

**Rating:****Issue Summary:**

<b>Price band (Rs)</b>	205-218
<b>Market Lot</b>	65 Equity Shares
<b>Face Value (Rs)</b>	10
<b>Opens</b>	16 <sup>th</sup> Mar, 2016
<b>Closes</b>	18 <sup>th</sup> Mar, 2016
<b>Issue Size</b>	611 Cr to 650 Cr
<b>Listing</b>	BSE, NSE

**Issue Break Up:****OFS**

<b>Offer for Sale</b>	182 lac shares
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**OFFER**

<b>QIB portion</b>	75%
<b>NIB portion</b>	15%
<b>Retail portion</b>	10%

**Company & Business Profile**

HCG is a provider of specialty healthcare in India focused on cancer and fertility. Under the “HCG” brand, company operates the largest cancer care network in India in terms of the total number of cancer treatment centers licensed by the AERB as of March 31, 2015. Under the “Milann” brand, company operates their fertility centers. As of June 30, 2015, HCG network consisted of 15 comprehensive cancer centers, including their centre of excellence in Bengaluru, four freestanding diagnostic centers and one day care chemotherapy centre across India. Each of comprehensive cancer centers offers, at a single location, comprehensive cancer diagnosis and treatment services (including radiation, medical oncology and surgical treatments). Company’s freestanding diagnostic centres and day care chemotherapy centre offer diagnosis and medical oncology services, respectively.

Company also provides fertility treatment under Milann brand. They acquired 50.10% equity interest in BACC Healthcare in 2013 which operates fertility centers under the Milann brand, through itself and its wholly-owned subsidiary, DKR Healthcare. Pursuant to this acquisition, they now operate four Milann fertility centers in Bengaluru

**Objects of the Issue**

The IPO consists of a fresh issue of up to 11.6 million equity shares by the Company and an Offer for Sale of up to 18.2 million

**Requirement of Funds**

Company proposes to utilize the Net Proceeds towards funding the following objects:

Particulars	Amount (Millions)
Purchase of medical equipment	519.51
Investment in IT software, services and hardware	368.45
Pre-payment of debt	1470.48
General corporate purposes	**

**Outlook:**

Company has reported 25% CAGR growth in revenue for the period 2011-15 and management is confident of improving revenue and margins further, at present about five of its centers are generating margins of 25 per cent and management said it would take 4-5 years for newer centers to generate 25% margin. In FY15 the company reported revenue of Rs 5241 million and a net profit of Rs 5.46 millions and for eight months ending November 2015 it reported revenue of Rs 3815 millions. HCG is also planning a foray in Africa and has already entered into a joint venture with Commonwealth Development Corporation for developing cancer treatment centers in East Africa.

**Book Running Lead Managers**

- Kotak Mahindra Capital Company Ltd
- Edelweiss Financial Services Ltd
- Goldman Sachs India (Securities) Private Ltd
- IDFC Securities Ltd
- IIFL Holdings Ltd
- Yes Bank Ltd

**Registrar**

- Karvy Computershare Private Ltd

**Risk Factors:****Internal Risks**

- Company had reported net losses in the recent Fiscal Years and may be unable to achieve or sustain profitability in the future, which may materially and adversely impact business and prospects.
- There have been incidents of fraud committed by employees of one of Subsidiaries as well as by senior managers at their cancer centres in the past. If such incidents of fraud were to recur, companies business, reputation and results of operations could be materially and adversely affected.
- The success of company business is dependent on their ability to expand their HCG network and company's Milann network. If company unable to successfully expand HCG network and Milann network or if any of their existing centres or hospitals are closed down, their business, financial condition and cash flows could be materially and adversely affected.
- Most of HCG's specialist physicians are not their employees. If such specialist physicians discontinue their association with company or are unable to provide their services at centres or hospitals for any reason or if company unable to attract or retain such specialist physicians and other healthcare professionals, company business and results of operations may be materially and adversely affected.
- Any adverse economic, regulatory or other developments within Bengaluru may materially and adversely impact the business, like:
  - decrease in the number of new patients registered;
  - loss of key experienced medical professionals;
  - adverse publicity and loss of reputation;
  - decrease in profitability;
  - any regulatory changes; and/ or
  - competition in Bengaluru
- Lack of health insurance in India may adversely affect the business, cash flows and results of operations.
- If company fails to achieve favourable pricing on medical equipment, drugs and consumables or are unable to pass on any cost increases to their payers, profitability could be materially and adversely affected.

Source: - Company data, Arihant Research

**Risk Factors:****External Risks**

- Acts of terrorism and other similar threats to security could adversely affect business, financial condition, cash flows and results of operations
- Inflation in India could have an adverse effect on profitability and if significant, on financial condition.
- Natural disasters could have a negative impact on the Indian economy and damage centres and hospitals.

**Company's line of attack**

- Expand the reach of cancer care network in India
- Strengthen HCG brand to reach more cancer patients
- Expand cancer care network to Africa
- Upgrade and strengthen information technology infrastructure
- Expand Milann network of fertility centres across India and build Milann brand

**Financials**

HCG's revenue grew at 25% from 2011 to 2015 compounded annual growth rate to Rs 5241 millions. In the first eight months of FY16, it made revenue of Rs 3182 millions, 15% higher than the corresponding period of last year.

EBIDTA (Earnings before interest, depreciation, tax, and amortization) margin for FY15 was 15.6%, and has remained around 15-18% since FY11. In FY16, as the company is in the investment phase, it reported net loss in last consecutive 3 years due to high depreciation and interest costs.

HCG has debt of about Rs 3095 million as of March 2015, out of which Rs 1470 million will be retired from the proceeds of the IPO.

**Valuation**

The fundamental health of the company is relatively weak. The company has been reporting loss over the years. The company has debt levels (D/E 1.12 as on FY15). Apollo hospital its peer has a relatively lower debt of 0.52 as on FY15. Depreciation & interest cost stay hurdle in profit making for the company. Company has strong revenue growth (5 year CAGR 25%) and good EBITDA margin. With respect to valuation it is trading at same EV/EBITDA multiple as Apollo hospitals but Apollo hospitals should command a premium as it is a profit making company with lower debt levels. The objects of the issue are mainly focused on reduction of debt and less on expansion. Also majority of the OFS portion is being done by the investors.

HCG being a loss making company; EV/EBIDTA (enterprise value to EBIDTA) would be the most appropriate valuation technique. At the higher end of the price band of Rs 218, HCG is available at FY15 EV/EBIDTA of 26x. This appears to be expensive when compared with listed peers Apollo Hospitals which is trading at 26 times FY15 EV/EBIDTA but with lower credit risk. We feel the risk reward ratio for the stock is fairly high. The company may do well ahead with reduced debt burden but it bears a high risk profile & stays overvalued when compared to Apollo Hospital.

Source: - Company data, Arihant Research



Healthcare Global Enterprises Ltd. Balance Sheet - Consolodated - [INR-Million]					
DESCRIPTION	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11
<b>EQUITY AND LIABILITIES</b>					
Share Capital	699.84	682.45	668.90	592.72	533.04
Shares pending allotment	8.47	5.80	5.80	0.00	1.05
Share application money pending allotment	0.00	0.00	0.00	0.00	72.89
Reserves and Surplus	2086.61	1949.44	2159.30	1519.63	1103.49
<b>Total - Share holder's Funds</b>	<b>2794.92</b>	<b>2637.69</b>	<b>2834.00</b>	<b>2112.35</b>	<b>1710.47</b>
Minority Interest	252.95	183.09	125.81	82.22	53.98
<b>Non- Current Liabilities</b>	<b>2843.85</b>	<b>2571.35</b>	<b>2571.16</b>	<b>1499.53</b>	<b>982.37</b>
Long Term borrowings	2802.37	2518.01	2393.39	1353.98	937.2
Deffered Tax Liability	5.15	12.07	14.57	15.53	14.7
Other long term liability	13.69	19.4	130.89	106.16	0
Long term Provisions	22.64	21.87	32.31	23.86	30.47
<b>Current Liabilities</b>	<b>1869.97</b>	<b>1494.55</b>	<b>1558.84</b>	<b>1367.69</b>	<b>880.89</b>
Short Term Borrowings	292.71	179.98	380.2	517.24	215.74
Trade Payables	832.67	705.35	527.17	362.77	361.7
Other Current Liabilities	709.86	582.91	647.06	477.67	301.47
Short Term Provisions	34.73	26.31	4.41	10.01	1.98
<b>Total Liabilities</b>	<b>7761.69</b>	<b>6886.68</b>	<b>7089.81</b>	<b>5061.79</b>	<b>3627.71</b>
<b>ASSETS</b>					
<b>Non- Current Assets</b>					
Fixed Assets					
Tangible Assets	4516.92	4337.53	4222.91	3766.31	2534.44
Intangible Assets	159.15	175.68	192.73	9.72	8.87
Capital Work in Progress	422.38	108.73	62.74	48.2	37.29
Goodwill on consolidation	608.88	601.98	606.61	98.68	88.66
Non-Current Investments	1.21	23.33	2.21	1.16	1.16
Deffered tax Assets	58.79	2.26	11.38	17.68	19.12
Long term loans and Advances	699.68	492.51	396.14	250.58	415.49
Other Non current assets	74.93	48.18	47.46	29.93	19.38
<b>Total Non-Current Assets</b>	<b>6541.94</b>	<b>5790.2</b>	<b>5542.18</b>	<b>4222.26</b>	<b>3124.41</b>
<b>Current Assets</b>					
Current investments	0	0	603.72	0.86	8.34
Inventories	145.53	119.83	99.72	70.72	53.24
Trade Receivables	638.09	528.58	601.8	430.67	291.55
Cash & Cash equivalents	269.54	254.77	106.67	166.27	57.53
Short-term loans & advances	80.49	117.59	66.72	108.55	51.59
Other Current assets	86.1	75.71	69	62.46	41.05
<b>Total Current Assets</b>	<b>1219.75</b>	<b>1096.48</b>	<b>1547.63</b>	<b>839.53</b>	<b>503.3</b>
<b>Total Assets</b>	<b>7761.69</b>	<b>6886.68</b>	<b>7089.81</b>	<b>5061.79</b>	<b>3627.71</b>



Healthcare Global Enterprises Ltd. Profit And Loss - Consolidated - [INR-Million]					
DESCRIPTION	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11
<b>REVENUE</b>					
Revenue from operations	5193.75	4513.34	3383.05	2665.83	2148.18
Income from Medical Services	3395.71	3009.77	2220.97	1648.34	1318.87
Income from Pharmacy	1762.87	1477.29	1150.78	1014.41	826.91
Other Operating Revenue	35.17	26.28	11.3	3.08	2.4
Other Income	48.15	39.72	23.78	36.34	13.72
<b>Total Revenue</b>	<b>5241.9</b>	<b>4553.06</b>	<b>3406.83</b>	<b>2702.17</b>	<b>2161.9</b>
<b>EXPENSES</b>					
Purchase of stock in Trade	1493.73	1354.2	1057.85	828.34	637.1
(Increase)/Decrease in Stock in Trade	-33.39	-20.11	-22.61	-17.48	-20.74
Employee benefit expense	815.1	767.64	534.73	421.53	322.84
Other expenses	2155.91	2029.17	1350.79	1021.13	830.3
<b>Total Expenses</b>	<b>4431.35</b>	<b>4130.9</b>	<b>2920.76</b>	<b>2253.52</b>	<b>1769.5</b>
<b>EBITDA</b>	810.55	422.16	486.07	448.65	392.4
Margins%	15.6%	9.4%	14.4%	16.8%	18.3%
Depreciation & Amortisation	398.25	361.76	295.74	237.68	176.06
<b>EBIT</b>	<b>412.3</b>	<b>60.4</b>	<b>190.33</b>	<b>210.97</b>	<b>216.34</b>
EBIT %	7.9%	1.3%	5.6%	7.9%	10.1%
Finance cost	342.28	322.29	291.78	239.75	136.11
Exceptional Items	-45.62	-4.63	0	0	0
PBT	24.4	-266.52	-101.45	-28.78	80.23
Tax Expenses	-16.83	53.52	7.14	2.27	9.8
Current Tax	35.69	46.9	5.42	4.19	23.79
Less MAT Credit provision for Mat credit	6.94	0	0	0	0
Deffered Tax	-59.46	6.62	5.26	2.27	-0.94
<b>Profit After Tax</b>	<b>41.23</b>	<b>-320.04</b>	<b>-108.59</b>	<b>-31.05</b>	<b>70.43</b>
Monority Interest	35.77	35.49	-3.45	2.26	7.44
<b>Net profit for the year</b>	<b>5.46</b>	<b>-355.53</b>	<b>-105.14</b>	<b>-33.31</b>	<b>62.99</b>

Source: - Company data, Arihant Research

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