

November 10, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	420		385	
Sales (Rs.m)	18,845	21,533	18,845	21,533
% Chng.	-	-	-	-
EBITDA (Rs.m)	3,452	4,169	3,452	4,169
% Chng.	-	-	-	-
EPS (Rs.)	4.8	9.2	5.8	9.2
% Chng.	(17.0)	-	-	-

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	16,944	18,845	21,533	23,297
EBITDA (Rs. m)	2,987	3,452	4,169	4,704
Margin (%)	17.6	18.3	19.4	20.2
PAT (Rs. m)	293	665	1,283	1,768
EPS (Rs.)	2.1	4.8	9.2	12.7
Gr. (%)	(171.7)	126.7	92.9	37.8
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.4	7.4	12.9	15.5
RoCE (%)	10.7	13.7	17.3	18.5
EV/Sales (x)	3.2	2.9	2.5	2.3
EV/EBITDA (x)	18.1	15.9	13.1	11.3
PE (x)	177.6	78.3	40.6	29.5
P/BV (x)	6.1	5.6	4.9	4.2

Key Data

HEAC.BO | HCG IN

52-W High / Low	Rs.389 / Rs.249
Sensex / Nifty	64,905 / 19,425
Market Cap	Rs.52bn/ \$ 626m
Shares Outstanding	139m
3M Avg. Daily Value	Rs.56.51m

Shareholding Pattern (%)

Promoter's	71.30
Foreign	6.29
Domestic Institution	6.65
Public & Others	15.76
Promoter Pledge (Rs bn)	1.15

Stock Performance (%)

	1M	6M	12M
Absolute	3.8	36.1	25.3
Relative	5.7	29.9	17.0

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In-line EBITDA; scale up in margins is key

Quick Pointers:

- EBITDA margin guidance close to 20% by Q4FY24 or Q1FY25.
- Plans to add additional 6 LINAC machines in the next 18 months.

HealthCare Global Enterprises (HCG) Q2 consolidated EBITDA grew by 13% YoY (14% QoQ) to Rs. 846mn; in-line with our estimates aided by ramp-up in new units. We expect margins to improve, as benefit of commercialization of total 5 LINAC machines will reflect in H2FY24 along with scale up in new centers. The company's asset light approach with focus on partnering has made its business model more capital efficient and scalable, in our view. Our FY24/FY25E EBITDA stand remains unchanged and we expect 23% EBITDA (PRE IND AS) CAGR over FY23-25E. At CMP, the stock trades at 16x FY25E EV/EBITDA adjusted for rentals. Maintain 'Buy' rating with a revised TP of Rs 420/share (earlier at Rs.385/ share) valuing at 16x (assign multiple is 25-30% discount to peers) on Sept 2025E EV/EBITDA as we roll forward.

- In-line EBITDA:** HCG reported post IND AS EBITDA of Rs. 846mn; in-line with our estimates. Existing centers reported profitability with EBITDA growth of 8% YoY (9% QoQ) to Rs 832mn, while new centers reported strong EBITDA growth of 21% YoY (23% QoQ) to Rs 122mn. Margin improved by 125 bps QoQ (declined 40bps YoY) to 17.4% due to ramp up in new units and absence of one-time corporate cost.
- Strong ARPOB growth & ramp-up in new units drove revenue growth of 16% YoY to Rs 4.9bn**, in line with our estimate. Existing centers grew by 13% YoY while new centers continue to see healthy ramp-up with revenue growth of 29% YoY. Milann centers revenue grew 7% YoY which continues to contribute 4% to the total revenues. LINAC capacity utilization was at 61% vs 67% in Q2FY23; contributed 17% to the total revenues. ARPOB improved 14% YoY; 6% QoQ to Rs 42K per day. Overall occupancy declined to 63.6% vs 66.9% in Q1 (66.4% in Q2FY23); on account of commercialization of 3 new LINAC in Q2. Net debt increased by Rs935mn QoQ to Rs3.1bn.
- Key con-call takeaways:** (1) Concluded acquisition of 50 beds hospital in Indore in Oct which generates Rs.300mn annual revenue. Mgmt focus will be on integrating new clinical talent and improving operational efficiency (2) Nagpur generated EBITDA of Rs.21mn given consolidation in Q2. However, mgmt. guided for higher EBITDA growth in Q3-Q4FY24 from both the units on account of full quarter impact. (3) Plans to expand 50 beds with capex requirement Rs.400-500mn and will be operationalized in 2 years. (4) Launched an additional dedicated women's cancer wing in centers of South Mumbai. Operationalized 3 new LINAC machines and plans for further commercializing 6 new LINAC machines over 18 months. (5) Annual lease cost at Rs. 750mn (~4% of revenues). (6) Mumbai, Kolkata and Nagpur saw revenue growth of 41%, 42% and 60% respectively attributed towards newly hired clinical talent. (7) Operationalized robotic radiation surgery machines in Baroda, Mumbai and Kolkata. (8) Plans to add additional capacities in Mumbai markets such as added one linear accelerator, first robotic program in Borivali, launched dedicated women's cancer care center in Colaba, South Mumbai center.

Exhibit 1: Q2FY24 Result Overview (Rs mn) – In-line EBITDA

Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
Net Sales	4,869	4,200	15.9	4,607	5.7	9,476	8,281	14.4
COGS	1,209	1,024	18.1	1,179	2.5	2,388	2,002	19.3
<i>% of Net Sales</i>	<i>24.8</i>	<i>24.4</i>		<i>25.6</i>		<i>25.2</i>	<i>24.2</i>	
Employee Cost	772	683	12.9	769	0.3	1,541	1,370	12.4
<i>% of Net Sales</i>	<i>15.8</i>	<i>16.3</i>		<i>16.7</i>		<i>16.3</i>	<i>16.5</i>	
Other Expenses	2,043	1,746	17.0	1,916	6.6	2,896	3,440	(15.8)
<i>% of Net Sales</i>	<i>42.0</i>	<i>41.6</i>		<i>41.6</i>		<i>30.6</i>	<i>41.5</i>	
Total	4,023	3,453	16.5	3,864	4.1	6,824	6,812	0.2
EBITDA	846	747	13.3	743	13.9	2,652	1,469	80.6
<i>Margins (%)</i>	<i>17.4</i>	<i>17.8</i>		<i>16.1</i>		<i>28.0</i>	<i>17.7</i>	
Other Income	34	20	72.6	24	40.5	58	49	19.3
Interest	269	258	4.2	256	5.2	524	508	3.2
Depreciation	432	408	5.8	410	5.4	842	805	4.6
PBT	179	100	NA	102	76.3	1,344	204	557.4
Tax	71	47	51.0	69	3.9	140	127	10.6
<i>Tax rate %</i>	<i>39.8</i>	<i>47.2</i>		<i>67.6</i>		<i>10.4</i>	<i>62.0</i>	
PAT	108	53	NA	33	227.0	1,204	78	1,449.2
Share in (loss)/profit of associate	(0)	-		4		3	-	NA
Minority Interest	(28)	(21)		(40)		(68)	(57)	19.3
EO items	-	-		-		-	-	
Reported PAT	136	74	NA	76	78.3	1,275	134	849.1

Source: Company, PL

Exhibit 2: Break up of revenues (Rs mn)- New centers continues to ramp up

Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
Existing cancer centers	3,477	3,090	12.5	3,314	4.9	6,791	6,069	11.9
<i>% of Net Sales</i>	<i>71.4</i>	<i>73.6</i>		<i>71.9</i>		<i>71.7</i>	<i>73.3</i>	
New centers	1,216	945	28.7	1,129	7.7	2,345	1,874	25.1
<i>% of Net Sales</i>	<i>25.0</i>	<i>22.5</i>		<i>24.5</i>		<i>24.7</i>	<i>22.6</i>	
Milann centers	177	166	6.9	164	7.9	341	338	0.8
<i>% of Net Sales</i>	<i>3.6</i>	<i>3.9</i>		<i>3.6</i>		<i>3.6</i>	<i>4.1</i>	
Total revenues	4,870	4,201	15.9	4,607	5.7	9,477	8,281	14.4

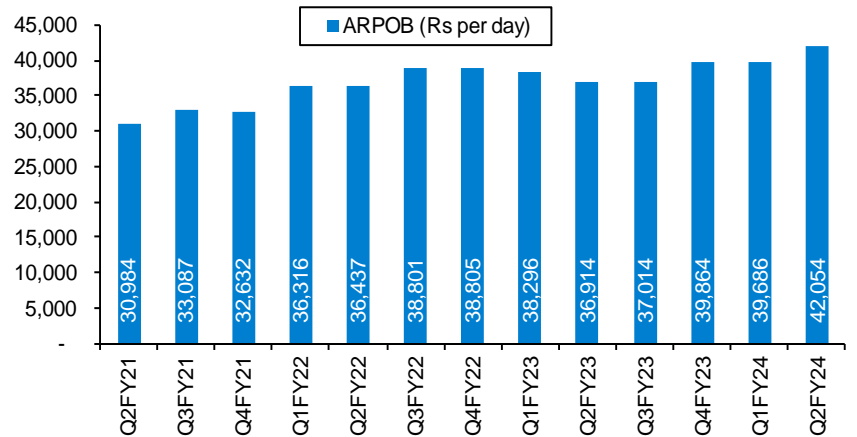
Source: Company, PL

Exhibit 3: Break up of EBITDA (Rs mn)- Sequential growth of 23% in new centers

Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
Existing centers	832	775	7.4	761	9.3	1,593	1,519	4.9
New centers	122	99	23.2	99	23.2	221	207	6.8

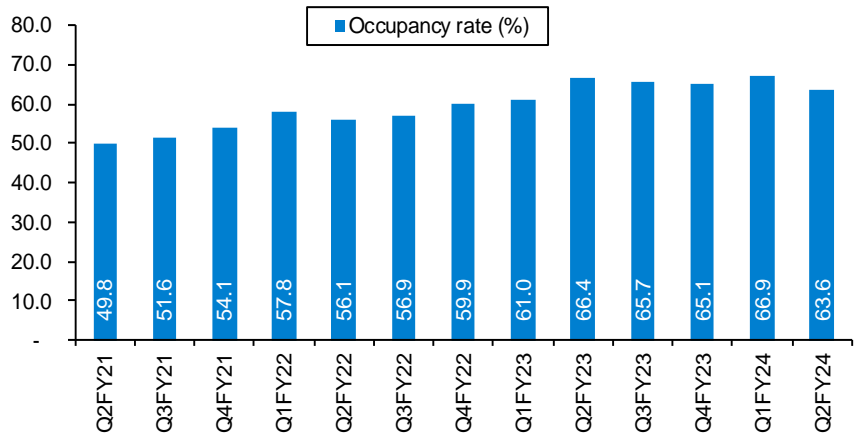
Source: Company, PL * Excluding corporate cost & restated numbers from Lab vertical allocation correction.

Exhibit 4: ARPOB improved 6% QoQ to Rs. 42k



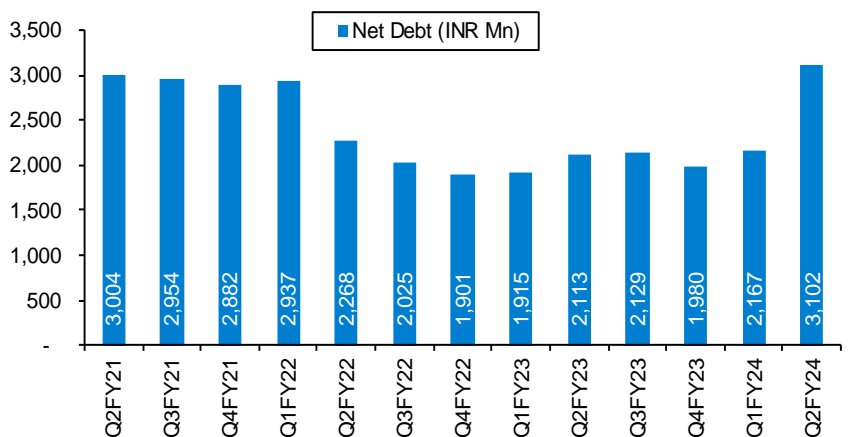
Source: Company, PL

Exhibit 5: Occupancy declined QoQ & YoY at 63.6%



Source: Company, PL

Exhibit 6: Net debt increased by Rs. 935mn QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	16,944	18,845	21,533	23,297
YoY gr. (%)	21.2	11.2	14.3	8.2
Cost of Goods Sold	4,241	4,699	5,371	5,812
Gross Profit	12,704	14,147	16,162	17,485
Margin (%)	75.0	75.1	75.1	75.1
Employee Cost	2,751	3,054	3,390	3,729
Other Expenses	6,966	7,641	8,604	9,053
EBITDA	2,987	3,452	4,169	4,704
YoY gr. (%)	25.5	15.6	20.8	12.8
Margin (%)	17.6	18.3	19.4	20.2
Depreciation and Amortization	1,635	1,684	1,768	1,856
EBIT	1,352	1,768	2,401	2,847
Margin (%)	8.0	9.4	11.1	12.2
Net Interest	1,035	1,000	1,000	800
Other Income	132	140	150	150
Profit Before Tax	449	908	1,551	2,197
Margin (%)	2.6	4.8	7.2	9.4
Total Tax	273	363	388	549
Effective tax rate (%)	60.7	40.0	25.0	25.0
Profit after tax	176	545	1,163	1,648
Minority interest	(117)	(120)	(120)	(120)
Share Profit from Associate	-	-	-	-
Adjusted PAT	293	665	1,283	1,768
YoY gr. (%)	(45.4)	126.7	92.9	37.8
Margin (%)	1.7	3.5	6.0	7.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	293	665	1,283	1,768
YoY gr. (%)	(45.4)	126.7	92.9	37.8
Margin (%)	1.7	3.5	6.0	7.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	293	665	1,283	1,768
Equity Shares O/s (m)	139	139	139	139
EPS (Rs)	2.1	4.8	9.2	12.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	22,315	24,815	26,815	28,815
Tangibles	22,315	24,815	26,815	28,815
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,569	10,253	12,021	13,877
Tangibles	8,569	10,253	12,021	13,877
Intangibles	-	-	-	-
Net fixed assets	13,746	14,562	14,795	14,938
Tangibles	13,746	14,562	14,795	14,938
Intangibles	-	-	-	-
Capital Work In Progress	182	182	182	182
Goodwill	1,812	1,812	1,812	1,812
Non-Current Investments	68	68	68	68
Net Deferred tax assets	(71)	(71)	(71)	(71)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	383	515	589	637
Trade receivables	3,025	3,244	3,708	4,013
Cash & Bank Balance	1,966	1,145	1,590	2,775
Other Current Assets	1,924	2,317	2,649	2,866
Total Assets	23,160	23,899	25,445	27,344
Equity				
Equity Share Capital	1,391	1,391	1,391	1,391
Other Equity	7,214	7,879	9,162	10,930
Total Networkth	8,605	9,270	10,553	12,321
Non-Current Liabilities				
Long Term borrowings	3,993	3,993	3,993	3,993
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,485	2,678	3,061	3,312
Other current liabilities	7,865	7,865	7,865	7,865
Total Equity & Liabilities	23,160	23,899	25,445	27,344

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	176	545	1,163	1,648
Add. Depreciation	1,635	1,684	1,768	1,856
Add. Interest	1,035	1,000	1,000	800
Less Financial Other Income	132	140	150	150
Add. Other	-	-	-	-
Op. profit before WC changes	2,846	3,229	3,931	4,304
Net Changes-WC	(939)	(551)	(486)	(319)
Direct tax	-	-	-	-
Net cash from Op. activities	1,908	2,678	3,445	3,985
Capital expenditures	(1,332)	(2,500)	(2,000)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	2	-	-	-
Net Cash from Inv. activities	(1,330)	(2,500)	(2,000)	(2,000)
Issue of share cap. / premium	9	-	-	-
Debt changes	(1,008)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(1,035)	(1,000)	(1,000)	(800)
Others	840	-	-	-
Net cash from Fin. activities	(1,194)	(1,000)	(1,000)	(800)
Net change in cash	(617)	(822)	445	1,185
Free Cash Flow	575	178	1,445	1,985

Source: Company Data, PL Research

Key Financial Metrics

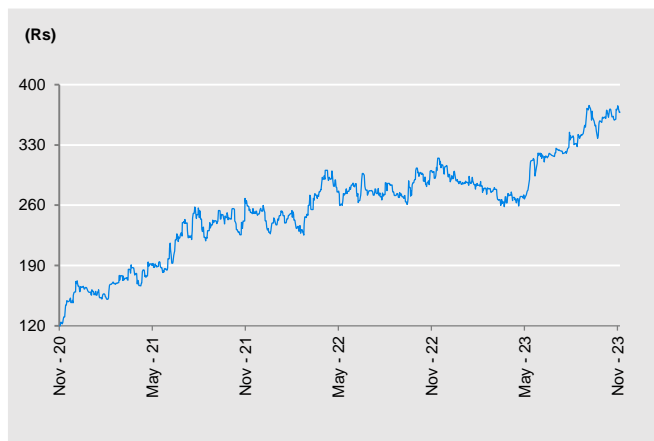
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	2.1	4.8	9.2	12.7
CEPS	13.9	16.9	21.9	26.1
BVPS	61.9	66.6	75.9	88.6
FCF	4.1	1.3	10.4	14.3
DPS	-	-	-	-
Return Ratio(%)				
RoCE	10.7	13.7	17.3	18.5
ROIC	6.4	7.8	10.1	11.6
RoE	3.4	7.4	12.9	15.5
Balance Sheet				
Net Debt : Equity (x)	0.2	0.3	0.2	0.1
Net Working Capital (Days)	20	21	21	21
Valuation(x)				
PER	177.6	78.3	40.6	29.5
P/B	6.1	5.6	4.9	4.2
P/CEPS	27.0	22.2	17.1	14.4
EV/EBITDA	18.1	15.9	13.1	11.3
EV/Sales	3.2	2.9	2.5	2.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	4,247	4,417	4,607	4,869
YoY gr. (%)	18.6	21.1	12.9	15.9
Raw Material Expenses	1,075	1,164	1,179	1,209
Gross Profit	3,172	3,253	3,428	3,661
Margin (%)	74.7	73.6	74.4	75.2
EBITDA	755	763	743	846
YoY gr. (%)	22.1	20.9	3.0	13.3
Margin (%)	17.8	17.3	16.1	17.4
Depreciation / Depletion	408	422	410	432
EBIT	347	341	333	414
Margin (%)	8.2	7.7	7.2	8.5
Net Interest	271	256	256	269
Other Income	37	47	24	34
Profit before Tax	113	131	102	179
Margin (%)	2.7	3.0	2.2	3.7
Total Tax	71	75	69	71
Effective tax rate (%)	62.8	56.9	67.6	39.8
Profit after Tax	42	57	33	108
Minority interest	(33)	(27)	(40)	(28)
Share Profit from Associates	-	-	4	-
Adjusted PAT	76	84	76	136
YoY gr. (%)	(116.5)	39.7	25.8	83.9
Margin (%)	1.8	1.9	1.7	2.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	76	84	76	136
YoY gr. (%)	(116.5)	39.7	25.8	83.9
Margin (%)	1.8	1.9	1.7	2.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	76	84	76	136
Avg. Shares O/s (m)	139	139	139	139
EPS (Rs)	0.5	0.6	0.5	1.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	385	361
2	12-Aug-23	BUY	385	331
3	06-Jul-23	BUY	375	326
4	27-May-23	BUY	375	294
5	06-Apr-23	BUY	375	274
6	11-Feb-23	BUY	375	282
7	06-Jan-23	BUY	375	285
8	14-Nov-22	BUY	375	295

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	5,060
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,350	1,174
5	Divi's Laboratories	Reduce	3,150	3,522
6	Dr. Reddy's Laboratories	Reduce	5,300	5,397
7	Eris Lifesciences	BUY	1,050	912
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	385	361
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,675	1,462
14	Krishna Institute of Medical Sciences	BUY	2,000	1,870
15	Lupin	Hold	1,010	1,155
16	Max Healthcare Institute	BUY	675	601
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,280	1,116
19	Sunteck Realty	BUY	565	436
20	Torrent Pharmaceuticals	BUY	2,250	1,877
21	Zydus Lifesciences	Accumulate	670	599

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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