January 05, 2018

Healthcare Global Enterprises Limited

Summary of Rated Instruments

Instrument*	Previously Rated Amount (in crore)	Rated Amount (in crore)	Rating Action
Term Loans	92.62	245.70	[ICRA]A- (Stable) / reaffirmed
Long-Term Fund based limits	55.00	85.00	[ICRA]A- (Stable) / reaffirmed
Unallocated limits	-	250.00	[ICRA]A- (Stable) / reaffirmed
Non-fund based limits (sub-limits)	-	(163.70)	[ICRA]A- (Stable) / reaffirmed
Non-fund based limits	84.38	-	
Total	**232.00**	**580.70**	

Instrument details are provided in Annexure-1;*

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) outstanding on the Rs.245.70 crore (enhanced from Rs.92.62 crore) term loans, Rs.85.00 crore (enhanced from Rs.55.00 crore) long-term fund based facilities, Rs.250.00 crore proposed limits and the Rs.163.70 crore non-fund based facilities (sub-limits) of Healthcare Global Enterprises Limited (HCG / the company).

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 assigned rating takes into account HCG's long standing presence, niche focus on cancer therapy and established brand equity of the hospital chain and the promoters in the field of oncology. HCG's diversification into the relatively profitable fertility business has also supported the company's margins and revenues over the last few years. HCG's ongoing expansion to enter new geographies continues to supports its revenue growth (~20% during FY2017), better scale economies and creation entry barriers for competition which in turn have resulted in expansion of the company's operating margins to 15.1% in H1 FY2018 from 14.6% in FY2016. Further, ~14% increase in ARPOB during the same period coupled with relatively quicker turnaround of its newly opened centers also contributed to improvement in margins of the company. ICRA also notes that the near-term revenue visibility of the company remains strong supported by the ongoing plans to set up new centers in Nashik, Jaipur, Kolkata and South in addition to increase in capacity utilization of the Kanpur, Nagpur and Borivali centers which commenced operations in the last 18 months. Over the longer term, increasing incidence of cancer in conjunction with high quality of infrastructure and ability of the company to attract and retain reputed consultants, is expected aid healthy patient inflow supporting business prospects.

Debt-funded capital expenditure to the tune of ~Rs.300 crore during FY2017 and H1 FY2018 to support expansion to newer geographies has strained the company's debt protection metrics with TD/OPBDITA of 4.0x as on March 31, 2017 and 3.8x as on September 30, 2017. Going forward, ICRA expects the same to be further constrained by aggressive capital expenditure plans to set up new units over the next two-three years. Also, relatively longer gestation periods of its new, high-cost units like Borivali and South Mumbai are likely to affect HCG's cash accruals to a certain extent. HCG continues to be exposed to high concentration of revenues from the Bangalore market despite significant expansion into newer markets such as Gujarat and Maharashtra. While the additional capacities are expected to improve profitability over the longer term, its ability to improve its operating performance, capital structure and coverage, especially during initial quarters of operations at the new centers, will be crucial.

Outlook

ICRA believes HCG will continue to benefit from its established brand equity in the oncology segment. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthens the financial risk profile, despite the ongoing capex. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or if further debt-funded capital expenditure affects the company's debt metrics and liquidity position.

Key rating drivers

Credit Strengths

- **Strong market position**: HCG's long standing presence, niche focus on cancer therapy and established brand equity of the hospital chain and the promoters in the field of oncology continue to support its business prospects. The same has also supported expansion in the company's realizations in turn supporting margins and revenues.
- **Expansions in partnership with other medical professionals:** HCG's business strategy includes into partnerships with eminent oncologists / fertility specialists as it sets up new CCCs / fertility clinics, especially in non-metro towns. While a doctor's reputation in the field plays a significant role in attracting patients, the management has indicated that the company's strong brand recognition in the field of oncology mitigates the risk of revenue volatility in the event of termination of contract with certain doctors.
- **Diversification continues to support HCG's margins:** HCG's ongoing expansion to enter new geographies continues to supports its revenue growth, better scale economies and creation entry barriers for competition which in turn support the company's margins. The company had also geographically diversified to Africa by setting up a new centre in Kenya during H1 FY2018. Also, HCG's diversification into the relatively profitable fertility business has also supported the company's margins and revenues over the last few years.
- **Positive demand outlook:** ICRA also notes that the increasing incidence of cancer in India coupled with a positive demand outlook for healthcare services in the country due to factors such as better affordability, widening medical insurance coverage and growing awareness and under-penetration of healthcare services, is expected to benefit the company given its scalable model.

Credit Weaknesses

- **High debt levels**: Debt-funded capital expenditure to the tune of ~Rs.300 crore during FY2017 and H1 FY2018 to support expansion to newer geographies has strained the company's debt protection metrics. Going forward, ICRA expects the same to be further constrained by aggressive capital expenditure plans to set up new units across the country and in Africa over the next two-three years.
- **Commissioning of new hospitals to constrain the near-term profitability**: With the company planning to open four new hospitals by end of FY2018, initial ramp up period for these hospitals is expected to constrain the near term margins and profitability for the company. Further, relatively longer gestation periods of its new and upcoming high-cost units like Borivali and South Mumbai (on account of higher rentals) respectively are likely to affect HCG's cash accruals to a certain extent.
- **Exposed to regulatory risks**: Regulatory risks in terms of restrictive pricing regulations levied by central and state government organisations could constrain the profit margins of the healthcare industry and consequently, the company going forward.
- **Heavily reliant on Bangalore for revenues and margins**: Even while the company has geographically diversified over the last few years, continued dependence on Bangalore region continues to remain a concern. The company's Centre of Excellence in Bangalore continues to account for a significant share of the company's revenues supported by which the company generated about 46% of its revenues from Bangalore – down from 51% in FY2016.

Analytical approach: ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria

Corporate Credit Rating Methodology

About the company:

Established in 1989, Healthcare Global Enterprises Limited, is present primarily in the oncology field with the largest cancer care network (with 20 cancer care centres as on September 30, 2017) in South Asia. HCG was 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 35,000 patients visiting the Group's hospitals every year. Healthcare Global Enterprises Limited is the holding company of the HCG Group.

Key Financial Indicators of HCG

	FY2016	FY2017
Operating income (Rs.Crore)	584.2	700.1
PAT (Rs.Crore)	2.2	23.0
OPBDITA/ OI (%)	14.6%	15.1%
RoCE (%)	6.2%	8.3%
Total Debt/ TNW (times)	0.7	0.9
Total Debt/ OPBDITA (times)	3.8	4.0
Interest coverage (times)	2.2	4.6
NWC/ OI (%)	7.5%	10.0%

Source: company annual reports, ICRA Research

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortization; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income

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 during March 2017. Subsequently, Ind-Ra had withdrawn ratings outstanding on the company during April 2017.

Any other information: Not applicable

Rating history for last three years:

S. No	Name of Instrument	Current Rating FY2018				Chronology of Rating History for the past 3 years					
		Type	Rated amount (Rs. Crore)	Outstanding amount as on September 30, 2017 (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2017			Month- year & Rating in FY2016		Month-year & Rating in FY2014
					January 2018	March 2017	December 2016	October 2016	March 2016	September 2015	February 2014
1	Term Loans	Long Term	245.70	135.70	[ICRA]A - (Stable)	[ICRA] A- (Stable)	[ICRA] BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB (Stable)
2	Fund based limits	Long Term	85.00	16.79	[ICRA]A - (Stable)	[ICRA] A- (Stable)	[ICRA] (Positive)	[ICRA] BBB+ (Positive)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB (Stable)
3	Unallocated limits	Long Term	250.00	-	[ICRA]A - (Stable)	-	-	[ICRA] BBB+ (Positive)	[ICRA] BBB+ (Stable)	-	-
4	Non-fund based limits (sub-limits)	Long Term	(163.70)	-	[ICRA]A - (Stable)	[ICRA] A- (Stable)	[ICRA] BBB+ (Positive)	[ICRA] BBB+ (Positive)	[ICRA] BBB+ (Stable)	[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

Instrument Details

Name of the instrument	Date of Issuance / Sanction	Coupon rate	Maturity	Size of the issue (Rs. crore)	Current Rating and Outlook
Term Loans	2017	-	FY2027	245.70	[ICRA]A- (Stable)
Long-Term Fund based limits	2017	-	-	85.00	[ICRA]A- (Stable)
Unallocated limits	-	-	-	250.00	[ICRA]A- (Stable)
Non-fund based limits (sub-limits)	2017	-	-	(163.70)	[ICRA]A- (Stable)

Source: HCG

Name and Contact Details of the Rating Analyst(s):

Analyst Contacts

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20- 6606 9999; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	