

February 28, 2025

Event Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	555		535	
Sales (Rs. m)	25,556	28,049	25,556	27,714
% Chng.	-	1.2		
EBITDA (Rs. m)	4,939	5,912	5,236	5,962
% Chng.	(5.7)	(0.8)		
EPS (Rs.)	7.4	13.7	9.2	14.7
% Chng.	(20.0)	(6.3)		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	19,121	22,285	25,556	28,049
EBITDA (Rs. m)	3,296	3,922	4,939	5,912
Margin (%)	17.2	17.6	19.3	21.1
PAT (Rs. m)	481	444	1,027	1,914
EPS (Rs.)	3.5	3.2	7.4	13.7
Gr. (%)	63.9	(7.7)	131.0	86.5
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	5.2	5.2	11.1	17.9
RoCE (%)	11.3	11.7	16.1	19.3
EV/Sales (x)	3.9	3.4	3.0	2.7
EV/EBITDA (x)	22.4	19.4	15.4	12.8
PE (x)	145.7	157.8	68.3	36.6
P/BV (x)	8.5	8.1	7.2	6.0

Key Data HEAC.BO | HCG IN

52-W High / Low	Rs.568 / Rs.310
Sensex / Nifty	74,612 / 22,545
Market Cap	Rs.70bn/ \$ 805m
Shares Outstanding	139m
3M Avg. Daily Value	Rs.176.84m

Shareholding Pattern (%)

Promoter's	71.23
Foreign	2.77
Domestic Institution	12.93
Public & Others	13.07
Promoter Pledge (Rs bn)	1.58

Stock Performance (%)

	1M	6M	12M
Absolute	(1.6)	30.1	39.3
Relative	2.2	43.6	35.3

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Ownership change; margins to improve

Quick Pointers:

- Vizag unit consolidated from Q3 with ~Rs250mn of rev and 24% OPM
- Guided for +18.5% margins in Q4 with 100-200bps margin expansion in FY26

With 51% stake in HCG, KKR has become the largest shareholder. We believe the strategic investment by KKR will bring in more operational and financial efficiency. Currently, HCG enjoys 15% pre IND AS margin, which is lower than its peers. We expect KKR to drive growth through bed expansion, rationalization of existing assets and scale up of margins. The company's asset-light approach with a focus on partnerships has made its business model more capital efficient and scalable, in our view. Our FY26/FY27E EBITDA stands reduced by 6%/1%. We expect 23% EBITDA CAGR over FY25-27E. At CMP, the stock trades at 17x FY27E EV/EBITDA adjusted for rentals and minority stake. Maintain 'BUY' rating with a revised TP of Rs555/share as we roll forward, valuing at 18x on FY27E EV/EBITDA (17x earlier).

- Contours of transactions:** KKR has signed a definitive agreement with CVC Capital to acquire a controlling 51% stake in HCG at Rs445/share, representing 11% discount to CMP. Additionally, KKR has made an open offer of 26% at Rs504/share. In the event of an undersubscription in the open offer, KKR intends to acquire an additional 3% stake from CVC, bringing its total equity ownership to at least 54%. The transaction is valued at ~23x EV/EBITDA on FY25 pre IND AS basis and expected to be completed by the end of Q2FY26. Currently, CVC owns 60.4%, while Dr Ajai & family own 10.9% stake in HCG. Post KKR buyout, Dr Ajai and CVC shall cease control of the company. Dr Ajay will have a limited operational role but will remain a co-promoter of HCG. Operational control and management responsibilities will be overseen by KKR.
- Weak Q3 margins led by seasonality; healthy ARPOB:** HCG reported post IND AS EBITDA of Rs884mn, up 12% YoY, 10% below our estimates. Adjusted for ESOP cost and one-time Vizag acquisition cost of Rs25mn, EBITDA came in at Rs923mn with OPM of 16.5%, down 200bps QoQ impacted by seasonality. Existing centers reported healthy EBITDA growth of 18% YoY, while EBITDA of new centers (Kolkata, Borivali and South Mumbai) was at Rs33mn, vs Rs30mn in Q2, with OPM at 6.4%. Existing centers' revenue grew by 20% YoY aided by Vizag unit consolidation, while new centers continue to see healthy ramp-up with revenue growth of 25% YoY. Milann center's revenue declined by 17% YoY on account of discontinued operations of Delhi center. ARPOB improved by ~4% YoY to Rs44.3k/day. Overall occupancy was at 62.1% (up 230bps YoY). Net debt increased by Rs2.2bn QoQ to Rs6.7bn.
- Key con-call takeaways: (1) Expansion plan**— Overall expansion of 900 beds is planned over the next 3 years, with 250 bed capacity already in place but yet to be operationalized, and balance 650 beds will have brownfield expansion across key locations like Bengaluru, Ahmedabad and Cuttack. Construction of 125 beds in North Bengaluru and Whitefield is progressing

well and is expected to be completed in Q3FY26 and Q1FY26, respectively. **(2) Vizag acquisition**- Vizag unit was consolidated in Q3FY25 and contributed Rs250mn in revenue with 24% margin. **(3) Capex**- FY25 capex is estimated at Rs2.75bn, with Rs1.72bn already deployed in 9MFY25. **(4) New centers**- EBITDA losses for new centers are expected to reduce, with breakeven targeted in Q1FY26 for South Mumbai unit. Current EBITDA loss at South Mumbai unit stands at Rs100-110mn. Kolkata, South Mumbai and Borivali centers reported revenue growth of 40%, 28% and 11% YoY, respectively. South Mumbai unit faced challenges in international business due to geopolitical issues; the management expects recovery from Q4FY25. **(5) Revenue growth guidance** - Established centers are expected to sustain 13-14% CAGR, while new centers are expected to grow at 25% CAGR. **(6) Milann revenue** continues to decline due to the expiration of the non-compete agreement with the original promoter, who has opened competing centers near existing HCG facilities. However, the management remains focused on enhancing Milann's performance. **(7)** The management has guided for 100-200bps **margin expansion** in FY26, supported by brownfield expansions in Bengaluru and reduction of losses from new centers. **(8) Effective tax rate** for 9MFY25 stands at 3%, driven by deferred tax recognition (Rs120mn) in a subsidiary. **(9) International patient** volumes are expected to normalize from FY26, post-resolution of the Bangladesh unrest. Revenue contribution from international patients remains at 3.5-4%, with plans to sustain this level.

Exhibit 1: Q3FY25 Result Overview (Rs mn) –EBITDA 10% below estimates

Y/e March	3QFY25	3QFY24	YoY gr. (%)	2QFY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
Net Sales	5,586	4,699	18.9	5,535	0.9	16,377	14,175	15.5
COGS	1,491	1,139	30.9	1,442	3.4	4,266	3,527	20.9
<i>% of Net Sales</i>	<i>26.7</i>	<i>24.2</i>		<i>26.1</i>		<i>26.0</i>	<i>24.9</i>	
Employee Cost	902	773	16.7	853	5.8	2,607	2,314	12.7
<i>% of Net Sales</i>	<i>16.2</i>	<i>16.5</i>		<i>15.4</i>		<i>15.9</i>	<i>16.3</i>	
Other Expenses	2,308	2,000	15.4	2,218	4.1	6,689	5,959	12.3
<i>% of Net Sales</i>	<i>41.3</i>	<i>42.6</i>		<i>40.1</i>		<i>40.8</i>	<i>42.0</i>	
Total	4,702	3,913	20.2	4,513	4.2	13,561	11,799	14.9
EBITDA	884	786	12.4	1,023	(13.6)	2,816	2,376	18.5
<i>Margins (%)</i>	<i>15.8</i>	<i>16.7</i>		<i>18.5</i>		<i>17.2</i>	<i>16.8</i>	
Other Income	46	61	(23.6)	111	(58.3)	246	119	106.7
Interest	407	295	38.2	360	13.1	1,104	819	34.8
Depreciation	565	442	28.0	497	13.6	1,533	1,284	19.4
PBT	(42)	111	NA	277	(115.2)	425	392	8.5
Tax	(111)	76	(244.8)	70	(258.5)	13	216	(94.1)
<i>Tax rate %</i>	<i>263.1</i>	<i>68.9</i>		<i>25.2</i>		<i>3.0</i>	<i>55.2</i>	
PAT	69	34	NA	207	(66.9)	412	175	135.0
Share in (loss)/profit of associate	9	(0)		(0)		9	3	NA
Minority Interest	8	(23)		27		50	(90)	(155.5)
EO items	-	-		-		-	-	
Reported PAT	70	57	22.5	180	(61.2)	370	269	37.8

Source: Company, PL

Exhibit 2: Break-up of revenues (Rs mn) - Matured centers grew by 20% aided by Vizag unit consolidation

Y/e March	3QFY25	3QFY24	YoY gr. (%)	2QFY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
Existing cancer centers	4,931	4,117	19.8	4,848	1.7	14,416	12,492	15.4
% of Total Sales	88.3	87.6		87.6		88.0	88.1	
New centers	519	417	24.5	530	(2.1)	1,524	1,178	29.4
% of Total Sales	9.3	8.9		9.6		9.3	8.3	
Milann centers	136	164	(17.1)	158	(13.9)	438	505	(13.3)
% of Total Sales	2.4	3.5		2.9		2.7	3.6	
Total revenues	5,586	4,698	18.9	5,536	0.9	16,378	14,175	15.5

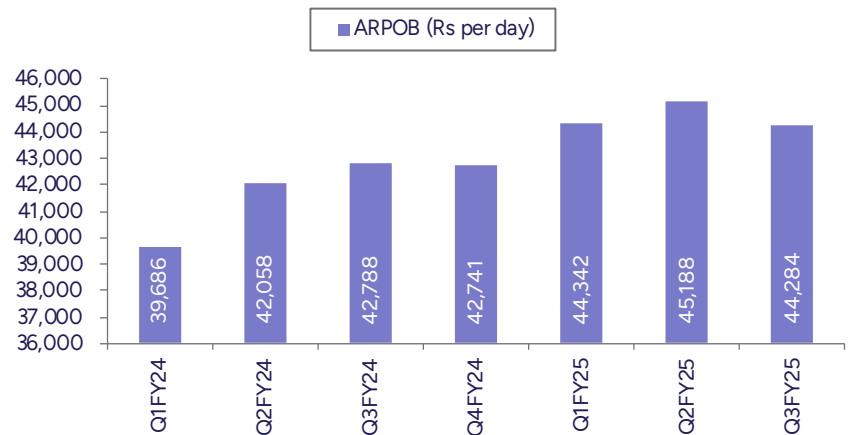
Source: Company, PL

Exhibit 3: Break-up of EBITDA (Rs mn) - Matured center's EBITDA grew by ~18% YoY

Y/e March	3QFY25	3QFY24	YoY gr. (%)	2QFY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
Existing centers	1,057	898	17.7	1,131	(6.5)	3,212	2,712	18.4
New centers	33	10	230.0	30	10.0	105	4	2,525.0

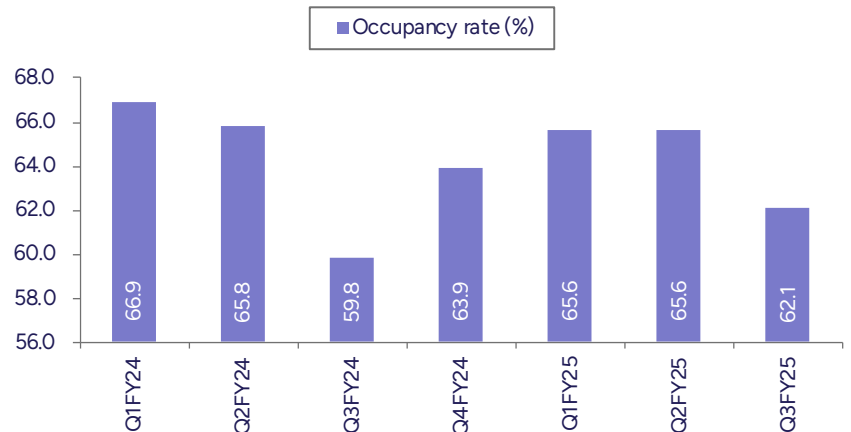
Source: Company, PL * (Note: Excl corporate expenses; Reclassification of centers - Emerging centers now consist of 3 centers – South Mumbai, Borivali & Kolkata. All other centers are classified as established centers)

Exhibit 4: ARPOB improved by 4% YoY



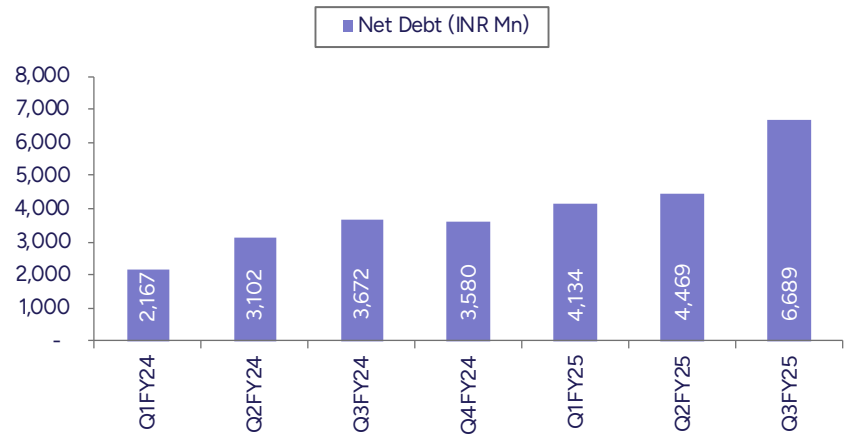
Source: Company, PL

Exhibit 5: Occupancy was down QoQ due to seasonality



Source: Company, PL

Exhibit 6: Net debt increased by Rs2.2bn QoQ on Vizag acquisition



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	19,121	22,285	25,556	28,049
YoY gr. (%)	12.8	16.5	14.7	9.8
Cost of Goods Sold	4,754	5,781	6,632	7,140
Gross Profit	14,367	16,504	18,925	20,909
Margin (%)	75.1	74.1	74.1	74.5
Employee Cost	3,082	3,421	3,764	4,140
Other Expenses	7,989	9,160	10,222	10,857
EBITDA	3,296	3,922	4,939	5,912
YoY gr. (%)	10.3	19.0	25.9	19.7
Margin (%)	17.2	17.6	19.3	21.1
Depreciation and Amortization	1,744	2,092	2,218	2,351
EBIT	1,552	1,830	2,721	3,561
Margin (%)	8.1	8.2	10.6	12.7
Net Interest	1,087	1,510	1,600	1,400
Other Income	169	320	350	450
Profit Before Tax	634	640	1,471	2,611
Margin (%)	3.3	2.9	5.8	9.3
Total Tax	264	128	353	653
Effective tax rate (%)	41.6	20.0	24.0	25.0
Profit after tax	370	512	1,118	1,958
Minority interest	(72)	67	91	44
Share Profit from Associate	-	-	-	-
Adjusted PAT	481	444	1,027	1,914
YoY gr. (%)	64.1	(7.7)	131.0	86.5
Margin (%)	2.5	2.0	4.0	6.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	481	444	1,027	1,914
YoY gr. (%)	64.1	(7.7)	131.0	86.5
Margin (%)	2.5	2.0	4.0	6.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	481	444	1,027	1,914
Equity Shares O/s (m)	139	139	139	139
EPS (Rs)	3.5	3.2	7.4	13.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	25,698	30,198	32,698	36,248
Tangibles	25,698	30,198	32,698	36,248
Intangibles	-	-	-	-
Acc: Dep / Amortization	10,313	12,405	14,623	16,974
Tangibles	10,313	12,405	14,623	16,974
Intangibles	-	-	-	-
Net fixed assets	15,386	17,793	18,076	19,275
Tangibles	15,386	17,793	18,076	19,275
Intangibles	-	-	-	-
Capital Work In Progress	832	832	832	832
Goodwill	2,229	2,229	2,229	2,229
Non-Current Investments	70	70	70	70
Net Deferred tax assets	10	10	10	10
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	427	609	839	921
Trade receivables	2,940	3,655	4,193	4,603
Cash & Bank Balance	3,031	1,656	1,792	2,298
Other Current Assets	2,090	2,559	3,145	3,452
Total Assets	27,075	29,474	31,245	33,749
Equity				
Equity Share Capital	1,393	1,393	1,393	1,393
Other Equity	6,865	7,309	8,336	10,251
Total Networkth	8,258	8,702	9,729	11,644
Non-Current Liabilities				
Long Term borrowings	6,728	7,728	7,728	7,728
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,811	3,168	3,634	3,989
Other current liabilities	8,825	9,354	9,541	9,732
Total Equity & Liabilities	27,075	29,474	31,245	33,749

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	370	512	1,118	1,958
Add. Depreciation	1,744	2,092	2,218	2,351
Add. Interest	1,087	1,510	1,600	1,400
Less Financial Other Income	169	320	350	450
Add. Other	-	-	-	-
Op. profit before WC changes	3,201	4,114	4,936	5,709
Net Changes-WC	(798)	(479)	(700)	(253)
Direct tax	-	-	-	-
Net cash from Op. activities	2,404	3,635	4,236	5,456
Capital expenditures	(1,857)	(4,500)	(2,500)	(3,550)
Interest / Dividend Income	-	-	-	-
Others	(401)	-	-	-
Net Cash from Inv. activities	(2,257)	(4,500)	(2,500)	(3,550)
Issue of share cap. / premium	(403)	-	-	-
Debt changes	933	1,000	-	-
Dividend paid	-	-	-	-
Interest paid	(1,087)	(1,510)	(1,600)	(1,400)
Others	1,032	-	-	-
Net cash from Fin. activities	476	(510)	(1,600)	(1,400)
Net change in cash	622	(1,375)	136	506
Free Cash Flow	547	(865)	1,736	1,906

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	3.5	3.2	7.4	13.7
CEPS	16.0	18.2	23.3	30.6
BVPS	59.3	62.5	69.8	83.6
FCF	3.9	(6.2)	12.5	13.7
DPS	-	-	-	-
Return Ratio(%)				
RoCE	11.3	11.7	16.1	19.3
ROIC	6.5	6.6	9.2	11.3
RoE	5.2	5.2	11.1	17.9
Balance Sheet				
Net Debt : Equity (x)	0.4	0.7	0.6	0.5
Net Working Capital (Days)	11	18	20	20
Valuation(x)				
PER	145.7	157.8	68.3	36.6
P/B	8.5	8.1	7.2	6.0
P/CEPS	31.5	27.7	21.6	16.4
EV/EBITDA	22.4	19.4	15.4	12.8
EV/Sales	3.9	3.4	3.0	2.7
Dividend Yield (%)	-	-	-	-

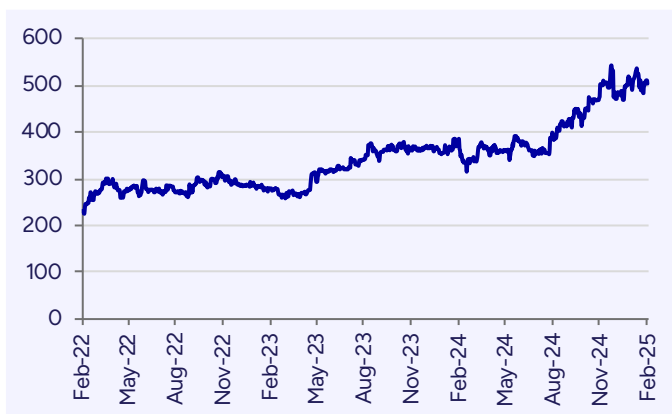
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net Revenue	4,946	5,256	5,535	5,586
YoY gr. (%)	12.0	14.1	13.7	18.9
Raw Material Expenses	1,227	1,332	1,442	1,491
Gross Profit	3,719	3,924	4,093	4,095
Margin (%)	75.2	74.7	73.9	73.3
EBITDA	920	909	1,023	884
YoY gr. (%)	20.6	22.3	20.8	12.4
Margin (%)	18.6	17.3	18.5	15.8
Depreciation / Depletion	460	470	497	565
EBIT	461	439	525	319
Margin (%)	9.3	8.4	9.5	5.7
Net Interest	268	337	360	407
Other Income	51	88	111	46
Profit before Tax	243	190	277	(42)
Margin (%)	4.9	3.6	5.0	(0.8)
Total Tax	48	54	70	(111)
Effective tax rate (%)	19.6	28.2	25.2	263.1
Profit after Tax	195	136	207	69
Minority interest	22	16	27	8
Share Profit from Associates	1	-	-	9
Adjusted PAT	213	121	180	70
YoY gr. (%)	154.0	58.7	32.6	22.5
Margin (%)	4.3	2.3	3.2	1.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	213	121	180	70
YoY gr. (%)	154.0	58.7	32.6	22.5
Margin (%)	4.3	2.3	3.2	1.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	213	121	180	70
Avg. Shares O/s (m)	139	139	139	139
EPS (Rs)	1.5	0.9	1.3	0.5

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-25	BUY	535	488
2	12-Nov-24	BUY	535	469
3	07-Oct-24	BUY	420	430
4	12-Aug-24	BUY	420	362
5	08-Jul-24	BUY	420	377
6	31-May-24	BUY	420	358
7	08-Apr-24	BUY	420	368

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,100	6,317
2	Aster DM Healthcare	BUY	620	469
3	Aurobindo Pharma	BUY	1,510	1,192
4	Cipla	BUY	1,730	1,421
5	Divi's Laboratories	Accumulate	6,250	5,884
6	Dr. Reddy's Laboratories	Reduce	1,335	1,289
7	Eris Lifesciences	BUY	1,450	1,230
8	Fortis Healthcare	BUY	760	628
9	HealthCare Global Enterprises	BUY	535	488
10	Indoco Remedies	Hold	325	343
11	Ipca Laboratories	Accumulate	1,700	1,491
12	J.B. Chemicals & Pharmaceuticals	BUY	2,075	1,716
13	Jupiter Life Line Hospitals	BUY	1,750	1,607
14	Krishna Institute of Medical Sciences	BUY	725	642
15	Lupin	BUY	2,420	2,025
16	Max Healthcare Institute	BUY	1,300	1,061
17	Narayana Hrudayalaya	BUY	1,560	1,370
18	Rainbow Children's Medicare	BUY	1,785	1,369
19	Sun Pharmaceutical Industries	BUY	2,275	1,744
20	Sunteck Realty	BUY	700	479
21	Torrent Pharmaceuticals	Accumulate	3,750	3,248
22	Zydus Lifesciences	Accumulate	1,050	977

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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