

HealthCare Global Enterprises Ltd.

Growth momentum from existing centres to continue...

HealthCare Global Enterprises (HCGEL) continued to register the highest ever quarterly revenues and EBITDA in Q3FY23 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 29.3% YoY and 7.4% QoQ while existing HCG centres registered a growth of 16.6% YoY but the growth was flat on sequential basis. New centres registered an operating EBITDA of Rs 78 Mn against EBITDA of Rs 76 Mn in Q3FY22. ARPOBs have been steadily increasing on sequential basis but on YoY basis, it has witnessed a decline of 4.6% as management is hiring talents and is now focusing on inpatient volume growth. Due to higher tax rate in FY23E, we cut our EPS estimate for FY23E by 67%. Going ahead, we believe, HCG can increase its profitability through a combination of efforts aimed at improving its operations, pricing, and cost structures, as well as by improving the performance of its fertility business and new centres. By focusing on these areas, it can increase its EBITDA margins by 200-300 bps in the next 18-24 months. On an overall basis, we are positive about the prospects of HCGEL and we recommend a "Buy" rating on the stock.

Decent performance on the back on higher occupancy

- HCGEL reported decent set of numbers for Q3FY23. While on a YoY basis there was robust growth of 18.6% due to occupancy rate (65.7% in Q3FY23 vs 56.9% in Q3FY22).
- ARPOB was Rs 37,014 for Q3FY23 compared to Rs 38,801 for Q3FY22. Overall ARPOB growth declined by 4.6% as the company focuses on first scaling up volumes and then optimizing payer mix over time (which will improve ARPOBs).
- Operating leverage and higher contribution from existing hospitals led to expansion of EBITDA margin by 52 bps yoy to 17.8% in the quarter. The existing hospitals has an EBITDA margin of 25.4% while the new centres have EBITDA margin of 7.7% in the quarter. There were certain one-off expenses in the quarter such as consultation cost of Rs. 39 Mn and ESOP's cost of Rs. 18 Mn. Excluding these, the EBITDA margin in the quarter grew by 110 bps qoq and 162 bps yoy to 18.9%.
- The number of IVF cycles for Milann in Q3FY23 was 460 as compared to 508 in Q3FY22. Milann recorded revenues of Rs 167 Mn in Q3FY23 which was flat on YoY and QoQ basis. New registrations were 1,215 in Q3FY23 compared to 796 in Q3FY22.

Outlook and Valuation:

We are positive about the prospects connected with HCGEL. Both the existing and new centres should perform robustly in the future. **We expect EBITDA CAGR of 11% from FY23-FY25e. Due to change in regional mix, there is a scope for EBITDA margin improvement from 17% in FY22 to 19-20% in FY25.** We value the stock at 15x EV/EBITDA with respect to FY25E EBITDA to arrive at a Target Price of Rs 361 and recommend a "Buy" rating on the stock.

Y/E Mar (Rs mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	Q3 FY23e	Var. (%)
Net sales	4,247	3,580	18.6	4,200	1.1	4,235	0.3%
Operating costs	3,492	2,962	17.9	3,453	1.1		
EBITDA	755	618	22.2	747	1.1	834	-9.5%
EBITDA Margin (%)	17.8%	17.3%	52 bps	17.8%	(1) bps	19.7%	(191) bps
Depreciation	408	414	(1.5)	408	-0.1		
Interest	271	240	12.7	258	4.9		
Other income	37	29	25.0	20	85		
Share of Asso.	0	(0)	0.0	0	NA		
Exceptional items	0	(455)	-100.0	0	NA		
PBT	113	(462)	(124.5)	100	12.5		
Provision for tax	71	37	94.0	47	50.1		
Effective tax rate (%)	63%	NA	NA	47%	33.4		
Minority Interest	(33)	(40)	NA	(21)	NA		
Consolidated PAT	75	(458)	NA	74	1.9	149	-49.4%
PAT Margin (%)	1.8%	-12.8%	1,458 bps	1.8%	1 bps	3.5%	(174) bps

Source: AceEquity, SMIFS research

Y/E Mar (Rs Mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	10,135	-7.5	1,267	12.5	-1,233	NA	-8.9	-21.8	-1.0	NA	20.1
FY22	13,978	37.9	2,380	17.0	-172	NA	-1.2	-2.2	2.1	NA	15.7
FY23E	16,820	20.3	2,953	17.6	253	NA	1.8	2.8	3.1	164.5	16.4
FY24E	17,259	2.6	3,383	19.6	983	288.4	7.1	10.3	9.2	42.4	13.7
FY25E	18,375	6.5	3,620	19.7	1,276	29.8	9.2	11.7	10.7	32.6	12.1

Source: AceEquity, SMIFS Research



Rating: **Buy** Upside: **29%**
Current Price: **281** Target Price: **361**

Earlier recommendation

Previous Rating: Buy
Previous Target Price: 367
Source: SMIFS Research

Market data

Bloomberg: HCG IN
52-week H/L (Rs): 320/221
Mcap (Rs bn/USD bn): 39.1/0.47
Shares outstanding (mn): 139.0
Free float: 29%
Avg. daily vol. 3mth (3M Avg – in '000): 211.8
Face Value (Rs): 10
Source: Bloomberg, SMIFS Research

Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	71.8	71.4	71.4	71.4
FII	7.1	7.3	7.2	7.0
DII	4.4	4.0	4.5	5.8
Public	17.0	17.3	16.8	15.7

Promoter pledging (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Pledging	3.1	3.1	3.0	3.0

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	-0.49	-1.1	1.2	48.1
NIFTY 500	-2.1	-2.8	-0.7	50.8
HCG	-1.9	-6.3	12.1	142.2

*as on 10th Feb 2023; Source: AceEquity, SMIFS Research

Dhara Patwa

Sector Lead – Pharma & Healthcare
9766492546/022 4200 5511
dhara.patwa@smifs.com

Awanish Chandra

Executive Director
8693822293
awanish.chandra@smifs.com

Q3FY23— Key takeaways from the management call

- New oncology centre in Jaipur delivered 104% YoY revenue growth
- HCG centres revenue break up as per modalities: 37% medical oncology, 25% surgical oncology, 18% radiation oncology, 18% outpatients, 2% others
- **HCG plans to ramp up its volumes at the new centres which will help to increase revenue. Improvement in payer and modality mix will be growth driver going ahead. The current contribution of Insurance and Cash patients is 60% and the rest is govt schemes and corporate.**
- **There will be continued uptick in international business. The current contribution of international business is 5%.**
- As per management, for oncology focused hospital bed capacity is not the main growth driver as these hospitals have various modalities such as radiation, medical oncology, surgery and consultation where except surgery all other are day care facilities resulting in lower ALOS and lower occupancy levels.
- HCGEL's focus in the medium to long term would be to generate free cash flows as it has done in the last few quarters after taking into account spends on high end equipment, replacement capex and medical talent.
- **Capex:** HCGEL plan to limit its capex to maintenance spends and focuses on consolidating operations at existing facilities. There are two planned expansion projects, i.e Gujarat (Ahmedabad unit phase-2) with a budget of INR 0.9 billion and an expected completion date in Q1 FY25. The other expansion project is in Whitefield with a budget of INR 0.3 billion and an expected completion date in Q4 FY24. Both are on track.
- The Management foresees high growth for the Milann business in the near to medium term.
- HCG has incurred a consultation cost of Rs 3.9 Cr in Q3FY23 due to which other expenses have increased. This cost will stay till Q4FY23. The consultation cost was related to engagement with a Big 4 consultancy firm on matters related to productivity, internal economies, staffing productivity etc as HCG plans to focus on lean cost structure.

Outlook and Valuation

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Fig 1: Key KPI indicators

YE March (Rs Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues						
Hospitals	10,255	9,690	13,356	16,137	16,424	17,410
IVF Clinics	701	444	621	683	835	965
Total Revenue	10,956	10,134	13,977	16,820	17,259	18,375
Contribution %						
Hospitals	94	96	96	96	95	95
IVF Clinics	6	4	4	4	5	5

Source: Company, SMIFS research

Fig 2: Hospitals key parameters

YE March (Rs Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues							
Mature Centres	8,187	8,765	7,859	10,074	11,902	11,850	12,156
New Centres	956	1,490	1,831	3,282	4,236	4,573	5,254
EBITDA margin							
Mature Centres (%)	21.8%	21.1%	17.4%	21.5%	25.2%	25.4%	25.6%
New Centres (%)	-30.9%	-16.6%	8.6%	2.2%	10.7%	11.5%	12.0%
Other							
Avg Occupancy level	43.7%	42.9%	48.4%	58.3%	65.2%	67.0%	67.0%
ARPOB in Rs.	31,423	32,767	32,632	36,697	39,669	39,274	41,634
Growth rate (%)		4.3%	-0.4%	12.5%	8.1%	-1.0%	6.0%

Source: Company, SMIFS research

Fig 3: Breakup of Beds region wise in FY22

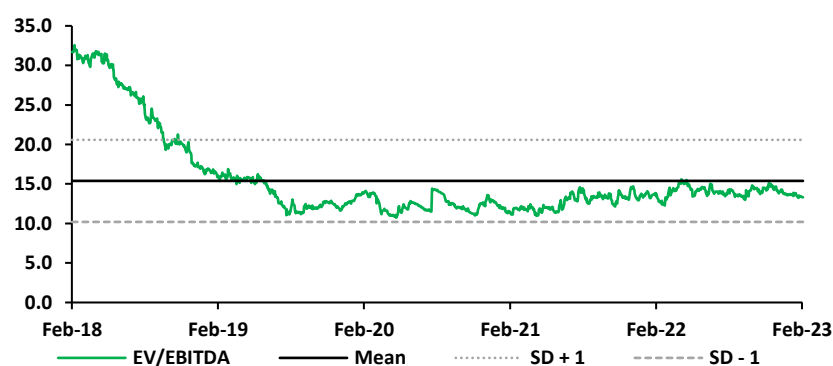
Region	Number of Beds
Karnataka	514
Gujarat	403
Andhra Pradesh	155
Odisha and Jharkhand	239
Maharashtra	321
Rajasthan	45
East India	267
Total Beds	1,944

Source: Company, SMIFS research

Fig 4: Change In Estimates

Particulars in Rs Mn	New Estimates			Old Estimates			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenues	16,820	17,259	18,375	16,613	17,496	18,607	1.2%	-1.4%	-1.2%
Gross Profit	12,670	13,410	14,278	12,753	13,594	14,458	-0.7%	-1.4%	-1.2%
Gross Margin (%)	75.3%	77.7%	77.7%	76.8%	77.7%	77.7%	(144) bps	-	-
EBITDA	2,953	3,383	3,620	3,116	3,429	3,666	-5.2%	-1.4%	-1.2%
EBITDA Margin (%)	17.6%	19.6%	19.7%	18.8%	19.6%	19.7%	(120) bps	0 bps	-
PAT	253	983	1,276	776	1,080	1,392	-67.4%	-9.0%	-8.3%
EPS	1.8	7.1	9.2	5.6	7.8	10.0	-67.4%	-9.0%	-8.3%

Source: AceEquity, SMIFS Research

Fig 5: 1-year forward EV/EBITDA


Source: AceEquity, SMIFS Research

Quarterly financials

Fig 2: Quarterly Financials

Y/E March (Rs Mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	2,981	3,231	3,520	3,580	3,646	4,081	4,200	4,247
COGS	732	831	912	895	910	978	1,024	1,075
Employee Costs	1,180	1,229	1,260	1,356	1,449	1,554	1,581	1,576
Other Expenditure	675	659	730	711	655	827	848	841
EBITDA	394	512	618	618	632	722	747	755
Depreciation	384	378	380	414	411	397	408	408
Interest	259	264	232	240	241	250	258	271
Other Income	44	34	33	29	30	29	20	37
Share of associates/JV	9	6	(20)	(0)	-	-	-	(0)
Exceptional items	(847)	-	1,401	(455)	-	-	-	-
Reported PBT	(1,043)	(90)	1,420	(462)	9	104	100	113
Tax	94	36	429	37	(13)	79	47	71
Tax rate (%)	-9.0%	-40.2%	30.2%	-7.9%	-144.6%	76.2%	47.1%	62.8%
PAT before minority Int	(1,137)	(126)	990	(499)	23	25	53	42
Minority Interest	(116)	(30)	(41)	(40)	(37)	(36)	(21)	(33)
Consolidated PAT	(1,021)	(96)	1,031	(458)	60	60	74	75
Consolidated PAT Margins	-34.3%	-3.0%	29.3%	-12.8%	1.6%	1.5%	1.8%	1.8%
Adjusted PAT	(98)	(96)	54	33	60	60	74	75
Adjusted PAT Margins	-3.3%	-3.0%	1.5%	0.9%	1.6%	1.5%	1.8%	1.8%
YoY Growth (%)								
Revenue	10.2%	67.0%	42.0%	30.7%	22.3%	26.3%	19.3%	18.6%
EBITDA	9.3%	163.7%	105.9%	63.4%	60.2%	41.0%	20.9%	22.2%
PAT	134%	-76%	-562%	57%	-106%	-163%	-93%	-116%
QoQ Growth (%)								
Revenue	8.8%	8.4%	8.9%	1.7%	1.9%	11.9%	2.9%	1.1%
EBITDA	4.2%	29.9%	20.7%	0.0%	2.2%	14.3%	3.5%	1.1%
PAT	227.3%	-89.0%	-888.5%	-150.3%	-104.5%	10.2%	114.1%	-20.9%
Margin (%)								
RMC/revenue (%)	24.6%	25.7%	25.9%	25.0%	25.0%	24.0%	24.4%	25.3%
Gross margin (%)	75.4%	74.3%	74.1%	75.0%	75.0%	76.0%	75.6%	74.7%
Employee cost/revenue (%)	39.6%	38.0%	35.8%	37.9%	39.7%	38.1%	37.6%	37.1%
Other expenses/revenue (%)	22.6%	20.4%	20.7%	19.8%	18.0%	20.3%	20.2%	19.8%
EBITDA margin (%)	13.2%	15.8%	17.6%	17.3%	17.3%	17.7%	17.8%	17.8%
PAT margin (%)	-3.3%	-3.0%	1.5%	0.9%	1.6%	1.5%	1.8%	1.8%

Source: Company, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	10,135	13,978	16,820	17,259	18,375
Raw materials	2,403	3,549	4,150	3,849	4,098
% of sales	23.7	25.4	24.7	22.3	22.3
Personnel	1959	2337	2784	2934	3161
% of sales	19.3	16.7	16.6	17.0	17.2
Other expenses	4506	5713	6933	7093	7497
% of sales	44.5	40.9	41.2	41.1	40.8
EBITDA	1,267	2,380	2,953	3,383	3,620
Other Income	170	127	130	200	200
Dep. & Amortization	1,592	1,583	1,620	1,365	1,273
EBIT	-156	924	1,463	2,218	2,547
Finance costs	1,192	978	1,050	688	557
Core PBT	-1,517	-181	284	1,329	1,790
Exceptional items	-935	946	-	-	-
PBT	-2,282	892	414	1,529	1,990
Tax-Total	-76	489	249	385	500
Effective tax rate (%)	3.3	54.8	60.1	25.2	25.2
PAT before MI & Asso.	-2,207	404	165	1,144	1,489
Minority Interest	-276	-148	-82	173	225
Share of Associates / JV	-4	-14	5	12	12
Consolidated PAT	-1,934	537	253	983	1,276
Adjusted PAT	-1,233	-172	253	983	1,276

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth ratios (%)					
Net sales	-7.5	37.9	20.3	2.6	6.5
EBITDA	-26.4	87.9	24.1	14.5	7.0
Adjusted PAT	NA	NA	NA	288.4	29.8
Margin Ratio (%)					
Gross Profit	76.3	74.6	75.3	77.7	77.7
EBITDA Margin	12.5	17.0	17.6	19.6	19.7
EBIT Margin	-1.5	6.6	8.7	12.8	13.9
Core PBT	-15.0	-1.3	1.7	7.7	9.7
Adj PAT	-12.2	-1.2	1.5	5.7	6.9
Return Ratio (%)					
ROE	-21.8	-2.2	2.8	10.3	11.7
ROCE	-1.0	2.1	3.1	9.2	10.7
Turnover Ratios (days)					
Gross Block Turnover (x)	0.6	0.7	0.9	0.9	0.9
Adj OCF / Adj PAT (%)	NA	NA	253.8	219.0	231.3
Inventory	32	36	35	34	33
Debtors	67	62	62	60	58
Creditors	221	234	234	234	234
Cash Conversion Cycle	-122	-136	-137	-140	-143
Solvency Ratio (x)					
Debt-equity (x)	1.5	1.1	0.8	0.6	0.4
Net Debt-equity (x)	1.4	0.8	0.7	0.5	0.2
Gross Debt / EBITDA	8.4	4.0	2.5	1.9	1.4
Current ratio	2.0	1.4	1.5	1.7	3.2
Interest coverage ratio (x)	-0.1	0.9	1.4	3.2	4.6
Dividend					
Dividend per share	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0	0.0
Per share (Rs)					
Basic EPS (reported)	-15.4	3.9	1.8	7.1	9.2
Adjusted EPS	-8.9	-1.2	1.8	7.1	9.2
CEPS	2.6	10.2	13.5	16.9	18.4
BVPS	51.4	63.7	64.9	73.2	84.0
Valuation					
P/E	NA	NA	164.5	42.4	32.6
P/BV	2.1	3.4	4.6	4.1	3.6
EV/EBITDA	20.1	15.7	16.4	13.7	12.1
EV / Sales	2.5	2.7	2.9	2.7	2.4
Adjusted Mcap/ Core PBT	NA	NA	170.6	35.0	24.5
Adjusted Mcap/Adj OCF	NA	NA	146.8	31.3	23.3

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of funds					
Capital	1,254	1,390	1,390	1,390	1,390
Reserves & Surplus	5,886	7,447	7,614	8,771	10,263
Shareholders' Funds	7,140	8,837	9,005	10,161	11,653
Total Loan Funds	10,618	9,447	7,514	6,314	5,114
Other Liabilities	409	373	411	376	378
Total Liabilities	18,167	18,657	16,929	16,851	17,145
Application of funds					
Gross Block	17,835	19,054	19,654	20,204	20,754
Net Block	12,860	13,659	11,627	10,812	10,089
Capital WIP	300	217	217	217	217
Investments	263	88	94	106	109
Other non-current assets	2,583	3,208	3,238	3,382	3,335
Inventories	211	300	409	380	101
Sundry Debtors	1,866	2,175	2,857	2,932	777
Cash & Bank Balances	409	1,975	769	1,471	2,973
Other Current Assets	1,864	574	1,229	925	1,077
Total Current Assets	4,350	5,024	5,264	5,708	4,927
Sundry Creditors	1,455	1,940	2,660	2,467	654
Other Current Liabilities	734	1,599	849	906	878
Total Current Liabilities	2,189	3,539	3,510	3,374	1,532
Net Current Assets	2,161	1,485	1,754	2,334	3,395
Total Assets	18,167	18,657	16,929	16,851	17,145

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Operating profit before WC changes	1,333	2,543	3,084	3,583	3,820
Net change in working capital	-507	-105	-1,132	-253	132
Taxes paid	380	-237	-249	-385	-500
Cash flow from operating activities (a)	1,205	2,201	1,703	2,945	3,451
Adj OCF	14	1,224	654	2,257	2,894
Capital expenditure	-354	-704	-600	-550	-550
Adj FCF	-340	519	54	1,707	2,344
Cash flow from investing activities (b)	-1,711	1,246	-600	-550	-550
Debt	-2,307	-1,132	-1,200	-900	-900
Interest and lease	-1,279	-1,340	-1,050	-688	-557
Cash flow from financing activities (c)	1,122	-1,549	-2,250	-1,588	-1,457
Net change in cash (a+b+c)	617	1,898	-1,146	807	1,444

Source: Company, SMIFS Research Estimates

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Contact us:

SMIFS Limited. (<https://www.smifs.com/>)

Compliance Officer:

Sudipto Datta,

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5401 / +91 33 6634 5401

Email Id.: compliance@smifs.com

Mumbai Office:

206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India

Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: institutional.equities@smifs.com

Kolkata Office:

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: (D) +91 33 6634 5408, (B) +91 33 4011 5400

Email Id: smifs.institutional@smifs.com
