

Healthcare Global Enterprises

February 28, 2025 | CMP: INR 515 | Target Price: INR 621

BUY

Excepted Share Price Return: 20.7% | Dividend Yield: 0.0% | Expected Total Return: 20.7%

Change in Estimates	✓
Target Price Change	✓
Recommendation	✗

Company Info	
BB Code	HCG IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	563/310
Mkt Cap (Bn)	INR 71 / \$ 0.8
Shares o/s (Mn)	139.4
3M Avg. Daily Volume	3,33,858

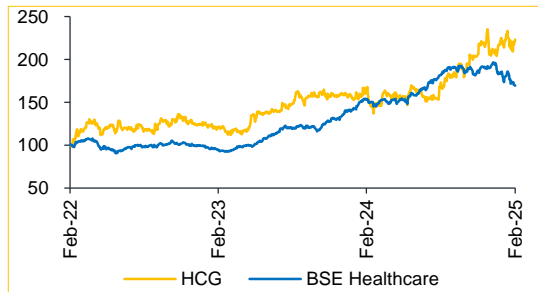
Change in Estimates						
	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	27.3	27.5	(0.4)	32.4	33.9	(4.3)
EBITDA	5.1	5.4	(5.0)	6.8	7.0	(3.4)
EBITDAM %	18.7	19.6	(90)bps	21.0	20.8	20bps
PAT	1.1	1.3	(9.5)	2.2	2.3	(0.9)
EPS	8.2	9.1	(9.5)	16.1	16.2	(0.9)

Actual vs Consensus			
INR Bn	Q3FY25A	CEBPL Est.	Dev.%
Revenue	5.6	5.4	3.6
EBITDA	0.9	1.0	(11.4)
EBITDAM %	15.8	18.5	(268)bps
PAT	0.1	0.2	(67.4)

Key Financials					
INR Bn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	16.9	19.1	22.8	27.3	32.4
YoY (%)	21.3	13.0	19.0	20.2	18.5
EBITDA	3.0	3.2	3.9	5.1	6.8
EBITDAM %	17.5	16.8	17.1	18.7	21.0
Adj PAT	0.1	0.4	0.4	1.1	2.2
EPS	0.4	2.7	2.6	8.2	16.1
ROE %	0.7	4.9	4.2	11.7	18.6
ROCE %	24.5	18.1	19.0	28.4	40.5
PE(x)	1,213.5	178.1	195.9	62.5	32.0
EV/EBITDA	26.6	25.3	22.1	16.9	12.8
BVPS	61.9	59.3	61.9	70.1	86.2
FCF	3.8	4.7	1.9	6.5	6.4

Shareholding Pattern (%)			
	Dec-22	Sep-24	Jun-24
Promoters	71.22	71.23	71.26
FIIs	2.77	4.30	3.95
DIIIs	12.94	11.64	10.89
Public	13.07	12.84	13.90

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE Healthcare	69.5	78.9	10.1
HCG	123.3	84.3	36.6



[Previous Report: HCG Event Update Note](#)

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Revenue above our estimates, while EBITDA/PAT below estimates

- Revenue came at INR 5.6 Bn (vs. CEBPL est. of INR 5.4 Bn), up 18.9% YoY and flat QoQ.
- ARPOB at INR 44,284, up 3.5% YoY and down 2% QoQ, while occupancy improved to 62.1% from 59.8% in Q3FY24.
- EBITDA came at INR 0.9 Bn (vs. CEBPL est. of INR 1.0 Bn), up 12.4% YoY and down 13.6% QoQ. EBITDA margin came at 15.8% (vs. CEBPL est. of 18.5%), contracted by 91bps YoY and 265bps QoQ.
- PAT came at INR 0.1 Bn (vs. CEBPL est. of INR 0.2 Bn), up 22.5% YoY and down 61.2% QoQ, with a PAT margin of 1.2% (same as Q3FY24).

Growth to be driven by ~900-bed expansion, international patient recovery

HCG's growth over the next 2-3 years is expected to be driven by a combination of organic expansion, brownfield projects, and acquisitions. The company plans to add approximately 900 beds, increasing operational capacity from 2,154 beds in Q3FY25 to 2,800 beds by FY27. To maximize the potential of its existing centers, HCG is likely to expand in high-demand markets like Bengaluru. Additionally, the international patient segment, contributing 3.5-4% of total revenue, has been impacted by geopolitical challenges, particularly in Bangladesh, but is expected to recover starting from Q4FY25.

EBITDA margins to reach 21% by FY27E under KKR's management

HCG has experienced a temporary dip in EBITDA margins due to lower operating leverage. However, with KKR set to acquire a 54% stake, we anticipate HCG will benefit from operational enhancements under new management. KKR's proven expertise in healthcare investments will play a crucial role in this transition. Furthermore, as the company realigns its revenue streams, we expect EBITDA margins to improve significantly, rising from 17% in FY25E to 21% in FY27E.

For Investors Information: The Milan IVF centers (five in Bengaluru and one in Chandigarh) have faced challenges due to competition from their former founder. Management anticipates a recovery starting in FY26; however, their revenue contribution is expected to remain below 5% (currently below 2%).

View and Valuation: We expect Revenue and EBITDA to grow at a CAGR of 19% and 28%, respectively, from FY24-27E, driven by revenue realignment (focus on high margin oncology treatments), operational expertise from KKR's stake acquisition, and the rising importance of oncology in India's healthcare market. EBITDA margins are expected to improve by 150 bps annually. Additionally, the planned addition of ~900 beds over the next three years will serve as a key growth driver. We value the company at 15x EV/EBITDA on FY27 estimates, arriving at a target price of INR 621, and maintain a **BUY** rating on the stock.

Particulars (INR Mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Revenue	5,586	4,699	18.9	5,535	0.9
Cost of Goods Sold	1,491	1,139	30.9	1,442	3.4
Gross Profit	4,095	3,560	15.0	4,093	0.0
Gross Margin (%)	73.3	75.8	(245)	73.9	(64)
Employee & Other Expenses	3,211	2,773	15.8	3,070	4.6
EBITDA	884	786	12.4	1,023	(13.6)
EBITDA Margin (%)	15.8	16.7	(91)	18.5	(265)
Depreciation	565	442	28.0	497	13.6
EBIT	319	345	(7.5)	525	(39.3)
Interest	407	295	38.2	360	13.1
PBT	-42	111	(137.9)	277	(115.2)
Tax	(111)	76	(244.8)	70	(258.5)
PAT	70	57	22.5	180	(61.2)
PAT Margin (%)	1.2	1.2	4	3.2	(200)
EPS	0.5	0.4	22.5	1.3	(61.2)

Management Call - Highlights

Operational Developments

- The core oncology business (excluding Milan and HCG Vizag) reported an 18% revenue increase and 14% EBITDA growth YoY, with a 21% EBITDA margin.
 - The contribution from international patients remains at 3.5-4% of total revenue. Although this segment faced some temporary challenges, it is expected to stabilize in the coming quarters.
 - Key centers demonstrated strong growth, with the Kolkata center growing by 40% YoY and the South Mumbai center growing by 28% YoY.
 - LINAC machines achieved 60% utilization, despite the addition of seven new machines over the past year.
 - Bed occupancy rates increased from 52% in Q3 FY24 to 55% in Q3 FY25.
 - OPD footfall rose by 9%, highlighting increasing patient engagement and trust.
 - Chemotherapy sessions grew by 19%, reflecting the growing demand for oncology treatments.
- The EBITDA margin is expected to expand by 100-150 bps in FY26.
 - Capex for FY25 and FY26 is estimated at INR 2750-2800 Mn per year.

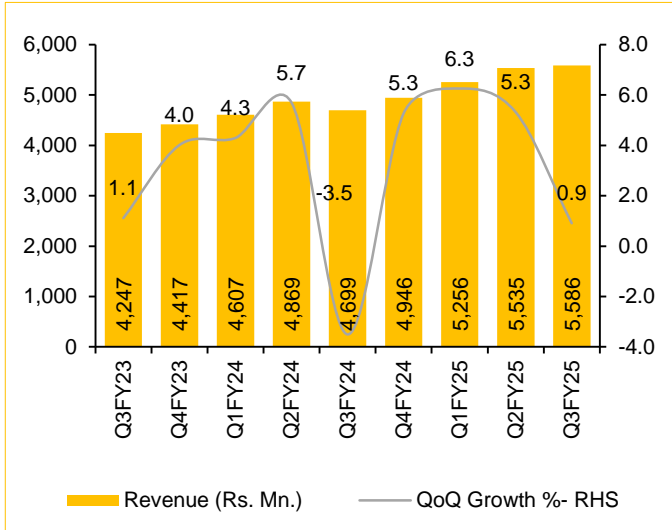
Strategic Developments

- KKR has acquired a majority stake from CVC, marking a significant shift in the company's ownership and strategic direction.
- The company is expanding its presence with two new brownfield centers in Bangalore and is further strengthening its hub-and-spoke model with infusion centers.
- The South Mumbai center is expected to break even by Q1 FY26, improving the company's profitability in the region.
- The Milan business, which faced revenue pressure due to competition from its former founder, is now showing signs of recovery.

Outlook

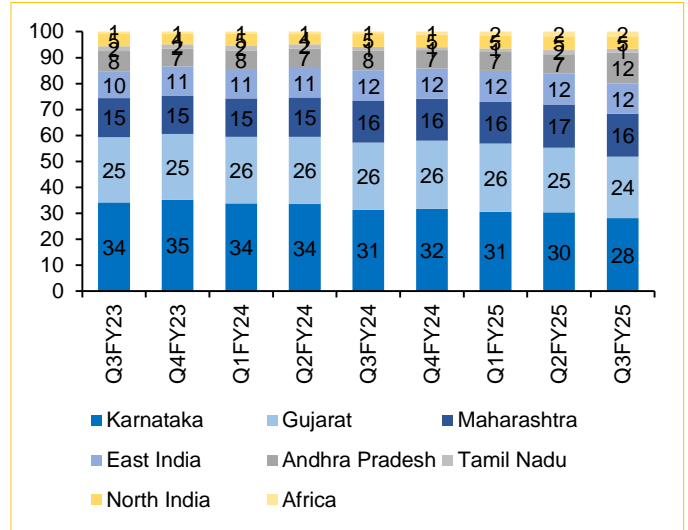
- The EBITDA margin is expected to expand by 100-150 bps in FY26, supported by operational efficiencies and revenue growth.
- Established centers are expected to grow at a rate of 13-14% annually, surpassing the industry's average growth rate of 11%.
- Capex for FY25 and FY26 is estimated at INR 2750-2800 Mn per year. Beyond FY26 it shall be INR 1000 Mn. The company expects growth CAPEX to normalize post-FY26.
- The company's net debt (excluding capital leases) stands at INR 6500 Mn, and management remains comfortable with its current debt levels.

Revenue grew by 18.9% YoY



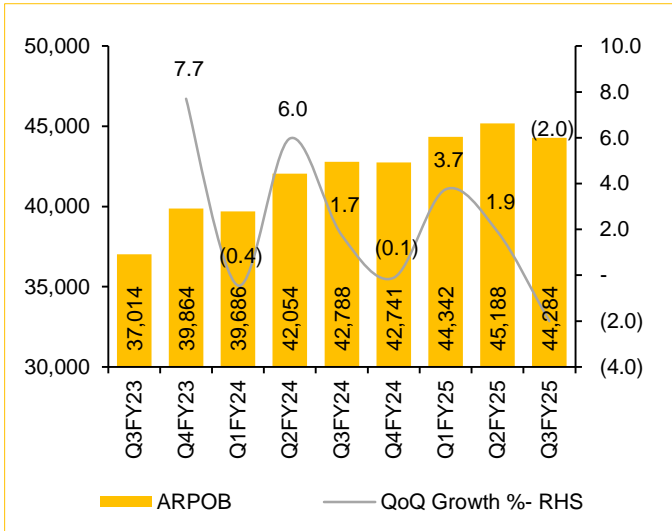
Source: Company, CEBPL

Cluster-wise Revenue (as a % of revenue)



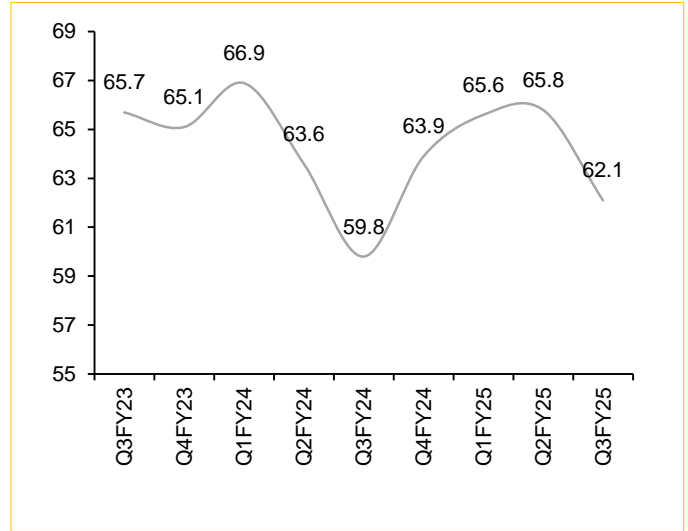
Source: Company, CEBPL

ARPOB grew by 3.5% YoY



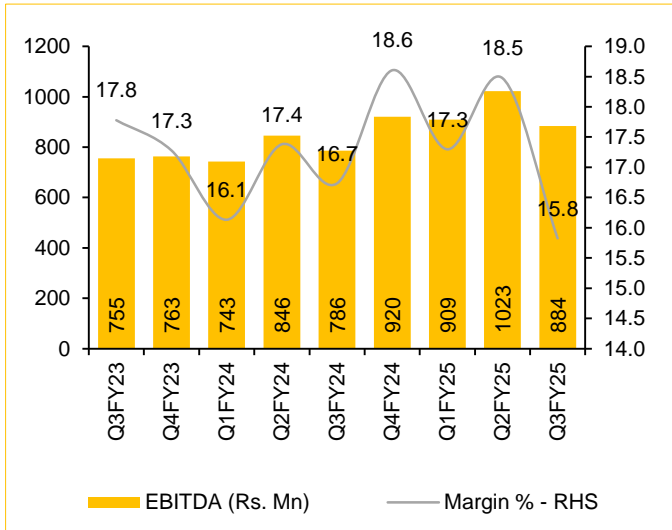
Source: Company, CEBPL

Occupancy was affected due to seasonality



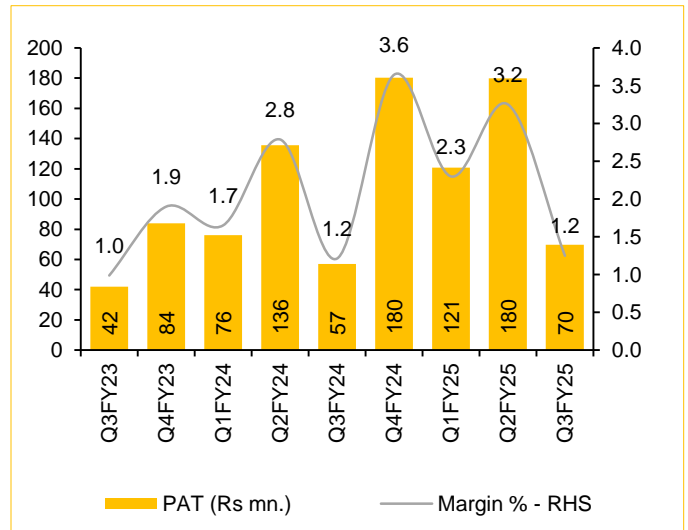
Source: Company, CEBPL

Margins see a dip due to increased costs of new beds



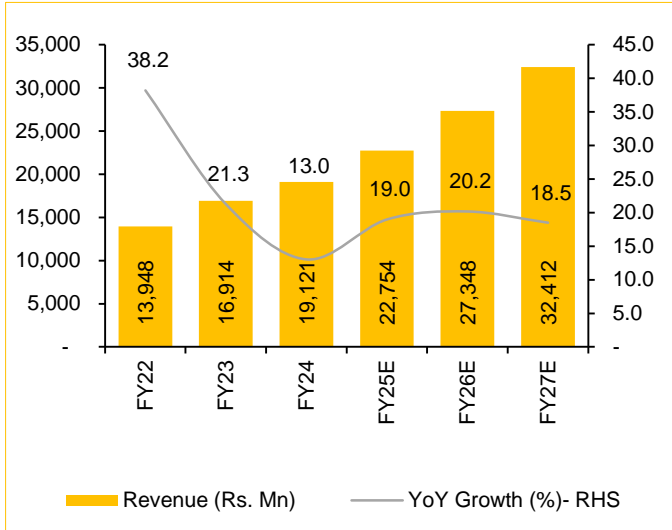
Source: Company, CEBPL

PAT up 22.5% YoY but down 61.2% QoQ



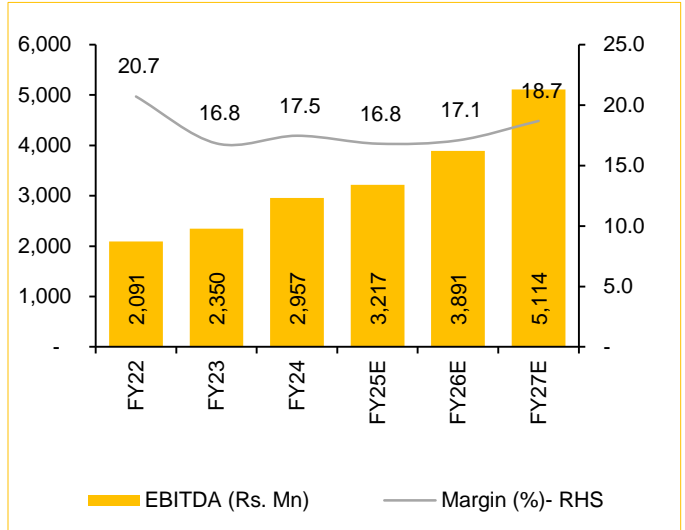
Source: Company, CEBPL

Both HCG and Milan centers to contribute to growth



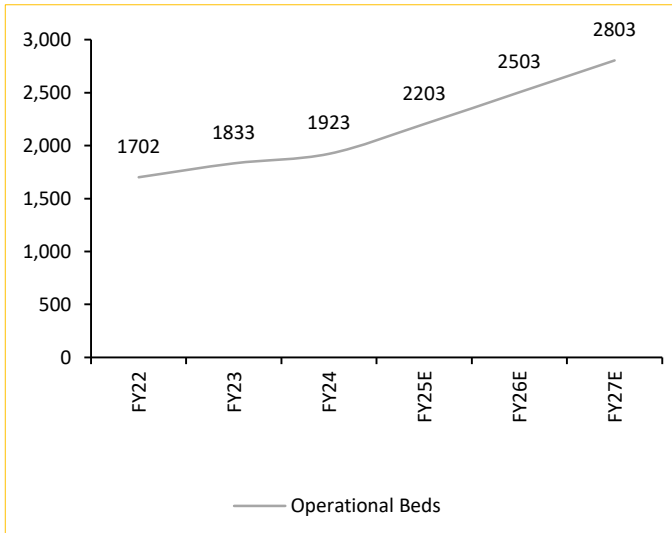
Source: Company, CEBPL

EBITDA and margins will improve with operational efficiency



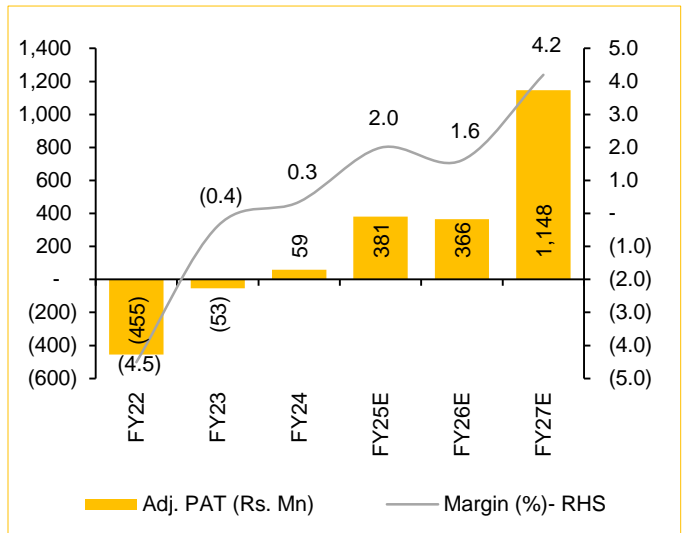
Source: Company, CEBPL

Operational beds to see steady expansion



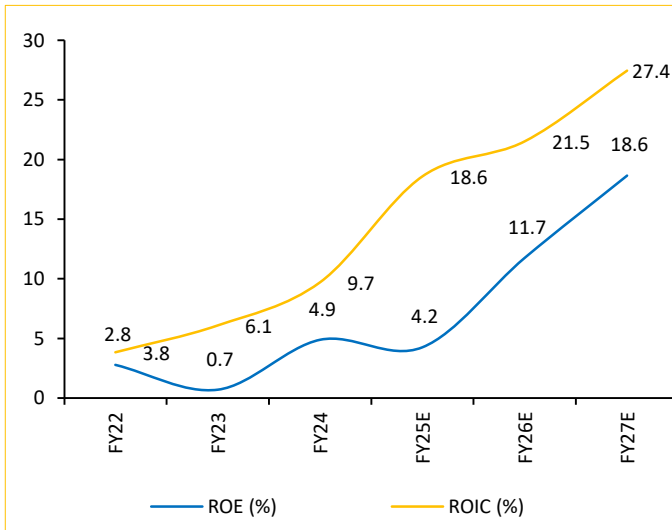
Source: Company, CEBPL

PAT is set to grow with strengthening margins



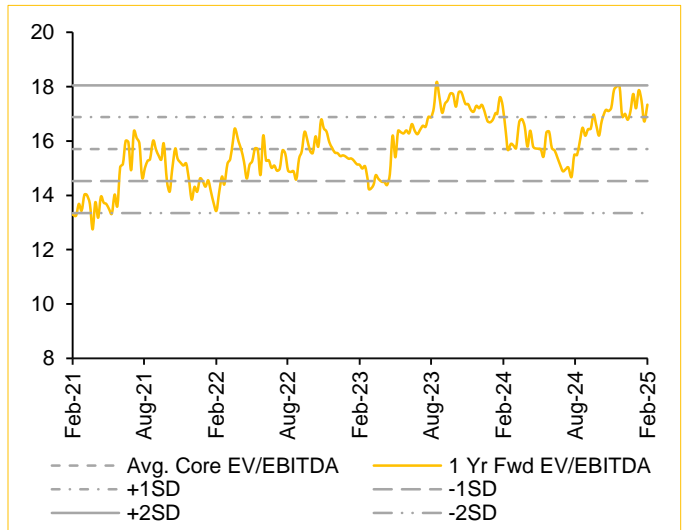
Source: Company, CEBPL

ROE and ROIC Trends



Source: Company, CEBPL

1 Year Forward EV Band



Source: Company, CEBPL

Income Statement (Consolidated in INR Mn)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	16,914	19,121	22,754	27,348	32,412
Gross Profit	12,673	14,288	16,815	20,374	24,309
EBITDA	2,957	3,217	3,891	5,114	6,806
Depreciation	1,635	1,744	2,068	2,239	2,509
EBIT	1,322	1,473	1,823	2,875	4,297
Other Income	162	169	341	410	486
Interest Expense	1,035	1,087	1,644	1,694	1,744
PBT	449	594	520	1,590	3,039
Reported PAT	59	402	366	1,148	2,239
EPS	0.4	2.7	2.6	8.2	16.1

Source: Company, CEBPL

Balance Sheet (Consolidated in INR Mn)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Net Worth	8,605	8,257	8,623	9,771	12,010
Minority Interest	89	393	453	513	573
Borrowings	9,012	12,744	16,444	16,944	17,444
Trade Payables	2,485	2,811	3,117	3,746	4,440
Other Non-current Liabilities	615	546	432	467	509
Other Current Liabilities	2,355	2,325	1,864	2,167	2,507
Total Net Worth & Liabilities	23,160	27,075	30,933	33,609	37,482
Net Block	9,718	10,147	10,779	11,240	11,430
Capital WIP	182	832	832	832	832
Goodwill & Intangible Assets	1,999	2,528	2,528	2,528	2,528
Investments	97	103	103	103	103
Trade Receivables	3,025	2,940	3,429	4,121	4,884
Cash & Cash Equivalents	1,966	3,031	2,228	2,152	1,867
Other Non-current Assets	5,361	6,666	7,340	8,482	9,636
Other Current Assets	812	828	3,695	4,152	6,202
Total Assets	23,160	27,075	30,933	33,609	37,482

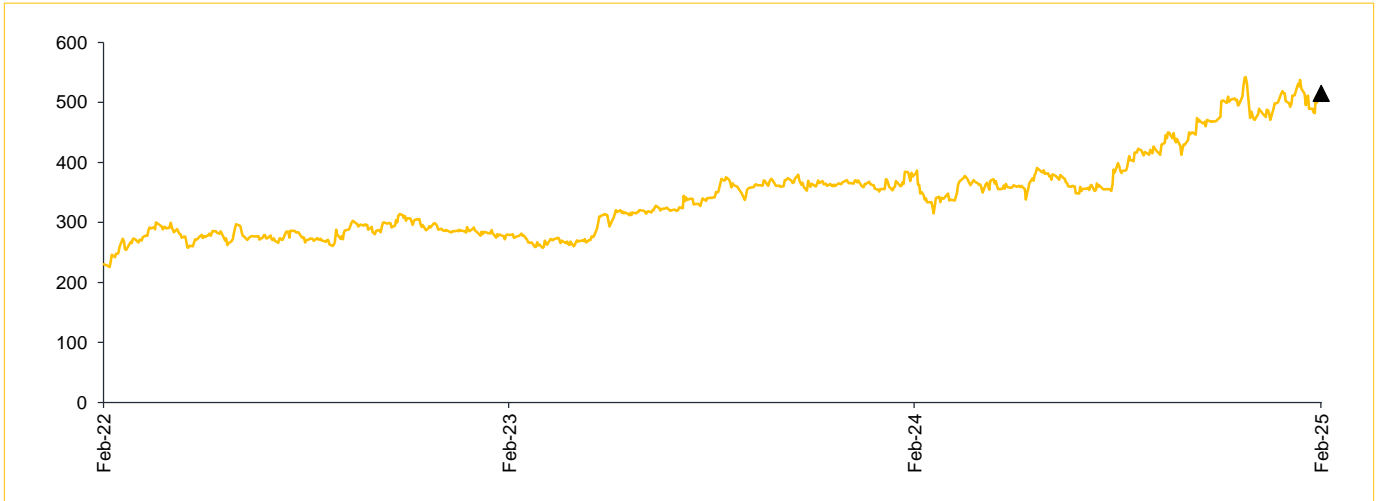
Source: Company, CEBPL

Cash Flows (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash Flows From Operations	2,516	2,842	-829	3,818	3,659
Cash Flows From Investing	-1,330	-2,257	-2,700	-2,700	-2,700
Cash Flows From Financing	-1,401	-640	2,056	-1,194	-1,244

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios					
Revenues	21.3	13.0	19.0	20.2	18.5
EBITDA	25.8	8.8	21.0	31.4	33.1
PBT	-49.7	32.4	-12.5	205.9	91.1
PAT	-210.7	545.3	-3.9	213.6	95.1
Margins					
Gross Profit Margin	74.9	74.7	73.9	74.5	75.0
EBITDA Margin	17.5	16.8	17.1	18.7	21.0
PBT Margin	2.7	3.1	2.3	5.8	9.4
Tax Rate	60.7	44.4	20.0	25.0	25.0
PAT Margin	0.3	2.0	1.6	4.2	6.9
Profitability					
Return On Equity (ROE)	0.7	4.9	4.2	11.7	18.6
Return On Invested Capital (ROIC)	6.1	9.7	18.6	21.5	27.4
Return On Capital Employed (ROCE)	24.5	18.1	19.0	28.4	40.5
Financial Leverage					
Pre-tax OCF/EBITDA (x)	0.9	0.9	-0.2	0.7	0.5
OCF / Net profit (x)	42.6	7.1	-2.3	3.3	1.6
EV/EBITDA (x)	27	25	22	17	13
Earnings					
EPS	0.4	2.7	2.6	8.2	16.1
Shares Outstanding	139.1	139.3	139.3	139.3	139.3
Working Capital					
Inventory Days	33.0	32.2	30.0	30.0	30.0
Receivable Days	65.3	56.1	55.0	55.0	55.0
Creditor Days	53.6	53.7	50.0	50.0	50.0
Working Capital Days	44.6	34.7	35.0	35.0	35.0

Source: Company, CEBPL

Historical Share Price Chart: Healthcare Global Enterprises Ltd



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BUY	The security is expected to generate upside of 15% or more over the next 12 months
HOLD	The security is expected to show upside or downside returns by 14% to -5% over the next 12 months
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