

Aggressively expanding inorganically

HCG posted Q1FY24 numbers largely in line with our expectation. The company has started its journey of expansion through inorganic opportunities very aggressively in the first quarter. Strategic locations & gradually scaling up these facilities would drive further growth and increase the visibility of HCG brand in these markets. HCG reported highest ever revenue for 10 consecutive quarters. EBITDA lower due to some LINAC machines being unoperational for Q1, most of which are now operationalised. As a result, performance & margins to improve from Q2FY24 onwards. Talent acquisition was also one of the reason that dragged the margins down. Emerging centers growing at a rapid pace of 22% YoY.

Key Business Highlights

- Two brownfield investment - 115 beds in Nagpur & 50 beds in Indore
- Delay in Upgradation & Installation of LINAC machines at 5 Locations, 4 of which are now completely operational
- Utilization of LINAC machines @ 69% for Q1FY24
- All clusters have reported a positive double-digit growth

Key Financials Highlights

- Revenue (Excl OI) at INR 4,607 Mn, +13% YoY / +4% QoQ
- Reported EBITDA at INR 743 Mn, +3% YoY / -3% QoQ
- Reported EBITDA margin at 16.1% vs 17.7% / 17.3% in YoY/QoQ
- PAT reported @ INR 37 Mn vs 25 Mn/57 Mn YoY/QoQ
- Adj EPS stood at INR 0.2 vs 0.5 / 1.1 in Q1FY23 / Q4FY23

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Netsales	10,134	13,978	16,944	18,279	19,913
EBIDTA	1,266	2,380	2,986	3,337	3,728
Margins	12.5	17.0	17.6	18.3	18.7
PAT (adj)	-1,144	-53	293	685	898
Growth (%)	76.2	-117.6	-54.8	222.7	37.7
EPS	-15.43	3.87	2.11	4.92	6.46
P/E (x)	-21	86	157	67	51
P/B (x)	6	5	5	5	4
EV/EBITDA (x)	35	20	16	13	12
RoE (%)	-16	-1	3	7	8
ROCE (%)	-1	7	12	13	13
RoIC (%)	-1	4	5	13	15

Source: Dalal and Broacha

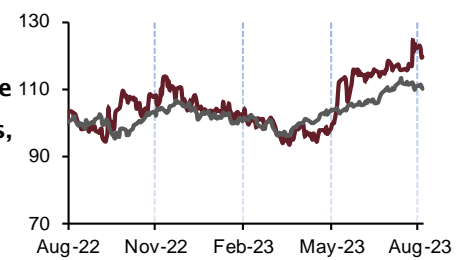
Rating	TP (Rs)	Up/Dn (%)
BUY	378	14

Market data

Current price	Rs	331
Market Cap (Rs.Bn)	(Rs Bn)	46
Market Cap (US\$ Mn)	(US\$ Mn)	557
Face Value	Rs	10
52 Weeks High/Low	Rs	349 / 249.1
Average Daily Volume	('000)	86
BSE Code		539787
Bloomberg		HCG.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-23	Mar-23
Promoters	71.35	71.37
Public	28.65	28.63
Total	100	100

Source: BSE

Dhruv Shah
 +91 22 67141414
 dhruv.shah@dalal-broacha.com

Key Operational Highlights

Key Operational Metrics	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
ARPOB					
Matured Centres	41,253	40,374	2.2%	41,394	-0.3%
Emerging Centres	35,766	32,968	8.5%	36,063	-0.8%
Total	39,686	38,296	3.6%	39,864	-0.4%
Occupancy			bps		bps
Matured Centres	67.10%	61.70%	540	64.80%	230
Emerging Centres	66.40%	59.40%	700	65.70%	70
Total	66.90%	61.00%	590	59.90%	700

Source: Company, Dalal & Broacah Research

Quarterly Financials

(Rs. Mn)	Q1FY24A	Q1FY23	YoY Growth(%)	Q4FY23	QoQ Growth (%)
Revenue from Operations	4,607	4,081	13%	4,417	4%
Other Income	24	29	-17%	47	-48%
Total RM Cost	1,179	978	21%	1,164	1%
Employee Benefits Expense	769	687	12%	689	12%
Other Expenses + Medical consultancy charge	1,916	1,694	13%	1,801	6%
Total Expenses	3,864	3,359	15%	3,654	6%
EBITDA (Excluding Other Income)	743	722	3%	763	-3%
Depreciation and Amortisation Expenses	410	397	3%	422	-3%
EBIT / PBIT	357	354	1%	388	-8%
Finance Costs	256	250	2%	256	0%
EBT/ PBT	102	104	-2%	131	-23%
Share of profit from Associate/JV	4	(0)		(0)	
Tax Expense	69	79	-13%	75	-8%
Net Profit after Tax	37	25	48%	57	-35%
Earning per share	0.55	0.43	26%	0.60	-9%
Adj Earning Per Share	0.2	0.5	-70%	1.1	-86%
Margins (%)			bps		bps
EBITDA Margins (Excl Other Income)	16.1%	17.7%	-155.4	17.3%	-115
PAT Margins	0.5%	1.7%	-127.7	3.5%	-301
As a % to sales			bps		bps
RM as a % to sales	25.6%	24.0%	162.7	26.4%	-76
EE Cost as a % to sales	16.7%	16.8%	-14.6	15.6%	110
Other exps as a % to sales	41.6%	41.5%	7.2	40.8%	80

Source: Company, Dalal & Broacah Research

Cluster Wise Break-Up

Cluster	Q1FY24A	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Karnataka	1,504	1,373	10%	1,498	0.4%
Gujarat	1,136	1,001	13%	1,084	4.8%
East India	487	387	26%	479	1.7%
Maharashtra	659	600	10%	627	5.1%
Tamil Nadu	76	60	27%	73	4.1%
North India	213	174	23%	176	21.0%
AP	334	297	13%	289	15.6%
Africa	33	16	108%	33	0.0%

Source: Company, Dalal & Broach Research

Acquisition during Q1FY24

- **HCG, NCHRI, Nagpur**
 - Operating 115 bedded CCC hospital in partnership with Dr. Ajay Mehta (minority partner).
 - Entered into Share Purchase Agreement with shareholders, Dr. Ajay Mehta & Dr. Suchitra Mehta, for shares of NCHRI
 - Also entered into Partnership Transfer Agreement with Dr. Ajay Mehta in HCG NCHRI Oncology LLP for his partnership interest
- **SRJ Hospital, Indore**
 - Acq. Business undertaking of SRJ & AOSPL.
 - SRJ is a 50 Bedded hospital, providing Comprehensive Cancer Care & Radiation oncology being provided by Amrisha Oncology Services Pvt. Ltd (AOSPL)
 - Acq. 100% on a slump sale basis
 - Consideration to SRJ: Initial Rs 29cr to SRJ & addnl. Rs 16 cr of deferred consideration subject to achievement of targets
 - Consideration to AOSPL: Lumpsum Amount of Rs 16 cr.
 - Plans to build 100 beds building at the adjacent land going forward
- **Management expects both these acquisitions to add ~140/150 Mn of incremental EBITDA in a full year**

Other Concall KTAs

- Highest ever revenue recorded for 10 consecutive quarter, propelled by 22% YoY growth in Emerging centers & overall improvement in operating matrix.
- EBITDA was lower on account of - (i) delayed LINAC machine Installation & upgradation - @ 5 locations, resulted in loss of more than 300 operating days, impacted revenue from radiation - high margin segment (~80%); (ii) Investment in clinical talents in high-rise location (Mumbai).
- However, 4 out of 5 machines already operational in Q2FY24, performance to normalize from Q2 onwards.
- Evaluating to add LINAC machines at Kolkata, Nagpur & Vizag. Expect to be available from the beginning of next year.
- Current Net debt of Rs 217 cr, plans to take on additional debt of Rs 107 cr to fund the acquisitions.
- Plans to keep debt levels @ 2.5x Net Debt/EBITDA
- Currently no further Greenfield expansion planned. Only acquiring hospitals which already have positive revenue & EBITDA.
- Milan continues to underperform, -5.1% YoY, still a dominant player in Bengaluru, drop in revenue is mainly due to regulations related to surrogacy which are now cleared. All HCG centers have necessary certificates & signs of recovery are already visible.
- Attempt is to make Milan a C.O.E., focus will be in the regions of Bangalore only. Shutting down a center in Delhi.

Expansion in Pipeline - on track

- **Ahmedabad - Phase II**
 - Planned capex: Rs 85 cr
 - Capex Incurred till end of Q1FY23: Rs 18 cr
 - Expected operational: Q1FY25
- **Whitefield COE-Bangalore**
 - Planned capex: Rs 25 cr
 - Capex Incurred till end of Q1FY23: Rs 1 cr
 - Expected operational: Q3FY25

CVC (Aceso Company Pte. Ltd) increases stake

- On 01/06/23, CVC purchased additional 35,75,000 shares (~2.57%) from Promoter, B.S.Ajaikumar
- This brings the total shareholding of CVC to ~60.46% & B.S.Ajaikumar to ~10.42%

Outlook and Valuations

With 4 out of 5 LINAC machines now fully operational, revenue and margins are expected to improve from Q2 onwards. Operating leverage from high-cost doctors hired during the recent quarters to kick in from Q3 onwards.

Introducing LINAC machines at 3 other locations will further drive up ARPOBs for the hospital. Milann which is showing green shoots of recovery, although slowly will enhance the performance of HCG.

HCG intends to grow through various brownfield opportunities going forward which will strengthen the brands presence in the country

HCG will be working to ramp up the operations at the hospitals acquired in the quarter.

HCG @ CMP of Rs. 331 trades at 12x EV/EBITDA on FY25E ; we value HCG @ 15x FY25 EV/EBITDA multiple to arrive at a target price of Rs. 378, an upside of 14%. We continue to maintain BUY rating on the stock.

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	10,134	13,978	16,944	18,279	19,913
Operating Expenses	-2,403	-3,549	-4,241	-4,570	-4,978
Employee Cost	-1,959	-2,337	-2,751	-2,979	-3,226
Other Expenses	-4,506	-5,713	-6,966	-7,393	-7,981
Operating Profit	1,266	2,380	2,986	3,337	3,728
Depreciation	-1,592	-1,583	-1,635	-1,752	-1,897
PBIT	-326	797	1,352	1,585	1,831
Other income	170	127	132	132	132
Interest	-1,192	-978	-1,035	-958	-918
PBT	-1,349	-54	448	759	1,045
Profit before tax (post exceptiona	-2,283	892	449	759	1,045
Provision for tax	76	-489	-273	-191	-263
Profit & Loss from Associates/JV	-4	-14	-0	-0	-0
Reported PAT	-2,211	389	176	567	781
MI	276	148	117	117	117
Owners PAT	-1,935	537	293	685	898
Adjusted Profit (excl Exceptio	-1,144	-53	293	685	898

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	8,290	9,189
Net worth	6,972	8,703	8,605	9,681	10,580
MI	168	134	89	89	89
Non Current Liabilities	8,564	8,661	8,763	8,269	7,776
Current Liabilities	4,653	4,698	5,703	5,353	5,206
TOTAL LIABILITIES	20,356	22,195	23,160	23,393	23,651
Non Current Assets	16,006	17,172	17,357	15,253	14,726
Fixed Assets	10,010	11,643	11,899	9,746	9,168
Right of Use Assets	4,114	4,045	3,813	3,813	3,813
Financial Assets	431	634	640	640	640
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	5,023	5,803	8,140	8,925
Current investments	-	-	-	-	-
Inventories	211	300	383	413	449
Trade Receivables	1,866	2,175	3,025	3,263	3,555
Cash and Bank Balances	408	1,975	1,966	4,033	4,487
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	23,393	23,651

Cashflow (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	-2,283	892	449	759	1,045
Depreciation	1,592	1,583	1,635	1,752	1,897
Net Chg in WC	-586	87	-389	-75	-89
Taxes	380	-237	-154	-191	-263
Others	2,102	-124	1,607	494	579
CFO	1,205	2,201	3,148	2,738	3,167
Capex	-354	-704	-888	-1,000	-1,500
Net Investments made	-1,429	1,316	-9	-	-
Others	71	-1,857	-	-	-
CFI	-1,711	-1,246	-897	-1,000	-1,500
Change in Share capital	4,962	1,322	-	-	-
Change in Debts	-2,723	-1,938	-135	-622	-592
Div. & Div Tax	-	-	-	-	-
Others	-1,645	1,227	-2,125	950	-621
CFF	594	611	-2,259	328	-1,213
Total Cash Generated	88	1,567	-9	2,066	455
Cash Opening Balance	320	408	1,975	1,966	4,033
Cash Closing Balance	408	1,975	1,966	4,033	4,487
Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	12.5	17.0	17.6	18.3	18.7
NPM	-11.1	-0.4	1.7	3.7	4.5
Tax rate	-3.3	-54.8	-60.8	-25.2	-25.2
Growth Ratios (%)					
Net Sales	-7.5	37.9	21.2	7.9	8.9
Operating Profit	-26.5	88.0	25.5	11.7	11.7
PBIT	-237.5	-344.2	69.6	17.3	15.5
PAT	76.2	-117.6	-54.8	222.7	37.7
Per Share (Rs.)					
Net Earnings (EPS)	-15.43	3.87	2.11	4.92	6.46
Cash Earnings (CPS)	-2.73	15.25	13.86	17.51	20.09
Dividend	-	-	-	-	-
Book Value	55.61	62.61	61.86	69.59	76.05
Free Cash Flow	5.51	14.61	6.38	13.39	12.06
Valuation Ratios					
P/E(x)	-21	86	157	67	51
P/B(x)	6	5	5	5	4
EV/EBIDTA(x)	35	20	16	13	12
Div. Yield(%)	-	-	-	-	-
FCF Yield(%)	1.66	4.41	1.93	4.04	3.64
Return Ratios (%)					
ROE	-16%	-1%	3%	7%	8%
ROCE	-1%	7%	12%	13%	13%
RoIC	-1%	4%	5%	13%	15%

Source: Company, Dalal & Broacah Research

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Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992 | E-mail: equity.research@dalal-broacha.com