HCG NCHRI Oncology LLP

December 01, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Long-term bank facilities	27.53 (Reduced from 35.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]
Total bank facilities	**28.53 (₹ Twenty-eight crore and fifty-three lakh only)**		

Details of instruments/facilities in Annexure-1.

Unsupported rating	**Withdrawn [Withdrawn]**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Pursuant to Reserve Bank of India's (RBI's) guidance note to the credit rating agencies on assigning CE ratings, the CE suffix assigned to rating of HCG NCHRI Oncology LLP (HCG NCHRI) has been removed, as the Guarantee deed entered by Healthcare Global Enterprises Limited (HCGEL) to secure bank facilities of HCG Sun did not meet the criteria mentioned in the said note. Accordingly, the unsupported rating has also been withdrawn.

Detailed rationale and key rating drivers

The revision in the rating of the bank facility of HCG NCHRI is on account of the similar rating action on its parent, ie, HCGEL (rated 'CARE A+; Stable'). As stated by HCGEL's management and also as demonstrated in the past, CARE Ratings Limited (CARE Ratings) believes all subsidiaries are strategically important and have close linkages with the parent. While the hospitals in the subsidiaries operate under the partnership model, it is ensured that they work under strict compliance with the standard, protocol and strategies of HCG. The hospitals will always operate under the brand name of HCG, and HCGEL would remain a majority partner or shareholder in the entity thereby controlling every decision taken by the subsidiary. Furthermore, in the partnership agreements or joint ventures (JV) agreements, HCGEL reserves the right to acquire the full ownership of the hospital in case of any retirement of the existing partners. HCGEL has also stated its commitment to provide need-based financial support for working capital as well as for expansion.

The rating also positively factors in the significant improvement in occupancy levels and Average Revenue Per Occupied Bed(ARPOB) for the hospital during FY22 (refers to the period April 1 to March 31) and Q1FY23 for the hospital resulting in improved scale of operations and profitability margins of the company post acquisition by HCGEL. Furthermore, the rating derives strength from experience and long track record of the promoters in the healthcare industry and their demonstrated track record in supporting the group entities in case of cash flow mismatch. The rating is, however, constrained by moderate financial risk profile and low interest coverage indicators, geographical concentration risk with a single facility, exposure to highly regulated nature of industry and competition from other hospitals.

Rating sensitivities

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

- Improvement in the credit profile of the parent, HCGEL.

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

- Change in support philosophy of HCGEL towards the rated entity thereby weakening the linkages.

Detailed description of the key rating drivers

Key rating strengths

Consistent improvement in scale of operations and profitability of HCGEL: HCGEL's consolidated revenue grew by 38% during FY22 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

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

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 HCGEL 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 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 HCGEL: 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 for HCGEL: 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: Adequate

The liquidity of the entity is adequate on account of the financial flexibility it derives from being part of HCG. 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 the operational parameters of several assets. HCGEL, on consolidated basis, 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: The analytical approach has been changed from Guarantor's assessment to Standalone along with factoring in the parentage of HCGEL from which it derives managerial, operational and financial support. The change in the approach was necessitated out of the guidance note issued by the RBI to credit rating agencies on CE ratings.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch

[Hospital](#)
[Policy on Withdrawal of Ratings](#)

About the company – HCGEL

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	1009.20	1395.27	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

About the company- HCG NCHRI Oncology LLP

HCG NCHRI Oncology LLP (HCG NCHRI), incorporated on September 03, 2014, is a limited liability partnership between HCGEL, Dr Ajay Mehta and Nagpur Cancer Hospital and Research Institute Pvt Ltd, having capital and profit-sharing ratio of 76:16:8, respectively.
The entity operates a 115-bed hospital in Nagpur, Maharashtra, providing cancer care through surgical oncology, radiation oncology, PET CT, medical oncology, etc. The hospital started operations from FY18 onwards.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30,2022(UA)*
Total operating income	25.10	48.16	13.31
PBILDT	-3.31	-1.54	0.13
PAT	-9.00	-6.47	NA
Overall gearing (times)	3.49	3.36	NA
Interest coverage (times)	-1.13	-0.71	NA

A: Audited; UA: Unaudited; NA: Not Available; *No financials available post June 30, 2022 (UA)

Status of non-cooperation with previous CRA: Nil

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-Cash credit		-	-	-	1.00	CARE A+; Stable
Fund-based - LT-Term loan		-	-	August 2026	25.53	CARE A+; Stable
Non-fund-based - LT-Bank guarantee		-	-	-	2.00	CARE A+; Stable
Unsupported rating-Unsupported rating (Long-term)		-	-	-	0.00	Withdrawn

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-Term loan	LT	25.53	CARE A+; Stable	-	1)CARE A (CE); Stable (03-Feb-22)	-	-
2	Non-fund-based - LT-Bank guarantee	LT	2.00	CARE A+; Stable	-	1)CARE A (CE); Stable (03-Feb-22)	-	-
3	Unsupported rating-Unsupported rating (Long term)	LT	-	-	-	1)CARE BBB- (03-Feb-22)	-	-
4	Fund-based - LT-Cash credit	LT	1.00	CARE A+; Stable				

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 Security cover of 1.25x
B. Non-financial covenants	-No change in LLP arrangements/management -Hospital to operate under "HCG" brand

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
4	Unsupported rating-Unsupported rating (Long term)	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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