

Healthcare Global (HEAGLO)

₹ 266

Cancer treatment focused business model...

We met the management of Healthcare Global Enterprises (HCG), a leading cancer care hospital chain, to understand its unique model of single speciality focus (cancer care) and its future plans. HCG was started by Dr BS Ajaikumar in 2005. The company initially established 10 cancer centres with private funding. Currently, it operates 24 HCG facilities (18 cancer centres, two multi-speciality hospitals, three diagnostics and one-day care chemotherapy centre). HCG owns 1364 beds and a team of 200+ oncologists (FY17). Currently, Karnataka, Gujarat regions comprise ~75% of overall revenues. However, going ahead, with growth in the new centres (currently contribute 9% of revenues), the management expects the geographical mix to change. Average revenue per operating bed (ARPOB) per day for HCG centre was at ₹ 29122 in FY17. In 2013, the company entered the fertility segment by acquiring a 50.1% stake in BACC Healthcare, founded by Dr Kamini Rao, which operates seven fertility centres under the Milann brand in Bangalore. Cancer care, fertility segment accounted for 92%, 8% of FY17 revenues, respectively.

Follows local tie-up to set up new centre

Cancer treatment requires multiple patient visits to centres. Its treatment tenure is generally longer than other major therapies. Over the years, the company has followed a strategy of tapping local oncologists to set up a cancer centre. Each cancer centre offers comprehensive cancer diagnosis and treatment services including radiation, medical oncology & surgical treatment. It follows a partnership model (with HCG holding majority stake). This also helps it achieve faster ramp up in newer centres. As per management, a new HCG centre requires ₹ 45-60 crore of capex of which 45-60% account for equipment costs, which is leased by the vendor and is paid by the centre after three years of equipment purchase. Hence, upfront outgo is only ₹ 15-20 crore to put up a HCG centre. Each centre typically has eight to nine doctors and two to three physicians. HCG plans to increase its cancer centres to 25 (from 18 in FY17).

Margins to improve further, going ahead

HCG's centre of excellence at Bangalore (32% of overall revenues) registered EBITDA margins of 26.5% in FY17 (HCG blended FY17 margins- 15%) mainly due to its focus on high end healthcare services (robotics, tomography, etc) higher maturity vis-à-vis other HCG centres and better patient mix (medical tourists comprise 20% of overall centre of excellence patients at Bangalore). Going ahead, the management expects new hospitals to move to 22-24% EBITDA margins due to operational efficiencies.

Management to focus on asset light model

Focus on a single speciality and opening of newer centres on a partnership model with reputed doctors, typically leads to a breakeven of ~12-18 months for each HCG centre. HCG also owns and operates two cyclotrons, which are used to produce nuclear medicine to cater to its own 13+ CT-PET scanners (FY17) as well as supplying the same to third party scanners. Going ahead, the management is keen on setting up new HCG and Milann centres in high growth markets and also, expand into Africa through its existing collaboration with CDC, UK. The management has guided for a capex of ₹ 200 crore in FY18. Gross debt was at ₹ 442 crore in FY17 of which vendor debt is ₹ 196 crore. The stock is currently trading at ~24x FY17 EV/EBITDA and 3.6x FY17 EV/sales.

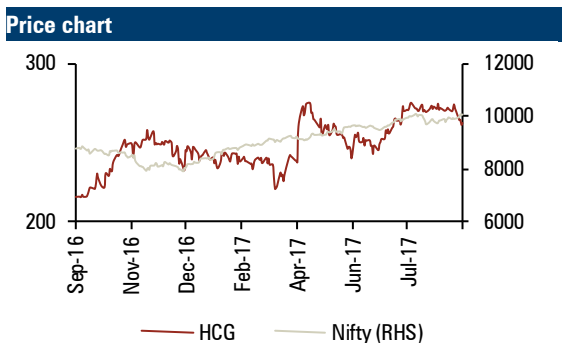
Rating matrix	
Rating	: Unrated
Target	: NA
Target Period	: NA
Potential Upside	: NA

Key financials				
(₹ Crore)	FY14	FY15	FY16	FY17
Revenues	451.3	519.4	584.2	700.1
EBITDA	38.2	76.2	84.8	105.0
Adjusted PAT	-35.1	5.1	4.6	22.2
EPS (₹)	-4.1	0.6	0.5	2.6

Valuation summary				
	FY14	FY15	FY16	FY17
PE (x)	-65.6	450.8	499.0	103.9
EV to EBITDA (x)	66.6	34.0	29.2	24.2
EV to Sales (x)	5.7	5.0	4.2	3.6
RoNW (%)	NA	2.8	1.1	5.1
RoCE (%)	1.1	6.6	5.4	6.4

Stock data	
Particular	Amount
Market Capitalisation	₹ 2303 crore
Debt (FY17)	₹ 333 crore
Cash (FY17)	₹ 11 crore
EV	₹ 2624 crore
52 week H/L (₹)	289/205
Equity capital	₹ 86 crore
Face value	₹ 10

Price performance				
	1M	3M	6M	1Y
Healthcare Global	-1.2	6.6	13.3	24.5
Narayana Hrudaya	-0.4	-6.7	-3.5	-6.7
Apollo Hospitals	-9.6	-17.2	-11.2	-15.8
Fortis Healthcare	0.5	-23.7	-17.6	-13.6



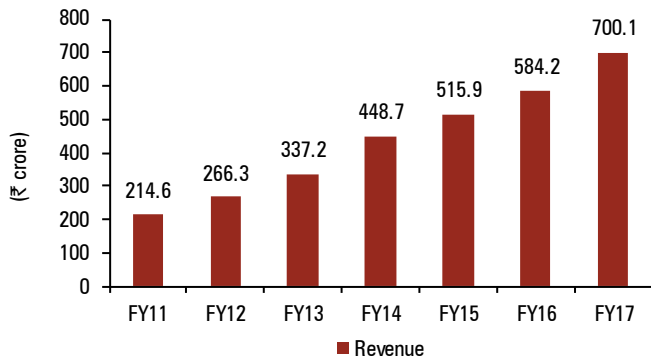
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Exhibit 1: Financial Performance

(Year-end March)	FY13	FY14	FY15	FY16	FY17
Net Sales (₹ crore)	338.3	451.3	519.4	584.2	700.1
EBITDA (₹ crore)	46.2	38.2	76.2	84.8	105.0
Adj. Net Profit (₹ crore)	(10.5)	(35.1)	5.1	4.6	22.2
EPS (₹)	(1.2)	(4.1)	0.6	0.5	2.6
CFO (₹ crore)	30.4	52.6	61.9	73.2	91.3
P/E (x)	NA	NA	450.8	499.0	103.9
EV / EBITDA (x)	54.3	66.6	34.0	29.2	24.2
RoCE (%)	3.2	1.1	6.6	5.4	6.4
RoE (%)	(3.7)	(13.3)	2.8	1.1	5.1
Net Debt / Equity (x)	0.8	1.0	1.7	0.5	0.8
Net Debt / EBITDA (x)	4.5	6.4	3.8	2.0	2.3

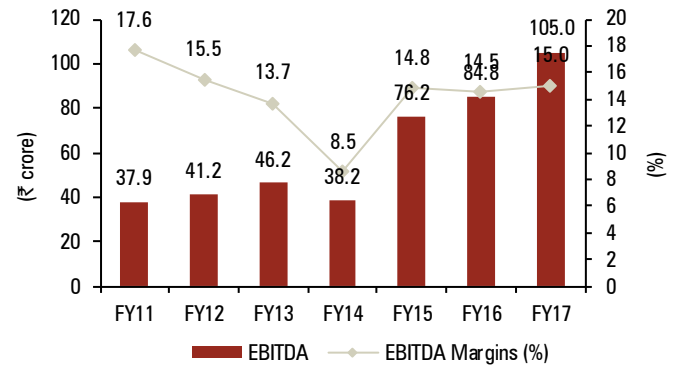
Source: Company, ICICIdirect.com Research

Exhibit 2: Revenues grow at 21.8% CAGR in FY11-17



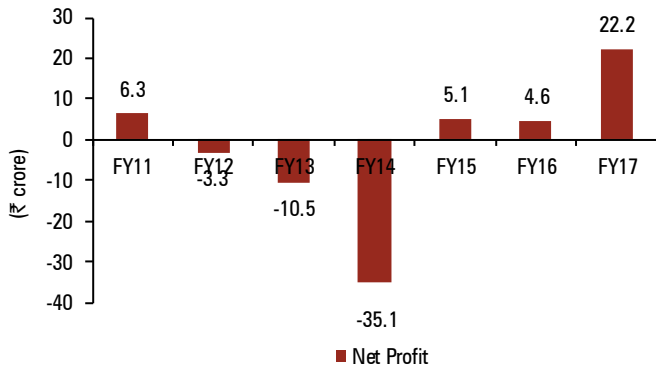
Source: Company, ICICIdirect.com Research

Exhibit 3: EBITDA grows at 18.5% CAGR in FY11-17



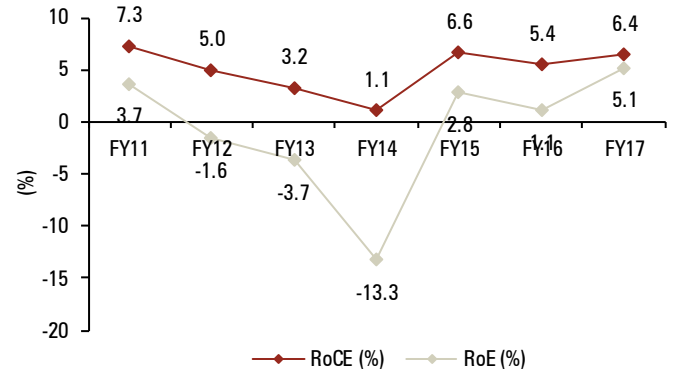
Source: Company, ICICIdirect.com Research

Exhibit 4: PAT grows at 23.3% CAGR in FY11-17



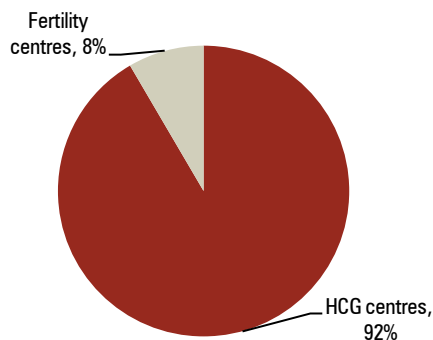
Source: Company, ICICIdirect.com Research

Exhibit 5: Return ratios



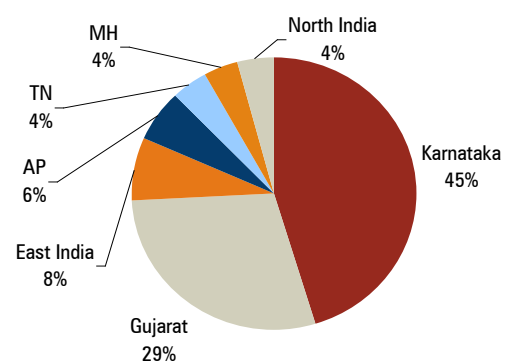
Source: Company, ICICIdirect.com Research

Exhibit 6: Business segments (FY17)



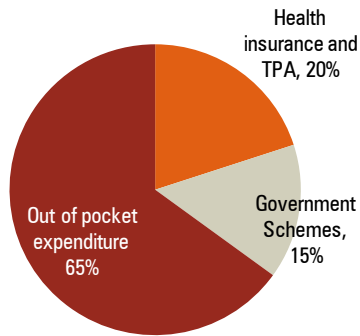
Source: Company, ICICIdirect.com Research

Exhibit 7: Geographic segmentation (FY17)



Source: Company, ICICIdirect.com Research

Exhibit 8: Payer profile



Source: Company, ICICIdirect.com Research

Exhibit 9: New centres (Project cost in ₹ million)

3 new HCG centers operational during the year FY 2017
Additional 2 new HCG center by September 2017

Location	Bed Capacity	Project Cost	Start Date
Visakhapatnam, A.P.	88	278	Q1-FY17
Vadodara, Gujarat	69	395	Q1-FY17
Kanpur, U.P.	90	839	Q4-FY17
Borivali, Maharashtra	105	620	Q1-FY18E
Nagpur, Maharashtra	115	465	Q1-FY18E
South Mumbai, Maharashtra	32	410	Q3-FY18E
Nashik Phase II, Maharashtra	92	623	Q3-FY18E
Kolkata, West Bengal	50	370	Q3-FY18E
Jaipur, Rajasthan	50	410	Q3-FY18E

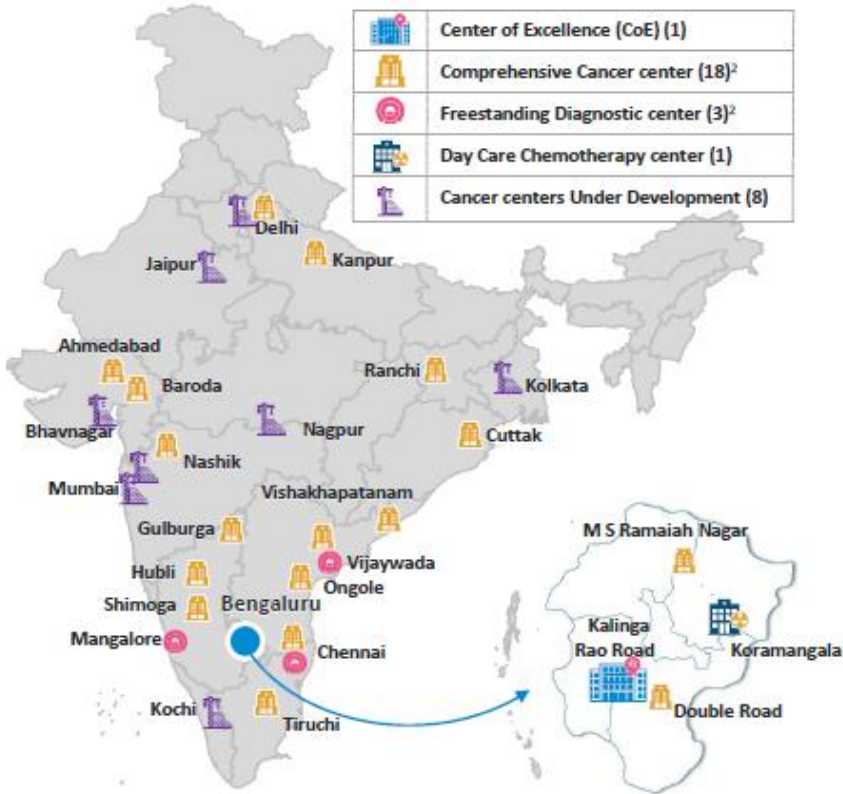
Source: Company, ICICIdirect.com Research

3 new Milann centers operational during the year FY 2017
Additional 2 new Milann centers by September 2017

Location	Start Date
Delhi	Q1-FY17
Chandigarh	Q3-FY17
Mumbai	Q4-FY17
Cuttack	Q2-FY18E
Ahmedabad	Q2-FY18E

Exhibit 10: HCG cancer care Network

Network of Existing and Under Development Cancer Care centers¹



¹ Includes 2 centers, KR & DR; ² As on 31st March 2017 (including centres in Delhi and Tiruchi being restructured)

Source: Company, ICICIdirect.com Research

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Hold: Up to +/-10%;

Sell: -10% or more;



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Healthcare Global Enterprises (HCG)

Industry	CMP	Recommendation	Buying Range	Target	Time Horizon
Healthcare	Rs. 260	BUY at CMP and add on Declines	Rs. 260 – 230	Rs. 305 – 348	3-4 Quarters

HDFC Scrip Code	HEAGLO
BSE Code	539787
NSE Code	HCG
Bloomberg	HCG
CMP as on 13 Apr - 17	260
Equity Capital (Rs Cr)	85.07
Face Value (Rs)	10
Equity O/S (Cr)	8.51
Market Cap (Rs cr)	2245
Book Value (Rs)	67
Avg. 52 Week Volumes	237009
52 Week High	277
52 Week Low	167

Company Background

HealthCare Global Enterprises (HCG) is engaged in managing cancer hospitals, cancer centers and medical diagnostic services, including scientific testing and consultancy services in the pharmaceutical and medical sector. The Company is involved retail sale of pharmaceuticals, medical and orthopedic goods and toilet articles. It operates cancer care network under the HCG brand. It operates infertility treatment clinics providing assisted reproductive services under brand Milann. Its Milann fertility centers provide reproductive medicine services, including assisted reproduction, gynecological endoscopy and fertility preservation; and follow a multidisciplinary and technology-focused approach to diagnosis and treatment. Milann fertility centers also offer training programs for fertility specialists and embryologists. Under the Triesta brand, it provides clinical reference laboratory services with specialization in oncology, including molecular diagnostic services and genomic testing. The Triesta central reference laboratory is accredited by the National Accreditation Board for Testing and Calibration Laboratories (NABL) in India, as well as by the College of American Pathologists (CAP) for quality assurance of laboratory tests performed. It also offers research and development services to pharmaceutical and biotechnology companies in the areas of clinical trial management and biomarker discovery and validation.

Dr. B S Ajai Kumar, Chairman and Chief Executive officer of HCG, has about 35 years of experience in field of oncology and manages 20 cancer care centers across India. As of March 31, 2016, HCG had a team of 443 specialist physicians including 225 oncologists, 21 radiologists, 23 pathologists and 174 other specialist physicians in HCG network. As of March 31, 2016, company had 29 fertility specialists, 20 of whom were pursuing their post-graduate fellowships at our Milann fertility centres, and 30 other specialist physicians in Milann network.

Investment Rationale

Focused player: HCG business model is to provide specialty healthcare with focus on oncology and fertility incidences in India. Given that company offers one-stop solution at competitive prices makes it differentiated and scalable business model. Further company's experienced management, high-quality board and pan-India focus enhance comfort on its long term business outlook. Within the organized hospital chains in India, HCG has the highest revenue from Oncology segment. It derives ~90% of its revenues from Oncology while the balance from Milann Fertility.

Asset light Model: HCG's asset light approach with focus on partnering has made its business model capital efficient and scalable. The company operates most of its comprehensive cancer centre (CCC) on lease/rental basis with HCG investing only in equipment.

Shareholding Pattern (%)	
Promoters	26.7
Institutions	61.5
Non Institutions	11.8

PCG Risk Rating*	Yellow
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* Refer to Rating explanation

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As on Dec 2016, it has 23 centres including two multispecialty hospitals in Bhavnagar and Ahmedabad. Company is going to open three new centres in the medium term. Thus, out of 26 HCG's CCC likely to be operational by FY18, only four will be on owned land.

Partnership – vital to its growth: HCG enters into partnerships with eminent oncologist specialists as it sets up new CCCs, especially in non-metro towns. Given that local doctor partners have significant brand awareness and creditability in the region, it accelerates footfalls and facilitates quicker capacity ramp-up.

Expect 25% EBITDA CAGR over FY16-19E: We estimate strong 25% EBITDA CAGR aided by steady growth in Centre of Excellence (Bengaluru), scale up in existing centres which got operational pre-FY16 and reducing losses from new centres got operational over FY16-18E. Lower finance costs and robust operating performance will drive stellar 2.6x PAT cagr over FY16-19E.

Robust growth momentum to continue; Initiate as BUY with TP of Rs 348

We like HCG's model which focuses on single specialty to address high potential therapies like oncology and fertility. Owing to strong therapy tailwind and EBITDA margin levers, HCG is positioned for robust EBITDA growth over the next 3-4 years. We expect HCG to post 23% revenue cagr over FY16-19E driven by both Cancer as well as Milann revenues. We forecast steady margin expansion of 60 bps over the same period. Lower finance costs and robust operating performance will drive stellar 2.7x PAT cagr over FY16-19E. Company has already posted PAT of Rs 15cr vs. loss of Rs 4cr during 9M FY17. HCG trades at 14x FY19E EBITDA, which is compelling given strong revenues and PAT growth to be seen in the next two-three years. We initiate as BUY on HCG at CMP of Rs 260 and add on declines to Rs 230 with sequential price targets of Rs 305 and Rs 348 over the next 3-4 quarters. We have valued the stock at 19x FY19E EV/EBITDA and arrive to price target of Rs 348.

Key Risks

Success of business hinges on network expansion

Historically, HCG's business growth has been primarily driven by new centres and hospitals set up through various partnership arrangements and acquisitions. It is expected that these will continue to be the key drivers of future growth.

Subsidiaries financial performance

Some subsidiaries reported net losses in recent years. Going ahead, they may continue to drag and may not sustain profitability, which could materially and adversely impact business and prospects.

Specialist physicians could dis-associate

Success of this business is dependent on HCG's ability to attract and retain leading specialist Physicians and specialist doctors.

Rising infrastructure costs could restrict investment

Near term upfront investments could suppress margins if infrastructure costs continue to increase.

Three new Cancer centres to be opened in the next four to six months

Under the HCG brand there are currently 17 comprehensive cancer centers, 2 multi-speciality hospitals, 3 diagnostic centers and 1 day care chemotherapy centre. Milann brand has 7 operational fertility centers. Both the new centres Bhavnagar and Gulbarga broke even within 6-8 months of their launch.

The company is planning to launch three new HCG centres by June 2017 which includes Kanpur, UP (90 bed capacity, Rs 84cr project cost and expected by Q1 FY18), Borivali, Maharashtra (105 bed capacity, Rs 58cr project cost and expected by Q1 FY18) and Nagpur (Maharashtra) (115 bed capacity, Rs 45cr project cost and expected by Q2 FY18).

HCG is well equipped to deliver quality cancer care to patients across India in a seamless manner. It relies on a network of physicians across the country specialising in medical, radiation and surgical oncology, and its integrated multi-disciplinary and technology-focused approach relies on close collaboration among oncologists, nuclear medicine physicians, pathologists and radiologists.

Key Clusters for HCG

Karnataka cluster

The Karnataka cluster includes HCG's COE (Centre of Excellence) and is the most important cluster for the company which ~55% of the total capital employed here. It contributes ~44%/53% of company's Revenue/EBITDA as on 9M FY17. Expansion plans in Karnataka are muted for now, with just an 85 bed center opened at Gulbarga during Q4 FY16 which has already broken even. Currently, the cluster has ~350 operational beds.

Western Cluster

The next leg of expansion will essentially occur primarily within the West India cluster that is Gujarat and Maharashtra. ~51% of incremental capital will be employed in this cluster between FY16-21. New centers will be opened in Borivali (Mumbai), South Mumbai, Nagpur and Baroda, and its Bhavnagar multi-specialty hospital will be upgraded into a CCC through addition of radiation and chemotherapy. The cluster accounts for 33% of the revenues as on 9M FY17.

To expand wings in the under-served African market

HCG believes its specialty healthcare model can be replicated in other under-served healthcare markets as well. Accordingly, the company intends to establish a network of specialty cancer centers in East Africa, similar to its cancer care network in India, to cater to the rising unmet demand for cancer care in Africa. It has entered into a definitive agreement with CDC and it will invest in the former's subsidiary, HCG Africa, which will set up a network of CCCs in East Africa.

HCG also runs 2 multispecialty hospitals, at Bhavnagar and Ahmedabad. This is not by design, but rather there were already running other divisions along with cancer care post take over by the HCG management. It was ~12%/7% of revenue/EBITDA of the consolidated entity in FY16.

Q3 FY17 and 9M FY17 highlights

Despite demonetization, HCG had posted strong growth for the quarter. Oncology/fertility grew 22%/33% YoY. EBITDA margin at 14.8%, remained steady both YoY/QoQ. EBITDA grew 25% YoY. Milann's registrations and IVF cycles grew 34%/42%, respectively. PAT stood at Rs 5.4cr, vs. loss of Rs2.2cr last year.

HCG is on track to add 3 Oncology centers and 2 Milann centers by Q1FY18. The company's specialty mix is already rich versus others, and it now seeks to enhance its channel mix to both bolster growth trajectory. EBITDA margin witnessed 1.5% yoy improvement at existing centers (excluding new centers) to 21.9%.

HCG posted strong growth in Gujarat (41% YoY), good ramp up of Bhavnagar, Gulbarga, Baroda, and Vizag, etc., (loss of INR14.4mn). Losses at latest 2 centers reduced – Baroda (Q1FY17) and Vizag (Q1FY17) – still not at breakeven. But things are as per expectation for those centers as well.

Karnataka: Continuing shift in payor profile, moderate impact of demonetisation, offset partly by continuing adoption of technology.

Kanpur and Borivali centres are expected to open in the near term while Nagpur centre would open by Q2 FY18. Moreover, HCG is going for sizeable expansion for Ahmedabad hospital.

Milann Centres

- The Infertility segment revenue moved up 33% YoY for Q3 FY17.
- Successful launch of Chandigarh center (Q3FY17), new centers have come up in Delhi (Q4FY16) and Bengaluru (Q2FY16 and Q1FY17). Company will launch another two centres at Cuttack and Ahmedabad in the next two quarters.

IPO Details

In Mar 2016, HCG had come out with an IPO of 2.9cr equity shares at Rs 218. Company had raised Rs 650cr through IPO out of which Rs 397cr was offer for sale by existing investors and Rs 253cr by issuing fresh equity shares. Company raised money for payment of debt and purchasing equipment as well as for IT infrastructure. At that time, IPO didn't receive good response as except QIB quota (2.4 times), the HNI and Retail were remained under subscribed.

A unique partnership approach facilitates faster ROCE-effective expansion

HCG's asset light approach with focus on partnering has made its business model capital efficient and scalable. The company operates most of its comprehensive cancer centre (CCC) on lease/rental basis with HCG investing only in equipments. As on Dec 2016, it has 23 centres including two multispecialty hospitals in Bhavnagar and Ahmedabad. Company is going to open three new centres in the medium term. Thus, out of 26 HCG's CCC likely to be operational by FY18, only four will be on owned land.

HCG enters into various types of partnership arrangements, mostly with other specialist physicians and hospitals, to expand its network. These arrangements include setting up joint venture (JV) companies or limited liability partnerships with partners, wherein partners have minority ownership interest to establish new centers; and revenue or profit-sharing arrangements, wherein HCG shares a portion of the revenue or profit from the centre with and/or pay a fixed fee to the partner. These arrangements contribute in reducing the time taken to establish and ramp up its centers as it is able to benefit from the established clinical practice and patient base of partners.

Aggressive leg of expansion between FY16-19

During FY16 to 18, HCG has an aggressive plan to establish 8 new CCCs in India, and upgrade its Bhavnagar multi-specialty hospital into a CCC through addition of radiation and chemotherapy. With these, HCG will have 26 CCCs across India, covering a mix of metros, tier-I towns and tier-2 towns. HCG will employ incremental capital of INR 3.3bn for these centers, out of the total INR4.2bn capex during FY17-19. In terms of the clusters, ~51% of the incremental capital employed will be in the West cluster, ~40% of it will be employed in the Other clusters and the balance will be employed in the East and Karnataka cluster.

Fertility treatment, an emerging high growth area

Fertility treatment is yet another emerging segment of the Indian healthcare industry, which is currently relatively underdeveloped and fragmented. An estimated 220mn couples in India are of reproductive age (between 20-44 years) and ~27.5mn couples in this group are estimated to be suffering from infertility. By 2020, the number of infertile couples in India is expected to increase to 29-32mn from 27.5mn in 2015.

The total fertility rate (defined as the average number of children born to a woman during her lifetime) in India has declined rapidly in past few decades from 3.9 in 1990 to 2.3 in 2013. Several Indian states, including Karnataka, Tamil Nadu and Kerala have total fertility rates <2.0, which is considered to be the rate below which population will decline.

Key factors behind increase in infertility incidences

The prevalence of infertility in India has been rising owing to various factors. These include:

Demographic changes: The number of women of reproductive age in India is forecast to increase by 14% between 2010 and 2020 of which the number of women between 30 years and 44 years of age is forecast to increase by about 20% during the period which is likely to result in an increase in infertility prevalence.

Lifestyle changes: Changes in lifestyle such as increasing marital age, increasing number of working women, rising alcohol and tobacco consumption are among the factors responsible for growing infertility incidences in India.

Clinical factors: Prevalence of several known clinical risk factors among the Indian population is also responsible for growing infertility incidences. These include:

- ✓ Poly-Cystic Ovarian Syndrome (PCOS): PCOS is a condition caused by a hormone imbalance in women, which can result in insulin resistance, obesity, ovarian cysts and infertility. Various studies have reported PCOS prevalence in India to be between 3.7% and 22.5% among women.
- ✓ Endometrium Tuberculosis: Genital tuberculosis causes tubal blockage and endometrial damage resulting in infertility. Studies published between 1997 and 2008 have estimated that about 18% of the infertile women of reproductive age in India were suffering from genital tuberculosis.
- ✓ Obesity: Prevalence of obesity, a known risk factor for infertility, among Indian women has been steadily rising, from 10.6% in 1998 to around 24.7% in 2014.

Ethnicity: Research studies suggest that women of South Asian ethnicity might have poor ovarian reserves and an earlier onset of infertility compared to Caucasians.

HCG holds 50% equity stake in Milann

HCG had acquired 50.1% equity interest in BACC Health Care (BACC) in 2013, a fertility centre founded by Dr. Kamini Rao, who had a successful 25-years track record of providing fertility treatments. Led by a team of qualified and experienced fertility specialists, BACC operated fertility centres under the Milann brand. These fertility centres provide comprehensive reproductive medicinal services, including assisted reproduction, gynaecological endoscopy and fertility preservation and follow a multidisciplinary and technology-focused approach to diagnosis and treatment. It operates 7 Milann fertility centres as on Dec 2016. Company would open another two centres at Ahmedabad and Cuttack by Q2 FY18.

Fertility, an emerging high growth area

Fertility treatment is yet another emerging segment in the Indian healthcare industry, though currently relatively underdeveloped and fragmented. The number of couples going for infertility treatment and evaluation in India is expected to increase from 270k in 2015 to around 650-700k annually in 2020. The number of IVF cycles performed in India is forecast to increase from 100k in 2015 to an estimated 260k in 2020.

Milann, a network model in fertility therapy, attracts equity investment

HCG acquired 50% equity interest in BACC Health Care (BACC) in 2013, which has a network of fertility centres under the Milann brand and helmed by a team of qualified and experienced fertility specialists. Market fragmentation presents HCG the opportunity to leverage its expertise to build Milann and establish it as a recognised speciality healthcare brand across India.

Domestic Oncology Segment Outlook**Oncology is an under-diagnosed, under-served market with big potential**

There is a large gap between reported and real cancer incidence in India, as evident by benchmarking against global figures. Lack of awareness and participation in screening programs in India are significant contributory current factors for the relatively late stage of the disease presentation and consequently low reported cancer incidences. The prevalence of cancer in India is expected to increase from an estimated 3.9mn in 2015 to an estimated 7.1mn people by 2020. Reported cancer incidences in India are expected to jump from an estimated 1.1mn in 2015 to 2.1mn by 2020.

The company has built a strong 'Hub and spoke' wherein it leverages its Bengaluru center of excellence (COE) hub for providing seamless cancer care across the comprehensive cancer care center spokes across India.

There is a large gap between reported and real cancer incidence in India, as evident by benchmarking against global figures. Lack of awareness and participation in screening programs in India are significant contributory current factors for the relatively late stage of the disease presentation and consequently low reported cancer incidences. The prevalence of cancer in India is expected to increase from an estimated 3.9mn in 2015 to an estimated 6.8mn people by 2020. Reported cancer incidences in India are expected to jump from an estimated 1.1mn in 2015 to 2.3mn by 2020.

Key factors behind the increase in cancer incidences

Cancer prevalence in India is likely to increase from an estimated 39 lakh in 2015 to an estimated 71lakh by 2020. The reported cancer incidences in India are expected to increase from an estimated 11lakh in 2015 to 21lakh by 2020.

The increase in cancer incidences is primarily driven by the following major factors:

Demographic changes: Cancer incidence rates increase with age, and particularly so after the age of 50. India's population is ageing, and in particular the population over the age of 50 is expected to increase from 22.8cr in 2015 to 26.2cr by 2020. Demographic factors alone are expected to result in an increase in cancer incidences of 1lakh to 3.5lakh new cases a year.

Exposure to risk factors: Common factors that have been associated with increased risk of cancer include tobacco use, rising alcohol consumption, increasing use of processed food and meat, reduced fiber intake and rising incidence of obesity. Additionally, rising levels of air pollution in urban India is also likely to lead to an increased risk of cancer. These high risk factors are expected to drive an increase in cancer incidences of 3.5 lakh to 4.5 lakh cases a year.

Narrowing diagnosis gap: Growing cancer awareness, a greater public emphasis on screening and improvements in cancer diagnosis are expected to result in earlier diagnosis of cancer. While earlier diagnosis will potentially result in lower mortality rates, it is also expected to result in increased reported cancer incidence rates in the next five years.

Increasingly, the profile of cancers is also changing and is becoming more similar to that seen in more urbanized and higher income societies. For instance, in 2000, the most prevalent cancers in India were head and neck cancers in men (associated with tobacco use) and cervical cancer in women (associated with human papillomavirus infection and poor female sanitation). Since then, breast cancer has currently surpassed cervical cancer as the most prevalent cancer in women. The incidence rates of gastrointestinal cancers, which have traditionally been low in India in comparison to developed nations and China, have also shown an increasing trend.

Healthcare in India: Under-Served, Under-Consumed

India's demographic, economic and cultural factors render it a perfect ecosystem for a large and quickly growing goldmine for healthcare producers and providers. It is the second most populous country in the world and predicted to become the most populous in the future. With bulk of the populace living in sub-optimal sanitation conditions, without safe drinking water and in a largely tropical climate, communicable diseases will keep driving demand. Moreover, demand is expected to burgeon as high number of citizens age, income levels rise, non-communicable lifestyle ailments increase, healthcare awareness improves, health insurance penetration deepens, medical tourism increases and a number of drug-resistant diseases develop. Advocacy of healthcare as a basic human right is on the rise in India and a potent consumption driver.

Total healthcare expenditure in India was at US\$ 85bn as on FY15, having clocked 13% CAGR during FY00-15; Out of which 70-75% of the share is in hospitals segment. While private expenditure jumped ~12%, expenditure by government/insurance rose 14%/12%. Going forward, assuming GDP growth of 8% over FY16-22, it is expected that growth momentum to gain momentum and healthcare expenditure to clock 13-15% cagr over the same period and would reach to US\$ 180bn.

Key Trends which will be important for the healthcare sector

Shift from unorganised to organised players:

We believe structural drivers and strong business models are in place to propel mid-teens overall growth. However, private players in the sector will witness faster growth over next 5 years. The healthcare sector has one of the least penetration of organised players. As organised players become more customer-centric, outcomes-driven and prevention-focused and customers become more brand conscious, organised players will gain market share steadily and grow faster than the overall sector.

RoCE/ RoE expansion for the sector:

Capex has jumped to ~2.5x over the past 5 years. We believe the aggressive investment phase in the healthcare sector is now coming to an end and most players are now looking to sweat their land banks through brownfield expansion. Over the next 5 years, overall quantum will fall to nearly half, thereby improving asset turnover. As players look to sweat their infrastructure and focus on business mix, the sector's EBITDA margin will inch up steadily. The net result of improved asset turnover and EBITDA margin will be a directional improvement in the sector's RoCE.

Medical Tourism

Apart from the steps taken by the government to ensure inclusive healthcare, medical tourism too can step up the sector's growth. Given the state-of-the-art private tertiary/quaternary facilities in India and the rising credibility of India's medical fraternity, people from the world over are travelling to India to benefit from the cost arbitrage (~30-50% cheaper). Majority of the people being from Russia, Sri Lanka, US, UK, South East Asia and others. During past five years, medical tourism has posted healthy 15-18% cagr and we expect the growth momentum to accelerate further and it is expected to post ~25% cagr over the next five years. Especially in the Oncology where there is vast difference in pricing, people around the globe come India for the Treatment.

Single specialty hospitals preferred over multi-specialty for faster scale up, breakeven

Over the past decade, growth capital has steadily flocked to more efficacious models that seek to breakeven sooner as well as provide better clinical outcomes for patients. Single specialty hospitals have trumped multi-specialty hospitals due to numerous inherent advantages. These models are able to scale up better and utilise capital more efficiently due to lower capital requirement and superior therapeutic focus. They avail advantage of economies of scale. They are also able to offer best-in-class clinical tertiary/quaternary protocols to patients due to the vast knowledge repository that they are able to create over time on a specific specialty. We like HCG's single specialty model which focuses on addressing high potential therapies like oncology and fertility. The company's recent ventures have turned profitable within ~12-18 months.

Robust growth momentum to continue; Recommend BUY with TP of Rs 348

We like HCG's model which focuses on single specialty to address high potential therapies like oncology and fertility. Owing to strong therapy tailwind and EBITDA margin levers, HCG is positioned for robust EBITDA growth. We expect HCG to post 23% revenue cagr over FY16-19E driven by both Cancer as well as Milann revenues. We forecast steady margin expansion of 60bps over the same period. Lower finance costs and robust operating performance will drive stellar 2.7x PAT cagr over FY16-19E. Company has already posted PAT of Rs 15cr vs. loss of Rs 4cr during 9M FY17. HCG trades at ~14x FY19E EBITDA, which is compelling given strong revenues and PAT growth to be seen in the next two-three years. We initiate as BUY on HCG at CMP of Rs 260 and add on declines to Rs 230 with sequential price targets of Rs 305 and Rs 348 over the next 3-4 quarters. We have valued the stock at 19x FY19E EV/EBITDA and arrive to price target of Rs 348.

Financial Summary

(Rs Cr)	FY14	FY15	FY16	FY17E	FY18E	FY19E
Sales	451	519	582	694	857	1072
EBITDA	38	75	89	103	130	171
Net Profit	-35	1	1	22	33	57
EPS (Rs)	-4.1	0.1	0.1	2.6	3.9	6.7
P/E	-	-	-	101.9	66.9	38.8
EV/EBITDA	65.1	32.7	27.5	23.8	18.8	14.4
RoE	-10.8	2.8	2.3	3.9	5.4	8.6

Source: Company, HDFC sec Research

Valuations

Rs cr	FY19E	FY21E
Revenues	1072	1492
EBITDA	171	258
EV/EBITDA	14.4	9.5
Tgt EV/EBITDA	19	16
CMP (Rs)	260	260
TP (Rs)	348	444
Implied Upside	33.8%	70.7%

Source: Company, HDFC sec Research

HCG Oncology Segment Information

Particulars	2016	2015	2014	2013
Total no. of Cancer Centres	17	15	15	14
New Patients Registrations	37315	37458	34344	28546
Patients treated under Radiation	12220	12647	11181	10225
PET-CT Procedures	22555	23988	21040	17750
Chemotherapy	52052	48360	43988	40052
Surgeries	9215	8707	8454	7333
No. of Operational Beds	1146	875	829	746
ALOS (days)	2.9	3	3.15	3.4
ARPOB (Rs)	26592	24647	21850	19034

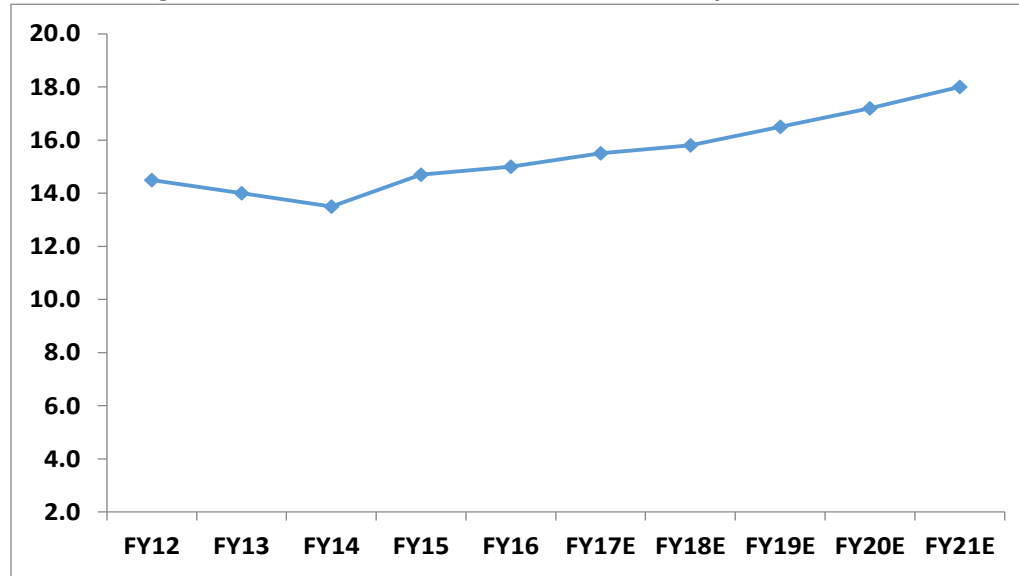
Source: Company, RHP, HDFC sec Research

Cancer Treatment Price Comparison

Type of Treatment	India	US	US (PPP Adjusted)
Chemotherapy	Rs 1.5 - 2.4 lakhs	Rs 1.3-1.8 million	Rs 5.1-7.2 lakhs
Surgery	Rs 0.6-1 lakh	Rs 1.5-1.8 million	Rs 6-7.2 lakhs
Radiation Therapy	Rs 0.6-1 lakh	Rs 1.1-1.4 million	Rs 4.3-5.4 lakhs

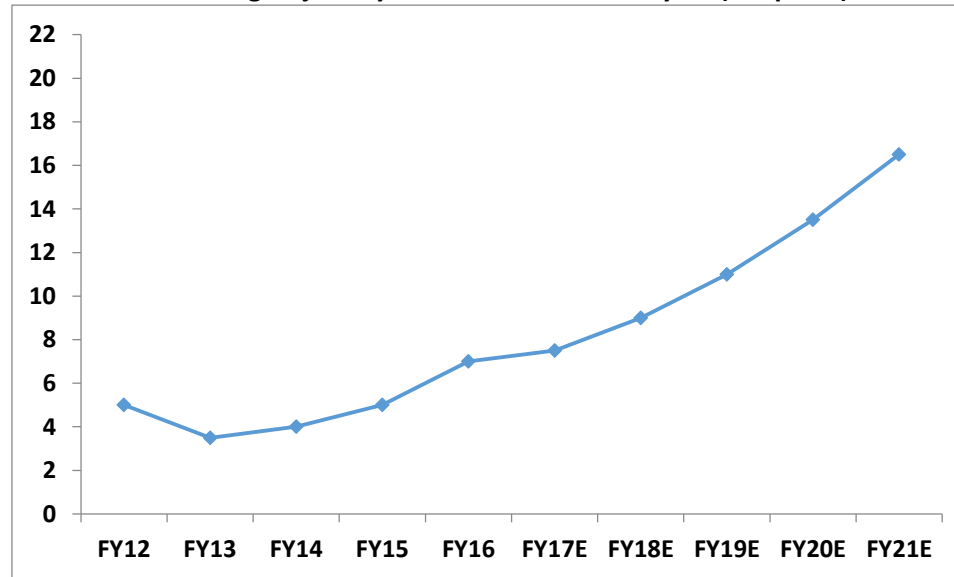
Source: Company, RHP, HDFC sec Research

EBITDA Margin for the Healthcare Sector to witness steady increase



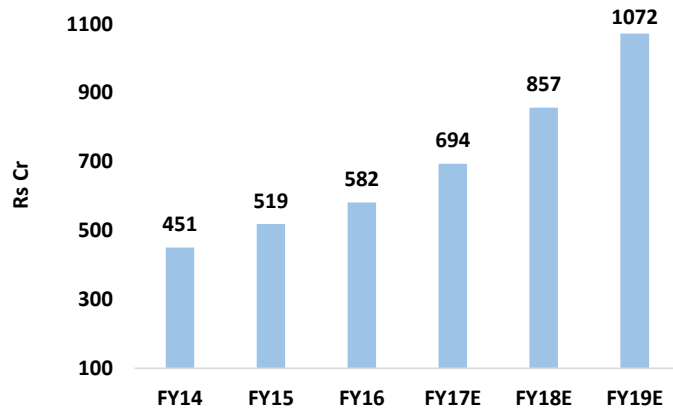
Source: Company, HDFC sec Research

RoCE to show strong trajectory for the Healthcare Players (Hospitals)



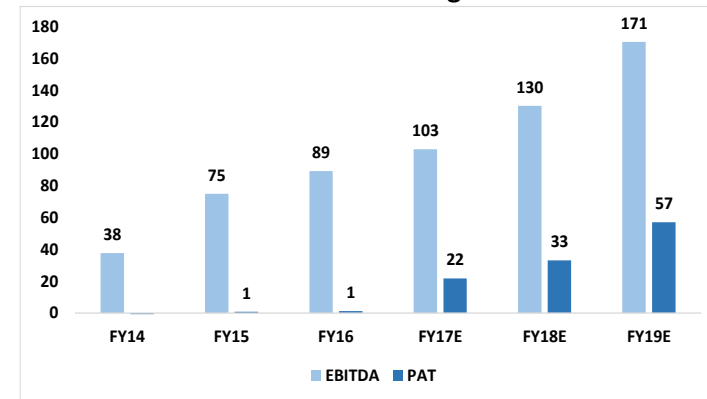
Source: Company, HDFC sec Research

Revenues to witness 23% cagr over FY16-19E



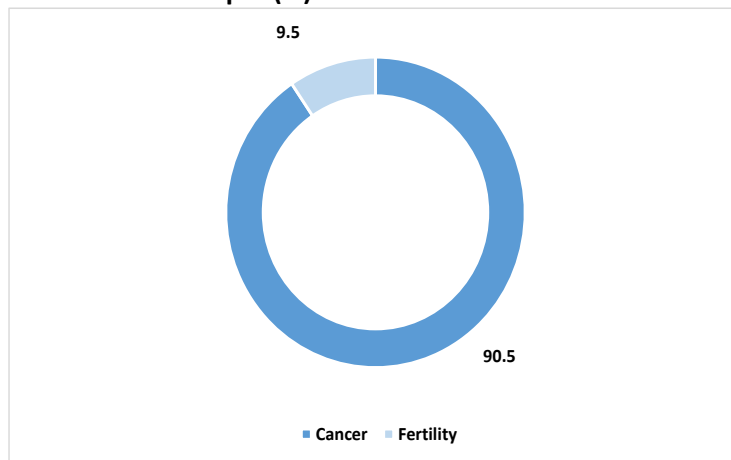
Source: Company, HDFC sec Research

EBITDA and PAT to witness Robust growth momentum



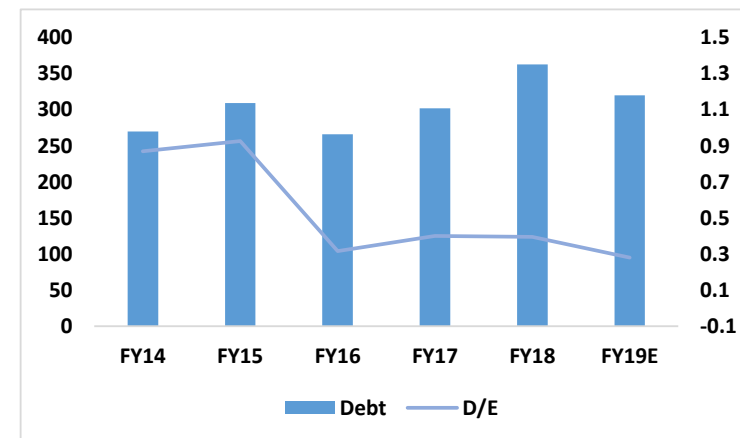
Source: Company, HDFC sec Research

FY19E Revenues Split (%)



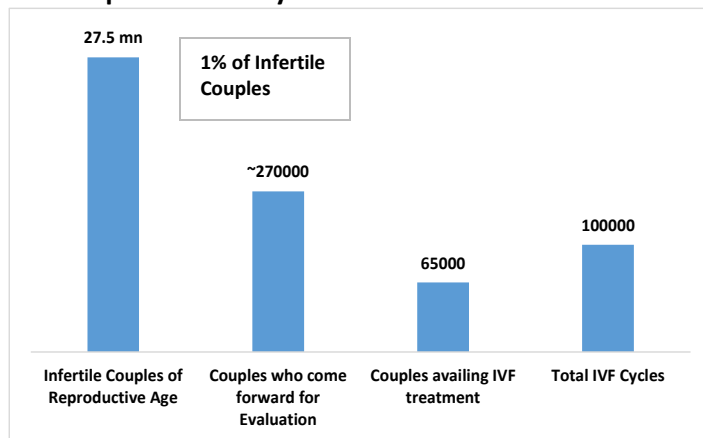
Source: Company, HDFC sec Research

D/E at Comfortable levels



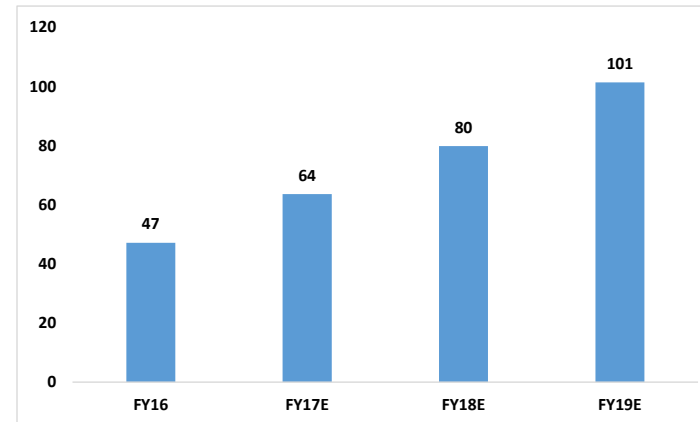
Source: Company, HDFC sec Research

Landscape of Infertility Treatment in India



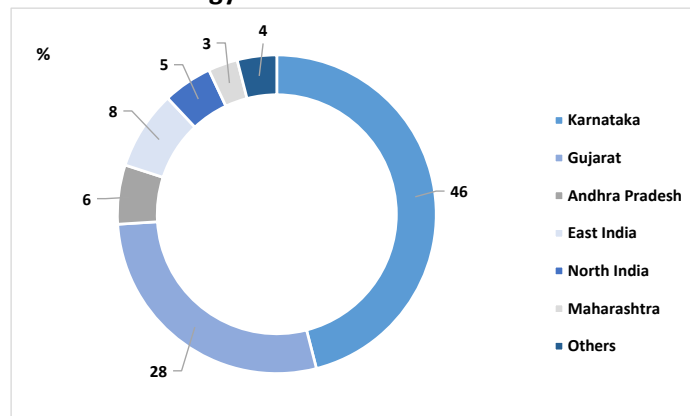
Source: Company, HDFC sec Research

Milann Centres Revenue Trend



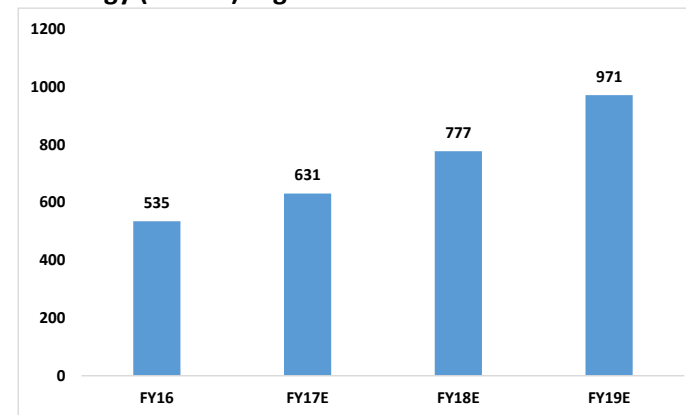
Source: Company, HDFC sec Research

9M FY17 Oncology Revenues



Source: Company, HDFC sec Research

Oncology (Cancer) segment revenues trend



Source: Company, HDFC sec Research

Income Statement (Consolidated)

(Rs Cr)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenue	519	582	694	857	1072
Growth (%)	15.2	12.1	19.3	23.4	25.1
Operating Expenses	444	493	591	726	901
EBITDA	75	89	103	130	171
Growth (%)	98.9	19.1	15.4	26.5	30.9
EBITDA Margin (%)	14.5	15.3	14.8	15.2	15.9
Depreciation	40	44	56	63	72
EBIT	35	45	47	67	99
Other Income	5	4	7	9	10
Interest	34	38	22	29	27
PBT	6	10	32	47	81
Tax	-2	1	10	14	24
RPAT	0.8	1	22	33	57
Growth (%)	-102	47	1788	52.2	72.5
EPS	0.1	0.1	2.6	3.9	6.7

Source: Company, HDFC sec Research

Balance Sheet (Consolidated)

(Rs Cr)	FY15	FY16	FY17E	FY18E	FY19E
SOURCE OF FUNDS					
Share Capital	70.0	85.1	85.1	85.1	85.1
Reserves	209	451	474	510	562
Shareholders' Funds	304	569	597	633	685
Long term Debt	280	265	283	326	298
Net Deferred Taxes	-5	-9	-8	-8	-8
Long Term Provisions & Others	2	3	3	4	4
Total Source of Funds	595	844	899	976	1017
APPLICATION OF FUNDS					
Net Block	494	659	707	772	792
Intangibles	16	3	3	3	3
Goodwill	61	61	61	61	61
Long Term Loans & Advances	78	98	88	103	126
Total Non Current Assets	649	821	859	939	982
Inventories	15	13	15	19	23
Trade Receivables	64	79	101	127	153
Cash & Equivalent	27	25	31	58	46
Other Current Assets (incl Curr Invests)	17	84	76	115	172
Total Current Assets	123	201	223	319	395
Trade Payables	83	109	132	161	198
Other Current Liab & Provisions	104	87	114	150	156
Total Current Liabilities	187	195	246	311	354
Net Current Assets	-64	5	-11	8	41
Total Application of Funds	595	844	899	976	1017

Source: Company, HDFC sec Research, ^After IPO

Cash Flow Statement (Consolidated)

(Rs Cr)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	6	10	32	47	81
Non-operating & EO items	-5	-4	-7	-9	-10
Interest Expenses	34	38	22	29	27
Depreciation	40	44	56	63	72
Working Capital Change	22	-74	34	-4	-45
Tax Paid	2	-1	-10	-14	-24
OPERATING CASH FLOW (a)	99	15	128	112	101
Capex	-58	-85	-125	-80	-50
Free Cash Flow	41	-70	3	32	51
Investments	2	-4	0	0	0
Non-operating income	5	4	7	9	10
INVESTING CASH FLOW (b)	-51	-85	-118	-71	-40
Debt Issuance / (Repaid)	28	-15	18	43	-28
Interest Expenses	-34	-38	-22	-29	-27
FCFE	35	-123	-1	47	-4
Share Capital Issuance	2	15	0	0	0
Dividend	0	0	0	0	-10
FINANCING CASH FLOW (c)	-4	-38	-4	14	-65
NET CASH FLOW (a+b+c)	43	-109	6	56	-4

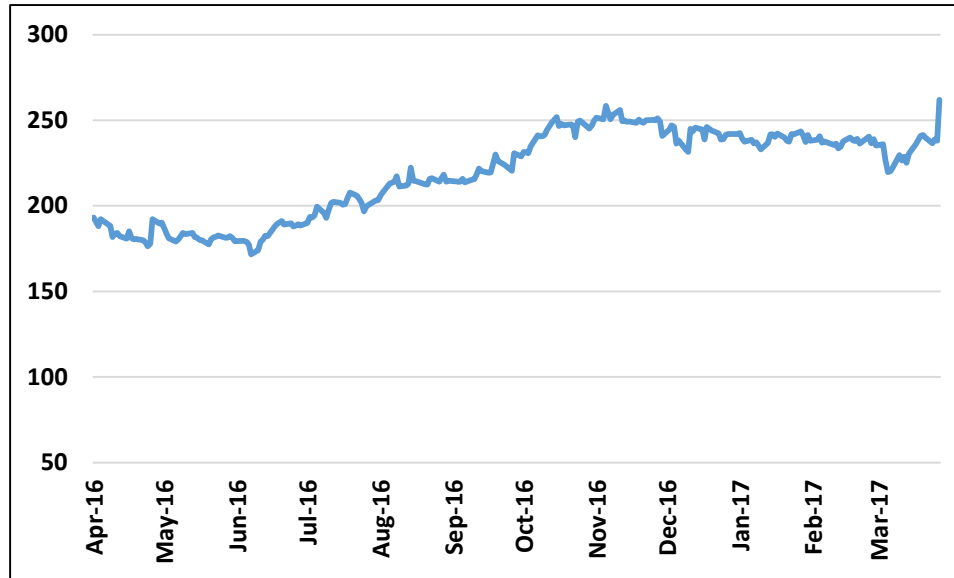
Source: Company, HDFC sec Research

Key Ratio (Consolidated)

Key Ratios (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA Margin	14.5	15.3	14.8	15.2	15.9
EBIT Margin	6.8	7.7	6.8	7.8	9.2
APAT Margin	0.2	0.2	3.1	3.9	5.3
RoE	2.8	2.3	3.9	5.4	8.6
RoCE	6.3	6.3	5.5	7.2	10.0
Solvency Ratio					
Net Debt/EBITDA (x)	3.8	2.0	2.3	1.9	1.1
Net D/E	0.9	0.3	0.4	0.4	0.3
Interest Coverage	2.2	2.4	4.7	4.6	6.2
PER SHARE DATA					
EPS	0.1	0.1	2.6	3.9	6.7
CEPS	5.8	5.4	9.1	11.3	15.1
BV	35.8	66.9	70.2	74.4	80.5
Dividend	0.0	0.0	0.0	0.0	1.0
VALUATION					
P/E	-	-	101.9	66.9	38.8
P/BV	7.3	3.9	3.7	3.5	3.2
EV/EBITDA	32.7	27.5	23.8	18.8	14.4
EV / Revenues	4.7	4.2	3.5	2.9	2.3
Div Payout	0.0	0.0	0.0	0.0	14.9

Source: Company, HDFC sec Research

Price Chart



Rating Definition:

Buy: Stock is expected to gain by 10% or more in the next 1 Year.

Sell: Stock is expected to decline by 10% or more in the next 1 Year.

Rating Chart

R E T U R N	HIGH			
	MEDIUM			
	LOW			
		LOW	MEDIUM	HIGH
		RISK		

Ratings Explanation:

RATING	Risk - Return	BEAR CASE	BASE CASE	BULL CASE
BLUE	LOW RISK - LOW RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 20% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 15% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 15%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 20% OR MORE
YELLOW	MEDIUM RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 35% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 20% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 35% OR MORE
RED	HIGH RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 50% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 30% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 50% OR MORE

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HEALTHCARE GLOBAL ENTERPRISES

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Despite demonetization, Healthcare Global's (HCG) Q3FY17 revenue and EBITDA grew 23% and 25% YoY, respectively. While existing oncology centers posted 13% YoY growth in revenues, strong ramp up continued at new centers and they helped cut EBITDA loss to INR14mn (versus INR18mn QoQ). Last leg of ongoing expansion (till Q1FY18) is on track, and new centers continue to break even faster. In addition, performance at some centers that were earlier performing sub-optimally, like Vijaywada (+72% YoY) for instance, is improving. HCG is positioned for robust EBITDA growth owing to strong therapy tailwind and EBITDA margin levers. Maintain 'BUY' with TP of INR310 (18x FY19E EV/EBITDA).

Robust quarter

Demonetisation couldn't take the sheen off HCG's growth for the quarter. Oncology/fertility grew 22%/33% YoY. EBITDA margin, at 14.8%, remained steady both YoY/ QoQ. EBITDA grew 25% YoY/2% QoQ. Existing centers reported EBITDA of INR274mn (up 26% YoY), while new centers reported lower loss of INR14mn versus INR18mn last quarter. Milann's registrations and IVF cycles grew 34%/42%, respectively. PAT stood at INR54mn, versus INR49mn last quarter and loss of INR22mn last year. Capex was INR467mn, and net debt now stands at INR2.67bn, which will peak at ~INR4bn by FY18 due to current phase of expansion.

Gradual margin expansion to continue

HCG is on track to add 3 onco centers and 2 Milann centers by Q1FY18. The company's specialty mix is already rich versus others, and it now seeks to enhance its channel mix to both bolster growth (more international patients and growing daycare centres across Africa) and improve margins (less government business). While EBITDA margin of existing facilities in FY16 stood at ~18% and is improving, EBITDA break-even for newer hospitals is now happening at relatively faster pace (<12 months).

Outlook and valuations: Soon maturing; maintain 'BUY'

We estimate revenue CAGR of 24% over FY16-19 and EBITDA margin to remain flat, translating into ~24% EBITDA CAGR. RoCE will improve by 320bps to 10%. We maintain 'BUY/SO' with TP of INR310 (18x FY19E EV/EBITDA, 20% discount to 1-year forward sector multiple).

Financials		(INR mn)						
Year to March	Q3FY17	Q3FY16	% change	Q2FY17	% change	FY16	FY17E	FY18E
Net revenues	1,762	1,435	22.8	1,740	1.2	5,820	7,290	9,283
EBITDA	260	208	25.2	254	2.4	897	1,099	1,344
EBITDA margin (%)	14.8	14.5	28bps	14.6	16bps	15.4	15.1	14.5
Adjusted profit	54	(22)	NA	49	8.3	75	101	98
Diluted P/E (x)						268.3	199.8	207.6
EV/EBITDA (x)						25.0	20.4	16.7
ROACE (%)						6.7	5.6	6.4

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: , B: HCG IN)

CMP	: INR 238
Target Price	: INR 310
52-week range (INR)	: 265 / 167
Share in issue (mn)	: 85.1
M cap (INR bn/USD mn)	: 20 / 301
Avg. Daily Vol.BSE/NSE('000)	: 216.8

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	24.6	24.6	24.6
MF's, FI's & BK's	36.1	36.1	34.9
FII's	14.3	14.3	15.2
Others	25.0	25.0	25.3
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	(3.2)	6.4	1.6
3 months	(4.0)	2.6	0.4
12 months	NA	18.7	(3.6)

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February 8, 2017

Q3FY17 con-call highlights

Q3, seasonally a subdued quarter due to festivals and vacations, this time round clocked good growth despite demonetisation. Management doesn't expect long term impact of demonetisation.

Consol EBITDA margin: Existing centers 17.3%, EBITDA up 25.6% YoY.

Oncology

Revenue moved up 22% YoY. Existing HCG centers grew 12.8%.

EBITDA margin: 1.5% improvement at existing centers (excluding new centers) to 21.9% from 20.4% in Q3FY16.

Saw 14.4% increase in occupied bed days, 6.7% increase in ARPOB.

Strong growth in Gujarat (41% YoY), good ramp up of Bhavnagar, Gulbarga, Baroda, and Vizag, etc., (loss of INR14.4mn). Losses at latest 2 centers reduced – Baroda (Q1FY17) and Vizag (Q1FY17) – still not at breakeven. But things are as per expectation for those centers as well.

Karnataka: Continuing shift in payor profile, moderate impact of demonetisation, offset partly by continuing adoption of technology.

Bengaluru COE: 100 plus robotic surgery procedures completed, 50 beds reduced YoY along with continued focus on improving payor profile, EBITDA margin expansion of 3.4% YoY to 26.4% driven by service mix, RoCE in 9MFY17 increased to 20.5% versus 16.0% in 9MFY16

Gujarat: Vadodara center ramping up as expected, EBITDA margin of existing centers at 18.1%, margin improvement across the region.

East: Shift in payor profile underway, continuing patient growth at Cuttack.

Did not taken any price hikes in the quarter, 16% ARPOB growth at Karnataka is driven by mix and decrease in ALOS

Status of new centers:

- Kanpur: Ready to start; confident that infrastructure and partner are excellent.
- Borivali: Almost ready to start.
- Nagpur: Expects quick ramp up.
- Going for sizeable expansion in Ahmedabad – Tomotherapy, new beds, etc.

Milann

Revenue moved up 33% YoY.

Successful launch of Chandigarh center (Q3FY17), new centers have come up in Delhi (Q4FY16) and Bengaluru (Q2FY16 and Q1FY17). Upcoming new centers at Cuttack (Q4FY17E) and Ahmedabad (Q1FY18E).

Delhi center is doing well.

Others

Net debt - INR2.67bn, bank debt - INR1.77bn; has significant surplus debt capacity.

The company explores hedging alternatives from time to time if can't cover forex expenses with forex receipts.

Chart 1: Revenue growth improves

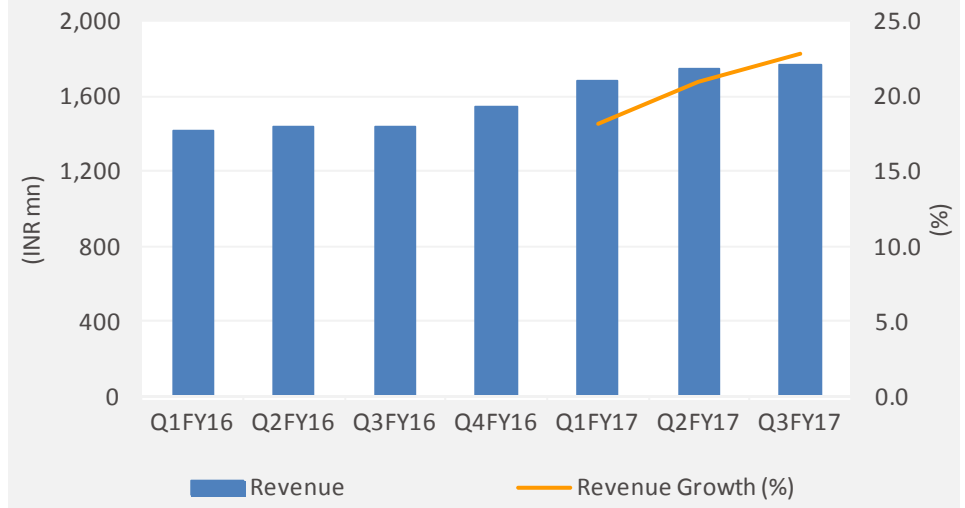


Chart 2: EBITDA margin steady

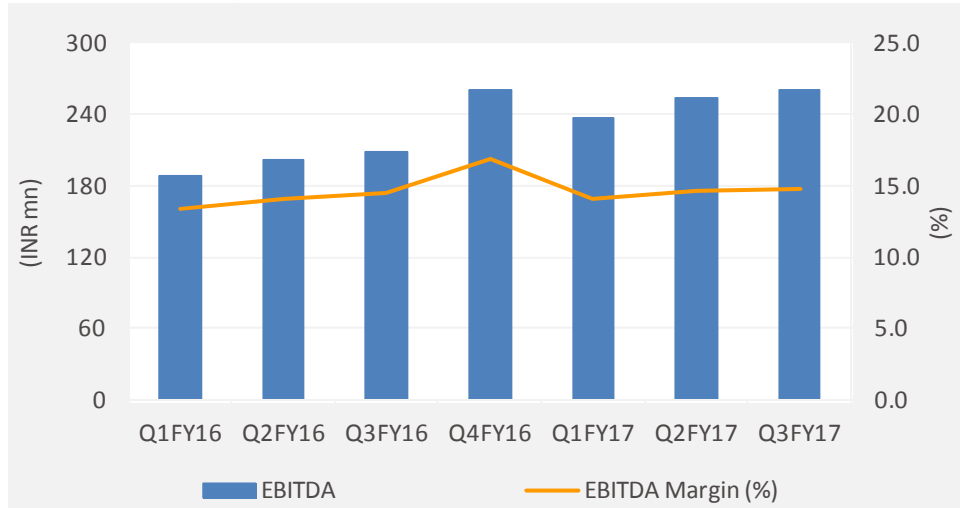
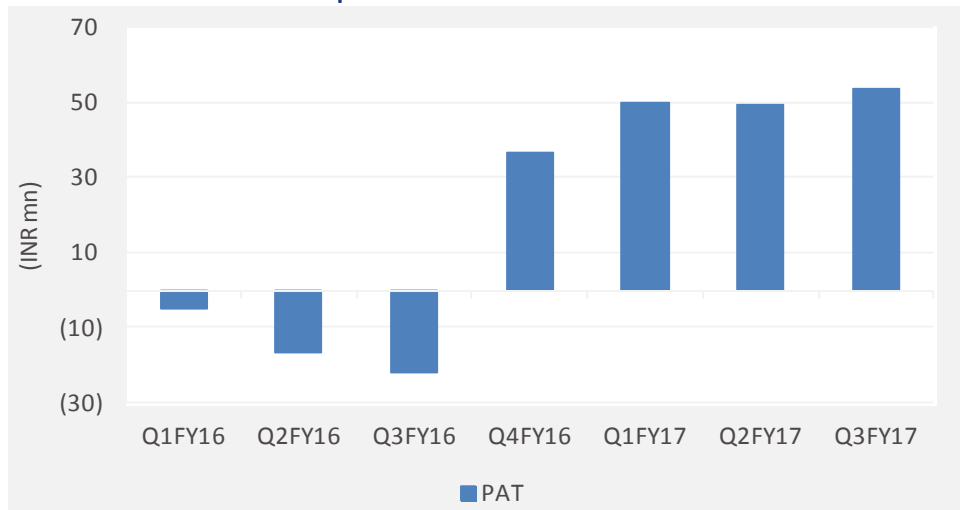


Chart 3: Profit continues to improve



Source: Company, Edelweiss research

Table 1: HCG centers – Revenue

Cluster	Q3FY17	Q3FY16	Growth (%)
Karnataka	725	670	8.2
Gujarat	473	336	40.8
East India	117	100	17.0
Tamil Nadu	71	58	22.4
North India	71	67	6.0
Maharashtra	105	47	123.4
Andhra Pradesh	61	52	17.3
Total	1,623	1,330	22.0

Source: Company, Edelweiss research

Table 2: HCG centers – Operating metrics

	Q3FY17	Q3FY16	Growth (%)
Number of centers	19	17	
Beds	1,263	1,057	
Occupied beds	55,530	48,549	14.4
avg occupancy rate	47.8	49.9	-210bps
ALOS	2.82	2.83	
ARPOB (INR/day)	29,227	27,404	6.7
Revenue (INR mn)	1,623	1,330	22.0
EBITDA margin (%)	19.2	19.2	0bps

Source: Company, Edelweiss research

Table 3: Milann – Expansion on track

	Q3FY17	Q3FY16	Growth (%)
new registrations	1,000	748	33.7
IVF cycles	423	298	41.9
Revenue	139	104	33.7

Source: Company, Edelweiss research

Table 4: Capital expenditure

	FY16	Q1FY17	Q2FY17	Q3FY17
HCG centers	2,101	357	412	440
existing centers	336	103	52	77
expansions	528	37	31	139
new centers	1,237	217	329	224
Milann centers	108	26	25	26
existing centers	48	7	6	4
expansions	-	-	-	-
new centers	60	19	19	22
Total	2,209	383	437	466

Source: Company, Edelweiss research

Table 5: Net debt

	FY16	Q1FY17	Q2FY17	Q3FY17
Net debt (total)	1,944	2,125	2,346	2,667
Bank debt	694	850	1,013	1,171
Vendor Finance	1,520	1,542	1,552	1,586
Capital leases	476	476	476	495
Other debt	137	120	116	79
Less: cash	(883)	(863)	(811)	(664)
Debt in new centers	1,107	1,251	1,471	1,603
Bank debt	315	455	553	665
vendor finance	776	781	904	924
other debt	16	15	14	14
Net Debt (Excl. New Centres)	837	874	875	1,064

Source: Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q3FY17	Q3FY16	% change	Q2FY17	% change	YTD17	FY17E	FY18E
Net revenues	1,762	1,435	22.8	1,740	1.2	5,177	7,290	9,283
Cost of revenue	431	359	20.2	416	3.7	1,259	1,932	2,543
Gross profit	1,330	1,076	23.7	1,324	0.5	3,918	5,358	6,739
Other expenses	750	615	22.0	760	(1.3)	2,249	3,120	4,029
EBITDA	260	208	25.2	254	2.4	750	1,099	1,344
EBITDA margin	14.8	14.5		14.6		14.5	15.1	14.5
Depreciation	149	108	38.4	144	3.6	419	598	692
EBIT	111	100	10.9	110	0.7	332	502	652
Other income	17	11	60.4	24	(28.0)	61	31	34
Interest	51	95	(46.4)	58	(11.3)	161	395	515
Add: Exceptional items		(23)	(100.0)					
Profit before tax	77	(8)	(1,060.0)	76	0.9	232	138	170
Provision for taxes	26	9	190.1	27	(2.6)	82	47	58
Minority interest	(3)	5	NA	-	NA	(3)	(10)	15
Reported net profit	54	(22)	(344.3)	49	8.3	153	101	98
Adjusted Profit	54	(22)	(344.3)	49	8.3	153	101	98
Diluted shares (mn)	85	85		85		85	85	85
Adjusted Diluted EPS	0.6	(0.3)	(344.3)	0.6	8.3	1.8	1.2	1.1
Diluted P/E (x)	-	-		-		-	199.8	207.6
EV/EBITDA (x)	-	-		-		-	20.4	16.7
ROAE (%)	-	-		-		-	1.6	1.9
Cost of revenue	24.5	25.0		23.9		24.3	26.5	27.4
Gross profit	75.5	75.0		76.1		75.7	73.5	72.6
Total expenses	85.2	85.5		85.4		85.5	84.9	85.5
Operating profit	14.8	14.5		14.6		14.5	15.1	14.5
Reported net profit	3.0	(1.5)		2.8		2.9	1.4	1.1
Tax rate	34.4	(113.7)		35.6		35.5	34.0	34.0

Company Description

HealthCare Global Enterprises (HCG) is a provider of speciality healthcare in India with 4 broad verticals:

- Cancer: Operates India's largest cancer care network with 17 comprehensive cancer centers (CCCs) under the HCG brand, 3 free-standing diagnostic centers and 1 chemotherapy center
- Infertility: Operates 5 fertility centres under the Milann brand
- Runs 2 multi-specialty hospitals
- Under the Triesta brand, runs a cancer-focused diagnostic and clinical trial management centre

Each of its CCCs offer, at a single location, comprehensive cancer diagnosis and treatment services (including radiation, medical oncology and surgical treatments). The freestanding diagnostic centres and daycare chemotherapy centres offer diagnosis and medical oncology services, respectively.

HCG is well equipped to deliver quality cancer care to patients across India in a seamless manner. It relies on a network of physicians across the country specialising in medical, radiation and surgical oncology, and its integrated multi-disciplinary and technology-focused approach relies on close collaboration among oncologists, nuclear medicine physicians, pathologists and radiologists.

Investment Theme

HCG, a focused oncology player, is poised to benefit from strong growth in the therapy. Also, HCG's hub and spoke model is at the cusp of rapid EBITDA scale up as: (i) several of its comprehensive cancer centers are set to mature; and (ii) it has one of the best specialty mixes and is looking at enhancing its channel mix. Ergo, owing to strong therapy tailwind and EBITDA margin levers, HCG is positioned for robust EBITDA growth.

Key Risks

- Success of business hinges on network expansion
- Subsidiaries may dither on profitability
- Specialist physicians could dis-associate
- Rising infrastructure costs could restrict investment

Financial Statements

Key Assumptions

Year to March	FY16	FY17E	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	69.0	69.0
Company				
EBITDA margin (%)	15.6	15.2	14.6	15.6
Number of beds	1,146	1,604	1,757	1,757
Number of new registrations- HCG centres	37,242	47,233	59,933	69,520
Tax rate (%)	(3.9)	34.0	34.0	34.0

Income statement

(INR mn)

Year to March	FY16	FY17E	FY18E	FY19E
Gross revenues	5,759	7,214	9,186	10,988
Net revenue	5,759	7,214	9,186	10,988
Other Operating Income	61	76	97	116
Income from operations	5,820	7,290	9,283	11,104
Materials costs	1,496	1,932	2,543	2,887
Employee costs	990	1,139	1,366	1,640
Other Expenses	2,437	3,120	4,029	4,864
EBITDA	897	1,099	1,344	1,714
Operating profit	897	1,099	1,344	1,714
EBIT	452	502	652	1,040
Add: Other income	35	31	34	42
Less: Interest Expense	376	395	515	505
Add: Exceptional items	(61)	-	-	-
Profit Before Tax	50	138	170	577
Less: Provision for Tax	(4)	47	58	196
Less: Minority Interest	42	(10)	15	100
Reported Profit	12	101	98	281
Exceptional Items	(63)	-	-	-
Adjusted Profit	75	101	98	281
Shares o /s (mn)	85	85	85	85
Adjusted Basic EPS	0.9	1.2	1.1	3.3
Diluted shares o/s (mn)	85	85	85	85
Adjusted Diluted EPS	0.9	1.2	1.1	3.3
Adjusted Cash EPS	6.1	8.2	9.3	11.2

Common size metrics

Year to March	FY16	FY17E	FY18E	FY19E
Operating expenses	84.6	84.9	85.5	84.6
Materials costs	25.7	26.5	27.4	26.0
Staff costs	17.0	15.6	14.7	14.8
Other expenses	41.9	42.8	43.4	43.8
Depreciation	7.6	8.2	7.5	6.1
Interest Expense	6.5	5.4	5.6	4.5
EBITDA margins	15.4	15.1	14.5	15.4
Net Profit margins	2.0	1.3	1.2	3.4

Growth ratios (%)

Year to March	FY16	FY17E	FY18E	FY19E
Revenues	11.6	25.3	27.3	19.6
EBITDA	17.6	22.6	22.3	27.5
PBT	105.4	175.6	23.2	238.4
Adjusted Profit	21.7	34.3	(3.8)	187.9
EPS	0.1	34.3	(3.8)	187.9

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17E	FY18E	FY19E	
Share capital	851	851	851	851	
Reserves & Surplus	4,511	4,612	4,710	4,991	
Shareholders' funds	5,362	5,463	5,561	5,841	
Minority Interest	332	322	337	437	
Total Borrowings	2,660	4,860	4,960	4,660	
Long Term Liabilities	39	55	65	79	
Def. Tax Liability (net)	(86)	(86)	(86)	(86)	
Sources of funds	8,307	10,614	10,836	10,931	
Net Block	5,040	7,742	7,551	7,276	
Goodwill	609	609	609	609	
Intangible Assets	27	27	27	27	
CWIP (incl. intangible)	1,551	1,551	1,551	1,551	
Total Fixed Assets	6,618	9,320	9,128	8,854	
Non current investments	36	36	36	36	
Long-term loans and adv.	901	848	1,380	1,285	
Other non current assets	79	114	131	162	
Cash and Equivalents	847	828	954	1,452	
Inventories	134	205	241	266	
Sundry Debtors	789	928	1,259	1,358	
Loans & Advances	118	131	186	193	
Other Current Assets	117	137	186	201	
Trade payable	1,084	1,393	1,868	1,834	
Other Current Liab	819	1,096	1,343	1,575	
Short term provisions	38	53	63	76	
Net Curr Assets-ex cash	(784)	(1,141)	(1,403)	(1,468)	
Uses of funds	8,307	10,614	10,836	10,931	
BVPS (INR)	63.0	64.2	65.4	68.7	

Free cash flow		(INR mn)			
Year to March	FY16	FY17E	FY18E	FY19E	
Reported Profit	12	101	98	281	
Add: Depreciation	444	598	692	674	
Interest (Net of Tax)	408	261	340	333	
Others	(247)	453	184	(203)	
Less: Changes in WC	(72)	357	262	65	
Operating cash flow	690	1,056	1,051	1,020	
Less: Capex	2,133	3,300	500	400	
Free Cash Flow	(1,851)	(2,505)	211	287	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
HealthCare Global Enterprises Limited	301	199.8	207.6	20.4	16.7	1.6	1.9
Apollo Hospitals Enterprise	2,559	44.0	30.6	21.7	17.9	10.3	13.7
Dr. Lal Pathlabs Ltd	1,338	56.0	44.5	34.5	27.8	28.1	28.1
FORTIS HEALTHCARE LTD	1,350	152.4	169.8	22.6	27.1	2.6	2.1
Max India Limited	583	118.5	111.3	15.7	13.4	6.5	6.6
Thyrocare Technologies Ltd	580	55.4	43.5	32.4	25.2	18.3	21.1
Median	-	87.3	77.9	22.5	21.7	8.4	10.1
AVERAGE	-	104.3	101.2	24.9	21.6	11.2	12.2

Source: Edelweiss research

Cash flow metrics				
Year to March	FY16	FY17E	FY18E	FY19E
Operating cash flow	690	1,056	1,051	1,020
Investing cash flow	(2,022)	(3,265)	(1,040)	(322)
Financing cash flow	1,899	2,190	115	(200)
Net cash Flow	567	(20)	126	498
Capex	(2,133)	(3,300)	(500)	(400)

Profitability and efficiency ratios

Year to March	FY16	FY17E	FY18E	FY19E
ROAE (%)	2.7	1.6	1.9	6.3
ROACE (%)	6.7	5.6	6.4	9.9
Inventory Days	34	32	32	32
Debtors Days	45	43	43	43
Payable Days	234	234	234	234
Cash Conversion Cycle	(155)	(159)	(159)	(159)
Current Ratio	1.0	0.9	0.9	1.0
Gross Debt/EBITDA	3.0	4.4	3.7	2.7
Gross Debt/Equity	0.5	0.8	0.8	0.7
Adjusted Debt/Equity	0.5	0.8	0.8	0.7
Net Debt/Equity	0.3	0.7	0.7	0.5
Interest Coverage Ratio	1.2	1.3	1.3	2.1

Operating ratios

Year to March	FY16	FY17E	FY18E	FY19E
Total Asset Turnover	0.8	0.8	0.9	1.0
Fixed Asset Turnover	1.2	1.1	1.2	1.5
Equity Turnover	1.3	1.3	1.6	1.8

Valuation parameters

Year to March	FY16	FY17E	FY18E	FY19E
Adj. Diluted EPS (INR)	0.9	1.2	1.1	3.3
Y-o-Y growth (%)	0.1	34.3	(3.8)	187.9
Adjusted Cash EPS (INR)	6.1	8.2	9.3	11.2
Diluted P/E (x)	268.3	199.8	207.6	72.1
P/B (x)	3.8	3.7	3.6	3.5
EV / Sales (x)	3.9	3.4	2.7	2.2
EV / EBITDA (x)	25.0	20.4	16.7	13.1

Additional Data

Directors Data

Dr. B.S. Ajai Kumar	Chairman & CEO	Gangadhara Ganapati	Non- Executive Director
Prakash Parthasarathy	Non- Executive Director	Dr. Jennifer Gek Choo Lee	Non- Executive Director
Rajesh Singhal	Non- Executive Director	Dr. Sudhakar Rao	Non-Executive Independent Director
Shanker Annaswamy	Non-Executive Independent Director	Sampath Thattai Ramesh	Non-Executive Independent Director
Suresh Chandra Senapaty	Non-Executive Independent Director	Bhushani Kumar	Non-Executive Independent Director

Auditors - Deloitte, Haskins and Sells

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
PI Oportunities Fund	14.02	Templeton Asset Mgmt	3.98
Reliance Life Insurance	5.22	HDFC Life Insurance	3.14
International Finance Corp	5.12	Reliance NPPN Life Ins Ltd	1.81
Sundaram Asset Mgmt Co	4.48	IL&FS Trust Co	1.73
Reliance Capital Trustee	4.31	Reliance Life Insurance Co	1.67

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
22 Aug 2016	Milestone Pvt Equity Fund	Sell	2650000	210.01
22 Aug 2016	Reliance Mutual Fund	Buy	2557005	210.00
30 Mar 2016	Goldman Sachs Singapore Pte	Sell	699714	183.39
30 Mar 2016	Morgan Stanley Mauritius Company Ltd	Sell	443060	182.52

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Apollo Hospitals Enterprise	BUY	SO	L	Aurobindo Pharma	HOLD	SP	H
Cadila Healthcare	BUY	SO	M	Cipla	HOLD	SP	L
Divi's Laboratories	BUY	SO	M	Dr. Lal Pathlabs Ltd	BUY	SP	L
Dr.Reddys Laboratories	HOLD	SP	M	FORTIS HEALTHCARE LTD	BUY	SO	L
Glenmark Pharmaceuticals	HOLD	SP	M	HealthCare Global Enterprises Limited	BUY	SP	M
Ipca Laboratories	REDUCE	SU	M	Lupin	HOLD	SP	M
Max India Limited	BUY	SO	L	Natco Pharma	BUY	SO	M
Sun Pharmaceuticals Industries	BUY	SO	M	Thyrocare Technologies Ltd	BUY	SP	M
Torrent Pharmaceuticals	BUY	SO	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Pharmaceuticals

Apollo Hospitals Enterprise, Aurobindo Pharma, Cadila Healthcare, Cipla, Divi's Laboratories, Dr. Lal Pathlabs Ltd, Dr.Reddys Laboratories, FORTIS HEALTHCARE LTD, Glenmark Pharmaceuticals, HealthCare Global Enterprises Limited, Ipca Laboratories, Lupin, Max India Limited, Natco Pharma, Sun Pharmaceuticals Industries, Thyrocare Technologies Ltd, Torrent Pharmaceuticals

Recent Research

Date	Company	Title	Price (INR)	Recos
06-Feb-17	Dr Reddy's Laboratories	Gross margin rebounds; key launches delayed; <i>Result Update</i>	3,097	Hold
06-Feb-17	Divis Laboratories	Steady quarter; all eyes on FDA's stance on Unit II; <i>Result Update</i>	760	Buy
03-Feb-17	Torrent Pharma.	Steady core business growth; <i>Result Update</i>	1,314	Buy

Distribution of Ratings / Market Cap

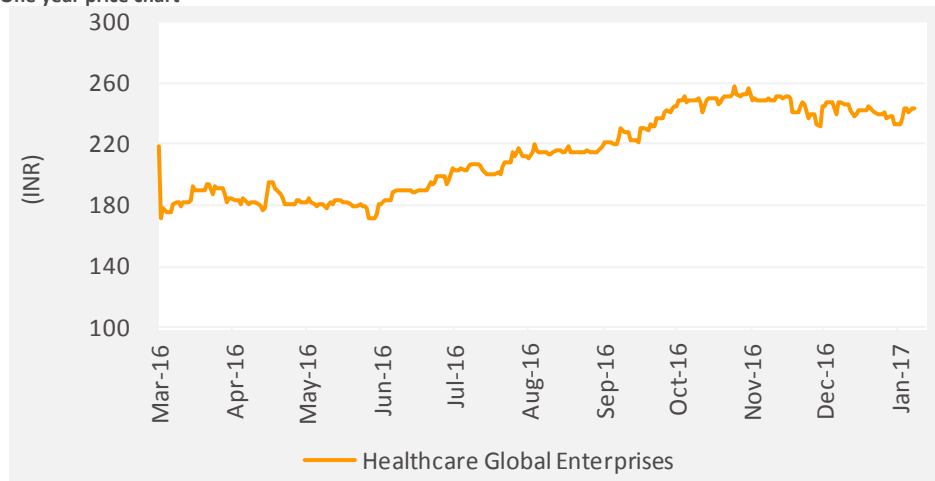
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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