

Misses estimates || performance expected to improve

HCG released their Q3FY24 results, which fell below consensus estimates. Performance in matured centers experienced a slowdown, primarily attributed to the scaling down of operations at one of the facilities in Bangalore. Additionally, the company's cyclotron business was adversely affected by a flood issue in Chennai, resulting in a revenue loss of Rs 18 million and an EBITDA loss of Rs 13 million.

The company announced new 100 beds hospital in Bangalore, expected to launch within the next 15-18 months. Furthermore, relocating to a newly constructed premium state-of-the-art facility with an additional 100 beds in Ahmedabad in Q1FY25 is anticipated to drive growth. Performance is expected to improve once business operations return to normalcy.

Key Business Highlights

- Successfully launched Smart APP – HCG care, a one stop-shop solutions for patients.
- Announced new 100 beds hospital in North Bangalore, to be launched in 15-18 months
- Net 60 beds addition in Q3FY24
- Utilization of LINAC machines @ 61% for Q3FY24 vs 66% YoY.
- Recent acquisition in Nagpur & Indore progressing as expectations.

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	13,978	16,944	19,032	22,275	24,948
EBIDTA	2,380	2,986	3,269	4,058	4,820
Margins	17.0	17.6	17.2	18.2	19.3
PAT (adj)	-53	293	297	506	700
Growth (%)	-117.6	-54.8	2.1	116.5	50.0
EPS	3.87	2.11	2.13	3.64	5.03
P/E (x)	95	174	172	101	73
P/B (x)	6	6	6	5	5
EV/EBITDA (x)	22	17	16	13	11
RoE (%)	-1	3	3	5	7
ROCE (%)	7	12	11	13	15
RoIC (%)	4	5	6	9	10

Source: Dalal and Broacha

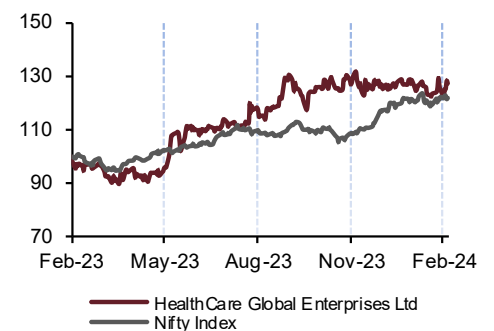
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	460	26

Market data

Current price	Rs	367
Market Cap (Rs.Bn)	(Rs Bn)	51
Market Cap (US\$ Mn)	(US\$ Mn)	615
Face Value	Rs	10
52 Weeks High/Low	Rs	389.35 / 249.1
Average Daily Volume	('000)	292
BSE Code		539787
Bloomberg		HCG.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-23	Sep-23
Promoters	71.30	71.30
Public	28.70	28.70
Total	100	100

Source: BSE

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Key Financials Highlights

- Revenue (Excl OI) at INR 4,699 Mn, +11% YoY / -4% QoQ
- Reported EBITDA at INR 786 Mn, +4% YoY / -7% QoQ
- Reported EBITDA margin at 16.7% vs 17.8% / 17.4% in Q3FY23 / Q2FY24
- EPS stood at INR 0.41 vs 0.54 / 0.97 in Q3FY23 / Q2FY24
- ROCE for mature centers stood at 18.5% vs 18.9% in Q3FY23 (Pre-corp exp @ 22.5%)
- ROCE for emerging centers stood at -3.9% vs -5.8% in Q3FY23 (Pre-corp exp @ -0.8%)

Key Operational Highlights

Key Operational Metrics	Q3FY24A	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)
ARPOB					
Matured Centres	43,669	40,154	8.8%	43,460	0.5%
Emerging Centres	40,545	30,058	34.9%	38,522	5.3%
Total	42,788	37,014	15.6%	42,054	1.7%
Occupancy			bps		bps
Matured Centres	59.30%	63.20%	-390	65.10%	-580
Emerging Centres	61.00%	71.90%	-1090	60.10%	90
Total	59.80%	65.70%	-590	63.60%	-380

Source: Company, Dalal & Broacah Research

Quarterly Financials

(Rs. Mn)	Q3FY24A	Q3FY23	YoY Growth(%)	Q2FY24	QoQ Growth (%)
Revenue from Operations	4,699	4,247	11%	4,869	-4%
Other Income	61	37	66%	34	79%
Total RM Cost	1,139	1,075	6%	1,209	-6%
Employee Benefits Expense	773	692	12%	772	0%
Other Expenses + Medical consultancy charges	2,000	1,724	16%	2,043	-2%
Total Expenses	3,913	3,492	12%	4,023	-3%
EBITDA (Excluding Other Income)	786	755	4%	846	-7%
Depreciation and Amortisation Expenses	442	408	8%	432	2%
EBIT / PBIT	405	384	6%	448	-10%
Finance Costs	295	271	9%	269	10%
EBT/ PBT	111	113	-2%	179	-38%
Share of profit from Associate/JV	(0)	(0)		(0)	
Tax Expense	76	71	7%	71	7%
Net Profit after Tax	34	42	-19%	108	-68%
Earning per share	0.41	0.54	-25%	0.97	-58%
Margins (%)			bps		bps
EBITDA Margins (Excl Other Income)	16.7%	17.8%	-104.8	17.4%	-65
PAT Margins	0.7%	1.0%	-26.2	2.2%	-148
As a % to sales			bps		bps
RM as a % to sales	24.2%	25.3%	-107.1	24.8%	-58
EE Cost as a % to sales	16.5%	16.3%	15.8	15.8%	61
Other exps as a % to sales	42.6%	40.6%	196.0	42.0%	61

Source: Company, Dalal & Broacah Research

Cluster Wise Break-Up

Cluster	Q3FY24A	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)
Karnataka	1,423	1,396	2%	1,574	-9.6%
Gujarat	1,175	1,025	15%	1,216	-3.4%
East India	533	420	27%	534	-0.3%
Maharashtra	728	616	18%	713	2.1%
Tamil Nadu	63	78	-18%	80	-20.9%
North India	219	200	9%	185	18.3%
AP	350	318	10%	349	0.2%
Africa	45	27	65%	42	6.0%

Source: Company, Dalal & Broacah Research

Other Concall KTAs

- Recent acquisition in Nagpur & Indore are progressing as per management's expectation.
- HCG launched its cancer care app - "HCG Care", which provides a one-stop shop solution for patients for various services - consultation to second opinion, diagnostics, pharmacy needs, post discharge follow-ups etc.
- Net debt currently stands at Rs 3,672 Mn which increased sequentially due to recent acquisition done.
- Capex spends for Q3FY24 @ Rs 543 Mn. Going forwards company will spend maintenance capex of Rs 700-750 Mn yearly.
- Whitefield (25 beds) facility will be a standalone CCC facility - focusing on women's cancer care.
- Relocating to a newly constructed premium hospital in Ahmedabad in Q1FY25 (100 additional beds).
- Ahmedabad facility is a 2nd COE with EBITDA % in higher 20s with dominant market share. Will be operationalizing the additional 100 beds gradually in a staged manner.
- Company may **fall short of achieving its guidance of EBITDA Margin of 20%** in the near term.
- With a dominant position of 30% market share in Bangalore, company is planning to **develop a State-of-Art facility with 100 beds** which is expected to be launched in 15-18 months. Capex for this facility is Rs 900 Mn
- Operating leverage kicking in from investments made in acquiring new talents & promotions in Kolkata (+57% YoY) & Mumbai (+17% YoY)
- Operations were disrupted at Chennai facility due to flooding in Cyclotron business leading to a loss in revenue of Rs 18 Mn & EBITDA of Rs 13 Mn.
- Revenue in mature centers grew at 8% YoY. However, if adjusted for the disruptions caused in Chennai & scaling down of operations at one facility this growth comes at ~12%.
- Management expects 5-7% increase in ARPOB YoY going ahead.
- **Milan IVF:** Performance in Milan still lagging, post covid had downtime at facility which the management are taking efforts to bring to pre-covid levels. Going forward management intends to divest this unit.

Expansion in Pipeline - on track

- **Ahmedabad – Phase II**
 - Planned capex: Rs 107 cr
 - Capex Incurred till end of Q3FY24: Rs 48.3 cr
 - Expected operational: Q1FY25
- **Whitefield COE-Bangalore**
 - Planned capex: Rs 25 cr
 - Capex Incurred till end of Q3FY24: Rs 3.4 cr
 - Expected operational: Q1FY26
- **Over next 3 years, company plans to add ~350 beds**

Outlook and Valuations

The company's performance for the quarter was adversely affected by disruptions and the scaling down of operations. However, there is an expectation that performance will improve as business returns to normalcy.

At the company level, ARPOB is expected to increase as the share of emerging centers rises. ARPOB is projected to increase by 5-7% year-over-year. However, occupancy may take time to rise due to the addition of beds in the near future. The company may fall short of achieving its guidance of 20% EBITDA margins in the short term but aims to reach this target towards the end of FY25.

Management does not perceive capacity constraints and plans to add approximately 350 beds over the next 3 years. Relocating to a new premium facility with enhanced capacity in Ahmedabad will strengthen the company's dominance in the region and drive future growth.

The cancer care market is growing at approximately 10%, and the company intends to outpace this growth rate. Performance in Q4FY24 is expected to be better sequentially.

We have reworked our numbers and rolled over to FY26E, HCG @ CMP of Rs. 367 trades at 11x EV/EBITDA on FY26E; we value HCG @ 15x FY25E EV/EBITDA multiple to arrive at a target price of Rs. 460, an upside of 25%. We recommend BUY ON DIPS rating on the stock.

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	10,134	13,978	16,944	19,050	21,641
Operating Expenses	-2,403	-3,549	-4,241	-4,762	-5,410
Employee Cost	-1,959	-2,337	-2,751	-3,048	-3,506
Other Expenses	-4,506	-5,713	-6,966	-7,835	-8,643
Operating Profit	1,266	2,380	2,986	3,404	4,082
Depreciation	-1,592	-1,583	-1,635	-1,810	-1,955
PBIT	-326	797	1,352	1,595	2,127
Other income	170	127	132	132	132
Interest	-1,192	-978	-1,035	-1,042	-999
PBT	-1,349	-54	448	685	1,260
Profit before tax (post exceptiona	-2,283	892	449	685	1,260
Provision for tax	76	-489	-273	-274	-315
Profit & Loss from Associates/JV	-4	-14	-0	-0	-0
Reported PAT	-2,211	389	176	411	945
MI	276	148	117	117	117
Owners PAT	-1,935	537	293	528	1,062
Adjusted Profit (excl Exceptio	-1,144	-53	293	528	1,062

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	1,254	1,390	1,391	1,391	1,391
Reserves	5,718	7,313	7,214	7,742	8,804
Net worth	6,972	8,703	8,605	9,133	10,195
MI	168	134	89	89	89
Non Current Liabilities	8,564	8,661	8,763	9,219	8,726
Current Liabilities	4,653	4,698	5,703	5,466	5,459
TOTAL LIABILITIES	20,356	22,195	23,160	23,906	24,469
Non Current Assets	16,006	17,172	17,357	16,415	15,830
Fixed Assets	10,010	11,643	11,899	10,908	10,272
Right of Use Assets	4,114	4,045	3,813	3,813	3,813
Financial Assets	431	634	639	639	639
Deferred Tax Asset	343	60	53	54	56
Long Term Loans and Advances	451	-	-	-	-
Other Non Current Assets	658	790	953	1,000	1,050
Current Assets	4,350	5,024	5,803	7,491	8,639
Current investments	-	-	-	-	-
Inventories	211	300	383	430	488
Trade Receivables	1,866	2,175	3,025	3,401	3,864
Cash and Bank Balances	408	1,975	1,966	3,229	3,854
Short Term Loans and Advances	93	16	18	19	21
Other Financial Assets	1,546	341	72	72	72
Other Current Assets	225	217	339	339	339
TOTAL ASSETS	20,356	22,195	23,160	23,906	24,469

Cashflow (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	-2,283	892	449	685	1,260
Depreciation	1,592	1,583	1,635	1,810	1,955
Net Chg in WC	-586	87	-389	-117	-142
Taxes	380	-237	-154	-274	-315
Others	2,102	-124	1,607	587	659
CFO	1,205	2,201	3,148	2,690	3,417
Capex	-354	-704	-1,415	-1,000	-1,500
Net Investments made	-1,429	1,316	-9	-	-
Others	71	-1,857	-	-	-
CFI	-1,711	-1,246	-1,424	-1,000	-1,500
Change in Share capital	4,962	1,322	-	-	-
Change in Debts	-2,723	-1,938	-135	357	-592
Div. & Div Tax	-	-	-	-	-
Others	-1,645	1,227	-1,598	-784	-701
CFF	594	611	-1,733	-427	-1,293
Total Cash Generated	88	1,567	-9	1,263	624
Cash Opening Balance	320	408	1,975	1,966	3,229
Cash Closing Balance	408	1,975	1,966	3,229	3,854
Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	12.5	17.0	17.6	17.9	18.9
NPM	-11.1	-0.4	1.7	2.8	4.9
Tax rate	-3.3	-54.8	-60.8	-40.0	-25.0
Growth Ratios (%)					
Net Sales	-7.5	37.9	21.2	12.4	13.6
Operating Profit	-26.5	88.0	25.5	14.0	19.9
PBIT	-237.5	-344.2	69.6	18.0	33.4
PAT	76.2	-117.6	-54.8	133.5	130.2
Per Share (Rs.)					
Net Earnings (EPS)	-15.43	3.87	2.11	3.79	7.63
Cash Earnings (CPS)	-2.73	15.25	13.86	16.80	21.68
Dividend	-	-	-	-	-
Book Value	55.61	62.61	61.85	65.65	73.28
Free Cash Flow	5.51	14.61	2.59	11.85	13.72
Valuation Ratios					
P/E(x)	-24	97	178	99	49
P/B(x)	7	6	6	6	5
EV/EBIDTA(x)	40	22	18	15	13
Div. Yield(%)	-	-	-	-	-
FCF Yield(%)	1.47	3.90	0.69	3.17	3.66
Return Ratios (%)					
ROE	-16%	-1%	3%	6%	10%
ROCE	-1%	7%	12%	13%	16%
RoIC	-1%	4%	5%	10%	16%

Source: Company, Dalal & Broacah Research

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