ICRA

March 11, 2020

Vijaya Diagnostic Centre Private Limited: Long-term rating reaffirmed at [ICRA]A+(Stable); short-term rating upgraded to [ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loans	28.60	22.69	[ICRA]A+(Stable)reaffirmed
Unallocated Limits	5.40	11.31	[ICRA]A+(Stable) reaffirmed/[ICRA]A1+ upgraded from [ICRA]A1
Total	**34.00**	**34.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the strong growth of Vijaya Diagnostic Centre Private Limited's (VDCPL) revenues during the last two years owing to improved performance of its existing diagnostic centres, coupled with addition of new centres and consistent operating margins of over 33% over the last four years. Going forward, ICRA expects a revenue growth of over 15% per annum in the medium term on account of addition of new centres, along with expected improvement in performance of the existing centres. Further, its liquidity position is strong with cash and liquid investments of Rs. 150.3 crore as on September 30, 2019 due to healthy cash flow from operations, along with low working capital intensity of the business. The liquidity is anticipated to be strong on the back of healthy operating margins.

The ratings factor in the company's comfortable financial risk profile with low gearing and healthy coverage metrics for FY2019 and H1FY2020. ICRA notes its established brand name with 67 centres mainly in Telangana and Andhra Pradesh and diversified diagnostic offerings including radiology and imaging, nuclear medicine, conventional and speciality lab services and diagnostic cardiology.

The ratings are, however, constrained by the high geographical concentration with Hyderabad accounting for more than 85% of total revenue during the past three years and low entry barriers in absence of stringent government regulations resulting in stiff competition in the medical diagnostic industry. ICRA notes that VDCPL would require continued investments in medical equipment and infrastructure to remain competitive and provide quality service in the medical diagnostic industry. It has incurred Rs. 146.00 crore of capital expenditure in the past four years towards upgradation and addition of centres with low dependence on borrowings. Further, VDCPL has significant expansion plans in the medium term primarily towards centre addition and the quantum and the funding mix of the capex plans, along with performance of the new centres remains key monitorable.

Key rating drivers and their description

Credit strengths

Established presence of Vijaya in medical diagnostics industry – The company has extensive experience in the medical diagnostics industry spanning more than three decades. Mr. Surendranath Reddy, the founder of VDCPL is a doctor by profession and had started the first diagnostic centre in 1981. VDCPL provides a comprehensive range of radiology and pathology diagnostic services and is an established regional player with a wide network comprising 67 centres mainly in Telangana and Andhra Pradesh with laboratories offering diagnostic services including radiology and imaging, nuclear medicine, conventional and 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 1,100 qualified technologists support its operations.

Consistent increase in revenue and healthy operating margins – The company's operating income (OI) increased by 17% to Rs. 279.08 crore in FY2019 and further by 21% to Rs. 253.85 crore in 9M FY2020 from Rs. 237.8 crore in FY2018 owing to consistent performance of the existing centres, coupled with increase in centres to 63 in FY2019 and further to 67 in 9M FY2020 from 54 in FY2018. The operating margins are healthy at over 33% levels during the last four years, as is the case with the medical diagnostic industry.

Comfortable financial risk profile and strong liquidity profile – The company's financial risk profile remained comfortable with gearing at 0.13 times as on September 30, 2019, while interest coverage and NCA/TD stood at 23.36 times and 163% respectively, for H1FY2020. The company had provided for lease liability as per IND AS-116 in H1FY2020 and including that, the gearing stood at 0.70 times as on September 30, 2019, while interest coverage and NCA/TD stood at 8.2 times and 61% respectively, for H1FY2020. VDCPL's liquidity profile is strong due to healthy profitability levels and low working capital intensity of the business as the company derives a major part of its revenues from direct walk-ins. It had liquid investments of Rs 150.30 crore as on September 30, 2019.

Credit challenges

High geographical concentration – Hyderabad accounted for more than 85% share of the total revenues during the last two years leading to high geographical concentration risk. Out of 67 centres of VDCPL, around 53 centres are located in Hyderabad. The company started its first centre in Himayathnagar, Hyderabad, which remains its flagship centre and reference lab constituting more than 20% of revenues over the last three years. The top 10 centres contributed to 60% and 54% of total revenues in FY2019 and 9M FY2020, respectively.

Sizeable expansion plans – VDCPL has significant expansion plans in the near term, which may constrain the improvement in its operating margins as any new centre takes one to two years time to achieve break even. Further, the company would require continuous investment in medical equipment and infrastructure to remain competitive and provide quality service in the medical diagnostic industry. It has incurred Rs. 146 crore of capital expenditure in the past four years towards upgradation and addition of centres. However, reliance on debt is low due to healthy cash flows over the years.

Highly fragmented industry with intense competition – The medical diagnostics industry is highly fragmented with many diagnostic laboratories, laboratories within hospitals, which account for major business and resulting in stiff competition for organised diagnostic chains in terms of patient volumes and aggressive pricing of diagnostic tests. The low entry barriers in absence of stringent government regulations results in intense competition in the medical diagnostic industry.

Liquidity position: Strong

VDCPL's liquidity position is **strong** with expected cash flow from operations of nearly Rs. 95 crore for FY2020, cash and liquid investments of Rs. 150 crore as on September 30, 2019. In relation to these sources of cash, it has capex plans of ~Rs. 50 crore for the next 12 months and repayment obligations of ~Rs. 9.0 crore each in FY2021 and FY2022. Overall, ICRA expects VDCPL would be able to meet its near-term commitments through internal sources of cash and generate sufficient cash surpluses.

Rating sensitivities

Positive triggers – ICRA could upgrade VDCPL's rating if there is substantial growth in revenues over Rs. 500 crore, along with geographical diversification of revenue profile, while maintaining the profitability indicators.

Negative triggers – The ratings may witness a downward pressure if larger-than-estimated capex adversely impacts its debt metrics and liquidity profile, or decline in performance of existing centres or ramp up in new centres is slower than expected impacting operating margins. The ratings may be affected if there is significant dividend payout deteriorating the liquidity profile.

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

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. It is involved in providing a comprehensive range of diagnostic services spanning across radiology and imaging, nuclear medicine, conventional and specialist lab services and diagnostic cardiology. The company operates 67 centres (as of December 2019) mainly in Andhra Pradesh and Telangana. It 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. It has a shareholding of 62.14% in Medinova Diagnostic Services Limited, a listed company, which operates a diagnostic centre in Kolkata. VDCPL had divested its 100% subsidiary VDC Diagnostics (Karnataka) LLP, which operated one centre in Bangalore in the current financial year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	237.88	279.08
PAT (Rs. crore)	35.40	48.92
OPBDIT/ OI (%)	33.44%	33.73%
RoCE (%)	34.67%	34.10%
Total Debt/ TNW (times)	0.16	0.17
Total Debt/ OPBDIT (times)	0.33	0.39
Interest coverage (times)	19.19	21.57

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 (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 11-Mar-2020	Date & Rating in FY2019 21-Feb-2019	Date & Rating in FY2018 05-Jan-2018	Date & Rating in FY2017 01-Dec-2016
1	Fund Based-Term Loan Limits	Long Term	22.69	22.24	[ICRA]A+(Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Unallocated Limits	Long Term/Short Term	11.31	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[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 click here

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	0.60	[ICRA]A+(Stable)
NA	Term Loan 2	Mar-2016		Mar-2023	5.17	[ICRA]A+(Stable)
NA	Term Loan 3	Oct-2017		Sep-2022	3.32	[ICRA]A+(Stable)
NA	Term Loan 4	Dec-2018		Dec-2023	6.69	[ICRA]A+(Stable)
NA	Term Loan 5	Dec-2018		Dec-2023	6.91	[ICRA]A+(Stable)
NA	Unallocated Limits	-		-	11.31	[ICRA]A+(Stable)/[ICRA]A1+

Source: Vijaya Diagnostic Centre Private Limited

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