Healthcare Global Enterprises Limited (Revised)

September 02, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	489.15	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Total Bank Facilities	**489.15 (Rs. Four Hundred Eighty-Nine Crore and Fifteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of Healthcare Global Enterprises Limited (HCGEL) primarily factors in established brand and leading market position of company in field of cancer care treatment. Post IPO in March 2016, company had undertaken aggressive capex plans which led to increase in number of beds from 1,146 as on March 31, 2016 to 2,036 as on March 31, 2021 translating into healthy growth in revenue though remained flat in FY21 as business was impacted by Covid-19. The capacity increase also led to increase in total debt (excluding lease liabilities) from Rs. 377.8 crore as on March 31, 2016 to Rs. 776.9 crore as on March 31, 2020. During FY21, company received equity infusion of Rs. 513 crore from CVC Capital Partners (CVC) leading to significant deleveraging with total debt (excl. lease liabilities) reduced to Rs. 458.5 crore as on March 31, 2021. Going forward, management has given guidance on neither to undertake any greenfield expansion nor debt funded inorganic growth. Company is likely to consolidate its market position before next capex cycle. Abandoning of project in Kochi is a step towards the same.

Due to long gestation period involved with new hospitals as well as impact of Covid-19 on its existing centers as patients delayed therapies/ surgeries, company's cash profits have been consistently declining since FY18. Nevertheless, there has been recovery in performance since December 2020 resulting in company registering highest ever quarterly income in Q1FY22. Management expects the momentum will continue going forward and would maintain Total debt (excl. Lease liabilities)/PBDIT<2x. Delay in turnaround of performance of new centers leading to continuing high TDGCA and low interest coverage may weigh negatively on company's credit profile. HCGEL is also looking to divest from some of its investments which will help it in maintaining above guidance.

The rating also favorably factors in its strong liquidity position with maintenance of healthy cash and cash equivalents and is likely to strengthen further with balance receipt of Rs.112 crore of remaining equity proceeds from CVC and expected improvement in cash accrual with stabilization of operations in new centers and no major capex planned. While CARE continues to maintain positive long-term outlook on healthcare sector, however, company is exposed to competition from other hospital chains and charitable institutions and is also exposed to regulatory risk associated with operations.

Rating Sensitivities

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

- Consistent improvement in operations of new centers leading to total debt/ PBDIT to less than 1.75x.
- Consistent net debt negative position of the company.

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

- Significant weakening in operating performance with lower-than-expected profitability.
- Significant increase in debt funded capex leading to increase in overall gearing above 1.6 times on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

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 total number of operational beds of 2036 beds as on March 31, 2021. It has presence in nine states with predominant presence in Karnataka, Gujarat and Maharashtra clusters. Its dominant presence in

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

cancer care treatment is driven by strong brand equity and superior quality of service along with partnership with other established medical professionals. Company also operates seven IVF fertility centers under the brand 'Milann' through its wholly owned subsidiary BACC Healthcare Private Limited (BACC).

Significant debt reduction from equity infusion proceeds during FY21 aiding in improvement in capital structure and healthy liquidity profile: During FY21, HCGEL allotted equity shares on preferential basis to CVC through Aceso Company Pte. Ltd (Acesco). Total transaction value was Rs.625 crore of which company has received Rs.513 crore and remaining Rs.112 crore is expected to be received in H2FY22. With the equity infusion, company has made substantial debt reduction during FY21 and gross debt stood reduced from Rs.776.9 crore as on March 31, 2020 to Rs.466.1 crore as on June 30, 2021. Company's liquidity position also improved with cash and cash equivalents stood at Rs.172.3 crore as on June 30, 2021 as against Rs.45.6 crore as on June 30, 2020. Going forward, management does not intend to avail additional term debt (except for ongoing Gurgaon project).

Healthy growth in revenue and ARPOB over the years albeit moderation in occupancy levels on account of significant capacity additions made during last 5 years: Company derives around 94% of overall revenue from HCG centres and remaining from Milann centres. Post IPO, the company undertook capex which has led to healthy revenue growth with CAGR of 17% from Rs.584 crore in FY16 to Rs.1088 crore in FY20. However, due to COVID-19 pandemic, the growth remained subdued with company reporting stable revenue of Rs. 1030 cr during FY21. With the capacity addition made by the company, overall occupancy levels have witnessed gradual decline from 51% in FY16 to 40.8% in FY21. However, with operations being stabilized for new centers; occupancy levels have shown improvement achieved during Q1FY22. However, with the nature of cancer care treatment, company derives significant share of revenue through radiation therapy and diagnostics which are same day therapies, thus not requiring patients to be hospitalized.

Positive long-term outlook for the healthcare sector in India: CARE expects healthcare services in India to grow at healthy rate on account of likely rise in per capital income and health insurance markets coupled with favorable demography situation and a transition in disease profile of the country. Furthermore, significant increase in allocation towards government program under Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (PMJAY) to Rs.6,400 crore from Rs.3,100 crore in previous year under the Union Budget 2021-22 should augur growth of the healthcare sector.

Key Rating Weaknesses

Declining profitability margins on account of losses reported in new centers given long gestation period associated with hospital operations albeit now improving: On account of significant addition of capacity with opening of new centers, company witnessed decline in cash accruals during FY18-FY21 due to losses incurred in new centers on account of long gestation period associated with hospital operations. Out of 22 cancer care centers, 8 centers have commenced operations post April 01, 2016. Operational losses from new centers (centers with less than 3 years of operations) has widened to Rs.49.5 crore during FY20 as against Rs.29.5 crore in FY19 but narrowed down to Rs.15.7 crore during FY21 despite COVID 19 pandemic.
Nevertheless, with easing of the restrictions, there has been recovery in performance since December 2020 resulting in quarter-on-quarter improvement in the revenues and profitability with company registering highest ever quarterly income of Rs. 326.58 crore with PBILDT margin of 16.74% in Q1FY22. Sustenance of PBDIT margins will be key to company's credit profile.

Exposure to project stabilization of ongoing hospital developments notwithstanding management's intent to consolidate the operations over the next 2 to 3 years: The company is currently undertaking capital expenditure in one project in Gurgaon, Haryana which is expected to be operationalized by FY23. Timely commencement of the new hospital within budgeted costs and ramp up of operations post commencement would be a key monitorable. The initial losses incurred during the ramp up stage are expected to negate the improvement in profitability reported in the other hospitals to some extent. Going forward, company is not planning to undertake any debt funded additional projects over the medium term and focus is to consolidate the operations of the existing centers with revenue growth to be driven by improvement in occupancy levels and ARPOB.

Exposure to regulatory risk and competition from other hospital chains: The company remains exposed to competition from other hospital chains. Further, 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, with lack of access to quality healthcare facilities and under penetration of healthcare service in India bodes well for company's operations with strong brand image and geographical diversification and the same is expected to aid in improvement in occupancy levels.

Liquidity: Strong
The liquidity position of the company stood strong following the equity infusion of Rs. 513 crore during FY21 despite declining cash accruals over past three years. As on June 30, 2021, HCGEL had healthy free cash and cash equivalents of Rs. 172.3 crore. Further, company is expected to receive Rs.112 crore in FY22 corresponding to remaining amount of equity infusion. The company's cashflow from operations remained moderate in FY2021 on account of the Covid-19 pandemic impact; nonetheless, it stood comfortable in relation to the debt servicing obligations. Going forward, cash accruals are expected to improve with stabilization of operations in new centers with no major capex planned over the next 2 to 3 years.

Analytical approach: Consolidated

Applicable Criteria
Rating Methodology – Hospital Industry
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Liquidity Analysis of Non-Financial Sector Entities
CARE's Policy on Default Recognition

About the Company
Healthcare Global Enterprises Limited (HCGEL) is promoted by Dr. B.S. Ajai Kumar, a practicing radiation and medical oncologist with over 3 decades of experience. HCGEL commenced operations with a single cancer care center, the Bangalore Institute of Oncology, Bangalore by Dr. B.S. Ajai Kumar along with four other oncologists in 1989. Currently, HCGEL is the leading provider of cancer care in India with presence across the entire oncology treatment value chain and runs 22 cancer care hospitals under the brand 'HCG', 4 multi-speciality hospitals. It has a healthy track record of more than 2 decades of operations and the number of operational beds on a consolidated basis stands at 1684 beds as on June 30, 2021, with presence in 9 states. Company also operates 7 fertility treatment centers through its wholly owned subsidiary BACC Healthcare Private Limited (BACC) under the brand 'Milann'.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1088.82	1030.03
PBILDT	169.42	143.18
PAT	-125.45	-221.10
Overall gearing (times)	5.06	1.62
Interest coverage (times)	1.23	1.20

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4*

Complexity level of various instruments rated for this company: Annexure 5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	155.00	CARE A; Stable
Fund-based - LT-Term Loan	-	-	December 2030	305.65	CARE A; Stable

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees	-	-	-	28.50	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	155.00	CARE A; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	305.65	CARE A; Stable	-	-	-	-
3.	Non-fund-based - LT-Bank Guarantees	LT	28.50	CARE A; Stable	-	-	-	-

Annexure-3: List of entities getting consolidated under HCGEL as on March 31, 2021

Name of the entity	% of shareholding
BACC Healthcare Private Limited	100.00%
HCG Medi-Surge Hospitals Private Limited	74.00%
Malnad Hospital & Institute of Oncology Private Limited	70.25%
Niruja Product Development and Healthcare Research Private Limited	100.00%
HealthCare Global Senthil Multi-Specialty Hospitals Private Limited	100.00%
HealthCare Diwan Chand Imaging LLP	75.00%
HCG Oncology LLP	74.00%
HCG (Mauritius) Pvt Ltd	100.00%
APEX HCG Oncology Hospitals LLP	100.00%
HCG NCHRI Oncology LLP	76.00%
HCG Manavata Oncology LLP	51.00%
HCG EKO Oncology LLP	50.50%
HCG SUN Hospitals LLP	74.00%

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	For Yes Bank Facility • Term Debt (excl financial lease)/TNW (incl. unsecured loans)<= 2x • Term Debt (excl financial lease)/EBITDA<= 6x • Debt/EBITDA <=6X For Axis Bank Facility • 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

Annexure 5: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Annexure 6: Bank Lender Details for this Company

[Click here to view Bank Lender Details]

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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