

Expertise in cancer-care and expansion to the fore...

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. The company is pioneer in introducing technological advancements in cancer treatments such as Linear accelerators, Radiation machine, CyberKnife, Digital PET, Robotics among others. It also operates fertility treatment centre chain Milann which offers seven fertility centres in India.

- HCG network encompasses 22 comprehensive cancer centres and three multi-specialty hospitals. HCG India, capacity beds: 1926
- Revenue mix Q3FY24: Hospitals: 96%, Milann: 4%; occupancy Q3FY24: 59.8%; ARPOBD Q3FY24: Rs 42788.

Investment Rationale

- Q3FY24 results- Revenue growth strong but EBITDA growth muted – Revenues grew 11% YoY to Rs 470 crore, driven by 19% growth in emerging centres, whereas matured centres grew 8%. EBITDA grew 4% YoY to Rs 79 crore and the lower delta was attributable to higher employee costs and other expenses besides lower occupancy which was attributable to Chennai floods and scaling back of operations in one of the Bengaluru hospitals. EBITDA margins stood at 16.7%. Overall ARPOBD was at Rs 42788 up 16% YoY. Overall occupancy however was down to 59% against 65% in Q3FY23.
- Margins expansion to stem from operational efficiencies, higher profits from emerging centres; ARPOB growth to sustain – The bed expansion phase continues for HCG with a plan to add ~350 beds over the next three years in Ahmedabad, Baroda, Bangalore and Indore among others. The management expects EBITDA margins to reach to around ~20% in the due course on the back of better case mix, improving occupancies and better payee mix. The management expects ARPOB growth to sustain on the back of better technology and advancement in the emerging centres.

Rating and Target price

- With growing cancer instances and better diagnosis mechanism, we believe the company is well poised to tap the incremental opportunities. Growing coverage of private insurance is also an important lever for better payee mix. We expect Sales, EBITDA and PAT to grow at a CAGR of 12%, 15% and 88% during FY23-26E. Our assumption is based on 7-8% of ARPOB growth p.a. in both the existing and emerging centres with occupancies ranging between 62-65%. We have assumed ~175 beds additions till FY26E.
- Our SOTP valuation is Rs 425 based on 13x FY26E Matured Hospitals EBITDA, 14x FY26E Emerging Hospitals EBITDA, 1x FY26E Milann Sales.

Key Financial Summary

Key Financials (Rs Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Revenues	1095.6	1013.4	1397.8	1697.5	16.0	1924.7	2165.0	2390.7	12.1
EBITDA	159.9	126.2	236.5	298.7	23.0	325.6	384.5	448.6	14.5
EBITDA margins (%)	14.6	12.5	16.9	17.6		16.9	17.8	18.8	
Net Profit	-125.5	-193.5	53.7	29.4	LP	53.3	106.6	196.1	88.3
EPS (I)	-7.7	-7.2	-2.9	2.1		3.8	7.7	14.1	
PE (x)	NA	NA	89.3	163.4		89.9	45.0	24.5	
EV to EBITDA (x)	38.2	45.4	23.3	18.4		17.4	14.2	11.4	
RoCE (%)	1.0	-0.9	5.0	8.1		9.2	11.1	13.7	
ROE	NA	NA	NA	3.4		6.2	11.1	16.9	



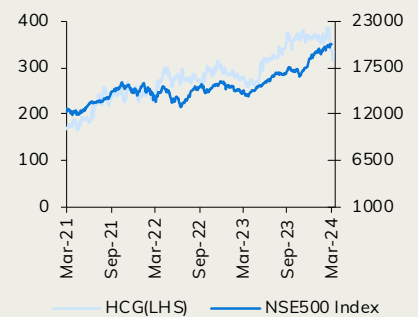
Particulars

Particular	Amount
Market Capitalisation	Rs 4796 crore
Debt (FY23)	Rs 901 crore
Cash (FY23)	Rs 197 crore
EV	Rs 5500 crore
Equity capital	Rs 139 crore
Face value	Rs 10

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	71.4	71.4	71.3	71.3
DII	5.5	6.6	7.9	8.5
FII	6.4	6.5	6.3	6.4
Others	16.7	15.6	14.5	13.9

Price Chart



Recent Event & Key risks

- Acquisition of Indore based SRJ CBCC Cancer hospital at Indore
- Key Risk:** (i) Delayed payback of the announced capex (ii) Possible Government action to regulate procedure charges

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Quarterly summary

(Rs crore)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Net Sales	272.9	297.0	322.4	351.3	357.2	363.9	407.3	419.2	423.9	441.0	459.7	486.0	468.8	10.6	-3.5
Other Operating Income	1.1	1.0	0.7	0.7	0.8	0.7	0.7	0.8	0.8	0.7	1.0	1.0	0.9	19.5	-5.2
Total Operating Income	274.0	298.1	323.1	352.0	358.1	364.6	408.1	420.0	424.7	441.7	460.7	487.0	469.7	10.6	-3.5
Raw Material Expenses	64.3	73.2	83.1	91.2	89.5	91.0	97.8	102.4	107.5	116.4	117.9	120.9	113.9	6.0	-5.7
% of Revenue	23.5	24.6	25.7	25.9	25.0	25.0	24.0	24.4	25.3	26.4	25.6	24.8	24.3	-106 bps	-57 bps
Gross Profit	209.7	224.9	240.0	260.8	268.5	273.6	310.3	317.6	317.2	325.3	342.8	366.1	355.8	12.2	-2.8
Gross Profit Margin (%)	76.5	75.4	74.3	74.1	75.0	75.0	76.0	75.6	74.7	73.6	74.4	75.2	75.7	106 bps	57 bps
Employee Expenses	51.2	53.8	55.8	56.1	61.1	60.7	68.7	68.3	69.2	68.9	76.9	77.2	77.3	11.7	0.2
% of Revenue	18.7	18.1	17.3	15.9	17.1	16.6	16.8	16.3	16.3	15.6	16.7	15.8	16.5	16 bps	62 bps
Other Expenditure	120.5	130.8	132.4	142.9	145.6	149.8	169.4	174.6	172.4	180.1	191.6	204.3	199.8	15.9	-2.2
% of Revenue	44.0	43.9	41.0	40.6	40.7	41.1	41.5	41.6	40.6	40.8	41.6	42.0	42.5	193 bps	58 bps
Total Expenditure	235.9	257.8	271.3	290.2	296.2	301.5	335.9	345.3	349.2	365.4	386.4	402.3	391.1	12.0	-2.8
% of Revenue	86.1	86.5	84.0	82.5	82.7	82.7	82.3	82.2	82.2	82.7	83.9	82.6	83.3	103 bps	64 bps
EBITDA	38.1	40.2	51.8	61.7	61.9	63.2	72.2	74.7	75.5	76.3	74.3	84.7	78.7	4.2	-7.1
EBITDA Margin (%)	13.9	13.5	16.0	17.5	17.3	17.3	17.7	17.8	17.8	17.3	16.1	17.4	16.7	-103 bps	-64 bps
Interest	28.7	25.9	26.4	23.2	24.0	24.1	25.0	25.8	27.1	25.6	25.6	26.9	29.5	8.8	9.6
Depreciation	41.8	38.4	37.8	38.0	41.4	41.1	39.7	40.8	40.8	42.2	41.0	43.2	44.2	8.3	2.2
Other Income	5.8	4.4	3.4	3.3	2.9	3.0	2.9	2.0	3.7	4.7	2.4	3.4	6.1	66.3	78.5
PBT	-26.6	-19.7	-8.9	3.8	-0.6	0.9	10.4	10.0	11.3	13.1	10.2	18.0	11.1	53.4	59.7
Total Tax	-0.7	9.4	3.6	42.9	3.7	-1.3	7.9	4.7	7.1	7.5	6.9	7.1	7.7	8.7	8.1
Tax rate (%)	2.5	-47.9	-40.4	1132.5	-581.0	-144.6	76.2	47.2	62.8	56.9	67.6	39.8	69.4	665 bps	2967 bps
PAT before MI	-34.7	-113.8	-12.5	101.0	-49.8	2.2	2.5	5.3	4.2	5.7	3.6	10.8	3.4	-19.5	-68.7
PAT Margin (%)	-12.7	-38.2	-3.9	28.7	-13.9	0.6	0.6	1.3	1.0	1.3	0.8	2.2	0.7	-27 bps	-150 bps

Valuation

Particulars	FY26E Rs cr	Valuation Matrix	Multiple (x)	Enterprise value (Rs cr)
HCG Centres (Existing)	385.9	EV/EBITDA	13.0	5016.7
HCG Centres (New)	90.7	EV/EBITDA	14.0	1269.1
Milan Centres	70.1	EV/Sales	1.0	70.1
Net Debt FY26E (Rs cr)				340.2
Mcap Rs cr)				6015.7
No of shares (cr)				13.9
Per Share Value (Rs)				435.0
cmp				345.0
up/Down				26%

Financial Tables

Profit and loss statement (Rs Crore)				
Year-end March	FY23	FY24E	FY25E	FY26E
Total Operating Income	1,697.5	1,924.7	2,165.0	2,390.7
Growth (%)	21.4	13.4	12.5	10.4
Raw Material Expenses	424.1	475.5	519.6	555.5
Gross Profit	1,273.5	1,449.2	1,645.4	1,835.2
Gross Profit Margins (%)	75.0	75.3	76.0	76.8
Employee Expenses	275.1	314.9	362.8	393.9
Other Expenditure	696.6	808.7	898.1	992.8
Total Operating Expenditure	1,395.8	1,599.1	1,780.6	1,942.1
EBITDA	298.7	325.6	384.5	448.6
Growth (%)	26.3	9.0	18.1	16.7
Interest	103.5	111.4	102.7	87.8
Depreciation	163.5	170.2	195.8	202.5
Other Income	13.2	18.4	20.7	22.9
PBT before Exceptional Items	44.9	62.5	106.7	181.2
Less: Exceptional Items	0.0	-0.4	0.0	0.0
PBT after Exceptional Items	44.9	62.9	106.7	181.2
Total Tax	27.3	30.8	42.7	63.4
PAT before MI	17.6	32.1	64.0	117.8
Minority Interest	-11.7	-21.3	-42.5	-78.3
PAT	29.4	53.3	106.6	196.1
Growth (%)	-45.4	81.7	99.8	84.0
EPS (Adjusted)	2.1	3.8	7.7	14.1

Balance Sheet (Rs crore)				
Year-end March	FY23	FY24E	FY25E	FY26E
Equity Capital	139.1	139.3	139.3	139.3
Reserve and Surplus	721.4	718.5	825.1	1,021.2
Total Shareholders funds	860.5	857.8	964.4	1,160.4
Total Debt	901.2	980.2	854.4	730.0
Deferred Tax Liability	12.4	13.6	15.0	16.5
Minority Interest	8.9	2.7	3.0	3.3
Long-Term Provisions	13.2	14.8	16.2	17.9
Other Non Current Liabilities	35.9	35.1	38.6	42.4
Source of Funds	1,832.1	1,904.1	1,891.5	1,970.4
Gross Block - Fixed Assets	2,231.2	2,500.1	2,600.1	2,675.1
Accumulated Depreciation	859.5	1,029.6	1,225.4	1,427.9
Net Block	1,371.8	1,470.5	1,374.7	1,247.2
Capital WIP	18.2	23.1	23.1	23.1
Fixed Assets	1,390.0	1,493.5	1,397.8	1,270.3
Goodwill on Consolidation	181.2	181.2	181.2	181.2
Investments	9.7	9.8	9.8	9.8
Deferred Tax Assets	5.3	5.4	5.7	6.0
Long Term Loans and Advances	111.7	132.7	139.3	146.3
Other non-Current Assets	37.8	27.8	29.1	30.7
Inventory	38.3	41.6	46.9	50.2
Debtors	302.5	333.1	355.9	393.0
Loans and Advances	1.8	2.4	2.6	2.9
Other Current Assets	41.1	70.7	77.9	85.5
Cash	196.6	125.9	194.4	389.7
Total Current Assets	580.3	573.6	677.6	921.2
Creditors	248.5	279.7	284.7	304.4
Provisions	17.1	18.9	20.8	22.9
Other Current Liabilities	218.4	221.3	243.4	267.8
Total Current Liabilities	483.9	519.9	548.9	595.0
Net Current Assets	96.4	53.7	128.7	326.4
Application of Funds	1,832.1	1,904.1	1,891.5	1,970.4

Cash Flow Statement (Rs crore)				
Year-end March	FY23	FY24E	FY25E	FY26E
Profit/(Loss) after taxation	22.2	53.3	106.6	196.1
Add: Depreciation & Amortization	163.5	170.2	195.8	202.5
Net Increase in Current Assets	-104.2	-64.2	-35.4	-48.4
Net Increase in Current Liabilities	58.3	36.0	29.0	46.1
Others	111.8	111.4	102.7	87.8
CF from Operating activities	251.6	306.7	398.6	484.0
Investments	-5.4	-0.1	0.0	-7.0
(Purchase)/Sale of Fixed Assets	-125.7	-273.7	-100.0	-75.0
Others	-2.0	-15.4	-1.7	5.5
CF from Investing activities	-133.0	-289.2	-101.7	-76.4
Proceeds from Equity	0.9	0.0	0.0	0.0
(inc)/Dec in Loan	-7.3	79.0	-125.8	-124.5
Interest paid	-95.6	-111.4	-102.7	-87.8
Other	-38.0	0.0	0.0	0.0
CF from Financing activities	-140.1	-32.4	-228.5	-212.2
Net Cash Flow	-21.5	-14.9	68.5	195.4
Cash and Cash Equivalent	197.5	196.6	125.9	194.4
Cash	176.0	181.8	194.4	389.7
Free Cash Flow	125.9	33.0	298.6	409.0

Ratio Analysis				
Year-end March	FY23	FY24E	FY25E	FY26E
Per share data (Rs)				
Reported EPS	2.1	3.8	7.7	14.1
Cash EPS	13.9	16.1	21.8	28.7
BV per share	61.9	61.7	69.4	83.5
Cash per Share	14.1	9.1	14.0	28.0
Dividend per share	0.0	0.0	0.0	0.0
Operating Ratios (%)				
Gross Profit Margins	75.0	75.3	76.0	76.8
EBITDA margins	17.6	16.9	17.8	18.8
PAT Margins	1.7	2.8	4.9	8.2
Cash Conversion Cycle	-115.8	-119.6	-107.0	-107.0
Asset Turnover	1.2	1.3	1.6	1.9
EBITDA conversion Rate	84.2	94.2	103.7	107.9
Return Ratios (%)				
RoE	3.4	6.2	11.1	16.9
RoCE	8.1	9.2	11.1	13.7
RoIC	8.4	8.9	11.3	15.9
Valuation Ratios (x)				
P/E	163.4	89.9	45.0	24.5
EV / EBITDA	18.4	17.4	14.2	11.4
EV / Net Sales	3.2	2.9	2.5	2.1
Market Cap / Sales	2.8	2.5	2.2	2.0
Price to Book Value	5.6	5.6	5.0	4.1
Solvency Ratios				
Debt / EBITDA	3.0	3.0	2.2	1.6
Debt / Equity	1.0	1.1	0.9	0.6
Current Ratio	0.8	0.9	0.9	1.5
Quick Ratio	0.7	0.8	0.8	1.5
Inventory days	33.0	32.0	33.0	33.0
Debtor days	65.0	63.2	60.0	60.0
Creditor days	213.8	214.7	200.0	200.0
Net Debt/Equity	0.82	1.00	0.68	0.29

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