

Company update

Pharmaceuticals

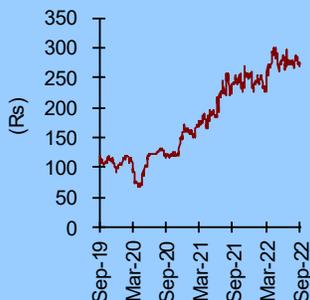
Target price: Rs339

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	71.4	71.4	71.4
Institutional investors	13.6	12.9	11.8
MFs and others	4.6	4.1	2.9
Other Inst.	1.0	0.8	0.6
FIs	7.6	8.0	8.3
Others	15.0	15.7	16.8

Source: BSE India

Price chart



HealthCare Global Enterprises

BUY
Maintained
Rs271

Management meet highlights

We met the management of HealthCare Global Enterprises (HCG) to discuss the company's performance and strategy. Highlights:

- ▶ HCG reiterates its focus on: i) cost rationalisation, ii) talent upgrade, and iii) digital transformation. It intends to stick to its core competency area of oncology and has no plans to venture into other therapy areas.
- ▶ **International patients:** i) Alongside Bangalore hospital, Mumbai and Kolkata too are witnessing good inflow of patients. Proximity to Bangladesh (which contributes highest volumes in terms of medical tourism) should bode well for the Kolkata hospital, and ii) on absolute terms, revenues from international patients have increased to 1.5x pre-covid levels.
- ▶ HCG launched a **new website** in Jan'22 and has trebled the traffic hits since its launch. Moreover, it has also implemented an improved CRM system for better servicing of patients.
- ▶ **Inorganic activity:** HCG is selectively assessing assets for acquisition to further strengthen its foothold in the oncology hospital space. It is looking at standalone oncology hospitals that would be EBITDA-accretive from the onset and be available at reasonable valuations.
- ▶ Tier-2 city hospitals bear a significant discount in terms of ARPOB. While ARPOB in the tier-1 city hospitals typically stands at ~Rs60,000, it would be ~Rs30,000 in the tier-2 city hospitals.
- ▶ 85% of the treatments for cancer can be completed in HCG's tier-2 city hospitals.
- ▶ Company expects its new hospitals to achieve operational and financial performance similar to the existing hospitals over ~18-24 months, during which their RoCE would gradually rise to double digits.
- ▶ **Milann:** Company is not in a hurry to divest the Milann business, but intends to scale it up to a certain level without any need for expansion.
- ▶ HCG believes that its ongoing digitisation activities are necessary and it intends to spend an additional ~Rs200mn (capex + opex) on it.
- ▶ Company expects to reach peak occupancy of ~80% (on operational beds) in the next 2-3 years.

Valuations and risks: Comfortable debt levels with limited capex plans provide room to explore additional growth opportunities and drive efficiency at the newer hospitals. Hence, we remain positive on HCG and retain our **BUY** rating with a target price of Rs339/share based on 15x FY24E EV/EBITDA. **Key downside risks:** Higher competition in oncology, and delay in operational turnaround of new centres.

Market Cap	Rs37.7bn/US\$472mn
Reuters/Bloomberg	HEAC.BO / HCG IN
Shares Outstanding (mn)	139.0
52-week Range (Rs)	300/225
Free Float (%)	28.6
FII (%)	8.3
Daily Volume (USD/'000)	686
Absolute Return 3m (%)	(3.8)
Absolute Return 12m (%)	12.9
Sensex Return 3m (%)	7.6
Sensex Return 12m (%)	2.6

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	10,134	13,978	15,880	17,518
Net Income (Rs mn)	(1,935)	537	527	897
EPS (Rs)	(7.4)	0.8	3.8	6.5
% Chg YoY	(3.4)	(111.4)	347.5	70.2
P/E (x)	(36.5)	319.9	71.5	42.0
CEPS (Rs)	4.0	12.2	15.4	18.4
EV/E (x)	37.1	19.0	14.5	12.3
Dividend Yield (%)	-	-	-	-
RoCE (%)	0.7	3.2	7.2	9.0
RoE (%)	(19.1)	1.5	5.9	9.3

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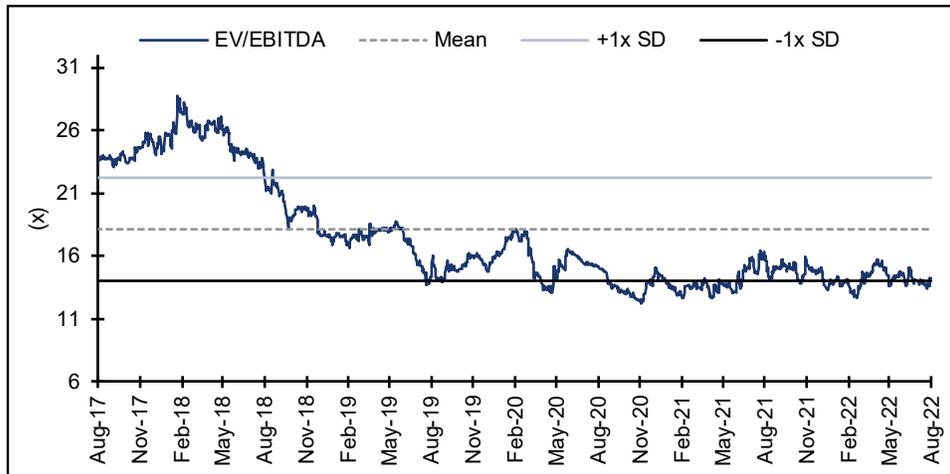
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Valuations

We expect HCG to register a revenue CAGR of 11.9% over FY22-FY24E and EBITDA margin expansion to 19.7% in FY24E (from 12.5% in FY21). The stock currently trades at EV/EBITDA of 14.5x FY23E and 12.3x FY24E. We remain positive on the company considering its focus on niche oncology services and potential to grow faster with strengthening of the balance sheet post the recent fund raise. Maintain **BUY** with a target price of Rs339/share based on 15x FY24E EV/EBITDA. The stock has traded at an average forward EV/EBITDA of 18.1x over the past five years.

Chart 1: 1-year forward EV/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Karnataka cluster	3,426	4,748	5,301	5,683
Gujarat cluster	2,673	3,518	3,851	4,212
East India cluster	872	1,168	1,321	1,502
Maharashtra cluster	1,607	2,275	2,457	2,798
Others	1,112	1,648	2,107	2,247
Milann	444	621	843	1,076
Total Net Revenue	10,134	13,978	15,880	17,518
YoY Growth%	(7.5)	37.9	13.6	10.3
Total Op. Exp.	8,869	11,598	12,871	14,067
EBITDA	1,266	2,380	3,009	3,451
Margins %	12.5	17.0	19.0	19.7
YoY Growth%	(26.5)	88.1	26.4	14.7
Depreciation	1,592	1,583	1,614	1,656
EBIT	(327)	797	1,396	1,795
Other Income	166	112	133	140
Interest	1,192	978	1,015	927
EO Income	(935)	946	-	-
PBT	(2,287)	878	514	1,008
Tax	(76)	489	129	254
Tax Rate (%)	3.3	55.7	25.2	25.2
Minority Interest	(276)	(148)	(143)	(143)
Reported PAT	(1,935)	537	527	897
Adj. PAT	(1,031)	118	527	897
Net Margins (%)	(10.2)	0.8	3.3	5.1

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Paid-up Capital	1,254	1,390	1,390	1,390
Reserves & Surplus	5,718	7,313	7,840	8,737
Total Equity	6,972	8,703	9,230	10,127
Minority Interest	168	134	(9)	(151)
Total Debt	9,520	9,476	8,976	7,876
Deferred Liabilities	(300)	(47)	(47)	(47)
Capital Employed	16,359	18,267	18,151	17,805
Current Liabilities	3,654	3,869	4,696	5,018
Total Liabilities	20,013	22,136	22,847	22,823
Net Fixed Assets	14,124	15,689	15,075	14,419
Investments	263	88	88	88
Inventory	211	300	333	363
Debtors	1,866	2,175	2,470	2,725
Other Current Assets	3,141	1,910	1,941	1,969
Cash and Equivalents	409	1,975	2,939	3,258
Total Cur. Assets	5,626	6,359	7,684	8,315
Total Assets	20,013	22,136	22,847	22,823

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
PBT (Adj. for Extraordinary)	(2,287)	878	514	1,008
Depreciation	1,592	1,583	1,614	1,656
Net Chg in WC	(586)	87	(142)	(90)
Taxes	380	(237)	(129)	(254)
Others	914	(1,087)	609	99
CFO	14	1,224	2,464	2,419
Capex	(354)	(704)	(1,000)	(1,000)
Net Investments made	(1,429)	1,316	-	-
Others	71	(1,857)	-	-
CFI	(1,711)	(1,246)	(1,000)	(1,000)
Change in Share capital	4,962	1,322	-	-
Change in Debts	(2,723)	(1,938)	(500)	(1,100)
Div. & Div Tax	-	-	-	-
Others	(454)	2,205	-	-
CFF	1,786	1,589	(500)	(1,100)
Total Cash Generated	88	1,567	964	319
Cash Opening Balance	320	409	1,975	2,939
Cash Closing Balance	409	1,975	2,939	3,258

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Adj EPS	(7.4)	0.8	3.8	6.5
YoY Growth%	(3.4)	(111.4)	347.5	70.2
Cash EPS	4.0	12.2	15.4	18.4
EBITDA - Core (%)	12.5	17.0	19.0	19.7
NPM (%)	(10.2)	0.8	3.3	5.1
Net Debt to Equity (x)	1.3	0.9	0.7	0.5
P/E (x)	(36.5)	319.9	71.5	42.0
EV/EBITDA Core (x)	37.1	19.0	14.5	12.3
P/BV (x)	5.4	4.3	4.1	3.7
EV/Sales (x)	4.6	3.2	2.8	2.4
RoCE (%)	0.7	3.2	7.2	9.0
RoE (%)	(19.1)	1.5	5.9	9.3
RoIC (%)	(0.2)	3.5	8.3	10.9
Book Value (Rs)	50.2	62.6	66.4	72.8
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div. Yield (%)	-	-	-	-
Asset Turnover Ratio	0.5	0.7	0.7	0.8
Avg Collection days	67	53	53	54
Avg Inventory days	9	8	9	9

Source: Company data, I-Sec research

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