May 03, 2021

Vijaya Diagnostic Centre Limited: Ratings reaffirmed at [ICRA]A+(Stable)/[ICRA]A1+

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	22.69	-	[ICRA]A+(Stable) reaffirmed
Long Term/Short Term Unallocated	11.31	34.00	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
Total	34.00	**34.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in Vijaya Diagnostic Centre Limited's (VDCL) established brand name with 79 centres in Telangana and Andhra Pradesh and its diversified diagnostic offerings including radiology and imaging, nuclear medicine, conventional and speciality laboratory services and diagnostic cardiology. The company witnessed strong revenue growth during the last two years owing to improved performance of its existing diagnostic centres and addition of new centres. While the revenues moderated in Q1 FY2021 because of deferred elective check-ups, revenue growth was strong in the subsequent quarters of the year; operating margins also improved in 9M FY2021. Further, its liquidity position remained strong with cash and liquid investments of Rs. 198.6 crore as on December 31, 2020 due to healthy cash flow from operations, along with low working capital intensity of the business. The ratings factor in the company's comfortable financial risk profile. VDCL prepaid its entire debt in FY2021 and its coverage metrics remain strong, given its healthy margins and in the absence of debt.

The ratings, however, are 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 the absence of stringent Government regulations, resulting in stiff competition in the medical diagnostic industry. 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. It has incurred ~Rs. 175.00 crore of capital expenditure during FY2017—9M FY2021 towards upgradation and addition of centres with low dependence on borrowings. Further, VDCL has significant expansion plans in the medium term, primarily towards centre addition. The quantum and the funding mix of the capex plans, along with performance of the new centres, remains a key monitorable.

Key rating drivers and their description

Credit strengths

Established presence of VDCL in medical diagnostics industry – The company has a track record of more than three 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 79 centres, mainly in Telangana and Andhra Pradesh, with laboratories offering diagnostic services including radiology and imaging, nuclear medicine, conventional and speciality laboratory services and diagnostic cardiology. Strong clinical team led by more than 200 qualified radiologists, pathologists, microbiologists and other doctors, in addition to over 1,100 qualified technologists, support its operations.

Consistent increase in revenues and healthy operating margins – The company's operating income (OI) increased by 18% to Rs. 328.7 crore in FY2020 and further by 7% to Rs. 292.5 crore in 10M FY2021 owing to consistent performance of the existing centres and increase in centres to 75 in FY2020 and 79 in 10M FY2021 from 63 in FY2019. Despite lower footfalls in Q1 FY2021, as patients deferred elective procedures, revenues increased significantly in subsequent quarters with increased test volumes and incremental revenues from Covid-19 testing. The operating margins have been healthy at 40.3% in FY2020 and 42.4% in 9M FY2021.

Comfortable capital structure and healthy coverage indicators – The company's financial risk profile remains comfortable. It has prepaid its entire debt in FY2021 and has only lease liability as per Ind AS 116 as on date. Its coverage indicators are strong with interest coverage and DSCR of 9.5 times and 3.9 times, respectively in 9M FY2021. VDCL's liquidity profile is strong due to healthy profitability levels and low working capital intensity of the business as it derives a major part of its revenues from direct walk-ins. It had liquid investments of Rs. 198.6 crore as on December 31, 2020.

Credit challenges

High geographical concentration – Hyderabad accounted for more than 85% share of the total revenue during the last two years leading to high geographical concentration risk. The company started its first centre in Himayathnagar, Hyderabad, which remains its flagship centre and reference laboratory, constituting 18.4% of revenues for 10M FY2021. The top 10 centres contributed to 54% and 52% of total revenues in FY2020 and 10M FY2021, respectively.

Sizeable expansion plans – VDCL 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 of 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. 175 crore of capital expenditure during FY2017–9M FY2021 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 result in intense competition in the medical diagnostic industry.

Liquidity position: Strong

VDCL's liquidity is **strong** with retained cash flows of ~Rs. 110–130 crore. It also has strong cash and liquid investments of Rs. 198.6 crore as on December 31, 2020. It does not have any repayment obligations and is expected to incur capex of ~Rs. 50 crore in the next 12 months. Overall, the company has comfortable cash flows to meet its capex requirements.

Rating sensitivities

Positive factors – ICRA could upgrade VDCL's rating if it witnesses substantial growth in revenues, along with geographical diversification of revenue profile, while maintaining the profitability indicators.

Negative factors – 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, significantly impacting operating margins.

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	Standalone

About the company

Vijaya Diagnostic Centre Limited (VDCL) was founded by Dr. S. Surendranath Reddy in 1981 as a proprietorship concern and was subsequently incorporated as a private limited company in 2002 and as a public limited company in 2021. The company provides a comprehensive range of diagnostic services spanning across radiology and imaging, nuclear medicine, conventional and specialist laboratory services and diagnostic cardiology. VDCL operates 79 centres (as of February 2021) in Andhra Pradesh and Telangana. It has received equity investment from Private Equity (PE) investor—Kedaara Capital—in March 2017. The investor has acquired a 40% stake in VDCL through both a primary and secondary share sale in FY2017. The company has shareholding of 62.14% in Medinova Diagnostic Services Limited, a listed company that operates a diagnostic centre in Kolkata.

Key financial indicators (audited)

Standalone	FY2019	FY2020
OI (Rs. crore)	279.1	328.7
PAT (Rs. crore)	48.9	61.2
OPBDIT/OI (%)	33.7%	40.3%
PAT/OI (%)	17.5%	18.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.7
Adjusted Debt/OPBDIT (times)	0.4	0.3
Interest Coverage (times)	21.6	8.9

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

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 03, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 03, 2021	-	March 11, 2020	February 21, 2019
1	Fund Based -Term Loans	Long-term	-	-	[ICRA]A+ (Stable)	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)
2	Unallocated	Long-term / Short Term	34.00	-	[ICRA]A+(Stable)/[ICRA]A1+	-	[ICRA]A+(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1

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	Unallocated Limits	-	-	-	34.00	[ICRA]A+(Stable)/ [ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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