March 04, 2024

Skanray Technologies Limited: Ratings downgraded to [ICRA]BBB- (Negative)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	17.0	17.0	[ICRA]BBB- (Negative) downgraded from [ICRA]BBB (Negative)
Long-term – Working capital	50.0	50.0	[ICRA]BBB- (Negative) downgraded from [ICRA]BBB (Negative)
Total	**67.0**	**67.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action considers the weaker-than-expected performance as well as elevated debt levels of Skanray Technologies Limited (STL/ the company) during 9M FY2024 and ICRA's expectations that STL's credit profile will remain moderate over the near term. The company reported revenues of Rs. 251.1 crore and an operating loss of Rs. 14.7 crore during FY2023, against revenues of over Rs. 350.0 crore and an operating profit margin (OPM) of 12.1% during FY2022. While ICRA expected significant revival in the company's performance during the current fiscal year aided by revival in demand from both domestic and export markets in the company's addressable segments, the same did not materialise. The company reported revenues of ~Rs. 180.0 crore and an operating level breakeven during 9M FY2024 (as per provisional financials) on account of high competitive intensity, continued demand slowdown for the segments the company operates in (as most of these supplies were done during the Covid-19 period), delayed execution of healthcare projects by the Government of India (GOI), reduced post-pandemic healthcare spending by the GOI in STL's addressable market, and delayed product launches due to technical and supply chain issues.

The company's debt increased to ~Rs. 178 crore (including preference shares) as on December 31, 2023, from Rs. 148.7 crore as on March 31, 2023 (including preference shares), mainly on account of higher working capital debt to fund the increased raw material inventory holding to mitigate any revenue loss from increased lead times for most of the raw materials post-pandemic and buildup of finished goods on account of lower-than-expected sales in 9M FY2024. Increased debt combined with reduction in profitability led to significant deterioration in STL's credit metrics during FY2023 and current fiscal over FY2022. The company is taking various initiatives to improve its sales, and the same remains key for improvement in its financial profile.

The rating continues to draw strength from the extensive experience of STL's promoters in the medtech business, its diversified product portfolio in patient monitoring systems, electrosurgical units and radiology products, etc, and its well-established after-service capabilities in addition to healthy long-term outlook for the Indian medical devices industry.

The rating is, however, constrained by the intense competition in the industry, restricting the company's pricing flexibility to a certain extent. Further, demand for STL's products is largely dependent on the capex plans of hospital entities, which may be cyclical in nature. The company is also exposed to regulatory risks, as any changes in regulations can impact the approval and adoption of new technologies, which can be costly and time-consuming.

ICRA notes that the company is currently in the process of raising fresh equity (expected in tranches) along with facilitating the exit of its current private equity (PE) investor. Proceeds from the same are expected to be used for inorganic growth, capex, increasing the distribution reach in domestic and export markets, and for new product development. Timely completion of fundraising, its utilisation, and resultant impact on the company's credit profile will be a key rating monitorable.

The continuation of the Negative outlook on the long-term rating reflects ICRA's opinion that STL's credit profile will remain impacted until it witnesses recovery in its sales volumes and in turn its profitability.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and founders in healthcare sector – STL's promoters have extensive experience in the healthcare business, enabling the company to carry out its operations with focused guidance. Mr. Arun Kumar Pillai, the founder of Strides Pharma Science Limited (rated [ICRA]A-(Stable)/[ICRA]A2+) has ~61% shareholding in the company through various entities.

Diversified product portfolio with well-established service network – STL has a wide product portfolio, which includes respiratory management systems (RMS), patient monitoring systems, cardiology devices, radiology products, spares and accessories, among others. Additionally, STL provides low-cost service to its customers through an experienced in-house team.

Credit challenges

Demand largely dependent on purchase patterns of domestic hospitals; demand remained muted due to aftermath of Covid-19 – The demand for STL's products is largely influenced by the capex plans of hospital entities, which can be cyclical in nature. Substantial demand for the company's products was catered during Covid (FY2021 and FY2022), leading to lower demand in FY2023 and current fiscal. Additionally, in times of economic uncertainty, hospitals may delay or scale back their capex plans, leading to reduced demand for medical devices. Once a hospital has made an initial investment in medical equipment, the demand for further equipment (apart from replacement capex) may only arise if there is a significant technological advancement that can improve outcomes or if the hospital is expanding its operations.

Intense competition with established players in the field – STL's competitors include other well-established and much larger players in the healthcare equipment manufacturing industry in addition to relatively smaller players. The intense competition restricts the pricing flexibility of the company to a certain extent. Its ability to increase presence in key markets will remain a key rating monitorable for the company.

Significant deterioration in financial profile – The company reported revenues of Rs. 251.1 crore and an operating loss of Rs. 14.7 crore during FY2023, against revenues of over Rs. 350.0 crore and an operating profit margin (OPM) of 12.1% during FY2022. While ICRA expected significant revival in the company's performance during the current fiscal year aided by revival in demand from both domestic and export markets in the company's addressable segments, the same did not materialise on account of aforementioned reasons. The company's debt increased to ~Rs. 178 crore as on December 31, 2023, from Rs. 148.7 crore as on March 31, 2023, mainly on account of higher working capital debt to fund the increased raw material inventory holding to mitigate any revenue loss from increased lead times for most of the raw materials post-pandemic and buildup of finished goods on account of lower-than-expected sales in 9M FY2024. Increased debt combined with reduction in profitability led to significant deterioration in STL's credit metrics during FY2023 and current fiscal over FY2022. The TD/OPBDITA stood at -10.1 times as on March 31, 2023 (~44.6 times as on December 31, 2023) against 2.2 times as on March 31, 2022. Gearing of the company increased to 0.8 times at March 31, 2023 against 0.4 times at March 31, 2022. Interest coverage and DCSR remained negative during FY2023 on account of operating losses. Although the company has adequate liquidity as on December 31, 2023, against its minimal repayment obligations, the same has been continuously depleting to fund the cash losses and increased working capital requirements by availing additional ODFD facility, in turn leading to further increase in debt levels. ICRA notes that the company is currently in process of raising fresh equity (expected to be received in tranches) along with facilitating the exit for current private equity (PE) investor. The proceeds from this equity infusion are expected to be utilized for inorganic growth, capex, increasing the distribution reach in domestic and export markets and for new product development. Timely completion of fundraising and its utilization, and resultant impact on the company's credit profile will be key rating monitorables. ICRA will continue to monitor the same and will take appropriate rating action as and when required.

Increased working capital intensity – The company's working capital intensity increased to 26.3% in FY2023 from 16.1% in FY2022 mainly on account of inventory days increasing to 176 days in FY2023 from 121 days in FY2022. This was on the back of higher raw material inventory holding to prevent any revenue loss from increased lead times for majority of its raw materials after the pandemic. Although STL generally maintains higher inventory of finished goods at the end of each quarter on the basis of its demand estimation for certain products, the inventory buildup of finished goods as on March 31, 2023 was higher than past trends on account of lower-than-expected revenues leading to further increase in inventory days.

Liquidity position: Adequate

The company's liquidity position remains adequate with unencumbered cash and liquid investments of ~Rs. 55.7 crore and unutilised working capital limits of ~Rs. 1.6 crore as on December 31, 2023. STL's average working capital utilisation remained in the range of 90% between January and December 2023 against its sanctioned limit of Rs. 47.0 crore. Moreover, to fund its increasing working capital requirements, the company has continuously increased its Overdraft against Fixed Deposit (ODFD) limit during last year, resulting in depletion of its free cash and liquid investments. As on December 31, 2023. the company had sanctioned ODFD limit of Rs.110.0 crore (Rs.80.0 crore in December 2022) availed against investor FD of ~Rs. 50.0 crore and the rest against its own FDs. The utilisation of the same remained in the range of 80-90% between January and December 2023. STL's repayment obligations remain in the range of Rs. 2.5–5.7 crore per annum between FY2024 and FY2026 for its existing term loans. The company is expected to incur capex of Rs. 9-10 crore in FY2024, to be funded through a mix of term loans and existing cash balances. Overall, ICRA expects the company to be able to meet its near-term commitments through its existing liquidity position.

Rating sensitivities

Positive factors – The outlook on the long-term rating may be changed to Stable if the company demonstrates significant improvement in its scale of operations while demonstrating strong recovery in margins and debt coverage metrics while maintaining liquidity.

Negative factors – Negative pressure on STL's rating could arise with any further decline in its revenues and profit margins. Negative pressure on the ratings could also arise in case of debt-funded capex or inorganic growth leading to deterioration in the company's credit metrics and liquidity profile. Specific credit metrics for a rating downgrade will be Total Debt/OPBIDTA greater than 3.0 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of STL.

About the company

Skanray Technologies Ltd. was founded by Mr. Vishwaprasad Alwa in 2007. It is involved in developing the core technology for radiology products (high frequency X-ray imaging systems). Skanray Healthcare Pvt. Ltd. (SHPL) was formed in November 2012 to acquire L&T's medical equipment division. SHPL was merged with STL with effect from April 1, 2013. STL generates revenues from the manufacturing, trading and servicing of medical equipment. Its product range includes patient monitoring systems, high frequency X-ray devices, electrosurgical units, anaesthesia workstations, ICU ventilators, syringe pumps and critical care devices. It has two USFDA-approved manufacturing facilities in India and three in Europe. The company employs about 650 people and has over 72 dealers and 50 service franchisees catering to 1,830 customers across 20 countries.

Key financial indicators (audited)

Skanray (Consolidated)	FY2022	FY2023
Operating income	350.0	251.1
PAT	4.4	-31.3
OPBDIT/OI	12.1%	-5.8%
PAT/OI	1.3%	-12.5%
Total outside liabilities/Tangible net worth (times)	1.1	1.5
Total debt/OPBDIT (times)	2.2	-10.1
Interest coverage (times)	7.6	-1.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Total debt includes preference shares

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 on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					March 04, 2024	April 25, 2023	-	Jan 31, 2022,	Oct 01, 2020
1	Term Loan	Long Term	17.0	14.6	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	[ICRA]BB+ (Positive)
2	Working capital	Long Term	50.0	-	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	-	-	-
3	Unallocated	Long Term	-	-	-	-	-	[ICRA]BBB (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Very Simple
Long term – working capital	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	FY2020-FY2023	NA	FY2033	17.00	[ICRA]BBB- (Negative)
NA	Long term – working capital	FY2023	NA	-	50.00	[ICRA]BBB- (Negative)

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	Ownership	Consolidation Approach
Skan-X Radiology Devices S.P.A	100.0%	Full Consolidation
Skanray Healthcare Global Private Limited	100.0%	Full Consolidation

Source: Company

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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