Healthcare Global Enterprises Limited

January 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	615.24	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating assigned to bank facilities of Healthcare Global Enterprises Limited (HCGEL) continues to consider established brand and strong market position of HCGEL in the field of cancer care treatment. The rating further derives support from continuous addition of capacities by HCGEL and increase in patient footfalls, which with growing average revenue per occupied bed (ARPOB) translated into healthy growth in revenues in FY24 (refers to April 01 to March 31) and in H1FY25 (refers to April 01 to September 30) while maintaining profitability and strong cash flow from operations. Despite additional costs incurred for acquisitions and capex in FY24, and a lower average occupancy rate (AOR), profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins remained stable at 17.20% in FY24 (17.60% in FY23), supported by higher contribution from new centres. PBILDT margins improved to ~19% in H1FY25, despite ongoing capex. CARE Ratings Limited (CARE Ratings) believes HCGEL's revenue would continue to grow at compound annual growth rate (CAGR) of ~14-15% in FY25 and FY26 and improvement in profitability margins, partly benefitting from additional contribution from Mahatma Gandhi Cancer Hospital & Research Institute (MGCHRI, acquisition done in October 23) at higher profitability margins, expected stabilisation of recently added bed capacities and improvement in profitability profile of new centers as expected with increase in ARPOBs and occupancy levels. Revenue growth and profitability is also supported by rising incidence of cancer and under-penetration of quality cancer care providers in India. With strong technical capabilities and adequate capacity, the company is well-positioned to tap into this growing demand.

The rating also factors in HCGEL's healthy financial risk profile, despite moderation in debt service coverage indicators in FY24 and H1FY25 owing to rise in debt levels considering several acquisitions and large capex. However, this is expected to improve in the near-to-medium term with stabilisation of ongoing capex and gradual increase in profitability from new capacity additions.

These rating strengths remained partially constrained by the company's exposure to the regulated healthcare industry and competition from other established hospital brands. CARE Ratings also take note of significant expansion plans of HCGEL to increase operational beds capacity to over 2,600 beds (from 1,972 operational beds as on September 30, 2024) through organic and inorganic route, which will be largely funded by its internal accruals. Going forward, CARE Ratings will continue to monitor the impact of HCGEL's ongoing capex and new acquisitions on its credit profile, and equity infusion or debt raising undertaken by company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in operating performance, driven by higher consolidated occupancy, leading to an increase in consolidated revenue exceeding ₹2,500 crore, while maintaining net leverage (including leases) below 2.3x on a sustained basis.

Negative factors

- Deterioration in the operating performance, with an inability to improve occupancy or a decline in ARPOB, resulting in lower-than-expected consolidated revenue or PBILDT.
- Net leverage (including leases) above 3.3x on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has considered consolidated performance of HCGEL and its subsidiaries / step-down subsidiaries / joint ventures owing to strong managerial, operational and financial linkages with its subsidiaries / step-down subsidiaries / joint ventures. Subsidiaries / Step-down subsidiaries / Joint ventures consolidated as on September 30, 2024, is listed under Annexure-6.

Outlook: Stable

'Stable' Outlook reflects CARE Ratings' expectation that HCGEL will continue to benefit from its brand recall and technical expertise it possesses in the field of oncology. CARE Ratings also believes that HCGEL will improve its operational performance with ramping up of operations at new centres and gradually improve its debt metrics, while pursuing organic and inorganic growth.

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

Detailed description of key rating drivers:

Key strengths

Established brand and strong market position of the company in cancer care treatment

HCGEL is the leading provider of cancer care in India with presence across the entire oncology treatment value chain and runs 21 cancer care hospitals and three multi-specialty hospitals under the brand 'HCG', with a total number of 1972 operational beds as on September 30, 2024. HCGEL is on expansion mode in the past few years, which further strengthens its market position. In October 24, HCGEL acquired another oncology specialty hospital in Vizag, having bed capacity of 196. 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, and PET-CT, among others. HCGEL employs over 400 oncologists across departments. Its dominant presence in cancer care treatment is driven by strong brand equity and superior quality of service and 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).

Consistent improvement in scale of operations supported with improved operational metrics

HCGEL's consolidated revenue grew by CAGR of ~24% from FY21-FY24 owing to continuous addition of capacities of beds and LINAC (linear accelerator) and improvement in the ARPOB. In FY24, HCGEL's consolidated revenue increased by 12.8% y-o-y (year-on-year) considering increased patient footfalls, addition of beds, addition of radiation and robotic machines, resulting in increased capacity, and supported by improvement in ARPOB. Momentum sustained in H1FY25, with the company reporting revenue growth of 14.6% on y-o-y basis. ARPOB increased from ₹38,042 in FY23 to ₹41,802 in FY24 with majority increase coming from its newly added facilities. ARPOB further increased to ₹45,188 in H1FY25 (against ₹42,058 in H1FY24).
PBILDT margins remained stable at 17.20% in FY24 (17.60% in FY23) despite of slight drop in AOR to 64.2% (from 65.4% in FY23) as operational beds increased. PBILDT margins improved to ~19% in H1FY25. AOR in H1FY25 was 65.6%, almost stable compared to 65.8% in H1FY24. Going forward, profitability margins is expected to improve gradually due to higher positive contribution from new centers though rising footfalls and the stabilisation of recently added capacities.

Key weaknesses

Exposure to regulatory risk and competition from other hospital chains

The company remains exposed to competition from other hospital chains. The company operates in a regulated industry that has continuous regulatory intervention in the last couple of years. Regulations such as restrictive pricing regulations instated by central and state governments and stricter compliance norms can have adverse impact on the company's margins. However, consumption of tobacco, obesity, and unhealthy lifestyles have largely contributed to growing incidences of cancer in India. 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, which is expected to aid in improvement in occupancy levels.

Recent Capex outlays and acquisitions led to increased debt levels and moderation in its credit metrics, though remains adequate with expectation to improve in the near-to-medium term

In FY24 and H1FY25, the company expanded in Ahmedabad with total capex outlay of ₹107 crore, where it shifted a 100-bed facility to newly build 200-bed facility. The company also acquired a 100-bedded cancer care hospital in Indore and minority stakes in HCG NCHRI Oncology LLP (oncology hospital in Nagpur) and HCG Eko Oncology LLP (oncology hospital in Kolkata) and 100% stake in Nagpur Cancer Hospital and Research Institute Private Limited (which has the lease of the land on which Nagpur hospital is operated) in FY24. HCGEL also undertook acquisition of 51% stake in MGCHRI Hospital in Vizag at cost of ₹208 crore (EV of ₹414 crore), in October 24. The company is currently developing two hospitals with a total of 125 beds in North Bangalore and Whitefield, Bangalore, expected to be fully operational by early FY26. It is also expanding its bed capacity in Cuttack by 60 beds, with the potential to expand to 100 beds in the future. Overall, excluding MGCHRI acquisition, the company is planning to incur ₹300-₹350 crore of growth capex in the next two years in FY25-FY26.
The company's overall financial risk profile had shown moderation in FY24 owing to debt funded capex/ acquisitions, though remains adequate. Overall gearing increased from 1.35x as on March 31, 2023, to 2.08x as on March 31, 2024, majorly considering increase in total debt from ₹901 crore (net debt of ₹ 727 crore) as on March 31, 2023, to ₹1,274 crore (net debt of ₹ 1,002 crore) as on March 31, 2024, to fund capex undertaken by the company and partly from increase in lease liabilities from new capacity additions. The company's net debt further increased to ₹1,280 crore as on September 30, 2024, largely due to debt and leases addition from new assets and under construction hospitals As such, debt service coverage indicators characterised by net debt to PBILDT moderated from 2.44x as on March 31, 2023, to 3.05x as on March 31, 2024. However, comfort is being drawn as total debt comprised of lease liabilities amounting ₹602 crore (~47% of total debt outstanding) as on March 31, 2024, and ₹808 crore (~52% of total debt outstanding) as on September 30, 2024, with most new hospital buildings on rentals with long term contracts. The financial risk profile is expected to remain at similar levels in FY25 owing to ongoing capex plans, which is expected to improve substantially from FY26 onwards, with scheduled repayments of debts and expecting improvement in profitability. CARE Ratings shall closely monitor ongoing capex and debt levels, the impact of which on the company's financial risk profile remains a key monitorable.

Liquidity: Adequate

HCGEL's liquidity is adequate as marked by healthy cash accruals of ₹208 crore in FY24 against which, its scheduled bank debt repayment obligations aggregating to ₹67 crore (₹124 crore including lease liabilities) in FY25. Part of cash accruals in the coming

years will be also utilised towards growth capex commitments involving total outlay of close to ₹300 – ₹350 crore) in the next two years (FY25-FY26) for brownfield expansion.
Liquidity is well-aided by un-encumbered cash and cash equivalents of ₹278 crore as on September 30, 2024. However, the company has utilised its cash balance in acquisition of 51% stake in MGCHRI in October 2024, resulting in cash outflow of ~₹208 crore. Despite this, the company is expected to maintain ₹80 crore of cash balance as on March 31, 2025. Liquidity is supported by average available limits under its cash credit limits to the tune of ₹90 crore (average for 12 months ending November 30, 2024). CARE Ratings believes that the company is well-positioned with strong accruals expectations, which with its cash balances, will be sufficient to meet its capex commitments and debt repayment obligations. While the company has debt-funded capex plans in place, the company's liquidity profile is likely to remain intact.

Environment, social, and governance (ESG) risks: HCGEL's ESG profile supports its already strong credit risk profile. The hospital sector has low impact on the environment, owing to its comparatively lesser water consumption and lower emission due to low energy intensive nature of operations of hospitals.

Environmental:
- The company has developed robust Waste Management Manuals containing detailed information on the manner and mode of waste disposal. These Manuals ensure that strict alignment is maintained with regulatory requirements for proper waste disposal.
- The company is committed to a 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. The company has also installed LED lights across facilities for greater energy efficiency.

Social:
- The company understands criticality of providing services that are high quality and prioritises patient safety. As such, stringent quality protocols have been established to ensure that all services are provided in a manner that is safe and efficient. All facilities of the company have been provided with state-of-the-art facilities for a holistic patient experience. All personnel are equipped with necessary skills and receive training to ensure proper treatment and care.

Governance:
- The company undertakes proactive and regular interactions with regulatory organisations across facilities to reduce risk of noncompliance. As on March 31, 2024, the company's board had 10 Directors comprising two Executive Director (including one Woman Executive Director), two nominees from CVC, one whole time Directors & CEO and five Independent Directors (including one Independent Woman Director).

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Hospital
Financial Ratios – Non financial Sector
Consolidation

About the company and industry

Industry classification

Macroeconomic 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. HCGEL is one of the largest providers of cancer care in India with presence across the entire oncology treatment value chain. It runs 21 cancer care hospitals (19 comprehensive cancer centres,2 Center of Excellence) and three multi-specialty hospitals under the brand 'HCG', with 1972 operational beds (~2.2K total bed capacity) as on September 30, 2024, on a consolidated basis. The company further strengthened its bed capacity with the acquisition of majority 51% stake in Mahatma Gandhi Cancer Hospital & Research Institute (MGCHRI) in Vishakhapatnam, Andhra Pradesh with operational bed capacity of 196 beds on October 02, 2024. The acquisition was done at cost of ~₹208 crore. Set up in 1986, MGCHRI is one of the largest cancer care centres in Andhra Pradesh, with over 30% market share in Vizag. The company also operates seven fertility treatment centres through its wholly owned subsidiary BACC under the brand 'Milann'.
In July 2020, CVC (through Acesco Company Pte. Limited) acquired 29.2% stake in HCG and acquired another 28.5% through open offer. As on September 30, 2024, CVC is the majority shareholder with 60.36% stake. CVC is a leading global private markets manager focused on private equity, secondaries, credit and infrastructure with a global network of 30 local offices and large pool of assets under management (AUM).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	1692	1908	1093
PBILDT	298	328	213
PAT	18	41	34
Overall gearing (times)	1.35	2.08	NA
Interest coverage (times)	2.88	3.02	3.06

A: Audited UA: Unaudited; NA: Not Available Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for last three years: Annexure-2
Detailed explanation of covenants of rated instrument / facility: Annexure-3
Complexity level of instruments rated: Annexure-4
Lender details: Annexure-5

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 and 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 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	154.80	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-24)	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 (05-Jan-24)	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 (05-Jan-24)	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	-	1)CARE A+; Stable (05-Jan-24)	-	-

LT: Long term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of entity	Extent of Consolidation	Rationale for consolidation
1	HCG Medi-Surge Hospitals Private Limited	Full Consolidation	Strong managerial, operational and financial linkages
2	Malnad Hospital & Institute of Oncology Private Limited		
3	HealthCare Global Senthil Multi Specialty Hospitals Private Limited		
4	Niruja Product Development and Healthcare Research Private Limited		
5	BACC Healthcare Private Limited		
6	Suchirayu Health Care Solutions Limited		
7	Nagpur cancer Hospital & Research Institute Private Limited		
8	HealthCare Diwan Chand Imaging LLP		
9	HCG Oncology Hospitals LLP(Formerly Known as APEX HCG Oncology Hospitals LLP)		
10	HCG NCHRI Oncology LLP		
11	HCG Oncology LLP		
12	HCG Kolkata Cancer Care LLP (formerly known as HCG EKO Oncology LLP)		
13	HCG Manavata Oncology LLP		
14	HCG SUN Hospitals LLP		
15	HCG (Mauritius) Pvt. Ltd.		
16	Healthcare Global (Africa) Private Limited		
17	Healthcare Global (Uganda) Private Limited		
18	Healthcare Global (Kenya) Private Limited		
19	Healthcare Global (Tanzania) Private Limited		
20	Cancer Care Kenya Limited		
21	Advanced Molecular Imaging Limited	Proportionate Consolidation	Joint Venture

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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 investo₹ 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 pape₹, corporate bonds and debentures, and structured credit.

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