

Highest ever revenue but profitability impacted due to seasonality

KKR is set to acquire a controlling stake of up to 54% in HCG from CVC, triggering an open offer for 26% of the voting share capital. The first tranche will involve acquiring a 51% stake at ₹445 per share. In Q3FY25, HCG achieved its highest-ever quarterly revenue, reflecting a 19% YoY growth. However, profitability and margins were impacted due to Q4 being a seasonally weaker quarter. Losses in emerging markets are gradually narrowing and are anticipated to turn profitable by FY26. The international business is facing challenges due to political instability in Bangladesh. The management aims to expand margins by 100-150 bps in FY26, while ongoing capex plans remain on track as per the scheduled timeline. The company has witnessed growth in volumes across various modalities.

Key Business Highlights

- Total LINAC machines as on Q3FY25 stands at 39
- Utilization of LINAC remained flat YoY @ 60% in Q3FY25 vs 61% in Q3FY24.
- ARPOB grew by 3.5% and came at Rs 44,284 vs Rs 42,788 in Q3FY24.
- Avg Occupancy for the company stood at 62.1% as against 59.8%, +230 bps in Q3FY24.

Key Financial Highlights

- Revenue (Excl OI) at INR 5,586 Mn, +19% YoY / +1% QoQ
- Reported EBITDA at INR 884 Mn, +12% YoY / -14% QoQ
- Reported EBITDA margin at 15.8% vs 16.7% / 18.5% in Q3FY24 / Q2FY25.
- EPS stood at INR 0.50 vs 0.41 / 1.29 in Q3FY24 / Q2FY25

Financial Summary

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net sales	16,944	19,121	22,156	25,803	29,671
EBIDTA	2,987	3,296	3,984	4,948	5,844
Margins	17.6	17.2	18.0	19.2	19.7
PAT (adj)	293	454	545	803	1,272
Growth (%)	-54.7	134.7	50.3	42.9	52.7
EPS	2.11	3.46	3.91	5.77	9.13
P/E (x)	239	145	129	87	55
P/B (x)	8	8	8	7	7
EV/EBITDA (x)	24	22	18	14	12
RoE (%)	3	5	6	8	12
ROCE (%)	12	11	13	15	18

Source: Dalal and Broacha

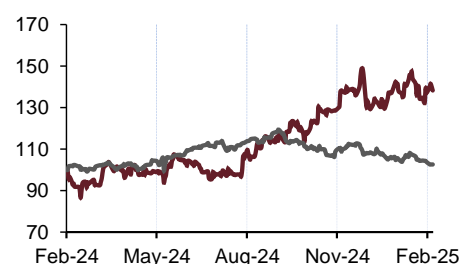
Rating	TP (Rs)	Up/Dn (%)
HOLD	557	11

Market data

Current price	Rs	504
Market Cap (Rs.Bn)	(Rs Bn)	70
Market Cap (US \$ Mn)	(US \$ Mn)	805
Face Value	Rs	10
52 Weeks High/Low	Rs	567.7 / 310.1
Average Daily Volume	('000)	226
BSE Code		539787
Bloomberg		HCG.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-24	Sep-24
Promoters	71.25	71.28
Public	28.75	28.72
Total	100	100

Source: Bloomberg

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Key Operational Highlights

Key Operational Metrics	Q3FY25A	Q3FY24	YoY Growth (%)	Q2FY25	QoQ Growth (%)
ARPOB					
Matured Centres	42,798	41,638	2.8%	43,394	-1.4%
Emerging Centres	66,050	58,825	12.3%	72,653	-9.1%
Total	44,284	42,788	3.5%	45,188	-2.0%
Occupancy			bps		bps
Matured Centres	63.20%	61.70%	150	67.10%	-390
Emerging Centres	49.70%	47.30%	240	48.60%	110
Total	62.10%	59.80%	230	65.60%	-350

Source: Company, Dalal & Broacah Research

- Established and emerging centres have been growing well.
- Emerging centre has grown revenue at 25% YoY in Q3FY25 and EBITDA at 65% YoY.
- Revenue for established centre has grown at 20% YoY in Q3FY25 and EBITDA at 14%.

Cluster Wise Break-Up

Cluster	Q3FY25A	Q3FY24	YoY Growth (%)	Q2FY25	QoQ Growth (%)
Karnataka	1,534	1,423	8%	1,631	-5.9%
Gujarat	1,291	1,175	10%	1,344	-3.9%
East India	642	533	21%	646	-0.6%
Maharashtra	898	728	23%	893	0.6%
Tamil Nadu	78	63	23%	81	-3.7%
North India	251	219	15%	288	-12.8%
AP	645	350	84%	398	62.1%
Africa	111	45	149%	97	14.4%

Source: Company, Dalal & Broacah Research

Quarterly Financials

(Rs. Mn)	Q3FY25A	Q3FY24	YoY Growth(%)	Q2FY25	QoQ Growth (%)
Revenue from Operations	5,586	4,699	19%	5,535	1%
Other Income	46	61	-24%	111	-58%
Total RM Cost	1,491	1,139	31%	1,442	3%
Employee Benefits Expense	902	773	17%	853	6%
Other Expenses + Medical consultancy charges	2,308	2,000	15%	2,218	4%
Total Expenses	4,702	3,913	20%	4,513	4%
EBITDA (Excluding Other Income)	884	786	12%	1,023	-14%
Depreciation and Amortisation Expenses	565	442	28%	497	14%
EBIT / PBIT	365	405	-10%	637	-43%
Finance Costs	407	295	38%	360	13%
EBT/ PBT	(42)	111	-138%	277	-115%
Exceptional Items	-	-		-	
Share of profit from Associate/JV	9	(0)		(0)	
Tax Expense	(111)	76	-245%	70	-259%
Minority Interest	8	(23)		27	
Owners PAT reported	70	57	22%	180	-61%
Earning per share	0.50	0.41	22%	1.29	-61%

Margins (%)			bps			bps
EBITDA Margins (Excl Other Income)	15.8%	16.7%	-91.0	18.5%	-265	
PAT Margins	1.4%	0.7%	65.5	3.7%	-229	

As a % to sales			bps			bps
RM as a % to sales	26.7%	24.2%	245.0	26.1%	64	
EE Cost as a % to sales	16.2%	16.5%	-30.2	15.4%	75	
Other exps as a % to sales	41.3%	42.6%	-123.8	40.1%	126	

Key Operational Metrics					
Matured Centre ARPOB	42,798	41,638	2.8%	43,394	-1.4%
Emerging Centre ARPOB	66,050	58,825	12.3%	72,653	-9.1%
Total Occupancy Rate	62.10%	59.80%	230	65.60%	-350

Source: Company, Dalal & Broacah Research

KKR acquires controlling stake from CVC

- Stake sale of up to 54% of diluted voting share capital.
- First tranche – 51% stake acquisition (7.27 cr shares)
- Second tranche – Additional shares if needed, to reach 54%.
- KKR to take control, existing promoter (CVC) to step down.
- SPA price – Rs 445; Total deal value – ~Rs 3428 cr.

Triggering an Open Offer

- Shares offered – 3.71 cr (26% of voting share capital)
- Offer price – Rs 504.41
- Total Open Offer size – Rs 1870 cr
- ***Note - If the percentage of diluted voting share capital held by KKR (Acquirer) & a group company upon completion of first tranche shares along with shares tendered by public share holder under open offer is less than 54%, then the acquirer will acquire additional shares from CVC at SPA price such that their aggregate holding reaches 54%.***

Post Deal Impact

- KKR to be a promoter and sole controller of HCG
- Shareholding of B.S. Ajaikumar and family to retain at ~10.87% but will assume no executive role.
- Aceso (CVC) to exit promoter group and be reclassified as a public shareholder.

Other Concall KTAs

Leadership & Operations:

- B.S. Ajaikumar will focus on research-oriented projects and data collection.
- KKR will take full control of HCG's operations.

Financial & Business Performance:

- The company witnessed increase in volume across modalities.
- South Mumbai recorded strong YoY growth of 28%, though overall performance was impacted by challenges in the international business. Improvement is expected going forward.
- The international business contributes ~3.5-4% to topline, with management confident in maintaining this level.
- FY25 started on a positive note, but political unrest in Bangladesh led to a weaker Q2 and the lowest performance in Q3FY25.
- International business is expected to recover to Q2FY25 levels in Q4FY25 and improve further.
- Occupancy improved from 52% to 55% in Q3FY25.
- PAT grew by 22% in the quarter, driven by a deferred tax credit of ₹12 crore.

- Effective tax rate at 3% for 9MFY25 due to utilization of deferred tax credit during the quarter of Rs 12 cr.
- MG Hospital contributed Rs 25cr to revenue at 24% margin levels.

Margins & Growth Outlook:

- Margins declined sequentially due to seasonality but are expected to improve as revenue scales up in Q4FY25.
- Management anticipates a margin expansion of 100-150 bps in FY26.
- Established centers are expected to grow at 13-14%, surpassing the market growth rate of 11%.
- Continued investments are being made to prevent capacity bottlenecks.

Capex & Debt Position:

- FY25 capex is estimated at ~₹275 crore, with ₹172 crore deployed YTD.
- The company plans to invest ₹275-300 crore annually, including ₹100 crore for maintenance capex.
- South Mumbai operations are expected to report a ₹10 crore loss in FY25, but this is narrowing and should turn profitable in FY26.
- Net debt (excluding capital leases) stands at ₹668.9 crore, with management comfortable at current levels.

Expansion in Pipeline

- **North Bangalore (125 beds)**
 - Planned capex: Rs 90 cr
- Capex Incurred till end of Q3FY25: Rs 13.6 cr
- **Whitefield COE-Bangalore**
 - Planned capex: Rs 29 cr
 - Capex Incurred till end of Q3FY25: Rs 5.2 cr

Outlook and Valuations

HCG aims to maximize the potential of its existing facilities while remaining open to brownfield expansion opportunities, including mergers and acquisitions, as it has done in the past. The company anticipates an improvement in revenue and margins from the subdued levels seen in Q3FY25, which were impacted by seasonality. Through operational efficiencies, HCG successfully reduced its ALOS from 2.03 days to 2.01 days in Q3FY25, positively influencing ARPOB. Additionally, revenue from international patients is expected to recover as the political situation in Bangladesh stabilizes, with the international business projected to contribute 3.5–4% of total revenue.

While Dr. Ajaikumar will focus on research and academics, the company remains committed to enhancing margins and addressing international business challenges. HCG remains optimistic about its growth prospects and is dedicated to strengthening shareholder value through a focus on patient care and strategic initiatives.

HCG @ CMP of Rs. 503 trades at 12x EV/EBITDA on FY27E; we value HCG @ 15x FY27 EV/EBITDA multiple to arrive at a target price of Rs. 557, an upside of 11%. We recommend HOLD rating on the stock.

Financials

P&L (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	16,944	19,121	22,156	25,803	29,671
Operating Expenses	-4,241	-4,754	-5,639	-6,193	-7,121
Employee Cost	-2,751	-3,082	-3,490	-4,180	-4,747
Other Expenses	-6,966	-7,989	-9,044	-10,482	-11,958
Operating Profit	2,987	3,296	3,984	4,948	5,844
Depreciation	-1,635	-1,744	-2,100	-2,336	-2,581
PBIT	1,352	1,552	1,884	2,613	3,264
Other income	132	169	311	311	311
Interest	-1,035	-1,087	-1,522	-1,702	-1,676
PBT	449	634	673	1,222	1,899
Profit before tax (post exceptional)	449	674	673	1,222	1,899
Provision for tax	-273	-264	-60	-342	-551
Profit & Loss from Associates/JV	-0	4	8	8	8
Reported PAT	176	414	622	888	1,357
MI	117	68	-77	-85	-85
Owners PAT	293	482	545	803	1,272
Adjusted Profit (excl Exceptionals)	293	454	545	803	1,272

Balance Sheet (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	1,391	1,393	1,393	1,393	1,393
Reserves	7,214	6,865	7,486	8,375	9,277
Net worth	8,605	8,258	8,879	9,767	10,670
MI	89	393	438	438	438
Non Current Liabilities	8,763	10,987	13,772	15,542	16,807
Current Liabilities	5,703	7,437	8,576	8,783	8,814
TOTAL LIABILITIES	23,160	27,075	31,665	34,530	36,729
Non Current Assets	17,357	20,277	20,049	20,327	20,063
Right of Use Assets	3,813	4,907	4,907	4,907	4,907
Financial Assets	639	590	776	893	893
Deferred Tax Asset	53	71	73	75	77
Long Term Loans and Advances	-	-	-	-	-
Other Non Current Assets	953	1,203	1,420	1,703	1,789
Current Assets	5,803	6,799	11,616	14,203	16,666
Current investments	-	-	-	-	-
Inventories	383	427	572	679	780
Trade Receivables	3,025	2,940	3,642	4,595	5,284
Cash and Bank Balances	1,966	3,031	6,952	8,424	10,065
Short Term Loans and Advances	18	19	21	23	26
Other Financial Assets	72	68	68	68	68
Other Current Assets	339	314	361	415	444
TOTAL ASSETS	23,160	27,075	31,665	34,530	36,729

Cashflow (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	449	674	673	1,222	1,899
Depreciation	1,635	1,744	2,100	2,336	2,581
Net Chg in WC	-389	367	-413	-826	-269
Taxes	-154	-343	-209	-342	-551
Others	1,607	885	1,004	1,064	1,228
CFO	3,148	3,326	3,156	3,453	4,888
Capex	-1,415	-2,722	-2,300	-2,750	-2,500
Net Investments made	-9	-6	-8	-8	-
Others	-	-	-	-	-
CFI	-1,424	-2,728	-2,308	-2,758	-2,500
Change in Share capital	-	-	-	-	-
Change in Debts	-135	3,732	3,565	2,262	1,107
Div. & Div Tax	-	-	-	-	-
Others	-1,598	-3,265	-491	-1,485	-1,854
CFF	-1,733	467	3,074	776	-747
Total Cash Generated	-9	1,065	3,921	1,471	1,641
Cash Opening Balance	1,975	1,966	3,031	6,952	8,424
Cash Closing Balance	1,966	3,031	6,952	8,424	10,065
Ratios	FY23	FY24	FY25E	FY26E	FY27E
OPM	17.6	17.2	18.0	19.2	19.7
NPM	1.7	2.4	2.4	3.1	4.2
Tax rate	-60.7	-39.2	-8.9	-28.0	-29.0
Growth Ratios (%)					
Net Sales	21.2	12.8	15.9	16.5	15.0
Operating Profit	25.5	10.3	20.9	24.2	18.1
PBIT	69.7	14.8	21.3	38.7	24.9
PAT	-54.7	134.7	50.3	42.9	52.7
Per Share (Rs.)					
Net Earnings (EPS)	2.11	3.46	3.91	5.77	9.13
Dividend	-	-	-	0.58	0.91
Book Value	61.85	59.28	63.75	70.12	76.60
Free Cash Flow	2.60	2.39	7.93	4.60	15.28
Valuation Ratios					
P/E(x)	239	145	129	87	55
P/B(x)	8	8	8	7	7
EV/EBIDTA(x)	24	22	18	14	12
Div. Yield(%)	-	-	-	0.11	0.18
FCF Yield(%)	0.52	0.48	1.58	0.91	3.04
Return Ratios (%)					
ROE	3%	5%	6%	8%	12%
ROCE	12%	11%	13%	15%	18%
RoIC	5%	9%	20%	19%	25%

Source: Company, Dalal & Broacah Research

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