December 22, 2022

HCG Manavata Oncology LLP: [ICRA]A+(CE) (Stable)/[ICRA]A1(CE) withdrawn; fresh rating of [ICRA]A+ (Stable)/[ICRA]A1 assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loan	35.00	33.00	[ICRA]A+(CE)(Stable) withdrawn and [ICRA]A+(Stable) assigned simultaneously
Long Term – Fund Based Cash credit	1.00	1.00	[ICRA]A+(CE)(Stable) withdrawn and [ICRA]A+(Stable) assigned simultaneously
Short Term – Non-fund Based	6.00	8.00	[ICRA]A1(CE) withdrawn and [ICRA]A1 assigned simultaneously
Total	**42.00**	**42.00**	

**Instrument details are provided in Annexure I*

Rationale

ICRA has withdrawn its ratings of [ICRA]A+(CE) (Stable)/[ICRA]A1(CE) for the bank facilities of HCG Manavata Oncology LLP (HCG Manavata) and has simultaneously assigned fresh ratings of [ICRA]A+ (Stable)/ [ICRA]A1 for these facilities.

The withdrawal of the CE ratings is triggered by the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/criteria defined by the RBI is not to be considered while assigning credit enhanced (CE) ratings. The [ICRA]A+(CE) (Stable)/ [ICRA]A1(CE) ratings drew comfort from the presence of a corporate guarantee extended by Healthcare Global Enterprises Limited (HCG/the company), parent of HCG Manavata, to the lenders of the rated bank facilities. For assigning the ratings, ICRA had assessed the attributes of the guarantee issued by HCG in favour of the rated facility. The guarantee was legally enforceable, irrevocable, unconditional, covered the entire amount and tenor of the rated facility, and met all the attributes of a strong guarantee. Taking cognisance of the above, ICRA had assigned ratings of [ICRA]A+(CE) (Stable)/ [ICRA]A1(CE) to the said facility against the unsupported ratings of [ICRA]BBB.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a guarantee that lacks an invocation and payment mechanism, though such a support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities in comparison to a support that is only implicit in nature. Yet, the rating level for the bank facilities of the company (assigned afresh and being conveyed through this release) remains unchanged because of the change in ICRA's analytical approach. For arriving at the ratings, ICRA has now taken a consolidated view of HCG Manavata along with its parent, HCG.

The change in approach is based on ICRA's view that HCG Manavata is an integral part of HCG and operates like an extended arm of HCG. ICRA also draws comfort from HCG's long track record of support to HCG Manavata and the close business, financial and management linkages between both the entities. ICRA expects the linkages between HCG and HCG Manavata will remain strong on various dimensions, including business ties, financial aspects, and management support.

The ratings consider HCG's strong market position in the oncology segment, improving patient mix and diverse footprint across the country. The company's growth is also backed by its high-quality infrastructure and advanced technology, as well as its ability to attract and retain reputed medical professionals. While Covid-led disruptions impacted the footfalls and revenues in FY2021, HCG witnessed strong revival with 37.9% YoY revenue growth in FY2022, supported by healthy growth in both HCG and Milann (fertility) centres, largely backed by pent-up demand for deferred procedures and gradual improvement in international footfalls. The operating profit margin (OPM) of HCG improved to 17.1% in FY2022 from 12.5% in FY2021, led by

OPBDITA breakeven for majority of its new centres[1] and strong growth in existing centres. Further, in H1 FY2023, HCG witnessed healthy OPM of 17.7% led by strong YoY revenue growth of 22.7% and operating leverage benefits. Going forward, the company is expected to witness improvement in profitability margins backed by improving scale of operations and benefits from internal cost optimisation measures.

ICRA notes that HCG received substantial equity infusion of Rs. 676 crore from CVC Capital Partners (CVC) and its promoter in FY2021 and FY2022, and net cash inflow of ~Rs. 75.0 crore from monetising its equity stake in its erstwhile joint venture, Strand Life Sciences Private Limited (Strand) in September 2021. The debt prepayment from the fund infusions, along with healthy improvement in margins, have resulted in significant improvement in HCG's debt protection metrics. Net Debt/OPBDITA improved to 2.5x as of September 30, 2022, from 7.6x as of March 31, 2020. Going forward, improvement in debt metrics is expected to be backed by healthy operating margins. Over the longer term, increasing incidence of cancer in India and factors such as better affordability, widening medical insurance coverage, growing awareness and under-penetration of healthcare services are expected to benefit the company.

While the operating margins have shown improvement over the years, RoCE remains constrained, largely due to lower profitability of new centres (~24% revenues contributed by new HCG centres in H1 FY2023). However, the same is expected to improve over the near to medium term backed by ramp up of new centres, planned asset-light expansion and improvement in profitability margins. The company has been increasing its footprint by setting up new centres across the country. However, it continues to derive ~62% of its revenues from Karnataka and Gujarat, thereby remaining exposed to significant geographic-concentration risks. HCG, in line with all other industry players, is exposed to regulatory risks pertaining to any restrictive pricing regulations imposed by the Central and state governments in India.

HCG has undertaken debt-funded expansion in the past for expanding its footprint. While the company has not announced any major expansion plans for the near term, any significant debt-funded acquisition or major organic expansion plans remain an event risk and would be evaluated on a case-by-case basis.

The Stable outlook on the long-term rating reflects ICRA's expectation that HCG will continue to benefit from its strong market position coupled with ramp-up of operations at its new centres over the near-to-medium term and, thereby, improvement in its debt coverage metrics.

Key rating drivers and their description

Credit strengths

Strong market position in the oncology healthcare segment and partnership with reputed medical professionals – HCG's long presence, niche focus on cancer therapy and established brand equity of the hospital chain in the field of oncology support its business prospects. HCG's business strategy includes partnerships with eminent oncologists as it sets up new cancer care centres, especially in tier-II and III towns. While a doctor's reputation plays a significant role in attracting patients, HCG's strong brand recognition in oncology has been supporting revenue growth over the last few years. Over the years, HCG has also tried to reduce its dependence on Karnataka by increasing its footprint across the country, which has further strengthened its brand equity.

Improvement in operational performance with turnaround in new centres – During FY2022, the operating profitability improved by ~88%, led by OPBDITA-breakeven in most of its new centres (operating profits of Rs. 7.2 crore in FY2022 over operating loss of Rs. 15.7 crore in FY2021) and strong growth in existing centres (21.5% OPM in FY2022 from 17.4% in FY2021). Further, improvement was also witnessed in H1 FY2023, backed by healthy operational performance across all the metrics. For HCG centres, average occupancy levels improved to 64.6% and 66.4% in Q1 and Q2 FY2023, respectively, from 58.3% in FY2022. ARPOB also recorded an increase to Rs. 36,914 in Q2 FY2023 from Rs. 36,697 in FY2022, largely on the back of growth in surgery volumes, increase in medical tourism (which generates higher realisations) and price revisions. Milann centres also

[1] *Centres that commenced operations after FY2017*

witnessed ~36% YoY growth in IVF cycles, thereby supporting revenue growth in H1 FY2023. Going forward, with further ramp-up of new centres and cost optimisation measures, the operating margins are expected to improve.

Significant equity infusion and asset monetisation supported improvement in coverage metrics – HCG prepaid ~Rs. 306 crore of its long-term debt and reduced its working capital utilisation by ~Rs. 67 crore in FY2021-FY2022, with the proceeds of equity infusion from the promoter and the CVC coupled with Strand sale proceeds. The company's debt indicators were modest in the past due to higher debt-funded expansion undertaken by HCG. However, with the debt prepayment, the debt metrics improved substantially from FY2020 levels. Going forward, HCG's debt coverage metrics are expected to improve further, backed by healthy operating margins.

Stable long-term demand outlook – While footfalls in FY2021 were impacted by the pandemic, the same witnessed strong revival during FY2022 and H1 FY2023. Over the longer term, increasing incidence of cancer in India, coupled with factors such as better affordability, widening medical insurance coverage, growing awareness and under-penetration of healthcare services, is expected to benefit the company and the industry at large.

Credit challenges

Sizeable revenues from Karnataka and Gujarat despite improving geographical diversification – Albeit reducing, the company faces high geographic concentration risk, with Karnataka and Gujarat contributing ~62% to its revenues in FY2022. With continued ramp up of new centres (opened in FY2019 and FY2020), the concentration risk is expected to reduce, going forward.

Exposed to regulatory risks inherent in the sector – Going forward, regulatory risks pertaining to restrictive pricing regulations levied by the Central and state governments and stricter compliance norms could constrain the company's profit margins.

Stiff competition in the healthcare industry – HCG is exposed to competition from other hospital chains in the industry. However, strong brand equity of the company in the oncology segment is expected to aid growth, going forward.

Liquidity position: Adequate

HCG's liquidity profile is adequate, characterised by free cash and liquid investments of Rs. 178 crore on September 30, 2022. Average utilisation of the working capital facility was moderate at ~24% for the 12 months ending October 31, 2022, with undrawn working capital limits of ~Rs. 72 crore as of October 31, 2022. The repayment obligations of the company amount to ~Rs. 18.5 crore and ~Rs. 37.0 crore in H2 FY2023 and FY2024, respectively (including payment of deferred payment obligations).

Overall, ICRA expects the company to be able to service its near-term repayment obligations and commitments through available liquidity and internal cash accruals. HCG's maintenance and project capex are expected to be ~Rs 260 crore over FY2023-FY2024, which is expected to be funded by its internal accruals and available cash balances.

Rating sensitivities

Positive factors – HCG's ratings could be upgraded if there is considerable improvement in profitability metrics aided by ramp-up of new centres, while maintaining its liquidity position and improving its debt protection metrics on a sustained basis.

Negative factors – Negative pressure on HCG's ratings could arise if there is any material deterioration in margins and/or debt-funded capex or acquisitions weakening the company's credit profile with Net Debt/OPBDITA more than 3.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Rating methodology for Hospitals Policy on withdrawal of Credit Ratings Rating Approach - Consolidation
Parent/Group Support	NA
Consolidation/Standalone	ICRA has taken a consolidated view on HCG, which includes its subsidiaries and associate companies, while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

About the company

Established in 1989, Healthcare Global Enterprises Limited is present primarily in the oncology field with the largest cancer care network (22 cancer care centres as of September 30, 2022) and three multi-speciality hospitals. It is promoted by Dr. B.S. Ajai Kumar, a practising radiation and medical oncologist with over 30 years of experience. Originally established with a single cancer care centre, the Bangalore Institute of Oncology (BIO), by Dr. B.S. Ajai Kumar and four other oncologists, the company has rapidly expanded its presence to Ahmedabad, Chennai, Nasik, Ranchi, Rajkot, Cuttack, Hubli, Mumbai, Nagpur, Vizag and Vijayawada, among others. The company is present across the oncology value chain, offering services from prevention, screening, diagnosis and treatment to rehabilitation, supportive care and palliative care. Pursuant to the investment agreement of the company and its promoter with Aceso Company Pte Ltd. (CVC Group) in June 2020 and subsequent equity infusion, a majority stake of 57.9% (on fully diluted basis) is now held by the CVC Group. Established in 1981, CVC is a private equity and investment advisory firm with ~ $90 billion of assets under management as on March 31, 2022. It has a global network of 25 local offices—with 16 across Europe and America and nine in the Asia Pacific. The company has 100% equity interest in BACC Health Care Private Limited (BACC), which operates fertility centres under the Milann brand. HCG operates seven Milann fertility centres in Bengaluru, Delhi and Chandigarh.

HCG Manavata is a limited liability partnership registered under limited liability partnership Act 2008 and incorporated in 2016. The entity is a 152 bed-cancer care hospital in Nasik. For HCG Manavata, HCGE has entered into partnership with Dr. Rajnish Nagarkar.

Key financial indicators

HCG Consolidated	FY2021	FY2022	H1 FY2023
Operating income (Rs. crore)	1,013.4	1,397.8	828.1
PAT (Rs. crore)	-220.7	40.3	7.8
OPBDITA/OI (%)	12.5%	17.1%	17.7%
PAT/OI (%)	-21.8%	2.9%	0.9%
Total outside liabilities/Tangible net worth (times)	1.8	1.5	1.5
Total debt/OPBDITA (times)	7.7	3.8	3.1
Net debt/OPBDITA (times)	6.4	3.0	2.5
Interest coverage (times)	1.1	2.4	2.9

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Dec 22, 2022	Sep 27, 2021	May 22, 2020	April 05, 2019
1	**Fund Based Term loan**	Long-term	33.00	33.00	**[ICRA]A+ (CE) (Stable) withdrawn and [ICRA]A+ (Stable) assigned simultaneously**	**[ICRA]A+(CE) (Stable)**	**[ICRA]A-(CE) (Stable)**	**[ICRA]A-(SO) (Negative)**
2	**Fund Based Cash credit**	Long-term	1.00	--		**[ICRA]A+(CE) (Stable)**	**[ICRA]A-(CE) (Stable)**	**[ICRA]A-(SO) (Negative)**
3	**Non-fund based**	Short-term	8.00	--	**[ICRA]A1(CE) withdrawn and [ICRA]A1 assigned simultaneously**	**[ICRA]A1(CE)**	**[ICRA]A2+(CE)**	**[ICRA]A2+(SO)**

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund Based Term loan	Simple
Long term - Fund Based Cash credit	Simple
Short term - non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term – Term Loan**	March 2016	~9.5%	FY2029	33.00	[ICRA]A+ (CE)(Stable) withdrawn and [ICRA]A+(Stable) assigned simultaneously
NA	**Long Term – Fund Based Cash credit**	NA	NA	NA	1.00	[ICRA]A+ (CE)(Stable) withdrawn and [ICRA]A+(Stable) assigned simultaneously
NA	**Short Term – Non-fund Based**	NA	NA	NA	8.00	[ICRA]A1(CE) withdrawn and [ICRA]A1 assigned simultaneously

Source: Company; Note: Amounts in Rs. crore

Annexure II: List of entities considered for consolidated analysis

Company Name	HCG Ownership	Consolidation Approach
HCG Medi-Surge Hospitals Private Limited	74.00%	Full Consolidation
Malnad Hospital & Institute of Oncology Private Limited	70.25%	Full Consolidation
Healthcare Global Senthil Multi Specialty Hospital Private Limited	100.00%	Full Consolidation
Niruja Product Development and Research Private Limited	100.00%	Full Consolidation
BACC Healthcare Private Limited	100.00%	Full Consolidation
Healthcare Diwan Chand Imaging LLP	75.00%	Full Consolidation
APEX HCG Oncology Hospitals LLP	100.00%	Full Consolidation
HCG Oncology LLP	74.00%	Full Consolidation
HCG NCHRI Oncology LLP	76.00%	Full Consolidation
HCG Manavata Oncology LLP	51.00%	Full Consolidation
HCG EKO Oncology LLP	50.50%	Full Consolidation
HCG (Mauritius) Private Limited	100.00%	Full Consolidation
HCG Sun Hospitals LLP	100.00%	Full Consolidation
Healthcare Global (Africa) Private Limited	100.00%	Full Consolidation
HealthCare Global (Uganda) Private Limited	100.00%	Full Consolidation
HealthCare Global (Kenya) Private Limited	100.00%	Full Consolidation
HealthCare Global (Tanzania) Private Limited	100.00%	Full Consolidation
Cancer Care Kenya Limited	78.10%	Full Consolidation
Suchirayu Health Care Solutions Limited	78.60%	Full Consolidation
Advanced Molecular Imaging Limited – Joint venture	50.00%	Limited Consolidation

Source: company annual report FY2022

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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