

CMP: ₹ 475

Target: ₹ 600(26%)

Target Period: 12 months

November 12, 2024

BUY

Growth tempo maintained; execution on capex and acquisition front to be the key...

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 19 comprehensive cancer centres, 2 Center of Excellence, 6 Day care centers and three multi-specialty hospitals. HCG India, capacity beds: 1983
- Revenue mix Q2FY25: Hospitals: 97%, Milan: 3%; occupancy Q2FY25: 65.6%; ARPOBD Q2FY25: Rs 45,188.

Investment Rationale

- Q2FY25 - Numbers continue to improve- Revenues grew 14% YoY to ₹ 553 crore, driven by hospitals business which grew ~15%. Established centres grew 13% YoY to ₹ 485 core whereas Emerging centres grew 32% to ₹ 48 core. Fertility business Milan however degrew 12% YoY to ₹ 14 crore. EBITDA grew 17% YoY to ₹ 91 crore and EBITDA margins stood at 17.3%. Overall ARPOB was at ₹ 45188, up 7% YoY. Overall occupancy was flat YoY at 66%. The newly acquired Vizag hospital clocked ~₹ 30 core of sales and ~₹ 8 crore of EBITDA.
- Margins expansion to stem from operational efficiencies, higher profits from emerging centres; ARPOB growth to sustain - We continue to monitor progress on ARPOB and occupancies improvement especially at the new centres. We expect ROCE at the new centres to improve in the due course. 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. Growing EBITDA margins at the new centres and incorporation of Vizag Hospital would be the key drivers for margins growth. The management expects ARPOB growth (7-8% guidance) to sustain on the back of better technology and advancement in the emerging centres. With growing cancer instances and better diagnosis mechanism, we believe the company is well poised to tap the incremental opportunities.

Rating and Target price

- Our SOTP valuation is ₹ 600 based on 17x FY26E Matured Hospitals EBITDA, 15x FY26E Emerging Hospitals EBITDA, 1x FY26E Milan Sales.

Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	3 year CAGR (FY23-26E)
Revenues	1095.6	1013.4	1397.8	1697.5	16%	1915.3	2220.2	2532.3	14%
EBITDA	159.9	126.2	236.5	298.7	23%	329.7	403.3	513.5	20%
EBITDA margins (%)	14.6	12.5	16.9	17.6		17.2	18.2	20.3	
Net Profit	-125.5	-193.5	53.7	29.4	LP	58.6	74.1	98.2	50%
EPS (₹)	-7.7	-7.2	-2.9	2.1		3.9	5.3	7.1	
PE (x)	NA	NA	92.4	169.1		84.8	67.0	50.5	
EV to EBITDA (x)	39.3	46.7	24.0	19.0		18.1	15.5	12.1	
RoCE (%)	1.0	-0.9	5.0	8.1		7.9	10.3	12.4	
ROE	NA	NA	NA	3.4		6.6	8.6	10.2	

Source: Company, ICICI Direct Research



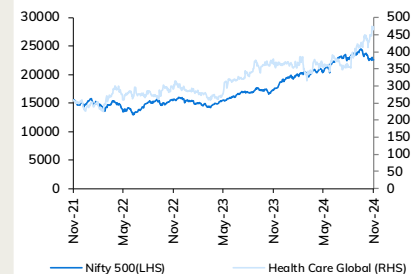
Particulars

Particular	Amount
Market Capitalisation	₹ 6533 crore
Debt (FY24)	₹ 1274 crore
Cash (FY24)	₹ 273 crore
EV	₹ 7535 crore
52 week H/L	505/310
Equity capital	₹ 139 crore
Face value	₹ 10

Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	71.3	71.3	71.3	71.2
DII	8.5	8.5	10.9	11.6
FII	6.4	6.7	4.0	4.3
Others	13.9	13.5	13.9	12.8

Price Chart



Key risks

- Key Risk: (i) Delayed payback of the announced capex (ii) Competition from super specialty hospitals in cancer treatment.

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Exhibit 1: Quarterly Summary

(Rs crore)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Net Sales	351.3	357.2	363.9	407.3	419.2	423.9	441.0	459.7	486.0	468.8	493.3	524.7	552.5	13.7	5.3
Other Operating Income	0.7	0.8	0.7	0.7	0.8	0.8	0.7	1.0	1.0	0.9	1.4	0.9	1.1	13.4	23.6
Total Operating Income	352.0	358.1	364.6	408.1	420.0	424.7	441.7	460.7	487.0	469.7	494.6	525.6	553.6	13.7	5.3
Raw Material Expenses	91.2	89.5	91.0	97.8	102.4	107.5	116.4	117.9	120.9	113.9	122.7	133.2	144.2	19.3	8.3
% of Revenue	25.9	25.0	25.0	24.0	24.4	25.3	26.4	25.6	24.8	24.3	24.8	25.3	26.1	123 bps	70 bps
Gross Profit	260.8	268.5	273.6	310.3	317.6	317.2	325.3	342.8	366.1	355.8	371.9	392.4	409.4	11.8	4.3
Gross Profit Margin (%)	74.1	75.0	75.0	76.0	75.6	74.7	73.6	74.4	75.2	75.7	75.2	74.7	73.9	-123 bps	-70 bps
Employee Expenses	56.1	61.1	60.7	68.7	68.3	69.2	68.9	76.9	77.2	77.3	76.9	85.2	85.3	10.5	0.2
% of Revenue	15.9	17.1	16.6	16.8	16.3	16.3	15.6	16.7	15.8	16.5	15.5	16.2	15.4	-44 bps	-79 bps
Other Expenditure	142.9	145.6	149.8	169.4	174.6	172.4	180.1	191.6	204.3	199.8	203.0	216.3	221.8	8.6	2.5
% of Revenue	40.6	40.7	41.1	41.5	41.6	40.6	40.8	41.6	42.0	42.5	41.0	41.2	40.1	-189 bps	-109 bps
Total Expenditure	290.2	296.2	301.5	335.9	345.3	349.2	365.4	386.4	402.3	391.1	402.6	434.7	451.3	12.2	3.8
% of Revenue	82.5	82.7	82.7	82.3	82.2	82.2	82.7	83.9	82.6	83.3	81.4	82.7	81.5	-109 bps	-118 bps
EBITDA	61.7	61.9	63.2	72.2	74.7	75.5	76.3	74.3	84.7	78.7	92.0	90.9	102.3	20.8	12.5
EBITDA Margin (%)	17.5	17.3	17.3	17.7	17.8	17.8	17.3	16.1	17.4	16.7	18.6	17.3	18.5	109 bps	118 bps
Interest	23.2	24.0	24.1	25.0	25.8	27.1	25.6	25.6	26.9	29.5	26.8	33.7	36.0	33.9	6.8
Depreciation	38.0	41.4	41.1	39.7	40.8	40.8	42.2	41.0	43.2	44.2	46.0	47.0	49.7	15.0	5.7
Other Income	3.3	2.9	3.0	2.9	2.0	3.7	4.7	2.4	3.4	6.1	5.1	8.8	11.1	226.5	26.0
PBT	3.8	-0.6	0.9	10.4	10.0	11.3	13.1	10.2	18.0	11.1	24.3	19.0	27.7	198.4	26.0
Total Tax	42.9	3.7	-1.3	7.9	4.7	7.1	7.5	6.9	7.1	7.7	4.8	5.4	7.0	-2.4	30.0
Tax rate (%)	1132.5	-581.0	-144.6	76.2	47.2	62.8	56.9	67.6	39.8	69.4	19.6	28.2	25.2	-1459 bps	-305 bps
PAT before MI	101.0	-49.8	2.2	2.5	5.3	4.2	5.7	3.6	10.8	3.4	23.5	13.6	20.7	91.4	52.1
PAT Margin (%)	28.7	-13.9	0.6	0.6	1.3	1.0	1.3	0.8	2.2	0.7	4.7	2.6	3.7	152 bps	115 bps

Source: Company, ICICI Direct Research

Exhibit 2: Valuation Summary

Particulars	FY26E Rs cr	Valuation Matrix	Multiple (x)	Enterprise value (Rs cr)
HCG Centres (Existing+MG)	533.1	EV/EBITDA	17.0	9063.0
HCG Centres (New)	32.4	EV/EBITDA	15.0	486.5
Milan Centres	67.4	EV/Sales	1.0	67.4
Net Debt FY26E (Rs cr)				1263.5
Mcap Rs cr)				8353.4
No of shares (cr)				13.9
Per Share Value (Rs)				600.0
CMP				475.0
Up/Down				26%

Source: ICICI Direct Research

Q2FY25 Conference call highlights

- Capex is expected to be around ₹ 300 crores during FY25.
- The company aims to continue its margin expansion trajectory and move towards 20% margin by Q4FY25.
- MG Hospital is the market leader with more than 30% market share in Vizag.
- Mumbai 30-35% revenue comes from international patients, however during current quarter company witnessed slowdown in international business due to geopolitical issues in Bangladesh.
- The company has completed two acquisitions during last year, one in Indore and the other in Vizag, which is expected to add 200 bps to 300 bps of growth.
- The company is currently developing two state-of-the-art hospitals with a total of 125 beds in North Bangalore and Whitefield area in Bangalore, expected to be fully operational by early FY26.
- The company plans to add 60 beds in Cuttack, with the potential to expand to 100 beds in the future, with construction set to begin in the current financial year and operations expected to start by early FY '27.
- Company aims to have 900 beds capacity in 3 years.
- Company expects Effective Tax rate to be around 28%.
- In Ahmedabad facility company has moved from 100 beds to 200 beds, and added 20 beds in COE Bangalore.
- HCG is moving Triesta and Cyclotron business into a separate entity under its wholly owned subsidiary from where company is planning to grow it beyond the HCG networks also.

Financial Tables

Exhibit 3: Profit and loss statement					₹ crore
Year-end March	FY23	FY24	FY25E	FY26E	
Total Operating Income	1,697.5	1,915.3	2,220.2	2,532.3	
Growth (%)	21.4	12.8	15.9	14.1	
Raw Material Expenses	424.1	475.4	574.2	588.5	
Gross Profit	1,273.5	1,439.9	1,646.0	1,943.7	
Gross Profit Margins (%)	75.0	75.2	74.1	76.8	
Employee Expenses	275.1	308.2	341.3	392.0	
Other Expenditure	696.6	798.7	899.3	1,038.2	
Total Operating Expenditure	1,395.8	1,582.3	1,814.9	2,018.8	
EBITDA	298.7	329.7	403.3	513.5	
Growth (%)	26.3	10.4	22.3	27.3	
Interest	103.5	108.7	141.7	135.6	
Depreciation	163.5	174.4	187.7	247.9	
Other Income	13.2	16.9	42.7	48.8	
PBT before Exceptional Items	44.9	63.5	116.6	178.7	
Less: Exceptional Items	0.0	-4.3	0.0	0.0	
PBT after Exceptional Items	44.9	67.8	116.6	178.7	
Total Tax	27.3	26.5	29.9	62.5	
PAT before MI	17.6	41.3	86.7	116.1	
Minority Interest	-11.7	-17.2	12.6	17.9	
PAT	29.4	58.6	74.1	98.2	
Growth (%)	-45.4	99.4	26.5	32.6	
EPS (Adjusted)	2.1	3.9	5.3	7.1	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
Year-end March	FY23	FY24	FY25E	FY26E	
Profit/(Loss) after taxation	22.2	20.4	74.1	98.2	
Add: Depreciation & Amortization	163.5	174.4	187.7	247.9	
Net Increase in Current Assets	-104.2	-39.7	-67.5	-70.7	
Net Increase in Current Liabilities	58.3	12.5	36.0	19.6	
Others	111.8	117.0	141.7	135.6	
CF from Operating activities	251.6	284.6	372.1	430.7	
Investments	-5.4	6.8	-0.7	-6.3	
(Purchase)/Sale of Fixed Assets	-125.7	-184.0	-473.1	-279.8	
Others	-6.8	-48.5	3.6	7.3	
CF from Investing activities	-137.9	-225.7	-470.2	-278.8	
Proceeds from Equity	0.9	2.0	0.0	0.0	
(inc)/Dec in Loan	-7.3	96.7	283.6	-90.4	
Interest paid	-95.6	-117.1	-141.7	-135.6	
Other	-38.0	-45.6	0.0	0.0	
CF from Financing activities	-140.1	-64.0	141.9	-226.0	
Net Cash Flow	-26.3	-5.2	24.1	-74.1	
Cash and Cash Equivalent	197.5	171.2	272.6	278.2	
Cash	171.2	272.6	296.7	204.1	
Free Cash Flow	125.9	100.6	-101.1	150.9	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					₹ crore
Year-end March	FY23	FY24	FY25E	FY26E	
Equity Capital	139.1	139.3	139.4	139.4	
Reserve and Surplus	721.4	686.5	722.4	820.6	
Total Shareholders funds	860.5	825.8	861.8	960.0	
Total Debt	901.2	1,274.4	1,558.0	1,467.5	
Deferred Tax Liability	12.4	6.1	0.6	0.6	
Minority Interest	8.9	39.3	43.8	48.1	
Long-Term Provisions	13.2	15.7	15.8	17.4	
Other Non Current Liabilities	35.9	32.8	37.8	41.5	
Source of Funds	1,832.1	2,194.1	2,517.6	2,535.2	
Gross Block - Fixed Assets	2,231.2	2,569.1	3,089.7	3,369.5	
Accumulated Depreciation	859.5	1,033.8	1,221.6	1,469.5	
Net Block	1,371.8	1,535.2	1,868.1	1,900.0	
Capital WIP	18.2	83.2	35.7	35.7	
Fixed Assets	1,390.0	1,618.4	1,903.8	1,935.6	
Goodwill on Consolidation	181.2	222.9	223.0	223.0	
Investments	9.7	10.3	11.0	11.0	
Deferred Tax Assets	5.3	7.1	8.0	8.3	
Long Term Loans and Advances	111.7	125.6	127.0	133.3	
Other non-Current Assets	37.8	43.2	41.2	43.5	
Inventory	38.3	42.7	49.6	53.1	
Debtors	302.5	294.0	356.0	416.3	
Loans and Advances	1.8	1.9	2.4	2.7	
Other Current Assets	63.2	68.5	66.7	73.2	
Cash	174.6	272.6	278.2	204.1	
Total Current Assets	580.3	679.8	752.9	749.3	
Creditors	248.5	281.1	325.3	322.5	
Provisions	17.1	18.3	19.1	21.0	
Other Current Liabilities	218.4	214.1	205.1	225.6	
Total Current Liabilities	483.9	513.5	549.5	569.1	
Net Current Assets	96.4	166.3	203.5	180.4	
Application of Funds	1,832.1	2,193.9	2,517.4	2,535.0	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
Year-end March	FY23	FY24	FY25E	FY26E	
Per share data (Rs)					
Reported EPS	2.1	4.2	5.3	7.1	
Cash EPS	13.9	16.4	18.8	24.9	
BV per share	61.9	59.4	62.0	69.1	
Cash per Share	12.6	19.6	20.0	14.7	
Dividend per share	0.0	0.0	0.0	0.0	
Operating Ratios (%)					
Gross Profit Margins	75.0	75.2	74.1	76.8	
EBITDA margins	17.6	17.2	18.2	20.3	
PAT Margins	1.7	2.8	3.3	3.9	
Cash Conversion Cycle	-116	-127	-117	-107	
Asset Turnover	1.2	1.2	1.2	1.3	
EBITDA conversion Rate	84.2	86.3	92.3	83.9	
Return Ratios (%)					
RoE	3.4	6.6	8.6	10.2	
RoCE	8.1	7.9	10.3	12.4	
RoIC	8.3	8.5	9.8	11.6	
Valuation Ratios (x)					
P/E	225.0	112.8	89.1	67.2	
EV / EBITDA	24.5	23.1	19.5	15.3	
EV / Net Sales	4.3	4.0	3.6	3.1	
Market Cap / Sales	3.9	3.4	3.0	2.6	
Price to Book Value	7.7	8.0	7.7	6.9	
Solvency Ratios					
Debt / EBITDA	3.0	3.9	3.9	2.9	
Debt / Equity	1.0	1.5	1.8	1.5	
Current Ratio	0.8	0.8	0.9	1.3	
Quick Ratio	0.8	0.7	0.8	1.2	
Inventory days	33	33	32	33	
Debtor days	65	56	59	60	
Creditor days	214	216	207	200	
Net Debt/Equity	0.84	1.21	1.48	1.32	

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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