

HCG: Oncology Play Fired Up with KKR's Controlling Stake

BUY

February 25, 2025 | CMP: INR 500 | Target Price: INR 621 | Potential Upside: 24.1%

Change in Estimates	✓
Target Price Change	✓
Recommendation	✗

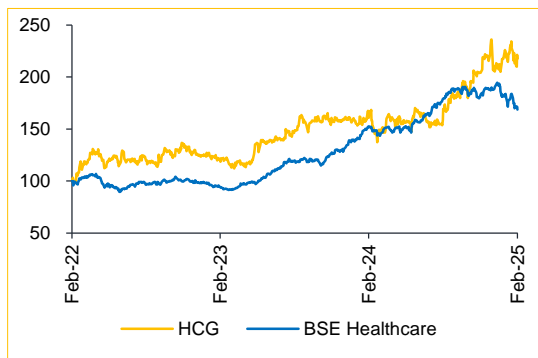
Company Info	
BB Code	HCG IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	563/310
Mkt Cap (Bn)	INR 69.6 / \$ 0.8
Shares o/s (Mn)	139.4
3M Avg. Daily Volume	3,23,686

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	-268bps
PAT	0.1	0.2	-67.4

Key Financials					
INR Bn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	16.9	19.1	22.4	27.0	32.6
YoY (%)	21.3	13.0	17.1	20.5	20.8
EBITDA	3.0	3.2	3.8	5.0	6.8
EBITDAM %	17.5	16.8	17.1	18.7	21.0
Adj PAT	0.1	0.4	0.3	1.2	2.4
EPS	0.4	2.7	2.5	8.4	17.2
ROE %	0.7	4.9	4.0	12.0	19.7
ROCE %	24.5	18.1	18.7	28.8	42.5
PE(x)	1,178.9	173.1	202.1	59.4	29.0
EV/EBITDA	25.9	24.7	22.0	16.8	12.5
BVPS	61.9	59.3	61.8	70.2	87.4
FCF	3.8	4.7	0.9	4.9	4.8

Shareholding Pattern (%)			
	Dec-24	Sep-24	Jun-24
Promoters	71.22	71.23	71.26
FII's	2.77	4.30	3.95
DII's	12.94	11.64	10.89
Public	13.07	12.84	13.90

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE Healthcare	68.8	79.4	11.3
HCG	117.8	83.8	35.4



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KKR acquires 54% stake in HCG, set to assume operational control

KKR, via Hector Asia Holdings II, will acquire a 54% stake in HCG for USD 400 Mn at INR 445 per share and make an open offer for an additional 26% at INR 504 per share, with completion expected by Q3 CY25. HCG's founder, Dr. BS Ajaikumar, will transition to Non-Executive Chairman as KKR takes operational control. As India's largest oncology hospital chain, with 25 hospitals and 2,500 beds, HCG plans to expand capacity by adding 900 beds over the next three years.

KKR's investment signals confidence in India's oncology market

Oncology is a significant growth driver in India's healthcare sector, with the market valued at approximately USD 5 Bn and projected to grow at a CAGR of 12-15%. Oncology performance of other coverage companies:

- **Max Healthcare:** Oncology revenues grew from INR 10,756 Mn in FY22 to INR 17,123 Mn in FY24, a 59% increase.
- **Global Health:** Oncology revenues increased from INR 2,387 Mn in FY22 to INR 3,831 Mn in FY24, up 61%.
- **Yatharth:** Oncology revenues jumped from INR 200 Mn in FY22 to INR 335 Mn in FY24, marking a 67% increase.

KKR's investment in HCG highlights its commitment to the flourishing oncology market in India, reinforcing its track record of investing in the healthcare sector.

A history of success: KKR's playbook for healthcare investments

KKR has established itself as a leading investor with a strong track record of creating value through strategic investments in India's healthcare sector. Over the years, it has built a strong track record in the healthcare sector by scaling up businesses through global best practices, operational efficiencies, and strategic partnerships. Notable examples include:

- **Max Healthcare:** Acquired in 2018 when the EBITDA margin stood at 7%. By the time KKR exited in 2022, Max Healthcare's EBITDA margin had grown to 24%.
- **JB Chemicals & Pharma:** Acquired in 2020 with an EBITDA margin of 21%. Although KKR has not exited yet, JB Chemicals' margin reached 26% in FY24.

These successes highlight KKR's ability to drive operational improvements and enhance value within its healthcare investments.

View and Valuation: We believe HCG will benefit from KKR's strategic expertise, given its strong track record in scaling businesses. With oncology being a high-growth segment in Indian healthcare, KKR's focused approach is expected to strengthen HCG's market position. We anticipate margins to improve under the new leadership, rising from 17% in FY25E to 21% in FY27E. We value the company at 15x FY27 EV/EBITDA, arriving at a target price of INR 621 per share, and maintain a 'BUY' rating.

Q3FY25 results announced; conference call date yet to be confirmed.

Revenue saw an improvement; however, EBITDA margins declined due to increased operating expenses from new beds and facilities.

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)

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