

Leadership Changes; Growth Ahead

Est. Vs. Actual for Q3FY25: Revenue – **INLINE**; EBITDA Margin – **MISS**; PAT – **MISS**

Changes in Estimates post Q3FY25

FY25E/FY26E: Revenue: -0.6%/3.1%; EBITDA: -1.6%/1.0%; PAT: -11.5%/-0.4%

Recommendation Rationale:

- HCG reported revenue in line with expectations, registering an 18.9% growth, driven by a 3.5% YoY increase in ARPOB and ~16% growth in occupied days. ARPOB stood at Rs 44,284, up 3.5% YoY but down 2.0% QoQ, reflecting healthy growth. Occupancy improved to 62.1%, marking a 230 bps YoY increase.
- EBITDA margins came in at 15.8%, down 90 bps YoY and 260 bps QoQ, missing the expected 19%. However, adjusted EBITDA margins stood at 17.5%. The reported PAT rose to Rs 7.8 Cr, reflecting a strong 120% YoY growth.

Sector Outlook: Positive

Company Outlook & Guidance: The cancer industry is growing at a CAGR of 17%, with HCG outpacing this growth. The company plans to add 900 incremental beds over the next 4-5 years to capitalise on emerging opportunities. Several margin improvement levers are in place, as most emerging centers have matured with margins exceeding 20%. Operating leverage and MG Hospital are expected to contribute an additional 300 bps to margins over the next three years.

Current Valuation: EV/EBITDA 14x for FY26E

Current TP: Rs 575/share (Earlier TP: Rs 575/share)

Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance

HCG reported revenue growth of 19%, in line with expectations, driven by a 3.5% YoY increase in ARPOB and ~16% growth in occupied days. ARPOB stood at Rs 44,284, rising 3.5% YoY but declining 2% QoQ, reflecting healthy underlying trends. Occupancy improved to 62.1%, up 230 bps YoY.

EBITDA margins stood at 15.8%, down 90 bps YoY and 260 bps QoQ, missing expectations of 19%. However, adjusted EBITDA margins were at 17.5%. Reported PAT surged 120% YoY to Rs 8 Cr.

Revenue from new centers was Rs 52 Cr, compared to Rs 121 Cr YoY, indicating that most centers have now matured and are contributing to operating profits. Existing centers reported a revenue of Rs 493 Cr, with EBITDA margins of ~21%. Management has guided for a 100-150 bps expansion in consolidated EBITDA margins in FY26.

During the quarter, HCG acquired MG Hospital in Vizag, which contributed Rs 25 Cr to revenue with strong margins of 24%. The digital business grew by 14% YoY, generating Rs 76 Cr in revenue. Additionally, KKR has acquired a majority stake in Healthcare Global, assuming sole control from CVC Asia.

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	559	0.9%	18.9%	553	1.0%
EBITDA	88	-13.6%	12.3%	100	-11.6%
EBITDA Margin	15.8%	-265	-93	18.1%	
Net Profit	8	-63%	120%	18	-58%
EPS (Rs)	0.6	-63%	120%	1.3	-58%

Source: Company, Axis Securities Research

(CMP as of 27th February 2025)

CMP (Rs)	503
Upside /Downside (%)	15%
High/Low (Rs)	568/310
Market cap (Cr)	7,030
Avg. daily vol. (6m) Shrs.	80,000
No. of shares (Cr)	16

Shareholding (%)

	Jun-24	Sep-24	Dec-24
Promoter	71.3	71.2	71.2
FII	4.0	4.3	2.8
MFs / UTI	8.7	8.9	10.0
Others	16.1	15.5	16

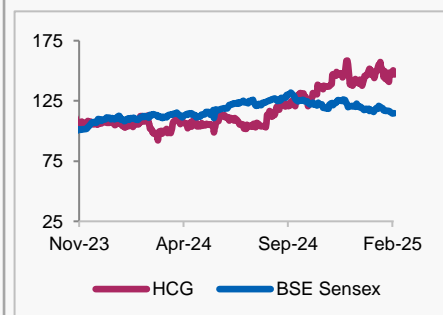
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,912	2,275	2,723
EBITDA	330	423	539
Net Profit	41	80	149
EPS	3.0	5.7	10.7
PE (x)	169.8	87.9	46.9
P/BV (x)	8.5	7.7	6.6
EV/ EBITDA	22.4	17.1	13.4
RoE (%)	5.0	8.8	14.2

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-0.6%	3.1%
EBITDA	-1.6%	1.0%
PAT	-11.5%	-0.4%

Relative Performance:



Source: ACE Equity

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Outlook

The cancer industry is growing at a CAGR of 17%, with HCG outpacing this growth. The company plans to add 900 beds over the next 4-5 years to capitalise on emerging opportunities. Multiple levers exist for margin expansion, with most new centers now matured and delivering margins above 20%. Additionally, operating leverage and contributions from MG Hospital are expected to add 300 bps to margins over the next three years.

Valuation & Recommendation

We anticipate a 1000bps improvement in RoIC for HCG over the next three years, driven by increased operating profitability. Currently, the stock trades at 17x and 14x EV/EBITDA for FY25 and FY26, respectively. **We recommend a BUY with a target price of Rs 575/share.**

Key Risks to our Estimates and TP

- Economic Slowdown may impact the overall revenue growth of the company
- A high attrition rate of doctors may impact the company's revenue growth
- Unplanned Capex may lead to a weak balance sheet for the company

Change in Estimates

(Rs Cr)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	2,275	2,723	2,290	2,642	-0.6%	3.1%
EBITDA	423	539	430	534	-1.6%	1.0%
PAT	80	149	90	150	-11.5%	-0.4%

Source: Company, Axis Securities Research

Q3FY25 Results Update

Particulars (Rs Cr)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY(%)	QoQ(%)
Net Sales	470	495	526	554	559	18.9%	0.9%
Growth (YoY%)	10.6%	12.0%	14.1%	13.7%	18.9%		
Total Expenditure	391	403	435	451	470	20.2%	4.2%
Raw Material Consumed	113	125	136	149	152		
Gross margins (%)	75.8%	75.2%	74.7%	73.9%	73.3%	-247	-64
Employee Expenses	77	77	85	85	90		
% of sales	16.5%	15.5%	16.2%	15.4%	16.2%		
Medical consultancy charges	104	106	112	118	123		
% of sales	22.2%	21.4%	21.3%	21.3%	21.9%		
Other Expenses	96	97	104	104	108		
% of sales	20.4%	19.7%	19.8%	18.8%	19.4%		
EBITDA	79	92	91	102	88	12.3%	-13.6%
EBITDA Margins	13.3%	15.3%	14.2%	18.5%	17.0%	444	
Interest	29	27	34	36	41		
Depreciation	44	46	47	50	57		
Other Income	6	5	9	11	5		
Associate PL/	-0	0	0	-0	1		
Exceptional Items	0	4	0	0	0		
PBT	11	28	19	28	-3	-129.6%	-111.9%
Tax	8	5	5	7	-11		
Tax (%)	68.4%	16.9%	28.1%	25.2%	334.8%		
Reported PAT	3.52	23.46	13.70	20.68	7.75	120.2%	-62.5%
Adjusted PAT	3.52	19.56	13.70	20.68	7.75	120.2%	-62.5%

Source: Company, Axis Securities Research

Occupancies and ARPOB

Particulars (Rs Cr)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY(%)	QoQ(%)
Avg. Occupancy Rate (AOR)	59.8%	63.9%	65.7%	65.6%	62.1%	230	-350
ARPOB (Rs)	42,788	42,741	44,342	45,188	44,284	3.5%	-2.0%
Revenue*	332	352	464	485	493	48.5%	1.7%
EBITDA*	79	84	102	113	106	33.8%	-6.5%
Existing Centres EBITDA margins	23.8%	24.0%	22.1%	23.3%	21.4%		
Revenue*	121.1	125.4	47.5	53.0	51.9	-57.1%	-2.1%
EBITDA*	12.6	17.6	4.2	3.0	3.3	-73.8%	10.0%
New Centre EBITDA margins	10.4%	14.0%	8.8%	5.7%	6.4%		

*Reclassification done by HCG; Emerging Centers now moved to Established Centre in Q1FY25

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Particulars (Rs Cr)	FY24	FY25E	FY26E	FY27E
Net Sales	1,912	2,275	2,723	3,073
Growth (%)	12.8%	19.0%	19.7%	12.9%
Total Expenditure	1,583	1,852	2,184	2,434
Raw Material Consumed	479	573	681	768
% of sales	24.9%	25.2%	25.0%	25.0%
Gross margins (%)	75.1%	74.5%	75.0%	75.0%
Employee Expenses	308	369	444	498
% of sales	16.1%	16.2%	16.3%	16.2%
Other Expenses	799	910	1,059	1,168
% of sales	41.8%	40.0%	38.9%	38.0%
EBIDTA	330	423	539	639
EBITDAM (%)	17.2%	18.6%	19.8%	20.8%
EBIT	155	216	312	402
EBITM (%)	8.1%	9.5%	11.5%	13.1%
Other Income	17	22	16	18
Exceptional Items	4	0	0	0
Share of P/L of Associates	0	2	2	2
PBT	68	106	199	299
Tax Rate (%)	39.0%	25.0%	25.0%	25.0%
Tax	26	27	50	75
Reported PAT	41	80	149	224

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY24	FY25E	FY26E	FY27E
Share Capital	139	139	139	139
Reserves & Surplus	686	766	916	1,139
Shareholders Fund	826	905	1,055	1,279
Minority Interest	39	41	43	45
- Long Term Borrowings	1,044	1,297	1,267	1,187
- Deferred Tax Liabilities(Net)	6	6	6	6
- Other Long Term Liabilities	33	37	45	51
- Long Term Provisions	16	16	16	16
Total Non Current Liabilities	1,099	1,356	1,334	1,259
- Short Term Borrowings	187	187	187	187
- Trade Payables	281	337	373	421
- Other Current Liabilities	214	237	224	253
- Short Term Provisions	18	18	18	18
Total Current Liabilities	744	822	845	922
Total Liabilities	2,707	3,125	3,277	3,505
Gross Block	1,699	2,075	2,268	2,368
Depreciation	685	892	1,119	1,356
% of GB	40.3%	43.0%	49.3%	57.3%
- Fixed Assets	1,845	1,962	1,928	1,792
- Non Current Investments	7	7	7	7
- Deferred Tax Asset(Net)	7	7	7	7
- Long Term Loans & Advances	77	77	77	77
- Other Non Current Assets	92	150	170	200
Total Non Current Assets	2,027	2,203	2,189	2,082
- Inventories	43	47	57	64
- Trade Receivables	294	349	418	472
- Cash & Cash Equivalents	303	484	512	686
- Short Term Loans & Advances	2	2	2	2
- Other Current Assets	38	40	100	200
Total Current Assets	680	922	1,088	1,423
TOTAL ASSETS	2,707	3,125	3,277	3,505

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E Mar, Rs. Cr	FY24	FY25	FY26E	FY27E
PBT	68	106	199	299
Add: Depreciation	174	207	227	237
Add: Interest	109	133	131	124
Cash flow from operations	351	447	557	659
Change in working capital	-17	37	127	109
Taxes	26	27	50	75
Miscellaneous expenses	0	0	0	0
Net cash from operations	341	384	380	476
Capital expenditure	-445	-325	-193	-100
Change in Investments	-0	0	0	0
Net cash from investing	-445	-325	-193	-100
Increase/Decrease in debt	373	253	-30	-80
Dividends	0	0	0	0
Proceedings from equity	0	0	0	0
Interest	-109	-133	-131	-124
Others	-54	2	2	2
Net cash from financing	211	122	-159	-202
Net Inc./(Dec.) in Cash	107	181	28	174
Opening cash balance	197	303	484	512
Closing cash balance	303	484	512	686

Source: Company, Axis Securities Research

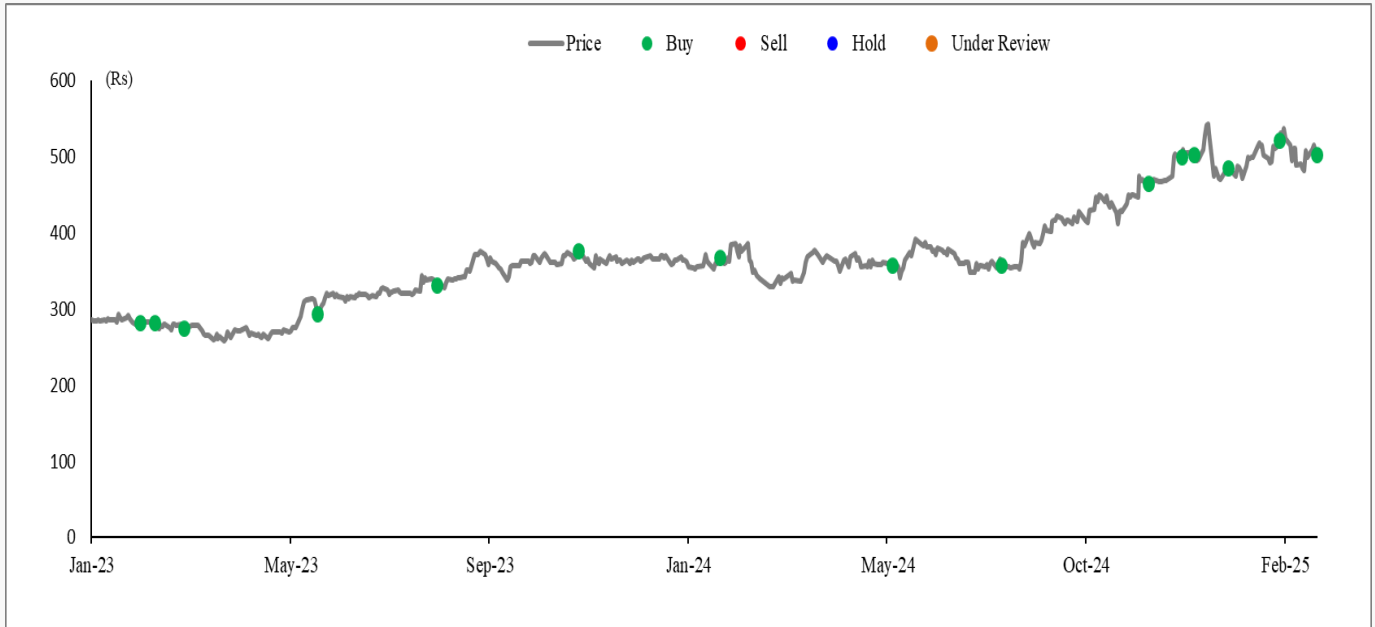
Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth	12.8%	19.0%	19.7%	12.9%
OPM	17.2%	18.6%	19.8%	20.8%
Oper. profit growth	10.3%	28.4%	27.4%	18.6%
COGS / Net sales	24.9%	25.2%	25.0%	25.0%
Overheads/Net sales	41.8%	40.0%	38.9%	38.0%
Depreciation / G. block	-	-	-	-
Effective interest rate	-	-	-	-
Net wkg.cap / Net sales	-0.9%	0.9%	5.4%	8.3%
Net sales / Gr block (x)	1.1	1.1	1.2	1.3
RoCE	8.2	10.7	15.4	21.1
Debt / equity (x)	0.8	0.8	0.7	0.5
Effective tax rate	0.4	0.3	0.3	0.3
RoE	5.0	8.8	14.2	17.5
Payout ratio (Div/NP)	4.0	4.0	4.0	4.0
EPS (Rs.)	3.0	5.7	10.7	16.1
EPS Growth	127%	93%	88%	50%
CEPS (Rs.)	10.8	15.3	20.1	25.0
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: Company, Axis Securities Research

Healthcare Global Enterprise Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-23	BUY	330	Top Picks
01-Feb-23	BUY	330	Top Picks
13-Feb-23	BUY	310	Result Update
01-Mar-23	BUY	330	Top Picks
01-Apr-23	BUY	330	Top Picks
26-May-23	BUY	325	Result Update
11-Aug-23	BUY	364	Result Update
13-Nov-23	BUY	412	Result Update
12-Feb-24	BUY	405	Result Update
31-May-24	BUY	400	Result Update
09-Aug-24	BUY	395	Result Update
12-Nov-24	BUY	535	Result Update
02-Dec-24	BUY	575	Top Picks
11-Dec-24	BUY	575	Company Update
01-Jan-25	BUY	575	Top Picks
03-Feb-25	BUY	575	Top Picks
28-Feb-25	BUY	575	Result Update

Source: Axis Securities Research

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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