



HealthCare Global Enterprises Ltd.

The tide is turning, higher growth from existing centers

HCGEL continued to register the highest ever quarterly revenues and EBITDA in Q1FY23 with some regions delivering very high double digit revenue growth on a YoY basis. The new centres continued their scale-up trajectory with strong revenue growth of 34.1% YoY while existing HCG centres registered a growth of 23.2% YoY. New centres registered an operating EBITDA of Rs 100 Mn against EBITDA of Rs 8 Mn in Q1FY22. ARPOBs have been steadily increasing because of higher share of high-end surgeries, which is a sustainable trend. The new centres generated an ARPOB of Rs 32,968 compared to Rs 32,968 in Q1FY22 while the existing centres generated ARPOB of Rs 40,606 registering growth of 12.9% YoY. International revenues would further boost the ARPOB of CoE going forward. The occupancy rate in the quarter was 64.6% which was highest in 12 quarters. With respect to the existing oncology centres, HCGEL expects a revenue growth of high teens. There is a scope for EBITDA margin improvement of the existing centres from the current level of 20-21% to 23-24% over the medium to long term, according to the Management. The improved EBITDA margins will be driven by 3-4% price hike, volume increase, Payor and mortality mix. HCG is well poised to capture the growing potential with focus on cancer therapy. On an overall basis, we are positive about the prospects of HCGEL and we recommend a "Buy" rating on the stock.

Robust performance on the back on higher occupancy and increase in ARPOB

- HCGEL reported strong set of numbers for Q1FY23. While on a YoY basis there was huge growth of 26.3% due to improvement in ARPOB (5.9% YoY) and occupancy rate.
- Aggregate ARPOB was Rs 38454 for Q1FY23 compared to Rs 36316 for Q1FY22. Occupancy for Q1FY23 was 64.6% as compared to 57.8% in Q1FY22.
- Operating leverage and higher contribution from existing hospitals led to expansion of EBITDA margin by 184 bps yoy and 37 bps qoq to 17.7% in the quarter. The existing hospitals has an EBITDA margin of 25.17 while the new centers have EBITDA margin of 10.7%.
- The number of IVF cycles for Milann in Q1FY23 was 538 compared to 311 in Q1FY22. Milann recorded revenues of Rs 173 Mn in Q1FY23 compared to Rs 121 Mn in Q1FY22. New registrations were 1612 in Q1FY23 compared to 676 in Q1FY22.

Outlook and Valuation:

We are positive about the prospects connected with HCGEL. Both the existing and new centres should perform robustly in the future. Further, HCGEL's focus on consolidation of existing operations would ensure the strength of the balance sheet. **We value the stock at 16x EV/EBITDA with respect to FY24e EBITDA to arrive at a Target Price of Rs 352 and recommend a "Buy" rating on the stock.**

Y/E Mar (Rs mn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	Q1 FY23e	Var. (%)
Net sales	4,081	3,231	26.3%	3,646	11.9%	3,768	8.3%
Operating costs	3,359	2,719	23.5%	3,015	11.4%		
EBITDA	722	512	41.0%	632	14.3%	659	9.5%
EBITDA Margin (%)	17.7%	15.8%	184 bps	17.3%	37 bps	17.5%	19 bps
Depreciation	397	378	5.0%	411	-3.5%		
Interest	250	264	-5.3%	241	3.5%		
Other income	29	34	-15.4%	30	-3.3%		
PBT	104	-90	NM	9	1032.6%		
Provision for tax	79	36	119.4%	-13	NM		
Effective tax rate (%)	76%	NM	NM	NM	NM		
PAT before Minority Int.	25	-126	NM	23	NM		
Minority Interest	-36	-30	NM	-37	NM		
Consolidated PAT	60.5	-96	NM	60	NM	110	-44.9%
PAT Margins	1.5%	-3.0%	446 bps	1.6%	(16) bps	2.9%	(143) bps

Source: AceEquity, SMIFS research

Rating: **Buy** Upside: **23.2%**
 Current Price: **286** Target Price: **351**

Earlier recommendation

Previous Rating:	Buy
Previous Target Price:	352
Source: SMIFS Research	

Market data

Bloomberg:	HCG IN
52-week H/L (Rs):	313/213
Mcap (Rs bn/USD Mn):	39.6/497
Shares outstanding (mn):	138.9
Free float:	32.0%
Avg. daily vol. 3mth (3M Avg – in '000):	211.8
Face Value (Rs):	10
Group:	S&PBSE SmallCap
Source: Bloomberg, SMIFS Research	

Shareholding pattern (%)

	Jun-22	Mar-22	Dec-21	Sept-21
Promoter	71.4	71.4	71.4	68.4
Institutions	11.8	12.9	13.6	15.4
Others	16.8	15.7	15.0	16.2
Total	100.0	100.0	100.0	100.0

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE Small Cap	7.8	6.0	6.1	117.7
HCG	2.7	4.2	12.3	161.8

*as on 10th Aug 2022; Source: AceEquity, SMIFS Research

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Y/E Mar (Rs Mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	10,956	12%	1,722	15.7%	-1,067	NM	-7.7	-28.0%	1.4%	NM	26.4
FY21	10,135	-7%	1,267	12.5%	-1,030	NM	-7.4	-14.8%	-2.1%	NM	35.9
FY22	13,978	38%	2,380	17.0%	118	NM	0.8	1.4%	4.6%	324.7	19.1
FY23E	15,578	11%	2,864	18.4%	694	489%	5.0	7.5%	9.2%	57.0	16.3
FY24E	16,469	6%	3,327	20.2%	1,062	53%	7.7	10.3%	12.5%	37.2	14.0

Source: AceEquity, SMIFS Research

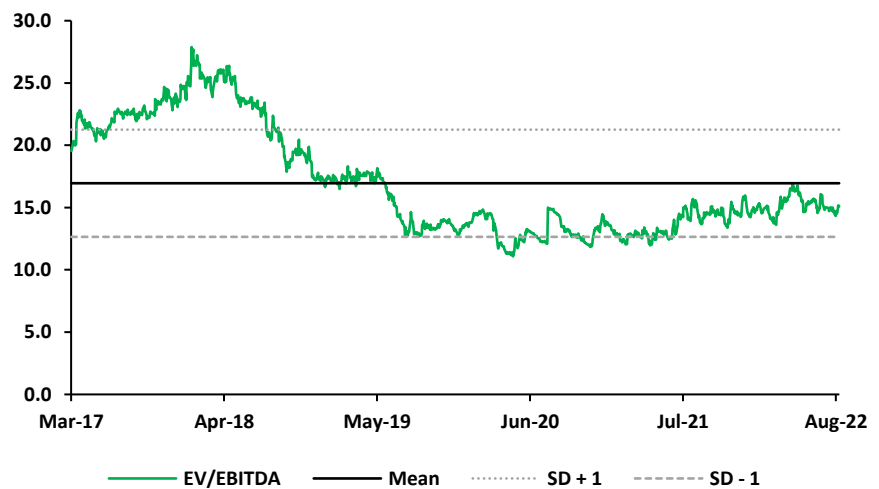
Q1FY23— Key takeaways from the management call

- **With respect to the existing oncology centres, HCGEL expects a growth of 12 to 14% p.a. over the medium to long term. This is higher than the oncology market growth of 11% p.a. There is a scope for EBITDA margin improvement of the existing centres from the current level of 20-21% to 23-24% over the medium to long term, according to the Management.**
- New oncology centre in Jaipur delivered 263% YoY revenue growth
- HCG centres revenue contribution: Karnataka – 35%, Gujarat – 26%, Maharashtra – 15%, East India – 10%, Andhra Pradesh – 8%, Tamil Nadu – 2%, North India – 1%
- Revenue from new centres was Rs 929 Mn (up 34.1% YoY). Revenue from existing centres grew 23.2% YoY
- While the EBITDA Margins of the Maharashtra and East India clusters are below 20% because of the three new centres in Maharashtra and a new centre in Kolkata, there is scope for superior growth in revenue, ARPOB, and EBITDA Margin in Mumbai and Kolkata, according to the Management as these are metro cities commanding higher realizations and a decent number of international patients.
- **HCGEL’s focus in the medium to long term would be to generate free cash flows as it has done in the last 3 quarters after taking into account spends on high end equipment, replacement capex and medical talent. It will also use the free cash flows to repay debt. On a broad basis, HCGEL would be on a consolidation mode in the medium term, though it may consider M&A opportunities if the price is right and the opportunity is large.**
- **The digital platform of HCGEL has immense growth opportunities and it can definitely help HCGEL in acquiring customers beyond 1 lakh, which HCGEL has acquired till date, at a faster pace. The digital platform will help in creating brand awareness, a funnel of leads and a ‘stay in touch’ mechanism, which in turn will lead to recurring revenues. There is a lot of headroom for growth as cancer cases are growing at a decent rate in India and around 300-350 Mn people have access to internet connection.**
- There is not much difference in EBITDA Margin between Tier 1 and Tier 2 cities in general for HCGEL. The hub and spoke model of HCGEL ensures that a reputed surgeon in a Tier 1 city based hospital can remotely monitor and help a Tier 2 city based hospital surgeon to carry out a complicated operation using Microsoft technology.
- **HCGEL is not afraid of competition from top multispeciality hospitals as it believes that it has its own niche and is the leader in oncology in most markets like Ahmedabad and Bangalore (Out of 18 cities in which HCGEL is present, HCGEL is number 1 in oncology in 13 cities).** The EBITDA Margins of these centres are similar to EBITDA Margins generated by top multispeciality hospitals.
- The new centres are ramping up well with these centres reporting positive EBITDA Margins in the last five quarters.
- The Management foresees high growth for the Milann business in the near to medium term.

Outlook and Valuation

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Fig 1: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Research

Quarterly financials

Fig 2: Quarterly Financials

Y/E March (Rs Mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Sales	2,479	2,740	2,981	3,231	3,520	3,580	3,646	4,081
COGS	581	643	732	831	912	895	910	978
Employee Costs	1,047	1,126	1,180	1,229	1,260	1,356	1,449	1,554
Other Expenditure	551	593	675	659	730	711	655	827
EBITDA	300	378	394	512	618	618	632	722
Depreciation	396	418	384	378	380	414	411	397
Interest	272	287	259	264	232	240	241	250
Other Income	40	58	44	34	33	29	30	29
Share of associates/jv	4	2	9	6	(20)	(0)	-	-
Exceptional items	-	(88)	(847)	-	1,401	(455)	-	-
Reported PBT	(323)	(354)	(1,043)	(90)	1,420	(462)	9	104
Tax	(53)	(7)	94	36	429	37	(13)	79
Tax rate (%)	16.4%	1.9%	-9.0%	-40.2%	30.2%	-7.9%	-144.6%	76.2%
PAT before minority Int	(270)	(347)	(1,137)	(126)	990	(499)	23	25
Minority Interest	(47)	(55)	(116)	(30)	(41)	(40)	(37)	(36)
Consolidated PAT	(223)	(293)	(1,021)	(96)	1,031	(458)	60	60
Consolidated PAT Margins	-9.0%	-10.7%	-34.3%	-3.0%	29.3%	-12.8%	1.6%	1.5%
Adjusted PAT	(223)	(207)	(98)	(96)	54	33	60	60
Adjusted PAT Margins	-9.0%	-7.5%	-3.3%	-3.0%	1.5%	0.9%	1.6%	1.5%
YoY Growth (%)								
Revenue	-11.0%	-1.4%	10.2%	67.0%	42.0%	30.7%	22.3%	26.3%
EBITDA	-34.2%	-17.2%	9.3%	163.7%	105.9%	63.4%	60.2%	41.0%
PAT	NA	NA	NA	NA	NA	NA	NA	NA
QoQ Growth (%)								
Revenue	28.1%	10.5%	8.8%	8.4%	8.9%	1.7%	1.9%	11.9%
EBITDA	54.6%	26.1%	4.2%	29.9%	20.7%	0.0%	2.2%	14.3%
PAT	NA	NA	NA	NA	NA	-150.3%	-104.5%	10.2%
Margin (%)								
RMC/revenue (%)	23.4%	23.5%	24.6%	25.7%	25.9%	25.0%	25.0%	24.0%
Gross margin (%)	76.6%	76.5%	75.4%	74.3%	74.1%	75.0%	75.0%	76.0%
Employee cost/revenue (%)	42.2%	41.1%	39.6%	38.0%	35.8%	37.9%	39.7%	38.1%
Other expenses/revenue (%)	22.2%	21.6%	22.6%	20.4%	20.7%	19.8%	18.0%	20.3%
EBITDA margin (%)	12.1%	13.8%	13.2%	15.8%	17.6%	17.3%	17.3%	17.7%
PAT margin (%)	-10.9%	-12.7%	-38.1%	-3.9%	28.1%	-13.9%	0.6%	0.6%

Source: Company, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	10,956	10,136	13,978	15,578	16,469
COGS	2,399	2,403	3,549	3,607	3,672
% of sales	21.9%	23.7%	25.4%	23.2%	22.3%
Personnel	2080	1959	2337	2699	2882
% of sales	19.0%	19.3%	16.7%	17.3%	17.5%
Other Exp.	4756	4506	5713	6408	6587
% of sales	43.4%	44.5%	40.9%	41.1%	40.0%
EBITDA	1,722	1,267	2,380	2,864	3,327
EBITDA Margin (%)	15.7%	12.5%	17.0%	18.4%	20.2%
Depreciation & Amortization	1485	1592	1583	1375	1288
EBIT	237	-325	797	1,490	2,038
Interest Expenses	1377	1192	978	819	688
EBT	-1,140	-1,517	-181	671	1,350
Other Income	70	170	127	164	200
Extraord. items - Adj.	-	-935	946	-	-
Share of associates	-123	-4	-14	851	1,562
Reported PBT	-1,193	-2,285	878	150	312
Tax-Total	62	-76	489	17.7%	20.0%
Effective tax rate (%)	-5.2%	3.3%	55.7%	7	187
Minority Interest	-188	-276	-148	694	1062
Consolidated PAT	-1067	-1933	537	4.5%	6.4%
Consolidated PAT Margins	-9.7%	-19.1%	3.8%	694	1062
Adjusted PAT	-1067	-1030	118	6.5%	6.4%
Adjusted PAT Margins	-9.7%	-10.2%	0.8%	15,578	16,469

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23E	FY24E
Growth ratios (%)					
Net sales	11.9%	-7.5%	37.9%	11.4%	5.7%
EBITDA	37.5%	-26.4%	87.9%	20.4%	16.1%
Adjusted PAT	NA	NA	NA	489.3%	53.0%
Margin Ratio (%)					
EBITDA Margin	15.7%	12.5%	17.0%	18.4%	20.2%
EBIT Margin	2.2%	-3.2%	5.7%	9.6%	12.4%
PBT (Adjusted) Margin	-10.9%	-13.3%	-0.5%	5.5%	9.5%
PAT (Adjusted) Margin	-9.7%	-10.2%	0.8%	4.5%	6.4%
Return Ratio (%)					
ROE	-28.0%	-14.8%	1.4%	7.5%	10.3%
ROCE	1.4%	-2.1%	4.6%	9.2%	12.5%
Turnover Ratio days (days)					
Inventory Period	35	32	36	36	36
Debtors Period	62	67	62	62	62
Creditors	234	221	234	234	234
Cash Conversion Cycle	-136	-122	-136	-136	-136
Solvency Ratio (%)					
Debt-equity (x) (Ex IND AS 116)	1.9	0.6	0.5	0.3	0.1
Net Debt-equity (x) (Ex IND AS 116)	1.8	0.7	0.2	0.2	-0.1
Liquidity ratio (x)	0.5	0.9	1.1	1.2	1.4
Interest coverage ratio (x)	0.2	-0.3	0.8	1.8	3.0
Per share (Rs)					
Adjusted EPS	-7.7	-7.4	0.8	5.0	7.7
CEPS	3.0	4.0	12.3	14.9	16.9
Book value	27.5	50.2	62.7	66.6	74.2
Dividend per share	-	-	-	-	-
Dividend Payout (%)	0%	0%	0%	0%	0%
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Valuation					
P/E	NA	NA	335.9	57.0	37.2
P/BV	10.4	5.7	4.5	4.3	3.8
P/S	3.6	3.9	2.8	2.5	2.4
EV/EBITDA	27.1	36.9	19.6	16.3	14.0

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Capital	887	1,254	1,390	1,390	1,390
Reserves & Surplus	2,926	5,718	7,313	7,852	8,915
Shareholders' Funds	3,813	6,972	8,703	9,243	10,305
Minority Interest	385	168	134	141	329
Total Debt	6,233	4,132	4,076	2,156	956
Deferred Tax Liabilities	70	43	13	13	13
Other Non-Current Liabilities	7,211	5,059	5,019	5,456	5,422
Total Liabilities	17,711	16,374	17,945	17,009	17,024
Application of funds					
Net Block	15,367	12,860	13,659	11,722	10,983
Capital WIP	461	300	217	217	217
Non-current Asset	2,231	1,620	1,395	1,425	1,569
Net Non-Current Assets	18,059	14,780	15,271	13,364	12,770
Investments	341	263	88	105	117
Goodwill	1,093	963	1,813	1,813	1,813
Inventories	233	211	300	356	362
Sundry Debtors	1,857	1,866	2,175	2,646	2,797
Other Current Assets	629	1,864	574	1,229	925
Cash & Bank Balances	320	409	1,975	959	1,800
Total Current Assets	3,038	4,350	5,024	5,189	5,885
Creditors	1,536	1,455	1,940	2,312	2,354
Other Current Liabilities	3,195	2,423	2,138	1,011	1,051
Current Provisions	90	104	173	139	156
Total Current Liabilities	4,821	3,982	4,250	3,462	3,561
Net Current Assets	-1,783	367	774	1,728	2,325
Total Assets	17,711	16,374	17,945	17,009	17,024

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Operating profit before WC changes					
Net change in working capital	-226	-507	-105	-1,227	-234
Cash flow from operating activities (a)	1,301	1,205	2,201	1,651	2,980
Capital expenditure (organic)	-1,074	-354	-704	-600	-550
FCF	227	852	1,497	1,051	2,430
Cash flow from investing activities (b)	-1,014	-1,711	1,246	-600	-550
Cash flow from financing activities (c)	-584	1,122	-1,549	-2,019	-1,588
Net change in cash (a+b+c)	-297	617	1,898	-968	842
Opening cash balance	205	317	300	1,975	959
Adjustments	409	-634	-223	-48	-
Ending cash balance	317	300	1,975	959	1,800
Other bank balances	3	109	-	-	-
Cash and Bank on balance sheet	320	409	1,975	959	1,800

Source: Company, SMIFS Research Estimates

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