

HCG posted a robust Q4FY23 performance supported by scaling of emerging centers and robust growth in revenue across all clusters –

- Strong Focus On Topline Growth:** HCG revenues increased by 22% YoY in Q4FY22. Focused on driving patient volumes. Company is increasing its spend on sales and marketing activities (particularly in emerging centers) to create brand visibility. The new patient registration increased by ~11% YoY to reach ~20,000 patients in the quarter. New registrations are a key indicator of volume growth which has correlation to outpatient revenue. HCG is also focused on driving capacity utilization.
- Continued Emerging Center Turnaround, Upgradations Underway:** Emerging centers continued their growth trajectory and grew ~32% YoY registering a 2x growth over the past 9 quarters. Kenya center grew ~158% yoy followed by Kolkata which grew at ~142% YoY and Ranchi at ~51% YoY. Various centers are currently being upgraded with better LINAC machines which will drive higher realizations.
- Emerging Centers Margin to catch up to Mature Centers:** EBITDA margins for emerging centers are currently ~8% while mature centers are clocking ~25% margins. It is expected within a period of 18 months margins of emerging centers will catch up to that of mature centers.
- Focus on driving volume growth:** HCG currently has a strategy to increase its brand visibility & ramp up existing capacity along with moderate increase in ARPOB.

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	10,134	13,978	16,944	18,414	20,080
EBIDTA	1,266	2,380	2,986	3,375	3,776
Margins	12.5	17.0	17.6	18.3	18.8
PAT (adj)	-1,144	-53	293	713	934
Growth (%)	76.2	-117.6	-54.8	239.0	37.0
EPS	-15.43	3.87	2.11	5.13	6.71
P/E (x)	-20	79	145	60	45
P/B (x)	5	5	5	4	4
EV/EBITDA (x)	33	18	15	12	11
RoE (%)	-16	-1	3	7	9
ROCE (%)	-1	7	12	13	14
RoIC (%)	-1	4	5	14	15

Source: Dalal and Broacha

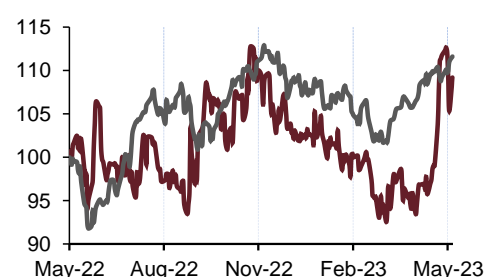
Rating	TP (Rs)	Up/Dn (%)
BUY	383	25

Market data

Current price	Rs	305
Market Cap (Rs.Bn)	(Rs Bn)	42
Market Cap (US\$ Mn)	(US\$ Mn)	513
Face Value	Rs	10
52 Weeks High/Low	Rs	320 / 249.1
Average Daily Volume	('000)	286
BSE Code		539787
Bloomberg		HCG.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	71.38	71.39
Public	28.62	28.61
Total	100	100

Source: BSE

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

Key Business Highlights

- HCG launched “CELL SEARCH” – the first and only system in India which received FDA approval for testing on circulating tumor cells (CTC) in patients’ blood for diagnostic purposes.
- HCG became first in Asia to complete ~105 clinical runs covering 1000+ patients of comprehensive genomic profiling (CGP).
- Emerging Centres seeing good traction as Avg Occupancy Rate increased from 52.9% in Q4FY22 to 65.7% in this quarter (+1281 bps)
- To ensure growth momentum going forward, increased sales & marketing spends in Q4FY23 by 0.5% of top line QoQ & by 1.2% of top line YoY

Key Financials Highlights

- Revenue (Excl OI) at INR 4,417 Mn, +21% YoY / +4% QoQ
- Reported EBITDA at INR 763 Mn, +21% YoY / +1% QoQ
- Reported EBITDA margin at 17.3% vs 17.3% / 17.8% in Q4FY22 / Q3FY23
- Reported PAT at INR 57 Mn, +152% YoY / +34% QoQ
- Adj EPS stood at INR 1.1 vs (0.1) / 0.8 in Q4FY22 / Q3FY23

Key Operational Highlights

Key Operational Metrics	Q4FY23	Q4FY22	YoY Growth (%)	Q3FY23	QoQ Growth (%)
ARPOB					
Matured Centres	41,394	39,753	4.1%	40,145	3.1%
Emerging Centres	36,063	35,474	1.7%	30,057	20.0%
Total	39,864	38,596	3.3%	37,014	7.7%
Occupancy			bps		bps
Matured Centres	64.80%	59.10%	570	63.20%	160
Emerging Centres	65.70%	52.90%	1280	71.90%	-620
Total	65.10%	59.90%	520	65.70%	-60

Source: Company, Dalal & Broacah Research

Revenue Mix for Q4FY23

- Out-Patient Revenue (21%): 20,000 new registrations vs 18,000 new registrations (+11% YoY)
- Medical Oncology (37%): 34,000 chemo sessions administered in Q4FY23 vs 28,000 in Q4FY22 (+21% YoY)
- Radiation Oncology (18%): 5,100 radiation patients treated in Q4FY23 with 65% LINAC capacity utilization (+500 bps YoY)
- Surgical Oncology (24%): In-patient bed occupancy increased to 59% vs 54% Q4FY22.

Quarterly Financials

(Rs. Mn)	Q4FY23A	Q4FY22	YoY Growth(%)	Q3FY23	QoQ Growth (%)
Revenue from Operations	4,417	3,646	21%	4,247	4%
Other Income	47	30	54%	37	27%
Total RM Cost	1,164	910	28%	1,075	8%
Employee Benefits Expense	689	607	13%	692	-1%
Other Expenses + Medical consultancy charges	1,801	1,498	20%	1,724	4%
Total Expenses	3,654	3,015	21%	3,492	5%
EBITDA (Excluding Other Income)	763	632	21%	755	1%
Depreciation and Amortisation Expenses	422	411	3%	408	4%
EBIT / PBIT	388	251	55%	384	1%
Finance Costs	256	241	6%	271	-5%
EBT/ PBT	131	9	1328%	113	16%
Tax Expense	75	(13)	-662%	71	5%
Net Profit after Tax	57	23	152%	42	34%
Adj Earning Per Share	1.1	(0.1)	-1588%	0.8	39%
Margins (%)			bps	bps	
EBITDA Margins (Excl Other Income)	17.3%	17.3%	-0.4	17.8%	-5
PAT Margins	3.5%	-0.3%	37.5	2.6%	9
As a % to sales			bps	bps	
RM as a % to sales	26.4%	25.0%	13.9	25.3%	10
EE Cost as a % to sales	15.6%	16.6%	-10.5	16.3%	-7
Other exps as a % to sales	40.8%	41.1%	-3.0	40.6%	2

Source: Company, Dalal & Broacah Research

Cluster Wise Break-Up

Cluster	Q4FY23	Q4FY22	YoY Growth (%)	Q3FY23	QoQ Growth (%)
Karnataka	1,498	1,262	0	1,396	7.3%
Gujarat	1,084	913	0	1,025	5.7%
East India	479	301	1	420	14.1%
Maharashtra	627	529	0	616	1.8%
Tamil Nadu	73	60	0	78	-5.9%
North India	176	129	0	200	-12.2%
AP	289	281	0	318	-9.2%
Africa	33	13	2	27	22.7%

Source: Company, Dalal & Broacah Research

Other Concall KTAs

- EBITDA margin lower sequentially primarily due to upgradation/replacement of radiation machines at 3 locations (Ongole, Ranchi & Shimoga). Expected operation in Q1FY24.
- Commissioned new LINAC machine, first of its kind in East Africa, reflecting a robust growth in revenue of ~23% QoQ
- Emerging centers currently clocking an EBITDA margin of ~8%, will take about 18 months to reach to the levels of matured centers which are doing 24/25%.
- Plans to replace another 7-8 LINAC machines & install additional 10-12 LINAC machines, each costing about \$ 2Mn. Due to pay per use model, company will be saving on a capex of ~\$20 Mn to \$25 Mn.
- Company has enough capacity, demand growth is strong and strategy is to increase footfalls by increasing spends on sales marketing expense thereby increasing visibility of HCG brand.
- While growing organically, company is also looking at inorganic opportunities, merges/acquisitions may be in pipeline, more clarity on this is expected in coming few months
- Annually, double digit growth across all geographies and clusters.
- Growth to be driven by emerging centers going forward.
- Focus is to drive volume & increase capacity at existing facilities first and a moderate inflationary increase in ARPOB is expected. Once existing capacity reaches to optimum level only then will they be able to charge premium.
- Net debt (excl. capital leases) stands at ~1980 Mn

Capex Update

- Maintenance capex to maintain a run rate of ~600 Mn
- Ahmedabad Phase II: Total Planned Capex of ~850 Mn, spent 158 Mn as on 31 March'23, expected to be operational in Q1FY25
- Whitefield (Bangalore): Expansion of current center of excellence hospital, planned capex of ~250 Mn, till date incurred 10 Mn, expected to be operational in Q3FY25
- Will continue to incur capex for technological upgradations & replacements

Outlook and Valuations

With improving performance of emerging centers and expected margin expansion and continued focus on driving volumes coupled with moderate increase in ARPOB, HCG can be a potential turnaround player in the industry.

Replacing & upgrading the existing machines will drive higher realizations. With increasing sales & marketing spends & grabbing inorganic opportunities on the way ahead, HCG is set to expand its footprint in the industry leading to increased brand visibility.

Its pay-per-use model will provide significant leverage owing to reduced capex and thereby increasing profitability.

HCG @ CMP of Rs. 305 trades at 11x EV/EBITDA on FY25E ; we value HCG @ 15x FY25 EV/EBITDA multiple to arrive at a target price of Rs. 383, an upside of 25%.

Financials

P&L (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	10,134	13,978	16,944	18,414	20,080
Operating Expenses	-2,403	-3,549	-4,241	-4,603	-5,020
Employee Cost	-1,959	-2,337	-2,751	-3,001	-3,253
Other Expenses	-4,506	-5,713	-6,966	-7,434	-8,031
Operating Profit	1,266	2,380	2,986	3,375	3,776
Depreciation	-1,592	-1,583	-1,635	-1,752	-1,897
PBIT	-326	797	1,352	1,624	1,879
Other income	170	127	132	132	132
Interest	-1,192	-978	-1,035	-958	-918
PBT	-1,349	-54	448	797	1,092
Profit before tax (post exception)	-2,283	892	449	797	1,092
Provision for tax	76	-489	-273	-201	-275
Associates/JV	-4	-14	-0	-0	-0
Reported PAT	-2,211	389	176	596	817
MI	276	148	117	117	117
Owners PAT	-1,935	537	293	713	934
Adjusted Profit (excl Exceptionals)	-1,144	-53	293	713	934

Balance Sheet (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	1,254	1,390	1,391	1,391	1,391
Reserves	5,718	7,313	7,214	8,319	9,253
Net worth	6,972	8,703	8,605	9,710	10,644
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	5,373	5,230
TOTAL LIABILITIES	20,356	22,195	23,160	23,441	23,740
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	8,188	9,014
Current investments	-	-	-	-	-
Inventories	211	300	383	416	453
Trade Receivables	1,866	2,175	3,025	3,288	3,585
Cash and Bank Balances	408	1,975	1,966	4,054	4,543
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	23,441	23,740

Cashflow (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	-2,283	892	449	797	1,092
Depreciation	1,592	1,583	1,635	1,752	1,897
Net Chg in WC	-586	87	-389	-83	-91
Taxes	380	-237	-154	-201	-275
Others	2,102	-124	1,607	494	579
CFO	1,205	2,201	3,148	2,760	3,201
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	2,088	488
Cash Opening Balance	320	408	1,975	1,966	4,054
Cash Closing Balance	408	1,975	1,966	4,054	4,543
Ratios	FY21	FY22	FY23E	FY24E	FY25E
OPM	12.5	17.0	17.6	18.3	18.8
NPM	-11.1	-0.4	1.7	3.8	4.6
Tax rate	-3.3	-54.8	-60.8	-25.2	-25.2
Growth Ratios (%)					
Net Sales	-7.5	37.9	21.2	8.7	9.0
Operating Profit	-26.5	88.0	25.5	13.0	11.9
PBIT	-237.5	-344.2	69.6	20.1	15.7
PAT	76.2	-117.6	-54.8	239.0	37.0
Per Share (Rs.)					
Net Earnings (EPS)	-15.43	3.87	2.11	5.13	6.71
Cash Earnings (CPS)	-2.73	15.25	13.86	17.72	20.35
Dividend	-	-	-	-	-
Book Value	55.61	62.61	61.86	69.80	76.51
Free Cash Flow	5.51	14.61	6.38	13.54	12.30
Valuation Ratios					
P/E(x)	-20	79	145	60	45
P/B(x)	5	5	5	4	4
EV/EBIDTA(x)	33	18	15	12	11
Div. Yield(%)	-	-	-	-	-
FCF Yield(%)	1.80	4.79	2.09	4.44	4.03
Return Ratios (%)					
ROE	-16%	-1%	3%	7%	9%
ROCE	-1%	7%	12%	13%	14%
RoIC	-1%	4%	5%	14%	15%

Source: Company, Dalal & Broacah Research

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

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

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