

November 12, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	535		420	
Sales (Rs. m)	25,556	27,714	25,556	27,714
% Chng.	-	-	-	-
EBITDA (Rs. m)	5,236	5,962	5,199	5,923
% Chng.	0.7	0.7	-	-
EPS (Rs.)	9.2	14.7	9.4	15.2
% Chng.	(1.5)	(3.5)	-	-

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	19,121	22,285	25,556	27,714
EBITDA (Rs. m)	3,296	4,175	5,236	5,962
Margin (%)	17.2	18.7	20.5	21.5
PAT (Rs. m)	481	674	1,284	2,043
EPS (Rs.)	3.5	4.8	9.2	14.7
Gr. (%)	63.9	40.1	90.3	59.2
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	5.2	7.8	13.4	18.2
RoCE (%)	11.3	13.9	18.0	19.4
EV/Sales (x)	3.6	3.2	2.8	2.5
EV/EBITDA (x)	20.9	17.1	13.4	11.7
PE (x)	135.7	96.9	50.9	32.0
P/BV (x)	7.9	7.3	6.4	5.3

Key Data

HEAC.BO | HCG IN

52-W High / Low	Rs.520 / Rs.310
Sensex / Nifty	78,675 / 23,883
Market Cap	Rs.65bn/ \$ 775m
Shares Outstanding	139m
3M Avg. Daily Value	Rs.145.43m

Shareholding Pattern (%)

Promoter's	71.23
Foreign	4.30
Domestic Institution	11.63
Public & Others	12.84
Promoter Pledge (Rs bn)	1.44

Stock Performance (%)

	1M	6M	12M
Absolute	4.4	32.0	23.8
Relative	8.0	22.0	2.7

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Margin improvement to continue

Quick Pointers:

- Reiterated EBITDA margins to inch up to 20% by Q4FY25
- Expansion plan of 700 beds in 3 years

HealthCare Global Enterprises' (HCG) Q2 consolidated EBITDA grew by 21% YoY (13% QoQ) to Rs1.02bn, in line with our estimates. We expect margins to improve further, as ramp-up in occupancy across centers should aid better operating leverage along with scale-up in new centers. The company's asset-light approach with focus on partnerships, has made its business model more capital efficient and scalable, in our view. Our FY26/FY27E EBITDA broadly remains unchanged. We expect 22% EBITDA CAGR over FY24-27E. At CMP, the stock trades at 17x FY26E EV/EBITDA adjusted for rentals and minority. Maintain 'BUY' rating with a revised TP of Rs535/share valuing at 17x on Sep'26E EV/EBITDA.

In-line EBITDA aided by mature centers: HCG reported post-IND AS EBITDA of Rs1bn, up 21% YoY, in line with our estimates. Adjusted for ESOP cost, EBITDA came in at Rs1.04mn with OPM of 18.8%. Existing centers reported profitability with strong EBITDA growth of 20% YoY to Rs1.13bn, while new centers' (Kolkata, Borivali and South Mumbai) EBITDA was at Rs30mn with OPM at 5.7% vs Rs42mn in Q1. Consol margin was up by 110bps YoY to 18.5%.

Healthy ARPOB, occupancy steady QoQ: Existing centers grew by 13% YoY, while new centers continue to see healthy ramp-up with revenue growth of 32% YoY. Milann center's revenue decline by 11% YoY on account of discontinued operations of Delhi center. LINAC capacity utilization was at 70% (with 36 LINACs; of which 3 were under replacement, and hence, not considered in utilization) vs 61% (with 32 LINACs) in Q2FY24; LINACs contributed 16% to total revenues. ARPOB improved 7% YoY and 2% QoQ to Rs45.2k per day as a result of reduction in ALOS to 2 days in Q2FY25 from 2.05 days. Overall occupancy was steady QoQ at 65.6% vs 65.8% in Q2FY24. Net debt increased by Rs335mn QoQ to Rs4.5bn.

Key con-call takeaways: (1) Expansion - The 3-year expansion plan of adding 900 beds, including the recent net 100-bed addition in Ahmedabad, is underway. Of these, 360 beds have been fully capitalized, and the remaining 550 beds will require future capex. HCG have moved to its new 200-bed facility in Ahmedabad from its old 100-bed facility in Q2; of this, 118 beds have been operationalized so far and 20-25 beds will be added in H2. Construction of 125 beds in North Bengaluru and Whitefield is progressing well, and is expected to be completed in Q1FY26. Additionally, 60 beds in Cuttack are slated for early FY27, with potential expansion to 100 beds. **(2) Vizag and Indore acquisition**- The mgmt has guided for 200-300bps growth from Indore and Vizag acquisitions. The newly acquired MG hospital in Vizag, with 30% market share, will see an addition of 60-90 beds over the next 2-3 years. The unit is facing stagnation, despite operating at 70-75% occupancy. Hence, the mgmt plans to debottleneck the unit. **(3) Capex**- The mgmt has guided for Rs2.5-3bn of capex in FY25, of which Rs1.5bn has been incurred in

H1. Capex stood at Rs540mn for Q2, of which Rs250mn was incurred for replacing CyberKnife system at Bengaluru center, Rs180mn for growth capex and balance for maintenance capex. **(4) New centers-** Mumbai units (South Mumbai and Borivali) reported an EBITDA loss of Rs38.4mn in H1. Borivali unit is marginally EBITDA positive, while Colaba unit (South Mumbai) is on track to break even in H2. Kolkata unit is projected to contribute Rs100mn to EBITDA for FY25. **(5)** Other income in Q2 includes one-time insurance claim and ETCG settlement to the tune of Rs50mn. **(6)** International business declined 17% due to the geopolitical unrest in Bangladesh, which is expected to recover from Q4. The mgmt targets 25% revenue from digital business in 3-5 years. **(7)** Rental cost is at Rs250mn per quarter.

Exhibit 1: Q2FY25 Result Overview (Rs mn) – In-line EBITDA

Y/e March	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Net Sales	5,535	4,869	13.7	5,256	5.3	10,791	9,476	13.9
COGS	1,442	1,209	19.3	1,332	8.3	2,775	2,388	16.2
<i>% of Net Sales</i>	<i>26.1</i>	<i>24.8</i>		<i>25.3</i>		<i>25.7</i>	<i>25.2</i>	
Employee Cost	853	772	10.5	852	0.1	1,704	1,541	10.6
<i>% of Net Sales</i>	<i>15.4</i>	<i>15.8</i>		<i>16.2</i>		<i>18.0</i>	<i>16.3</i>	
Other Expenses	2,218	2,043	8.6	2,163	2.5	4,381	3,959	10.7
<i>% of Net Sales</i>	<i>40.1</i>	<i>42.0</i>		<i>41.2</i>		<i>46.2</i>	<i>41.8</i>	
Total	4,513	4,023	12.2	4,347	3.8	8,859	7,887	12.3
EBITDA	1,023	846	20.8	909	12.5	1,932	1,589	21.5
<i>Margins (%)</i>	<i>18.5</i>	<i>17.4</i>		<i>17.3</i>		<i>17.9</i>	<i>16.8</i>	
Other Income	111	34	227.4	88	26.3	199	58	242.6
Interest	360	269	33.8	337	6.7	697	524	32.9
Depreciation	497	432	15.1	470	5.8	968	842	14.9
PBT	277	179	NA	190	45.7	467	281	NA
Tax	70	71	(2.4)	54	30.0	123	140	(12.0)
<i>Tax rate %</i>	<i>25.2</i>	<i>39.8</i>		<i>28.2</i>		<i>26.4</i>	<i>49.9</i>	
PAT	207	108	NA	136	51.8	343	141	NA
Share in (loss)/profit of associate	(0)	(0)		(0)		(0)	3	
Minority Interest	27	(28)		16		42	(68)	
EO items	-	-		-		-	-	
Reported PAT	180	136	32.6	121	48.9	301	212	42.0

Source: Company, PL

Exhibit 2: Break-up of revenues (Rs mn) Matured centers grew by 13%

Y/e March	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Existing cancer centers	4,848	4,290	13.0	4,637	4.6	9,485	8,375	13.3
<i>% of Total Sales</i>	<i>87.6</i>	<i>88.1</i>		<i>88.2</i>		<i>100.1</i>	<i>88.4</i>	
New centers	530	403	31.5	475	11.6	1,005	761	32.1
<i>% of Total Sales</i>	<i>9.6</i>	<i>8.3</i>		<i>9.0</i>		<i>10.6</i>	<i>8.0</i>	
Milan centers	158	177	(10.7)	144	9.7	302	341	(11.4)
<i>% of Total Sales</i>	<i>2.9</i>	<i>3.6</i>		<i>2.7</i>		<i>3.2</i>	<i>3.6</i>	
Total revenues	5,536	4,870	13.7	5,256	5.3	10,792	9,477	13.9

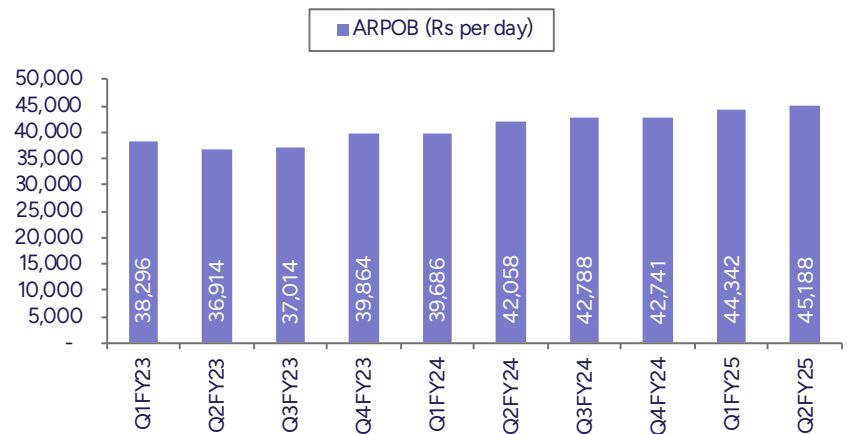
Source: Company, PL

Exhibit 3: Break-up of EBITDA (Rs mn) - Matured centers grew by 20% YoY

Y/e March	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Existing centers	1,131	945	19.7	1,024	10.4	2,155	1,814	18.8
New centers	30	6	400.0	42	(28.6)	72	(6)	(1,300.0)

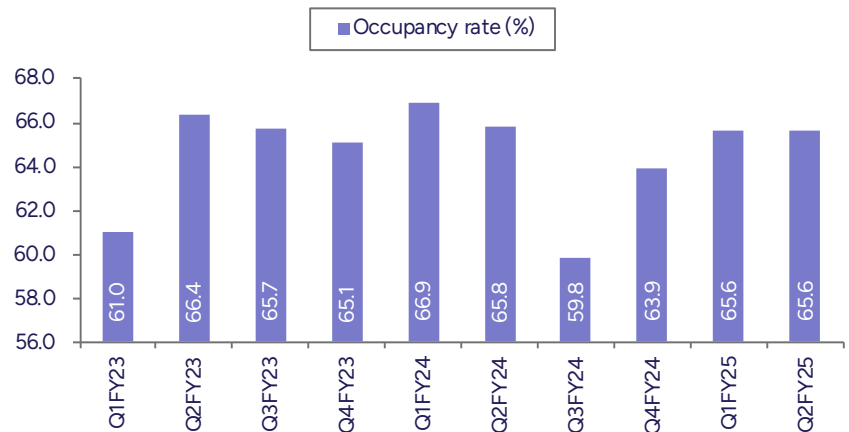
Source: Company, PL * (Note: Excl corporate expenses; Reclassification of centers - Emerging centers now consist of 3 centers – South Mumbai, Borivali & Kolkata. All other centers are classified as established centers)

Exhibit 4: ARPOB improved 7% YoY due to ALOS reduction



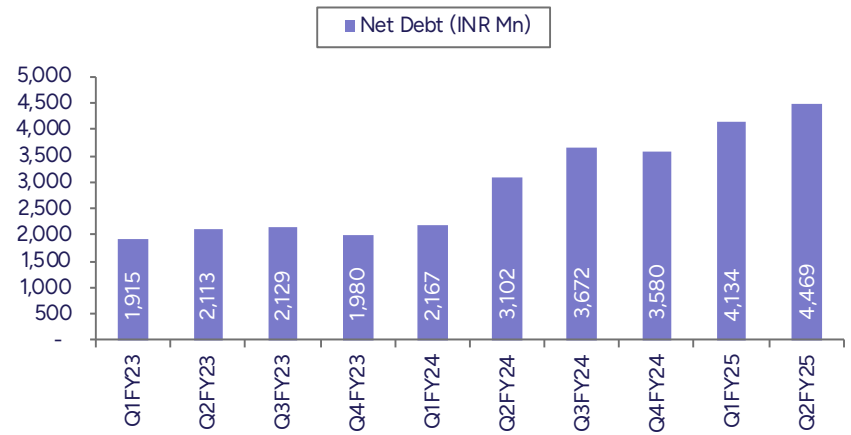
Source: Company, PL

Exhibit 5: Occupancy was steady QoQ



Source: Company, PL

Exhibit 6: Net debt increased by Rs335mn QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	19,121	22,285	25,556	27,714
YoY gr. (%)	12.8	16.5	14.7	8.4
Cost of Goods Sold	4,754	5,603	6,377	6,916
Gross Profit	14,367	16,682	19,180	20,798
Margin (%)	75.1	74.9	75.0	75.0
Employee Cost	3,082	3,421	3,764	4,140
Other Expenses	7,989	9,085	10,180	10,696
EBITDA	3,296	4,175	5,236	5,962
YoY gr. (%)	10.3	26.7	25.4	13.9
Margin (%)	17.2	18.7	20.5	21.5
Depreciation and Amortization	1,744	1,970	2,128	2,277
EBIT	1,552	2,205	3,109	3,685
Margin (%)	8.1	9.9	12.2	13.3
Net Interest	1,087	1,460	1,500	1,350
Other Income	169	320	350	450
Profit Before Tax	634	1,065	1,959	2,785
Margin (%)	3.3	4.8	7.7	10.1
Total Tax	264	298	548	696
Effective tax rate (%)	41.6	28.0	28.0	25.0
Profit after tax	370	767	1,410	2,089
Minority interest	(72)	92	127	46
Share Profit from Associate	-	-	-	-
Adjusted PAT	481	674	1,284	2,043
YoY gr. (%)	64.1	40.1	90.3	59.2
Margin (%)	2.5	3.0	5.0	7.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	481	674	1,284	2,043
YoY gr. (%)	64.1	40.1	90.3	59.2
Margin (%)	2.5	3.0	5.0	7.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	481	674	1,284	2,043
Equity Shares O/s (m)	139	139	139	139
EPS (Rs)	3.5	4.8	9.2	14.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	25,698	30,198	32,198	35,748
Tangibles	25,698	30,198	32,198	35,748
Intangibles	-	-	-	-
Acc: Dep / Amortization	10,313	12,283	14,411	16,688
Tangibles	10,313	12,283	14,411	16,688
Intangibles	-	-	-	-
Net fixed assets	15,386	17,916	17,788	19,061
Tangibles	15,386	17,916	17,788	19,061
Intangibles	-	-	-	-
Capital Work In Progress	832	832	832	832
Goodwill	2,229	2,229	2,229	2,229
Non-Current Investments	70	70	70	70
Net Deferred tax assets	10	10	10	10
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	427	609	839	910
Trade receivables	2,940	3,655	4,193	4,548
Cash & Bank Balance	3,031	1,789	2,627	3,249
Other Current Assets	2,090	2,559	3,145	3,411
Total Assets	27,075	29,728	31,792	34,379
Equity				
Equity Share Capital	1,393	1,393	1,393	1,393
Other Equity	6,865	7,539	8,823	10,866
Total Networth	8,258	8,932	10,216	12,259
Non-Current Liabilities				
Long Term borrowings	6,728	7,728	7,728	7,728
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,811	3,168	3,634	3,941
Other current liabilities	8,825	9,354	9,541	9,732
Total Equity & Liabilities	27,075	29,728	31,792	34,379

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	370	767	1,410	2,089
Add. Depreciation	1,744	1,970	2,128	2,277
Add. Interest	1,087	1,460	1,500	1,350
Less Financial Other Income	169	320	350	450
Add. Other	-	-	-	-
Op. profit before WC changes	3,201	4,197	5,038	5,716
Net Changes-WC	(798)	(479)	(700)	(194)
Direct tax	-	-	-	-
Net cash from Op. activities	2,404	3,718	4,338	5,522
Capital expenditures	(1,857)	(4,500)	(2,000)	(3,550)
Interest / Dividend Income	-	-	-	-
Others	(401)	-	-	-
Net Cash from Inv. activities	(2,257)	(4,500)	(2,000)	(3,550)
Issue of share cap. / premium	(403)	-	-	-
Debt changes	933	1,000	-	-
Dividend paid	-	-	-	-
Interest paid	(1,087)	(1,460)	(1,500)	(1,350)
Others	1,032	-	-	-
Net cash from Fin. activities	476	(460)	(1,500)	(1,350)
Net change in cash	622	(1,242)	838	622
Free Cash Flow	547	(782)	2,338	1,972

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	3.5	4.8	9.2	14.7
CEPS	16.0	19.0	24.5	31.0
BVPS	59.3	64.1	73.3	88.0
FCF	3.9	(5.6)	16.8	14.2
DPS	-	-	-	-
Return Ratio(%)				
RoCE	11.3	13.9	18.0	19.4
ROIC	6.5	7.9	10.7	11.8
RoE	5.2	7.8	13.4	18.2
Balance Sheet				
Net Debt : Equity (x)	0.4	0.7	0.5	0.4
Net Working Capital (Days)	11	18	20	20
Valuation(x)				
PER	135.7	96.9	50.9	32.0
P/B	7.9	7.3	6.4	5.3
P/CEPS	29.4	24.7	19.1	15.1
EV/EBITDA	20.9	17.1	13.4	11.7
EV/Sales	3.6	3.2	2.8	2.5
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

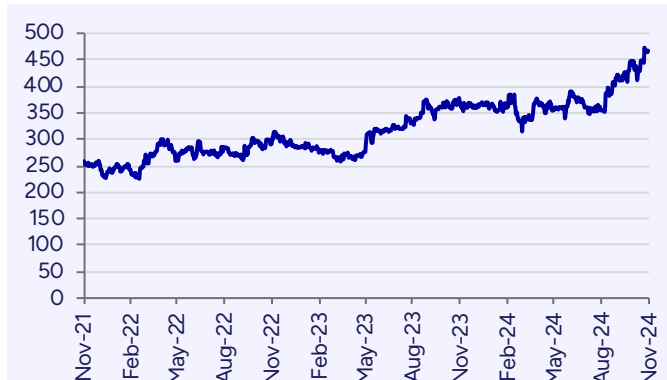
Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	4,699	4,946	5,256	5,535
YoY gr. (%)	10.6	12.0	14.1	13.7
Raw Material Expenses	1,139	1,227	1,332	1,442
Gross Profit	3,560	3,719	3,924	4,093
Margin (%)	75.8	75.2	74.7	73.9
EBITDA	786	920	909	1,023
YoY gr. (%)	4.1	20.6	22.3	20.8
Margin (%)	16.7	18.6	17.3	18.5
Depreciation / Depletion	442	460	470	497
EBIT	345	461	439	525
Margin (%)	7.3	9.3	8.4	9.5
Net Interest	295	268	337	360
Other Income	61	51	88	111
Profit before Tax	111	243	190	277
Margin (%)	2.4	4.9	3.6	5.0
Total Tax	76	48	54	70
Effective tax rate (%)	68.9	19.6	28.2	25.2
Profit after Tax	34	195	136	207
Minority interest	(23)	22	16	27
Share Profit from Associates	-	1	-	-
Adjusted PAT	57	213	121	180
YoY gr. (%)	(24.5)	154.0	58.7	32.6
Margin (%)	1.2	4.3	2.3	3.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	57	213	121	180
YoY gr. (%)	(24.5)	154.0	58.7	32.6
Margin (%)	1.2	4.3	2.3	3.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	57	213	121	180
Avg. Shares O/s (m)	139	139	139	139
EPS (Rs)	0.4	1.5	0.9	1.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	BUY	420	430
2	12-Aug-24	BUY	420	362
3	08-Jul-24	BUY	420	377
4	31-May-24	BUY	420	358
5	08-Apr-24	BUY	420	368
6	12-Feb-24	BUY	420	367
7	08-Jan-24	BUY	420	371

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,000	7,410
2	Aster DM Healthcare	BUY	500	443
3	Aurobindo Pharma	Accumulate	1,525	1,466
4	Cipla	Accumulate	1,615	1,478
5	Divi's Laboratories	Accumulate	6,000	5,950
6	Dr. Reddy's Laboratories	Reduce	1,335	1,272
7	Eris Lifesciences	BUY	1,420	1,292
8	Fortis Healthcare	BUY	710	621
9	HealthCare Global Enterprises	BUY	420	430
10	Indoco Remedies	Accumulate	320	315
11	Ipca Laboratories	Reduce	1,250	1,491
12	J.B. Chemicals & Pharmaceuticals	BUY	2,250	1,860
13	Jupiter Life Line Hospitals	BUY	1,475	1,432
14	Krishna Institute of Medical Sciences	BUY	480	550
15	Lupin	BUY	2,420	2,105
16	Max Healthcare Institute	BUY	1,200	1,073
17	Narayana Hrudayalaya	BUY	1,420	1,196
18	Sun Pharmaceutical Industries	BUY	2,100	1,903
19	Suntech Realty	BUY	700	588
20	Torrent Pharmaceuticals	Accumulate	3,600	3,433
21	Zydus Lifesciences	Accumulate	1,305	1,057

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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