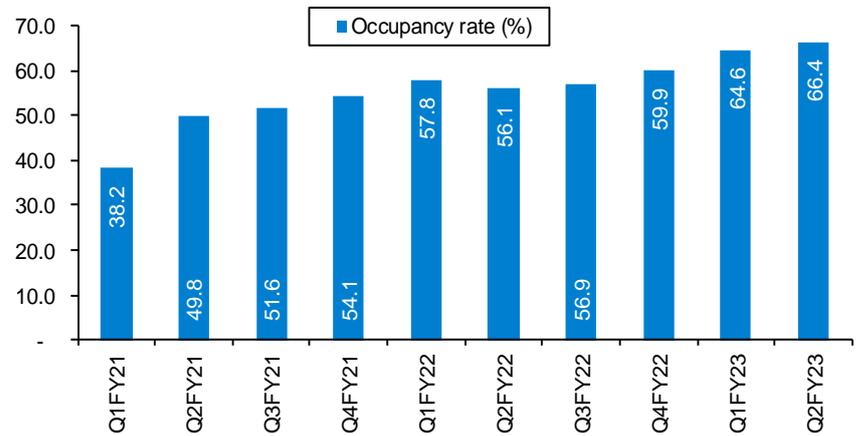
Source: Company, PL * Excluding corporate cost

Exhibit 4: ARPOB declined QoQ on seasonality



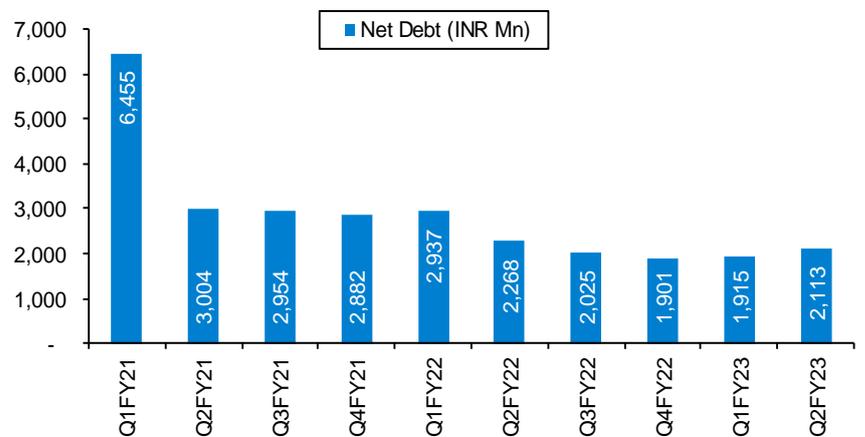
Source: Company, PL

Exhibit 5: Higher occupancy led by ramp up in new units



Source: Company, PL

Exhibit 6: Net debt increased marginally QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	13,978	17,240	18,913	20,939
YoY gr. (%)	37.9	23.3	9.7	10.7
Cost of Goods Sold	3,549	4,160	4,584	5,076
Gross Profit	10,429	13,080	14,329	15,863
Margin (%)	74.6	75.9	75.8	75.8
Employee Cost	2,337	2,804	3,084	3,393
Other Expenses	5,713	7,188	7,611	8,309
EBITDA	2,380	3,088	3,634	4,162
YoY gr. (%)	88.0	29.8	17.7	14.5
Margin (%)	17.0	17.9	19.2	19.9
Depreciation and Amortization	1,583	1,678	1,762	1,850
EBIT	797	1,410	1,873	2,312
Margin (%)	5.7	8.2	9.9	11.0
Net Interest	978	1,000	900	800
Other Income	127	100	130	150
Profit Before Tax	(54)	510	1,103	1,662
Margin (%)	(0.4)	3.0	5.8	7.9
Total Tax	489	204	276	415
Effective tax rate (%)	(904.6)	40.0	25.0	25.0
Profit after tax	(543)	306	827	1,246
Minority interest	(134)	(110)	(120)	(120)
Share Profit from Associate	-	-	-	-
Adjusted PAT	537	416	947	1,366
YoY gr. (%)	(127.8)	(22.6)	127.6	44.3
Margin (%)	3.8	2.4	5.0	6.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	537	416	947	1,366
YoY gr. (%)	(127.8)	(22.6)	127.6	44.3
Margin (%)	3.8	2.4	5.0	6.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	537	416	947	1,366
Equity Shares O/s (m)	139	139	139	139
EPS (Rs)	(2.9)	3.0	6.8	9.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	20,623	21,623	23,023	25,023
Tangibles	20,623	21,623	23,023	25,023
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,934	8,612	10,374	12,223
Tangibles	6,934	8,612	10,374	12,223
Intangibles	-	-	-	-
Net fixed assets	13,689	13,011	12,649	12,800
Tangibles	13,689	13,011	12,649	12,800
Intangibles	-	-	-	-
Capital Work In Progress	217	217	217	217
Goodwill	1,813	1,813	1,813	1,813
Non-Current Investments	58	58	58	58
Net Deferred tax assets	47	47	47	47
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	300	377	413	458
Trade receivables	2,175	2,920	3,204	3,548
Cash & Bank Balance	1,975	1,965	2,561	3,224
Other Current Assets	1,910	2,590	3,101	3,434
Total Assets	22,195	23,011	24,076	25,611
Equity				
Equity Share Capital	1,390	1,390	1,390	1,390
Other Equity	7,313	7,729	8,676	10,042
Total Networkth	8,703	9,119	10,066	11,432
Non-Current Liabilities				
Long Term borrowings	4,076	4,076	4,076	4,076
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,940	2,449	2,687	2,976
Other current liabilities	7,330	7,330	7,330	7,330
Total Equity & Liabilities	22,195	23,011	24,076	25,611

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(543)	306	827	1,246
Add. Depreciation	1,583	1,678	1,762	1,850
Add. Interest	978	1,000	900	800
Less Financial Other Income	127	100	130	150
Add. Other	-	-	-	-
Op. profit before WC changes	2,018	2,984	3,489	3,896
Net Changes-WC	(105)	(994)	(593)	(433)
Direct tax	-	-	-	-
Net cash from Op. activities	1,913	1,990	2,896	3,463
Capital expenditures	(712)	(1,000)	(1,400)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	398	-	-	-
Net Cash from Invt. activities	(315)	(1,000)	(1,400)	(2,000)
Issue of share cap. / premium	1,322	-	-	-
Debt changes	(3,126)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(978)	(1,000)	(900)	(800)
Others	2,462	-	-	-
Net cash from Fin. activities	(320)	(1,000)	(900)	(800)
Net change in cash	1,278	(10)	596	663
Free Cash Flow	1,201	990	1,496	1,463

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	3,581	3,646	4,081	4,200
YoY gr. (%)	30.7	22.3	26.3	19.3
Raw Material Expenses	895	910	978	1,024
Gross Profit	2,685	2,736	3,103	3,176
Margin (%)	75.0	75.0	76.0	75.6
EBITDA	619	632	722	747
YoY gr. (%)	63.7	60.4	40.9	21.0
Margin (%)	17.3	17.3	17.7	17.8
Depreciation / Depletion	414	411	397	408
EBIT	205	221	325	339
Margin (%)	5.7	6.0	8.0	8.1
Net Interest	240	241	250	258
Other Income	29	30	29	20
Profit before Tax	(6)	9	104	100
Margin (%)	(0.2)	0.3	2.6	2.4
Total Tax	37	(13)	79	47
Effective tax rate (%)	(590.3)	(144.6)	76.2	47.2
Profit after Tax	(43)	23	25	53
Minority interest	(40)	(37)	(36)	(21)
Share Profit from Associates	-	-	-	-
Adjusted PAT	(458)	60	60	74
YoY gr. (%)	57.5	(105.9)	(163.2)	(92.8)
Margin (%)	(12.8)	1.6	1.5	1.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(458)	60	60	74
YoY gr. (%)	57.5	(105.9)	(163.2)	(92.8)
Margin (%)	(12.8)	1.6	1.5	1.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(458)	60	60	74
Avg. Shares O/s (m)	139	139	139	139
EPS (Rs)	(3.3)	0.4	0.4	0.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	(2.9)	3.0	6.8	9.8
CEPS	15.3	15.1	19.5	23.1
BVPS	62.6	65.6	72.4	82.2
FCF	8.6	7.1	10.8	10.5
DPS	-	-	-	-
Return Ratio(%)				
RoCE	6.7	10.9	13.7	15.6
ROIC	3.9	6.7	8.7	10.3
RoE	(5.2)	4.7	9.9	12.7
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.2	0.1
Net Working Capital (Days)	14	18	18	18
Valuation(x)				
PER	(100.2)	98.4	43.2	30.0
P/B	4.7	4.5	4.1	3.6
P/CEPS	19.3	19.6	15.1	12.7
EV/EBITDA	18.1	13.9	11.7	10.0
EV/Sales	3.1	2.5	2.2	2.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	358	291
2	11-Aug-22	BUY	358	284
3	07-Jul-22	BUY	347	274
4	30-May-22	BUY	347	276
5	08-Apr-22	BUY	316	292
6	03-Mar-22	BUY	316	238

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,421
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	348
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,660	1,448
15	Lupin	Hold	650	719
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	900	740
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	Accumulate	465	429

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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