April 20, 2017

Healthcare Global Enterprises Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	92.62	Upgraded from [ICRA]BBB+ (Positive) to [ICRA]A- (Stable)
Fund Based Limits	55.00	Upgraded from [ICRA]BBB+ (Positive) to [ICRA]A- (Stable)
Non-fund based limits	84.38	Upgraded from [ICRA]BBB+ (Positive) to [ICRA]A- (Stable)
Total	**232.00**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long term rating from [ICRA]BBB+ (pronounced as ICRA triple B plus)[1] to [ICRA]A- (pronounced as ICRA A minus) for the Rs. 92.62 crore term loans, Rs.55.00 crore fund based limits and Rs.84.38 crore non fund based limits of Healthcare Global Enterprises Limited (HCGE / the company). The outlook on the long term rating has been revised to Stable from Positive.

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of HCGE along with its subsidiaries since all its subsidiaries operate in the same line of business, have operational linkages and share a common management.

The upward revision in ratings factors in the improvement in HCGE's financial profile as reflected by the strong revenue growth of about 18.6% (on an annualized basis), strong cash accruals (grew by about 51.9% on an annualized basis) on back of decline in interest costs and strengthening of coverage indicators during 9M FY2017 supported by relatively quicker turnaround of its newly opened centers. ICRA notes that the long-term revenue visibility of the company remains strong supported by the ongoing plans to set up new centers in Nagpur, Kanpur, Mumbai and Africa in addition to increase in capacity utilization of the Gulbarga, Vizag and Baroda centers which commenced operations during late FY2016 and early FY2017.

With increasing geographical diversification across India through its hub and spoke model, the company has strengthened its competitive position in the industry which is likely to support its operational parameters going forward. HCGE's long standing presence, niche focus on cancer therapy, high brand equity of the hospital chain and strong reputation of the promoters in the field of oncology continue to lend support to the company's rating. High quality of infrastructure with advanced medical equipment and clinical research facilities has helped the company in attracting reputed consultants, in turn aiding healthy patient inflow. Cancer, being a lifestyle disease, the treatment is spread over a longer duration with relatively higher realizations, which in turn is expected to support HCGE's revenue growth over the longer term.

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The rating, however, remains constrained on account of aggressive capital expenditure plans to set up new units over the next three years and high concentration of revenues on the Bangalore market despite expansion to newer markets. Further, commercialization of new units is expected to strain the cash flows and profitability of the company while the capital-intensive nature of operations and relatively longer gestation periods of its new units are likely to maintain pressure on its accruals over the near-to-medium term. While the additional capacities are expected to improve profitability over the longer term, its ability to improve its operating performance and coverage metrics while maintaining its capital structure, especially during initial quarters of operations at the new centers, will be crucial. Over the medium term, the ratings will be dependent on the company's ability to maintain healthy revenue growth and a stable financial risk profile.

Key rating drivers

Credit Strengths

- With its niche focus on oncology and presence across the entire value chain, HCGE has developed high brand equity in cancer care
- Aggressive expansion to new geographies supports revenue growth, generates better scale economies and creates entry barriers for competition
- Majority of the expansions in partnership with other medical professionals has helped in faster scale up and has lent higher stability to operations.
- Strong constitution of board of directors; reputed independent directors
- High quality of infrastructure with advanced medical equipment and clinical research facilities aid in retaining reputed consultants and healthy patient inflow, supporting superior realisations
- Favourable growth drivers with increasing demand for healthcare services and better affordability.
- Improved liquidity profile and reduced debt levels following the recent initial public offering (IPO); growth capital to support investment requirements.

Credit Challenges

- With aggressive capital expenditure plans, margins and profitability are likely to remain under pressure
- High concentration of revenues from Bangalore market despite expansion to newer markets
- Huge investment requirement in medical equipment and associated risk of obsolescence with rapid technological advancements.

Description of key rating drivers highlighted above:

With a turnover of Rs.517.7 crore during 9M FY2017, HCGE is a mid-sized player in the hospital industry. However, with its niche focus on oncology and presence across the entire value chain, HCGE has developed high brand equity in cancer care. Further, majority of the expansions in partnership with other medical professionals has helped in faster scale up and has lent higher stability to operations. In line with advancements in the healthcare industry and HCGE's focus on moving from traditional to high-end technology, the company has steadily upgraded its medical equipment across centres. This in turn aids in retaining reputed consultants, healthy patient inflow and superior realisations which support the company's healthy revenue growth. ICRA expects HCGE to report strong business growth over the next three years, driven by improved occupancies in its existing units and ramp-up under recently established hospitals, while further expansion of its network is likely to provide additional growth momentum. ICRA believes that the management's focused efforts towards accelerating growth, strong infrastructure and the overall long-term positive demand outlook for the industry are expected to drive future business growth for the company.

During 9M FY2017, the company witnessed operating margins of about 14.5%. By virtue of being the largest facility of the company, Bangalore continues to account for a significant share of the company's revenues of the company. During FY2016, the company generated about 41% of its revenues from Bangalore—down from 43% in FY2015. Apart from Bangalore, HCGE generates sizeable revenue share from Ahmedabad, wherein the company operates a comprehensive cancer care centre as well as a multi-specialty hospital. Going forward, with strong revenue traction being witnessed in newer centres like Bhavnagar, Cuttack, Vijayawada and Hubli, among others, the company's revenues are likely to diversify further.

In line with its stated strategy of aggressive geographical expansion, the company has outlined significant capital expenditure plans over the next two-three years. During FY2017, the company spent part of its capital expenditure on maintenance and expansion requirements of existing units, while the balance was spent towards setting up its upcoming facilities in Mumbai (Borivili), Kanpur, Nagpur and Africa. As on December 31, 2016, the company's gearing stood at 0.9x while the interest coverage ratio stood at 4.7x and DSCR stood at 2.3x for 9M FY2017. Going forward, the incremental capital expenditure going forward would be funded through a mix of fresh term loans, vendor financing and internal accruals. Consequently, with aggressive capital expenditure plans, margins and profitability are likely to remain under pressure.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of HCGE along with its subsidiaries since all its subsidiaries operate in the same line of business, have operational linkages and share a common management.

Links to applicable Criteria

http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf
http://www.icra.in/Files/Articles/Hospitals-%20May%202016.pdf

About the Company:

Established in 1989, Healthcare Global Group (HCG Group/ the group) is present primarily in the oncology field with the largest cancer care network in South Asia. The group is promoted by Dr. B.S. Ajai Kumar, a practicing 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 Group has rapidly expanded its presence to Delhi, Ahmedabad, Chennai, Nasik, Ranchi, Cuttack, Hubli, Trichy and Vijayawada, among others. The group is currently present across the oncology value chain, offering services from prevention, screening, diagnosis and treatment to rehabilitation, supportive care and palliative care. The Group also offers India's largest network of cancer care facilities with over 30,000 patients visiting the Group's hospitals every year. Healthcare Global Enterprises Limited is the holding company of the Group.

For 9M FY2017, HCGE reported a PAT of Rs. 15.3 crore on an operating income of Rs. 517.7 crore, as against a PAT of Rs. 5.4 crore on an operating income of Rs. 582.0 crore in FY2016.

Status of non-cooperation with previous CRA: India Ratings and Research (Ind-Ra) has revised Healthcare Global Enterprises Limited's Outlook to Positive from Stable while affirming the Long-Term Issuer Rating at 'IND BBB' and simultaneously migrating it to the non-cooperating category.

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month-year & Rating in FY2014
				April 2017	October 2016	September 2015	February 2014
1	Term Loans	Long Term	92.62	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Fund based facilities	Long Term	55.00	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable	[ICRA]BBB (Stable)
3	Non fund based facilities	Long Term	84.38	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable	[ICRA]BBB (Stable)

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based facilities	2015	-	-	92.62	[ICRA]A- (Stable)
Term Loans	2015	-	By FY2025	55.00	[ICRA]A- (Stable)
Non fund based facilities	2015	-	-	84.38	[ICRA]A- (Stable)

Source: Healthcare Global Enterprises Limited

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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.
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