

Emerging centers driving growth

HCG posted robust set of performance for Q2FY24. Emerging centers have posted very good revenue growth of 22%. Significant improvement in ARPOB of 27.8% to Rs 38,522. Occupancy saw a dip of 983 bps YoY due to addition of operational beds. Sequential improvement in EBITDA margins. Successfully completed acquisition of Indore & Nagpur facility which will further contribute towards EBITDA going forward. Ramping up these newly acquired assets and adding new clinical talents & technology will be the focus of the management. Plans to add more LINAC machines to bridge the gap between demand & supply which will further improve the ARPOBs and drive operational efficiency.

Key Business Highlights

- Added 3 new LINAC machines in the quarter
- Added 3 robotic surgery machines at Baroda, Mumbai & Kolkata centre
- Utilization of LINAC machines @ 61% for Q2FY24 vs 67% YoY, primarily due to addition of LINAC machines
- All clusters have reported a positive double-digit growth
- Launched an additional dedicated women cancer wing in Mumbai facility

Key Financials Highlights

- Revenue (Excl OI) at INR 4,869 Mn, +16% YoY / +6% QoQ
- Reported EBITDA at INR 846 Mn, +3% YoY / -3% QoQ
- Reported EBITDA margin at 17.4% vs 17.8% / 16.1% in Q2FY23 / Q1FY24
- EPS stood at INR 0.97 vs 0.53 / 0.55 in Q2FY23 / Q1FY24

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	10,134	13,978	16,944	19,050	21,641
EBIDTA	1,266	2,380	2,986	3,404	4,082
Margins	12.5	17.0	17.6	17.9	18.9
PAT (adj)	-1,144	-53	293	528	1,062
Growth (%)	76.2	-117.6	-54.8	133.5	130.2
EPS	-15.43	3.87	2.11	3.79	7.63
P/E (x)	-24	97	178	99	49
P/B (x)	7	6	6	6	5
EV/EBITDA (x)	40	22	18	15	13
RoE (%)	-16	-1	3	6	10
ROCE (%)	-1	7	12	13	16
RoIC (%)	-1	4	5	10	16

Source: Dalal and Broacha

Rating	TP (Rs)	Up/Dn (%)
HOLD	404	8

Market data

Current price	Rs	373
Market Cap (Rs.Bn)	(Rs Bn)	52
Market Cap (US\$ Mn)	(US\$ Mn)	624
Face Value	Rs	10
52 Weeks High/Low	Rs	384.9 / 249.1
Average Daily Volume	('000)	52
BSE Code		539787
Bloomberg		HCG.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-23
Promoters	71.30	71.35
Public	28.70	28.65
Total	100	100

Source: BSE

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Key Operational Highlights

Key Operational Metrics	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)
ARPOB					
Matured Centres	43,460	39,684	9.5%	41,253	5.3%
Emerging Centres	38,522	30,145	27.8%	35,766	7.7%
Total	42,054	36,914	13.9%	39,686	6.0%
Occupancy			bps		bps
Matured Centres	65.10%	65.00%	10	67.10%	-200
Emerging Centres	60.10%	69.90%	-980	66.40%	-630
Total	63.60%	66.40%	-280	66.90%	-330

Source: Company, Dalal & Broacah Research

Quarterly Financials

(Rs. Mn)	Q2FY24A	Q2FY23	YoY Growth(%)	Q1FY24	QoQ Growth (%)
Revenue from Operations	4,869	4,200	16%	4,607	6%
Other Income	34	20	73%	24	40%
Total RM Cost	1,209	1,024	18%	1,179	3%
Employee Benefits Expense	772	683	13%	769	0%
Other Expenses + Medical consultancy charge	2,043	1,746	17%	1,916	7%
Total Expenses	4,023	3,453	17%	3,864	4%
EBITDA (Excluding Other Income)	846	747	13%	743	14%
Depreciation and Amortisation Expenses	432	408	6%	410	5%
EBIT / PBIT	448	358	25%	357	25%
Finance Costs	269	258	4%	256	5%
EBT/ PBT	179	100	79%	102	76%
Share of profit from Associate/JV	(0)	-		4	
Tax Expense	71	47	51%	69	4%
Net Profit after Tax	108	53	104%	37	195%
Earning per share	0.97	0.53	84%	0.55	78%
Margins (%)			bps		bps
EBITDA Margins (Excl Other Income)	17.4%	17.8%	-40.3	16.1%	125
PAT Margins	2.2%	1.3%	94.5	0.8%	141
As a % to sales			bps		bps
RM as a % to sales	24.8%	24.4%	44.9	25.6%	-77
EE Cost as a % to sales	15.8%	16.3%	-42.3	16.7%	-85
Other exps as a % to sales	42.0%	41.6%	37.8	41.6%	37

Source: Company, Dalal & Broacah Research

Cluster Wise Break-Up

Cluster	Q2FY24A	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)
Karnataka	1,574	1,426	10%	1,504	4.7%
Gujarat	1,216	1,053	15%	1,136	7.0%
East India	534	402	33%	487	9.7%
Maharashtra	713	565	26%	659	8.2%
Tamil Nadu	80	67	19%	76	5.3%
North India	185	207	-11%	213	-13.1%
AP	349	300	16%	334	4.5%
Africa	42	15	176%	33	27.3%

Source: Company, Dalal & Broacah Research

Other Concall KTAs

- Observed rising demand in radiation therapy & there exist a gap between this demand and supply.
- Hence, formulated a plan to install 6 additional LINAC machines over next 18 months.
- All LINAC machines that were under installation previous quarter have been operationalized in Q2 except for Ongole which was operationalized in October,23.
- Capex for Q2FY24 stood at Rs 300 cr.
- **Margin Guidance:** EBITDA margins for Q2FY24 @ ~17.4%. Company expects to be close to 20% by the end of FY24 or beginning of next FY.
- **Very optimistic about Mumbai market-** Added 1 LINAC machine at Borivali facility. Operating leverage kicking in from new clinical talents hired in recent quarters, evident by robust growth of 41% YoY. Also company is gaining market share at a faster pace as compared to peers.
- Effective tax rate for FY24 to be in the range of 40%/50%.
- International business grew by 175% on a lower base.
- EBITDA margins for emerging centre still lower than mature centers || ~10% (Emerging) vs ~24% (Mature)
- Currently, the net debt stood at Rs 310 cr with Net debt/EBITDA of ~1x. Hence, there is enough headroom to take on additional leverage.
- Company is able to generate enough cash which takes care of maintenance capex. Any inorganic growth may lead to increase in debt.
- Strategy in Indore - en
- **Milan IVF:** Strong improvement of 9.8% YoY in the new registrations || Management may divest this vertical going forward || Closed down Delhi centre to improve efficiency.

Updates on recent Acquisition

Indore (50 beds)

- 1st private cancer care center in the region.
- Hospital clocks ~Rs 30 cr annual revenue with margins of ~17%
- Plans to add 50 more beds in next 2/3 years - capex req of Rs 40/50 cr
- Focus on upgrading clinical capabilities in terms of talent & techn.

Nagpur (115 beds)

- Partial impact of Rs 20 Mn of EBITDA gain in Q2FY24, full impact to come in from Q3 onwards.

Expansion in Pipeline - on track

Ahmedabad – Phase II

- Planned capex: Rs 85 cr
- Capex Incurred till end of Q2FY24: Rs 24 cr
- Expected operational: Q1FY25

Whitefield COE-Bangalore

- Planned capex: Rs 25 cr
- Capex Incurred till end of Q2FY24: Rs 3.4 cr
- Expected operational: Q3FY25

Outlook and Valuations

As mentioned in the previous quarter company has successfully added 3 more LINAC machines at its facilities and has plans to add 6 more LINAC machines in next 18 months. This will further provide operating leverage and drive the growth in ARPOBs going forward. Ramping up of the Indore & Nagpur facilities will start contributing towards the profitability of the company.

With no significant capex plans, profitability ratios will start to see an uptick. EBITDA margins to improve as operations at emerging centers ramps up. Management has guided for margins close to 20% towards the end of FY24 or beginning of FY25.

We believe there may be divestment or dilution of CVCs stake going forward which will be a major event to lookout for.

HCG @ CMP of Rs. 374 trades at 13x EV/EBITDA on FY25E; we value HCG @ 15x FY25 EV/EBITDA multiple to arrive at a target price of Rs. 404, an upside of 8%. We recommend HOLD 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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