

March 28, 2024

## HCG EKO Oncology LLP: Rating reaffirmed

### Summary of rating action

| Instrument*                        | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                 |
|------------------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| Long Term – Term Loan              | 28.21                                | 28.21                               | [ICRA]A+ (Stable); Reaffirmed |
| Long Term – Fund Based Cash Credit | 1.00                                 | 1.00                                | [ICRA]A+ (Stable); Reaffirmed |
| Short Term – Non-fund Based        | 6.00                                 | 6.00                                | [ICRA]A1; Reaffirmed          |
| <b>Total</b>                       | <b>35.21</b>                         | <b>35.21</b>                        |                               |

\*Instrument details are provided in Annexure I

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Healthcare Global Enterprises Limited (HCG/ the company) along with HCG Eko Oncology LLP (Eko) as ICRA's believes EKO is an integral part of HCG and operates like its extended arm. ICRA also draws comfort from HCG's long track record of support to EKO and the close business, financial and management linkages between them. ICRA expects the linkages between HCG and EKO to remain strong on various dimensions, including business ties, financial aspects, and management support.

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, HCG'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<sup>1</sup> more than 3.0x on a sustained basis.

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">ICRA's Rating methodology for Hospitals</a>   |
| 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.

HCG Eko is a limited liability partnership registered under the Limited Liability Partnership Act, 2008 and commenced operations in Q1 FY2020. HCG had entered into a partnership with Eko Diagnostics Private Limited to set up HCG Eko. In March 2024, HCG announced that it would be acquiring the entire partnership stake of Eko Diagnostics Private Limited in HCG Eko which will increase HCG’s ownership in the entity to 100%.

<sup>1</sup> Where Net Debt includes lease liabilities

### 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

### Rating history for past three years

| Instrument               | Type       | Current rating (FY2024)  |   |                         | Chronology of rating history for the past 3 years                                 |                         |                         |
|--------------------------|------------|--------------------------|---|-------------------------|---|-------------------------|-------------------------|
|                          |            | Amount Rated (Rs. crore) | Amount outstanding as of Mar 31, 2023 (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023   | Date & Rating in FY2022 | Date & Rating in FY2021 |
|                          |            |                          |   | Mar 28, 2024            | Dec 22, 2022  | Sep 27, 2021            | May 22, 2020            |
| 1 Fund Based Term loan   | Long-term  | 28.21                    | 25.08   | [ICRA]A+ (Stable)       | [ICRA]A+ (CE)<br>(Stable) withdrawn and [ICRA]A+ (Stable) assigned simultaneously | [ICRA]A+(CE) (Stable)   | [ICRA]A-(CE) (Stable)   |
| 2 Fund based Cash Credit | Long-term  | 1.00                     | --  | [ICRA]A+ (Stable)       | [ICRA]A+ (CE)<br>(Stable) withdrawn and [ICRA]A+ (Stable) assigned simultaneously | --                      | [ICRA]A-(CE) (Stable)   |
| 3 Non-fund based         | Short-term | 6.00                     | --  | [ICRA] A1               | [ICRA]A1(CE) withdrawn and [ICRA]A1 assigned simultaneously                       | [ICRA]A1(CE)            | [ICRA]A2+(CE)           |

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](https://www.icra.in)

## Annexure I: Instrument details

| ISIN No | Instrument Name                    | Date of Issuance | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|------------------------------------|------------------|-------------|---------------|--------------------------|----------------------------|
| NA      | Long Term – Term Loan              | 2015             | NA          | FY2028        | 28.21                    | [ICRA]A+ (Stable)          |
| NA      | Long Term – Fund Based Cash Credit | NA               | NA          | NA            | 1.00                     | [ICRA]A+ (Stable)          |
| NA      | Short Term – Non-fund Based        | NA               | NA          | NA            | 6.00                     | [ICRA]A1 (Stable)          |

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

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545 5328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**

+91 22 6114 3442

[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Mythri Macherla**

+91 22 6114 3435

[mythri.macherla@icraindia.com](mailto:mythri.macherla@icraindia.com)

**Akshit Goel**

+91 80 4332 6416

[akshit.goel@icraindia.com](mailto:akshit.goel@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto: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](http://www.icra.in)



## ICRA Limited



### Registered Office

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



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.