

February 11, 2023

## Q3FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	375		375	
Sales (Rs. m)	19,111	20,939	18,913	20,939
% Chng.	1.0	-		
EBITDA (Rs. m)	3,630	4,156	3,634	4,162
% Chng.	(0.1)	(0.1)		
EPS (Rs.)	6.9	9.9	6.8	9.8
% Chng.	0.9	0.7		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	13,978	17,117	19,111	20,939
EBITDA (Rs. m)	2,380	3,059	3,630	4,156
Margin (%)	17.0	17.9	19.0	19.8
PAT (Rs. m)	537	364	956	1,376
EPS (Rs.)	(2.9)	2.6	6.9	9.9
Gr. (%)	(63.1)	(189.0)	162.8	43.9
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(5.2)	4.1	10.0	12.8
RoCE (%)	6.7	10.8	13.8	15.7
EV/Sales (x)	3.0	2.4	2.1	1.9
EV/EBITDA (x)	17.4	13.5	11.3	9.7
PE (x)	(96.0)	107.9	41.1	28.5
P/BV (x)	4.5	4.3	3.9	3.4

### Key Data

HEAC.BO | HCG IN

52-W High / Low	Rs.320 / Rs.215
Sensex / Nifty	60,683 / 17,857
Market Cap	Rs.39bn / \$ 476m
Shares Outstanding	139m
3M Avg. Daily Value	Rs.42.45m

### Shareholding Pattern (%)

Promoter's	71.38
Foreign	7.17
Domestic Institution	3.41
Public & Others	18.04
Promoter Pledge (Rs bn)	0.86

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.0)	(0.7)	13.1
Relative	(1.9)	(3.7)	9.8

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## Margins in new centers to improve

### Quick Pointers:

- Scale up in margins and occupancy to drive new unit's profitability.
- Price revision due in FY24 to aid ARPOB growth.

**We broadly maintain our FY24/FY25E EBIDTA estimates. HealthCare Global Enterprises (HCG) Q3 consolidated EBIDTA was in-line with our estimates at Rs 755mn (22% YoY growth, flat QoQ). The company's asset light approach with focus on partnering has made its business model more capital efficient and scalable, in our view. Furthermore, most of the Comprehensive Cancer Centers (CCC) operate on lease/rental basis with investment only in equipments, wherein only 4 out of 25 CCC are owned lands. Given HCG's current consolidation mode along with reducing capex intensity, we expect 17% EBIDTA CAGR over FY23-25E after adjusting for IND AS. At CMP, the stock trades at 13.9x FY24E EV/EBITDA adjusted for rentals. Maintain 'Buy' rating with TP of Rs375 valuing at 15x FY25E EV/EBITDA.**

- In-line EBIDTA at 28% YoY:** Adjusted for one time consulting (Rs 39mn) and ESOP related charges (Rs17.8mn); EBIDTA was up by 28% YoY. Existing centers reported strong profitability with EBIDTA growth of 38% YoY (flat QoQ) to Rs 779mn, while new centers reported EBIDTA was at Rs 78mn (Rs 273mn in 9MFY23). Margins improved by 50bps YoY (flat QoQ) to 17.8% on cost rationalization initiatives. Margins adjusted for one off improved 135 bps YoY (down 15 bps QoQ) to 19.1%.
- Ramp-up in new units drove revenue growth by 19% YoY to Rs 4.25bn**, in line with our estimate. Existing centers grew by 17% YoY while new centers continue to see healthy ramp-up with revenue growth of 30% YoY. Milann centers reported revenue de-growth of 1% YoY. ARPOB declined 5% YoY; flat QoQ to Rs 37K per day, as revenues were higher from new centers. Overall occupancy declined to 65.7% (66.4% in Q2). Net debt was flat QoQ to Rs2.1bn.
- Key con-call takeaways:** (1) Revenue split between HCG and Milann stood at 96% and 4%, respectively. (2) Brownfield expansion plans at Ahmedabad (phase II) and Bangalore (Whitefield) progressing well with a total planned capex of Rs. 850mn and Rs. 250mn; expected to commercialize by Q1FY25 and Q4FY24 respectively. (3) HCG has operationalized additional 36 beds in Jaipur (4) Mgmt guided for next price revision to drive ARPOB growth in FY24; typically implemented after every 2 years. (5) Fertility business was flat QoQ, due to seasonality and certain regulatory changes in the industry. Guided for improvement Q1FY24 onwards. (6) Consultancy charges to end, as project will be completed in Q4FY23; could see margins improvement from Q1FY24. (7) Emerging centers to inch up to matured centers buckets as 80% of centers are reaching towards 75% of occupancy level with growth drivers such as new clinical talent, increased clinical bandwidth and marketing activities. (8) Payor mix - Cash and insurance constitute about 65-70% and balance pertains to government and corporates.

**Exhibit 1: Q3FY23 Result Overview (Rs mn) –In- line EBIDTA**

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
<b>Net Sales</b>	<b>4,247</b>	<b>3,581</b>	<b>18.6</b>	<b>4,200</b>	<b>1.1</b>	<b>12,527</b>	<b>10,332</b>	<b>21.3</b>
COGS	1,075	895	20.1	1,024	5.0	3,077	2,639	16.6
<i>% of Net Sales</i>	<i>25.3</i>	<i>25.0</i>		<i>24.4</i>		<i>24.6</i>	<i>25.5</i>	
Employee Cost	692	611	13.4	683	1.3	2,063	1,730	19.2
<i>% of Net Sales</i>	<i>16.3</i>	<i>17.1</i>		<i>16.3</i>		<i>16.5</i>	<i>16.7</i>	
Other Expenses	1,724	1,456	18.4	1,746	(1.2)	5,164	4,215	22.5
<i>% of Net Sales</i>	<i>40.6</i>	<i>40.7</i>		<i>41.6</i>		<i>41.2</i>	<i>40.8</i>	
<b>Total</b>	<b>3,492</b>	<b>2,962</b>	<b>17.9</b>	<b>3,453</b>	<b>1.1</b>	<b>10,304</b>	<b>8,583</b>	<b>20.0</b>
<b>EBITDA</b>	<b>755</b>	<b>619</b>	<b>22.1</b>	<b>747</b>	<b>1.1</b>	<b>2,224</b>	<b>1,748</b>	<b>27.2</b>
<i>Margins (%)</i>	<i>17.8</i>	<i>17.3</i>		<i>17.8</i>		<i>17.8</i>	<i>16.9</i>	
Other Income	37	29	25.0	20	85.3	85	97	(11.7)
Interest	271	240	12.7	258	4.9	779	736	5.8
Depreciation	408	414	(1.5)	408	(0.1)	1,213	1,172	3.5
<b>PBT</b>	<b>113</b>	<b>(6)</b>	<b>NA</b>	<b>100</b>	<b>12.9</b>	<b>317</b>	<b>(63)</b>	<b>NA</b>
Tax	71	37	94.0	47	50.1	198	502	(60.6)
<i>Tax rate %</i>	<i>62.8</i>	<i>(590.3)</i>		<i>47.2</i>		<i>62.3</i>	<i>NA</i>	
<b>PAT</b>	<b>42</b>	<b>(43)</b>	<b>NA</b>	<b>53</b>	<b>(20.4)</b>	<b>120</b>	<b>(565)</b>	<b>NA</b>
Share in (loss)/profit of associate	-	(0)		-		-	(14)	
Minority Interest	(33)	(40)		(21)		(90)	(111)	
EO items	-	(455)		-		-	946	
<b>Reported PAT</b>	<b>76</b>	<b>(458)</b>	<b>NA</b>	<b>74</b>	<b>2.3</b>	<b>210</b>	<b>477</b>	<b>(56.1)</b>

Source: Company, PL

**Exhibit 2: Break up of revenues (Rs m)- Strong ramp up in new centers**

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Existing cancer centers	3,065	2,629	16.6	3,090	(0.8)	9,134	7,642	19.5
<i>% of Net Sales</i>	<i>75.1</i>	<i>73.4</i>		<i>73.6</i>		<i>73.9</i>	<i>74.0</i>	
New centers	1,015	784	29.5	945	7.4	2,889	2,227	29.7
<i>% of Net Sales</i>	<i>24.9</i>	<i>21.9</i>		<i>22.5</i>		<i>23.4</i>	<i>21.6</i>	
Milan centers	167	168	(0.6)	166	(100.0)	338	463	(27.0)
<i>% of Net Sales</i>	<i>0.0</i>	<i>4.7</i>		<i>3.9</i>		<i>2.7</i>	<i>4.5</i>	
<b>Total revenues</b>	<b>4,080</b>	<b>3,581</b>	<b>13.9</b>	<b>4,201</b>	<b>(2.9)</b>	<b>12,361</b>	<b>10,332</b>	<b>19.6</b>

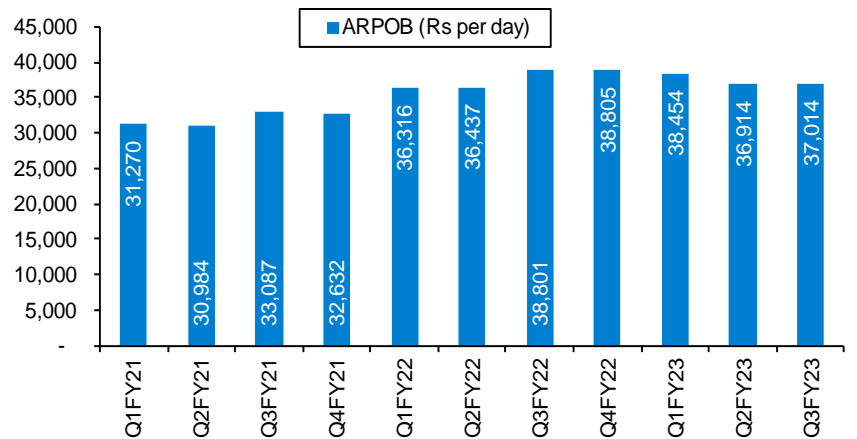
Source: Company, PL

**Exhibit 3: Break up of EBIDTA (Rs mn)- Margins for new centers decline QoQ**

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Existing centers	779	554	40.6	777	0.3	2,306	1,805	27.8
New centers	78	76	2.6	95	(17.9)	273	117	133.5

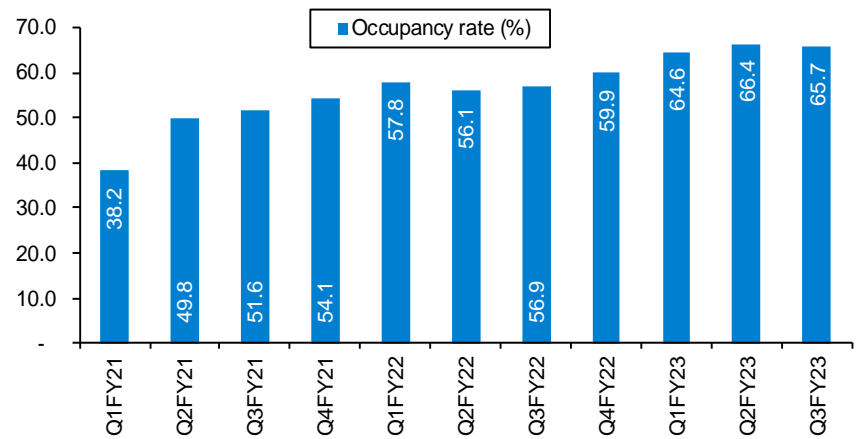
Source: Company, PL \* Excluding corporate cost

**Exhibit 4: ARPOB declined YoY due to higher revenues from new centers**



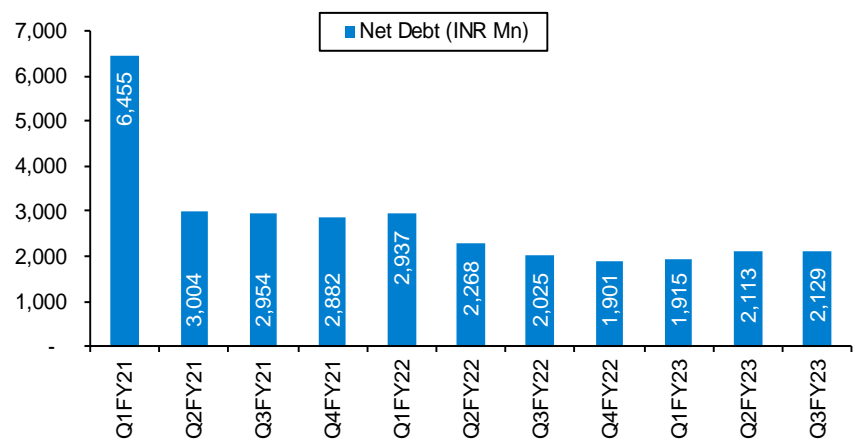
Source: Company, PL

**Exhibit 5: Occupancy declined QoQ due to seasonality**



Source: Company, PL

**Exhibit 6: Net debt was flat QoQ**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>13,978</b>	<b>17,117</b>	<b>19,111</b>	<b>20,939</b>
YoY gr. (%)	37.9	22.5	11.6	9.6
Cost of Goods Sold	3,549	4,142	4,632	5,076
Gross Profit	10,429	12,975	14,479	15,863
Margin (%)	74.6	75.8	75.8	75.8
Employee Cost	2,337	2,804	3,084	3,393
Other Expenses	5,713	7,112	7,766	8,314
<b>EBITDA</b>	<b>2,380</b>	<b>3,059</b>	<b>3,630</b>	<b>4,156</b>
YoY gr. (%)	88.0	28.6	18.6	14.5
Margin (%)	17.0	17.9	19.0	19.8
Depreciation and Amortization	1,583	1,662	1,745	1,832
<b>EBIT</b>	<b>797</b>	<b>1,397</b>	<b>1,885</b>	<b>2,324</b>
Margin (%)	5.7	8.2	9.9	11.1
Net Interest	978	1,020	900	800
Other Income	127	110	130	150
<b>Profit Before Tax</b>	<b>(54)</b>	<b>487</b>	<b>1,115</b>	<b>1,674</b>
Margin (%)	(0.4)	2.8	5.8	8.0
Total Tax	489	244	279	419
Effective tax rate (%)	(904.6)	50.0	25.0	25.0
<b>Profit after tax</b>	<b>(543)</b>	<b>244</b>	<b>836</b>	<b>1,256</b>
Minority interest	(134)	(120)	(120)	(120)
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>537</b>	<b>364</b>	<b>956</b>	<b>1,376</b>
YoY gr. (%)	(127.8)	(32.3)	162.8	43.9
Margin (%)	3.8	2.1	5.0	6.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>537</b>	<b>364</b>	<b>956</b>	<b>1,376</b>
YoY gr. (%)	(127.8)	(32.3)	162.8	43.9
Margin (%)	3.8	2.1	5.0	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	537	364	956	1,376
<b>Equity Shares O/s (m)</b>	<b>139</b>	<b>139</b>	<b>139</b>	<b>139</b>
<b>EPS (Rs)</b>	<b>(2.9)</b>	<b>2.6</b>	<b>6.9</b>	<b>9.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>20,623</b>	<b>21,623</b>	<b>23,023</b>	<b>25,023</b>
Tangibles	20,623	21,623	23,023	25,023
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>6,934</b>	<b>8,596</b>	<b>10,341</b>	<b>12,174</b>
Tangibles	6,934	8,596	10,341	12,174
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>13,689</b>	<b>13,027</b>	<b>12,682</b>	<b>12,850</b>
Tangibles	13,689	13,027	12,682	12,850
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	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	300	375	418	458
Trade receivables	2,175	2,908	3,238	3,548
Cash & Bank Balance	1,975	1,902	2,433	3,130
Other Current Assets	1,910	2,579	3,133	3,434
<b>Total Assets</b>	<b>22,195</b>	<b>22,938</b>	<b>24,051</b>	<b>25,567</b>
<b>Equity</b>				
Equity Share Capital	1,390	1,390	1,390	1,390
Other Equity	7,313	7,676	8,632	10,008
<b>Total Networkth</b>	<b>8,703</b>	<b>9,067</b>	<b>10,022</b>	<b>11,398</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	4,076	4,076	4,076	4,076
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,940	2,439	2,716	2,976
Other current liabilities	7,330	7,330	7,330	7,330
<b>Total Equity &amp; Liabilities</b>	<b>22,195</b>	<b>22,938</b>	<b>24,051</b>	<b>25,567</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	(543)	244	836	1,256
Add. Depreciation	1,583	1,662	1,745	1,832
Add. Interest	978	1,020	900	800
Less Financial Other Income	127	110	130	150
Add. Other	-	-	-	-
Op. profit before WC changes	2,018	2,926	3,481	3,888
Net Changes-WC	(105)	(979)	(650)	(391)
Direct tax	-	-	-	-
<b>Net cash from Op. activities</b>	<b>1,913</b>	<b>1,947</b>	<b>2,831</b>	<b>3,497</b>
Capital expenditures	(712)	(1,000)	(1,400)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	398	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(315)</b>	<b>(1,000)</b>	<b>(1,400)</b>	<b>(2,000)</b>
Issue of share cap. / premium	1,322	-	-	-
Debt changes	(3,126)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(978)	(1,020)	(900)	(800)
Others	2,462	-	-	-
<b>Net cash from Fin. activities</b>	<b>(320)</b>	<b>(1,020)</b>	<b>(900)</b>	<b>(800)</b>
<b>Net change in cash</b>	<b>1,278</b>	<b>(73)</b>	<b>531</b>	<b>697</b>
Free Cash Flow	1,201	947	1,431	1,497

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	(2.9)	2.6	6.9	9.9
CEPS	15.3	14.6	19.4	23.1
BVPS	62.6	65.2	72.1	82.0
FCF	8.6	6.8	10.3	10.8
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	6.7	10.8	13.8	15.7
ROIC	3.9	6.6	8.7	10.4
RoE	(5.2)	4.1	10.0	12.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.2	0.2	0.1
Net Working Capital (Days)	14	18	18	18
<b>Valuation(x)</b>				
PER	(96.0)	107.9	41.1	28.5
P/B	4.5	4.3	3.9	3.4
P/CEPS	18.5	19.4	14.5	12.2
EV/EBITDA	17.4	13.5	11.3	9.7
EV/Sales	3.0	2.4	2.1	1.9
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

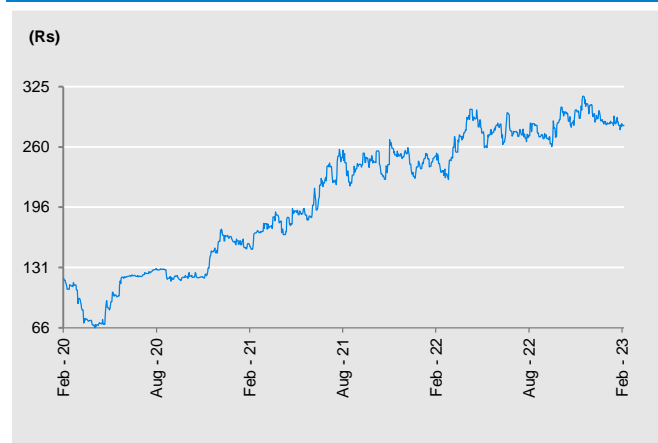
Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>3,646</b>	<b>4,081</b>	<b>4,200</b>	<b>4,247</b>
YoY gr. (%)	22.3	26.3	19.3	18.6
Raw Material Expenses	910	978	1,024	1,075
Gross Profit	2,736	3,103	3,176	3,172
Margin (%)	75.0	76.0	75.6	74.7
<b>EBITDA</b>	<b>632</b>	<b>722</b>	<b>747</b>	<b>755</b>
YoY gr. (%)	60.4	40.9	21.0	22.1
Margin (%)	17.3	17.7	17.8	17.8
Depreciation / Depletion	411	397	408	408
<b>EBIT</b>	<b>221</b>	<b>325</b>	<b>339</b>	<b>347</b>
Margin (%)	6.0	8.0	8.1	8.2
Net Interest	241	250	258	271
Other Income	30	29	20	37
<b>Profit before Tax</b>	<b>9</b>	<b>104</b>	<b>100</b>	<b>113</b>
Margin (%)	0.3	2.6	2.4	2.7
Total Tax	(13)	79	47	71
Effective tax rate (%)	(144.6)	76.2	47.2	62.8
<b>Profit after Tax</b>	<b>23</b>	<b>25</b>	<b>53</b>	<b>42</b>
Minority interest	(37)	(36)	(21)	(33)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>60</b>	<b>60</b>	<b>74</b>	<b>76</b>
YoY gr. (%)	(105.9)	(163.2)	(92.8)	(116.5)
Margin (%)	1.6	1.5	1.8	1.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>60</b>	<b>60</b>	<b>74</b>	<b>76</b>
YoY gr. (%)	(105.9)	(163.2)	(92.8)	(116.5)
Margin (%)	1.6	1.5	1.8	1.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>60</b>	<b>60</b>	<b>74</b>	<b>76</b>
Avg. Shares O/s (m)	139	139	139	140
<b>EPS (Rs)</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	375	285
2	14-Nov-22	BUY	375	295
3	06-Oct-22	BUY	358	291
4	11-Aug-22	BUY	358	284
5	07-Jul-22	BUY	347	274
6	30-May-22	BUY	347	276
7	08-Apr-22	BUY	316	292
8	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	4,387
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	Accumulate	550	444
4	Cipla	BUY	1,280	1,035
5	Divi's Laboratories	Hold	2,700	2,884
6	Dr. Reddy's Laboratories	BUY	4,900	4,201
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	285
9	Glenmark Pharmaceuticals	Accumulate	460	434
10	HealthCare Global Enterprises	BUY	375	285
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Accumulate	950	858
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,965
14	Krishna Institute of Medical Sciences	BUY	1,660	1,505
15	Lupin	Hold	650	742
16	Max Healthcare Institute	BUY	500	436
17	Narayana Hrudayalaya	BUY	920	712
18	Sun Pharmaceutical Industries	BUY	1,175	1,035
19	Torrent Pharmaceuticals	BUY	1,820	1,557
20	Zydus Lifesciences	Accumulate	480	435

## PL's Recommendation Nomenclature (Absolute Performance)

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



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