Healthcare Global Enterprises Limited

December 01, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	489.15	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Total bank facilities	**489.15 (₹ Four hundred eighty-nine crore and fifteen lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Healthcare Global Enterprises Limited (HCGEL) factors in the strong recovery in admissions and procedures performed translating into sustained improvement in its revenues and profitability. New hospitals (which commenced operations after April 1, 2017) have also witnessed a turnaround in the performance, with all of them generating positive PBIDT except for the Kolkata centre. CARE Ratings Limited (CARE Ratings) believes HCGEL's revenue would continue to grow amid the increasing occurrences of cancer and under-penetration of quality cancer-care providers in India. HCGEL, on back of its strong technical capabilities and adequate capacity, is well poised to tap the growth. The rating also positively factors in the reduction in the net debt level aided by healthy cash generated from the operations as well as through equity infusion and sale of investment in Strand Lifesciences.

CARE Ratings also takes note of the relatively high total debt to gross cash accruals (TDGCA), and low interest coverage (ICR) and return on capital employed (ROCE), though it has been improving. HCGEL plans to acquire additional assets primarily from the existing cash and cash equivalents, and the management has given guidance that such assets would be margin accretive entities. This, along with HCGEL's ability to further ramp-up the operations, especially in new centres, remains to be seen and would be critical to improve its above-mentioned financial parameters.

While CARE Ratings continues to maintain positive long-term outlook on the healthcare sector, the company is exposed to the competition from other hospital chains and charitable institutions and is also exposed to the regulatory risk associated with operations.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in the turnover of more than ₹1,800 crore and improvement in ROCE while maintaining net debt/ TDGCA (excl. IND AS 116 impact) of less than 1x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant weakening in the operating performance with lower-than-expected profitability translating into net debt/ PBIDT of more than 3x.

Detailed description of the key rating drivers

Key rating strengths

Consistent improvement in scale of operations and profitability: HCGEL's consolidated revenue grew by 38% during FY22 (refers to the period April 1 to March 31) on back of increased admissions and procedures performed resulting in improvement in the PBDIT margin from 12.32% in FY21 to 17.06% in FY22. The momentum sustained in H1FY23, with the company reporting growth of 22.6% on Y-o-Y basis and improvement in PBDIT margin further to 18.91%. Post IPO, the company in March 2016 undertook aggressive capex plans, and hospitals being inherently exposed to long gestation periods, led to HCGEL incurring higher losses during FY20 and FY21, which were further accentuated by COVID-19. Nevertheless, these new centres have gradually witnessed a turnaround in the performance, with all the hospitals generating positive PBDIT except for the Kolkata hospital. HCGEL is firmly placed to tap the increasing demand for cancer treatment, which would continue to drive the revenue growth.

Established brand and strong market position of company in field of cancer care treatment: HCGEL is the leading player in the Indian private healthcare segment with respect to cancer care treatment. It operates 22 cancer care hospitals under the brand 'HCG', four multi-specialty hospitals with a total number of 1797 operational beds as on September 30, 2022. It

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

has presence in nine states, with predominance in Karnataka, Gujarat and Maharashtra clusters. HCGEL provides medical, surgical and radiation oncology across all centres and deploys latest machines of Cyberknife, Linac, PET-CT, etc. HCGEL employs more than 400 oncologists. Its dominant presence in cancer care treatment is driven by strong brand equity and superior quality of service along with partnership with other established medical professionals. The company also operates seven IVF fertility centres under the brand 'Milann' through its wholly-owned subsidiary, BACC Healthcare Private Limited (BACC).

Reduction in net debt of the company: Aided by equity infusion during FY21 and FY22, improvement in cash accruals as well as sale of certain non-core investments, HCGEL's net debt (excl. lease liabilities) reduced to ₹190 crore as on March 31, 2022 from ₹288.2 crore as on March 31, 2021 (March 31, 2020: ₹707.5 crore). This is despite the acquisition of Suchirayu Healthcare Solutions Private Limited (rated 'CARE A+; Stable'), which operates a 118-bed multispecialty hospital in Hubballi, Karnataka.
While the capital structure of HCGEL is likely to remain satisfactory in the near to medium term, any large debt-funded acquisition impacting the same might weigh negatively on its credit profile. As such, the management has given guidance that further acquisition would be margin accretive.

Key rating weaknesses
Relatively moderate coverage indicators though improving: On a consolidated basis, HCGEL's ICR stood relatively moderate at 3.08x for H1FY23, though improved from 2.43x in FY22. With no immediate debt raising plan of HCGEL and expected improvement in profitability, ICR is expected to increase further. However, rising interest rates might restrict the same to a certain extent. Moreover, it is pertinent for the company to continue to ramp-up operations in new centres to improve its relatively higher TDGCA.

Exposure to regulatory risk and competition from other hospital chains: The company remains exposed to competition from other hospital chains. Furthermore, the company operates in a regulated industry that has witnessed continuous regulatory intervention during the past couple of years. Regulations such as restrictive pricing regulations instated by the central and state governments and stricter compliance norms can have adverse impact on the margins of the company. However, consumption of tobacco, obesity, and unhealthy lifestyles have largely contributed to the growing incidences of cancer in India. Additionally, lack of access to quality healthcare facilities and under penetration of healthcare service in India bodes well for the company's operations with strong brand image and geographical diversification, and the same is expected to aid in the improvement in occupancy levels.

Liquidity: Strong

HCGEL's liquidity position is strong following cumulative equity infusion of ₹651 crore in FY21 and FY22 resulting in significant reduction in debt obligations as well as strong recovery in operational parameters of several assets. On a consolidated basis, HCGEL had un-encumbered cash and cash equivalents of ₹159.8 crore as on September 30, 2022. With no major debt-funded capex planned in the near term, the liquidity profile of the company is likely to remain intact.

Analytical approach

Consolidated due to strong managerial, operational and financial linkages with its subsidiaries, associates and joint ventures. Lost of entities consolidated is mentioned below:

Name of entity	Shareholding of HCGEL
HCG Medi Surge Hospitals Private Limited	74%
Malnad Hospital and Institute of Oncology P Ltd	70.25%
HealthCare Global Senthil Multi Specialty Hospital Private Limited	100%
Niruja Product Development and Research Private Limited	100%
BACC Healthcare Private Limited	100%
HealthCare Diwan Chand Imaging LLP	75%
Apex HCG Oncology Hospitals LLP	100%
HCG Oncology LLP	74%
HCG NCHRI Oncology LLP	76%
HCG Manavata Oncology LLP	51%
HCG EKO Oncology LLP	50.5%
Suchirayu Health Care Solutions Limited	78.6%
HCG SUN Hospitals LLP	100%
HCG (Mauritius) Private Limited	100%
Healthcare Global (Africa) Private Limited	100%
Healthcare Global (Uganda) Private Limited	100%

Healthcare Global (Kenya) Private Limited	100%
Healthcare Global (Tanzania) Private Limited	100%
Cancer Care Kenya Limited	78.1%

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Hospital

About the company

HCGEL is promoted by Dr B.S. Ajai Kumar, a practicing radiation and medical oncologist with over three decades of experience. HCGEL commenced operations with a single cancer care centre in Bangalore in 1989. Currently, HCGEL is the largest provider of cancer care in India with presence across the entire oncology treatment value chain. It runs 22 cancer care hospitals under the brand 'HCG' and four multi-specialty hospitals in nine states, with total number of 1797 operational beds as on September 30, 2022, on a consolidated basis.
The company also operates seven fertility treatment centres through its wholly-owned subsidiary, BACC Healthcare Private Limited (BACC), under the brand 'Milann' as on June 30, 2022.
During July 2020, CVC Capital (through Acesco Company Pte. Ltd (Acesco) acquired 29.2% stake in HCG for ₹625 crore and acquired another 28.5% through open offer. Resultantly, as on September 30, 2022, CVC Capital's shareholding stands at 57.9%. Combined with the shareholding of Dr B.S. Ajaikumar and other promoters, the total promoter shareholding stands at 71.39%.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	1,009.20	1,395.27	828.05
PBILDT	124.37	238.03	156.61
PAT	-221.10	38.93	7.77
Overall gearing (times)	1.64	1.36	NA
Interest coverage (times)	1.04	2.43	3.08

A: Audited| UA: Unaudited| NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cashcredit	-	-	-	-	155.00	CARE A+; Stable
Fund-based - LT-Term loan	-	-	-	December 2030	309.15	CARE A+; Stable
Non-fund-based - LT-Bank guarantee	-	-	-	-	25.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	155.00	CARE A+; Stable	-	1)CARE A; Stable (02-Sep-21)	-	-
2	Fund-based - LT-Term loan	LT	309.15	CARE A+; Stable	-	1)CARE A; Stable (02-Sep-21)	-	-
3	Non-fund-based - LT-Bank guarantee	LT	25.00	CARE A+; Stable	-	1)CARE A; Stable (02-Sep-21)	-	-

LT: Long term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	• Minimum DSCR of 1.25x on consolidated basis till the tenor of loan • Total debt/EBITDA (consolidated): Less than 4.75x in FY22/ 4.50x in FY23/4.25x in FY24 and 4.00x from FY25 onwards
B. Non-financial covenants	None

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - LT-Bank guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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