

27<sup>th</sup> November 2024

## Healthcare Global – BUY

**CMP** : Rs.478  
**Target Price** : Rs.616  
**Upside** : 28%+  
**Stop Loss** : Rs.404(Closing basis)

### Investment Thesis

- HCG continues its strategic growth trajectory by acquiring an 85% stake in MG Hospital (Vizag) for Rs. 4.14Bn, a pivotal move that solidifies its dominant 30% market share in the region. The acquired 200-bed facility represents a sophisticated oncology infrastructure, equipped with 2 Linear Accelerators (LINACs), advanced PET/CT imaging, and robotic surgery capabilities. Operational metrics underscore the facility's robust performance with 30,000+ radiation treatments annually, 150,000+ chemotherapy sessions, and an impressive financial profile featuring 15% revenue CAGR over 10 years, 35% EBITDA margin in FY24, 30%+ pre-tax Return on Capital Employed (ROCE), 70% EBITDA-to-cash conversion, and a zero debt balance sheet.
- HCG's digital platform 'HCG Care+' demonstrates rapid market penetration and digital health innovation, with 8,000+ unique patients and app downloads in Q2 FY25, an e-pharmacy initiative processing 28,000+ orders, and a strategic medical tourism focus leveraging presence in key metropolitan centers like Mumbai, Bangalore, Kolkata, and Ahmedabad.
- Recent regulatory changes in clinical investigation requirements for drugs approved in major markets (US, UK, Japan, Australia, Canada) create unprecedented opportunities for accelerated cancer treatment access in India. HCG is strategically positioned to capitalize through its extensive network of 27 centers, 400+ specialized oncologists, focus on personalized medicine, targeted therapeutic approaches, and advanced antibody conjugate drug protocols.
- Collaboration with Accenture in computational oncology represents a breakthrough in patient-specific cancer treatment optimization, featuring a data-driven precision medicine approach, treatment outcome comparability with leading global cancer centers, and emphasis on intervention effectiveness from initial stages.
- HCG's innovative hub-and-spoke model distinguishes the company as a transformative force in oncology care, extending high-quality cancer treatments to remote regions through centralized expertise and satellite center networks. By bridging critical healthcare gaps, the model delivers world-class oncological services that match and often exceed global benchmarks, positioning HCG as a pioneering healthcare provider committed to comprehensive and accessible cancer care.

### Financials

- Healthcare Global Enterprises Ltd. delivered exceptional financial performance in Q2 and H1 FY '25, with Q2 revenue of Rs. 553.5 cr, representing a 14% year-on-year growth. Proforma revenue growth reached 20% including the Vizag acquisition, with H1 FY '25 revenue at Rs. 1,079 cr, maintaining consistent market momentum.
- Adjusted EBITDA reached Rs. 104.2 cr in Q2, a 21% year-on-year growth, with EBITDA margins expanding 100 basis points to 18.8%. This improvement stems from enhanced digital initiatives and operational efficiency. The oncology business grew 20%, with domestic performance offsetting a 17% decline in international revenue due to geopolitical challenges.

Consol. (Rs.Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,395	1,691	1,908	2,275	2,700
EBITDA	234	297	327	355	400
EBITDA Margin %	16.8%	17.6%	17.1%	15.6%	14.8%
PAT	-71	3	18	57	68
EPS	-5.1	0.2	1.3	4.1	4.9
PE	-	2390	367.7	116.6	97.5
RoE	-9.0%	0.3%	2.1%	6.7%	7.4%

### Stock Data

Market Cap (Rs. Crs)	6,663
Market Cap (\$ Mn)	792
Shares O/S (in Mn)	139
Avg. Volume (1 month)	276,783
52-Week Range (Rs.)	520 / 310

### Shareholding Pattern

Promoters	71.23%
FII's	4.30%
Institutions	11.64%
Others (incl. body corporate)	12.84%

### Key Ratios

Div Yield	0.00%
TTM PE	128.00x
ROE	4.78%
TTM EPS (Rs.)	4.09/-

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	8.6%	32.8%	30.1%
NIFTY HEALTH	-3.3%	17.6%	38.9%

- Strategic acquisitions in Indore and Vizag are expected to add 200-300 basis points to growth, diversifying market presence across 16 out of 18 operational locations. The company has effectively reduced market concentration risk while maintaining strong performance across geographical segments.
- HCG anticipates international market normalization by Q4 FY '25, with a strategy combining organic growth, strategic acquisitions, and operational excellence. The focused approach on clinical outcomes and market diversification positions the company to sustain its impressive growth trajectory in the oncology care market.

## Key Business Highlights

- Healthcare Global Enterprises Limited (HCG) is a specialized healthcare provider primarily focused on oncology and fertility services in India. The company operates the largest private cancer treatment center chain in the country, with a comprehensive approach to healthcare spanning three critical verticals: oncology care (HCG Brand), fertility services (Milann Brand), and diagnostic research (Triesta Brand). Headquartered in Bangalore and established for over two decades, HCG has developed a robust healthcare ecosystem addressing complex medical needs through advanced technologies and specialized treatment modalities.
- The company's oncology services encompass comprehensive cancer treatment across multiple locations, offering personalized care through advanced diagnostic and treatment capabilities. Milann fertility centers provide cutting-edge reproductive medicine services, including assisted reproduction, gynecological endoscopy, and fertility preservation techniques. The Triesta brand complements these services with specialized oncology diagnostics, biomarker research, translational research, and advanced laboratory services, creating an integrated healthcare approach that supports patient needs comprehensively.
- Operationally, HCG demonstrates significant medical impact with impressive annual performance metrics: treating 130,000+ patients, conducting 100,000+ cardiac procedures, performing 75,000+ neurosurgery interventions, and delivering 25,000+ knee replacement surgeries and critical care treatments. With a team of 575+ highly experienced doctors and 15+ years of operational excellence, the organization is backed by National Accreditation Board for Hospitals & Healthcare Providers (NABH) accreditation, underscoring its commitment to maintaining the highest standards of medical care and patient safety.

## Valuation

Currently, HCG is trading at **Rs. 478**, implying a TTM PE / EBITDA multiple of 128x / 20x vs the industrial PE/EBITDA of 57x / 33x. This implies that HCG presents a premium valuation but presents a compelling investment opportunity given its market leadership in oncology care, robust financial metrics (35% EBITDA margin, 30%+ ROCE), and strong growth potential through strategic acquisitions and digital innovations. HCG's future outlook appears promising with multiple growth drivers in place. The company is well-positioned to capitalize on increasing healthcare demand through its strategic expansion, digital initiatives, and technological advancement. The MG Hospital acquisition provides immediate growth opportunities while strengthening regional presence. The company's focus on digital healthcare platforms and computational oncology partnerships indicates a forward-thinking approach to healthcare delivery. With regulatory tailwinds supporting faster drug approvals and an established network of centers, HCG is poised for sustained growth in the oncology care segment. As per that, we assign a **BUY** rating for **Healthcare Global Enterprises** with a **target price of Rs. 616** at a PE of **127.0**, translating to an **upside of 29%+**.

## Risk & Concern

- **Economic Environment Risk:** Potential economic slowdown could adversely affect revenue growth trajectory and patient volumes across centers.
- **Human Capital Risk:** High doctor attrition poses a significant risk to service quality and revenue stability, given the specialized nature of oncology care.
- **Regulatory Risk:** The healthcare industry is subject to evolving regulations that could impact pricing, reimbursement, and operational procedures.

## Graphs & Charts

Figure 1: Net Sales Trend

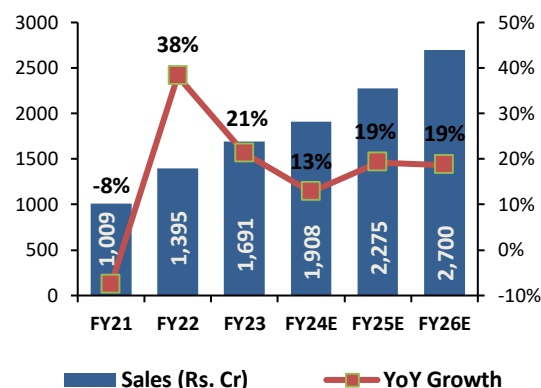


Figure 2: EBITDA & EBITDA Margin Trend

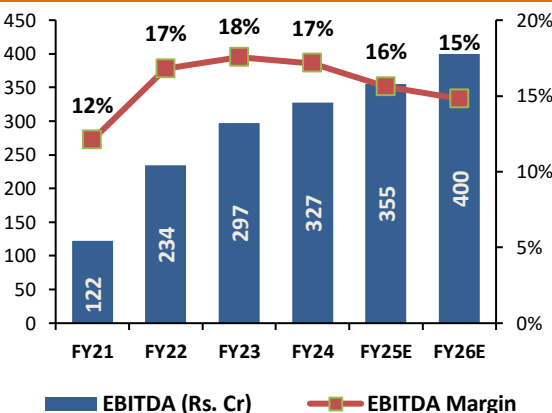


Figure 3: PAT & PAT Margin Trend

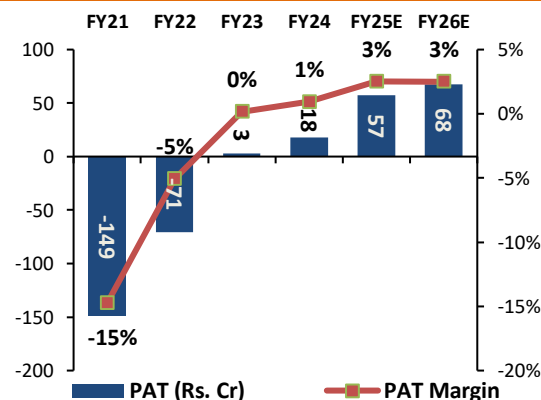
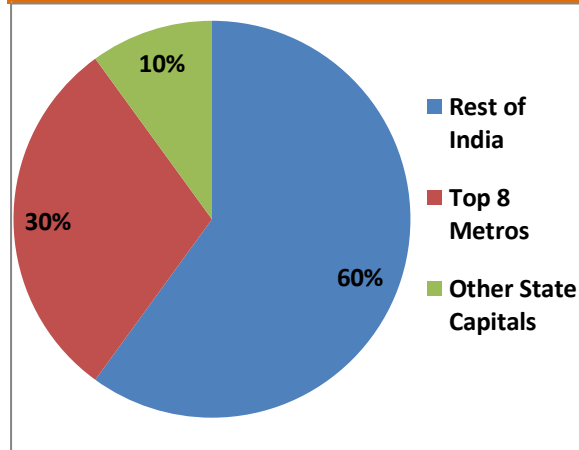


Figure 4: Domestic Presence (FY24)



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