

Growth momentum continues

HCG posted robust growth during Q1FY25. Performance improved for both established as well as emerging centers. Due to improved performance, emerging centers are now classified as established centers. During the quarter the company expanded its footprint through its acquisition of MG Hospital in Vizag. This hospital is margin accretive which will improve the overall company's performance. Strong surge of business from international patients came in this quarter. Market share improved in multiple markets. EBITDA guidance of 19-20%. ARPOB increased by ~12% driven by a focus on reducing ALOS and increasing volumes. Initial performance of Q2 is better than expected by management.

Key Business Highlights

- Total LINAC machines as on Q1FY25 stands at 36
- Utilization of LINAC improved sequentially, 65% in Q1FY25 vs 61% in Q4FY24.
- Acquired 85% stake in MG Hospital in Vizag, Vishakhapatnam.
- Launched customer app - able to roll out to 8000 patient volume

Key Financials Highlights

- Revenue (Excl OI) at INR 5,256 Mn, +14% YoY / +6% QoQ
- Reported EBITDA at INR 909 Mn, +22.3% YoY / -1.2% QoQ
- Reported EBITDA margin at 17.3% vs 18.6% / 16.1% in Q4FY24 / Q1FY24
- EPS stood at INR 0.87 vs 0.55 / 1.53 in Q1FY24 / Q4FY24

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net sales	13,978	16,944	19,121	21,839	25,243
EBIDTA	2,380	2,987	3,296	3,797	4,534
Margins	17.0	17.6	17.2	17.4	18.0
PAT (adj)	-53	293	454	668	1,043
Growth (%)	-117.6	-54.7	134.7	37.3	57.3
EPS	3.87	2.11	3.46	4.80	7.49
P/E (x)	93	170	104	75	48
P/B (x)	6	6	6	6	5
EV/EBITDA (x)	22	17	16	13	11
RoE (%)	-1	3	5	8	11
ROCE (%)	7	12	11	13	15
RoIC (%)	4	5	9	11	15

Source: Dalal and Broacha

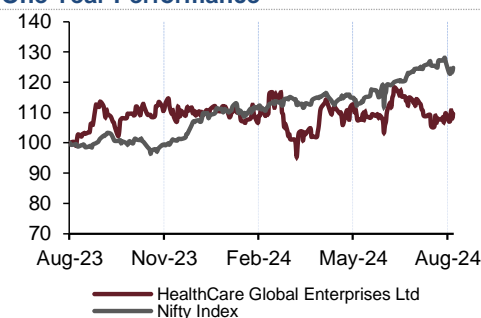
Rating	TP (Rs)	Up/Dn (%)
HOLD	417	15

Market data

Current price	Rs	364
Market Cap (Rs.Bn)	(Rs Bn)	50
Market Cap (US\$ Mn)	(US\$ Mn)	601
Face Value	Rs	10
52 Weeks High/Low	Rs	401 / 310.1
Average Daily Volume	('000)	154
BSE Code		539787
Bloomberg		HCG.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-24	Mar-24
Promoters	71.25	71.28
Public	28.75	28.72
Total	100	100

Source: BSE

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Key Operational Highlights

Key Operational Metrics	Q1FY25A	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
ARPOB					
Matured Centres	43,055	38,200	12.7%	43,611	-1.3%
Emerging Centres	62,607	64,527	-3.0%	40,474	54.7%
Total	44,342	39,686	11.7%	42,741	3.7%
Occupancy			bps		bps
Matured Centres	66.90%	69.80%	-290	63.80%	310
Emerging Centres	51.20%	37.40%	1380	64.00%	-1280
Total	65.60%	66.90%	-130	63.90%	170

Source: Company, Dalal & Broacah Research

Quarterly Financials

(Rs. Mn)	Q1FY25A	Q1FY24	YoY Growth(%)	Q4FY24	QoQ Growth (%)
Revenue from Operations	5,256	4,607	14%	4,946	6%
Other Income	88	24	264%	51	74%
Total RM Cost	1,332	1,179	13%	1,227	9%
Employee Benefits Expense	852	769	11%	769	11%
Other Expenses + Medical consultancy charges	2,163	1,916	13%	2,031	7%
Total Expenses	4,347	3,864	13%	4,026	8%
EBITDA (Excluding Other Income)	909	743	22%	920	-1%
Depreciation and Amortisation Expenses	470	410	15%	460	2%
EBIT / PBIT	527	357	48%	511	3%
Finance Costs	337	256	32%	268	26%
EBT/ PBT	190	102	87%	242	-22%
Exceptional Items	-	-		(39)	
Share of profit from Associate/JV	(0)	4		1	
Tax Expense	54	69	-22%	48	13%
Minority Interest	16	(40)		22	
Owners PAT reported	121	76	59%	213	-43%
Earning per share	0.87	0.55	59%	1.53	-43%
Margins (%)			bps		bps
EBITDA Margins (Excl Other Income)	17.3%	16.1%	116.7	18.6%	-130
PAT Margins	2.6%	0.8%	176.2	4.7%	-214
As a % to sales			bps		bps
RM as a % to sales	25.3%	25.6%	-24.6	24.8%	54
EE Cost as a % to sales	16.2%	16.7%	-49.0	15.5%	67
Other exps as a % to sales	41.2%	41.6%	-43.1	41.1%	10

Source: Company, Dalal & Broacah Research

Cluster Wise Break-Up

Cluster	Q1FY25A	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Karnataka	1,564	1,504	4%	1,514	3.3%
Gujarat	1,343	1,136	18%	1,258	6.8%
East India	617	487	27%	551	12.0%
Maharashtra	818	659	24%	771	6.1%
Tamil Nadu	68	76	-11%	50	36.0%
North India	246	213	15%	229	7.4%
AP	372	334	11%	345	7.8%
Africa	85	33	158%	59	44.1%

Source: Company, Dalal & Broach Research

Acquisition – MG Hospital, Vizag

- Acquired deal value at EV of Rs 4,140 Mn
- To acquire 85% stake in 2 Tranches
- 51% to acquire initially || Balance 34% within 18 months after closing first tranche.
- Post this acquisition HCG will have 46% market share in the region
- Current quarterly revenue run-rate of Rs 30cr with 35% EBITDA margin
- Financials (FY24) – Rs 120 Cr || EBITDA margin – 35%
- Revenue expected to grow 10-12%
- Strong medical infra – 2 LINACs, team of 31 doctors, dedicated bone marrow transplant unit & 200 beds.

Other Concall KTAs

- Reclassified established & emerging centers || Emerging centers now includes - 2 Mumbai centers & 1 Kolkata || rest reclassified as established
- MG hospital will be classified as established center & will improve overall company's performance as it has better margins.
- Consistently delivering EBITDA margin over 30%
- Borivali & Kolkata centers have shown robust growth in current quarter
- Kolkata delivered 73% YoY growth in Q1FY25 & South Mumbai grew 22% YoY
- South Mumbai center to breakeven this year
- Company is actively investing in expanding medical tourism; In Q1 international business generated ~Rs 24cr in Q1FY25 **(highest for any quarter)**

- Mainly 4 cities focus on international patients → Bangalore + Mumbai + Kolkata & Ahmedabad
- Overall, the company is witnessing higher growth momentum in this year than last year
- Initial performance for Q2 better than expectation
- Increased operational efficiency by reducing ALOS helped improve ARPOB
- Tax rate expected to be - 30-32%
- EBITDA margin guidance - 19-20%
- Some subsidiaries are dragging overall PAT growth also as tax rate reduces, PAT will be visible
- Market share improved in multiple markets
- Debt to increase going forward || Internal target to keep Debt/EBITDA below 2.5x
- Capex during Q1FY25 at Rs 80cr || To continue this quarterly run-rate going forward.

Expansion in Pipeline - on track

- **Ahmedabad - Phase II**
 - Planned capex: Rs 107 cr
 - Capex Incurred till end of Q1FY25: Rs 90.5 cr
- **Whitefield COE-Bangalore**
 - Planned capex: Rs 29 cr
 - Capex Incurred till end of Q1FY25: Rs 5.2 cr

Outlook and Valuations

Growth momentum is expected to continue. Management also expects this year to be better than last year. Performance from emerging centers are improving. Some are expected to breakeven in this FY.

Managements focuses on reducing its ALOS, dropped from 2.13 days to 1.98 days in Q1FY25. This coupled with increase in volumes will improve the ARPOB for the company. The newly acquired MG hospital in Vizag has better profitability ratios and is margin accretive, which will further improve company level margins. Currently PAT is being dragged due to loss making subsidiaries. However, losses in these subs are now reducing.

Debt can be something of concern going forward as the company may utilize additional debt to fund more capex and as a result finance cost may further be a drag on PAT.

However, Q2 has started on a robust note and is expected to be better than expectation.

HCG @ CMP of Rs. 364 trades at 11x EV/EBITDA on FY26E; we value HCG @ 15x FY26 EV/EBITDA multiple to arrive at a target price of Rs. 417, an upside of 15%. We recommend HOLD rating on the stock.

Financials

P&L (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	13,978	16,944	19,121	21,725	25,080
Operating Expenses	-3,549	-4,241	-4,754	-5,388	-6,144
Employee Cost	-2,337	-2,751	-3,082	-3,519	-4,113
Other Expenses	-5,713	-6,966	-7,989	-9,002	-10,321
Operating Profit	2,380	2,987	3,296	3,815	4,501
Depreciation	-1,583	-1,635	-1,744	-2,052	-2,309
PBIT	797	1,352	1,552	1,763	2,192
Other income	127	132	169	169	169
Interest	-978	-1,035	-1,087	-1,316	-1,556
PBT	-54	449	634	616	805
Profit before tax (post exceptions)	892	449	674	616	805
Provision for tax	-489	-273	-264	-191	-250
Profit & Loss from Associates/JV	-14	-0	4	4	4
Reported PAT	389	176	414	429	560
MI	148	117	68	-50	-50
Owners PAT	537	293	482	379	510
Adjusted Profit (excl Exceptio	-53	293	454	379	510

Balance Sheet (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	1,390	1,391	1,393	1,393	1,393
Reserves	7,313	7,214	6,865	7,294	7,854
Net worth	8,703	8,605	8,258	8,687	9,246
MI	134	89	393	393	393
Non Current Liabilities	8,661	8,763	10,987	12,239	14,187
Current Liabilities	4,698	5,703	7,437	7,913	8,379
TOTAL LIABILITIES	22,195	23,160	27,075	29,232	32,206
Non Current Assets	17,172	17,357	20,277	19,175	18,410
Fixed Assets	11,643	11,899	13,507	12,013	10,854
Right of Use Assets	4,045	3,813	4,907	4,907	4,907
Financial Assets	634	639	590	763	872
Deferred Tax Asset	60	53	71	73	75
Long Term Loans and Advances	-	-	-	-	-
Other Non Current Assets	790	953	1,203	1,420	1,703
Current Assets	5,024	5,803	6,799	10,058	13,796
Current investments	-	-	-	-	-
Inventories	300	383	427	546	673
Trade Receivables	2,175	3,025	2,940	3,571	4,466
Cash and Bank Balances	1,975	1,966	3,031	5,491	8,150
Short Term Loans and Advances	16	18	19	21	23
Other Financial Assets	341	72	68	68	68
Other Current Assets	217	339	314	361	415
TOTAL ASSETS	22,195	23,160	27,075	29,232	32,206

Cashflow (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	892	449	674	616	805
Depreciation	1,583	1,635	1,744	2,052	2,309
Net Chg in WC	87	-389	367	-461	-671
Taxes	-237	-154	-343	-191	-250
Others	-124	1,607	885	330	1,069
CFO	2,201	3,148	3,326	2,346	3,262
Capex	-704	-1,415	-3,533	-1,390	-1,690
Net Investments made	1,316	-9	-6	-8	-8
Others	-1,857	-	-	-	-
CFI	-1,246	-1,424	-3,539	-1,398	-1,698
Change in Share capital	1,322	-	-	-	-
Change in Debts	-1,938	-135	3,732	1,995	2,439
Div. & Div Tax	-	-	-	-	-
Others	1,227	-1,598	-2,454	-483	-1,344
CFE	611	-1,733	1,278	1,512	1,096
Total Cash Generated	1,567	-9	1,065	2,460	2,659
Cash Opening Balance	408	1,975	1,966	3,031	5,491
Cash Closing Balance	1,975	1,966	3,031	5,491	8,150
Ratios	FY22	FY23	FY24	FY25E	FY26E
OPM	17.0	17.6	17.2	17.6	17.9
NPM	-0.4	1.7	2.4	1.7	2.0
Tax rate	-54.8	-60.7	-39.2	-31.0	-31.0
Growth Ratios (%)					
Net Sales	37.9	21.2	12.8	13.6	15.4
Operating Profit	88.0	25.5	10.3	15.8	18.0
PBIT	-344.2	69.7	14.8	13.6	24.3
PAT	-117.6	-54.7	134.7	3.8	30.4
Per Share (Rs.)					
Net Earnings (EPS)	3.87	2.11	3.46	2.72	3.66
Cash Earnings (CPS)	15.25	13.86	15.98	17.45	20.23
Dividend	-	-	-	-	0.37
Book Value	62.61	61.85	59.28	62.37	66.38
Free Cash Flow	14.61	2.60	-3.43	10.18	10.48
Valuation Ratios					
P/E(x)	93	170	104	132	98
P/B(x)	6	6	6	6	5
EV/EBIDTA(x)	22	17	16	13	11
Div. Yield(%)	-	-	-	-	0.10
FCF Yield(%)	4.07	0.72	-0.96	2.83	2.92
Return Ratios (%)					
ROE	-1%	3%	5%	4%	6%
ROCE	7%	12%	11%	11%	12%
RoIC	4%	5%	9%	12%	15%

Source: Company, Dalal & Broach Research

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