

HCG-IPO - AVOID

Issue Opens	16 Mar.-2016
Issue Close	18 Mar.-2016
Issue Size (Rs. Cr)	611-650
Price Band	205-218
Nos. of shares on offers (Cr)	3
QIB(%)	75
Non Institutions (%)	15
Retails (%)	10

Shareholding Pattern

	Pre	Post
Promoters	28.8	25.1
Others	71.3	74.9

Objective of Issue

The offer comprises a fresh issue and offer for sale. Net proceeds from fresh issue are essentially to purchase medical equipment, invest in IT services, software and hardware, re-payment of debt and general corporate purposes.

About Company:

Healthcare Global Enterprise (HCG) is a provider of specialty healthcare in India, focused on cancer and fertility. HCG network consists of 18 cancer centres across India, including 14 comprehensive cancer centres, three freestanding diagnostic centres and a day care chemotherapy centre. In 2013, the company entered the fertility segment by acquiring 50.1% stake in BACC Healthcare, which operates four fertility centres under the Milann brand in Bangalore. HCG also operates two multi-specialty hospitals in Gujarat. Under Triesta brand, HCG provides clinical reference laboratory services in India with a specialization in oncology, including molecular diagnostic services and genomic testing.

IPO details and utilisation of net proceeds

Though the IPO, the company proposes to offer 2.98 cr equity shares for the sale by promoter, investors and fresh issues. While the company has put up around 1.82cr offer for sale shares, the fresh issues are upto 1.16cr shares. Out of offer for sale, Promoter group is offering 0.018cr shares, while other selling shareholders are offering 1.8cr shares. The utilization of net proceeds will – (1) purchase of medical equipments amounting to Rs. 42.2 cr, (2) investment in IT software and hardware to the tune of Rs. 30.2 cr and (3) pre-payment of debt to Rs. 147.1 cr. On some of key financial parameters basis, the revenue of the company was Rs. 519.4 cr and Rs. 379 cr at the end of fiscal FY15 and 8MFY16 respectively while bottom line was Rs. 0.5 cr and Rs. -3.7 cr in same period. Profitability hasn't been stable for 5 years. EBITDA margins was contracted by 20 bps to 15.3% from FY15 to 8MFY16 and 292 bps in year FY11 to 8MFY16 mainly due to addition of new cancer centres.

Concerns

HCG is operating with huge debt (Rs. 285 cr) and considering its capex plan, margins are expected to remain under pressure in short to medium term. The company does not have unique business model and faces stiff competition from multi specialty hospitals and other cancer hospitals.

View

On valuation side price band of 205-218, company will be available at P/B of 5.1 and 5.4 times of its book value of Rs. 40.11 which we believe expensive with negative ROE of 1.3% (8MFY16). **We advise investors to avoid this IPO.**

	2012	2013	2014	2015	8M2016
<i>Financials</i>					
Sales	267	338	451	519	379
EBITDA	44.9	48.6	42.2	81.1	58.1
Net Profit	-3.3	-10.5	-35.6	0.5	-3.7
EBIDTA %	17%	14%	9%	16%	15%
PAT %	-1.2%	-3.1%	-7.9%	0.1%	-1.0%

(Source: Company/Eastwind)