

August 04, 2017

## Igenetic Diagnostics Private Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash credit	6.00	[ICRA]BB+ (Stable); Assigned
<b>Total</b>	<b>6.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 6.00-crore<sup>1</sup> fund based bank facilities of Igenetic Diagnostics Private Limited (Igenetic)<sup>2</sup>. The outlook on the long-term rating is 'stable'.

### Rationale

The rating assigned takes into account the profile of the investors in the company, which includes Manipal Education and Medical Group (MEMG) and CDC Group plc (CDC), as well as the track record of the founders in the healthcare industry. The rating considers the expected growth in scale of operations and revenues of Igenetic based on its business plan of acquisitions and organic expansion. The rating draws comfort from the committed equity funds of Rs. 130 crore from MEMG-CDC, which will be used to fund the proposed acquisitions and capital expenditure without any reliance on long-term debt. The rating also takes into account the growing market opportunity for organized players in the diagnostics industry.

The rating is however constrained by the currently modest financial and business risk profile of the company on account of sub-optimal scale of operations and limited brand recall and track record of operations. The company will be exposed to high market risks as it expands into newer geographical markets. Ability to achieve the targeted turnover in the centres to be acquired / established in the near term would be critical for improving the scale and profitability of the company. Igenetic faces high competition from organized and unorganized players in the diagnostics industry.

Going forward, the ability of the company to improve its scale and utilization of resources would be the key rating sensitivity. The performance of the units to be acquired by the company in the near to medium term will also be a key rating sensitivity.

### Key rating drivers

#### Credit strengths

- **Growth opportunity in diagnostic services market** – With a steadily growing diagnostics services market and major portion of it belonging to the unorganized players, a good opportunity exists for diagnostic chains like Igenetic to grow its operations further.
- **Expected growth in scale of operations and improvement in profitability** – Going forward, the company has aggressive growth plans lined-up, including a mix of both acquisitions and capital expenditure, which is expected to result in improvement of scale and profitability of the company over the medium term.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

- **Availability of committed funds from MEMG-CDC** - MEMG and CDC have committed to invest Rs. 130 crore in the company for a 51% stake. These funds are expected to be sufficient to fund the future investing and operational cash requirements of the company and hence greatly reduce dependence on external debt funding. As on date, Rs. 100 crore of these funds still remain available to the company.
- **Association with MEMG which has established operations across India in the medical and healthcare segment** - MEMG has a strong presence in the healthcare segment. It manages various hospitals, including teaching hospitals; owns and operates a healthcare retail venture for wellness, preventive, and beauty treatment services and products; provides integrated biomedical equipment maintenance and management; and provides stem cell research services. Igenetic's diagnostic services are expected to benefit from synergies with MEMG's diversified presence in the healthcare field.

#### Credit weaknesses

- **Modest financial and business risk profile** - As the company is still in the growth phase and is yet to reach optimal scale of operations, it continues to report operating losses. Going forward, with the aggressive growth plans lined-up, it is expected that the scale and profitability of the company would improve over the medium term.
- **High competitive intensity in a fragmented industry** - Due to low entry barriers, largely on account of low regulatory requirements, the market remains to be highly competitive. Several standalone centres have entered the market as the regulatory accreditations still remain to be voluntary.
- **Limited geographical presence; track record and brand recall as on date** – The company has started commercial operations recently in 2014 and is still in the initial growth stage. It has a limited presence, mainly concentrated in west India, with future plans to grow its operations in south India.
- **Risk inherent in the future growth plans** – There is significant risk associated with the the large scale acquisition and capital expenditure plans that the company has lined up for the next 2-3 years. Inability to achieve the targeted turnover and asset utilization levels in the centres to be acquired and set up in the near term can adversely impact the financial profile of the company.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Approach for rating diagnostic service providers](#)

#### About the company:

Igenetic Diagnostics Private Limited is a healthcare diagnostics company, offering pathology services that range from routine biochemistry to advanced molecular pathology. The company was incorporated in 2013 and commercially launched its operations in 2014. At present, the company has one central processing lab (located in Mumbai), four satellite labs and six collections centres; with operations mostly spread across western India. The company realized revenue of Rs. 9.9 crore in FY 2017, with a year-on-year growth rate of 80% over revenue realized in FY 2016. The company was founded by Ms. Arunima Patel, Mr. Homer Paneri and Mr. Siddharth Patodia. In February 2017, the company entered into an investment agreement with MEMG-CDC whereby the latter has committed to invest Rs 130 crore in the company for a 51% stake.

**Key financial indicators**

	FY2016	FY2017 <sup>^</sup>
Operating Income (Rs. crore)	5.5	9.9
PAT (Rs. crore)	-12.3	-16.6
OPBDIT/ OI (%)	-188.8%	-128.5%
RoCE (%)	-187.7%	-150.5%
Total Debt/ TNW (times)	-53.5	0.1
Total Debt/ OPBDIT (times)	-0.6	-0.1
Interest coverage (times)	-29.1	-12.2
NWC/ OI (%)	5.0%	10.0%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*

*NWC: Net Working Capital*

*<sup>^</sup> Provisional financials for FY2017*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**

**Table:**

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
						Aug 2017	-	-
1	Cash Credit	Long Term	6.00	Nil #	[ICRA]BB+ (Stable)	-	-	-

# as on 31 March, 2017

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit*	-	-	-	6.00	[ICRA]BB+ (Stable)

\* LC/BG limits of Rs. 6.00 crore are sub-limits of CC

Source: Igenetic

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### About ICRA Limited:

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