January 14, 2022

Krsnaa Diagnostics Limited: [ICRA]A (Stable)/[ICRA]A1 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	22.00	[ICRA]A (Stable); Assigned
Cash Credit	30.00	[ICRA]A1; Assigned
Bank Guarantee	33.00	[ICRA]A1; Assigned
Total	**85.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings draw comfort from 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. As on September 30, 2021, KDL operated 1,847 diagnostic centres across 14 states in India (as against 50 centres in FY2017), wherein 97% of the centres are under PPP contract. The ratings also factor in the healthy bid-win ratio of the company in the Government tenders. This coupled with long contract tenor of 2-10 years and captive patient footfalls (from the partnered hospitals) ensures strong revenue visibility for the company. Further, ICRA notes that the company is expanding its geographical presence with new contract wins in Punjab, Karnataka and Himachal Pradesh.

The ratings also consider the strong financial risk profile of the company characterised by continued revenue growth momentum and healthy operating profit margins coupled with significant improvement in debt metrics further to equity infusion of Rs 400.0 crore post Initial Public Offering (IPO) in August 2021. The company witnessed robust revenue growth during FY2017 – H1 FY2022 (compounded annual growth rate; CAGR of 48.4%) on the back of expanding its footprint across Maharashtra, Karnataka, Rajasthan, Himachal Pradesh, among others, along with 37% contribution of Covid-19 revenues in FY2021 (which tapered to 12% in H1 FY2022). The operating profit margins also remained healthy in the range of 24-28% in the past four years on the back of sustained revenue growth. In H1 FY2022, KDL repaid Rs 177.9 crore of its debt out of the IPO proceeds, resulting in significant improvement in its coverage metrics.

The ratings also consider the capital-intensive nature of KDL's operations wherein it has incurred capital expenditure (capex) of ~Rs. 375.0 crore in the past five years for setting up new centres. The company has sizeable capex plans of over Rs 150.0 crore in FY2022. Going forward, the company is estimated to incur capex to expand its footprint based on the receipt and successful execution of new contracts (both PPP and private). This continues to cap the return on capital employed (RoCE[1]; 10.9% in FY2020 and 13.6% in FY2021) 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 the high debtor days of the company with ~70% of the debtors being Government receivables. The debtor days remained in the range of ~70-100 days in the past few years. The ratings also factor the competition from regional and established players; however, KDL's established position in the PPP segment is likely to mitigate the competitive pressure to a certain extent. Any sizeable acquisitions or material increase in the capex shall remain event risks and will be evaluated on a case-by-case basis.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to benefit from its strong market position in the PPP segment and its strong financial profile.

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

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 ten years of experience in the healthcare-diagnostic industry. The company has an established market position in the PPP segment with 1,797 diagnostic centres across 14 states in India. KDL also has tie-ups with private hospitals and operates 26 centres under this segment as on September 30, 2021. It has also been awarded five new contracts (four PPP and one private contract) in H1 FY2022. 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 robust revenue growth during FY2017 – H1 FY2022 (CAGR of 48.4%) backed by improvement in operational performance along with revenue contribution from Covid-19 tests. The OPM also remained healthy over 24% in the past four fiscals till FY2021 backed by increase in scale of operations. In H1 FY2022, despite YoY de-growth of Covid-19 revenues by 75%, significant improvement in the core business of radiology and pathology (143% YoY revenue growth given low base and operational ramp-up), led expansion of OPM to 30.5%. The equity infusion of Rs 400.0 crore (IPO proceeds) and subsequent reduction of debt to the extent of Rs 177.9 crore improved the debt metrics of the company. The gearing (Total Debt/Tangible Net Worth) and coverage metrics (Total Debt/OPBDITA) improved to 0.1x and 0.5x respectively as on September 30, 2021 (against 1.1x and 2.6x respectively as on March 31, 2021). In addition, the company had cash and liquid investments of Rs 379.7[2] crore as on September 30, 2021, which shall be utilised for further capex. The financial profile is expected to remain strong in the near term with healthy revenue growth, OPM and negative net debt position.

Healthy bid-win ratio in the PPP segment; longer tenor contracts with annual price escalations – As on September 30, 2021, the company had 36 active PPP contracts, with the contract tenor ranging from 2-10 years. Additionally, the PPP contracts have an embedded price escalation clause (mandating yearly price increases of 2-7%) which is expected support the realisation levels going forward. The company witnessed a healthy bid-win ratio of ~78% in the past four years and the same is expected to remain healthy going forward as well, backed by its strong market position. This coupled with captive customer base from the hospitals ensures revenue visibility for the company in the medium term.

Diversification of geographical presence with newly awarded contracts – The company operates 1,847 diagnostic centres across 14 states in India and derives ~50% of its revenues from western India. With new centres in Punjab, Karnataka and Himachal Pradesh expected to generate revenue from FY2023, the geographical diversification is expected to improve going forward.

Credit challenges

Capital-intensive nature of operations with sizeable expansion plans– The company's capital-intensive nature of operations (sizeable outlay towards setting up new radiology centres) has led to low RoCE[3] levels over the years (10.9% in FY2020 and 13.6% in FY2021). The company is expected to incur capex of over Rs 150.0 crore in FY2022. Further capex shall be based on the new contract wins of the company backed by its established track record with healthy bid-win ratio. In view of this, 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 working capital requirements – The company derives ~70% of its revenues from the PPP segment. As the payment timelines of Government receivables tend to be higher, the debtors holding period of the company remained in the range of ~70-100 days in the past few years. This is moderately higher than other players in the industry who derive most of their

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[2] *Out of the available cash and liquid investments as on September 30, 2021, Rs 97.0 crore shall be utilised towards capex for setting up of new diagnostic centres (as per the objects of IPO)*

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

revenues from retail (B2C) and private (B2B) businesses. The working capital intensity remained in the range of ~15-20% in the past few years and is expected to remain in the range of 14-15%, going forward.

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 bank balances of Rs. 379.7 crore[4] as on September 30, 2021. The average working capital utilisation remained at ~68% over the past 12 months. The company has moderately low debt repayment obligations of Rs 0.9 crore, Rs 6.0 crore and Rs 6.2 crore in FY2022, FY2023 and FY2024 respectively, which are expected to be met out of cash accruals. Going forward, ICRA believes that KDL's capex requirements will be met out of 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 rating upgrade could be RoCE greater than 18.0% on sustained basis.

Negative factors – Pressure 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.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Healthcare Diagnostic Service Providers
Parent/Group Support	NA
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 one of the differentiated diagnostic service providers 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. KDL provides quality diagnostic services at affordable rates with a focus on the PPP model. Since its inception, the company has served more than 23 million patients.

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[4] *Out of the available cash and liquid investments as on September 30, 2021, Rs 97.0 crore shall be utilised towards capex for setting up of new diagnostic centres (as per the objects of IPO)*

The company operates a teleradiology hub in Pune with a 190+ team of radiologists who examine digital images and prepare reports. 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 also allows KDL to serve patients in remote locations where diagnostic facilities are limited.

Key financial indicators (audited)

KDL	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	258.4	396.5	240.7
PAT (Rs. crore)	-112.0	184.9	34.1
OPBDITA/OI (%)	24.3%	23.8%	30.5%
PAT/OI (%)	-43.3%	46.6%	14.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	1.6	0.4
Total Debt/OPBDITA (times)	3.8	2.6	0.5
Interest Coverage (times)	2.5	3.6	5.1

**Provisional; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios are as per ICRA calculations*

Source: Company and ICRA Research

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 Sep 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					Jan 14, 2022	-	-	-	-
1	Term Loans	Long Term	22.0	22.0	[ICRA]A (Stable)	-	-	-	-
2	Cash Credit	Short Term	30.0	--	[ICRA]A1	-	-	-	-
3	Bank Guarantee	Short Term	33.0	--	[ICRA]A1				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	Simple
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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Jan 2021	8.75%	FY2027	22.00	[ICRA]A (Stable)
	Cash Credit	-	9.30%	-	30.00	[ICRA]A1
	Bank Guarantee	-	3.00%	-	33.00	[ICRA]A1

Source: *Company*

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

Annexure-2: 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: *KDL's Red Herring Prospectus*

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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.

For more information, visit www.icra.in

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