October 08, 2024

Vijaya Diagnostic Centre Limited: Ratings Reaffirmed and Withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Unallocated limits	34.00	34.00	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed and Withdrawn
Total	**34.00**	**34.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has reaffirmed and withdrawn the rating assigned to the bank facilities of Vijaya Diagnostic Centre Limited (VDCL). The rating is withdrawn based on the receipt of request from the company and in accordance with ICRA's policy on withdrawal.

The ratings consider ICRA's expectation that VDCL's credit profile would be supported by healthy revenue growth, on the back of planned new centre additions, supported by healthy demand for diagnostics services, with sustained margins resulting in improved earnings and cash flows. In FY2024, the company's revenues grew by ~19%, driven by the addition of 24 centres, leading to a healthy increase in the number of tests and growth in realisation per customer per test. The revenue growth/centre additions were also supported by the acquisition of PH Diagnostics Private Limited (Pune) in December 2023 for a purchase consideration of ~Rs. 147.0 crore. In FY2024, the company's operating margins remained strong at 40.3% in FY2024, despite the addition of 24 new centres. The company's operating margins were 39.2% for Q1 FY2025, which are also expected to remain healthy going forward.

The ratings further derive comfort from VDCL's established brand name and its diversified diagnostic offerings, including radiology and imaging, nuclear medicine, conventional and speciality laboratory services and diagnostic cardiology. The company plans to add multiple centres in the medium term, which are expected to result in a healthy revenue growth of 12-18% per annum. VDCL derives over 95% of its revenues from B2C customers, which has resulted in strong margins for the company over the years. Further, the pathology-radiology mix of 64:36 is favourable compared to other major players, which derive higher share of revenues from the pathology segment. The company has negligible external debt aside from lease obligations. This has resulted in strong coverage and leverage metrics with DSCR of 5.4 times in FY2024 and total debt (TD) (including lease liabilities)/TNW of 0.4 times in FY2024. Going forward, ICRA expects the company's capital and coverage indicators to remain strong.

The ratings are, however, constrained by the high geographical concentration, with Hyderabad accounting for a sizeable share of revenues. Moreover, low entry barriers in the absence of stringent Government regulations result in stiff competition in the medical diagnostic industry. The entry of new players and online aggregators offering deep discounts has accentuated the competition. ICRA notes that VDCL would require continued investments in medical equipment and infrastructure to remain competitive and provide quality service in the medical diagnostic industry. ICRA also notes that VDCL has sizeable expansion plans in the medium term, with most expansions to occur outside Hyderabad, which is expected to gradually diversify the company's revenue base.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will witness healthy growth and maintain healthy financial and business risk profiles on the back of its reputed brand presence and robust demand scenario.

Key rating drivers and their description

Credit strengths

Established presence in medical diagnostics industry - The company has a track record of over four decades in the medical diagnostics industry. Mr. Surendranath Reddy, the founder of VDCL, is a doctor by profession and started the first diagnostic centre in 1981. VDCL provides a comprehensive range of radiology and pathology diagnostic services and is an established regional player with a wide network comprising 145 centres as on June 30, 2024, across Telangana, Andhra Pradesh, Maharashtra, Karnataka and West Bengal. These centres, along with the laboratories, offer diagnostic services such as radiology and imaging, nuclear medicine, conventional and speciality laboratory services, and diagnostic cardiology. A strong clinical team led by more than 200 qualified radiologists, pathologists, microbiologists, and over 1,100 qualified technologists, support its operations.

Strong financial profile with healthy operating margins, comfortable capital structure and coverage metrics - VDCL's operating income improved by 19% to Rs. 547.8 crore in FY2024 from Rs. 459.2 crore in FY2023. This was driven by a healthy increase in the number of tests and growth in realisation per customer per test. The revenue growth was also supported by the revenue derived from PH Diagnostics Private Limited (Pune), acquired in December 2023. In Q1 FY2025, revenues grew by 29% YoY with the ramp-up of addition of new centres (24 added in FY2024). The revenue is expected to grow at a healthy rate in the medium term, aided by significant expansion planned by VDCL with the addition of multiple new centres in next 12 to 24 months.

The company recorded healthy operating margins on account of its healthy customer mix, wherein it derives 95% of its revenues from the B2C business and a healthy mix of pathology and radiology (64:36 in FY2024). VDCL's operating margin moderated marginally to 39.2% in Q1 FY2025 due to expenses incurred for the new centres, which would require a few months to scale up the revenues. However, the company's margins are expected to remain strong despite its expansion plans.

Consistent strong accruals along with comfortable debt levels (comprising lease liabilities) resulted in strong coverage and leverage metrics for the company with total debt (incl. lease liabilities)/TNW of 0.4 times. DSCR remained healthy at 5.4 times in FY2024.

Credit challenges

High geographical concentration - VDCL's revenue is concentrated in the Hyderabad market. However, ICRA notes that VDCL's brand loyalty built in this region plays a key role in commanding higher realisations. Moreover, the company has been diversifying its geographic base; 90% of its future expansion will be outside the Hyderabad market.

Highly fragmented industry with intense competition - The medical diagnostics industry is highly fragmented with the presence of many standalone diagnostic laboratories and laboratories within hospitals, resulting in stiff competition for organised diagnostic chains in terms of patient volumes and aggressive pricing of diagnostic tests. The low entry barriers in the absence of stringent Government regulations result in intense competition in the medical diagnostic industry as illustrated by the recent entry of players offering deep discounts to capture market share.

Sizeable expansion plans - VDCL has sizeable investment plans in the near term, which may constrain the improvement of its operating margins due to the operational expenditure incurred towards the establishment of new centres, leading to losses during the initial months of operations before revenue from the centres scales up. Further, the company would require continuous investment in medical equipment and infrastructure to remain competitive and provide quality service in the medical diagnostic industry. However, the reliance on debt is low due to healthy cash flows over the years.

Environmental and social risks

Diagnostic service providers do not face any major physical climate risk. However, they are exposed to environmental laws and regulations pertaining to handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive exposure during imaging procedures. This requires infrastructure investments to handle the generated waste. Accordingly, entities in the industry have moderate exposure to environmental risks.

VDCL's employees are trained and encouraged to use protective equipment and instruments, while handling biological specimens and adhere to national and local safety guidelines, including biomedical waste disposal. It monitors the radiation levels of all the personnel working in radiation-generating area. According to the company, it provides safety device functions, which are regularly checked. These devices include biosafety and laminar flow cabinets, emergency showers, fire extinguishers, eye wash facilities, fire alarms, smoke detectors and fire hose reels. Fire evacuation plans and emergency exits are displayed at provisional areas.

Exposure to social risks is moderate for the healthcare diagnostic service sector. Social risks for industry players include litigation exposure, and compliance standard requirements owing to the importance of the service being provided. Further, regulatory interventions such as price control measures if any, specifically levied could impact the earnings of industry players.

Liquidity: Strong

The liquidity position is strong with healthy cash balances and investments in mutual funds of Rs. 182.1 crore as on March 31, 2024, and expected retained cash flows of Rs. 150-200.0 crore in FY2025. Against this, VDCL is expected to incur sizeable capex in the next 12 to 24 months towards opening new centres and general maintenance from internal accruals.

Rating Sensitivities

Positive factors – NA

Negative factors - NA

The rating sensitivities have not been captured in PR as the rated instruments are being withdrawn. The previous detailed rating rationale is available at the following link**:** **Click here**

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology –Diagnostic Service Providers Policy on withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VDCL and its subsidiaries (Annexure II).

About the company

Vijaya Diagnostic Centre Limited was founded by Dr. S Surendranath Reddy in 1981 as a proprietorship concern. It was subsequently incorporated as a private limited company in 2002 and listed on the stock market in September 2021. The company is engaged in providing a comprehensive range of diagnostic services spanning radiology and imaging, nuclear medicine, conventional and specialist lab services, and diagnostic cardiology. VDCPL operates 145 centres (as on March 31, 2024) primarily in Andhra Pradesh, Telangana, Karnataka, Maharashtra and West Bengal.

Key financial indicators

VDCL (Consolidated)	FY2023	FY2024	Q1 FY2025*
Operating income	459.2	547.8	156.2
PAT	85.2	119.6	31.5
OPBDIT/OI	39.6%	40.3%	39.2%
PAT/OI	18.6%	21.8%	20.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	-
Total debt/OPBDIT (times)	1.4	1.2	-
Interest coverage (times)	8.7	9.2	9.8

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount. in Rs. crore; * Quarterly Audited for Q1 FY2025. All calculations are as per ICRA Research; Source: Company financials, BSE, ICRA Research*

Status of non-cooperation with previous CRA

	Ratings	Date
CRISIL Ratings	CRISIL B+/Stable/ CRISIL A4; (Issuer not Cooperating)	February 29, 2024

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs. crore)**	**October 08, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Unallocated	Long-term /Short - term	34.00	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed and Withdrawn	Dec 29, 2023	[ICRA]AA-(Stable)/ [ICRA]A1+	Aug 29, 2022	[ICRA]AA-(Stable)/ [ICRA]A1+	May 03, 2021	[ICRA]A+(Stable)/ [ICRA]A1+
				Oct 09, 2023	[ICRA]AA-(Stable)/ [ICRA]A1+			-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short Term – Unallocated	Not applicable

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	**Unallocated limits**	NA	NA	NA	34.00	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed and Withdrawn

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company name	Holding by VDCL	Relationship with VDCL	Consolidation approach
Medinova Diagnostic Centre Limited	62.14%	Direct subsidiary	Full consolidation
VDC Diagnostic Karnataka (LLP)	100.0%	Direct subsidiary	Full consolidation
Doctors Lab Diagnostic Centre Private Limited	100.0%	Direct subsidiary	Full consolidation
Medinova Millennium MRI Services LLP*	100.0%	Step down subsidiary	Full consolidation
Namrata Diagnostic Centre Private Limited**	100.0%	Step down subsidiary	Full consolidation
P H Diagnostic Centre Private Limited	100.0%	Direct subsidiary	Full consolidation

Source: Annual report of VDCL; apart from Medinova, other subsidiaries are non-operational

**Subsidiary of Medinova Diagnostic Services Limited*

***Subsidiary of Doctors Lab Diagnostic Centre Private Limited*

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About ICRA Limited:

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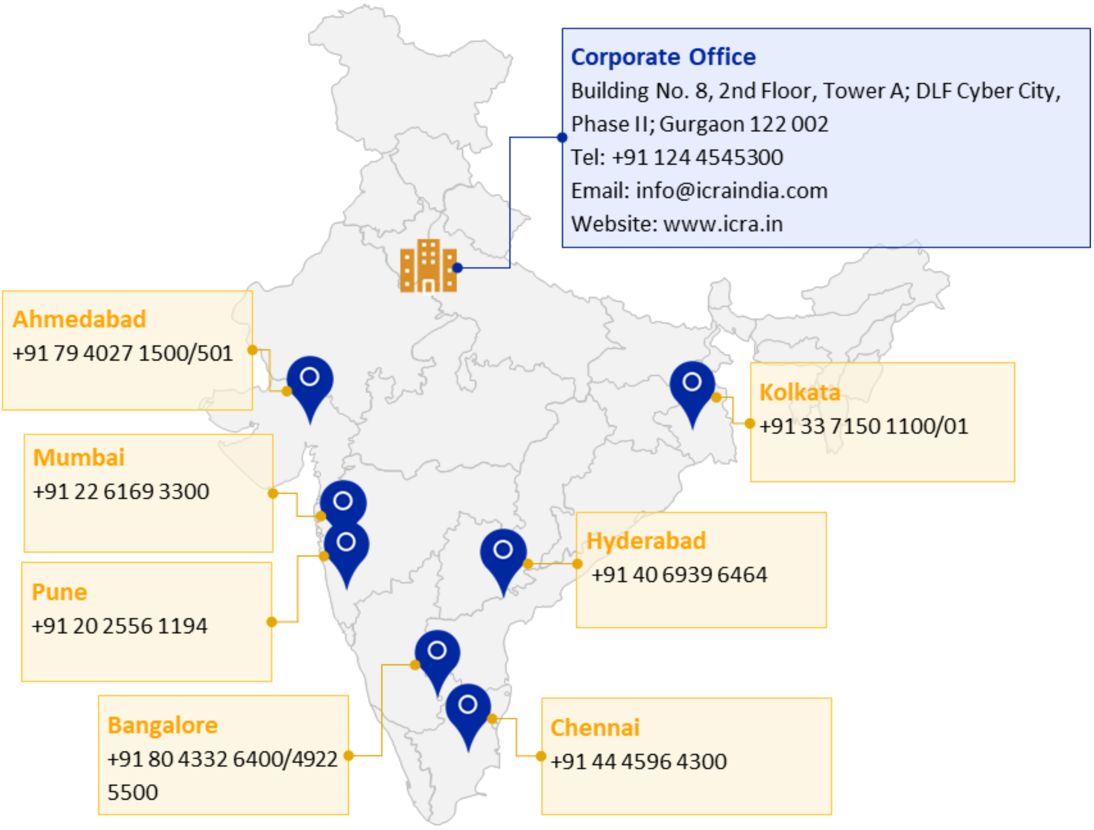

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