September 27, 2021

Healthcare Global Enterprises Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based Term loan	531.31	305.65	[ICRA]A+ (Stable); Upgraded from [ICRA]A- (Stable)
Long Term - Fund based – Cash credit / Overdraft	100.00	155.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A- (Stable)
Long Term - Interchangeable	(356.11)	-	-
Short Term - Non-fund based	28.50	28.50	Short term rating [ICRA]A1; Upgraded from [ICRA]A2+
Short Term - Interchangeable	(48.50)	-	-
Total	**659.81**	**489.15**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view on Healthcare Global Enterprises Limited (HCG / the company), which includes its subsidiaries and associate companies, while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The upgrade in ratings follows the substantial equity infusion of Rs 520.0 crore in FY2021 from the new PE investor, Aceso Company Pte Ltd. which is a part of CVC Capital Partners (CVC) and Dr. Ajaikumar along with expected equity infusion of ~Rs 131.0 crore in FY2022, resulting in significant improvement in debt protection metrics of the company. In FY2021, HCG utilised the equity infused for prepayment of existing term loans of Rs 241.6 crore and for acquiring the balance stake of 49.9% in BACC Health Care Private Limited (Milann fertility business) for Rs 68.3 crore. HCG has also monetised its entire equity stake of 38.2% in its joint venture, Strand Life Sciences Private Limited (Strand) and purchased back the hospital lab and clinical research business, thereby resulting in a net cash inflow of ~Rs 75.0 crore in September 2021. HCG is expected to further prepay its debt in FY2022, thereby strengthening its coverage indicators and capitalisation metrics in the near term.

The ratings continue to consider HCG's strong market position in the oncology segment, improving patient mix and diverse footprint across the country. With high quality infrastructure and advanced technology, and the ability to attract and retain reputed medical professionals, the company witnessed healthy YoY revenue growth of 12.0% in FY2020. However, Covid-led disruptions impacted the footfalls and revenues in FY2021 leading to a revenue contraction of 7.5%. In Q1 FY2022, HCG recorded revenue growth of 67.0% on a YoY basis, contributed by 66.0% growth in cancer centres (including multi-speciality hospitals) and 99.0% growth in Milann centres, primarily on the back of lower base in Q1 FY2021 along with a substantial ramp up in footfalls across centres. Also, in Q1 FY2022, the OPBDITA improved substantially by 50% on a QoQ basis, backed by strong revenue growth and reduction of losses in the new centres (including Milann centres) by 68.9%. Operating margins of existing centres also increased to 21.2% in Q1 FY2022 from 18.3% in Q4 FY2021. Over the longer term, increasing incidence of cancer in India and factors such as better affordability, widening medical insurance coverage, growing awareness and under-penetration of healthcare services are expected to benefit the company.

The rating also factors in the change in ownership and professional management control with CVC holding majority stake of 56.8% (on fully diluted basis) in HCG at June 30, 2021. The management's intent to consolidate the existing operations and planned deleveraging is expected to improve the operating margins and debt protection metrics.

The ratings also continue to consider longer-than-expected turnaround in new centres and impact of pandemic-induced restrictions, resulting in decline of operating margins of the company from 15.7% in FY2020 to 12.5% in FY2021. However, ICRA notes that the operating margins have improved substantially in Q1 FY2022 at 15.9% with strong revenue growth and reduction of losses in new centres. Going forward, Net Debt / OPBDITA is expected to improve significantly in FY2022 with further debt reduction and better operating margins.

Even while the company has been increasing its footprint by setting up new centres across the country, it continues to derive ~63% of its revenues from Karnataka and Gujarat, thereby remaining exposed to significant geographic-concentration risks. Further, with ~10% (as on FY2021) of its total borrowings in foreign currency (for importing equipment), the company is exposed to foreign currency fluctuations. HCG, in line with all other industry players, is exposed to regulatory risks pertaining to any restrictive pricing regulations imposed by the Central and state governments in India.

HCG has undertaken debt-funded expansion in the past for expanding its footprint. Any significant debt-funded acquisition or major organic expansion plans remain an event risk, thereby impacting the company's credit metrics and would be evaluated on a case-by-case basis.

Stable outlook on the long-term rating reflects ICRA's expectation that HCG will continue to benefit from its strong market position coupled with stabilisation of operations at its new centres over the next 12-18 months, and improvement in its debt coverage metrics on the back of its strong liquidity position.

Key rating drivers and their description

Credit strengths

Strong market position in the oncology healthcare segment and partnership with reputed medical professionals: HCG's long presence, niche focus on cancer therapy and established brand equity of the hospital chain in the field of oncology support its business prospects. HCG's business strategy includes partnerships with eminent oncologists as it sets up new cancer care centres, especially in non-metro towns. While a doctor's reputation in the field plays a significant role in attracting patients, its strong brand recognition in the field of oncology has been supporting revenue growth over the last few years. Over the years, HCG has also tried to reduce its dependence on Karnataka by increasing its footprint across the country, which has further strengthened its brand equity. HCG is expected to focus on consolidation of its operations going forward.

Improvement in operational performance with turnaround in new centres: The operating margins declined in the past 2-3 years due to the delayed turnaround in the new centres, operational challenges in the Milann segment and pandemic-induced restrictions in FY2021. However, in Q1 FY2022, OPBDITA (w/o IndAS 116 impact) improved substantially by 50.0% on a QoQ basis backed by strong revenue growth and reduction of losses in the new centres by 68.9%. Average occupancy levels improved to 55.8% in Q1 FY2022 from 38.2% in Q1 FY2021. ARPOB also recorded an increase to Rs 37,644 from Rs 31,270 in Q1 FY2021 on the back of price revisions (~2% impact) in April 2021 in addition to revenues from Covid hospitalisations / vaccinations. Going forward, with stabilisation of existing operations (since no major capex is planned) and break-even of new centres, the operating margins are expected to improve.

Significant equity infusion and asset monetization expected to improve coverage metrics: HCG prepaid ~Rs 240.0 crore of its long-term debt in FY2021 with the proceeds of equity infusion from the promoter and the CVC. The company's debt indicators were moderate at Net Debt / OPBDITA (w/o IndAS 116 impact) of 4.8x at March 31, 2021 (which improved from 5.9x at March 31, 2020) due to higher debt-funded expansion undertaken by HCG in the past. In FY2022, the company had a net cash inflow of ~Rs 75.0 crore from its stake sale in Strand and is expected to raise a further equity of ~Rs 131.0 crore in FY2022 which shall be utilised for the part-prepayment of its term debt and reduction of working capital limit utilisation. Going forward, HCG's debt coverage metrics are expected to show substantial improvement.

Stable long-term demand outlook: While footfalls in FY2021 were impacted by the pandemic, the levels have improved substantially since Q2 FY2021. Over the longer term, increasing incidence of cancer in India, coupled with factors such as better affordability, widening medical insurance coverage, growing awareness and under-penetration of healthcare services is expected to benefit the company and the broader industry.

Credit challenges

Sizeable revenues from Karnataka and Gujarat despite improving geographical diversification: Albeit reducing, the company has high geographic concentration to Karnataka and Gujarat that contributed to ~63% of its revenues in FY2021. With continued ramp-up expected in new centres opened in FY2019 and FY2020, the geographic concentration is expected to reduce going forward.

Exposed to regulatory risks inherent in the sector: Going forward, regulatory risks pertaining to restrictive pricing regulations levied by the Central and state governments and stricter compliance norms could constrain the company's profit margins.

Stiff competition in the healthcare industry: HCG is exposed to competition from other hospital chains in the industry. However, strong brand equity of the company in the oncology segment is expected to aid growth going forward.

Vulnerability to fluctuations in foreign exchange rates on account of foreign currency borrowings for importing equipment: With ~10% of the overall debt in foreign currency as on March 31, 2021 (~Rs.45.3 crore), the company's margins remain vulnerable to fluctuations in foreign exchange rates. Foreign exchange earnings amounted to Rs 19.6 crore during FY2021 declining from Rs 41.4 crore during FY2020 due to reduction of international patients post pandemic-induced restrictions. The company had net forex loss of Rs 2.6 crore during FY2021 due to unfavourable fluctuations in forex rate.

Liquidity position: Adequate

HCG's liquidity profile is **adequate,** characterised by cash and bank balances of Rs 172.3 crore at June 30, 2021 (majority of its funds held in bank deposits). The company is also in receipt of additional cash inflow of ~Rs 75.0 crore from the recent asset monetisation of Strand. Further improvement in the liquidity position is likely with incremental equity infusion of ~Rs 131.0 crore in FY2022.

Average utilisation of the working capital facility was at ~89% for the 12 months ending June 2021 which has reduced to NIL in September 2021 with the incremental cash flow of ~Rs 75.0 crore from Strand sale proceeds. HCG is expected to prepay part of its term debt with the incremental equity proceeds. The repayment obligations of the company amount to ~Rs 36.4 crore and ~Rs 48.0 crore in FY2022 and FY2023 respectively (including payment of deferred payment obligations). Overall, ICRA expects the company to be able to service its near-term repayment obligations and commitments to be met out of available liquidity and internal cash accruals.

The company is focusing on consolidation of operations except for a planned project at Gurgaon, Haryana. HCG's capex in the form of maintenance and project capex is expected to be ~Rs 60-70 crore per annum for the next two to three years, which is expected to be funded out of its internal accruals and available cash balances.

Rating sensitivities

Positive factors – HCG's ratings could be upgraded if there is sizeable improvement in profitability (OPBDITA & ROCE) and scale of operations while maintaining its debt protection metrics on a sustained basis

Negative factors – Negative pressure on HCG's ratings could arise if there is any material deterioration in margins and/or debt-funded capex or acquisitions weakening the company's credit profile with Net Debt/OPBDITA >2.0x on a sustained basis

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Rating methodology for Hospitals
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of HCG

About the company

Established in 1989, Healthcare Global Enterprises Limited (HCG), is present primarily in the oncology field with the largest cancer care network (with 22 cancer care centres as on June 2021) and three multi-speciality hospitals. It is promoted by Dr. B.S. Ajai Kumar, a practising radiation and medical oncologist with over 30 years of experience. Originally established with a single cancer care centre, the Bangalore Institute of Oncology (BIO), at Bangalore by Dr. B.S. Ajai Kumar and four other oncologists, the company has rapidly expanded its presence to Ahmedabad, Chennai, Nasik, Ranchi, Rajkot, Cuttack, Hubli, Mumbai, Nagpur, Vizag and Vijayawada, among others. The company is now present across the oncology value chain, offering services from prevention, screening, diagnosis and treatment to rehabilitation, supportive care and palliative care. Pursuant to Investment agreement entered by the company and promoter with Aceso Company Pte Ltd (CVC group) in June 2020 and subsequent equity infusion, a majority stake of 56.8% (on fully diluted basis) is now held by the CVC Group. Established in 1981, CVC is a private equity and investment advisory firm with US$ 114.8 billion of assets under management as at March 31, 2021. It has a global network of 24 local offices - 16 across Europe and America and eight in the Asia Pacific region.

The company has 100% equity interest in BACC Health Care Private Limited (BACC), which operates fertility centres under the Milann brand. HCG operates seven Milann fertility centres in Bengaluru, Delhi and Chandigarh.

Key financial indicators (consolidated - audited)

Particulars	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	978.7	1,095.6	1,013.4
PAT (Rs. crore)	-19.9	-113.1	-220.7
OPBDIT/OI (%)	12.8%	10.5%*	6.2%*
PAT/OI (%)	-2.0%	-10.3%	-21.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	4.3	1.8
Total Debt/OPBDIT (times)	5.3	6.3*	7.5*
Net Debt/OPBDIT (times)	5.1	5.9*	4.8*
Interest Coverage (times)	1.8	1.3	1.1

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * w/o considering IndAS116 impact*

Status of non-cooperation with previous CRA: Not applicable

Any other information: CARE has assigned rating of CARE A (Stable) for the bank facilities of HCG

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2018
					Sep 27, 2021	August 07, 2020	May 21, 2020	April 4, 2019	January 5, 2018
1	Fund Based Term loan	Long term	305.65	305.65	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
2	Fund based – Cash credit	Long term	155.00	--	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
3	Interchangeable	Long term	-	--	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
4	Non-fund based	Short term	28.50	--	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
5	Interchangeable	Short term	-	--	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Term loan	Simple
Fund based – Cash credit	Simple
Non-fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN /Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2019	6.8%-8.6%	FY2031	305.65	[ICRA]A+ (Stable)
NA	Cash Credit / Overdraft	NA	NA	NA	155.00	[ICRA]A+ (Stable)
NA	Non-fund-based limits	NA	NA	NA	28.50	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	HCG Ownership	Consolidation Approach
HCG Medi-Surge Hospitals Private Limited	74.00%	Full Consolidation
Malnad Hospital & Institute of Oncology Private Limited	70.25%	Full Consolidation
Healthcare Global Senthil Multi Specialty Hospital Private Limited	100.00%	Full Consolidation
Niruja Product Development and Research Private Limited	100.00%	Full Consolidation
BACC Healthcare Private Limited	100.00%	Full Consolidation
Healthcare Diwan Chand Imaging LLP	75.00%	Full Consolidation
APEX HCG Oncology Hospitals LLP	100.00%	Full Consolidation
HCG Oncology LLP	74.00%	Full Consolidation
HCG NCHRI Oncology LLP	76.00%	Full Consolidation
HCG Manavata Oncology LLP	51.00%	Full Consolidation
HCG EKO Oncology LLP	50.50%	Full Consolidation
HCG (Mauritius) Private Limited	100.00%	Full Consolidation
HCG Sun Hospitals LLP	74.00%	Full Consolidation
Healthcare Global (Africa) Private Limited	92.02%	Limited Consolidation
HealthCare Global (Uganda) Private Limited	92.02%	Limited Consolidation
HealthCare Global (Kenya) Private Limited	92.02%	Limited Consolidation
HealthCare Global (Tanzania) Private Limited	92.02%	Limited Consolidation
Cancer Care Kenya Limited	71.35%	Limited Consolidation
Advanced Molecular Imaging Limited	46.01%	Limited Consolidation
Strand Life Sciences Private Limited*	38.53%	Limited Consolidation

Source: *company; * ceases to be joint venture w.e.f. September 2021*

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5300
shamsherd@icraindia.com

Kinjal Shah
+91 937922486
kinjal.shah@icraindia.com

Mythri Macherla
+91 9701191490
mythri.macherla@icraindia.com

Seetha Pillai
+91 7550087070
seetha.pillai@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches