

## SRL Limited

December 28, 2017

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based facilities	24.00	24.00	[ICRA]A+& reaffirmed
Short term fund based interchangeable	(24.00)	(24.00)	[ICRA]A1+& reaffirmed
Non-fund based facilities	4.50	4.50	[ICRA]A+&/A1+& reaffirmed
<b>Total</b>	<b>28.50</b>	<b>28.50</b>	

### Rating action

ICRA has reaffirmed the long term rating of [ICRA]A+ (pronounced ICRA A plus) and short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 28.50 crore bank facilities of SRL Limited ('the company' or SRL). Ratings continue to be on watch with developing implications.

### Rationale

The reaffirmation of rating factors in SRL's steady financial performance despite the rising competition in the Indian diagnostics sector. However, the ratings continue to be on watch with developing implications because of ongoing restructuring activity at the group level. This refers to SRL's parent company - Fortis Healthcare Limited's (FHL) plans to completely purchase the Indian assets of Singapore-based Religare Health Trust (RHT). At present SRL's demerger application is also pending in the National Company Law Tribunal (NCLT) and ICRA will continue to monitor the impact of the ongoing restructuring activity on the demerger plan.

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 services 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.

SRL's financial performance in FY 2017 was 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. The marginal contraction in margins was also contributed by implementation of GST due to which tax rate of some of its costs have increased to 18% from 15% earlier.

SRL's financial profile has improved over the years and had almost negligible debt as of September 30, 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. However, SRL's debtor days have increased significantly over the past 3-4 quarters because of increase in receivables from its group companies (Rs. 83 crore as on October 31, 2017). ICRA will continue to monitor developments related to the restructuring process and assess its impact on SRL's credit rating.

SRL's ratings are constrained by the uncertainty regarding the ongoing restructuring activity and liquidity and leverage concerns at group level. In addition, SRL's imaging business has remained lacklustre in the recent years as it witnessed significant competition from new entrants, doctor driven laboratories and hospital based laboratories.

## Key rating drivers

### Credit strengths

**Leading player with strong brand recognition and wide-spread network of laboratories and collection centres** - SRL is one of the leading players in the diagnostic industry with highly diversified customer base and pan India presence aided by a network of 374 laboratories and four reference laboratories (as on October 31, 2017). The company's business profile is fairly diversified with healthy geographic mix.

**Comprehensive range of diagnostic tests including specialty tests labs** - The company has one of the most comprehensive range of diagnostic tests and has four service verticals – pathology, radiology, wellness and clinical trials.

**Stable business generated from parent company Fortis Healthcare** - SRL receives steady income from Fortis hospitals by virtue of being the sole provider of diagnostic services (pathology as well as imaging) at all Fortis hospitals. Apart from Fortis, the company is also increasing its focus on expanding business with other hospital chains besides entering into public private partnership (PPP) to provide diagnostics services in select states. Collectively, the B2B segment contributes 63% of total business

**Strong credit metrics aided by negligible borrowings and healthy cash flow generation** – Aided by 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. ICRA expects that SRL (along with its key subsidiary – SRL Diagnostics) will continue to maintain comfortable credit metrics and support its expansion plans through internal cash flows.

### Credit weaknesses

**Profitability indicators lower than peers** - The company's operating margins lag peers because of lower share of walk-in customers and relatively lower utilisation of existing network of laboratories. In order to improve its asset utilisation, the company is working on various measures including increasing its marketing spend to enhance productivity of its network.

**Increasing competition from new diagnostic chains offering significant price discounts** - The competition in the diagnostics industry has increased substantially with significant investments from private equity players. In addition, entry of online aggregators that offer discounts to attract customers has put significant pressure on pricing. This is likely to put pressure on earnings of incumbent players going forward. [Can mention about price caps as sensitivity]

**Significant and gradually increasing receivables from parent and group companies** – SRL's receivable days have increased significantly since last year because of rise in receivables from its parent company FHL and other group companies

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Diagnostic Service Providers](#)

## About the company:

Incorporated in 1997, SRL Limited (SRL) is one of the leading diagnostic services company with its presence across India and pathology and imaging services. With the acquisition of SRL Diagnostics Private Limited (rated [ICRA]A-&/A2+&) (SRLD; erstwhile Piramal Diagnostics Services Private Limited) in August 2010, SRL has a widespread network of 374 laboratories on a consolidated level, supported by a network of 4 reference labs, 1,080 collection centres at period ending September 30, 2017. SRL Diagnostics has 61 diagnostic centres and 49 collection centres. 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 disease. In addition, the company has developed specialty-testing services such as oncology testing, HIV testing, diagnostic genetics and clinical trials.

The company is a part of the Fortis group with major shareholding from Fortis Healthcare Limited. Fortis Healthcare Limited (FHL) was promoted by late Dr. Parvinder Singh. Currently, ~34% stake in FHL is held by promoters-Mr. Malvinder Mohan Singh, Mr. Shivinder Mohan Singh and their family members. The company commenced its operations with opening of its first hospital at Mohali in 2001. Since, then the Company has expanded its operations via expansions and acquisitions. It now has 45 healthcare facilities, operational bed capacity of ~4,600 beds and the potential to reach around 10,000 beds.

## Key Financial Indicators (Audited)

(Consolidated)	FY 2016	FY 2017
Operating Income (Rs. crore)	878.3	936.8
PAT (Rs. crore)	41.9	92.0
OPBDIT/ OI (%)	19.0%	18.4%
RoCE (%)	10.1%	15.3%
Total Debt/ TNW (times)	0.3	0.0
Total Debt/ OPBDIT (times)	1.1	0.0
Interest coverage (times)	7.1	16.9
NWC/ OI (%)	4.6%	9.7%

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

**Any other information: None**

### Rating history for last three years:

Current Rating (FY2018)						Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Dec 2017	Date & Rating in FY2018 Dec 2017	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 Mar 2016	Date & Rating in FY2015 Aug 2014
Instrument	Type								
1 Fund based facilities	Long Term		24.00		[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
2 Short term fund based interchangeable	Short Term		(24.00)		[ICRA]A1+ &	[ICRA]A1+ &	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +
3 Non-fund based facilities	Long and Short Term		4.50		[ICRA]A+& / A1+&	[ICRA]A+& / 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 [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	NA	NA	NA	24.00	[ICRA]A+&
NA	Short term fund based interchangeable	NA	NA	NA	(24.00)	[ICRA]A1+&
NA	Non-fund based facilities	NA	NA	NA	4.50	[ICRA]A+&/A1+&

Source: Company Data

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