Healthcare Global Enterprises Limited

January 5, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2.00	CARE A+; Stable	Assigned
Long-term bank facilities	613.24 (Enhanced from 489.15)	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Healthcare Global Enterprises Limited (HCGEL) continues to factor in the steady improvement in registrations, occupancy and average revenue per occupied bed (ARPOB) translating into healthy growth in revenues during FY23 and H1FY24 while maintaining strong cash flow from operations. CARE Ratings Limited (CARE Ratings) believes HCGEL's revenue would continue to grow at a compounded annual growth rate (CAGR) of 10-12% in the near to medium term 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 satisfactory capital structure of HCGEL; however, net debt levels have risen and is expected to increase further on account of several acquisitions and large capex being done/ planned.

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 and the management has given guidance that such assets would be margin accretive entities while any expansion/ greenfield projects would be in existing territories. This, along with HCGEL's ability to further ramp-up the operations, especially in new centres (which were opened after April 1, 2017) 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: Factors likely to lead to rating actions

Positive factors

- Increase in the turnover of more than ₹2,000 crore and improvement in ROCE while maintaining ratio of net debt/ TDGCA (excl. IND AS 116 impact) of less than 1x.

Negative factors

- Significant weakening in the operating performance with lower-than-expected profitability translating into net debt/ profit before interest, depreciation and tax (PBIDT) (excl. IND AS 116 impact) of more than 2.5x.

Analytical approach:

Consolidated due to strong managerial, operational and financial linkages with its subsidiaries, associates and joint ventures (JV). The list of entities consolidated is mentioned in Annexure-VI.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that the company's business profile will remain steady on back of its brand recall and technical expertise it possesses in the field of oncology.

Detailed description of the key rating drivers:

Key strengths

Consistent improvement in scale of operations and profitability

HCGEL's consolidated revenue grew by 21% during FY23 (refers to the period April 1 to March 31) on the back of increased admissions and procedures performed. The momentum sustained in H1FY24, with the company reporting growth of 14.5% on Y-o-Y basis. While in absolute terms, the PBDIT of the company grew but PBDIT margins improved marginally from 17.06% in FY22 to 17.60% in FY23 as increasing share of low-margin medical oncology and continuing losses in some of the new centres like

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

south Mumbai and Kolkata limited margin gains. Nevertheless, these new centres have been witnessing increasing footfalls and are likely to turnaround in the near term. 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 1911 operational beds as on September 30, 2023. In October 2023, HCGEL acquired another oncology specialty hospital in Indore having bed capacity of 50. HCGEL has presence in 10 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).

Satisfactory capital structure 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 overall gearing (including put option liability as debt) remained satisfactory at 1.35x as on March 31, 2023, as against 1.36x as on March 31, 2022. However, net debt (including only bank debt) of the company has increased from ₹198 crore as on March 31, 2023 to ₹310 crore as on September 30, 2023, and is expected to rise further with several expansion plans, improvement capex and acquisitions plans in place.

CARE Ratings notes that 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 and net debt/PBDIT (excl. IND As 116 impact) would not exceed 2.5x.

Key weaknesses

Relatively moderate coverage indicators though improving

On a consolidated basis, HCGEL's ICR stood relatively moderate at 2.88x for FY23, though improved from 2.43x in FY22 and was 2.91x for H1FY24. With expectation of new centres turning around, and expected improvement in profitability, ICR is expected to increase further. However, rising interest rates might restrict the same to a certain extent. Moreover, as per Care Ratings' view, 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 the 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 CARE Ratings expects the same 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 ₹105.3 crore as on September 30, 2023. While the company has debt-funded capex plans in place, the liquidity profile of the company is likely to remain intact.

Environment, social, and governance (ESG) risks

On Environment front, the company has developed robust waste management manuals containing detailed information on the manner and mode of waste disposal which are aligned with regulatory requirements for the proper disposal of waste. Moreover, the company continues to explore opportunities of increased recycling of waste, enabling a reduction in waste generation and a positive impact on the environment. The company is also into transition to renewable energy and several initiatives have been implemented for the same. This includes installation of solar panels with the potential to offset 3,300 tons of carbon emissions annually.

On Social front, stringent quality protocols have been established to ensure that all services are provided in a manner that is safe and efficient. All personnel are equipped with necessary skills and also receive training to ensure proper treatment and care. To avoid data breaches and loss of confidential system, the company undertakes regular reviews of the vulnerability and the threat of breaches to IT system.

As far as governance is concerned, the company undertakes proactive and regular interactions with regulatory organisations across facilities to reduce the risk of non-compliance. Furthermore, strict compliance with internal policies and regulatory requirements is ensured via training for all employees on business ethics and code of conduct.

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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare services	Hospital

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, it 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 with total number of 1911 operational beds as on September 30, 2023, on a consolidated basis. It acquired another 50-bed oncology specialty hospital in Indore in October 2023.
The company also operates fertility treatment centres through its wholly-owned subsidiary, BACC Healthcare Private Limited (BACC), under the brand 'Milann'.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	1395	1692	953
PBILDT	238	298	165
PAT	39	18	14
Overall gearing (times)	1.36	1.35	NA
Interest coverage (times)	2.43	2.88	2.91

A: Audited UA: Unaudited; NA: Not available, Note: 'the above results are latest financial results available'

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-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	154.80	CARE A+; Stable
Fund-based - LT-Letter of credit	-	-	-	-	2.00	CARE A+; Stable
Fund-based - LT-Term loan	-	-	-	December 2030	424.06	CARE A+; Stable
Non-fund-based - LT-Bank guarantee	-	-	-	-	34.38	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 2023-2024	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
1	Fund-based - LT-Cash credit	LT*	154.80	CARE A+; Stable	-	1)CARE A+; Stable (01-Dec-22)	1)CARE A; Stable (02-Sep-21)	-
2	Fund-based - LT-Term loan	LT*	424.06	CARE A+; Stable	-	1)CARE A+; Stable (01-Dec-22)	1)CARE A; Stable (02-Sep-21)	-
3	Non-fund-based - LT-Bank guarantee	LT*	34.38	CARE A+; Stable	-	1)CARE A+; Stable (01-Dec-22)	1)CARE A; Stable (02-Sep-21)	-
4	Fund-based - LT-Letter of credit	LT*	2.00	CARE A+; Stable				

*Long Term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Name of entity	Shareholding of HCGEL as on September 30, 2023
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%
HCG Oncology Hospitals LLP(Formerly Known as APEX HCG Oncology Hospitals LLP)	100%
HCG Oncology LLP	74%
HCG NCHRI Oncology LLP	100%
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%
Nagpur Cancer Hospital and Research Institute Private Limited	100%

Note on the 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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