

May 21, 2020

Healthcare Global Enterprises Limited: Ratings reaffirmed; outlook on long-term rating changed to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	532.20	531.31	[ICRA]A-; reaffirmed, outlook revised to Stable from Negative
Long-term Fund Based – CC	85.00	100.00	[ICRA]A-; reaffirmed, outlook revised to Stable from Negative
Long-term Non-fund based (sub-limits)	(356.11)	(356.11)	[ICRA]A-; reaffirmed, outlook revised to Stable from Negative
Short-term-Non-fund based	28.50	28.50	[ICRA]A2+; Reaffirmed
Short-term Non-fund based (sub-limits)	(48.50)	(48.50)	[ICRA]A2+; Reaffirmed
Short-term - Fund based	20.00	0.00	⁻¹
Total	665.70	659.81	

*Instrument details are provided in Annexure-1

Rationale

The change in outlook factors in the expected improvement in Healthcare Global Enterprises Limited's (HCG/the company) financial profile of with the proposed equity infusion from Aceso Company Pte. Ltd (Aceso) during FY2021, as per indicative timelines. HCG is expected to use majority of the equity proceeds (expected to be more than Rs. 540 crore) to reduce its long-term debt resulting in a marked improvement in the company's debt indicators. HCG is also expected to utilize ~Rs. 70 crore to acquire additional 49.9% stake in its subsidiary, BACC Healthcare Private Limited (BACC).

The ratings continue to consider HCG's strong market position, improving patient mix and increasing footprint across the country. With high quality infrastructure and advanced technology and the ability to attract and retain reputed medical professionals, the company has been able to witness rapid scale up reflecting in healthy revenue growth of 17.8% during FY2019 and 14.5% during 9M FY2020. 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 given its scalable model. That said, in the immediate term, the ongoing lockdown in India is expected to affect footfalls during FY2021 which will have a bearing on all the industry players including HCG.

Given the uncertain environment, the liquidity cushion between cash balances and available lines of credit, and debt servicing requirements are key rating drivers. In this respect, HCG's liquidity position is adequate with undrawn working limits of ~Rs. 5-10 crore and cash balances of ~Rs. 40 crore as on March 31, 2020. HCG has sought moratorium on payments from its lenders as a part of the Covid-19 Regulatory Package announced by the Reserve Bank of India (RBI) on

¹ ICRA had [ICRA]A- (Stable) rating outstanding on the Rs. 250.00 crore long-term unallocated limits earlier. This has currently been revised to nil.

March 27, 2020. Accordingly, scheduled debt obligations that were due in March, April and May 2020 have been deferred. This has supported the company's liquidity to a certain extent. While HCG will have significant interest repayments during June 2020, ICRA expects the same to be serviced from the existing cash balances and collections during Q1 FY2021.

The ratings also continue to factor in the longer-than-expected turnaround and nascent stage of operations at some centers resulting in continuous decline in operating margins (to 12.8% in FY2019 and 11.3% during 9M FY2020 from 14.3% during FY2018) and net losses of Rs. 19.9 crore and Rs. 42.8 crore during FY2019 and 9M FY2020 respectively. However, the company continued to generate cash profits. Going forward, the losses from the new centers opened over the last two years are expected to continue impacting the company's margins over the next one-two years.

Even while the company has been increasing its footprint by setting up new centers across the country, it continues to derive ~65% of its revenues from Karnataka and Gujarat exposing it to significant geographic concentration risks. Further, with ~25% (as on FY2019) 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.

Key rating drivers and their description

Credit strengths

Strong market position with increasing footprint across the country: HCG's long-standing presence, niche focus on cancer therapy and established brand equity of the hospital chain in the field of oncology support its business prospects. Over the years, HCG has also endeavoured to reduce its dependence on Karnataka by increasing its footprint across the country which has further strengthened its brand equity.

Expansions in partnership with other medical professionals facilitating faster scaleup: 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, the company's strong brand recognition in the field of oncology has supported the healthy revenue growth over the last few years. HCG reported yoy revenue growth of 17.8% during FY2019 and 14.5% during 9M FY2020 while the five-year (ending FY2019) was ~16.8%.

Equity infusion expected to support improvement in debt indicators: Currently, the company's debt indicators are stretched with TD/OPBDITA of 5.7x as on September 30, 2019 and interest cover of 1.5x during H1 FY2020 and 9M FY2020. The company is expected to raise equity in the range of Rs. 540-650 crore over the next few months, majority of which will go towards reduction in long-term debt resulting in a marked improvement in the company's debt indicators.

Positive demand outlook: While footfalls during FY2021 are expected to be impacted by the Covid-19 pandemic in India, footfalls are expected to revive as the viral curve flattens. 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 given its scalable model.

Credit challenges

Longer-than-expected turnaround and nascent stage of operations at some centers continue to constrain profitability: Some of the company's centers like Nagpur and Borivali have taken longer than expected to breakeven which has impacted the overall margins of the company (to 12.8% in FY2019 and 11.3% during 9M FY2020 from 14.3% during FY2018). Milann's (HCG's fertility division) weak performance also impacted the overall margins during FY2019. The company has commissioned new hospitals at South Mumbai and Kolkata which are expected to impact the profit

margins of the company over the next 2-3 quarters. In addition to weak operating performance, significant finance (interest costs and forex losses) and depreciation expenses have resulted in net losses of Rs. 19.9 crore and Rs. 42.8 crore during FY2019 and 9M FY2020 respectively. However, the company continued to generate cash profits.

Despite improving geographical diversification, sizeable amount of revenue continues to be derived from Karnataka and Gujarat: Albeit reducing, the company has high geographic concentration with Karnataka and Gujarat contributing to ~65.7% of its revenues during H1 FY2020. With continued ramp-up expected in new centres opened during FY2019 and FY2020, the geographic concentration is expected to reduce steadily going forward.

Exposed to regulatory risks inherent in the sector; performance during FY2021 expected to be impacted on account of the Covid-19 pandemic: Going forward, regulatory risks pertaining to restrictive pricing regulations levied by the Central and state government organizations could constrain the profit margins of the company. While the company has adopted several cost cutting measures to support its margins, the nationwide lockdown affected the company's revenues during March-May 2020. With expected improvement in footfalls from June 2020 with easing of lockdowns in some areas, operating performance of the company during H1 FY2020 will be a key monitorable going forward. However, given the fast-evolving nature of the pandemic, more widespread growth transmission could impact HCG's operations adversely.

Vulnerability to fluctuations in foreign exchange rates on account of foreign currency borrowings for importing equipment: With ~25.4% of the overall debt in foreign currency as on March 31, 2019, the company's margins remain vulnerable to fluctuations in foreign exchange rates. The company had forex loss (notional) of Rs. 11.7 crore during FY2019 on account of unfavorable fluctuations in forex rate. The depreciation of the INR towards the second fortnight of March 2020 is also estimated to have affected HCG's net margins during FY2020.

Liquidity position: Adequate

HCG's liquidity is **adequate** with cash balances of Rs. 40.8 crore and undrawn working capital limits of ~Rs. 5-10 crore as on March 31, 2020 supporting its liquidity. While HCG's total debt outstanding as on September 30, 2019 is Rs.714.2 crore, the repayment obligations against the same during FY2021 and FY2022 are Rs. 15.5 crore and Rs. 37.7 crore respectively. While the company has significant debt on its books, the repayment obligations against the same appear to be limited on the back of longer moratorium period and ballooning repayment structure of its deferred payment obligations + term loan model of borrowings.

HCG has sought moratorium on payments from its lenders as a part of the Covid-19 Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020. Accordingly, scheduled debt obligations that were due in March, April and May 2020 have been deferred. This has supported the company's liquidity to a certain extent. While HCG will have significant interest repayments during June 2020, ICRA expects the same to be serviced from the existing cash balances and collections during Q1 FY2021. The company's capex (expected to be less than Rs. 70 crore per annum) during FY2021 and FY2022 is expected to be funded through a mix of term loans, equity proceeds, internal accruals and cash balances of the company.

Rating sensitivities

Positive triggers – HCG's ratings could be upgraded with improvement in profitability (ROCE) and TD/OPBDITA less than 1.5x on a sustained basis

Negative triggers – Negative pressure on HCG's ratings could arise if there is any deterioration in margins and debt-funded capex or acquisitions lead to deterioration of the company's credit profile with TD/OPBDITA>2.3x 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	The ratings are based on the consolidated financial statements of the issuer

About the company

Established in 1989, Healthcare Global Enterprises Limited, is present primarily in the oncology field with the largest cancer care network (with 22 cancer care centres as on February 2019) in South Asia. HCG 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 company has rapidly expanded its presence to Ahmedabad, Chennai, Nasik, Ranchi, Rajkot, Cuttack, Hubli, Mumbai, Nagpur, Vizag and Vijayawada, among others. The company is currently present across the oncology value chain, offering services from prevention, screening, diagnosis and treatment to rehabilitation, supportive care and palliative care.

The company had acquired 50.1% equity interest in BACC in 2013, which operates fertility centres under the Milann brand. Pursuant to this acquisition, it now operates eight Milann fertility centres in Bengaluru, Delhi, Ahmedabad and Chandigarh. In accordance with the terms of the shareholders' agreement dated March 22, 2013 between the company, Dr. Kamini A. Rao and BACC, the company has announced that it shall acquire the remaining 46,695 equity shares, constituting 49.9% of the share capital of BACC from Dr. Rao. The same is expected to happen during FY2021. While the promoter group currently holds 23.9% stake in the company, Aseco is expected to become the majority shareholder post equity infusion during FY2021.

Key financial indicators (Consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	830.7	978.7
Adjusted PAT (Rs. crore)	18.3	-19.9
OPBDIT/OI (%)	14.3%	12.8%
RoCE (%)	9.0%	5.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	2.1
Total Debt/OPBDIT (times)	3.9*	5.3*
Interest Coverage (times)	2.8	1.8
DSCR	0.9	0.8

Source: Healthcare Global Enterprises Limited; *indicates in addition to the debt specified here, the company also had a contingent liability of Rs. 54.4 crore in the form of corporate guarantees given as on March 31, 2019

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on March 31, 2020	May 21, 2020	Date & Rating in FY2020	Date & Rating in FY2018	Date & Rating in FY2017		
						April 4, 2019	January 5, 2018	April 20, 2017	December 8, 2016	October 13, 2016
1	Term Loans	Long Term	531.31	NA	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Positive)
2	Fund Based – Cash Credit	Long Term	100.00	NA	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Positive)
3	Non-fund based Limits	Long Term	(356.11)	NA	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Positive)
4	Non-Fund based – LC/BG	Short Tern	28.50	NA	[ICRA]A2+	[ICRA]A2+	-	-	-	-
5	Non-fund-based limits	Short Term	(48.50)	NA	[ICRA]A2+	[ICRA]A2+	-	-	-	-
6	Fund-based – Short Term loan	Short Term	-	NA	-	[ICRA]A2+	-	-	-	-
7	Unallocated	Long Term	-	NA	-	-	[ICRA]A-(Stable)	-	-	[ICRA]BBB+(Positive)

Amount in Rs. crore

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

ISI No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2019	9.75-10.35%	-	531.31	[ICRA]A- (Stable)
NA	Long-term fund-based limits	FY2019	10.6%	-	100.00	[ICRA]A- (Stable)
NA	Non-fund-based limits (sub-limits)	FY2019	-	-	(356.11)	[ICRA]A- (Stable)
NA	Short-term non-fund-based limits	FY2019	-	-	28.50	[ICRA]A2+
NA	Non-fund-based limits (sub-limits)	FY2019	-	-	(48.50)	[ICRA]A2+

Source: company

Annexure-2: List of entities considered for consolidated analysis²

Company Name	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	50.10%	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	76.73%	Full Consolidation
HealthCare Global (Uganda) Private Limited	76.73%	Full Consolidation
HealthCare Global (Kenya) Private Limited	76.73%	Full Consolidation
HealthCare Global (Tanzania) Private Limited	76.73%	Full Consolidation
Strand Life Sciences Private Limited	38.20%	Limited Consolidation

Source: company; Note: all figures are as on March 31, 2019

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