

Healthcare Global Enterprises (HEAGLO)

CMP: ₹ 302

Target: ₹ 390 (29%)

Target Period: 12 months

May 26, 2023

In line numbers with sequential ARPOB improvement; outlook upbeat...

About the stock: HCG operates one of the largest private cancer care networks in India with end-to-end solutions available under a single corporate entity. Owing to exclusive agreement with vendors, HCG procures equipment on a deferred payment basis. Milann offers seven fertility centres in India.

- HCG network has 22 comprehensive cancer centres (one in Kenya), four multi-specialty hospitals. HCG India, capacity beds: 1833
- Revenue mix Q4FY23: HCG:97%, Milann:3%; occupancy Q4FY23: 65.1%; ARPOBD Q4FY23: 39,864

Q4FY23 Results: Revenues in line, slight miss on margins.

- Revenues grew 4% QoQ to ₹ 441.7 crore
- EBITDA increased 1.1% QoQ to ₹ 76.3 crore. EBITDA margins declined 50 bps QoQ to 17.3%
- Adjusted net profit increased 11% QoQ to ₹ 8.4 crore

What should investors do? HCG's share price has grown at a CAGR of 43% over the past three years.

- Maintain **BUY** as 1) improvement in ARPOB looks sustainable, 2) newer assets to turn profitable and complement existing centres 3) calibrated expansion of moving in metros and non-metros now coming to the fore

Target Price and Valuation: We value HCG at ₹ 390 (HCG existing centres and new centres at 12x & 10x, respectively, at FY25E EV/EBITDA and Milan centres at 1x FY25E EV/sales).

Key triggers for future price performance:

- HCG, with its integrated, one-stop-solution and focused model, is well poised to capture growing potential with pan-India focus on cancer therapy
- Focused on consolidating existing network through cost optimisation measures to improve margin and ramping up patient's footfall by engaging in direct-to patient promotion strategies
- Oncology cases are expected to increase by 100,000 to 350,000 cases a year which bodes well for HCG with hybrid presence (Metros/Tier-2,3 towns)
- De-leveraging of balance sheet, reduction of losses across new centres have substantially eased legacy overhangs, improvement in consolidated return ratio profile still remains a key

Alternate Stock Idea: Apart from HCG, in our hospital coverage we like Narayana.

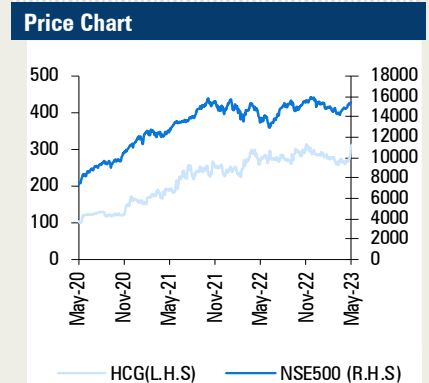
- Narayana operates a duel model, which perfectly blends established "Asset-right" India business with a hospital in Cayman Islands
- BUY with a target price of ₹ 990

BUY



Particulars	Amount
Market Capitalisation	₹ 3975 crore
Debt (FY23)	₹ 901 crore
Cash (FY23)	₹ 197 crore
EV	₹ 4680 crore
52 week H/L	320/249
Equity capital	₹ 139.0 crore
Face value	₹ 10

Shareholding pattern				
(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	71.4	71.4	71.4	71.4
Others	28.6	28.6	28.6	28.6



Recent Event & Key risks

- Commissioned centre in East Africa
- Key Risk:** (i) Slowdown in surgeries (ii) Increased competition in cancer treatment from larger players

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Key Financial Summary

Key Financials (₹ Crore)	FY21	FY22	FY23	5 year CAGR (FY17-22)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenues	1013.4	1397.8	1697.5	14.8	1971.3	2122.4	11.8
EBITDA	126.2	236.5	298.7	17.6	383.9	422.7	19.0
EBITDA margins (%)	12.5	16.9	17.6		19.5	19.9	
Net Profit	-193.5	53.7	29.4	19.4	88.8	119.8	102.0
EPS (₹)	-7.2	-2.9	2.1		6.4	8.6	
PE (x)	NA	74.0	135.5		44.8	33.2	
EV to EBITDA (x)	38.9	19.8	15.7		11.8	10.1	
RoCE (%)	-0.9	5.0	8.1		12.5	14.3	
ROE	NA	NA	3.4		9.4	11.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Revenues in line, slight miss on margins

- Revenues grew 4% QoQ to ₹ 441.7 crore, driven by growth in ARPOB and patient count across modalities. Revenues from matured centres came in at ₹ 316.9 crore (+3.6% QoQ) whereas ₹ 109 crore from Emerging centres (up 7.8% QoQ). EBITDA increased 1.1% QoQ to ₹ 76.3 crore. EBITDA margins declined 50 bps QoQ to 17.3%. Adjusted net profit increased 11% QoQ to ₹ 8.4 crore. Overall ARPOBD was at ₹ 39,864 up 7.7% QoQ. Overall AOR remained at 65.1%.
- Sequential revenues growth was driven by significant ARPOB improvement which grew ~8% to ₹ 39864 even as there was slight decline in occupancies from 65.7% to 65.1%. Margins were slightly below our expectations due to higher than anticipated consumables and other expenses. We continue to monitor progress on ARPOB and occupancies improvement especially at the new centres. With the capex cycle almost over, these factors will lead to margins and RoCE expansion

Q4FY23 Earnings Conference Call highlights:

Regional mix:

- East India cluster delivered 14% growth QoQ mainly driven by Kolkata & Cuttack region
- Its Rajkot region helped Gujarat cluster achieve ~6% growth sequentially whereas Karnataka cluster was up ~7% QoQ
- It successfully commissioned Nairobi centre in East Africa which added fuel to Africa cluster, up 22% QoQ

Capex:

- The company has decided to incur capex of ₹ 63.58 crore in Ahmedabad Phase II and ₹ 20 crore in Whitefield (Extension of Bangalore) for FY24
- Maintenance capex is likely to be around ~₹ 50 crore in FY24

Other highlights:

- The growth was largely driven on volume terms (17%) followed by growth in ARPOB (4%) during the quarter
- Milann – The company is looking to focus on market leadership in Bangalore
- The management has highlighted that its revenue through digital channel has grown multi fold
- Focus remains on radiology area on replacing and upgrading equipment by paper used model. This is expected to bring down the capex and improve operational efficiency
- It intends to replace seven to eight LINAC equipment with each unit costing ~\$2 mn
- It plans to add more units in regions such as Mumbai and Jaipur in the coming quarters
- Margins from emerging markets are expected to improve on the back of its continuous cost reduction measures and increasing occupancy
- Additional capacities in regions like Nagpur and Kolkata are on the cards through installation of LINAC machine

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Comments
Revenue	441.7	436.5	364.6	424.7	21.1	4.0	Sequential revenues growth was driven by significant ARPOB improvement which grew ~8% to Rs 39864 even as there was slight decline in occupancies from 65.7% to 65.1%.
Raw Material Expenses	116.4	110.5	91.0	107.5	27.9	8.3	
Employee Expenses	68.9	71.1	60.7	69.2	13.5	-0.5	
Other Expenditure	180.1	177.2	149.8	172.4	20.3	4.5	
Total Operating Expenditure	365.4	358.9	301.5	349.2	21.2	4.6	
EBITDA	76.3	79.9	63.2	75.5	20.9	1.1	
EBITDA (%)	17.3	18.3	17.3	17.8	-4 bps	-50 bps	Higher consumables expense and other expenses
Interest	25.6	27.1	24.1	27.1	6.2	-5.4	
Depreciation	42.2	39.9	41.1	40.8	2.7	3.5	
Other income	4.7	3.8	3.0	3.7	54.5	27.4	
PBT before EO	13.1	16.7	0.9	11.3	1,328.3	16.2	
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	13.1	16.7	0.9	11.3	1,328.3	16.2	
Tax	7.5	10.5	-1.3	7.1	LP	5.4	
MI & Share of loss/ (gain) asso.	-2.7	-4.9	-3.7	-3.3	NA	NA	
Adjusted Net Profit	8.4	11.1	6.0	7.5	39.7	11.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22		FY23		FY24E			FY25E			Comments
	Actual	Old	Actual	Change	Old	New	Change	Old	New	Change	
Revenue	1,397.8	1,691.6	1,697.5	0.3	1,938.0	1,971.3	1.7	2,122.9	2,122.4	0.0	
EBITDA	236.5	302.3	298.7	-1.2	373.2	383.9	2.8	413.6	422.7	2.2	
EBITDA Margin (%)	16.9	17.9	17.6	-28 bps	19.3	19.5	21 bps	19.5	19.9	43 bps	Guidance for 100 bps improvement in margins
PAT	-40.9	32.1	29.3	-8.6	84.2	88.8	5.4	118.6	119.8	1.0	
EPS (₹)	2.8	1.7	1.6	-8.6	4.5	4.7	5.4	6.3	6.3	1.0	

Source: ICICI Direct Research

Exhibit 3: Financial Summary

	Revenues	Growth	EPS	Growth	P/E	EV/EBITDA	RoE	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
FY21	1013	-7.5	-7.2	54.2	NA	38.9	NA	-0.9
FY22	1398	37.9	-2.9	-127.8	74.0	19.8	NA	5.0
FY23	1698	21.4	2.1	-45.4	135.5	15.7	3.4	8.1
FY24E	1971	16.1	6.4	202.4	44.8	11.8	9.4	12.5
FY25E	2122	7.7	8.6	34.9	33.2	10.1	11.2	14.3

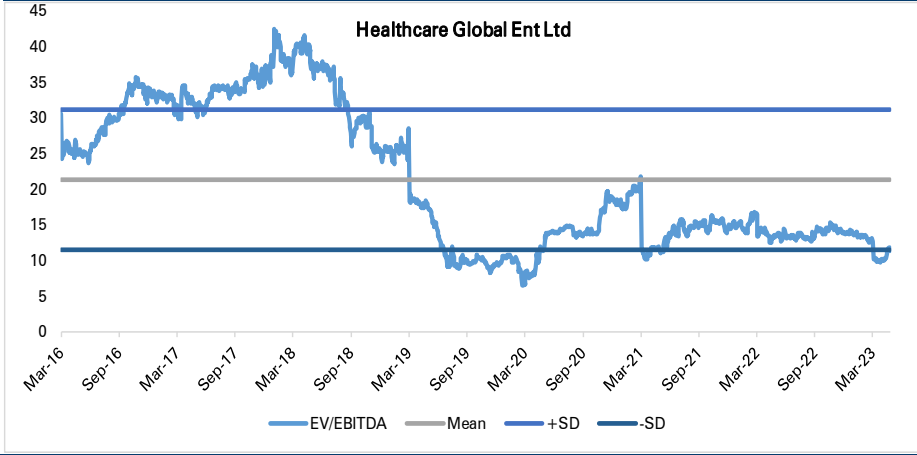
Source: ICICI Direct Research

Exhibit 4: Valuation

Particulars	FY25E (₹ cr)	Valuation Matrix	Multiple (x)	Enterprise value (₹ cr)
HCG Centres (Existing)	413.1	EV/EBITDA	12.0	4956.8
HCG Centres (New)	65.3	EV/EBITDA	10.0	652.8
Milan Centres	87.7	EV/Sales	1.0	87.7
Net Debt FY25E (₹ cr)				297.8
Mcap (₹ cr)				5399.6
No of shares (cr)				13.9
Per Share Value (₹)				390.0

Source: ICICI Direct Research

Exhibit 5: EV/EBITDA Band



Source: ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement					₹ crore
Year-end March	FY22	FY23	FY24E	FY25E	
Total Operating Income	1,397.8	1,697.5	1,971.3	2,122.4	
Growth (%)	37.9	21.4	16.1	7.7	
Raw Material Expenses	354.9	424.1	492.5	530.2	
Gross Profit	1,042.9	1,273.5	1,478.8	1,592.2	
Gross Profit Margins (%)	74.6	75.0	75.0	75.0	
Employee Expenses	233.7	275.1	319.5	344.0	
Other Expenditure	572.7	696.6	808.2	870.2	
Total Operating Expenditure	1,161.3	1,395.8	1,620.2	1,744.4	
EBITDA	236.5	298.7	383.9	422.7	
Growth (%)	87.4	26.3	28.5	10.1	
Interest	97.8	103.5	88.3	74.2	
Depreciation	158.3	163.5	175.1	181.8	
Other Income	12.7	13.2	15.3	16.5	
PBT before Exceptional Items	-6.8	44.9	135.8	183.1	
Less: Exceptional Items	-94.6	0.0	0.0	0.0	
PBT after Exceptional Items	87.8	44.9	135.8	183.1	
Total Tax	48.9	27.3	82.4	111.2	
PAT before MI	38.9	17.6	53.3	72.0	
Minority Interest	-14.8	-11.7	-35.4	-47.8	
PAT	53.7	29.4	88.8	119.8	
Growth (%)	-127.8	-45.4	202.4	34.9	
EPS (Adjusted)	-2.9	2.1	6.4	8.6	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					₹ crore
Year-end March	FY22	FY23	FY24E	FY25E	
Profit/(Loss) after taxation	64.1	22.2	88.8	119.8	
Add: Depreciation & Amortization	158.3	163.5	175.1	181.8	
Net Increase in Current Assets	-152.1	-104.2	-59.2	-35.1	
Net Increase in Current Liabilities	47.0	58.3	63.6	48.0	
Others	102.9	111.8	88.3	74.2	
CF from Operating activities	220.1	251.6	356.6	388.8	
Investments	181.3	-5.4	0.0	0.0	
(Purchase)/Sale of Fixed Assets	-70.4	-125.7	-100.0	-75.0	
Others	-19.5	-2.0	-0.7	-0.4	
CF from Investing activities	91.4	-133.0	-100.7	-75.4	
Proceeds from Equity	132.2	0.9	0.0	0.0	
(inc)/Dec in Loan	-119.3	-7.3	-125.1	-123.8	
Interest paid	-125.4	-95.6	-88.3	-74.2	
Other	-42.3	-38.0	0.0	0.0	
CF from Financing activities	-154.9	-140.1	-213.4	-198.0	
Net Cash Flow	156.7	-21.5	42.5	115.3	
Cash and Cash Equivalent	40.9	197.5	196.6	239.1	
Cash	197.5	176.0	239.1	354.5	
Free Cash Flow	149.7	125.9	256.6	313.8	

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet					₹ crore
Year-end March	FY22	FY23	FY24E	FY25E	
Equity Capital	139.0	139.1	139.1	139.1	
Reserve and Surplus	731.3	721.4	810.2	930.0	
Total Shareholders funds	870.3	860.5	949.3	1,069.1	
Total Debt	914.7	901.2	776.1	652.3	
Deferred Tax Liability	1.3	12.4	13.6	15.0	
Minority Interest	13.4	8.9	9.8	10.8	
Long-Term Provisions	10.5	13.2	14.5	16.0	
Other Non Current Liabilities	25.5	35.9	39.5	43.5	
Source of Funds	1,835.7	1,832.1	1,802.8	1,806.5	
Gross Block - Fixed Assets	2,061.9	2,231.2	2,331.2	2,406.2	
Accumulated Depreciation	696.0	859.5	1,034.6	1,216.4	
Net Block	1,365.9	1,371.8	1,296.7	1,189.8	
Capital WIP	21.7	18.2	18.2	18.2	
Fixed Assets	1,387.6	1,390.0	1,314.8	1,208.0	
Goodwill on Consolidation	181.3	181.2	181.2	181.2	
Investments	8.8	9.7	9.7	9.7	
Deferred Tax Assets	6.0	5.3	5.5	5.8	
Long Term Loans and Advances	100.4	111.7	117.3	123.1	
Other non-Current Assets	33.1	37.8	39.7	41.7	
Inventory	30.0	38.3	44.5	47.9	
Debtors	217.5	302.5	351.3	378.2	
Loans and Advances	1.6	1.8	1.9	2.1	
Other Current Assets	55.8	41.1	45.2	49.8	
Cash	197.5	196.6	239.1	354.5	
Total Current Assets	502.4	580.3	682.1	832.5	
Creditors	194.0	248.5	288.5	310.6	
Provisions	17.3	17.1	18.8	20.7	
Other Current Liabilities	172.6	218.4	240.2	264.2	
Total Current Liabilities	383.9	483.9	547.5	595.6	
Net Current Assets	118.5	96.4	134.5	236.9	
Application of Funds	1,835.7	1,832.1	1,802.8	1,806.5	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
Year-end March	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Reported EPS	3.9	2.1	6.4	8.6
Cash EPS	8.4	13.9	19.0	21.7
BV per share	62.6	61.9	68.3	76.9
Cash per Share	14.2	14.1	17.2	25.5
Dividend per share	0.0	0.0	0.0	0.0
Operating Ratios (%)				
Gross Profit Margins	74.6	75.0	75.0	75.0
EBITDA margins	16.9	17.6	19.5	19.9
PAT Margins	-2.9	1.7	4.5	5.6
Asset Turnover	0.7	0.8	0.8	0.9
EBITDA conversion Rate	93.1	84.2	92.9	92.0
Return Ratios (%)				
RoE	NA	3.4	9.4	11.2
RoCE	5.0	8.1	12.5	14.3
RoIC	4.9	8.4	13.6	16.9
Valuation Ratios (x)				
P/E	78.1	143.1	47.3	35.0
EV / EBITDA	20.8	16.4	12.3	10.6
EV / Net Sales	3.5	2.9	2.4	2.1
Market Cap / Sales	3.0	2.5	2.1	2.0
Price to Book Value	4.8	4.9	4.4	3.9
Solvency Ratios				
Debt / EBITDA	3.9	3.0	2.0	1.5
Debt / Equity	1.1	1.0	0.8	0.6
Current Ratio	0.8	0.8	0.8	0.8
Quick Ratio				
Inventory days	30.8	33.0	33.0	33.0
Debtor days	56.8	65.0	65.0	65.0
Creditor days	199.5	213.8	213.8	213.8
Net Debt/Equity	0.82	0.82	0.57	0.28

Source: Company, ICICI Direct Research

Exhibit 10: ICICI Direct Healthcare Coverage Universe

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				EV/EBITDA(x)				RoCE (%)				RoE (%)			
						FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Hospitals																					
Apollo Hospitals	APOHOS	4610	5,460	Buy	66383	59.1	60.5	80.2	126.8	30.2	31.6	25.8	18.8	15.1	14.1	16.6	21.8	15.1	13.8	16.0	21.1
Narayana Hrudalaya	NARHRU	844	990	Buy	17219	16.7	29.7	27.0	32.0	26.9	18.0	16.1	13.7	20.5	25.2	19.1	19.4	23.0	28.4	20.7	19.8
Shalby	SHALIM	136	170	Buy	1473	5.4	6.3	8.2	10.3	12.8	10.9	8.1	6.7	8.4	9.9	11.8	13.9	6.7	7.4	8.9	10.2
Aster DM	ASTDM	270	280	Buy	13500	10.5	8.6	18.1	23.6	10.1	9.3	6.2	4.7	9.0	8.7	13.6	15.4	13.3	9.8	17.1	18.2
Healthcare Global	HEAGLO	302	390	Buy	4198	3.9	2.1	6.4	8.6	20.8	16.4	12.3	10.6	5.0	8.1	12.5	14.3	5.0	3.4	9.4	11.2
Rainbow Children's Medicare	RAICHI	955	900	Hold	9742	13.6	20.8	19.2	20.2	30.3	26.4	24.6	20.9	20.2	17.8	14.5	16.5	22.9	19.9	15.5	14.0
Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				P/E(x)				RoCE (%)				RoE (%)			
						FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
MNC Pharma																					
Abbott India	ABBIND	21901	20,315	Hold	45993	380.3	452.1	501.7	564.3	57.6	48.4	43.7	38.8	36.6	38.7	34.1	31.0	28.3	29.8	26.1	23.6
Pfizer	PFIZER	3806	3,830	Hold	17505	133.2	135.6	135.7	147.2	28.6	28.1	28.0	25.8	26.1	24.8	22.7	21.6	21.4	18.4	17.1	16.3
Pharma																					
Ajanta Pharma	AJAPHA	1290	1,520	Buy	16514	55.7	46.5	59.9	69.2	23.2	27.7	21.5	18.6	27.0	21.3	23.5	23.3	21.8	17.4	19.2	18.9
Aurobindo Pharma	AURPHA	615	525	Hold	36030	47.4	34.8	46.2	52.4	13.0	17.6	13.3	11.7	12.9	10.2	12.6	13.1	11.3	7.7	9.3	9.6
Cipla	CIPLA	951	1,090	Buy	76774	32.9	36.4	42.7	48.2	28.9	26.1	22.3	19.7	16.7	17.4	17.8	18.2	12.7	12.5	13.2	13.4
Dr Reddy's Lab	DRREDD	4531	5,520	Buy	75214	127.2	269.3	230.2	256.5	35.6	16.8	19.7	17.7	12.5	23.9	18.8	21.1	11.0	19.2	14.4	14.2
Glenmark	GLEPHA	591	580	Hold	16677	42.7	37.8	34.6	41.3	13.8	15.7	17.1	14.3	14.8	13.4	13.5	14.9	13.2	11.2	9.4	10.1
Ipca Lab	IPCLAB	684	885	Hold	17385	34.8	20.8	31.4	37.0	19.7	32.9	21.8	18.5	17.4	12.1	15.7	16.5	16.1	8.9	12.1	12.7
Lupin	LUPIN	780	725	Hold	35488	11.9	8.3	25.6	33.0	65.7	93.8	30.4	23.7	3.4	5.7	11.0	13.0	4.4	3.0	8.6	10.2
Natco	NATPHA	630	565	Hold	11525	9.3	36.3	40.3	30.2	67.8	17.3	15.6	20.8	4.6	15.9	16.5	11.6	4.0	13.9	13.6	9.4
Sun Pharma	SUNPHA	970	1,210	Buy	232679	32.0	34.9	38.6	43.2	30.3	27.8	25.2	22.4	18.2	17.2	18.1	18.1	16.0	15.2	14.7	14.7
Torrent Pharma	TORPHA	1700	1,720	Hold	57468	32.0	36.3	45.1	53.8	53.1	46.8	37.7	31.6	19.7	17.1	20.4	23.3	18.2	17.9	19.0	19.4
Indoco Remedies	INDREM	335	405	Buy	3080	16.8	15.6	21.3	27.1	19.9	21.5	15.8	12.4	17.5	12.7	15.8	18.9	17.1	14.0	16.5	17.9
Caplin Point	CAPPOI	736	865	Buy	5596	39.5	48.8	47.9	47.9	18.7	15.1	15.4	15.4	25.3	23.5	22.4	22.4	20.2	20.2	16.7	16.7
Advanced Enzyme	ADVENZ	274	310	Hold	3068	11.5	13.1	10.7	10.7	23.7	21.0	25.7	25.7	14.3	10.9	13.4	14.2	11.0	8.7	10.7	11.3
Hester Bios	HESPHA	1651	1,490	Reduce	1486	45.7	31.1	40.5	53.3	36.1	53.1	40.8	31.0	10.9	7.5	8.8	10.3	15.0	9.4	11.2	13.1
API/CRAMS																					
Divi's Lab	DIVLAB	3514	3,575	Buy	93121	111.5	68.7	78.3	89.4	31.5	51.2	44.9	39.3	30.2	17.8	18.9	19.4	25.2	14.3	14.8	15.2
Hikal	HIKCHE	284	375	Hold	3493	13.0	5.7	14.6	20.7	21.8	49.9	19.5	13.7	13.6	7.2	14.3	17.7	15.0	6.3	14.1	17.0
Syngene International	SYNINT	718	740	Buy	28794	9.9	11.6	13.3	17.9	72.7	62.0	53.9	40.2	11.7	13.8	14.2	16.9	12.9	12.8	13.0	14.9
Granules India	GRANUL	277	1,090	Buy	3405	16.6	20.8	21.8	27.8	16.6	13.3	12.7	10.0	15.6	18.5	17.8	19.4	16.0	18.2	16.2	17.3
Laurus Labs	LAULAB	335	300	Hold	17981	15.4	14.7	10.5	10.5	21.7	22.7	31.9	31.9	21.3	19.8	14.6	16.0	24.7	19.6	12.4	13.5
Suven Pharma	SUVPH	477	0	Buy	12164	17.8	14.7	17.7	20.0	26.8	32.4	27.0	23.8	37.5	26.0	25.6	24.5	29.7	20.6	20.5	19.5

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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