

Mmodal Global Services Private Limited

June 11, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund-based Limits	27.0	27.0	Upgraded to [ICRA]A2+ from [ICRA]A2
Total	27.0	27.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the short-term rating to [ICRA]A2+ (pronounced ICRA A two plus)¹ from [ICRA]A2 (pronounced ICRA A two) on the Rs. 27.0-crore² fund-based limits of Mmodal Global Services Private Limited (Mmodal India).

Rationale

The short-term rating upgrade positively factors in the improvement in the credit risk profile of the parent company (Mmodal LLC) post the conversion of the US\$ 70 million debt into equity by its largest investors in February 2018 and the subsequent estimated material reduction in net interest outflow for the parent. The rating continues to favourably factor in the established presence of the parent company among the top medical transcription (MT) providers in the US, the large and diversified client base of the parent company and the criticality of Mmodal India's operations with the cost arbitrage enabling the parent to stay profitable and competitive. The business potential for Mmodal India remains strong with ~60% of the transcription outsourcing services (TOS) work off-shored to India and potential to further off-shore the coding business and technology development with increasing cost pressures on the parent company. The rating also takes into consideration the improvement in profitability and comfortable interest coverage indicator of Mmodal India in FY2017.

The rating, however, continues to be constrained by the captive nature of Mmodal India's operations with heavy dependence on the parent to source business and the limited pricing flexibility afforded to it in the midst of pricing pressures faced by the parent company from its customers in the USA. The rating also remains constrained by the high debtor's days of Mmodal India leading to stretched cash flows on account of its US parent retaining cash on its books rather than holding it in its captive centre to negate exchange rate risk. Additionally, the profitability remains vulnerable to volatility in foreign exchange fluctuations. Moreover, medical transcription volumes for its parent company are expected to remain under pressure on account of the continued product substitution and competitive pressures.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

Established presence of the parent company, among the top large medical transcription providers in the US – Mmodal LLC is currently among the leading providers of MT to hospitals, healthcare networks and physician practices in the US. It helps healthcare providers create documentation more efficiently with an integrated suite of speech recognition solutions for physician documentation, clinical documentation improvement (CDI), coding and transcription solutions and services, as well as adoption services.

Large and diversified client base of the parent company – Mmodal LLC has a reputed and well diversified customer base with over 3,400 clients, primarily hospitals. It leverages this customer relationship to cross-sell transcription, technology and coding solutions.

Improvement in the financial risk profile of parent company – In February 2018, the largest investors of Mmodal LLC completed conversion of US \$70 million debt into equity, thereby reducing overall debt levels. Along with the above, the downward revision of interest rates is estimated to result in material reduction in net interest outflow for the parent. This is expected to result in improved gearing and Total Debt/OPBDITA levels; though it will still remain high.

Indian operations with cost arbitrage critical for the parent company to maintain profitability and to stay competitive – Currently, the parent off-shores significant portion of the total MT work to India. The cost arbitrage between Indian and US operations is significant, which allows the parent to maintain profitability and stay competitive.

Credit challenges

High debtor days due to stretched payments from the parent company – Given the captive nature of the company's operations, payments from the parent company are received mainly to cover overheads and excess cash is not parked in Mmodal India to negate exchange rate risk; hence, the duration of payment from the parent tends to be erratic. As a result, receivables outstanding from the parent company remain high, leading to stretched cash flows for Mmodal India.

Captive nature of Mmodal India's operations with heavy dependence on parent to source business – The parent currently outsources MT and the coding business to Mmodal India. The latter derives almost 90% of its revenues from MT services, while the remaining is derived from coding, back office, IT support services and other services provided to its parent. Hence, any decline in TOS and coding volumes from the parent would impact the operations of Mmodal India.

Analytical approach: For arriving at the ratings, ICRA has considered the profile of Mmodal LLC (ultimate holding company) and its operational synergy with Mmodal India.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Information Technology \(Services\) Industry](#)

About the company

Mmodal Global Services Private Limited is the wholly-owned subsidiary of Mmodal LLC, a leading provider of MT to hospitals, healthcare networks and physician practises. Mmodal India is the off-shoring arm of the parent company, which provides MT services, coding services, quality assurance services, back office services and technology services to the Mmodal Group.

About the parent

Mmodal LLC (formerly Mmodal Inc.), provides clinical documentation solutions (speech recognition solutions for physician documentation, CDI, coding and transcription solutions and services, as well as adoption services) to healthcare providers. On August 17, 2012, Legend Parent, Inc. (associate of One Equity Partners), the private investment arm of JP Morgan Chase & Co., purchased all outstanding shares of Mmodal Inc. for US \$ 1.1 billion in an all-cash deal and the company was delisted from Nasdaq. The company subsequently filed for Chapter 11, bankruptcy protection on March 20, 2014 and emerged out of bankruptcy proceedings as on July 31, 2014.

Key financial indicators (Audited)

Mmodal India	FY2016	FY2017
Operating Income (Rs. crore)	333.1	338.9
PAT (Rs. crore)	16.2	27.8
OPBDIT/ OI (%)	9.1%	16.5%
RoCE (%)	17.1%	24.6%
Total Debt/ TNW (times)	0.3	0.2
Total Debt/ OPBDIT (times)	1.2	0.6
Interest Coverage (times)	6.1	9.9

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; ROCE: $\frac{PBIT}{\text{Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress)}}$

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				June 2018	April 2017	-	February 2016
1	Fund-based Limits	27.0	-	[ICRA]A2+	[ICRA]A2	-	[ICRA]A2

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Foreign Usance Bill Discounting/ Foreign Bill Purchased	NA	NA	NA	27.0	[ICRA]A2+

Source: Mmodal Global Services Private Limited

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