

31 May 2024

India | Equity Research | Q4FY24 results review

HealthCare Global Enterprises

Pharma

Looking to add capacity in core markets

HealthCare Global Enterprises' (HCG) Q4FY24 revenue growth of 12% YoY to INR 4.9bn was driven by its emerging centre (up 15% YoY), while established centres grew 11% YoY. EBITDA margin touched 18.6% (up 140bps QoQ) driven by superior payer mix and curbing losses of new hospitals in Kolkata and South Mumbai. Average occupancy inched up 410bps QoQ to 63.9% in Q4FY24. HCG is on course to shift operations to a larger 200 bed hospital in Ahmedabad in Q2FY25. Besides, it will add 125 beds in two hospitals in Bengaluru in FY26. The management aims to add 350-400 more beds in existing hospitals which will likely boost organic growth over the next 3-4 years. We raise FY25-26E EBITDA by 2-3% to factor in better traction in emerging centres. Maintain **ADD**, with target price of INR 390 based on 15x FY26E EV/EBITDA.

Momentum driven by better occupancy and payer mix

Revenue grew 5.3% QoQ (+12% YoY) at INR 4.9bn (l-Sec: INR 4.8bn) driven by better traction in Gujarat and Maharashtra clusters. Gross margin expanded 154bps QoQ (57bps YoY) to 75.2%. EBITDA jumped 20.6% QoQ (up 13.9% YoY) to INR 920mn. EBITDA margin expanded 140bps QoQ (130 bps YoY) to 18.6% (l-Sec: 17.4%). Adj. PAT rose 172% QoQ (-107% YoY) to INR 174mn (l-Sec: INR 104mn).

Emerging centres' traction improving

Oncology revenue grew 5.3% QoQ (+12.1% YoY) to INR 4.8bn due to higher ARPOB and better payer mix. Occupancy stood at 63.9% as against 59.8% in Q3FY24 and 65.1% in Q4FY23. It has added 90beds in FY24 and is on track to add 225 beds across Ahmedabad and Bengaluru over FY25-26. Overall ARPOB was flat at INR 42,741. Karnataka, Gujarat, East India and Maharashtra clusters grew 1%, 15.9%, 15% and 22.8% YoY, respectively. Established centre revenue grew 11% YoY (6% QoQ) to INR 3.5bn. Emerging centre revenue grew 15% YoY (4% QoQ) to INR 1.3bn. Margin of established centres rose 19bps YoY (-52bps QoQ) to 24%. New centres margin was up 363bps YoY (660bps QoQ) to 14%. Milann (infertility) segment revenue grew 7.6% YoY 3.7% QoQ) to INR 170mn.

On track to add 225 beds in core cities

HCG had operationalised additional 90 beds in FY24. It plans to shift operations from its current 100 bed hospital in Ahmedabad to a bigger 200 bed facility in Q2FY25 and will also add 123 beds in two hospitals in Bengaluru over the next 12-15 months. It incurred capex of INR 1.9bn in FY24; net debt stood at INR 3.6bn.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	16,948	19,118	21,397	23,457
EBITDA	2,990	3,292	3,531	4,128
EBITDA Margin (%)	17.6	17.2	16.5	17.6
Net Profit	293	458	768	1,253
EPS (INR)	2.1	3.3	5.5	9.0
EPS % Chg YoY	148.9	55.8	67.8	63.1
P/E (x)	167.7	104.4	64.9	79.6
EV/EBITDA (x)	19.0	18.1	16.5	13.7
RoCE (%)	3.9	5.7	7.0	9.2
RoE (%)	3.4	5.4	8.9	13.0

Abdulkader Puranwala

abdulkader.puranwala@icicisecurities.com
+91 22 6807 7339

Market Data

Market Cap (INR)	50bn
Market Cap (USD)	599mn
Bloomberg Code	HCG IN
Reuters Code	HEAC BO
52-week Range (INR)	401 /286
Free Float (%)	29.0
ADTV-3M (mn) (USD)	0.9

Price Performance (%)	3m	6m	12m
Absolute	(1.0)	(3.2)	16.2
Relative to Sensex	(2.9)	(13.5)	(1.2)

Earnings Revisions (%)	FY25E	FY26E
Revenue	2.1	3.1
EBITDA	2.1	3.2
EPS	(9.2)	(1.4)

Previous Reports

11-02-2024: [Q3FY24 results review](#)

10-11-2023: [Q2FY24 results review](#)

Valuation and risks

In FY24, HCG scaled down operations at a highly profitable hospital in Bengaluru and is also shifting operations from a 100-bed hospital in Ahmedabad to a new 200 bed facility in the same region which may disrupt its operations in the near term. Besides, the company is adding 125 beds in Bengaluru which is likely to fetch growth from FY26. Management aspires to add 350-400 beds in existing hospitals over the next 3-4 years.

We like HCG's business model given its focus on niche oncology services; however, challenges like occupancy and ARPOB improvement, cost rationalisation persist with the management to prove resiliency of its business model.

We raise EBITDA estimates by 2-3% for FY25-26E to factor in better margins for emerging centres. We expect HCG to register a revenue CAGR of 10.8% over FY24-26E and EBITDA margin to improve marginally by 40bps to 17.6% in FY26E. The stock currently trades at EV/EBITDA of 16.5x FY25E and 13.7x FY26E. Maintain **ADD** with target price of INR 390/share based on 15x FY26E EV/EBITDA. **Downside risks:** Higher competition in oncology and delay in operational turnaround of new centres.

Exhibit 1: Quarterly review

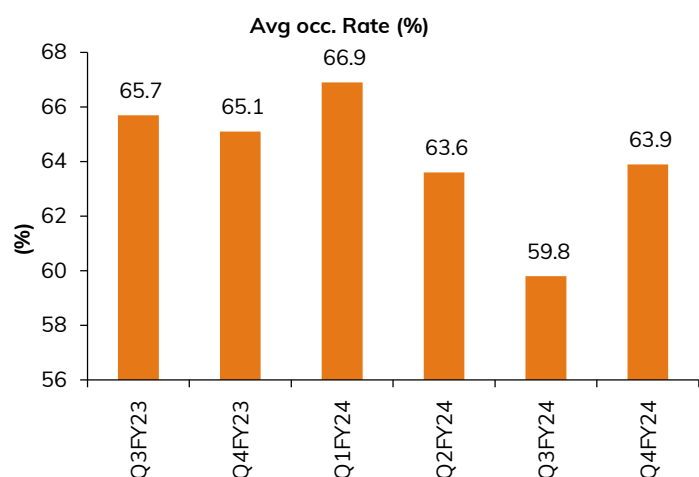
Particulars (INR mn)	Q4FY24	Q4FY23	YoY % Chg	Q3FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Net Sales	4,946	4,417	12.0	4,699	5.3	19,121	16,914	13.0
EBITDA	920	763	20.6	808	13.9	3,318	2,987	11.1
EBITDA margins (%)	18.6	17.3	130bps	17.2	140bps	17.4	17.7	-30bps
Other income	51	46	10.1	62	(17.0)	166	-	#DIV/0!
PBIDT	971	810	20.0	870	11.7	3,483	2,987	16.6
Depreciation	460	422	9.0	442	4.1	1,744	1,635	6.7
Interest	269	256	4.8	295	(8.9)	1,088	1,035	5.1
Extraordinary income/ (exp.)	39	-		(22)		17	-	
PBT	282	131	114.9	112	152.8	669	317	111.1
Tax	48	75	(36.4)	77	(38.3)	265	-	#DIV/0!
Minority Interest	22	(27)	(180.9)	(23)	(196.9)	(46)	(117)	(61.0)
Reported PAT	213	84	153.9	57	272	450	434	3.6
Adjusted PAT	174	84	107.3	64	171.7	440	293	49.9

Source: Company data, I-Sec research

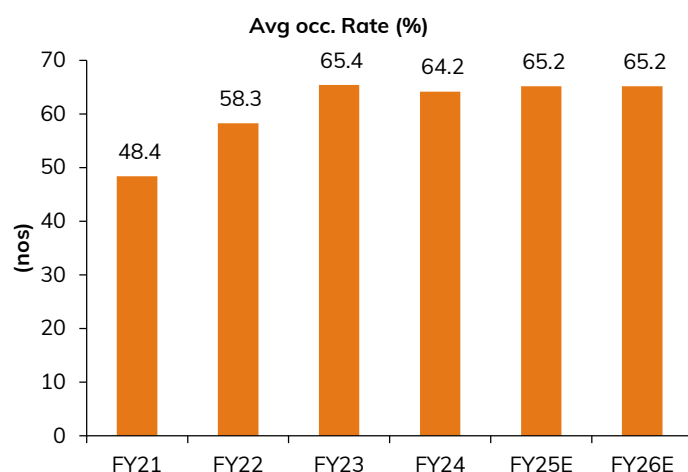
Exhibit 2: Business mix

INR mn	Q4FY24	Q4FY23	YoY % Chg	Q3FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Karnataka Cluster	1,514	1,499	1.0	1,423	6.4	6,015	5,694	5.6
Gujarat Cluster	1,258	1,085	15.9	1,175	7.1	4,785	4,164	14.9
East India Cluster	551	479	15.0	533	3.5	2,105	1,688	24.7
Maharashtra Cluster	771	628	22.8	728	5.9	2,871	2,409	19.2
Others	683	572	19.4	677	1.0	2,672	2,331	14.6
Milann	170	158	7.6	164	3.7	675	664	1.7
Total	4,947	4,421	11.9	4,699	5.3	19,122	16,949	12.8

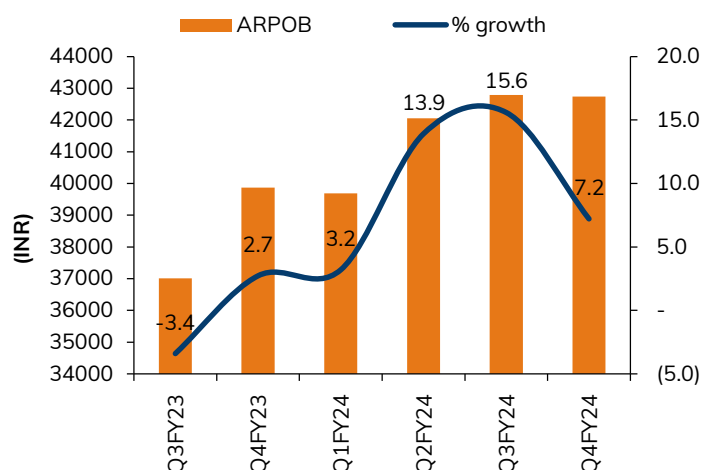
Source: Company data, I-Sec research

Exhibit 3: Occupancy surges in Q4

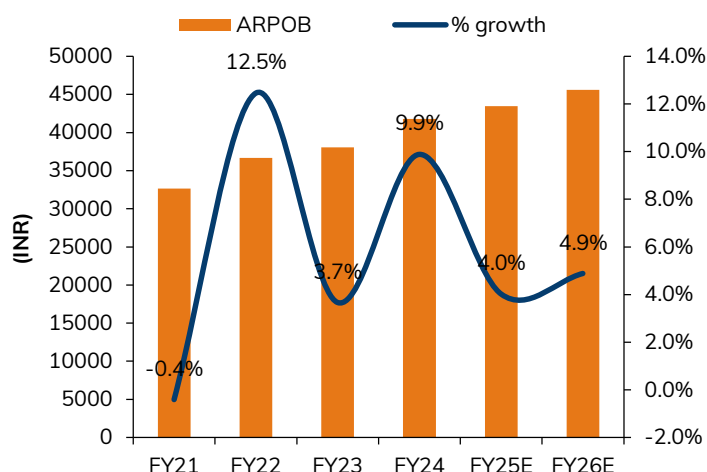
Source: I-Sec research, Company data

Exhibit 4: Occupancy may remain steady at ~65% in coming years

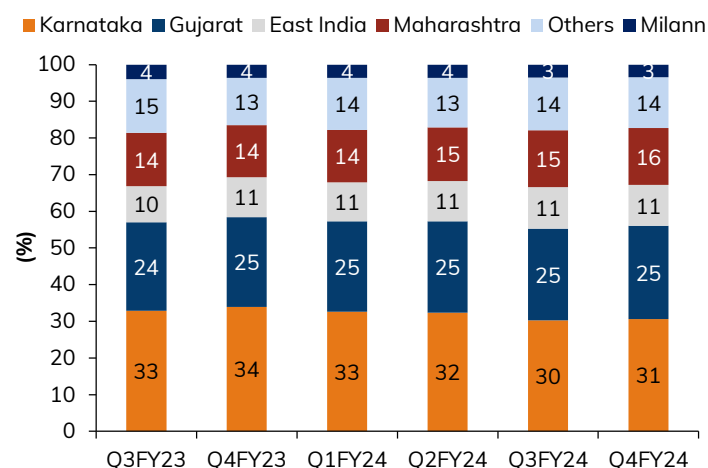
Source: I-Sec research, Company data

Exhibit 5: Strong growth in ARPOB on improved payer and service mix

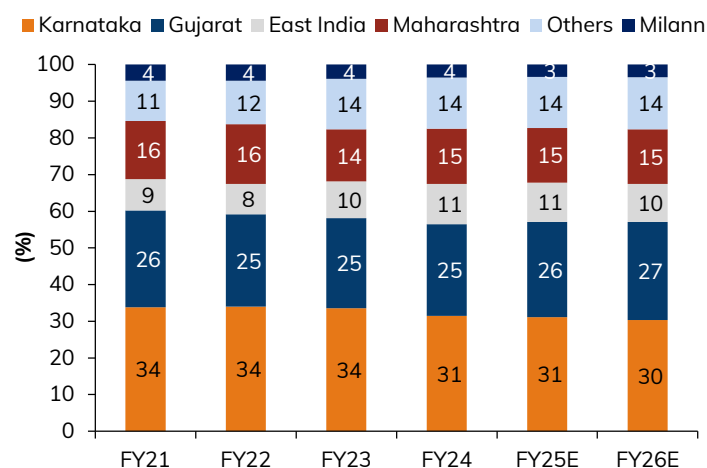
Source: I-Sec research, Company data

Exhibit 6: Expect ARPOB to grow at a CAGR of ~4% over FY24-26E

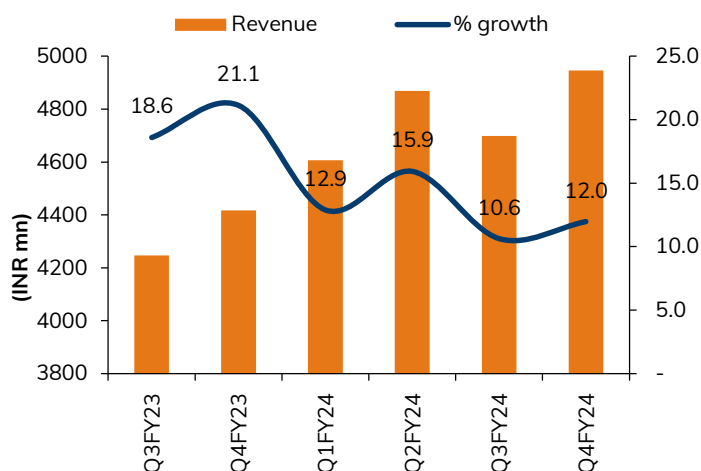
Source: I-Sec research, Company data

Exhibit 7: Hospital wise revenue break up – quarter

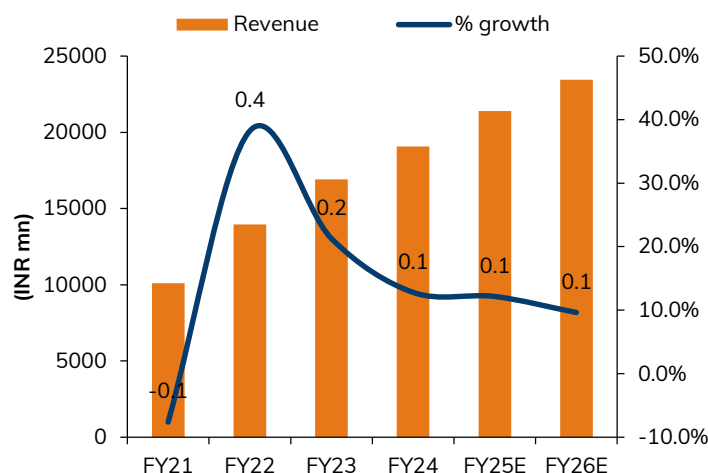
Source: I-Sec research, Company data

Exhibit 8: Hospital wise revenue break up – annual

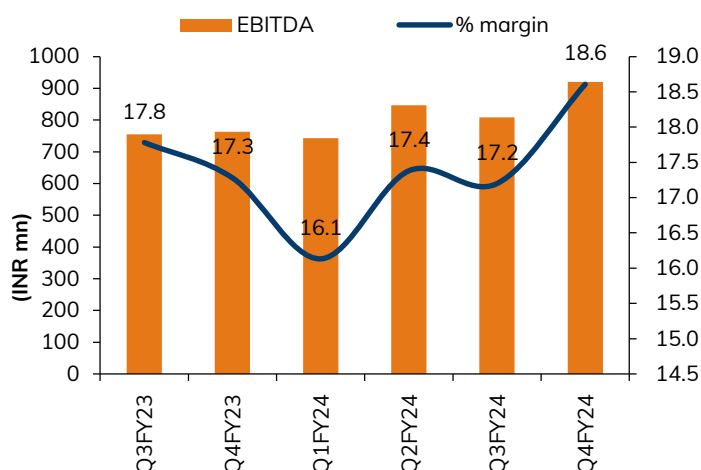
Source: I-Sec research, Company data

Exhibit 9: Revenue growth in double digit led by strong performance in Gujarat and Maharashtra clusters

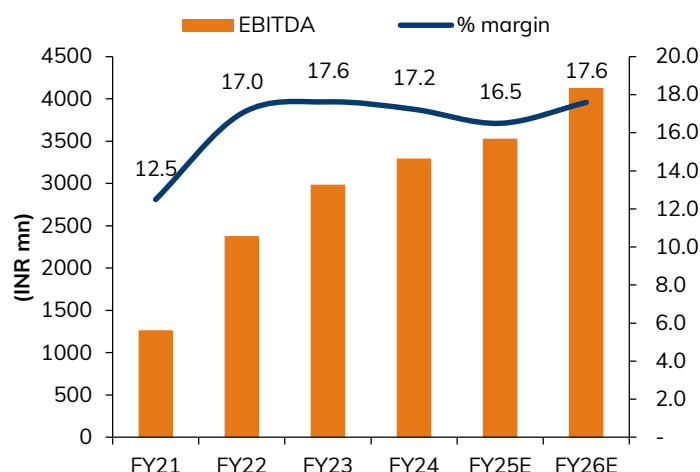
Source: I-Sec research, Company data

Exhibit 10: Expect revenue CAGR at 10.8% over FY24-26E

Source: I-Sec research, Company data

Exhibit 11: Margin expanded led by emerging centres

Source: I-Sec research, Company data

Exhibit 12: Curtailing operations at Ahmedabad hospital to take a toll on margins in near term

Source: I-Sec research, Company data

Exhibit 13: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	71.3	71.3	71.3
Institutional investors	14.2	14.8	15.3
MFs and others	5.7	6.4	6.5
FIs/Banks	-	-	-
Insurance	0.6	0.3	0.2
FIIIs	7.9	8.1	8.6
Others	14.5	13.9	13.4

Source: Bloomberg

Exhibit 14: Price chart

Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	16,948	19,118	21,397	23,457
Operating Expenses	9,717	11,071	12,539	13,535
EBITDA	2,990	3,292	3,531	4,128
EBITDA Margin (%)	17.6	17.2	16.5	17.6
Depreciation & Amortization	1,635	1,744	1,846	1,962
EBIT	1,356	1,549	1,684	2,166
Interest expenditure	1,035	1,087	935	787
Other Non-operating Income	132	173	186	205
Recurring PBT	452	635	935	1,583
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	273	264	236	399
PAT	180	410	700	1,184
Less: Minority Interest	117	68	68	68
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	297	478	768	1,253
Net Income (Adjusted)	293	458	768	1,253

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	5,803	6,799	6,379	6,950
of which cash & cash eqv.	1,966	3,031	2,166	2,346
Total Current Liabilities & Provisions	4,839	5,135	5,750	6,258
Net Current Assets	964	1,664	628	692
Investments	97	103	103	103
Net Fixed Assets	9,718	10,147	9,801	9,338
ROU Assets	3,813	4,907	4,907	4,907
Capital Work-in-Progress	182	832	832	832
Total Intangible Assets	1,999	2,528	2,528	2,528
Other assets	1,495	1,689	1,689	1,689
Deferred Tax Assets	53	71	71	71
Total Assets	18,321	21,941	20,559	20,160
Liabilities				
Borrowings	3,993	6,728	4,678	3,128
Deferred Tax Liability	124	61	61	61
provisions	132	157	175	192
other Liabilities	359	328	328	328
Equity Share Capital	1,391	1,393	1,393	1,393
Reserves & Surplus	7,214	6,865	7,633	8,885
Total Net Worth	8,605	8,258	9,026	10,278
Minority Interest	89	393	325	257
Total Liabilities	18,321	21,941	20,559	20,160

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	2,516	2,846	3,671	4,067
Working Capital Changes	(305)	(272)	(66)	(81)
Capital Commitments	(1,257)	(1,840)	(1,500)	(1,500)
Free Cashflow	1,259	1,006	2,171	2,567
Other investing cashflow	(74)	(418)	-	-
Cashflow from Investing Activities	(1,330)	(2,257)	(1,500)	(1,500)
Issue of Share Capital	9	20	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(454)	933	(2,100)	(1,600)
Dividend paid	-	-	-	-
Others	(750)	(1,593)	(935)	(787)
Cash flow from Financing Activities	(1,194)	(640)	(3,035)	(2,387)
Chg. in Cash & Bank balance	(9)	(52)	(865)	179
Closing cash & balance	1,966	1,915	2,166	2,346

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	2.1	3.4	5.5	9.0
Adjusted EPS (Diluted)	2.1	3.3	5.5	9.0
Cash EPS	13.9	15.8	18.8	23.1
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	61.9	59.3	64.8	73.8
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	21.2	12.8	11.9	8.6
EBITDA	25.7	10.1	7.2	15.9
EPS (INR)	148.9	55.8	67.8	63.1
Valuation Ratios (x)				
P/E	167.7	104.4	64.9	79.6
P/CEPS	25.8	22.7	19.1	31.0
P/BV	5.8	6.0	5.5	9.7
EV / EBITDA	19.0	18.1	16.5	13.7
P / Sales	2.9	2.6	2.3	4.2
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	75.0	75.1	75.1	75.3
EBITDA Margins (%)	17.6	17.2	16.5	17.6
Effective Tax Rate (%)	60.2	39.2	25.2	25.2
Net Profit Margins (%)	1.7	2.4	3.6	5.3
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.2	0.4	0.3	0.1
Net Debt / EBITDA (x)	0.6	1.1	0.7	0.2
Profitability Ratios				
RoCE (%)	3.9	5.7	7.0	9.2
RoE (%)	3.4	5.4	8.9	13.0
RoC (%)	4.4	6.5	8.0	10.4
Fixed Asset Turnover (x)	1.8	1.9	2.1	2.5
Inventory Turnover Days	9	9	9	8
Receivables Days	71	60	59	59
Payables Days	59	57	57	56

Source Company data, I-Sec research

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