

July 17, 2017

SRL Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based facilities	24.00	[ICRA]A+; Rating placed on watch with developing implications
Short term fund based [^]	(24.00)	[ICRA]A1+; Rating placed on watch with developing implications
Non-Fund based facilities	4.50	[ICRA]A+/A1+; Rating placed on watch with developing implications
Total	28.50	

*Instrument details are provided in Annexure 1

Rating Action

ICRA has placed both the long term and short term rating of [ICRA]A+/A1+ of Rs. 28.50 crore bank facilities of SRL Limited (“SRL” or “the company”) on watch with developing implications.

Rationale

The rating action is on account of leverage and liquidity concerns of promoter’s holding companies. ICRA notes that promoter group is currently in discussion to further divest stake across various subsidiaries (including the parent company Fortis Healthcare Limited [ICRA]A+&/A1+&¹) to reduce the debt of the holding companies and bring in a strategic partner for the operating companies. ICRA will continue to monitor the development closely and assess its impact on credit risk profile of the company once more clarity emerges.

Nevertheless, SRL’s financial performance in FY2017 has been in line with ICRA’s estimates with some pressure on the profitability margins on account of change in revenue-mix (i.e., lower share of walk-ins because of demonetisation) and initial costs associated with opening-up of new labs, which require time to attain scale. ICRA will continue to monitor developments related to the restructuring process and assess its impact on SRL’s credit rating.

SRL’s financial profile has improved over the years and had almost negligible debt as of March 31, 2017. The steady improvement in operating performance along with repayment of long-term borrowings and limited capital expenditure have contributed to strong coverage and capitalisation indicators over the past few years.

The rating continues to factor in SRL’s leading position in the domestic diagnostic services market supported by an extensive network and its comprehensive range of diagnostic tests including speciality tests. While SRL had a strong dependence on northern India in the past, the acquisition of Piramal Diagnostics (later rechristened as SRL Diagnostics) in FY2011 expanded its presence in western and southern India, making it a pan India player, which offers a significant advantage in light of the high competition from organised and unorganised players as well as various hospital operated laboratories.

¹ &: Ratings watch with developing implications

Key Rating Drivers

Credit strengths

- Leading diagnostic chain in India with widespread network of laboratories and collection centres offering the most comprehensive range of diagnostic tests including speciality tests across the country; imaging/radiology business presence largely through SRL Diagnostics
- By virtue of it being majority owned by the same promoters of Fortis Healthcare (rated [ICRA]A+&/A1+&), SRL benefits from being the sole provider for offering diagnostic services at all Fortis hospitals
- Strong market position in India, with diagnostics expertise that has also allowed entry into laboratory management with state government hospitals as well as into international markets
- Steady improvement in operating margin with the shut-down of non-performing labs and scale up of laboratories besides synergistic benefits with the integration of network of SRL Diagnostics (SRLD²); with large asset investments till FY2014, return indicators continue to be moderate and are expected to improve with growth in EBITDA in the near to medium term
- Exposure to international markets across Asia and Africa through direct presence or through management of labs already operational in these markets; although pickup in sales has been weak

Credit weaknesses

- Ability to further scale-up operations in view of stiff competition from organised as well as price competitive unorganised players
- Competition also arises from low-cost laboratories within hospitals, which account for bulk of the business
- High competition in imaging segment, especially from doctor driven labs, restricting overall revenue and profit growth

Description of Key Rating Drivers:

SRL Limited's consolidated revenue in FY2017 was Rs. 945.9 crore, in line with ICRA's estimates. However, the operating profit margin declined from 20% in FY2016 to 19% in FY2017, mainly on account of opening of new labs and demonetisation. The company was almost debt free as of March 31, 2017 on account of which there was a significant improvement in the coverage and capitalisation indicators. ICRA expects healthy performance in the coming years and no additional debt as the cash accruals will be sufficient to meet capital expenditure outflows.

² 100% subsidiary of SRL, Erstwhile Piramal Diagnostics

Table 1

Key Financial Indicators	Standalone		Consolidated	
	FY2016	FY2017 (Provisional)	FY2016	FY2017 (Provisional)
Operating income (Crores)	620.7	662.9	890.3	945.9
PAT (Crores)	60.1	69.7	41.9	92.0
OPBDIT/ OI (%)	23.4%	20.7%	20.0%	19.0%
RoCE (%)	11.0%	12.3%	10.3%	15.3%
Total Debt/ TNW (times)	0.0	0.0	0.2	0.0
Total Debt/ OPBDIT (times)	0.0	0.0	0.8	0.0
Interest coverage (times)	11.0	42.9	7.6	22.9

Analytical approach: For arriving at the rating for SRL, ICRA takes into consideration the company's standalone and consolidated financials. ICRA also takes into consideration the material events at the Fortis group level which could have an impact on the company.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Diagnostic Service Providers](#)

About the company:

Incorporated in 1997, SRL was set up as Specialty Ranbaxy Laboratories Limited as a 50:50 joint venture (JV) between Ranbaxy Laboratories and Specialty Laboratories, US, to offer diagnostics services in India. Subsequently, the Singh family of the Fortis Group bought the stakes of Specialty Laboratories in 2004. With the acquisition of SRL Diagnostics Private Limited (SRLD; erstwhile Piramal Diagnostics Services Private Limited) in August 2010, SRL has a widespread network 346 laboratories supported by a network of 11 reference labs, over 1,100 collection centres as on March 31, 2017. SRL follows a mixed strategy wherein labs are owned and operated by the company as well as through the franchisee and JV route. The company offers a broad range of pathology and radiology tests that are used by doctors in routine testing, patient diagnosis, and in the monitoring and treatment of diseases. In addition, the company has developed speciality-testing services such as oncology testing, HIV testing, diagnostic genetics and clinical trials.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years:
Table

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				July 2017	January 2017	March 2016	August 2014
1	Cash Credit	Long Term	24.00	[ICRA]A+ &	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
2	Short term Fund based (interchangeable with CC Limits)	Short Term	(24.00)	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-fund based facilities	Long Term and Short Term	4.50	[ICRA]A+ & /A1+ &	-	-	-

&: Rating 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**

Instrument	Date of Issuance / Sanction	Interest Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit / STL	-	MCLR + Spread	-	10.00	[ICRA]A+&/A1+&
Cash Credit/WCDL	-	Base + 1.25%	-	14.00	[ICRA]A+&/A1+&
Bank Guarantee 1	-	NA	-	2.00	[ICRA]A+&/A1+&
Bank Guarantee 2	-	NA	-	2.50	[ICRA]A+&/A1+&

Source: SRL Limited; &: rating watch with developing implications

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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.

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