February 16, 2021

# SRL Diagnostics Private Limited: Update on Entity

Summary of rating(s) outstanding

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Outstanding |
|---|---|---|---|
| Fund-based Limits | 15.00 | 15.00 | [ICRA]A& |
| Short-term interchangeable | (15.00) | (15.00) | [ICRA]A1& |
| Non-fund Based Limits | 2.00 | 2.00 | [ICRA]A&/A1& |
| **Total** | **17.00** | **17.00** | |

**Instrument details are provided in Annexure-1; &: on watch with developing implications*

## Rationale

ICRA has taken a consolidated view of SRL Limited (SRL) and its subsidiaries (including SRL Diagnostics Private Limited, or SRLD) because of operational and functional synergies between the entities.

## Material Event

The board of directors of SRLD's ultimate parent company, Fortis Healthcare Limited (Fortis), in their meeting held on February 5, 2021, gave their approval to SRL to acquire 50% stake in its existing Joint Venture (JV), DDRC SRL Diagnostics Private Limited (DDRC-SRLD), for a cash consideration of Rs. 350 crore (including the ownership of the DDRC brand). DDRC-SRLD is an existing 50:50 JV between the DDRC Group and SRLD, which operates a diagnostics services business in Kerala through a network of eight central labs and 194 stat labs. Following the acquisition, DDRC- SRLD will become a 100% subsidiary of SRL. The consummation of the transaction is subject to the company's shareholders approval and other regulatory approvals as required.

## Impact of the Material Event

DDRC-SRLD is engaged in providing diagnostics services and generates most (~70%) of its business from the B2C segment with focus on providing relatively less complex range of diagnostic tests. Accordingly, its business profile is similar to that of SRL. With revenues of Rs. 160.4 crore (in FY2020) and a network of 202 labs spanning the state, DDRC- SRLD commands a leading market position in Kerala within the organised diagnostics segment. The company recorded revenues of Rs. 204.1 crore in 9M FY2021 (65.9% YoY growth) aided by increased Covid-19 tests during the period.

In ICRA's view, the acquisition provides SRL an opportunity to expand its presence in other markets in South India (where it currently has limited presence) besides consolidating its leadership position in Kerala. The acquisition also complements its strategy of growing the B2C business segment and expanding DDRC-SRLD's product portfolio (lifestyle diseases, specialised tests and preventive packages) with more specialised and complex tests besides harnessing cost synergies through common material sourcing opportunities and integration of other functions.

The acquisition of DDRC-SRLD is credit neutral for SRL as ICRA believes that the acquisition will not have a material impact on the financial profile of SRL owing to limited reliance on external borrowings (Rs. 100-125 crore) to fund the acquisition. The company aims to fund a sizeable part of the acquisition through existing cash reserves (Rs. 256.4 crore as on December 31, 2020). The company's credit profile continues to remain characterised by a strong balance sheet, healthy cash flow generation from existing operations and negligible borrowings. Over the medium term, the acquisition is expected to enhance the company's scale and profitability besides improving its market share among the organised diagnostic players.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, liquidity position, and rating sensitivities: **Click here**

Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Healthcare Diagnostic Service Providers |
| **Parent/Group Support** | Parent/Group Company: SRL Limited ([ICRA]A&/A1&); 100% stake in SRLD. |
| **Consolidation/Standalone** | The ratings are based on the consolidated financial statements of the issuer. |

# About the company

SRL Diagnostics Private Limited, formerly known as Piramal Diagnostic Services Private Limited, is one of the largest chains of clinical diagnostic centres in India. It is a wholly owned subsidiary of SRL Limited, which is owned by Fortis Healthcare Limited (57.7% stake). SRLD is one of the few diagnostic centre chains offering pathology and radiology services on a pan India level. Most centres, in addition, offer echocardiography, ECG, stress tests, pulmonary function tests, audiometry and body composition tests, besides pathology and radiology tests. SRLD operates 35 labs and 26 collection centres (as on September 30, 2020). Additionally, through its joint venture, DDRC SRL Diagnostic Services, it operates 203 labs and four collection centres in Kerala.

In FY2020, the company reported a turnover of Rs. 277.2 crore with a profit after tax (PAT) of Rs. 25.4 crore. At the consolidated level, the SRL Group reported a consolidated turnover of Rs. 1,010.3 crore with a PAT of Rs. 78.9 crore.

Key financial indicators (audited)

| SRL Consolidated | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. crore) | 1,003.7 | 1,010.3 |
| PAT (Rs. crore) | 85.9 | 78.9 |
| OPBDIT/OI (%) | 17.3% | 16.9% |
| PAT/OI (%) | 8.6% | 7.8% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.1 | 0.2 |
| Total Debt/OPBDIT (times) | 0.0 | 0.4 |
| Interest Coverage (times) | 30.0 | 13.4 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

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

| SRLD Standalone | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. crore) | 282.3 | 277.2 |
| PAT (Rs. crore) | 27.0 | 25.4 |
| OPBDIT/OI (%) | 27.1% | 26.8% |
| PAT/OI (%) | 9.6% | 9.2% |
| Total Outside Liabilities/Tangible Net Worth (times) | 5.0 | 2.7 |
| Total Debt/OPBDIT (times) | 1.7 | 1.7 |
| Interest Coverage (times) | 4.0 | 3.8 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2021) | | | | | Chronology of Rating History for the past 3 years | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in | | Date & Rating in FY2020 | Date & Rating in FY2019 | | Date & Rating in FY2018 | | | | | |
| | | | | | Dec 29, 2020 Feb 16, 2021 | Apr 24, 2020 | Dec 20, 2019 | Feb 1,2019 | Apr 12,2018 | Mar 9, 2018 | Feb 13, 2018 | Feb 7, 2018 | Dec 28, 2017 | Jul 17, 2017 | Jul 4,2017 |
| 1 | Fund based facilities | Long Term | 15.0 | NA | [ICRA]A& | [ICRA]A-& | [ICRA]BBB+ (Stable) | [ICRA] BBB- (Stable) | [ICRA] BBB- (Negative) | [ICRA] BBB@ | [ICRA] BBB+@ | [ICRA] A-@ | [ICRA] A-& | [ICRA] A-& | [ICRA]A- (Stable) |
| 2 | Short term fund based interchangeable | Short Term | (15.0) | NA | [ICRA]A1& | [ICRA]A1& | [ICRA]A2 | [ICRA]A3 | [ICRA]A3 | [ICRA] A3+@ | [ICRA] A2@ | [ICRA] A2+@ | [ICRA] A2+& | [ICRA] A2+& | [ICRA] A2+ |
| 3 | Non-fund based facilities | Long and Short Term | 2.00 | NA | [ICRA]A&/A1& | [ICRA]A-&/A1& | [ICRA]BBB+ (Stable)/ A2 | [ICRA] BBB- (Stable)/ A3 | [ICRA] BBB- (Negative) / A3 | [ICRA] BBB@/ A3+@ | [ICRA] BBB+@/ A2@ | [ICRA] A-@/ A2+@ | [ICRA] A-&/ A2+& | [ICRA] A-&/ A2+& | [ICRA]A- (Stable)/ A2+ |

*&= Under watch with developing implications*

## 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 | Fund based facilities | NA | NA | NA | 15.00 | [ICRA]A& |
| NA | Short term fund based interchangeable | NA | NA | NA | (15.00) | [ICRA]A1& |
| NA | Non-fund based facilities | NA | NA | NA | 2.00 | [ICRA]A&/ A1& |

***Source:*** *Company*

*Annexure-2: List of entities considered for consolidated analysis*

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| SRL Limited | Parent Company | Full Consolidation |
| SRL Diagnostics Private Limited | 100.00% | Full Consolidation |
| SRL Diagnostics FZ-LLC | 100.00% | Full Consolidation |
| SRL Diagnostics (Nepal) Private Limited | 50.00% | Equity Method |
| DDRC SRL Diagnostics Private Limited | 50.00% | Equity Method |
| SRL Reach Limited | 100.00% | Full Consolidation |

***Source:*** *Company*

***Note:*** *ICRA has taken a consolidated view of the parent (SRL), its subsidiaries (including SRLD) and JVs while assigning the ratings.*

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