March 28, 2024

Healthcare Global Enterprises Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Term Loan	359.51	359.51	[ICRA]A+(Stable); reaffirmed
Long-term – Fund-based – Cash Credit	155.00	155.00	[ICRA]A+(Stable); reaffirmed
Short-term – Non-fund Based	28.50	28.50	[ICRA]A1; reaffirmed
Total	**543.01**	**543.01**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation considers Healthcare Global Enterprises Limited's (HCG/the company) strong market position and established track record in the domestic oncology segment, its improving patient mix and diverse footprint across the country. The company's business prospects are also supported by its high-quality infrastructure and advanced technology, as well as its ability to attract and retain reputed medical professionals. HCG witnessed a healthy revenue growth of 21.2% during FY2023 supported by on the back of pent-up demand from the Covid period in addition to ramp-up in operations at its emerging centres (YoY revenue growth of 33.2% in FY2023). The company's revenue growth momentum moderated to 11.5% during 9M FY2024 due to normalisation in the post-Covid pent up demand in addition to operational issues in LINACs and mix optimisation at its Jaipur centre, which impacted its overall footfalls to a certain extent.

The operating profit margin (OPM) of HCG improved to 17.7% in FY2023 from 17.1% in FY2022, led by OPBDITA breakeven in its new centres, and improvement in payor mix in addition to increase in high-value services with continued investment in advanced medical technology. Further, during 9M FY2024, HCG witnessed slight moderation in OPM to 16.8% as the company's revenues and margins were impacted in Q1 FY2024 by delay in operationalisation of five LINACs and certain one-off costs (discussed in later sections). Going forward, the company's revenue growth is expected to remain healthy driven by increasing cancer incidence in addition to HCG's established position in the oncology segment. Further, the company expected to witness improvement in profitability margins supported by improving operating leverage, reduction in losses and turnaround of its emerging centres, and continued improvement in payor mix.

While the operating margins have shown improvement over the years, HGC's RoCE remains constrained, largely due to nascent stages of operations and operating losses being incurred at its emerging centres. For Q3 FY2024, RoCE for HCG's mature centres and emerging centres was 18.5% and -3.9%, respectively. However, the same is expected to improve over the near to medium term backed by ramp up of new centres, planned asset-light expansion and improvement in profitability margins. That said, timely commencement of operations at its upcoming centres in Bangalore and impact of the same on the company's overall operating profits will remain a key monitorable. While the company has been increasing its footprint by setting up new centres across the country, it derived ~59% of its revenues from Karnataka and Gujarat during 9M FY2024, thereby remaining exposed to significant geographic-concentration risks. 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, such as the Clinical Establishment Act, 2010.

During 9M FY2024, the company expanded its footprint in Madhya Pradesh by acquiring the business of SRJ Health Care Private Limited and Amrish Oncology Services Private Limited, which is a 100-bedded cancer care hospital in Indore. Further, the company has also acquired the remaining partnership stake in HCG NCHRI Oncology LLP as well as a 100% stake in NCHRI Pvt. Ltd., which has the lease of the land where HCG Cancer Centre in Nagpur operates. Further, in March 2024, the company announced the acquisition of the remaining partnership stake in HCG Eko Oncology LLP, which owns and operates the HCG Eko Cancer Centre in Kolkata. The company is also undertaking two greenfield projects, one in North Bangalore, which will be

100-bedded facilities, and second in Whitefield, Bangalore, which will be a 25-bedded facility. Further, two large brownfield expansions are also underway, wherein the company is shifting a 100-bedded facility to a new 200-bedded facility in Ahmedabad. It is also expanding its bed capacity in Cuttack by 60 beds. Given the outflows towards the aforementioned acquisitions/incremental stake acquisitions in its subsidiaries along with regular maintenance capex and ongoing capex towards greenfield/brownfield projects, the company's net debt increased by ~Rs. 225 crore as on December 31, 2023, as against March 31, 2023, levels. The company is also expected to incur ~Rs. 225 crore towards capex in FY2025 as well towards the aforementioned projects. Amid this sizeable ongoing capex, the company's overall debt levels and margin trajectory at its upcoming centres and impact on the overall profitability and debt metrics will be key rating monitorables.

The Stable outlook on the long-term rating reflects ICRA's expectation that HCG will continue to benefit from its strong market position coupled with ramp-up of operations at its new centres over the near-to-medium term and, thereby, improve its debt coverage metrics.

Key rating drivers and their description

Credit strengths

Strong market position in the oncology 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 tier-II and III towns. While a doctor's reputation also plays a significant role in attracting patients, HCG's strong brand recognition in oncology has been supporting revenue growth over the last few years. Over the years, HCG has also tried to increase its footprint across the country, which has further strengthened its market position.

Improvement in operational performance with turnaround in new centres – During FY2023, the operating profitability improved by ~26%, led by improvement in both average occupancy rate (AOR), which was 64.9% in FY2023 increasing from 57.1% in FY2022 and average revenue per occupied bed (ARPOB) levels, which improved to Rs. 39,811 in FY2023 from Rs. 38,350 in FY2022, and OPBDITA-breakeven in most of its emerging centres (operating profits of Rs. 11.8 crore in FY2023 over breakeven operating profit of Rs. 0.4 crore in FY2022). While the company's operating profit margins were impacted to a certain extent in 9M FY2024 by delay operationalisation of LINACs in Q1 FY2024 and certain one-off costs such as cost towards the Indore acquisition, the disposal of its Delhi IVF centre and ESOP-related costs during Q3 FY2024, the margins continue to remain healthy. The company's ARPOB witnessed an increase to Rs. 42,788 in Q3 FY2024 from Rs. 39,811 in FY2023, largely backed by improvement in payor mix and investment in higher value services such as LINAC machines and Robotic surgeries. This also contributes to the overall improvement in revenues and margins. Going forward, with further ramp-up of new centres and improvement in ARPOB due to further improvements in payor mix and price revisions, margins are expected to remain healthy.

Stable long-term demand outlook –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 industry at large.

Credit challenges

Sizeable revenues from Karnataka and Gujarat despite improving geographical diversification – The company faces high geographic concentration risk, with Karnataka and Gujarat contributing ~59% to its revenues in 9M FY2024. With the company undertaking significant capacity expansion in Bangalore and Ahmedabad, the risk is expected to continue, going forward.

Recent acquisitions and ongoing organic capex have resulted in increase in net debt levels – During 9M FY2024, the company expanded its footprint in Madhya Pradesh by acquiring the business of SRJ Health Care Private limited and Amrish Oncology Services Private Limited, which is a 100-bedded cancer care hospital in Indore. Further, the company has also acquired the remaining partnership stake in HCG NCHRI Oncology LLP and acquired a 100% stake in NCHRI Pvt. Ltd., which has the lease of the land on where HCG Cancer Centre, Nagpur, operates. Further, in March 2024, the company announced the acquisition of the remaining partnership stake in HCG Eko Oncology LLP, which owns and operates the HCG Eko Cancer Centre in Kolkata. The company is also undertaking two greenfield projects, one in North Bangalore, which will be 100-bedded facility and second in Whitefield, Bangalore, which will be a 25-bedded facility. Further, two large brownfield expansions are also underway, wherein the company is shifting from its current 100-bedded facility to a new 200-bedded facility in Ahmedabad. It is also expanding its bed capacity in Cuttack by 60 beds. Given the outflows towards the aforementioned acquisitions/incremental stake acquisitions in its subsidiaries, the outflow towards regular maintenance capex and ongoing capex towards greenfield/brownfield projects, the company's net debt increased by ~Rs. 225 crore as on December 31, 2023, as against March 31, 2023, levels. The company is also expected to incur ~Rs. 225 crore towards capex in FY2025 as well towards the aforementioned projects. Amid sizeable ongoing capex, the company's overall debt levels and margin trajectory at its upcoming centres and impact on the overall profitability and debt metrics will be key rating monitorable.

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. The recent Supreme Court order directing the Central Government to present a concrete proposal to standardise rates across hospitals as per the Clinical Establishment Act and incremental developments on the same remain a key monitorable for the industry.

Stiff competition in the healthcare industry – HCG is exposed to competition from other hospital chains in the industry. However, the company's established market position in the oncology segment is expected to aid growth, going forward.

Environmental and Social Risks

Environmental considerations: HCG does not face any major climate risk factors. However, the company needs to comply with environmental laws and regulations pertaining to handling and disposal of bio-medical specimens, wastewater, infectious and hazardous waste. Further, energy consumption by large medical equipment with emissions could pose environment risks. This requires investments in infrastructure to handle the generated waste, treating wastewater effluents and conserving energy. The company has set up a 2.25-MW solar power plant for optimising its captive power usage. This is expected to save ~70% of the energy costs of the hospital centres. Accordingly, HCG has moderate exposure to environmental risks.

Social considerations: Exposure to social risks is moderate for HCG. Social risks include litigation exposure and standard compliance requirements, given the importance of the service being provided. Further, regulatory interventions such as price control measures, imposition of restrictions, if any, specifically levied, could impact the earnings of the company.

Liquidity position: Adequate

HCG's liquidity profile is adequate, characterised by cash and liquid investments of Rs. 129.8 crore on December 31, 2023. Average utilisation of the working capital facility was moderate at ~22% for the 15 months ending January 31, 2024, with undrawn working capital limits of ~Rs. 100 crore as of January 31, 2024. The repayment obligations of the company are ~Rs. 46.6 crore in FY2024 and ~Rs. 55.4 crore in FY2025. The company has capex plans of ~Rs. 225 crore in FY2025 in line with FY2024 levels. However, the company also has undrawn term loans of over Rs. 250 crore, which can be availed to partially fund the capex it plans to incur. Overall, ICRA expects the company to be able to service its near-term repayment obligations and capex commitments through available liquidity and internal cash accruals.

Rating sensitivities

Positive factors – HCG's ratings could be upgraded if there is considerable improvement in profitability metrics aided by ramp-up of new centres, while maintaining its liquidity position and improving 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[1] more than 3.0x 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	NA
Consolidation/Standalone	ICRA has taken a consolidated view on HCG, which includes its subsidiaries and associate companies, while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

About the company

Established in 1989, Healthcare Global Enterprises Limited is present primarily in the oncology field with the largest cancer care network (23 cancer care centres as of December 31, 2023) and four multi-speciality hospitals. It is promoted by Dr. BS 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), by Dr. BS 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 present across the oncology value chain, offering services from prevention, screening, diagnosis and treatment to rehabilitation, supportive care, and palliative care.

Pursuant to the investment agreement of the company and its promoter with Aceso Company Pte Ltd. (CVC Group) in June 2020 and subsequent equity infusion, a majority stake of 60.4% (on fully diluted basis) is now held by the CVC Group. Established in 1981, CVC is a private equity and investment advisory firm with ~$199 billion of assets under management, as of February 2024. It has a global network of 29 local offices—with 16 across EMEA and the Americas and 13 in the Asia Pacific. The company has 100% equity interest in BACC Health Care Private Limited (BACC), which operates fertility centres under the Milann brand. HCG operates six Milann fertility centres, of which five are in Bangalore, and one in Chandigarh.

Key financial indicators

HCG Consolidated	FY2022	FY2023	9M FY2024*
Operating income (Rs. crore)	1,397.8	1,694.4	1,417.5
PAT (Rs. crore)	40.3	17.6	27.2
OPBDITA/OI (%)	17.1%	17.7%	16.8%
PAT/OI (%)	2.9%	1.0%	1.9%
Total outside liabilities/Tangible net worth (times)	1.5	1.7	--
Total debt/OPBDITA (times)	3.8	3.0	3.4
Interest coverage (times)	2.4	2.9	2.9

*PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Unaudited Financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1] *Where Net Debt includes lease liabilities*

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount outstanding as of Mar 31st, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Mar 28, 2024	Dec 16, 2022	Sep 27, 2021	August 07, 2020	May 21, 2020
1	**Fund Based Term loan**	Long-term	359.51	374.64	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	**Fund based - Cash credit**	Long-term	155.00	--	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
3	**Interchangeable**	Long term	--	--	-	-	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
4	**Non-fund based**	Short-term	28.50	--	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**
5	**Interchangeable**	Short term	--	--	-	-	-	**[ICRA]A2+**	**[ICRA]A2+**

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund Based Term loan	Simple
Long term - Fund based - Cash credit	Simple
Short term - non-fund based	Very 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: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Term loan	NA	NA	NA	359.51	[ICRA]A+ (Stable)
NA	Fund based - Cash credit	NA	NA	NA	155.00	[ICRA]A+ (Stable)
NA	Non-fund-based limits	NA	NA	NA	28.50	[ICRA]A1

Source: Company; Note: Amounts in Rs. crore

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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
HCG Oncology Hospitals LLP	100.00%	Full Consolidation
HCG Oncology LLP	74.00%	Full Consolidation
HCG NCHRI Oncology LLP	100%	Full Consolidation
NCHRI Private Limited	100%	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	100.00%	Full Consolidation
Healthcare Global (Africa) Private Limited	100.00%	Full Consolidation
HealthCare Global (Uganda) Private Limited	100.00%	Full Consolidation
HealthCare Global (Kenya) Private Limited	100.00%	Full Consolidation
HealthCare Global (Tanzania) Private Limited	100.00%	Full Consolidation
Cancer Care Kenya Limited	81.63%	Full Consolidation
Suchirayu Health Care Solutions Limited	78.60%	Full Consolidation
Advanced Molecular Imaging Limited – Joint venture	50.00%	Limited Consolidation

Source: company annual report FY2023

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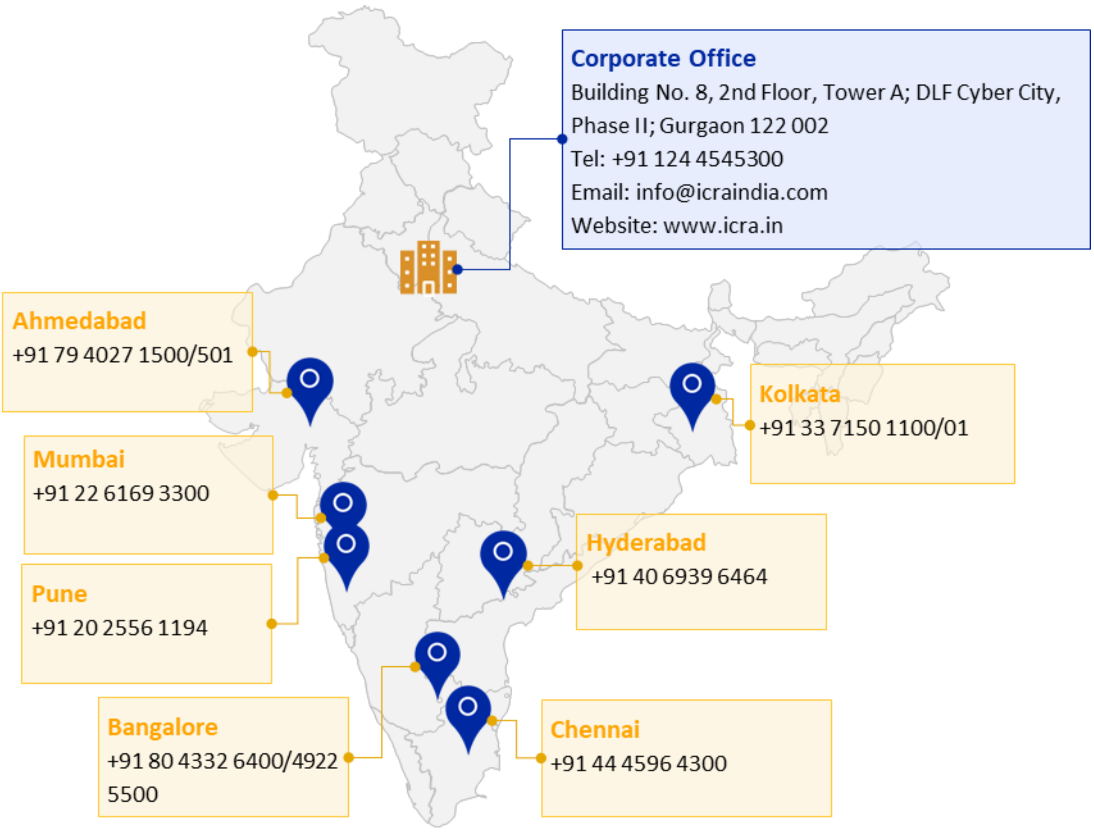

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