HCG Manavata Oncology LLP

January 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	41.70	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 HCG Manavata Oncology LLP (HMOL) continues to factor in its strong linkages with Healthcare Global Enterprises Limited (HCGEL; rated 'CARE A+; Stable') and the demonstrated support it has received from HCGEL in the past, which is expected to continue in the future.

As stated by HCGEL's management and further demonstrated in the past, CARE Ratings Limited (CARE Ratings) believes all subsidiaries including HCG Manavata (51% holding by HCGEL) are strategically important to the parent (HCGEL) and will continue to get operational, financial and managerial support for the parent entity HCGEL.

For arriving at the parent HCGEL's credit rating, CARE Ratings has considered the consolidated performance of HCGEL and its subsidiaries / step-down subsidiaries / joint ventures owing to strong managerial, operational and financial linkages between them. Rating reaffirmation of HCGEL, on consolidated basis, factors in established brand and strong market position of HCGEL in cancer care treatment. HCGEL's 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.

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 takes 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.

HMOL's rating also positively factors in the steady occupancy levels and stable average revenue per occupied bed (ARPOB) for the hospital in FY24, resulting in sustained scale of operations. The rating derives strength from promoters' extensive experience and long track record in the healthcare industry, and their demonstrated ability to support group entities.

However, the rating is constrained by HMOL's moderate financial risk profile, low interest coverage, geographical concentration risk with a single facility, exposure to the highly regulated healthcare industry, and competition from other hospitals.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in credit profile of the parent, HCGEL.

Negative factors

- Change in support philosophy of HCGEL towards the rated entity, weakening linkages.
- Deterioration in credit profile of HCGEL.

Analytical approach: Standalone.
However, the rating factors in the parentage of HCGEL, from which it derives managerial, operational and financial support.

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

Outlook: Stable

Stable outlook reflects CARE Ratings' expectations that credit profile of HCGEL and its subsidiaries will continue to benefit from its brand recall and technical expertise in oncology.

Detailed description of key rating drivers:

Key strengths

Strategic importance and strong operational linkages with the parent
As stated by the HCGEL management, and demonstrated in the past, all subsidiaries are strategically important and have strong linkages with the parent. HMOL constituted ~5% of the total consolidated operating income and ~8% of operational beds operated under HCG. HMOL is held 51% by HCGEL and operates oncology hospital in Nashik. HCGEL has also stated its commitment to provide need-based financial support for working capital and expansion.

HCGEL has demonstrated its support to HMOL in the form of corporate guarantee towards credit facilities and provide undertaking to cover shortfalls in debt servicing. Going forward, CARE Ratings expects HMOL to continue getting managerial, operational and financial support from the parent, HCGEL.

Established brand and strong market position of HCGEL 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 2024, 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 of HCGEL
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).
profit before interest, lease rentals, depreciation, and taxation (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.

At a standalone level, HMOL reported revenue of ₹104 crore in FY24, which is ~ 5% growth over FY23 revenue of ₹99 crore. However, PBILDT margin moderated from 10% in FY23 to 7% in FY24 due to lower AOR as hospitals increased the operational beds in FY24. Going forward, with stabilisation of recently added beds and expected increase in AOR and ARPOB, PBILDT Margins of the company is expected to improve.

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 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 lease 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.

At a standalone level, HMOL's debt service coverage ratios had slightly moderated, characterised by increase in net debt to PBILDT from 2.46x in FY23 to 2.68x in FY24, owing to lower profitability. Networth remains moderate and remained at Rs. 42.02 crore as at March 31, 2024 (as compared to Rs. 49.78 crore as at March 31, 2023). Going forward, profitability and debt metrics are expected to improve with ramping up of operations.

Liquidity: Adequate

Manavata's liquidity position is marked by free cash and bank balance of ₹12.68 crore as on March 31, 2024 (₹12.97 crore as on March 31, 2023). The liquidity is supported by expected adequate cash generation (GCA- gross cash accruals were around ~ ₹1.01 crore in FY24), which is sufficient to cover scheduled repayment obligations of Rs. 4 crores along with its minimal capex requirements. Manavata's net CFO declined from ₹14.23 crore in FY23 to ₹ 10.56 crore in FY24. It has a negative working cycle of 6 days, which also supports its working capital needs.

Liquidity of the entity is adequate on account of the financial flexibility it derives from being part of HCGEL. 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.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Hospital

[Financial Ratios – Non financial Sector](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Healthcare services	Hospital

Incorporated on August 10, 2016, HMOL,) is a limited liability partnership between HCGEL and . Raj Vasantrao Nagarkar having profit-sharing ratio of 51:49 respectively. The entity operates a 207-bed hospital in Nasik, Maharashtra providing cancer care through surgical oncology, radiation oncology, PET CT, bone marrow transplant, medical oncology among others. The company undertook expansion of the hospital from 172 beds to 207 beds, which was completed in FY24.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	99.78	104.41
PBILDT	10.94	8.15
PAT	-7.68	-7.79
Overall gearing (times)	0.79	0.80
Interest coverage (times)	1.93	1.52

A: Audited UA: Unaudited; 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		-	-	-	1.00	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	November 2028	32.70	CARE A+; Stable
Non-fund-based - LT-Bank Guarantee		-	-	-	8.00	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-Term Loan	LT	32.70	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-24)	1)CARE A+; Stable (01-Dec-22)	1)CARE A (CE); Stable (07-Feb-22)
2	Fund-based - LT-Cash Credit	LT	1.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-24)	1)CARE A+; Stable (01-Dec-22)	1)CARE A (CE); Stable (07-Feb-22)
3	Non-fund-based - LT-Bank Guarantee	LT	8.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-24)	1)CARE A+; Stable (01-Dec-22)	1)CARE A (CE); Stable (07-Feb-22)
4	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	-	1)Withdrawn (01-Dec-22)	1)CARE BBB (07-Feb-22)

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-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

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

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 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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