May 18, 2017

Skanray Technologies Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long term-Fund Based-Cash Credit	35.0	[ICRA]BB+ (Stable); Reaffirmed
Long term-Fund Based- Term Loan	7.8 (reduced from 16.15)	[ICRA]BB+ (Stable); Reaffirmed
Short term-Non Fund Based- Bank Guarantee	5.0	[ICRA]A4+ ; Reaffirmed
Long term/short term- Unallocated Limits	10.2 (increased from 1.85)	[ICRA]BB+ (Stable)/A4+; Reaffirmed
Total	**58.0**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the rating assigned to the Rs.35.0 crore long-term fund based facilities and Rs.7.8 crore (reduced from Rs. 16.15 crore) term loan facilities of Skanray Technologies Private Limited (STPL) at [ICRA]BB+ (pronounced ICRA double B plus)[1]. ICRA has also reaffirmed the short term rating assigned to the Rs.5.0 crore non fund based facility of STPL at [ICRA]A4+ (pronounced ICRA A four plus) . ICRA has also reaffirmed the long term and the short term rating assigned to the Rs.10.2 crore (increased from Rs.1.85 crore) unallocated limits at [ICRA]BB+ and [ICRA]A4+. The outlook on the long-term rating is stable.

Rationale

The reaffirmation of the ratings factor in the vast experience of the promoters and the management in the medical healthcare industry and the financial support from the promoters to keep the entity adequately capitalized in relation to its growth plans over the medium term. ICRA takes note of the incorporation of a new entity, Skanray Healthcare Global Private Ltd. (SHGPL), established with the primary objective of increasing Skanray's export business for which the required investment was brought in by Agnus Capital owned by Mr. Arun Kumar Pillai and Ascent Capital, PE investor. The ratings are also supported by significant contribution of exports to revenues, which has helped the company to naturally hedge its forex exposure (with around 50% of the raw materials being imported), besides diversifying its geographic base and from the well-established marketing and servicing network of the company which is further strengthened with acquisition of Emergent Meditech in SHGPL.

The ratings, are however constrained on account the weaker than expected performance of STPL in FY2016 and FY2017, on account of decline in scale of operations resulting in weakening of debt coverage indicators. With the company deriving a significant portion of its revenues from the export segment, reduction in order inflow from its key customer negatively impacted the operating revenues of the company, leading to a decline of 18.1% y-o-y in FY2016. Although the order inflow from export segment picked up during FY2017, the revenues remained flat as the company had reduced its exposure to domestic clients wherein receivables are stretched. Notwithstanding the effort to maintain a tight control over working capital, the liquidity position of the company remains stretched, on account of high receivables and inventory holding, as evidenced by a significant increase in the net working capital intensity from 39.4% in FY2015 to 52.8% in FY2017, necessitating high utilization of working capital

[1] For a complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

borrowings. The ratings are also constrained by the moderately high customer concentration risk with top five customers contributing to ~56% of the total revenues during 9MFY2017; however, the risks are partly mitigated by STPL's status as sole supplier and ownership of intellectual property rights relating to the manufacturing process. The ratings are also constrained by the high competitive intensity in the industry with presence of established players such as GE, Siemens and Philips, among others.

Going forward, the ability of the company to improve its top line, profitability and debt coverage indicators while reducing its working capital cycle would be key rating sensitivity factors.

Key rating drivers

Credit Strengths

- Long standing experience of the promoters and founders in the medical healthcare industry; Skanray is backed by Mr. Arun Kumar Pillai, promoter of Strides Shasun Ltd.
- Committed funding support from promoters and recent formation of Skanray Healthcare Global Private Ltd with the objective of increasing STPL's export business
- Export sales provide natural hedge to the forex exposure (arising from import of raw materials and components), besides diversifying the revenue base
- Well established marketing and service network

Credit Weakness

- Deterioration in credit profile characterized by low profitability and stretched coverage indicators
- High working capital intensity owing to stretched receivables and high inventory holding period; debtors outstanding over six months remains high at 33% of total receivables as on March, 2017
- Customer concentration risk with the top customer Oridion contributing to significant portion of revenues exposing it to risks related to order volatility as witnessed in the past
- High competitive intensity with presence of established players such as GE, Siemens and Philips, among others

Description of key rating drivers highlighted above:

STPL generates its revenue from manufacturing, trading and servicing of medical equipments. Its product range includes Patient Monitoring Systems, High-Frequency X-ray Devices, Electro-Surgical Units, Anesthesia Workstations, ICU Ventilators, Syringe Pumps and Critical Care Devices. STPL also undertakes export orders which are in the nature of OEM contract manufacturing. The company's customers include major hospitals and healthcare providers in the country, who are served by an extensive dealer network. It has a strong logistic backbone to deliver critical care products with 20+ branches across India and 100+ distributors and a solid service network with 350+ trained technicians to facilitate faster absorption of new technology. It has a very good sourcing team and vendor base around Mysore, Bangalore and Coimbatore. The patient monitoring system, radiology products and the OEM sales to Oridion are the primary revenue drivers for the company.

SHGPL was established in June, 2016 with the primary objective of increasing Skanray export business. With offices at Bangalore and Italy, the entity solely focuses on exports with improved speed-to-market across the globe. With large number of Skanray products certified by international agencies, the new entity is expected to provide Skanray the competitive edge to penetrate a large segment of hospital industry across South East Asia, Middle East and North Africa, Sub-Saharan Africa, Eastern Europe and Latin America.

Going forward, the company is expected to benefit out of its constant investment to improve upon R&D activities which should help improve its product penetration across new customers and geographies.

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology
Framework for liquidity analysis

About the Company:
Skanray Technologies Pvt Ltd, founded by Mr. Vishwaprasad Alwa, was formed in 2007, has been involved in the development of the core technology for the radiology products (High-Frequency X-ray imaging systems) from scratch to the equipment level. Hence, there was negligible revenue for the company from 2007-2012, when it was primarily engaged in research and development.

Skanray Healthcare Pvt Ltd (SHPL) was formed in Nov' 2012 to acquire L&T's Medical Equipment division. The takeover was completed in January 2013 through a slump sale for a consideration of Rs 53 crore which was financed by a term loan of Rs 27 crore from corporation bank and balance through investment by Mr Arun Kumar and PE investment funds where Mr Arun has holdings. Skanray Healthcare, owned by Mr. Arun Kumar and Mr. Ravishankar, who are also the promoters of Strides Shasun Limited, was managed by Mr. Vishwaprasad Alwa, the MD, who is also the founder of Skanray Technologies Pvt. Ltd. SHPL has been merged with STPL with effect from April 1, 2013.

In the FY2017 (as per provisional numbers), the company reported a net profit of Rs 0.2 crore on an operating income of Rs 125.7 crore, as against a net profit of Rs 0.9 crore on an operating income of Rs 126.7 crore during the FY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	**Name of Instrument**	**Current Rating**			**Chronology of Rating History for the past 3 years**		
		Type	**Rated amount (Rs. Crores)**	**Month-year & Rating FY2018**	**Month-year & Rating in FY2017**	**Month- year & Rating in FY2016**	**Month- year & Rating in FY2015**
				May 2017	**-**	**March 2016**	**-**
1	Cash Credit	Long Term	35.0	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	-
2	Term loan	Long Term	7.8	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	-
3	Bank Guarantee	Short Term	5.0	[ICRA]A4+	-	[ICRA]A4+	-
4	Unallocated Limits	Long/ Short Term	10.2	[ICRA]BB +(Stable)/ [ICRA]A4+	-	[ICRA]BB+(Stable) /[ICRA]A4+	-

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	35.0	[ICRA]BB+ (Stable)
Term Loan	Jun, 2013		March, 2018	7.8	[ICRA]BB+ (Stable)
Bank Guarantee	-	-	-	5.0	[ICRA]A4+
Unallocated Limits	-	-	-	10.2	[ICRA]BB+ (Stable)/[ICRA]A4+

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About ICRA Limited:
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