Vijaya Diagnostic Centre Private Limited

January 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based -Cash Credit	1.00	1.00	[ICRA]A (Stable); upgraded from [ICRA]A-(Stable)
Fund Based - Term Loans	29.50	14.25	[ICRA]A (Stable); upgraded from [ICRA]A-(Stable)
Bank Guarantee	0.12	-	-
Unallocated Limits	3.38	18.75	[ICRA]A(Stable)/[ICRA]A1; upgraded from [ICRA]A-(Stable)/[ICRA]A2+
Total	**34.00**	**34.00**	

Rating action

ICRA has upgraded the long-term rating to [ICRA]A (pronounced ICRA A) from [ICRA]A-(pronounced ICRA A minus) assigned to the Rs. 15.25 crore[1] fund-based limits of Vijaya Diagnostics Centre Private Limited (VDCPL or the company)[2]. ICRA has also upgraded the long/short-term rating to [ICRA]A/[ICRA]A1(pronounced A one) from [ICRA]A-/[ICRA]A2+ (pronounced ICRA A two plus) assigned to the Rs. 18.75 crore unallocated limits of VDCPL. The outlook on the long-term rating is 'Stable'.

Rationale

The rating upgrade factors in the significant increase in operating income by 30% to Rs.209.26 crore in FY2017 from Rs.160.68 crore in FY2016 owing to increase in centres from 40 in FY2016 to 45 in FY2017; increase in operating margin to 38.07% in FY2017 from 34.33% in FY2016 owing to increased scale of operations; and comfortable liquidity position with liquid cash balances of Rs 60.24 crore as on March 31,2017 owing to equity infusion of Rs 50.00 crore by the Private Equity(PE) investor – Kedaara Capital in March 2017. The ratings also factor in the longstanding experience of the promoters for more than three decades in the medical diagnostic industry; established regional presence with 47 centres in Andhra Pradesh, Telangana, Karnataka and West Bengal states; and diversified diagnostic service offerings spanning across Radiology & Imaging, Nuclear Medicine, Conventional & Speciality Lab services and Diagnostic Cardiology. The ratings also factor in low working capital intensity of the business; and comfortable financial risk profile with gearing of 0.23 times as on March 31, 2017, interest coverage of 16.73 times, TD/OPBDITA of 0.38 and NCA/TD of 157% for FY2017.

The ratings are, however, constrained by the high geographic concentration with Hyderabad city accounting for more than 85% of total revenue in the past 4 years; high competition in the medical diagnostic industry from organised and unorganised players; and low entry barriers in the absence of stringent government regulations. ICRA notes that VDCPL would require to continuously invest in medical equipment and infrastructure to upgrade technology and to remain competitive in the medical diagnostic industry. VDCPL has incurred Rs 126.54 crore of capital expenditure in the past 4 years towards upgradation and addition of centers and has significant expansion plans in the medium term primarily towards center addition. The quantum of the capex plans remains key monitorable. ICRA also notes that Vijaya has an established brand presence in Andhra Pradesh and Telangana states and the performance of new centers which will be opened outside these states remains to be seen.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

ICRA believes Vijaya Diagnostics Centre Private Limited will continue to benefit from the extensive experience of its promoters in the medical diagnostic industry. The outlook may be revised to 'Positive' if substantial growth in revenues and liquidity position improves. The outlook may be revised to 'Negative' if the capex is larger than estimated, decline in performance of existing centres and ramp up in new centres is slower than expected.

Key rating drivers

Credit strengths

Experienced promoters in the medical diagnostics industry: The promoters have long standing experience in medical diagnostics industry for more than three decades. Mr Surendranath Reddy, founder of VDCPL is a doctor by profession and has been in the diagnostic services industry since 1981 providing comprehensive range of radiology and pathology diagnostic services.

Established regional player with strong clinical team: VDCPL is an established regional player with wide network comprising of 47 centres in Andhra Pradesh, Telangana, Karnataka and West Bengal with laboratories offering diagnostic services including Radiology & Imaging, Nuclear Medicine, Conventional & Speciality Lab services and Diagnostic cardiology. Strong clinical team led by 100 qualified radiologists, pathologists, microbiologists and other doctors in addition to over 1100 qualified technologists.

Support from Kedaara Capital: Kedaara Capital invested Rs 50 crore in VDCPL to support the medium term expansion plans and has acquired 40% stake through both primary and secondary share sales.

Consistent increase in operating income and healthy operating margins: The operating income has increased by 30% from Rs.160.68 crore in FY2016 to Rs.209.26 crore in FY2017 owing to consistent performance of existing centres coupled with increase in centres from 40 in FY2016 to 45 in FY2017. The operating margins are healthy over 30% levels during the last four years as is the case with the medical diagnostic industry. Further, the OPM has increased to 38.07% in FY2017 from 34.33% in FY2016 owing to increased scale of operations.

Comfortable capital structure and healthy coverage indicators: The gearing of the company is low at 0.23 times as on March 31, 2017 on account of high net worth levels. The coverage indicators are healthy with interest coverage of 16.73 times, TD/OPBDITA of 0.38 and NCA/TD of 157% for FY2017. The liquidity profile of VDCPL is comfortable due to low working capital intensity of the business as company derives a major part of its revenues from direct walk-ins and healthy profitability levels. VDCPL has liquid surplus of Rs 60.24 crore as on March 31, 2017.

Credit weaknesses

Significant expansion plans: VDCPL has significant expansion plans in the near term and funding of expansion would be from existing cash balances and internal accruals.

Highly fragmented industry and significant investment required to upgrade technology: Medical diagnostics industry is highly fragmented with many unorganized players, laboratories within hospitals which account for major business which increases competition for organized diagnostic chains in terms of volumes of patients samples and aggressive pricing of diagnostic tests. Further, diagnostic centres have to constantly upgrade technology to stay ahead of competition, which involves significant investment in medical equipment.

High geographical concentration and high competition in new locations: Hyderabad as a city accounts for 87% share of the for FY2017 leading to high geographical concentration risk. Although Vijaya has a good brand presence in Andhra Pradesh and Telangana region, the performance of new centers which will be opened outside these states remains to be seen

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Diagnostic Service Providers

About the company:

Vijaya Diagnostic Centre Private Limited (VDCPL) was founded by Dr. S. Surendranath Reddy in 1981 as a partnership firm and was subsequently incorporated as a private limited company in 2002. Mr. K.Sunil Chandra is Executive Director & President of VDCPL and is closely involved in the operations, strategy and administration. The Company is engaged in the business of providing comprehensive range of diagnostic services spanning across Radiology & Imaging, Nuclear medicine, Conventional & Specialist Lab Services and Diagnostic Cardiology. VDCPL operates 47 centres (as of September, 2017) in Andhra Pradesh, Telangana and Karnataka. VDCPL has received equity investment from Private Equity(PE) investor – Kedaara Capital in March 2017. The investor has acquired 40% stake in VDCPL through both a primary and secondary share sale in FY2017.

Key Financial Indicators

	FY 2016	FY 2017
Operating Income (Rs. crore)	160.68	209.26
PAT (Rs. crore)	26.79	23.86
OPBDIT/ OI (%)	34.33%	38.07%
RoCE (%)	45.45%	38.33%
Total Debt/ TNW (times)	0.75	0.23
Total Debt/ OPBDIT (times)	0.82	0.38
Interest coverage (times)	15.96	16.73
NWC/ OI (%)	0.00%	-1.33%

Status of non-cooperation with previous CRA: VDCPL is listed under the 'Non Co-operation by the issuer' category by CRISIL due to inadequate information provided by the company.

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating January 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 -	Date & Rating in FY2015 -
1	Cash Credit	Long Term	1.00	-	[ICRA]A(Stable)	[ICRA]A-(Stable)	-	-
2	Term Loans	Long Term	14.25	13.83	[ICRA]A(Stable)	[ICRA]A-(Stable)	-	-
3	Unallocated Limits	Long/Short Term	18.75	-	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A-(Stable) / [ICRA]A2+	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	1.00	[ICRA]A (Stable)
NA	Term Loan 1	March 2016	NA	March 2023	8.73	[ICRA]A (Stable)
NA	Term Loan 2	September 2017	NA	September 2022	5.52	[ICRA]A (Stable)
NA	Unallocated Limits	NA	NA	-	18.75	[ICRA]A (Stable) / [ICRA]A1

Source: Vijaya Diagnostics Centre Private Limited

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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.

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