February 29, 2024

Krsnaa Diagnostics Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	21.60	13.75	[ICRA]A (Stable); reaffirmed
Short-term – Fund-based – Cash Credit	35.00	0.00	-
Long-term – Fund-based – Cash Credit	0.00	35.00	[ICRA]A (Stable); reaffirmed
Short-term – Non-fund based – Bank Guarantee	58.40	135.40	[ICRA]A1; reaffirmed and assigned for enhanced amount
Total	**115.00**	**184.15**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings considers Krsnaa Diagnostic Limited's (KDL/ the company) established market position in the public-private partnership (PPP) diagnostic services segment and extensive experience of the promoter in the healthcare industry. The ratings also factor in KDL's healthy bid-win ratio for Government tenders. Coupled with the long contract tenor of 3-12 years (including renewal clauses) and captive patient footfalls (from the partnered hospitals), this ensures strong revenue visibility for the company. Further, ICRA notes that the company is expanding its geographical presence with new contract wins in Assam, Uttar Pradesh, Maharashtra, Odisha, Rajasthan and Delhi. The ratings consider KDL's strong financial risk profile characterised by healthy operating profit margins coupled with negative net debt position.

Though the operating profit margins (OPM) declined to 25.1% in FY2023 and 22.2% in 9M FY2024, due to nascent stages of operations in various projects whose revenue shares are not commensurate with the expenses being incurred, the operating margins continue to remain healthy. Going forward, with ramp up of operations at newly set up centres, margins are expected to improve from current levels. The company continues to enjoy a net debt negative position backed by strong cash and liquid investments of ~Rs. 225 crore as on September 30, 2023.

The ratings also consider the capital-intensive nature of KDL's operations with capex plans of over Rs. 150.0 crore each in FY2024 and FY2025 for setting up new centres. However, KDL is also exploring asset-light expansion (pay-per-use or deferred credit from original equipment manufacturers, or OEMs) over the near to medium term to partially fund its expansion. Going forward, the company is likely to incur capex to expand its footprint based on the receipt and successful execution of new contracts. This continues to cap the return on capital employed (RoCE[1]; 11.6% in FY2023 and 8.7% in H1 FY2024) for the company to a certain extent. Against this backdrop, the ramp-up of operations in the new centres shall remain a key monitorable.

The ratings also consider KDL's high debtor days with majority of its debtors being receivables from various Government entities. KDL's receivable days remained at 55 days as of March 31, 2023. However, its debtor days remained at 98 days as of September 30, 2023 which remained at 88 days and 96 days as of September 30, 2022 and September 30, 2021 respectively, in line with the cyclical trend in Government receivables witnessed during the fiscal. The ratings also factor in the competition from regional and established players; however, KDL's established position in the PPP segment mitigates the competitive pressure to a certain extent. Any sizeable acquisitions shall remain an event risk and will be evaluated on a case-by-case basis.

[1] *Adjusting the fair value gain / (loss) and corresponding deferred tax impact*

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will benefit from its strong market position in the PPP segment and its strong financial profile. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, for further capacity expansion, will be funded in a manner such that it can maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established market position in PPP diagnostic segment and extensive experience of promoter – KDL's promoter has over 13 years of experience in the healthcare-diagnostics industry. The company has an established market position in the PPP segment with over 3,247 diagnostic centres (1,545 Pathology collection centres, 118 Processing Lab, 1,441 Tele-reporting Centres and 143 CT/MRI centres) across 15 states and two union territories (UT; Delhi and Chandigarh) in India. KDL also has tie-ups with private hospitals. The strong market position in the PPP segment with gradual addition of new centres is expected to support KDL's business prospects, going forward.

Strong financial profile characterised by healthy operating profit margins and debt coverage metrics – The company witnessed YoY revenue growth of 7.0% in FY2023, on the back of 15% growth in the radiology and pathology segments, despite de-growth of 98% in Covid-19 revenues. The company witnessed revenue growth of ~28% in 9M FY2024 backed by improved test volumes and increase in the scale of operations. OPM declined to 25.1% in FY2023 and 22.2% in 9M FY2024 from 28.9% in FY2022, due to its expansion plan where various projects are underway and whose revenue shares are not commensurate with the expenses being incurred. The company's debt metrics continue to remain healthy with gearing (Total Debt/Tangible Net Worth) and coverage metrics (Total Debt/OPBDITA) of 0.2x and 1.1x, respectively, as on September 30, 2023. In addition, the company had cash and liquid investments of ~Rs. 225 crore as on September 30, 2023. The financial profile is expected to remain healthy in the near term with strong revenue growth and debt metrics.

Healthy bid-win ratio in the PPP segment; longer tenor contracts with annual price escalations – The company has contracts ranging between 3-12 years (including renewal clauses). Additionally, the PPP contracts have an embedded price escalation clause (mandating yearly price increases of 3-7%), which is expected to support the realisation levels, going forward. The company witnessed a healthy bid-win ratio in the past and the same is expected to remain healthy going forward as well, backed by its strong market position. Coupled with captive customer base from hospitals, this ensures revenue visibility for the company in the medium term.

Diversification of geographical presence with newly awarded contracts – The company operates 3,247 diagnostic centres across 15 states and two UTs in India, with ~44% of its revenues coming in from western India in FY2023 and 9M FY2024 (61% in FY2022). With new centres in Punjab, Himachal Pradesh, Uttar Pradesh, Maharashtra, Tripura, Chandigarh and Delhi, KDL's geographical diversification has improved.

Credit challenges

Capital intensive nature of operations with sizeable expansion plans – The company's capital-intensive nature of operations and sizeable outlay towards establishing new centres over the last two years have led to decline in RoCE levels down the years (11.6% in FY2023 and 8.7% in H1 FY2024 over 17.5% in FY2022). Further, the company is expected to incur capex of over Rs. 150.0 crore each in FY2024 and FY2025. However, KDL is also exploring asset-light expansion. Further, capex shall be based on new contract wins backed by its established track record with a healthy bid-win ratio. Consequently, the ramp-up of operations in the new centres shall remain a key monitorable for improvement in RoCE levels. Although the capex is relatively high, ICRA draws comfort from the anticipated healthy accruals from the business over the medium term.

High debtor collection cycle due to Government receivables – The company derives ~75% of its revenues (H1 FY2024) from the PPP segment. As payment timelines of Government receivables tend to be high, KDL's debtors holding period remained at ~98 days as of September 30, 2023.

Fragmented industry with competition from national and regional players – The diagnostics industry is highly fragmented with standalone centres, established regional and national players. In terms of the PPP segment, the company faces competition from regional as well as national players. However, given the established market position of the company with a robust track record and a healthy bid-win ratio, the competitive pressure is mitigated to a certain extent.

Liquidity position: Strong

KDL's liquidity profile is strong, characterised by cash and liquid investments of ~Rs. 225 crore. Of the available liquidity as on September 30, 2023, ~Rs. 52.0 crore would be utilised towards general corporate purposes and projects mentioned in the prospectus for new diagnostic centres (as per the objects of the IPO). The average working capital utilisation remained moderately high at ~80.8% over the past 12 months ending December 2023. ICRA understands that the company is currently working on enhancing its working capital limits. KDL has moderately low debt repayment obligations of Rs. 2.8 crore in H2 FY2024 and Rs. 5.5 crore per annum for FY2025 and FY2026, which are expected to be met by cash accruals. Going forward, ICRA believes that KDL's capex requirements will be met from its existing cash reserves and internal accruals. Overall, ICRA expects the company to service its repayment obligations and capital commitments from the available liquidity buffer and internal cash accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of sizeable increase in revenues and profitability (RoCE) while maintaining the debt coverage metrics on a sustained basis. Specific trigger for a rating upgrade could be RoCE greater than 18.0% on a sustained basis.

Negative factors – Pressure on the rating could arise from deterioration in revenue, margins, working capital intensity or increase in leverage position. Specific trigger for a rating downgrade could be Net debt/OPBIDTA more than 2.0x on a sustained basis.

Environmental and Social Risks

Environmental considerations: The company does not face any major physical climate risk. However, it is exposed to environmental laws and regulations pertaining to handling, transportation and disposal of medical specimens, infectious and hazardous waste along with radioactive exposure during imaging procedures. This requires investments in infrastructure to handle the generated waste. Accordingly, KDL has a moderate exposure to environmental risks. However, the company has taken necessary precautions and procedures like protective clothing and equipment, training, laboratory design, housekeeping and hygiene practices along with restricting unauthorised persons from accessing or being exposed to radioactive and other dangerous materials. The company is also working on other ESG initiatives, which include energy conservation, reducing environmental effects with regards to bio-medical waste and water management.

Social considerations: Exposure to social risks is moderate for KDL. Social risks include litigation exposure and compliance standard requirements, given the importance of the service being provided. Further, regulatory interventions such as price control measures, if any, specifically levied could impact the earnings of the company and the broader industry.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology – Diagnostic Service Providers]
Parent/Group support	Not applicable

Consolidation/Standalone	ICRA has considered the consolidated financials of KDL, along with its subsidiaries for arriving at the ratings.

About the company

Originally incorporated as 'Krsna Diagnostics Private Limited' in December 2010, the company was renamed as 'Krsnaa Diagnostics Private Limited' in 2015. Pursuant to a special resolution passed in the EGM held on April 25, 2021, the company was converted into the public limited company, 'Krsnaa Diagnostics Limited'.

KDL is a differentiated diagnostic service provider in India. It provides a range of technology-enabled diagnostic services such as imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public and private hospitals, medical colleges and community health centres across India.

The company operates a teleradiology hub in Pune with a team of over 240 radiologists. This addresses the shortage of full-time doctors and staff in the diagnostic industry, and considerably increases the turnaround time for diagnostic test reports. In addition, it allows KDL to serve patients in remote locations where diagnostic facilities are limited.

Key financial indicators (audited)

KDL Consolidated	FY2022	FY2023	H1 FY2024*	9M FY2024*
Operating income	455.5	487.1	295.0	453.4
PAT	68.4	62.1	25.1	38.1
OPBDIT/OI	28.9%	25.1%	21.4%	22.2%
PAT/OI	15.0%	12.8%	8.5%	8.4%
Total outside liabilities/Tangible net worth (times)	0.3	0.2	0.4	NA
Total debt/OPBDIT (times)	0.5	0.6	1.1	NA
Interest coverage (times)	7.1	15.9	12.6	11.0

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; NA: Not applicable*

PAT: Profit after tax; OPBDIT: 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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Feb 29, 2024	Jan 02, 2023	Aug 10, 2022	Jan 14, 2022	-
1	**Fund Based Term loan**	Long-term	13.75	13.75	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-
2	**Fund based - Cash credit**	Short-term	-	-	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-
3	**Non-fund based – Bank Guarantee**	Short-term	135.40	118.27	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-
4	**Fund based - Cash credit**	Long-term	35.00	31.11	**[ICRA]A (Stable)**	-	-	-	-

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 - Bank Guarantee	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term - Fund-Based - Term Loan**	Jan 2021	8.25%	FY2026	13.75	[ICRA]A (Stable)
NA	**Long Term - Fund based - Cash Credit**	NA	8.00%-8.35%	NA	35.00	[ICRA]A (Stable)
NA	**Short Term - Non-fund based - Bank Guarantee**	NA	NA	NA	135.40	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	KDL Ownership	Consolidation Approach
KDPL Diagnostics (Amritsar) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (Bathinda) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (Jalandhar) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (Ludhiana) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (Patiala) Private Limited	99.99%	Full Consolidation
KDPL Diagnostics (SAS Nagar) Private Limited	99.99%	Full Consolidation
Krsnaa Diagnostics (Mohali) Private Limited	99.99%	Full Consolidation

Source company annual report FY2023

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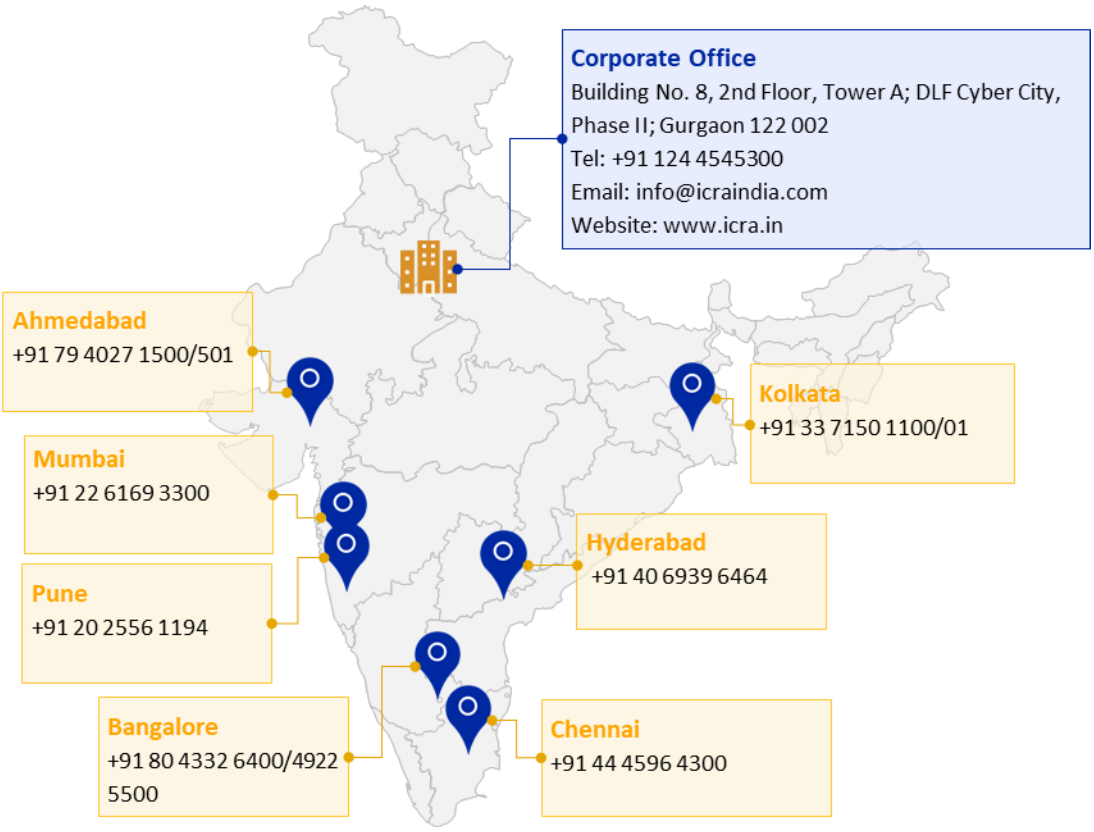

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