Georgia Healthcare Group JSC

Republic of Georgia, Healthcare

Issuer
B+

Outlook
Stable

Planned senior unsecured bond
(P) BB-

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Related methodology

General Corporate Rating Methodology, Feb 2025

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Rating composition

Business risk profile		
Industry risk profile	A	BB-
Competitive position	BB-	
Financial risk profile		
Credit metrics	B	B
Liquidity	+/-0 notches	
Standalone credit assessment		**B+**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**B+**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	1.7x	1.9x	2.0x	2.2x
Scope-adjusted debt/EBITDA	5.7x	5.2x	4.4x	4.0x
Scope-adjusted funds from operations/debt	8%	9%	11%	13%
Scope-adjusted free operating cash flow/debt	-9%	-2%	-5%	-3%
Liquidity	39%	13%	18%	No ST Debt

Rating sensitivities

The upside scenarios for the rating and Outlook (collectively):

- Debt/EBITDA of below 4x on a sustained basis
- EBITDA interest cover of above 2x on a sustained basis
- Alleviation of concerns around debt refinancing risk

The downside scenario for the rating and Outlook:

- Debt/EBITDA around or above 5.5x on a sustained basis

**All credit metrics refer to Scope-adjusted figures.*

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Market leading position in referral hospitals in Georgian healthcare market with primary aim to increase quality of service through tailor-made customer-centric solutions (credit-positive ESG factor) • Underlying healthcare services market has low cyclicality and is protected • Comparatively high operating margins • Increasing exposure to outpatients services	• High dependence on the state and unstable regulatory framework (credit-negative ESG factor) • Weak diversification with operations only in Georgia and only in one industry • Highly fragmented market and low outpatient visits per capita compared to peer countries • Substantial capex planned, limiting room for active deleveraging • Relatively weak credit metrics

2. Rating Outlook

The **Stable Outlook** incorporates our expectation that credit metrics will remain at current levels, with debt/EBITDA of between 4.0x and 5.0x and an EBITDA interest cover of around 2x. The Outlook also reflects the gradual improvement of operations with the EBITDA margin improving to over 20%, which should support better credit metrics over time. The Outlook further incorporates our expectation of full compliance with (financial) covenants.

3. Corporate profile

Georgia Healthcare Group (GHG), whose initial operations date back to 1990, operates as a subsidiary of the investment holding company Georgia Capital PLC (GCAP). The company has expanded over the past decade, primarily through a centralized healthcare management model.

Gepha JSC pharmaceutical segment is not part of the restructured GHG

GHG is currently the largest healthcare provider in Georgia and operates within a predominantly private market. It provides both inpatient and outpatient care, delivered through a vertically integrated system. Operations are organized into four main business lines:

- Large and Specialty Hospitals (VIAN)
- Regional and Community Hospitals
- Clinics (Evex Polyclinic Chain)
- Diagnostics (Mega Laboratory)

These business units function within a tiered referral network, guiding patients from local clinics and regional hospitals to specialized facilities as needed. The company also operates its own ambulance services to support patient transfers across its network.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
06 June 2025	New	B+/Stable

5. Financial overview (financial data in GEL '000s)

			Scope estimates		
Scope credit ratios	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	1.7x	1.9x	2.0x	2.2x	2.3x
Debt/EBITDA	5.7x	5.2x	4.4x	4.0x	3.6x
Funds from operations/debt	8%	9%	11%	13%	16%
Free operating cash flow/debt	-9%	-2%	-5%	-3%	-1%
Liquidity	39%	13%	18%	No (re)-financing needs	
EBITDA					
Reported EBITDA	61,866	73,701	85,803	94,737	104,349
add: operating lease payments	-	-	-	-	-
add: recurring dividends from associates	-	-	-	-	-
less: capitalised expenses	(2,000)	(2,000)	(1,500)	(1,000)	(500)
Other items (incl. one-offs)	-	-	-	-	-
EBITDA	**59,866**	**71,701**	**84,303**	**93,737**	**103,849**
Funds from operations (FFO)					
EBITDA	59,866	71,701	84,303	93,737	103,849
less: interest	(34,252)	(37,767)	(42,292)	(43,557)	(44,366)
less: cash tax paid	-	-	-	-	-
Other non-operating charges before FFO	-	-	-	-	-
Funds from operations	**25,614**	**33,934**	**42,011**	**50,180**	**59,484**
Free operating cash flow (FOCF)					
Funds from operations	25,614	33,934	42,011	50,180	59,484
Change in working capital	(1,737)	(721)	(5,265)	(4,792)	(5,045)
Non-operating cash flow	(9,538)	(3,025)	-	-	-
less: capital expenditures (net)	(41,048)	(31,149)	(48,500)	(49,000)	(49,500)
less: lease amortisation	(2,529)	(5,448)	(6,000)	(6,500)	(7,000)
Other items	-	-	-	-	-
Free operating cash flow	**(29,238)**	**(6,409)**	**(17,753)**	**(10,112)**	**(2,061)**
Interest					
Net cash interest per cash flow statement	34,252	37,767	42,292	43,557	44,366
add: interest component, operating leases	-	-	-	-	-
add: 50% of interest paid on hybrid debt	-	-	-	-	-
add: other items	-	-	-	-	-
Interest	**34,252**	**37,767**	**42,292**	**43,557**	**44,366**
Debt					
Reported financial (senior) debt	356,118	374,410	382,163	382,163	382,163
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-
add: shareholder loans (net of equity credit)	-	-	-	-	-
less: cash and cash equivalents	(17,136)	(19,392)	(14,392)	(9,336)	(8,305)
add: non-accessible cash	-	-	-	-	-
add: pension adjustment	-	-	-	-	-
add: operating lease obligations	-	-	-	-	-
add: asset retirement obligations	-	-	-	-	-
add: other debt-like items	-	18,095	-	-	-
Debt	**338,983**	**373,113**	**367,771**	**372,827**	**373,858**

6. Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

Two social ESG factors are credit relevant

GHG's credit-positive ESG profile is supported by its emphasis on health and safety, particularly through service quality improvements driven by digital operating efficiencies (e.g. in-house developed apps). These tools enhance access to the healthcare ecosystem, facilitating appointments, payments, and consultations, while reducing patient waiting times and improving overall service delivery. Although product development has temporarily led to higher capex, these investments are expected to support revenue growth and more efficient day-to-day operations.

GHG benefits from strong compliance with new safety and regulatory standards, offering a competitive edge. However, there is material risk related to the company's heavy dependence on government funding. Any abrupt changes to reimbursement frameworks, pricing schemes, or public healthcare policies could significantly affect business performance. We view this reliance as a credit-negative ESG factor due to its potential to impact long-term financial stability.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BB-

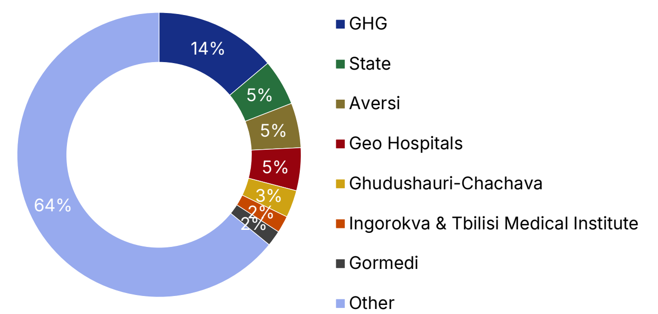
GHG's business risk profile benefits from the underlying healthcare service industry's low cyclicality, medium barriers to entry and low substitution risk.

Industry has low cyclicality and is protected

GHG holds a commanding position as the largest integrated healthcare provider in Georgia's fragmented healthcare service industry. The company has around 14% of the market by number of clinical beds and around 21% of market shares by sales as of YE 2024 in Universal Health Care (UHC). GHG's market position remains constrained by the relatively limited addressable market (under GEL 2.8bn). However, sales and the capacity utilisation of beds are expected to grow significantly in the coming years after the recent modernisation and expansion programme. This makes it likely that market shares will continue to rise, helping GHG to maintain its strong national lead.

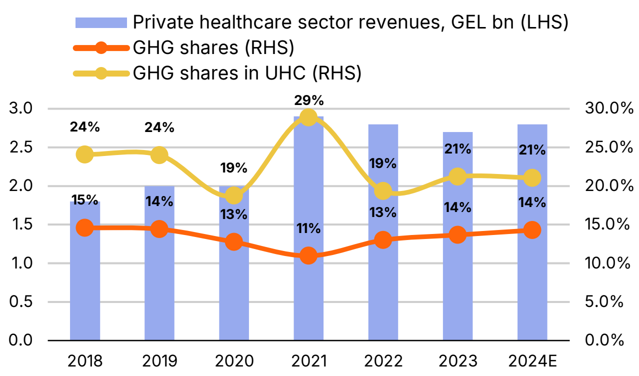
Market leading position in Gergia

Figure 1: Hospital market structure in Georgia by number of hospital beds at YE 2024



Sources: GHG, Scope

Figure 2: Private healthcare market dynamics in Georgia and GHG's market shares by revenues



Sources: GHG, Scope

GHG's diversification is weaker than that of larger multinational peers, given its focus on one country and one industry (healthcare). However, this may gradually improve through strategic initiatives, such as expanding medical tourism by targeting affluent patients from neighbouring countries like Armenia and Azerbaijan, as well as growing its diagnostics business. These segments are expected to gain relevance over time. GHG operates a vertically integrated model across hospitals, clinics, and diagnostics, offering a broad range of healthcare services. Its wide treatment coverage and strong accessibility give it a diversification advantage over domestic competitors.

Diversification is weakest component of business risk profile

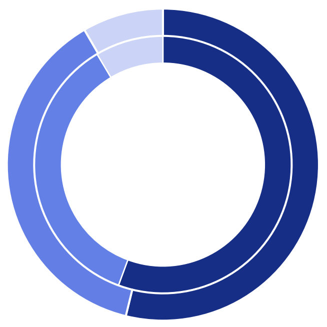
At present, GHG is highly dependent on the Georgian state, with the UHC programme accounting for 54% of its annual revenue in 2024. While this provides short-term credit support due to the government's strong payment record, it also exposes the company to policy risk around potential local economic and regulatory changes (ESG factor: credit negative). However, management is seeking to expand GHG's exposure to private payors, which would accelerate cash inflows and reduce dependence on the UHC programme, where the state retains strong negotiating power over pricing and reimbursement terms.

Strong dependence on the state, which has strong tariff negotiation power

In 2022, the Georgian government introduced the Diagnosis Related Group (DRG) model to reduce excess hospital beds and improve care quality. This was followed by new facility regulations in September 2023, setting stricter standards and minimum space requirements per bed. GHG responded with renovation projects across its facilities to comply. Additionally, in 2024, the government required all institutions in the UHC programme to obtain international accreditation by 2025. GHG has already secured all the necessary accreditations. The dynamics of regulatory changes might give GHG an additional competitive advantage in its fragmented market. We believe future efforts to reform prices, access and healthcare reimbursement in Georgia's UHC programme will be incremental rather than dramatic.

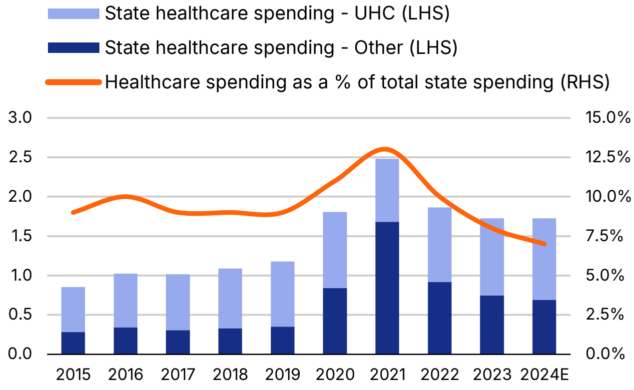
Regulatory changes impacting operations

Figure 3: GHG's revenue by source (inner circle: FY 2023; outer circle: FY 2024)



Sources: GHG, Scope

Figure 4: State healthcare spending dynamics in Georgia (GEL bn)



Sources: Ministry of Finance of Georgia, Scope

Profitability margin reaching above 20%

GHG's profitability continues to strengthen, with its EBITDA margin rising to nearly 20% in 2024 from 17% in 2023. This improvement has been driven by the full return to operations of its hospitals following renovation-related disruptions, an increased focus on high-margin outpatient services, and disciplined cost management, particularly in fixed personnel expenses.

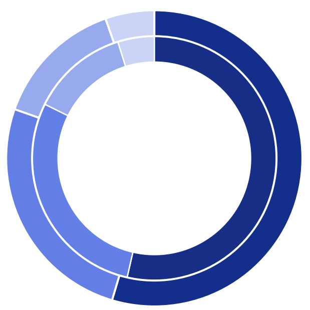
Ability to grow organically

GHG is seeking lucrative growth (high single-digit revenue growth) in the medium term, mainly through the increased utilisation potential of fully ramped-up hospitals coupled with an expansion of specialist capabilities. Moving forward, the company's business strategy will prioritise boosting revenues from elective care and outpatient services, which are not reliant on state funding. These services offer higher margins and significantly quicker cash collection periods. Given that GHG's hospitals are situated in key urban cities (strong presence in Tbilisi), they are well-positioned to attract an increased number of out-of-pocket and privately insured patients. Elective care and outpatient services typically have a much higher proportion of these patients.

Georgia's healthcare sector remains subject to regulatory oversight, particularly for services reimbursed under the UHC programme, where prices are set by the state. At the same time, providers like GHG still benefit from a relatively flexible operating environment. Outside the UHC framework, GHG has greater freedom to set tariffs for privately funded and out-of-pocket services, which enhances its ability to improve margins.

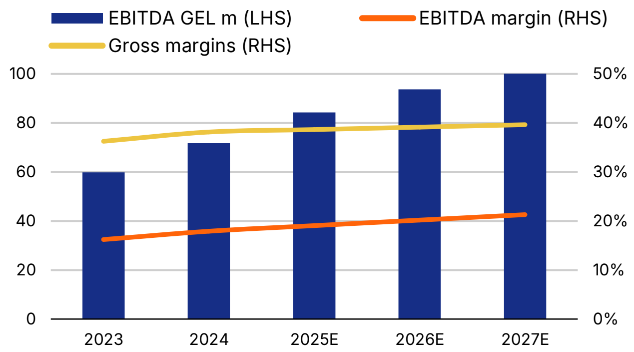
Further profitability gains are supported by the rollout of in-house digital tools that streamline access to care, reduce waiting times, and optimise internal workflows. Although these investments have increased capex in the short term, they are expected to improve operational efficiency and patient throughput (ESG factor: credit positive).

Figure 5: GHG's revenue by division (inner circle: FY 2023; outer circle: FY 2024)



Sources: GHG, Scope

Figure 6: GHG's operating performance



Sources: GHG, Scope estimates

8. Financial risk profile: B

Our analysis is based on audited consolidated carve-out financial statements for 2022–2024, prepared following the demerger of the pharma and retail segment (Gepha JSC). These were derived from the consolidated financials of Georgia Healthcare Group JSC and its subsidiaries, assuming the reorganization was effective from 1 January 2022 adopting a transition to IFRS accounting.

Our financial projections are mainly based on the following assumptions:

Adjustments and assumptions

- Moderate revenue growth of around 10% in 2025 and 5% in 2026-2027. Revenue growth will be bolstered by organic growth and an increase in admissions, resulting in higher utilisation levels at hospitals.
- EBITDA margin growing to above 20%, given the increasing focus on high-margin outpatient services and disciplined cost management, particularly in fixed personnel costs
- We expect GHG's capital spending to stay at around GEL 50m annually.
- No acquisitions or further material disposals in line with the restructuring and portfolio optimisation strategy of divesting assets that generate low returns
- No dividend payments. A significant portion of operating cash flows will be reinvested in the business to take advantage of the robust demand for healthcare services in Georgia.
- EBITDA is adjusted by capitalised software development costs (i.e VABACO application).
- EBITDA is not adjusted for share-based compensations, as the company pays bonuses based on ultimate owner shares, which they also need to purchase.
- EBITDA is not adjusted for the impairment of receivables, which do not have a one-off nature and are linked to accounts receivable that had been previously recognised as revenues.

High leverage in 2023-2024

GHG's financial risk profile is weaker than its business risk profile. We acknowledge that credit metrics may improve in the next few years. However, the current financial risk profile reflects still-high leverage, constrained free operating cash flow (FOCF) as well as ongoing risk exposure to the economic uncertainty of the Republic of Georgia (rated BB/Negative), which could delay the expected EBITDA growth and deleveraging trajectory.

Deleveraging effect will be more visible in 2027

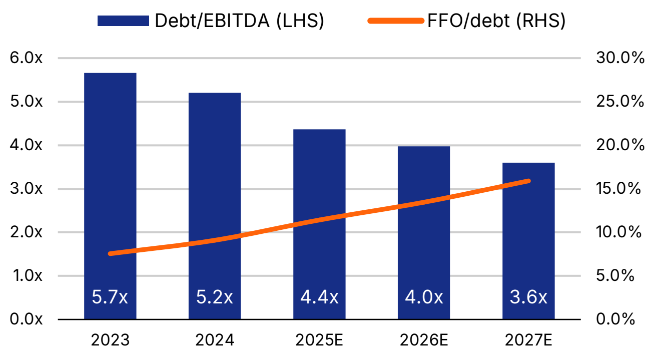
GHG's indebtedness is due to significant capex needs. While a portion of funding needs have been met internally, the company has also relied on external financing, including intercompany loans. It is our understanding that the funds raised through the planned bond issue (GEL 350m) will be used to refinance existing loan obligations and to partially finance the company's capital expenditure plans.[2] We project debt/EBITDA ranging between 4.0x and 5.0x in 2025-2026, compared to 5.2x at YE 2024, with a further decline expected to below 4.0x in 2027. Deleveraging is expected to be driven by EBITDA growth from higher hospital utilization and a stronger focus on high-margin outpatient services. For the same reasons, we expect the funds from operations/debt ratio to follow a similar trend, improving to above 10% from 2025 (2024: 9%).

Net debt/EBITDA target <2.5x in the medium term

Some reassurance is provided by the company's medium-term leverage target of under 2.5x and loan covenants that require progressive reductions in leverage starting in 2026. However, we note that EBITDA not growing as expected may result in larger deviations from the forecast corridor.

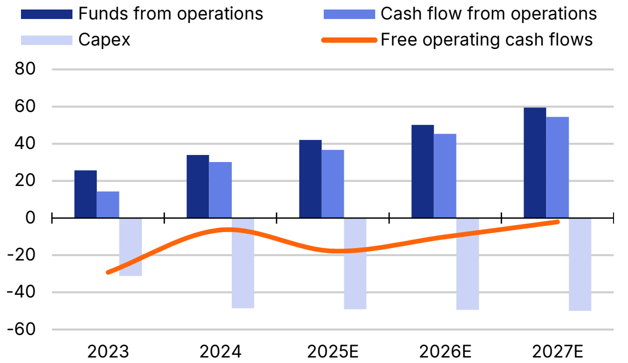
[2] Editorial note: The sentence has been updated on 2 July 2025. The original text read "The funds raised through the planned bond (GEL 350m) will be used to fully refinance existing loan obligations (GEL 342.2m including bridge loans at YE 2024)."

Figure 7: Leverage



Sources: GHG, Scope estimates

Figure 8: Cash flow generation (GEL m)



Sources: GHG, Scope estimates

We forecast that GHG's EBITDA interest coverage will remain moderate despite pressure from the relatively high cost of debt in Georgia. EBITDA interest cover was at 1.9x in 2024 and the ratio is expected to remain at a modest level of close to 2.0x in 2025-27 supported by EBITDA growth. The company plans the bond issuance at TIBR+300 to 350 basis points. Given the ongoing political tensions, we have projected the cost of debt based on conservative assumptions. Our base case does not include severe impacts from the current political situation, which could lead to sanctions on Georgia and significantly restrict international capital inflows. We will closely monitor developments and adjust our base case if such material risks arise.

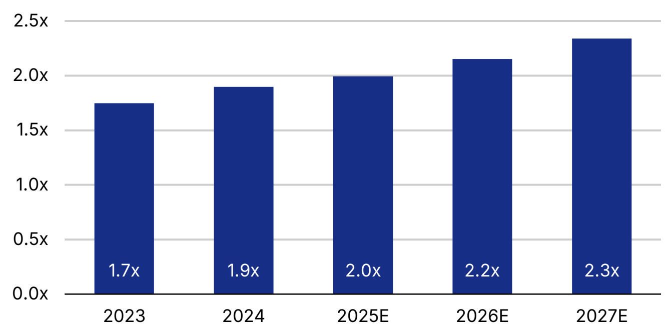
Interest cover to remain moderate despite relatively high cost of debt in Georgia

As of May 2025, the National Bank of Georgia has maintained its key policy rate at 8.0%, unchanged since May 2024. While inflation remains below the 3% target, political uncertainties have led the central bank to adopt a cautious stance. The bank has signalled that, if risks subside, it will gradually normalize rates toward a neutral level of 7%. Lower interest rates would support GHG's EBITDA interest cover ratio in the event of further debt issuance.

GHG's overall financial risk profile is somewhat constrained by prolonged pressure on FOCF (FOCF/debt sustainably below 5%). This is driven by the company's expansionary capex phase, currently GEL 50m annually, and persistent working capital swings.

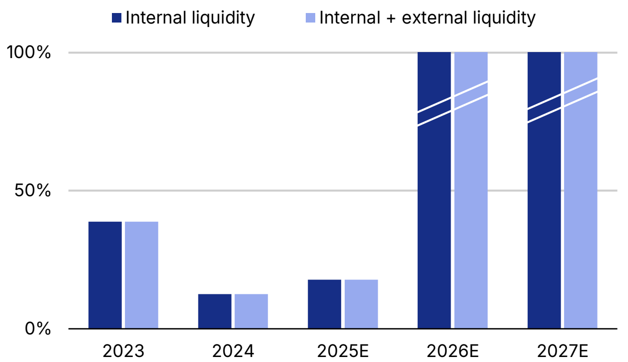
Cash flow cover remains the weakest link

Figure 9: EBITDA interest cover



Sources: GHG, Scope estimates

Figure 10: Liquidity profile



Sources: GHG, Scope estimates

Liquidity is adequate. Although liquidity cover is below 110%, primarily due to weak to negative FOCF and the absence of committed credit lines, we do not foresee refinancing challenges. Key factors supporting this assessment include: i) reduced refinancing needs per annum (the planned bond's bullet structure does not require principal repayments on the refinanced amount for the next four years, but rather repayment of the full prinicpal amount by 2030); and ii) projected cash buffers of at least GEL 5m. The company also has well-established relationships with local banks and international financial institutions, such as the European Bank for Reconstruction and Development and the Asian Development Bank.

Adequate liquidity

Outstanding loans as of now contain credit-related covenants. The most significant covenants relate to: i) leverage; ii) interest coverage; iii) liquidity and short-term debt; and iv) required notifications and approvals for additional debt placements. As certain covenants had not been complied with, waivers were required for both 2023 and 2024. These were granted by the financing banks. We believe that the company would engage with its lenders in an orderly manner in the event of a foreseeable covenant breach. Given GHG's market position in the domestic market and its historical relationships with its funding partners, continued support from its banks appears likely.

New credit related covenants will replace the current one after refinancing

Table 1: Liquidity sources and uses (in GEL '000s)

	2024	2025E	2026E
Unrestricted cash (t-1)	34,271	38,784	28,784
Open committed credit lines (t-1)	-	-	-
FOCF (t)	(6,409)	(17,753)	(10,112)
Short-term debt (t-1)	267,595	200,540	-
Liquidity	**13%**	**18%**	**No (re)-financing needs**

Source: Scope

9. Supplementary rating drivers: +/- 0 notches

The rating has not been adjusted for supplementary rating drivers. While we acknowledge the company's limited shareholder distributions, adherence to financial and credit covenants, and commitment to maintaining maximum leverage, the undiversified funding structure and associated refinancing/cliff risk are noted as concerns.

Planned bond refinancing noted as concern

In particular, GHG is committed to maintaining leverage, as measured by net debt/EBITDA, well below 2.5x in the medium term. In fact, the covenants require the company to gradually reduce this ceiling over the next few years from a maximum of 4.5x in 2025 to a maximum of 2.5x from 2027. This is likely to limit overall leverage, as GHG cannot raise additional debt without the consent of the bondholders. Moreover, the company is bound to limitations on dividend payouts.

10. Debt rating

GHG plans to tap the bond market with a first-time senior unsecured social bond issue (GEL 350m) in August/September 2025, to which we assign a preliminary bond rating of (P) BB-. Our recovery analysis is based on a hypothetical default scenario in 2027, which assumes no outstanding senior secured bank loans that rank senior to the senior unsecured bond. The analysis indicates superior recovery expectations for the bond, taking into account a reasonable liquidation value at default of about GEL 366m after administrative claims. However, we have only provided a single-notch uplift to the bond rating. This is due to emerging market risk and the risk that GHG could raise additional senior secured bank loans, which could impair the recovery for bondholders if the company falls into distress. Important to note that the bond will be guaranteed by 9 GHG subsidiaries.

Planned senior unsecured debt instrument rating: (P) BB-

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