Stock Update

Healthcare Global Enterprises Ltd. (HCG)

Sep 04, 2023

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Healthcare Global Enterprises Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare	Rs 350.5	Buy in the band of Rs 350-354 & add more on dips to Rs 314	Rs 384.5	Rs 414.5	2-3 quarters

HDFC Scrip Code	HEAGLOEQNR
BSE Code	539787
NSE Code	HCG
Bloomberg	HCG IN
CMP Sep 01, 2023	350.5
Equity Capital (Rs cr)	139
Face Value (Rs)	10
Equity Share O/S (cr)	13.9
Market Cap (Rs cr)	4877
Book Value (Rs)	62
Avg. 52 Wk Volumes	268251
52 Week High	364.8
52 Week Low	250

Share holding Pattern % (Jun, 2023)	
Promoters	71.35
Institutions	13.05
Non Institutions	15.60
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Healthcare Global Enterprises (HCG) is the largest provider of cancer care in India under the "HCG" brand. It owns and operates comprehensive cancer diagnosis and treatment services (through radiation therapy, medical oncology and surgery). Apart from this, it has also presence into fertility treatment segment under the "Milann" brand. Having doubled bed capacity over the last five years, we expect HCG's capex phase to ease which is already visible in the last 2-3 years. HCG has beds capacity at 2037 and operational beds stood at 1833. It has a network of 22 comprehensive cancer centres and 4 Multi-Speciality hospitals as on Jun-2023. HCG has 17 PET CTs, 32 LINACs and 3 Robots as on Mar-2023. Company has market leadership position in 13 out of 18 cities.

HCG's strong market position in the oncology segment, improvement in patient mix, diverse footprint across the country, high-quality infrastructure, advanced technology, and the ability to attract and retain reputed medical professionals is likely to augur well for the business. Unlike other multi-specialty hospitals, HCG is an oncology focused hospital with 2/3rd out-patients and that doesn't require full-time beds. To increase out-patients one needs to focus on brand awareness which HCG is trying to leverage. Oncologists are also not a near term constraint in this business as HCG has the high density of oncologists. Margin expansion levers are i) Operating leverage driven by mature hospitals, ii) improvement in margin of new hospitals, and iii) increase in revenue contribution from international patients.

The Centre of Excellence (CoE) registered an ARPOB of around Rs 70,000 as compared to ~Rs 50,000 and Management commented that it is sustainable as high-end cases are rising with significant contribution from robotic and cyber knife surgeries. Revenue Mix for FY23: Medical Oncology at 37% of sales, Surgical Oncology at 24%, Radiation Oncology at 18%, Out Patients at 17% and Others at 3%. We are positive on the stock considering focus on niche oncology healthcare services and potential to grow faster with strengthening of balance sheet post fund raise. Now, ACESO Company PTE (CVC Capital) is the main promoter along with existing promoters.

Company is very selective on capital allocation and after rapid expansion earlier, the focus is now on consolidating its existing network. CVC Capital has increased its stake gradually from 50% to 60.5% in the last 6 quarters. Dr. B S Ajaikumar along with existing promoters' hold 10.4% stake in the company.

On Dec 14, 2020, we had initiated coverage on Healthcare Global Enterprises (HCG) at Rs 159 for base case target of Rs 180 and bull case target of Rs 198. The stock hit our bull case target on May 04, 2021 (link). We had released stock update note in Dec-2021 with bull case target price of Rs 270 (link). The stock had achieved our bull case target within three months. We have revised upwards our estimates for

FY24 and introduce FY25 estimates. Given healthy growth outlook for the hospital sector, strong numbers in the past 3 quarters, better growth visibility for HCG, we issue stock update note on the stock.

Valuation & Recommendation:

HCG is well poised to capture the growing potential in the Oncology space in India. CVC Capital had done an equity infusion about 6 quarters ago and that had removed a major overhang of high leverage. Strong revenue growth along with EBITDA margin expansion, improvement in return ratios and moderation in capex are some of the key triggers for the stock. HCG has demonstrated robust performance with highest ever revenue and EBITDA in FY23. We estimate 12% revenue and 13.7% EBITDA CAGR along with strong improvement in RoE/RoCE over FY23-25E. Management said that capex phase is over and focus would be now on improving efficiencies and profitability. Company will now focus on consolidation of its existing facilities which would drive better operational performance.

EBITDA margin is likely to see an improvement of 60bps, over the next 24 months, driven by i) Operating leverage on the back of low double-digit revenue growth; ii) Consultancy costs in other expenses will no longer be there iii) New centers which are growing at double-digit growth are gradually moving to matured centres and iv) Asset light expansion through day care beds, hub & spoke operations and pay per use for equipment. HCG has given a guidance, which aims to achieve a revenue of Rs 475 crore from emerging centres with a mid-teens margin. This guidance reflects HCG's confidence in the potential of these centers to drive substantial revenue while maintaining a healthy margin. We feel that investors can buy the stock in the band of Rs 350-354 and add more on declines to Rs 314 (13x FY25E EV/EBITDA) for base case target of Rs 384.5 (15.8x FY25E EV/EBITDA) and bull case target of Rs 414.5 (17x FY25E EV/BITDA) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Revenues	461	408	12.9	442	4.3	1,096	1,013	1,398	1,694	1,884	2,122
EBITDA	74.3	72.2	2.9	76.3	-2.6	172	127	238	299	324	387
Depreciation	41	40	3.3	42	-2.8	148	159	158	164	171	184
Other Income	3	3	-3.4	5	-40.4	7	17	13	13	12	15
Interest Cost	26	25	2.8	26	0.4	138	119	98	106	97	84
Tax	7	8	-13.9	8	-9.3	6	-8	49	27	26	45
PAT	6.6	6.0	9.5	8.4	-21.4	-107	-193	54	27	55	104
EPS (Rs)						-12.0	-15.4	3.9	2.0	4.0	7.5
RoE (%)						-24.8	-35.9	6.9	3.2	6.3	11
P/E (x)						-29.2	-22.7	90.6	178	87.9	46.9
EV/EBITDA (x)						32.4	44.1	23.4	18.7	17.2	14.4

(Source: Company, HDFC sec)

Revenue Mix

	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY
Karnataka	150	137	9.5	150	0.4	569	475	19.8
Gujarat	114	100	13.6	108	4.8	416	352	18.2
East India	49	39	25.8	48	1.5	169	116	45.7
Maharashtra	66	60	10	63	5.3	241	228	5.7
Others	66	55	20.4	57	15.1	233	162	43.8
Milann	16	18	-6.3	16	3.8	66	62	6.9

Q1FY24 result update

Revenue grew 12.9% YoY at Rs 460.6cr. EBITDA margin contracted 160bps YoY at 16.1%. Net profit was up 24.6% YoY at Rs 7.6cr. Overall ARPOB stood at Rs. 39,686 vs. Rs. 38,286 in Q1FY23.

All the major clusters reported double digit YoY growth in the quarter. Karnataka cluster revenue grew 10% YoY at Rs 150cr. Gujarat revenue increased 14% YoY at Rs 114cr. Maharashtra revenue grew 10% YoY at Rs 60cr.

Oncology revenue was up 4.3% QoQ and 13.7% YoY led by higher occupancies, which stood at 66.9% in Q1FY24 vs 64.6%/65.1% YoY/QoQ. Milann (infertility) segment revenue was down 5.2% YoY at Rs 16.4cr. ARPOB for oncology centres was flat QoQ at Rs 39,686. Karnataka, Gujarat, East India and Maharashtra clusters grew 0.4%, 4.8%, 1.7% and 5.1% QoQ, respectively. Existing centre revenue grew 4.6% QoQ while it was up 11.2% YoY to Rs 331cr and new centre revenue grew 21.5% YoY at Rs 113cr. Margin of existing centres slipped 130bps QoQ and 220bps YoY to 23%. New centres' margin expanded 140bps QoQ while declined 290bps YoY to 8.8%.

HCG announced acquisition of two facilities. The target entities are SRJ Health Care Private Limited (SRJ) and Amrish Oncology Services Private Limited (AOSPL). SRJ is engaged in the business of providing comprehensive cancer care in Indore, whereas AOSPL operates the radiation business of SRJ in Indore. The revenue of the Business Undertaking as per the unaudited financials for FY23 stood at Rs 32.5cr. The consummation of acquisition is expected to be completed in Q3FY24.

For SRJ, HCG will pay (i) an initial amount of Rs 29cr (Initial Consideration) to be paid on the consummation of the closing conditions of the BTA; and (ii) a maximum of up to Rs 16cr, which shall be subject to the achievement of certain agreed business targets (Deferred Consideration) within a period of 12 months from the closing of the BTA. Consideration payable to AOSPL: The consideration payable to AOSPL for the acquisition of radiation business shall be a lumpsum amount of Rs 16cr. The total consideration payable to SRJ and AOSPL, shall not exceed Rs 61cr.

Net debt incl. lease stood at Rs 852cr as compared to Rs 700cr as on Mar-2023. For FY23, Karnataka cluster revenue grew 20% YoY at Rs 569cr. Gujarat revenue increased 18% YoY at Rs 416cr. Maharashtra cluster revenue grew 6% YoY at Rs 241cr. East India and Andhra Pradesh cluster revenue grew 44% and 15% YoY at Rs 169cr and Rs 120cr, respectively.

We believe the company should improve its profitability through a combination of efforts aimed at improving its operations, pricing, and cost structures, and as its new centres gain maturity.

Q1 FY24 conference call highlights

- HCG reported highest ever quarterly revenue for the quarter. It was led by 22% YoY growth in Emerging centers & overall improvement in operating matrix.
- EBITDA was lower on account of – (i) delayed LINAC machine Installation & upgradation at 5 locations, resulted in loss of operations, impacted revenue from radiation – high margin segment (~80%); (ii) Investment in clinical talents in Mumbai location.
- However, 4 out of 5 machines already operational in Q2FY24, performance is expected to normalize from Q2 onwards. Non-functioning of 5 of LINAC machines resulted into a loss of more than 300 operating Radiotherapy beds (high margin business) in Q1
- It is evaluating to add LINAC machines at Kolkata, Nagpur & Vizag.
- Company guided for debt levels at 2.5x Net Debt/EBITDA.
- Currently, no further Greenfield expansion planned. Only acquiring hospitals which already have positive revenue & EBITDA.
- HCG NCHRI operates and manages 115 bedded hospital in Nagpur, providing comprehensive cancer care services under medical services agreement. The hospital had revenue of over Rs 50 crore in FY23. The company entirely consolidated stake in business operations in Nagpur which would lead to better financial and operating structure. Both the acquisitions are expected to add Rs. 14-15 crore at EBIDTA level in FY24.
- HCG increased its stake in Nagpur unit to 100% from 76% and also acquired 50 bedded Hospital (Oncology and radiation unit) in Indore on a slump sale basis. Overall Rs 110cr to be spent for both transactions of which Rs. 77cr will be paid in cash and Rs. 30cr of debt will be consolidated.
- Greenfield projects in Ahmedabad – Phase II and Whitefield (Extension of Bangalore - CoE) are on track with capex plan of Rs 63cr and Rs 15cr in FY24E.
- Focus to remain on Kolkata and South Mumbai centers for ramping up in FY24 which should aid margin by 100-150bps.

Acquisition update

- HCG acquired a comprehensive 50-bed cancer centre in Indore scalable to 100 beds for propelling growth in Central India. The Indore Center has the number one market share in private cancer care in Indore. Company plans to add another center in the coming two years. While the Indore acquisition could add debt, it provides entry in attractive locations of Central India and strengthen its position in the oncology space.

- Operating 115 bedded CCC hospital in partnership with Dr. Ajay Mehta (minority partner). It entered into Share Purchase Agreement with shareholders, Dr. Ajay Mehta & Dr. Suchitra Mehta, for shares of NCHRI (Nagpur). It also entered into partnership transfer agreement with Dr. Ajay Mehta in HCG NCHRI Oncology LLP for his partnership interest.

Q4 FY23 conference call highlights

- Emerging centres: As the occupancy goes up, the ARPOB will increase in similar trend as the mature centres. Growth will come up from additional operational capacity. On the utilization front, 67.5% occupancy beds are on operational beds, the company still have 50% of its beds capacity non utilized.
- LINAC: LINAC are operating at utilization level of 66% and the peak utilization at around 90%. 120 patients per month can be treated on one LINAC. The company has total of 32 LINAC out of which 5 are pay per use model. All the LINAC going forward will be on pay per use model.
- The focus in the medium 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: There are three buckets in capex 1) Maintenance capex which will be in the range of Rs.55-60cr 2) There are two planned expansion projects, i.e Gujarat (Ahmedabad unit phase-2) with a budget of Rs 85cr and an expected completion by Q1 FY25. The other expansion project is in Whitefield with a budget of Rs 25cr, expected to be completed by Q4 FY24. 3) Investments in solar which will help in saving electricity costs.
- One-time costs: There has been a one-time consultation cost of Rs 5.3cr in Q4FY23 and Rs 15.7cr in FY23 due to which other expenses increased. The consultation cost was related to engagement with a Big 4 consultancy firm on matters related to productivity, internal economies, staffing productivity etc. for cost structure.
- ESOPs expenses were at Rs 1.5cr for the quarter and Rs 6.4cr for FY23. It was at Rs 2.8cr for FY22.
- Milann: The volume of IVF cycles was impacted in the quarter (-7% YoY) due regulatory issues around surrogacy in Karnataka. However, the same has been eased out and volumes are expected to pick up going ahead. Management plans to divest this business going ahead.
- Price benchmarking exercise – started with Bangalore and rolled out to other 5-6 locations. Price increase, like previous years, already taken in April.
- Company has not operationalised all beds in emerging centres. Emerging centres occupancy was at 65.7%, on operationalised beds. 75% of the capacity beds are operational. Investments in clinical talent and marketing cost is upfront. Invested disproportionately on marketing spends. So there will be an operating leverage as more beds get operationalised.

- RoCE for Mature centers for Q4FY23 stood at 22.9% vs. 18.7% in Q4FY22, an improvement of 420 bps. RoCE pre-corporate allocations stands at 25.2%. RoCE for Emerging centers for Q4FY23 stood at -3.6% vs. -8.3% in Q4FY22, an improvement of 470 bps. RoCE pre-corporate allocations stands at -2.4%
- International operations registered robust growth of 158% YoY for Q4FY23 and 241% for FY23.
- Pay per use model is RoCE accretive. Maintenance cost is also on the manufacturers.
- HCG targets 18-20% RoCE over medium term driven by i) ramp up of emerging centres, ii) ongoing value creation projects in digitalisation and cost optimization measures, iii) asset-light expansion through day care beds, hub and spoke operations and pay per use for equipment, iv) margin expansion led by operating leverage.
- LINACs - 5 pay per use out of 32. These were installed years ago. Going forward, expect replacement to switch to pay per use. 7-8 more LINACs need to be replaced. Thus pay per use model would save capex of US$ 2mn per unit i.e. US$ 20mn savings.
- Chemo accounted for 37% of revenues. Chemo sessions were at 133000 in FY23 vs 104000 in FY22, grew 28% YoY.
- Radiation accounted for 18% of revenues. Capacity utilisation at 66% vs 59% in FY22. Radiation patients treated 5100 in Q4 vs 3700 in Q4FY22; 21000 in FY23 vs 18000 in FY22, +17% growth.
- Brownfield expansion plans at Ahmedabad (phase II) and Bangalore (Whitefield) progressing well with a total planned capex of Rs 85cr and Rs 25cr; expected to commercialize by Q1FY25 and Q3FY25 respectively. HCG has operationalized additional 36 beds in Jaipur. Management said that next price revision help drive ARPOB growth in FY24; typically implemented after every 2 years. Emerging centers to inch up to matured centers buckets as 80% of centers are reaching towards 70-75% of occupancy level with growth drivers such as new clinical talent, increased clinical bandwidth and marketing activities.
- HCG derives 2/3rd of its revenue from out-patients which are a key driver in oncology business. It cannot be directly compared to multi-speciality hospital which has in-patients as key driver.
- Bangalore and Ahmedabad, where HCG has dominant position, have Rs 75000 per ARPOBs.
- Expect ARPOBs to improve in emerging centres as well. New centres should move to mature bucket margin in about 18 months' time.
- Looking to grow the oncology share of business in multi-specialty hospital.
- CVC has only been there for about 30 months. Usually private equity stays for 5 years or more.
- Most of its emerging centres are inching towards maturity. Focus remains on new exploration especially in radiology space.
- Management has guided that it is scaling up volumes and that remains the agenda on a priority basis. This would be followed by focus on ARPOB through improved payer mix.
- Bed capacity is not a constraint. Hence, it does not intend to add further capex on this front.
- Management is confident to register 12-14% growth in revenue in the medium term. It would be led by steady ARPOB increase (both payer, price and procedure mix) and rest from volumes.

- Mumbai and Kolkata fit the profile of Ahmedabad and Bangalore given complex procedures and international patients. Expect their ARPOBs to move upwards.

Key Triggers

Business outlook

Healthcare Global Enterprise (HCG) is the leader in the Indian cancer care industry with 22 comprehensive cancer care centers (including 1 center in Kenya), generating more revenues from oncology than any other cancer care provider in India. HCG has the largest oncologist network in India with over 300 oncologists. HCG has the highest number of cancer equipment used in India. It has 31 LINACs, ahead of 17 LINACs owned by Apollo hospitals, market leader in healthcare. HCG has total beds capacity of 2037 beds and operational beds at 1833 as on Mar-2023.

HCG has dominant network in cancer care with market leadership across 13 out of 18 cities in terms of revenue. The company has cutting edge technology in the form of cyberknife (2 machines) & ethos (1 machine used for adaptive radiotherapy; 1st in India to adapt that & now 2 other players have followed) which has become the USP for the company as these are very expensive machines ranging from Rs.25-50cr & available with very few hospitals across India.

Unlike other multi-specialty hospitals, HCG is an oncology focused hospital with 2/3rd out-patients and that doesn't require full-time beds. To increase out-patients one needs to focus on brand awareness which HCG is trying to leverage. Oncologists are also not a near term constraint in this business as HCG has the high density of oncologists.

Over last few years, net loss was on account of accelerated depreciation (non-cash in nature) and heavy interest burden due to significantly leveraged balance sheet. But with CVC capital infusion interest burden has reduced & with low incremental capex, depreciation intensity is also likely to go lower, which helped the company to report net profits. Other factors such as turning around of emerging centers, driving operational excellence, creation of digital footprint & brand awareness along with operating leverage could remain key contributors to profitability.

HCG is opting for pay-per use machines in order to reduce capital expenditure, leading to a higher return on capital employed (RoCE). It is able to opt for pay-per use only because of the high patient volume it generates. With its integrated, one-stop-solution and focused model, is well poised to capture growing potential with pan-India focus on cancer therapy. De-leveraging of balance sheet, reduction of losses across new centres have substantially eased legacy overhangs, improvement in return ratio still remains a key.
The strategy is to be oncology focused organization. As a legacy, it has a few multi-specialty hospitals. Bhavnagar was a purely multispecialty hospital with pretty much no oncology business. Last few years, the company added a linear accelerator there, started

growing surgical and medical oncology, that specialty is growing there. The company will do similar things at Rajkot. So the focus on growing the oncology share of business within this that's key area of focus.

Debt Trend

(Rs cr)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Net Debt	1273	927	919	794	792	718	690	696	792	708	702	700	852
Bank Debt	594	395	396	395	423	343	345	354	423	349	349	373	346
Vendor Finance	90	71	50	45	40	25	25	33	40	21	22	22	32
Capital leases	628	627	623	506	498	490	487	507	498	496	489	502	519
Other debt/Acquisition	7	7	6	6	3	5	4	3	3	2	1	1	117
Less cash	46	173	156	158	172	145	171	201	172	160	159	198	162

Consolidating existing centres

HCG’s asset light approach with focus on partnering has made its business model - capital efficient and scalable. The company operates most of its Comprehensive Cancer Centre (CCC) on lease/rental basis with HCG investing only in equipment. Out of 25 HCG’s CCC, only four are on owned land. HCG is in a consolidation mode and given reducing capex intensity, we expect profitability to improve further from FY24. It is building Phase 2 in Ahmedabad center, as it has reached to peak utilization. It is likely to get commercialized in Q1 FY25.

After the aggressive expansion spree, HCG is very selective on capital allocation and now consolidating its existing network. The company had increased the number of hospitals from 17 to 25. The network-wide ARPOB gets impacted because HCG has a significant presence in non-metro markets, where pricing is relatively lower, there is still scope for improving performance in several hospitals. HCG operates three multi-speciality hospitals in Ahmedabad and Rajkot (Gujarat) and one in Hubli (Karnataka). HCG Multispecialty in Ahmedabad, Rajkot and Hubli are tertiary care hospitals with 103, 60 and 118 beds respectively, as of March 2023.

HCG has a partnership with Dr. Raj Nagarkar (49% stake) at Nashik center. This new partnership with KIMS to set up multi-specialty hospital in same campus would not affect HCG as Dr. Raj Nagarkar will be a passive investor and has non-compete clause in oncology. The center is growing and there is lot of clinical trials happening.

Other key developments

Healthcare Global Enterprises (HCG) had engaged Ernst & Young LLP (E&Y) for launching an operational transformation program for improving operating efficiency, patient care and experience, and capability enhancement. Company is working with Alvarez & Marsal (A&M) to provide consulting and advisory services for leveraging key digital interventions, for driving margin accretive growth.

The company has acquired Radiant Hospitals Services (Radiant Hospitals with radiation therapy centre and its assets at Sambalpur, Odisha, for cash consideration of Rs. 16 crore. The company will be adding around 125 beds including a Greenfield 25 bed capacity in Bangalore and 100 beds in one of its facilities in Ahmedabad. Further, the company has hired consultants, Ernst & Young and Alvarez & Marsal India, to provide consultancy services to improve profitability in the coming years.

Company has installed a 2.25MW Solar Power Plant in Karnataka's Jagaluru Village, Davangere district. The newly installed power plant is spread across 7.2 acres of land for optimizing the group power usage, and obtain maximum benefits for the company and its subsidiaries. This may enable savings up to Rs 4cr per year.

HCG is in the process of setting up 25 bed cancer care centre in Whitefield, Bangalore. It will take around 18 months for commencement of operations of the cancer centre. HCG Medi-Surge Hospitals Private Limited, a subsidiary of the company, is expanding the existing facility from 100 beds to 200 beds, by setting up a new facility in Ahmedabad. The operation of the new facility is expected to commence in Q2 FY25.
Company is considering strategic options in relation to developing the fertility clinic business, held by its subsidiary, BACC Health Care Private Limited. On Jun 30, 2022, one of the founder/promoter Dr. B S Ajaikumar had sold 17.5 lakh equity shares at Rs 286 per share and Aceso Company Pte. Ltd. (CVC Capital) bought 17.5 lakh shares. So, overall promoters' holding remained unchanged at 71.4%.

CVC Capital has increased its stake from 50% to 60.5% in the last 6 quarters. Dr. B S Ajaikumar along with existing promoters' hold 10.4% stake in the company.

Growth momentum to sustain

With no major capex lined up (except new technologies and Ahmedabad Phase and ramp up of its new centres, HCG is well positioned for sustainable profitable growth. HCG focuses on ramping up its existing and emerging centres and have, therefore, considerably reduced future capex requirements. Company would improve margins and return ratios by better utilization, optimising costs and ramp up of new centres. Company aims to build an asset-light business model with day care beds, hub & spoke operations and pay per use approach for utilising advanced medical equipment. This would enable to achieve RoCE of 18-20% over the medium term. Company has built a digital platform for patient acquisition through improved communication, which will help new patients registrations.

International Business (CCK)

Cancer Care Kenya (CCK) is a state-of-the-art centre in Kenya. It is East Africa's first private comprehensive cancer care centre delivering superior quality treatment to patients in the East African region. Through strategic collaboration, HCG is the first Indian cancer hospital chain to invest in the African continent. HCG CCK aims to deliver better cancer care by providing patients with access to a wide range of services like prevention, screening, diagnosis, treatment, rehabilitation and palliative care. The centre houses the best cancer specialists in Kenya, who are highly qualified and experienced in administering high-end treatment protocols for almost every cancer type irrespective of its location and stage.

Company has an in-house laboratory that offers diagnostic services like biochemistry, haematology, clinical pathology and cytology and helps patients receive on-time diagnostic support.

Genomics – Future for Cancer care

The main objective of genomics and precision medicine is to give the right diagnosis at the right time to choose the right treatment. Despite recent advances in the treatment of cancer with the advent of better surgical expertise, radiotherapy techniques and chemo-immune therapeutic advances over the past years, outcomes of metastatic cancer have increased marginally and 5-year survival of most advanced malignancies remain still low.

Patients with same type of cancer might respond differently to different drugs. Also, a patient might show response to a particular drug for some time and then develop resistance to the same drug. A major challenge faced by an oncologist in the clinic is Organotrophism i.e. a particular cancer metastasizing (spreading) to different organs. Genomic sequencing/Next generation sequencing (NGS) solves the diagnostic dilemma in difficult cases on histopathology and helps to understand the genetic background of cancer patients.

Sequencing technology continues to revolutionise genetic screening and testing with ever-evolving techniques becoming relatively inexpensive, fast and widespread. Sequencing of complete genes, chromosomes or even the entire genome can detect known or novel sequence variants at single nucleotide resolution and may provide potential biomarkers of disease.

The success of Genomic Medicine can be seen in clinical practice and the generalized treatment is shifting towards genome-based personalized treatment.

Information of the comprehensive genomic profile of a patient is enabling the oncologist to break the cycle of 'trial and error' medicine, and adopt tailored action and evidence based therapy/treatment plan. Targeted therapy, Immunotherapy, and personalised radiation therapy are being offered in variety of cancers such as lung cancer, renal cancers, melanomas, breast cancer, colorectal cancer, liver cancer, thyroid cancer etc. with significant improvement in survival.

HCG offers comprehensive genomic profiling (CGP) to broaden patient access to genomic testing. Comprehensive genomic profiling is an approach to detect multiple actionable cancer biomarkers at one go that helps optimize treatment for better clinical outcome. Understanding the genetic signature or profile of the cancer helps oncologists penetrate the root level cause of disease at molecular and genetic level.

Milann

BACC Healthcare Private Limited, wholly owned subsidiary, is the leading provider of fertility treatment under the brand Milann. It owns and operates comprehensive reproductive medicine services including assisted reproduction, gynaecological endoscopy and fertility preservation. Milann has been ranked No. 1 in India and first in the South India region continuously for 3 years in the fertility segment in the Times Health All India Critical Care Hospital Ranking Survey 2018. It is led by a team of qualified and experienced fertility specialists with successful track record of providing fertility treatments. Milann reported revenue of Rs 66cr in FY23. It had recorded 13% growth in new registrations, which stood at 5265 in FY23.

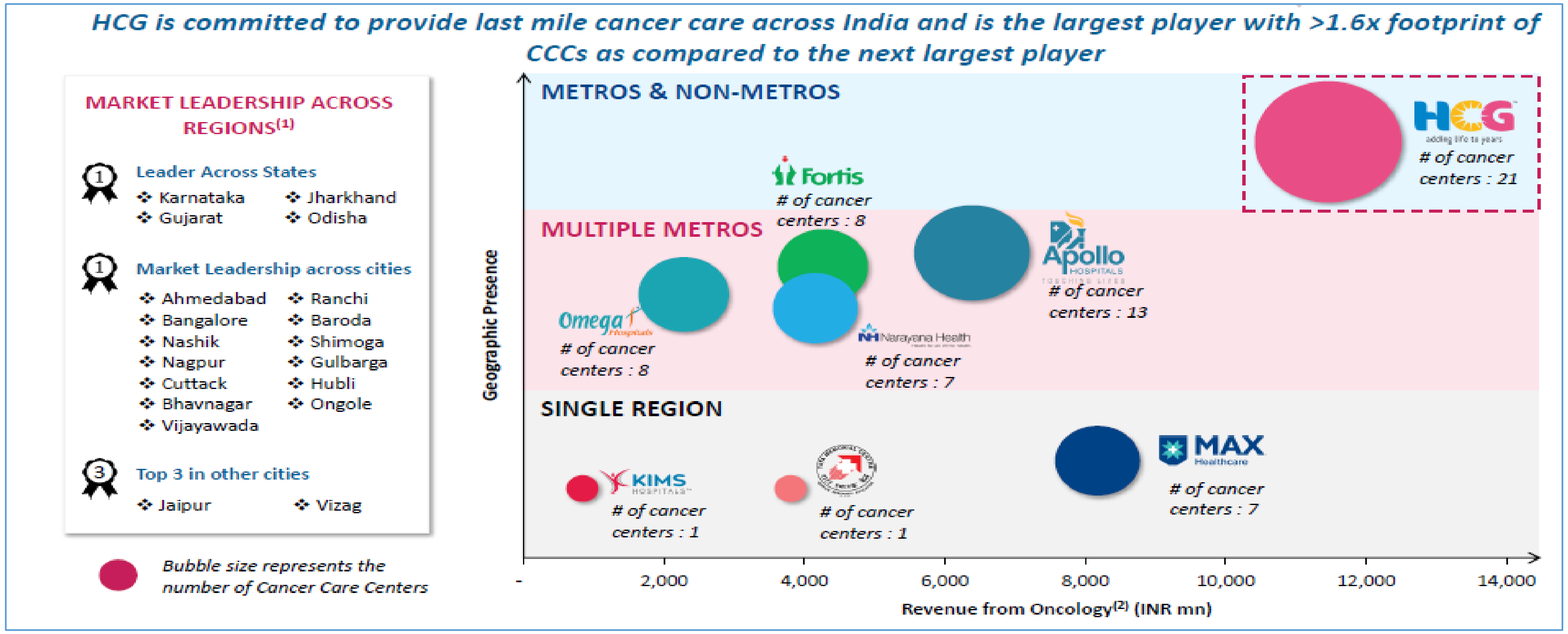
Revenue Breakup

(Rs cr)	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Revenue												
Existing Centres	189	210	230	242	260	263	266	298	309	307	317	331
New Centres	48	51	54	69	75	79	83	93	95	102	109	113
EBITDA												
Existing Centres	39	48	55	61	65	65	68	75	78	78	77	76
New Centres	0	1	-2	1	3	8	4	10	10	8	8	10

	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
ARPOB (Rs/Day)	30984	33087	32632	36316	38345	38317	38805	38454	36914	37014	39864	39686
Occupancy (%)	49.8	51.6	54	55.8	53.3	57	60	61.6	66.4	65.7	65.1	66.9

Ongoing Expansion Projects

No	Place	Capex incurred in FY23	Expected in FY24	Total Capex (Rs cr)	Expected Commissioning
1	Ahmedabad Phase II	16	64	85	Q1 FY25
2	Whitefield (Bengaluru - COE)	1	20	25	Q3 FY25



Cancer care and Medical tourism

The cancer treatment cost mainly depends upon the type of cancer across the globe. India is the country where treatment packages are reasonable in comparison. The patterns of cancer are dominated by a high burden of tobacco-related head and neck cancers, particularly oral cancer, in men and of cervical cancer in women in India. Cancer types such as breast cancer and colorectal cancer, associated with overweight and obesity, lower levels of physical activity and sedentary lifestyles.

India's burden of non-communicable diseases has been escalating and one of the key areas of concern is the growing incidence of cancer. Under-diagnosis, under-reporting, insufficient infrastructure, and limited awareness have exacerbated the problem.

India's huge demand-supply gap, rising health insurance penetration, high out-of-pocket spends, increase in medical tourism provide compelling growth prospects for the industry. The adoption of asset-light models of expansion, enhanced focus on retail formats – pharmacy, diagnostics and digital initiatives are expanding avenues of growth.

The stages of diagnosis in India are generally more delayed compared to other countries, with only 20-30% of cancers being diagnosed in early stages (I & II) – less than half of what is seen in countries like the US, UK and China. Limited awareness and lack of healthcare facilities/infrastructure are the major contributors to relatively late-stage diagnosis and low reported incidences. As a result, cancer related mortality rates in India are much higher than in developed countries as well as most upper / low middle income countries.

Medical tourism industry in India is around US$ 8-9bn. Availability of affordable, quality treatment makes India a preferred destination for foreign patients. With ballooning healthcare cost in western countries, the estimated costs for foreign patients coming to India is ~1/5th-1/10th of the western countries depending upon the treatment. The increasing medical tourism demand is emerging from parts of the Middle East, Africa and Western Asia. India competes with Singapore, Thailand and Malaysia, which are also emerging as a medical tourism destination.

Revenue from international patient segment account for about 10% of the hospital revenues for listed players. Given that the companies have excellent facilities and some of the best and renowned medical professionals, they are able to deliver service of the highest standards and play a major role in attracting patients from all over the world.

HCG Cluster - Facility and Services

Location of the comprehensive cancer centre	Commencement of operation (calendar year)	Facilities and services				
		Number of beds[3]	Number of RT-LINACs	Number of operation theatres[7]	Number of PET-CT scanners	Laboratory
Karnataka Cluster						
Bengaluru – double road	1989	48	1	3	-	Yes
Shimoga[1]	2003	47	2	3	-	Yes[8]
Bengaluru- Kalinga Rao road[2]	2006	202	3[6]	5	2	Yes
Bengaluru- MS Ramaiah Nagar	2007	33	1	2	-	Yes
Hubli	2008	32	1	2	1	Yes[8]
Gulbarga	2016	42	1	2	-	Yes[8]
Gujrat cluster						
Ahmedabad [1]	2012	90	2	5	1	Yes
Baroda[1]	2016	63	1	3	1	Yes
Bhavnagar	2018	87	1	3	-	Yes
East India cluster						
Ranchi	2008	74	1	3	1	Yes
Cuttack	2008	116	2	3	1	Yes
Kolkata [1]	2019	49	1	2	1[4]	Yes
Maharashtra cluster						
Nashik[1]	2007	95	1	4	1	Yes
Borivali[1]	2017	63	1	5	1	Yes
Nagpur[1]	2017	63	1	4	1	Yes
South Mumbai	2019	25	2[6]	2	1	Yes
Nashik Phase II[1]	2018	75	2	5	1	Yes
Andhra Pradesh cluster						
Vijayawada	2009	87[5]	2	4	-	Yes
Ongole	2012	32[5]	1	2	-	Yes
Vishakhapatnam	2016	73[5]	1	3	1	Yes
Others						
Chennai	2012	5	1	-	-	Yes[8]
Jaipur	2018	100	2	2	-	Yes

Key Concerns

- Government regulating prices for critical medical treatment (including that of medical devices) which private hospital charges from patient remains a risk to revenue and margins.
- Cancer care business is highly capital intensive and new cancer centers require a long gestation period to break even.
- HCG's one of the most profitable region is its Center of excellence-Bangalore cluster. Any adverse economic, regulatory or other development in this region could impact overall profitability.
- Any adverse government policy intervention (viz. price caps, mandatory participation in govt. schemes etc.)
- Any execution hiccups may lead to slower than expected ramp up in its new centres/hospitals
- Company is dependent upon its existing promoters, partners, senior management team and senior specialist doctors. Loss of any of them would be a risk.
- Given the higher capex intensity of Cancer care centers vs. tertiary care hospitals, HCG's return ratios have been subdued.

Company Background

HCG was founded in 1998 by a group of oncologists led by Dr. B S Ajaikumar – one of the leading oncologists in the country, with close to 40 years of experience in cancer care. Healthcare Global is a niche healthcare provider with a primary focus on oncology and some presence in the fertility segment. It owns and operates comprehensive cancer diagnosis and treatment services (radiation therapy, medical oncology, and surgery). HCG has beds capacity at 2037 while operational beds stood at 1833. HCG has 22 comprehensive cancer care centers and 400+ oncologists. Healthcare global generates revenue through the sale of oncological diagnostic services, oncological radiation services and oncological medicine and surgery.

Healthcare Global Enterprises (HCG) is a provider of speciality healthcare in India with 3 broad verticals: Cancer: Comprehensive cancer diagnosis and treatment services (offering radiation therapy, medical oncology and surgery); 22 comprehensive cancer centers (including Kenya). Fertility: Integrated reproductive medicine services; 7 fertility centers in Bengaluru & North India under Milann brand. Company runs 4 multi-specialty hospitals as well. Each of its CCCs offer, at a single location, comprehensive cancer diagnosis and treatment services (including radiation, medical oncology and surgical treatments). HCG is a pioneer in bringing the most advanced technology for cancer care to India. It was the first to bring technologies such as cyclotron, PET-CT scanners, IGRT (Image Guided Radiation Technology), cyberknife, FFF (flattening filter free) LINAC's, Tomotherapy-H and Radixact. Oncological surgeons are trained to use robotic platforms and the control the surgery. These aid in providing making the surgery less invasive.

CVC invested Rs 384cr in HCG in the form of a share subscription at Rs 130 per share. Besides, CVC has also put in money in the form of warrant subscription amounting to Rs 129cr. CVC has a strong track record of investing in healthcare companies across Europe and Asia.

Karnataka, Gujarat, Maharashtra, East India and Andhra Pradesh are the key regions for the company. HCG also operates three multispecialty hospitals and has 50.1% stake in Milann, a fertility clinic chain run by Dr. Kamini Rao (a leading gynecologist). HCG acquired the balance stake and now owns 100% in Milann. Company derived around 80% of its revenues from oncology, 15% from multi-specialty and the balance from Milann.

Board of Directors of the Company approved appointment of Mr. Meghraj Arvindrao Gore as CEO and KMP in Nov-2020. Mr. Gore has served as Chief Executive Officer – Southern Region of Apollo Hospitals Enterprise Limited, and was responsible for overall business portfolio of the largest region with 15 facilities in Tamil Nadu & Andhra Pradesh. Mr. Raj Gore is a global professional with more than 23 years of diverse experience in business management in North America, Asia, and Africa with a focus on Healthcare for the past 18 years.

A Positron Emission Tomography (PET) scanner is a diagnostic device which is used to detect cancer and see how far it has spread. It uses a radioactive drug (tracer) to detect normal and abnormal metabolic activity.

LINACs

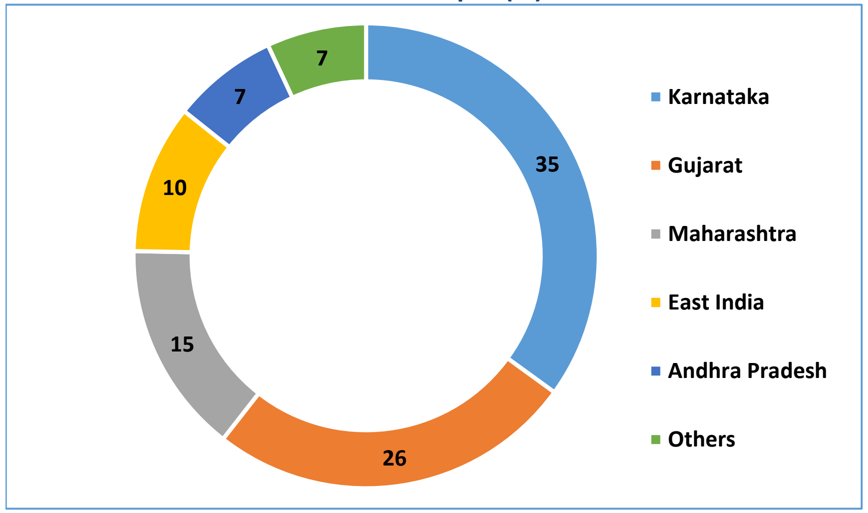
A linear accelerator, also referred to as LINAC, is a machine that aims radiation at cancer tumors with pinpoint accuracy, sparing nearby healthy tissue. It's used to deliver several types of external beam radiation therapy, including: Image-guided radiation therapy (IGRT), Intensity-modulated radiation therapy (IMRT), Stereotactic radiosurgery (SRS). LINACs help Mercy cancer specialists treat cancers of the brain, spine, head and neck, lung, breast, esophagus, stomach, rectum, uterus, prostate, bladder, liver and bones. LINACs send radiation, such as x-rays or electron beams, through the body and into cancer tumors. LINACs are equipped with 3D image guidance like CT scanning to accurately target tumors. Special software then matches radiation beams to unique tumor sizes and shapes. This customized approach makes external beam radiation therapy safe and precise for cancer treatment.

Peer Comparison

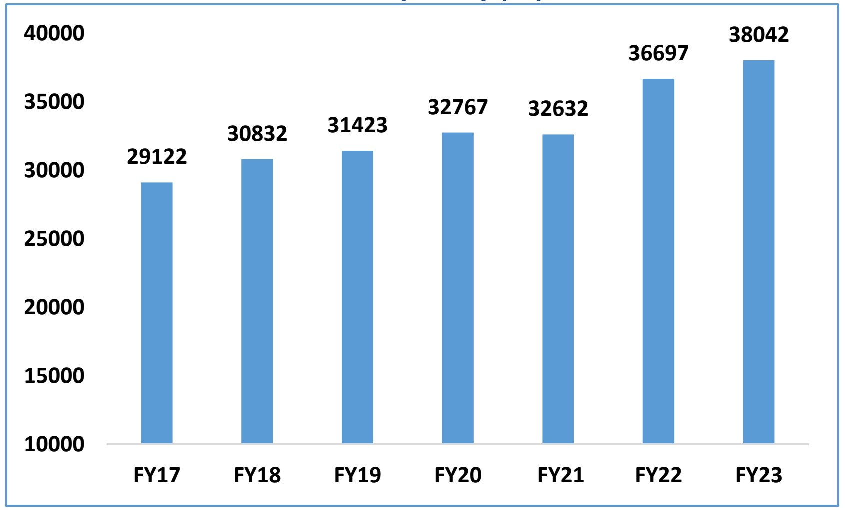
Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				EV/EBITDA			
		FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Krishna Institute (KIMS)	15480	1651	2198	2533	3055	31.7	27.3	27.8	27.7	344	366	370	443	30.5	26.5	22.4	18.7
Narayana Hrudayalaya (NH)	20930	3701	4525	4992	5650	17.9	21.8	21.5	21.8	342	607	673	760	32.1	22.4	19.8	16.4
HCG	4880	1398	1694	1884	2122	17.0	17.6	17.2	18.2	54	27	55	104	23.4	18.7	17.2	14.4

Experienced Management Team

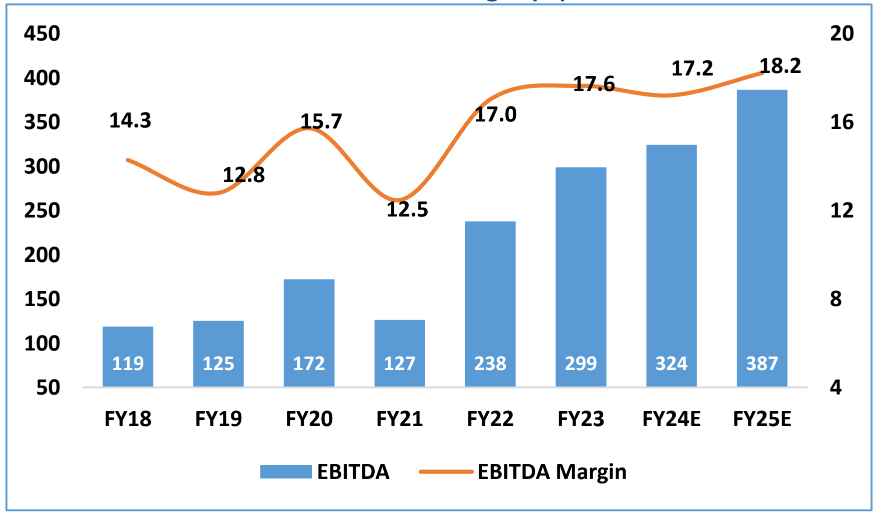
Revenue Split (%)



ARPOB per day (Rs)

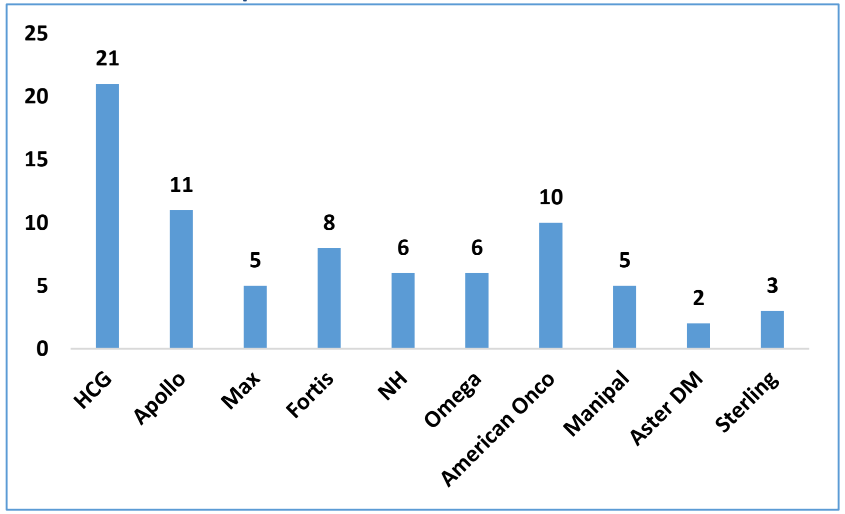


EBITDA and Margin (%)



(Source: Company, HDFC sec)

Comprehensive Cancer centres in India



(Source: Company, HDFC sec)

Financials (Consolidated)

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Revenue	**1096**	**1013**	**1398**	**1694**	**1884**	**2122**
Growth (%)	12	-7.5	37.9	21.2	11.2	12.6
Operating Expenses	923	887	1160	1396	1560	1735
EBITDA	**172**	**127**	**238**	**299**	**324**	**387**
Growth (%)	37.5	-26.6	88.2	25.5	8.5	19.2
EBITDA Margin (%)	**15.7**	**12.5**	**17**	**17.6**	**17.2**	**18.2**
Depreciation	148	159	158	164	171	184
EBIT	24	-33	80	135	153	202
Other Income	7	17	13	13	12	15
Interest expenses	138	119	98	106	97	84
PBT	-119	-229	88	43	68	133
Tax	6	-8	49	27	26	45
Share of Profit/Loss of Associates	19	28	15	12	13	16
PAT	**-107**	**-193**	**54**	**27**	**55**	**104**
Growth (%)	329.4	81.7	-127.8	-49.2	102.8	87.3
EPS	-12	-15.4	3.9	2	4	7.5

Balance Sheet

As at March	FY20	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS						
Share Capital	89	125	139	139	139	139
Reserves	293	572	731	721	764	852
Shareholders' Funds	**381**	**697**	**870**	**860**	**903**	**991**
Long Term Debt	1139	816	829	815	754	633
Net Deferred Taxes	7	4	1	12	11	13
Long Term Provisions & Others	112	37	36	49	57	65
Minority Interest	39	17	13	9	9	9
Total Source of Funds	**1677**	**1570**	**1750**	**1746**	**1733**	**1710**
APPLICATION OF FUNDS						
Net Block & Intangibles	1583	1316	1365	1384	1372	1308
Goodwill	109	96	181	181	181	181
Deferred Tax Assets (net)	108	77	54	63	66	69
Long Term Loans & Advances	149	112	117	108	114	127
Total Non-Current Assets	**1950**	**1601**	**1717**	**1736**	**1734**	**1685**
Inventories	23	21	30	39	42	51
Trade Receivables	186	187	217	303	328	373
Short term Loans & Advances	5	9	2	2	3	4
Cash & Equivalents	32	42	198	197	174	178
Other Current Assets	57	177	55	41	49	59
Total Current Assets	**304**	**435**	**502**	**580**	**595**	**665**
Short-Term Borrowings	115	104	86	87	75	62
Trade Payables	154	145	194	249	264	301
Other Current Liab & Provisions	298	206	172	218	237	255
Short-Term Provisions	9	11	18	17	19	23
Total Current Liabilities	**577**	**465**	**470**	**570**	**596**	**640**
Net Current Assets	-273	-30	32	10	0	25
Total Application of Funds	**1677**	**1570**	**1750**	**1746**	**1733**	**1710**

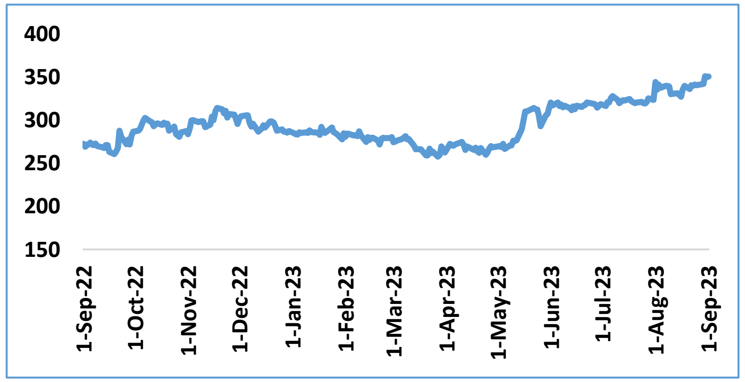
Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	-119	-229	88	43	68	133
Non-operating & EO items	-7	-17	-13	-13	-12	-15
Interest Expenses	138	119	98	106	97	84
Depreciation	148	159	158	164	171	184
Working Capital Change	-3	-44	7	-25	-12	-21
Tax Paid	-27	38	-24	-23	-26	-45
OPERATING CASH FLOW (a)	**130**	**121**	**220**	**251**	**286**	**320**
Capex	-108	-35	-72	-133	-160	-120
Free Cash Flow	22	85	148	118	126	200
Investments	0	-153	184	-14	-9	-16
Non-operating income	7	17	13	13	12	15
INVESTING CASH FLOW (b)	**-101**	**-171**	**125**	**-133**	**-157**	**-120**
Debt Issuance / (Repaid)	85	217	-68	-29	-55	-111
Interest Expenses	-138	-119	-98	-106	-97	-84
FCFE	-30	183	-17	-16	-26	4
Share Capital Issuance	-6	15	10	-5	0	0
Dividend	0	0	0	0	0	0
FINANCING CASH FLOW (c)	**-59**	**112**	**-155**	**-139**	**-152**	**-196**
NET CASH FLOW (a+b+c)	-30	62	190	-21	-23	4

Key Ratios

	FY20	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin	15.7	12.5	17	17.6	17.2	18.2
EBIT Margin	2.2	-3.2	5.7	8	8.1	9.5
APAT Margin	-11.4	-21.8	2.8	0.9	2.2	4.1
RoE	-24.8	-35.9	6.9	3.2	6.3	11
RoCE	1.3	-2	4.3	7.4	8.5	11.4
Solvency Ratio						
Net Debt/EBITDA (x)	7.1	6.9	3	2.4	2	1.3
D/E	3.3	1.3	1.1	1	0.9	0.7
Net D/E	3.2	1.3	0.8	0.8	0.7	0.5
PER SHARE DATA						
EPS	-12	-15.4	3.9	2	4	7.5
CEPS	4.7	-2.7	15.3	13.7	16.3	20.7
BV	43	55.7	62.6	61.9	64.9	71.3
Dividend	0	0	0	0	0	0
Turnover Ratios (days)						
Debtor days	62	67	57	65	64	64
Inventory days	8	8	8	8	8	9
Creditors days	79	77	76	80	77	79
VALUATION						
P/E	-29.2	-22.7	90.6	178.3	87.9	46.9
P/BV	8.2	6.3	5.6	5.7	5.4	4.9
EV/EBITDA	32.4	44.1	23.4	18.7	17.2	14.4
EV / Revenues	5.1	5.5	4	3.3	3	2.6

One Year Price Chart



KUSHAL MAHENDRA RUGHANI

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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