Equity Research
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Q1FY22 result review and earnings revision

Pharmaceuticals

Target price: Rs264

Estimate revision

(%)	FY22E	FY22E
Sales	2.5	1.5
EBITDA	2.5	1.5

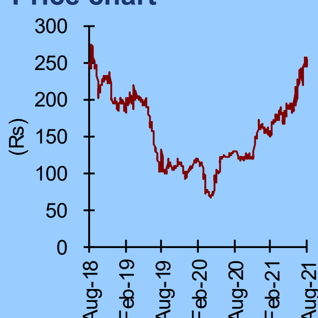
Target price revision
Rs264 from Rs206

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	66.9	70.7	68.4
Institutional investors	19.7	16.0	16.1
MFs and others	10.1	6.9	6.8
Other Inst.	0.6	1.5	1.1
FIIs	8.0	7.6	8.2
Others	13.4	13.3	15.5

Source: BSE India

Price chart



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INDIA

ICICI Securities

HealthCare Global Enterprises

ADD
Maintained

Strong growth recovery

Rs244

HealthCare Global Enterprises' (HCG) Q1FY22 performance was better than our estimates driven by continued sequential recovery in the oncology hospital segment which recorded revenue growth of 9.6% QoQ. Coupled with controlled cost EBITDA margin beat our estimates by 190bps to 15.9% (I-Sec: 14.0%). We believe that the business has normalised and this growth trend will continue. Recent capital infusion has removed the key overhang of high leverage with repayment of debt from the fund raising exercise. We remain positive on the stock as the company is poised to grow positively hereon and strengthening of balance sheet with no major capex plan in near term. We retain ADD rating with a revised target price of Rs264/share.

- **Growth recovery continued:** Consolidated revenues grew 67.0% YoY and 8.4% QoQ with improving momentum in the hospital business. Oncology revenues grew 66.0% YoY and 9.6% QoQ with higher AROPB (+20.4% YoY). While, Milann (infertility) segment revenues declined 14% QoQ due to fresh lockdown. Karnataka cluster grew 59.4% YoY with significant improvement in occupancy as foreign patients started to come. Gujarat cluster grew 88.9%. We expect this growth momentum to continue for the coming quarters with ongoing vaccinations and receding 2nd wave of the pandemic. We believe Gujarat and Maharashtra clusters would be the key growth drivers over FY21-FY23E. East India cluster witnessed growth of 34.8% YoY and Maharashtra grew 77.6%.
- **Margin set to normalise with improving performance**: EBITDA margin improved 590bps YoY and 270bps QoQ to 15.9% despite drop in the gross margin. Effective cost control on personnel and S,G&A fronts helped offset the decline of gross margin and drive EBITDA margin beat. We expect EBITDA margin to normalise by H2FY22 and would cross 16%. We expect improving growth momentum and turnaround of new hospitals would drive operating leverage which would help in positive 430bps margin improvement over FY21-FY23E.
- **Outlook:** Over all we expect 21.5% revenue and 40.6% EBITDA CAGR over FY21-FY23 on a covid-19 impacted FY21 base. Capex phase is complete and no new projects are planned in the near term. We expect losses from new centres to narrow improving overall profitability. The recent fund raise has helped in paring down the leverage significantly.
- **Valuations and risks:** We raise EBITDA estimates by 1-3% to factor in better margins and remain positive on the stock considering focus on niche oncology services and potential to grow faster with strengthening of balance sheet. We retain **ADD** with a revised target of Rs264/share based on 17xFY23E EBITDA (earlier: Rs206/share based on 16x). We have raised the target multiple to 17x from 16x considering improving business performance and margin profile. Key downside risks: Higher competition in oncology, and delay in operational turnaround of new centres.

Market Cap	Rs30.6bn/US$412mn
Reuters/Bloomberg	HEAC.BO / HCG IN
Shares Outstanding (mn)	125.4
52-week Range (Rs)	258/116
Free Float (%)	31.6
FII (%)	8.2
Daily Volume (USD/'000)	775
Absolute Return 3m (%)	27.2
Absolute Return 12m (%)	89.4
Sensex Return 3m (%)	14.6
Sensex Return 12m (%)	46.2

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	10,956	10,434	13,252	14,950
Net Income (Rs mn)	(1,067)	(1,635)	(256)	138
EPS (Rs)	(7.7)	(7.4)	(1.8)	1.0
% Chg YoY	330.2	(3.4)	(75.2)	(153.8)
P/E (x)	(31.8)	(32.9)	(132.5)	246.1
CEPS (Rs)	3.0	4.0	9.6	12.8
EV/E (x)	27.1	34.0	19.6	15.9
Dividend Yield (%)	-	-	-	-
RoCE (%)	2.6	0.7	3.2	5.1
RoE (%)	(24.9)	(19.1)	(3.4)	1.7

Q1FY22 result and concall highlights

- Net sales in Q1FY22 grew 67% YoY and 8.4% QoQ to Rs3.2bn. Oncology segment grew 66% YoY and 9.5% QoQ.
  - **Karnataka cluster** grew 59.4% YoY and 7% QoQ to Rs1.1bn. Sequentially, Bangalore COE saw a decline in ARPOB at Rs50.0k and a margin of 21.1%. The decline in operating margins is due to the decline in international patient volume on account of the 2nd wave.
  - **Gujarat cluster** grew 88.9% YoY to Rs869mn.The cluster witnessed a significant rise in the occupancy levels from 37.9% in Q4FY21 to 60.6% in Q1FY22 driven by covid-19 patients in the multispecialty hospitals. Oncology revenue also recorded a healthy performance in the quarter with 52.3% YoY growth. ARPOB grew marginally by 1.5% YoY to Rs.39.8k Revenues were aided by covid-19 patients that contributed ~22% to the sales for the quarter.
  - **East India cluster** grew 34.8% YoY and 1.6% QoQ to Rs252mn.ARPOB was higher by 13.3% YoY and occupancy levels increased to 45.5% from 32.7%. The company intends to focus on improving corporate and TPA mix going forward
  - **Maharashtra cluster** grew 77.6% YoY and 15.2% QoQ to Rs547mn.This growth was due to 20.4% rise in ARPOB and significantly higher occupancy to 60.6% from 33.1% driven by covid-19 patients. The cluster saw a strong ramp up across all the centres in the quarter. South Mumbai centre grew 236% YoY and Nagpur centre registered a 130% YoY.
  - **Milann** revenues grew 98.4% YoY but declined 14.2% QoQ to Rs121mn. New registrations grew 75.1% while IVF cycles grew 116%. Sequentially, new registrations declined 48.3%
- International patient's volume saw a sequential decline on account of the 2nd wave of COVID. The company witnessed gradual recovery in the current quarter with the easing of restrictions.
- Company has decided to be very selective in deploying capex with no plan for new centres for the next few quarters. Capex deployment for the year will largely be replacement capex funded through internal accruals. The company is presently in a consolidation phase with focus on increasing the capacity utilization of the centers. Kolkata and Jaipur are the only centres that have yet to break even and are expected to do so by Q4FY22 or Q1FY23.
- Company has outlined its near to medium term strategy – better execution of the 'GoTo' market, use digital means to increase its reach, grow the brand awareness, investment in technology(genomics), increased focus on oncology and consolidation of business.
- **Gross margin** declined 260bps YoY to 74.3% (-110bps QoQ). **EBITDA margin** stood at 15.9%.

  Net debt for the company stood at Rs2.9bn. Company is focusing on debt repayment and FCFF generation.

Table 1: Q1FY22 performance

(Rs mn, year ending March 31)

	Q1FY22	Q1FY21	YoY % Chg	Q4FY21	QoQ % Chg
Net Sales	**3,231**	**1,935**	**67.0**	**2,981**	**8.4**
EBITDA	512	194	164.5	394	30.2
Other income	40	8	401.3	53	(24.1)
PBIDT	**552**	**202**	**173.9**	**446**	**23.7**
Depreciation	378	394	(4.1)	384	(1.6)
Interest	264	374	(29.4)	259	1.8
Extra ordinary income/ (exp.)	-	-		(847)	
PBT	**(89)**	**(566)**		**(1,044)**	
Tax	36	(110)		94	(61.7)
Minority Interest	(30)	(59)		(116)	
Reported PAT	**(96)**	**(398)**		**(1,022)**	
Adjusted PAT	**(96)**	**(398)**		**(175)**	
EBITDA margins (%)	15.9	10.0	580bps	13.2	270bps

Source: Company data, I-Sec research

Table 2: Sales breakup

(Rs mn, year ending March 31)

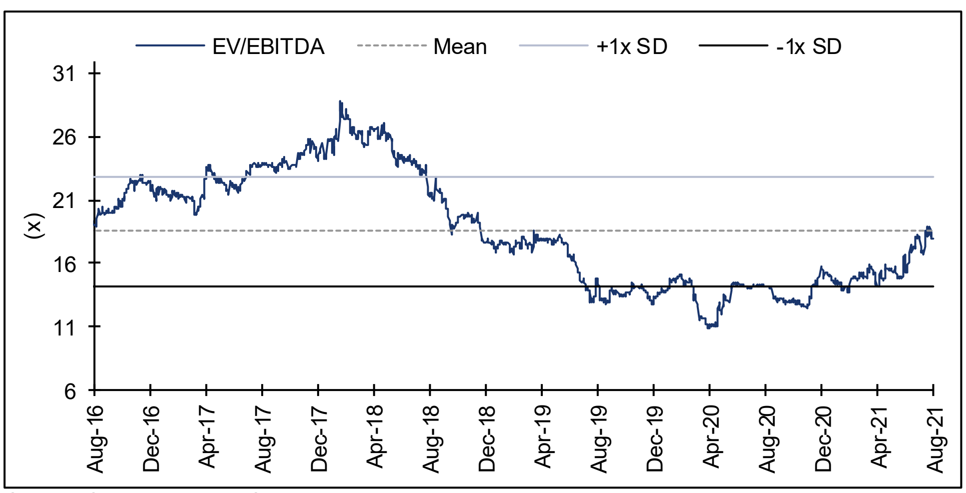
	Q1FY22	Q1FY21	YoY % Chg	Q4FY21	QoQ % Chg
Karnataka cluster	1,111	697	59.4	1,038	7.0
Gujarat cluster	869	460	88.9	757	14.8
East India cluster	252	187	34.8	248	1.6
Maharashtra cluster	547	308	77.6	475	15.2
Others	332	222	49.5	321	3.4
Milann	121	61	98.4	141	(14.2)
Net Sales	**3,232**	**1,935**	**67.0**	**2,980**	**8.5**

Source: Company data, I-Sec research

Valuations

We expect HCG to register revenue CAGRs of 21.5% over FY21-FY23E and EBITDA margin expansion to 16.8% in FY23E (from 12.5% in FY21). The stock currently trades at EV/EBITDA of 19.6xFY22E and 15.9xFY23E. We remain positive on the stock considering focus on niche oncology healthcare services and potential to grow faster with strengthening of balance sheet post the recent fund raise. We maintain **ADD** with a revised target of Rs264/share based on 17xFY23E EBITDA (earlier: Rs206/share). We have raised the target multiple to 17x from 16x considering improving business performance and strengthening balance sheet. The stock has traded at an average forward EV/EBITDA of 18.6x over the last five years.

Chart 1: 1-year forward EV/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Karnataka cluster	3,645	3,426	4,259	4,786
Gujarat cluster	3,037	2,673	3,450	3,849
East India cluster	826	872	1,150	1,358
Maharashtra cluster	1,390	1,607	2,078	2,364
Others	1,357	1,412	1,738	1,947
Milann	701	444	577	646
Total Net Revenue	**10,956**	**10,434**	**13,252**	**14,950**
yoy Growth%	11.9	(4.8)	27.0	12.8
Total Op. Exp.	**9,235**	**8,869**	**11,165**	**12,446**
EBITDA	**1,722**	**1,566**	**2,087**	**2,504**
Margins %	15.7	15.0	15.8	16.8
yoy Growth%	37.5	(9.1)	33.3	20.0
Depreciation	1,485	1,592	1,589	1,633
EBIT	**237**	**(27)**	**498**	**871**
Other Income	(54)	166	178	187
Interest	1,377	1,192	1,018	874
EO Income	-	(935)	-	-
PBT	**(1,193)**	**(1,987)**	**(342)**	**184**
Tax	62	(76)	(86)	46
Tax Rate (%)	(5.2)	3.8	25.2	25.2
Minority Interest	(188)	(276)	-	-
Reported PAT	**(1,067)**	**(1,635)**	**(256)**	**138**
Adj. PAT	**(1,067)**	**(736)**	**(256)**	**138**
Net Margins (%)	(9.7)	(7.1)	(1.9)	0.9

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	887	1,254	1,389	1,389
Reserves & Surplus	2,926	5,718	6,737	6,875
Total Equity	**3,813**	**6,972**	**8,126**	**8,264**
Minority Interest	385	168	168	168
Total Debt	**12,780**	**9,430**	**7,530**	**7,030**
Deferred Liabilities	(192)	(300)	(300)	(300)
Capital Employed	**16,786**	**16,270**	**15,524**	**15,162**
Current Liabilities	5,485	3,743	4,451	4,816
Total Liabilities	**22,270**	**20,013**	**19,975**	**19,978**
Net Fixed Assets	**16,922**	**14,124**	**12,935**	**12,001**
Investments	341	263	263	263
Inventory	233	211	266	296
Debtors	1,857	1,866	2,440	2,753
Other Current Assets	2,598	3,141	3,377	3,506
Cash and Equivalents	320	409	695	1,159
Total Cur. Assets	**5,008**	**5,626**	**6,778**	**7,714**
Total Assets	**22,270**	**20,013**	**19,975**	**19,978**

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	(1,193)	(2,287)	(342)	184
Depreciation	1,485	1,592	1,589	1,633
Net Chg in WC	(109)	(586)	(158)	(119)
Taxes	(267)	380	86	(46)
Others	9	914	1	12
CFO	**(75)**	**14**	**1,176**	**1,664**
Capex	(1,074)	(354)	(400)	(700)
Net Investments made	56	(1,429)	-	-
Others	4	71	-	-
CFI	**(1,014)**	**(1,711)**	**(400)**	**(700)**
Change in Share capital	203	4,962	1,410	-
Change in Debts	231	(2,723)	(1,900)	(500)
Div. & Div Tax	-	-	-	-
Others	766	(454)	-	-
CFF	**1,201**	**1,786**	**(490)**	**(500)**
Total Cash Generated	**112**	**88**	**286**	**464**
Cash Opening Balance	**209**	**320**	**409**	**695**
Cash Closing Balance	**320**	**409**	**695**	**1,159**

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	(7.7)	(7.4)	(1.8)	1.0
YoY Growth%	330.2	(3.4)	(75.2)	(153.8)
Cash EPS	3.0	4.0	9.6	12.8
EBITDA - Core (%)	15.7	15.0	15.8	16.8
NPM (%)	(9.7)	(7.1)	(1.9)	0.9
Net Debt to Equity (x)	3.3	1.3	0.8	0.7
P/E (x)	(31.8)	(32.9)	(132.5)	246.1
EV/EBITDA Core (x)	27.1	34.0	19.6	15.9
P/BV (x)	8.9	4.9	4.2	4.1
EV/Sales (x)	4.3	4.1	3.1	2.7
RoCE (%)	2.6	0.7	3.2	5.1
RoE (%)	(24.9)	(19.1)	(3.4)	1.7
RoIC (%)	2.3	0.7	3.3	5.4
Book Value (Rs)	27.5	50.2	58.5	59.5
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div. Yield (%)	-	-	-	-
Asset Turnover Ratio	0.6	0.5	0.7	0.7
Avg Collection days	57	67	59	63
Avg Inventory days	10	9	8	8

Source: Company data, I-Sec research

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