

May 27, 2023

Q4FY23 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)	18,845	21,125	19,111	20,939
% Chng.	(1.4)	0.9		
EBITDA (Rs. m)	3,643	4,253	3,630	4,156
% Chng.	0.4	2.3		
EPS (Rs.)	7.2	10.6	6.9	9.9
% Chng.	4.0	6.8		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	13,978	16,944	18,845	21,125
EBITDA (Rs. m)	2,380	2,987	3,643	4,253
Margin (%)	17.0	17.6	19.3	20.1
PAT (Rs. m)	537	293	995	1,470
EPS (Rs.)	(2.9)	2.1	7.2	10.6
Gr. (%)	(63.1)	(171.7)	239.1	47.8
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	(5.2)	3.4	10.9	14.2
RoCE (%)	6.7	10.7	14.7	17.1
EV/Sales (x)	3.1	2.5	2.2	2.0
EV/EBITDA (x)	18.0	14.4	11.6	9.8
PE (x)	(99.9)	139.3	41.1	27.8
P/BV (x)	4.7	4.7	4.3	3.7

Key Data

HEAC.BO | HCG IN

52-W High / Low	Rs.320 / Rs.249
Sensex / Nifty	62,502 / 18,499
Market Cap	Rs.41bn/ \$ 495m
Shares Outstanding	139m
3M Avg. Daily Value	Rs.37.03m

Shareholding Pattern (%)

Promoter's	71.37
Foreign	6.37
Domestic Institution	4.27
Public & Others	17.99
Promoter Pledge (Rs bn)	0.96

Stock Performance (%)

	1M	6M	12M
Absolute	10.1	(4.3)	6.6
Relative	6.2	(4.6)	(7.5)

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Scale up in margins is key

Quick Pointers:

- Expect 100-200 bps margins improvement over next 2 years.
- Rs68mn in Q4 and Rs220mn in FY23 - One off expenses related to ESOP and consultancy charges.

HealthCare Global Enterprises (HCG) Q4 consolidated EBIDTA grew by 21% YoY (flat QoQ) to Rs. 763mn. Adjusted for ESOPs and one time consulting fees, EBIDTA was at Rs. 831mn (up by 2% QoQ) and in-line with our estimates. 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 operate on lease/rental basis with investment only in equipments, wherein only 4 out of 25 CCC are owned lands. We expect 25% EBIDTA (PRE IND AS) CAGR over FY23-25E. At CMP, the stock trades at 12x FY25E EV/EBITDA adjusted for rentals. Maintain 'Buy' rating with TP of Rs375 valuing at 15x FY25E EV/EBIDTA.

- In-line adj. EBIDTA at 23% YoY:** Adjusted for one time consulting (Rs 53mn) and ESOP related charges (Rs15mn), EBIDTA was up by 23% YoY. Existing centers reported healthy profitability with EBIDTA growth of 14% YoY (flat QoQ) to Rs 770mn, while new centers reported EBIDTA of Rs 83mn (Rs 371mn in FY23). Margin was flat YoY (down by 50bps QoQ) at 17.3% due to higher sales, marketing expenses and certain expenses related to replacement of radiation machines across 3 mature units. Margins adjusted for one off were largely flat YoY and down 50 bps QoQ.
- Ramp-up in new units drove revenue growth by 21% YoY to Rs 4.4bn**, in line with our estimate. Existing centers grew by 19% YoY while new centers continue to see healthy ramp-up with revenue growth of 32% YoY. Milann centers reported flat YoY revenue growth. ARPOB improved 3% YoY; 8% QoQ to Rs 39.9K per day. Overall occupancy came in at 65.1% (65.7% in Q3). Net debt decreased by Rs149mn QoQ to Rs1.98bn.
- Key con-call takeaways:** (1) Capex was at Rs.1,35bn in FY23; of which Rs.600mn pertains to maintenance capex and guided to remain at same level in FY24. (2) Capex plan for greenfield projects in Ahmedabad – Phase II and Whitefield (Extension of Bangalore - COE) are at Rs. 852mn and 250mn, to be operationalized in Q1FY25 and Q3FY25 respectively. (3) HCG has upgraded or replaced the radiation machines at 3 locations such as Ongole, Ranchi and Shimoga in Q4; expected to be operational in Q1FY24 (4) Going forward, radiation revenue will be margin accretive as the company plans to replace 8-12 radiation machines (out of 31 machines) with capex requirement of \$20-25mn. (6) Witnessed 50-70bps benefit on margins resulted from Rs.140-150mn spent as consulting fees in FY23 and likely to see incremental benefit in coming quarters. (7) Borivali and Jaipur units are generating margins in mid-20%, whereas other emerging centers will take another 18 months to reach into matured centers margin bracket. (8) Digital revenues grew three-fold YoY in FY23; contributes 6% of the total revenues.

Exhibit 1: Q4FY23 Result Overview (Rs mn) –In- line adjusted EBIDTA

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	4,417	3,646	21.1	4,247	4.0	16,944	13,978	21.2
COGS	1,164	910	27.9	1,075	8.3	4,240.7	3,549	19.5
<i>% of Net Sales</i>	<i>26.4</i>	<i>25.0</i>		<i>25.3</i>		<i>25.0</i>	<i>25.4</i>	
Employee Cost	689	607	13.5	692	(0.5)	2,751.2	2,337	17.7
<i>% of Net Sales</i>	<i>15.6</i>	<i>16.6</i>		<i>16.3</i>		<i>19.7</i>	<i>16.7</i>	
Other Expenses	1,801	1,498	20.3	1,724	4.5	6,965.7	5,713	21.9
<i>% of Net Sales</i>	<i>40.8</i>	<i>41.1</i>		<i>40.6</i>		<i>49.8</i>	<i>40.9</i>	
Total	3,654	3,015	21.2	3,492	4.6	13,958	11,598	20.3
EBITDA	763	632	20.9	755	1.1	2,987	2,380	25.5
<i>Margins (%)</i>	<i>17.3</i>	<i>17.3</i>		<i>17.8</i>		<i>17.6</i>	<i>17.0</i>	
Other Income	47	30	54.5	37	27.4	132	127	4.0
Interest	256	241	6.2	271	(5.4)	1,035	978	5.9
Depreciation	422	411	2.7	408	3.5	1,635	1,583	3.3
PBT	131	9	NA	113	16.2	449	(54)	NA
Tax	75	(13)	(662.4)	71	5.4	273	489	(44.2)
<i>Tax rate %</i>	<i>56.9</i>	<i>(144.6)</i>		<i>62.8</i>		<i>60.7</i>	<i>NA</i>	
PAT	57	23	NA	42	34.4	176	(542)	NA
Share in (loss)/profit of associate	-	-		-		-	(14)	
Minority Interest	(27)	(37)		(33)		(117)	(148)	
EO items	-	-		-		-	946	
Reported PAT	84	60	NA	76	11.0	294	537	NA

Source: Company, PL

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

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Existing cancer centers	3,169	2,662	19.0	3,065	3.4	12,303	10,305	19.4
<i>% of Net Sales</i>	<i>71.7</i>	<i>73.0</i>		<i>72.2</i>		<i>72.6</i>	<i>73.7</i>	
New centers	1,090	826	32.0	1,015	7.4	3,979	3,053	30.3
<i>% of Net Sales</i>	<i>24.7</i>	<i>22.7</i>		<i>23.9</i>		<i>23.5</i>	<i>21.8</i>	
Milan centers	158	158	-	167	(5.4)	663	621	6.8
<i>% of Net Sales</i>	<i>3.6</i>	<i>4.3</i>		<i>3.9</i>		<i>3.9</i>	<i>4.4</i>	
Total revenues	4,417	3,646	21.1	4,247	4.0	16,945	13,979	21.2

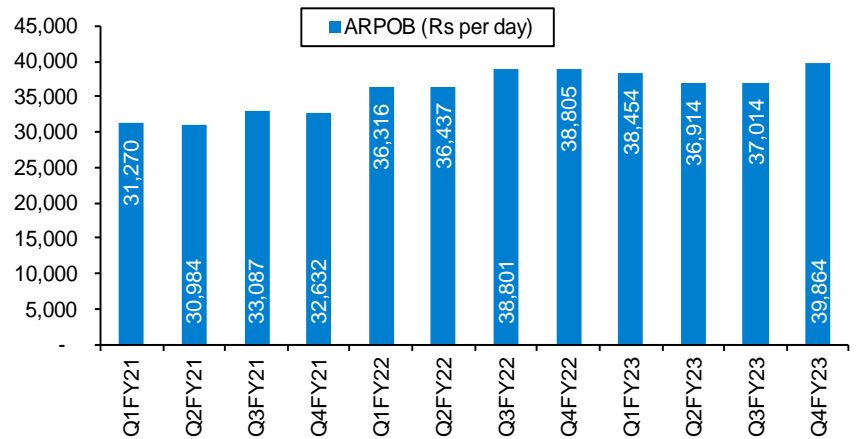
Source: Company, PL

Exhibit 3: Break up of EBIDTA (Rs mn)- Steady EBIDTA across mature and new centres

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Existing centers	770	676	13.9	776	(0.8)	3,053	2,581	18.3
New centers	83	37	124.3	78	6.4	371	154	140.9

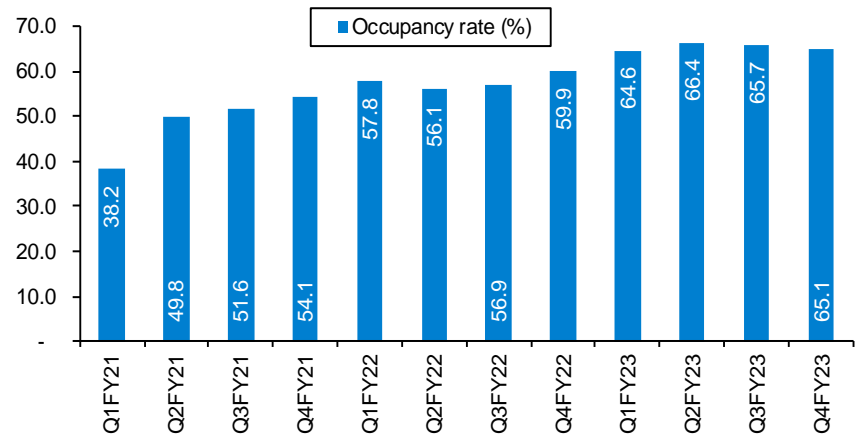
Source: Company, PL * Excluding corporate cost

Exhibit 4: ARPOB improved 8% QoQ to Rs. 39.9k



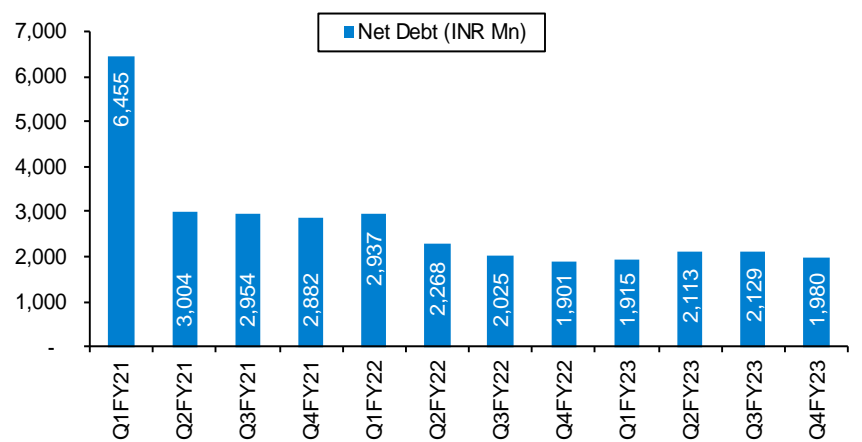
Source: Company, PL

Exhibit 5: Occupancy was flat QoQ at 65%



Source: Company, PL

Exhibit 6: Net debt reduction of Rs.149mn QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	13,978	16,944	18,845	21,125
YoY gr. (%)	37.9	21.2	11.2	12.1
Cost of Goods Sold	3,549	4,241	4,699	5,269
Gross Profit	10,429	12,704	14,147	15,856
Margin (%)	74.6	75.0	75.1	75.1
Employee Cost	2,337	2,751	3,054	3,390
Other Expenses	5,713	6,966	7,450	8,214
EBITDA	2,380	2,987	3,643	4,253
YoY gr. (%)	88.0	25.5	22.0	16.7
Margin (%)	17.0	17.6	19.3	20.1
Depreciation and Amortization	1,583	1,635	1,716	1,802
EBIT	797	1,352	1,927	2,451
Margin (%)	5.7	8.0	10.2	11.6
Net Interest	978	1,035	900	800
Other Income	127	132	140	150
Profit Before Tax	(54)	449	1,167	1,801
Margin (%)	(0.4)	2.6	6.2	8.5
Total Tax	489	273	292	450
Effective tax rate (%)	(904.6)	60.7	25.0	25.0
Profit after tax	(543)	176	875	1,350
Minority interest	(134)	(117)	(120)	(120)
Share Profit from Associate	-	-	-	-
Adjusted PAT	537	293	995	1,470
YoY gr. (%)	(127.8)	(45.4)	239.1	47.8
Margin (%)	3.8	1.7	5.3	7.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	537	293	995	1,470
YoY gr. (%)	(127.8)	(45.4)	239.1	47.8
Margin (%)	3.8	1.7	5.3	7.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	537	293	995	1,470
Equity Shares O/s (m)	139	139	139	139
EPS (Rs)	(2.9)	2.1	7.2	10.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	20,623	22,315	23,715	25,715
Tangibles	20,623	22,315	23,715	25,715
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,934	8,569	10,285	12,088
Tangibles	6,934	8,569	10,285	12,088
Intangibles	-	-	-	-
Net fixed assets	13,689	13,746	13,430	13,628
Tangibles	13,689	13,746	13,430	13,628
Intangibles	-	-	-	-
Capital Work In Progress	217	182	182	182
Goodwill	1,813	1,812	1,812	1,812
Non-Current Investments	58	68	68	68
Net Deferred tax assets	47	(71)	(71)	(71)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	300	383	515	577
Trade receivables	2,175	3,025	3,244	3,638
Cash & Bank Balance	1,975	1,966	2,607	3,348
Other Current Assets	1,910	1,924	2,317	2,598
Total Assets	22,195	23,160	24,228	25,904
Equity				
Equity Share Capital	1,390	1,391	1,391	1,391
Other Equity	7,313	7,214	8,209	9,679
Total Networkth	8,703	8,605	9,600	11,071
Non-Current Liabilities				
Long Term borrowings	4,076	3,993	3,993	3,993
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,940	2,485	2,678	3,002
Other current liabilities	7,330	7,865	7,865	7,865
Total Equity & Liabilities	22,195	23,160	24,228	25,904

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	(543)	176	875	1,350
Add. Depreciation	1,583	1,635	1,716	1,802
Add. Interest	978	1,035	900	800
Less Financial Other Income	127	132	140	150
Add. Other	-	-	-	-
Op. profit before WC changes	2,018	2,846	3,491	3,953
Net Changes-WC	(105)	(939)	(551)	(412)
Direct tax	-	-	-	-
Net cash from Op. activities	1,913	1,908	2,941	3,540
Capital expenditures	(712)	(1,332)	(1,400)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	398	2	-	-
Net Cash from Inv. activities	(315)	(1,330)	(1,400)	(2,000)
Issue of share cap. / premium	1,322	9	-	-
Debt changes	(3,126)	(1,008)	-	-
Dividend paid	-	-	-	-
Interest paid	(978)	(1,035)	(900)	(800)
Others	2,462	840	-	-
Net cash from Fin. activities	(320)	(1,194)	(900)	(800)
Net change in cash	1,278	(617)	641	740
Free Cash Flow	1,201	575	1,541	1,540

Source: Company Data, PL Research

Key Financial Metrics

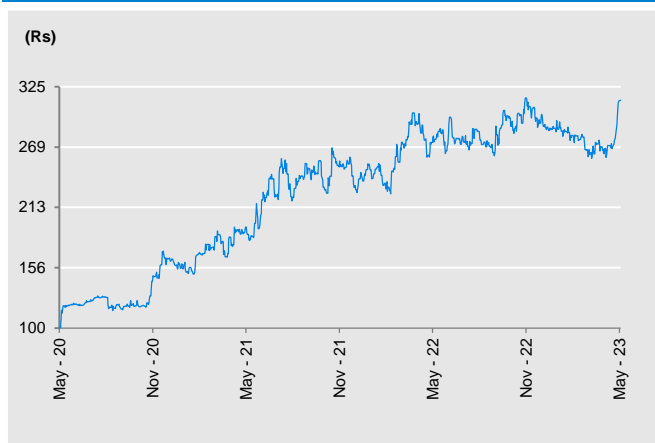
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	(2.9)	2.1	7.2	10.6
CEPS	15.3	13.9	19.5	23.5
BVPS	62.6	61.9	69.0	79.6
FCF	8.6	4.1	11.1	11.1
DPS	-	-	-	-
Return Ratio(%)				
RoCE	6.7	10.7	14.7	17.1
ROIC	3.9	6.4	8.9	10.9
RoE	(5.2)	3.4	10.9	14.2
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.1	0.1
Net Working Capital (Days)	14	20	21	21
Valuation(x)				
PER	(99.9)	139.3	41.1	27.8
P/B	4.7	4.7	4.3	3.7
P/CEPS	19.3	21.2	15.1	12.5
EV/EBITDA	18.0	14.4	11.6	9.8
EV/Sales	3.1	2.5	2.2	2.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	4,081	4,200	4,247	4,417
YoY gr. (%)	26.3	19.3	18.6	21.1
Raw Material Expenses	978	1,024	1,075	1,164
Gross Profit	3,103	3,176	3,172	3,253
Margin (%)	76.0	75.6	74.7	73.6
EBITDA	722	747	755	763
YoY gr. (%)	40.9	21.0	22.1	20.9
Margin (%)	17.7	17.8	17.8	17.3
Depreciation / Depletion	397	408	408	422
EBIT	325	339	347	341
Margin (%)	8.0	8.1	8.2	7.7
Net Interest	250	258	271	256
Other Income	29	20	37	47
Profit before Tax	104	100	113	131
Margin (%)	2.6	2.4	2.7	3.0
Total Tax	79	47	71	75
Effective tax rate (%)	76.2	47.2	62.8	56.9
Profit after Tax	25	53	42	57
Minority interest	(36)	(21)	(33)	(27)
Share Profit from Associates	-	-	-	-
Adjusted PAT	60	74	76	84
YoY gr. (%)	(163.2)	(92.8)	(116.5)	39.9
Margin (%)	1.5	1.8	1.8	1.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	60	74	76	84
YoY gr. (%)	(163.2)	(92.8)	(116.5)	39.9
Margin (%)	1.5	1.8	1.8	1.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	60	74	76	84
Avg. Shares O/s (m)	139	139	140	140
EPS (Rs)	0.4	0.5	0.5	0.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	375	274
2	11-Feb-23	BUY	375	282
3	06-Jan-23	BUY	375	285
4	14-Nov-22	BUY	375	295
5	06-Oct-22	BUY	358	291
6	11-Aug-22	BUY	358	284
7	07-Jul-22	BUY	347	274
8	30-May-22	BUY	347	276

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	265	240
3	Aurobindo Pharma	BUY	565	522
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	3,098
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	330	288
9	Glenmark Pharmaceuticals	Reduce	570	609
10	HealthCare Global Enterprises	BUY	375	274
11	Indoco Remedies	BUY	400	340
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,055
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	980	827
18	Sun Pharmaceutical Industries	BUY	1,175	997
19	Torrent Pharmaceuticals	BUY	1,820	1,578
20	Zydus Lifesciences	Accumulate	520	508

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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