Vijaya Diagnostic Centre Private Limited

February 21, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	1.00	0.00	-
Fund Based – Term Loans	14.25	28.60	[ICRA]A+(Stable) upgraded from [ICRA]A(Stable)
Unallocated Limits	18.75	5.40	[ICRA]A+(Stable) upgraded from [ICRA]A-(Stable)/[ICRA]A1 reaffirmed
Total	**34.00**	**34.00**	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the consistent increase in operating income from Rs 209.3 crore in FY2017 to Rs 237.9 crore in FY2018 and further to Rs 207.0 crore in 9MFY2019 owing to improved performance of existing diagnostic centres coupled with addition of new centres; comfortable liquidity position with liquid investments of Rs 105 crore as on January 31, 2019 along with low working capital intensity of the business and consistent operating margins of over 30% in the last four years. The ratings also factor in the established regional presence of Vijaya Diagnostic Centre Private Ltd (VDCPL) with 56 centres in Telangana and Andhra Pradesh states; diversified diagnostic services including Radiology & Imaging, Nuclear Medicine, Conventional & Speciality Lab services and Diagnostic Cardiology; and comfortable financial risk profile with gearing of 0.16 times as on March 31, 2018, interest coverage of 19.2 times, TD/OPBDITA of 0.3 times and NCA/TD of 230% for FY2018.

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; and low entry barriers in the absence of stringent government regulations resulting in high competition in the medical diagnostic industry. ICRA notes that VDCPL would require to continuously invest in medical equipment and infrastructure to remain competitive in the medical diagnostic industry. VDCPL has incurred Rs 127 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 and funding mix of the capex plans along with performance of new centers remains key monitorable.

Outlook: Stable

The Stable outlook reflects ICRA belief that VDCPL will continue to benefit from the established presence of Vijaya brand in the medical diagnostic industry in Telangana and Andhra Pradesh States. The outlook may be revised to ‘Positive’ if there is substantial growth in revenues and further improvement in the overall liquidity profile. The outlook may be revised to 'Negative' if the capex is larger than estimated, decline in performance of existing centres or ramp up in new centres is slower than expected impacting operating margins.

Key rating drivers

Credit strengths

Established presence of Vijaya in the medical diagnostics industry: Vijaya has 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. VDCPL is an established regional player with wide network comprising of 56 centers in Telangana and Andhra Pradesh with laboratories offering diagnostic services including Radiology & Imaging, Nuclear Medicine, Conventional & Speciality Lab services and Diagnostic cardiology. Strong clinical team led by more than 100 qualified radiologists, pathologists, microbiologists and other doctors in addition to over 1100 qualified technologists.

Consistent increase in operating income and healthy operating margins: The operating income has increased from Rs.209.3 crore in FY2017 to Rs.237.9 crore in FY2018 and further by 16% to Rs 207 crore in 9MFY2019 owing to improved performance of existing diagnostic centres coupled with addition of new centres with increase in centres from 45 in FY2017 to 54 in FY2018 and further to 56 in 9MFY2019. The operating margins are healthy over 30% levels during the last four years as is the case with the medical diagnostic industry. Moreover, the company generates significant revenues from radiology where margins are higher.

Comfortable capital structure and healthy coverage indicators: The gearing of the company is low at 0.16 times as on March 31, 2018 on account of high net worth levels. The coverage indicators are healthy with interest coverage of 19.2 times, TD/OPBDITA of 0.3 and NCA/TD of 230% for FY2018. The liquidity profile of VDCPL is comfortable due to healthy profitability levels and low working capital intensity of the business as company derives a major part of its revenues from direct walk-ins. VDCPL has liquid investments of Rs 105.00 crore as on January 2019.

Credit weaknesses

High geographical concentration: Hyderabad as a city accounts for more than 85% share of the total revenues for last two years leading to high geographical concentration risk. Out of 56 centres of VDCPL around 45 centres are located in Hyderabad. The company had started its first centre in Himayathnagar, Hyderabad, and it is the flagship centre and reference lab of the company accounting for more than 20% of revenues in the last three years.

Significant expansion plans: VDCPL has significant expansion plans in the near term which would constraint the operating margins as any new centre takes 1 - 2 years' time to achieve break even. Further, VDCPL would require to continuously invest in medical equipment and infrastructure to remain competitive in the medical diagnostic industry. VDCPL has incurred Rs 127 crore of capital expenditure in the past 4 years towards upgradation and addition of centers.

Highly fragmented industry with intense competition: Medical diagnostics industry is highly fragmented with many players, laboratories within hospitals which account for major business and increases competition for organized diagnostic chains in terms of patient volumes and aggressive pricing of diagnostic tests. The low entry barriers in the absence of stringent government regulations also results in high competition in the medical diagnostic industry.

Liquidity Position:

The company's liquidity profile remained strong on account of low working capital intensity and healthy profitability levels. The company has liquid investments of Rs 105.00 crore as of January 31, 2019. The liquidity is expected to remain healthy owing to sizable cash accruals and low repayment obligations.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Diagnostic Service Providers
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

Vijaya Diagnostic Centre Private Limited (VDCPL) was founded by Dr. S. Surendranath Reddy in 1981 as a proprietorship concern and was subsequently incorporated as a private limited company in 2002. 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 56 centres (as of December 2018) in Andhra Pradesh and Telangana. 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. VDCPL also has shareholding of 62.14% in Medinova Diagnostic Services Limited, listed company which operates a diagnostic centre in Kolkata. VDCPL also has 100% subsidiary VDC Diagnostics (Karnataka) LLP which operates one centre in Bangalore.

In FY2018, the company reported a net profit of Rs. 35.40 crore on an operating income of Rs. 237.88 crore, as compared to a net profit of Rs. 33.05 crore on an operating income of Rs. 209.33 crore in FY2017.

Key Financial Indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	209.33	237.88
PAT (Rs. crore)	33.05	35.40
OPBDIT/ OI (%)	38.40%	33.44%
RoCE (%)	46.42%	34.67%
Total Debt/ TNW (times)	0.23	0.16
Total Debt/ OPBDIT (times)	0.37	0.33
Interest coverage (times)	14.57	19.19

Source: Annual Reports and ICRA Research;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating February 2019	Chronology of Rating History for the past 3 years Date & Rating in FY2018 January 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016
1	Fund Based -Cash Credit Limits	Long Term	Nil		-	[ICRA]A(Stable)	[ICRA]A-(Stable)	-
2	Fund Based-Term Loan Limits	Long Term	28.60	27.96	[ICRA]A+(Stable)	[ICRA]A(Stable)	[ICRA]A-(Stable)	-
3	Unallocated Limits	Long Term/Short Term	5.40	-	[ICRA]A+(Stable)/[ICRA]A1	[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	Term Loan 1	Mar-2016		Mar-2023	0.76	[ICRA]A+(Stable)
NA	Term Loan 2	Mar-2016		Mar-2023	6.59	[ICRA]A+(Stable)
NA	Term Loan 3	Sep-2017		Jul-2020	4.44	[ICRA]A+(Stable)
NA	Term Loan 4	Jun-2018		Jul-2021	0.52	[ICRA]A+(Stable)
NA	Term Loan 5	Dec-2018		Dec-2023	8.01	[ICRA]A+(Stable)
NA	Term Loan 6	Dec-2018		Dec-2023	8.28	[ICRA]A+(Stable)
NA	Unallocated Limits	-		-	5.40	[ICRA]A+(Stable)/[ICRA]A1

Source: Vijaya Diagnostic Centre Private Limited

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